

The Economics of “Certaine Lewd and Ill-Disposed Persons”: Comment on Leeson

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Abstract

In *The Invisible Hook*, Peter T. Leeson explores “the hidden economics of pirates.” The implications of his work are many, and there are several clear ways in which scholars can build on his insights. First, exploring piracy helps us better understand the rent-seeking societies of mercantilist Europe. Second, public and private policy toward pirates helps us better understand the institutions and organizations that emerge in order to govern and manage common resources. Third, the nearly universal condemnation of pirates by religious authorities and political leaders as well as the association of pirates with the demonic and Satanic suggests further directions for research into the interactions between ideology, politics, and economic institutions.

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I. Introduction

In *The Invisible Hook*, Leeson contributes to the literature on self-government by showing how cooperation emerged even among “certaine lewd and ill-disposed persons”—specifically, pirates.¹ He takes us on an entertaining and swashbuckling tour of “the hidden economics of pirates” that is one part economic history, one part *Economics in One Lesson*, and one part *Pirates of the Caribbean*. This comment is perhaps better titled “toward dissertation topics for Peter Leeson’s PhD students” because there is much to be done at the intersection of his research on pirates and (for example) Avner Greif’s research on cooperation and the development of institutions, Sudhir Venkatesh’s explorations of criminal gangs and informal urban economies, Ronald Findlay and Kevin O’Rourke’s recent history of international trade, and many other areas of inquiry. Some more specific further directions concern the development of institutions to manage the commons, the development of property rights over resources like large bodies of water, and the relationship between violence and order—particularly in a rent-seeking society.

Economic analysis has a few central ideas that do most of the heavy lifting. Man acts. People respond to incentives. Trade creates wealth. Et cetera. Of crucial importance too is the idea that transaction costs prevent trade and, therefore, impede wealth creation.² Institutions, which Douglass C. North defines as the rules, norms, and enforcement mechanisms that determine the “rules of the game,” develop as the intended and unintended consequences of human action (North 2005:48). Sometimes these institutions reduce barriers to trade, and sometimes these institutions raise barriers to trade. Institutions lead to the development of

¹ This is a characterization of pirates quoted by Ormerod (1926:1).

² All of these appear among the “ten key elements of economics” listed by Gwartney et al. (2005).

organizations, and suffice it to say that human organization is not always successful, nor is organizational change always aimed at expanding our options. Indeed, people good and bad develop institutions and form organizations that impede rather cooperation and reduce economic growth.

In addition to being enjoyable and informative, *The Invisible Hook* spotlights the importance of freedom and voluntarism by (perhaps ironically) exploring the workings, operations, and organization of brigands and marauders. Leeson lays a foundation for further work contrasting the organization of “private” providers of violence like pirate bands with “public” providers of violence like states. Emerging from Leeson’s work is the conclusion that one of the common objections to free-market capitalism—that it relies on unrealistic assumptions about human goodness—is irrelevant because we can get sustained cooperation even among these “certaine lewd and ill-disposed persons.”

II. Piracy in a Rent-Seeking Society

Further comparative work should explore the differences between piratical bands and the privileged monopolists who sailed the world’s oceans. Landes (1998:141) describes the 16th and 17th century economy into which mercantilist trading concerns like the Dutch East India Company were born as “a world where trade was bound to force,” Ekelund and Tollison (1981) describe mercantilism as it arose in Europe as a “rent-seeking society,” and Nye (2007:22) writes that “(i)t was long a staple of British policy that commerce should be used as a means of furthering the political ends of the state.” Thomson points out that mercantile Europe blurred the lines between cooperation and coercion, and she further argues that “(s)tate rulers were consistently unable to resist the temptation to allow or even authorize nonstate violence while

they denied responsibility and accountability for its consequences" (Thomson 1996: 41-42). Piracy was an important element of ancient societies—indeed, Herodotus argues that pirates were behind the Greco-Persian War (Bradford 2007:3)--and it helped to shape the destiny of western commerce, empire, and civilization.

O'Rourke and Williamson (2002) note that there was no convergence in commodity prices between Europe, Asia, and the Americas, which suggests that changes in import demand and export supply rather than falling trade barriers explained the changing trade patterns. Trade franchises are one way that states create rents. The bargain between the state and the monopolist is straightforward: they share the monopoly rents that are created by entry barriers. This also incentivizes extra-legal commerce (and violence) in order to produce the gains from trade that would have emerged in the absence of mercantile monopolies and to plunder the monopoly rents created by mercantilist institutions.

The nexus between pirates, privateers, and the state should be explored in greater detail. Rosenberg and Birdzell (1986:92), for example, argue that "...policing the oceans proved largely impracticable until the nineteenth century, when rival maritime powers shifted their attention from fighting each other to the suppression of piracy and the slave trade. Until then, merchant ships had to be armed for their own security, and the fact that privately owned vessels were regularly armed made for a considerable degree of insecurity for other vessels." It is unclear exactly how and why this could not be addressed by Letters of Marque and Reprisal or by insurance companies, particularly in light of the incentives inherent in European rent-seeking societies.

It isn't clear *a priori* that state action reduced rather than exacerbated piracy and predation. Piracy's role in encouraging private innovation in the international marketplace remains under-explored. On one front, piracy encouraged evasion. Greek sailors, for example, began using monsoon winds to push their ships directly across the Indian Ocean, which reduced the costs of trade relative to coast-hugging, long-distance travel (Bernstein 2008:11).

Predation also encouraged private innovation in the market for security and protection. In a pair of contributions that complement Leeson's book, Sechrest (2003, 2004) argues that privateering shows how national defense can be provided privately or, at least, outsourced. Privateering began with "letters of marque and reprisal" in the Mediterranean economy. A Letter of Marque and Reprisal granted to a privateer the right to plunder a ship flying under the flag of a country that had committed an offense against a merchant or shipper. Sechrest's discussion of the private provision of national defense suggests that government provision of defense against piracy was, perhaps, superfluous. In the language of club theory, a Letter of Marque and Reprisal meant that if a member of your club predares on a member of my club, I can seek vengeance against a member of your club.

The market for ocean freight was largely competitive (North 1968:539), but political institutions altered the margins on which individuals and firms engaged in maximizing behavior. Traders who wanted to make trouble for their rivals sometimes protected pirates, and pirates also settled in places where governments had not yet been established (Rosenberg and Birdzell 1986:92). Some might have a comparative advantage in shipping or various seafaring activities, but they got pushed into piracy by barriers to entry in legitimate seafaring. Political stability encouraged international trade, but political instability discouraged it (Bernstein 2008:8). In the

first case, monopoly rents and deadweight loss encouraged piracy. In the second case, chaos failed to stop it.

Predation creates a market for protection. This has two implications. First, piracy provides incentives for people to find lower-cost trade routes and provide protection services. Second, the appropriation of rights to shipping routes, particularly to shipping routes over navigable waterways, is under-studied. The possible hold-up problems inherent in long-distance trade are well known, but there are opportunities to study in greater detail the specific mechanisms by which rights over trade routes were determined. Chinese piracy, for example, was a minor nuisance to coastal trade in the 18th century, but this changed. By 1796, Chinese piracy had become a thriving and enormous enterprise and piracy exploded. By 1805 in Kwangtung, coastal trade was controlled by a pirate confederation some 50,000 to 70,000 strong (Murray 1987:1).

Piracy increased the cost of commerce and reduced its range (North and Thomas 1973:3-4), but the boom in European trade was apparently due to changes in the supply of and demand for traded goods rather than a reduction in the size of the tariff wedge that separated marginal cost from marginal value (O'Rourke and Williamson, 2002). As O'Rourke and Williamson (2002) note, international integration would imply converging commodity prices. This did not occur, however, as "the price spread on pepper, cloves, coffee, tea, and other non-competing goods [in the Euro-Asian trade] was not driven solely, or even mainly, by the costs of shipping, but rather by monopoly, international conflict, piracy, and government restrictions" (O'Rourke and Williamson 2002:426). A combination of increased demand, increased supply, monopoly rents, and deadweight loss encouraged piracy.

Reductions in piracy, innovations in insurance markets, and diversified cargoes increased ocean shipping and led to an annual increase of 0.5-1% per year in ocean shipping (North and Thomas 1973:137), though Crafts (1988) argues that the fall in freight rates was due to technological changes in British shipping. It is unclear *a priori* that the switch from depredations and protection by pirates and privateers to depredations and protection by states would increase growth. The state had ideological legitimacy while pirates did not. North defines a state as “an organization with a comparative advantage in violence, extending over a geographic area whose boundaries are determined by its power to tax constituents” (North 1981:21). Presumably, this would encompass pirate bands with a comparative advantage in violence over certain trade routes, but their ability to establish themselves as legitimate competitors to states was undermined by their perceived illegitimacy and their actual criminality.

Piracy is part of a process of rent creation, rent extraction, and rent dissipation. Exploration and market expansion is an important product of institutional innovations, but the welfare consequences may have been ambiguous. In the absence of market failures and transaction costs that prevent efficient Coasean bargains, subsidies lead to the production of output for which marginal cost exceeds marginal benefit. The rents accruing to subsidized or protected international shipping monopolies—like ships flying the British Flag under the Navigation Acts, for example—would have made such ships attractive targets for pirates.

Leeson discusses the internal organization of pirate societies, and one of the factors that made pirates relatively effective was their flexibility in responding to profit and loss signals. The hierarchy of European rent-seeking societies meant less discretion on the part of the people closest to the decisions. They were not bound by competition. At first glance, it appears that Leeson’s claim that “pirate ships were more orderly, peaceful, and well organized than many

merchant ships, vessels of the Royal Navy, or indeed, even the British colonies” (p. 81) is puzzling. However, people with trade franchises in mercantilist Europe were more responsive to political than economic incentives. Leeson further shows how pirates were responsive to market incentives and shows how they were pioneers of tolerance out of pure self-interest that helped them overcome their prejudices (pp. 156-57, 159, 164). The costs and benefits of enslaving people were such that it was unprofitable (pp. 166-67); further, conscription of captured sailors would undermine the crew’s unanimity and the legitimacy of the ship’s institutions.

III. Ideology, Piracy, and the State

Ideology is an important part of the nexus between the state and privileged monopolists; the legitimacy conveyed upon state action by such doctrines as the divine right of kings, popular sovereignty, and an uncritical reading of Romans chapter 13 might help explain the interactions between mercantilists and pirates. The Book of Common Prayer, for example, contained an entire section on prayers to be used at sea, specifically for His Majesty’s Navy, and pirates were sometimes compared explicitly to Satan in the characterization of pirates as “going about like roaring Lions, seeking whom they might devour,” which is a paraphrase of 1 Peter 5:8.

Church officials involved themselves in piratical issues from the Crusades through the piratical golden age of the early eighteenth century. The Church prohibited Christians from trading with Muslims during the Crusades, and yet many Italian cities did so with verve and gusto. In the Christian quest for the Holy Land, for example, the church was able to create rents by effectively selling trade franchises for Muslim areas (Findlay and O’Rourke 2007:96-97) and Genoa developed as a seat of privileged commerce rather than piracy (Greif 2006:221, 234).

Piracy met its demise and acquired its romantic historical image during a period when a

coalition of religious, political, and cultural leaders helped to fashion an image of the pirate as a bloodthirsty rogue rather than as a legitimate competitor in the market for violence (Rediker 2004:127). Puritan leader Cotton Mather, for example, urged the eradication of piracy and of pirates, whom he called the “common enemies of mankind” (Rediker 2004:127).

IV. Conclusion

Piracy is an under-studied (but important) phenomenon that sits at the intersection of the social sciences and the humanities. In *The Invisible Hook*, Peter Leeson has combined an accessible introduction to economics for non-specialists with an often-subtle and always-creative look at the trials and travails of pirates. Leeson identifies and even creates gaps in the literature by highlighting deficiencies in our conventional wisdom and by exploring the ways that even “lewd and ill-disposed persons” can cooperate and even thrive. By exploring the intersections between piracy, rent-seeking, and ideology, we can better understand the institutions that have helped to produce modern economic growth.

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