Peter T. Leeson: *The invisible hook: the hidden economics of pirates*
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Bruce L. Benson

Well shiver me timbers, this surely is a wickedly good book! In fact, Peter Leeson has produced a book applying the dismal science that is both fun to read, and entertaining. Arrgh-uably, it also has more economic relevance than 95 percent of the articles in mainstream economics journals. Furthermore, it is accessible to virtually any reader. The book illustrates the power of basic economic principles by applying those principles to an activity that is the antithesis of what most people probably believe that economics attempts to explain. Rather than studying the process through which individuals voluntarily cooperate in order to produce and exchange goods in the market process Leeson examines the process through which individuals voluntarily cooperate in order steal the goods that others have produced. Economists have been studying the economics of crime for decades, of course, but few have considered the institutional arrangements required when there are scale economies in the production of a highly specialized criminal activity like piracy.

Pirating requires coordinated action by a relatively large group of individuals who apparently are not constrained by rules of law or morality; men described as “the scandal of human Nature, who were abandoned to all Vice, and live by Rapine” (p. 1). But how can such untrustworthy individuals trust each other to carry out the various often dangerous actions required for successful joint production of maritime plunder? Why do they obey rules and live up to promises within their pirate community without a government to enforce them while simultaneously violating the laws established by governments? Isn’t government required to create rules and enforce contracts? Leeson answers these questions, and several more as he explains the economics of pirating. He also shows that his analysis of pirating between 1670 and 1730 is relevant today, but not just because there are still pirates operating out of Somalia. It is relevant because the same kinds of institutional developments that support cooperation among and success of pirates underlie cooperation within and success of many communities and organizations that also do not rely on governments to enforce their...
rules. Essentially, this examination of pirating illustrates that “governance” without “government” as popularly conceived is not only possible but practical and beneficial (p. 47). Indeed, this is one of a large number of studies by economists [although it clearly is the most fun to read] reporting on stateless arrangements for governance that have been published since around 1980, including examinations of mining camps, cattlemen’s associations of the 1800s, medieval merchants, cattlemen in modern Shasta County California, merchants in colonial America, modern international trade, diamond merchants and other modern trade associations, stock exchanges, primitive tribal communities and modern criminal gangs.

The *Invisible Hook* contains an Introduction, six central chapters that examine pirate governance and various other aspects of pirate behavior from an economic perspective, along with a concluding chapter and a couple of Appendices. The Introduction establishes the basic assumptions employed in the analysis: individual self-interest, rationality, and response to incentives. In addition, the difference between pirates (total outlaws), privateers (state sanctioned robbers), corsairs (government sanctioned robbers with religious justifications), and buccaneers (robbers commissioned by France and England to harass Spain) are explained. The opportunity costs of pirating are also considered in order to explain the decision to engage in the activity. One alternative for pirates was serving on merchant vessels, for instance, but state-made laws against mutiny protected autocratic captains, allowing them to engage in extreme cruelty and predation toward crew members.

Chapter 2 examines pirate governance, explaining that it was democratic, and that it included an institutionalized division of power to serve as checks and balances. This reflects the fact that the pirates themselves “owned” their ships, so perhaps in reaction to the autocratic rule on merchant ships (the source of most pirates), they demanded methods of controlling their captains. This ownership arrangement required collective decision making, while the production process itself required the ability to quickly make decisions and transmit those decisions through a hierarchy of command (a characteristic of any military-like organization, as well as large sailing vessels). The captain served only with permission from the crew, permission that could be withdrawn if the captain did not adequately serve the interests of the crew. Power on a pirate ship also was divided, as the quartermaster dealt with financial issues, including the allocation of booty.

The “pirates’ code” is examined in Chapter 3. These codes were established through unanimous consent to create incentives to cooperate in the dangerous business of piracy. For instance, shirking is a source of transactions cost in many joint production processes. Various aspects of the pirate code discouraged shirking. For example, a pirate who was injured or disabled was guaranteed sufficient compensation to make up for the lost income that would occur as a result (in other words, they established mutual insurance arrangements; more on this below). There also were numerous potential negative externalities on the cramped pirate ships, so an important function of the pirate code was to internalize such externalities. Thus, the code included rules against excessive drinking, fighting on board, bringing women onto the ship, and smoking or carrying candles in the hole of the ship. They also established “rule of law” in a Hayekian sense in that all members of a pirate crew were to be treated equally. Officers were to follow the same rules as everyone else. In addition, the code specified the distribution of the booty, and the “pay scale was very flat” (p. 68). Elected captains and quartermasters did get a larger share than regular crew members, as did certain highly skilled individuals (e.g., the doctor, the gunner, the boatswain), but the differential was small.

One problem that I had with this book is that I feel that a review should not be all positive (few books are perfect), but virtually every issue in *The Invisible Hook* is addressed with clear and solid reasoning. When I read the material on the three keys to successful governance in Chapter 3, however, I thought to myself, *yo ho, yo ho, a critic I can be!* In