The Invisible Hook: The Hidden Economics of Pirates
by Peter T. Leeson

The premise of Peter Leeson’s book is simple: ‘Rational choice is the only way to understand flamboyant, bizarre, and downright shocking pirate practices’ (p. 6). Although short on data and documentation, histories of eighteenth-century piracy offer us intriguing narratives that are best read through the lens of profit-maximization. With a nod toward Adam Smith, Leeson argues that self-interested pirates were guided toward specific modes of cooperation as though by ‘an invisible hook’. Principal-agent and free-rider problems, externalities, and asymmetric information all play a role in the story.

Mention pirates, and a black flag with skull and crossbones comes to mind. What is the economic logic behind the Jolly Roger? Leeson sees the flag as a signaling device distinguishing a pirate vessel from a privateer. Privateers, licensed by governments to attack merchant shipping of enemy states, faced penalties if they operated under the outlaw flag. Therefore, a ship pursued by a vessel flying the skull and crossbones could confidently conclude that it was being attacked by true pirates, unconstrained by the law of any state.

These outlaws cultivated a reputation for brutality as an element of strategic brand management. Pirates abused prisoners to seek information, to punish despotic captains, and to threaten government officials. However, the principal objective of the abuse was to develop a reputation for ruthlessness toward those who resisted. If a terrible and terrifying reputation allowed pirates to capture prizes without loss of life or limb or damage to either vessel, so much the better. The best outcome would be for the mere sight of the black flag to sap the will to resist. Of course, the threat of abuse had to be credible in repeated interaction, and crews using the Jolly Roger brand had occasionally to make good on their threats.

Once the prize was taken, how were the spoils divided? Pirate crews operated under articles of agreement that usually specified a fairly flat compensation structure. For the most part, the prize was evenly divided, with somewhat higher shares for those holding key positions. Bonuses might be paid to those showing extraordinary valor as a way to internalize the positive externality of their effort. Those wounded in the attack were paid special compensation, a form of insurance that moderated the incentive to hold back when danger was high.

Operating outside the law, pirates seem to have developed for themselves remarkably democratic structures. To cooperate effectively in hot pursuit of a prize, the pirate ship needed a captain with full authority. However, the captain was elected by the crew, and he could also be deposed by the crew. Moreover, when not in hot pursuit, the captain’s authority was shared with other officials, particularly with an elected quartermaster, who had the power to ‘allocate provisions, select and distribute loot (there was rarely room aboard pirate ships to take all they seized from a prize), adjudicate crew member disputes, and administer discipline’ (p. 35).

Merchant vessels were not known for elections, recall votes, or separation of powers. Why were pirate ships dramatically different? Leeson emphasizes the difference in
ownership structures. Merchant vessels were owned by traders who spent their lives on land. They hired a captain as their agent, sometimes aligning his incentives with theirs by giving him a small ownership stake, and they relied on the captain to keep the crew in line. Pirates, on the other hand, having stolen their ships, owed nothing to anyone else. In this case, ‘the principals were the agents’, and more democratic structures emerged (p. 41).

Pirate life must have been attractive to many sailors, particularly given the possibility of high pay. Evidence is spotty, of course, but ‘unlike employment as a merchant sailor, which guaranteed a low, if regular, income, a single successful pirating expedition could make a sailor wealthy enough to retire’ (p. 14). Leeson believes that most pirates joined their crews voluntarily. When captured by the authorities, particularly after Britain tightened anti-piracy laws around 1720, pirates often claimed to have been pressed into service. However, in many cases these claims should be read as part of a legal defense rather than as statements of fact. Pirate crews seem to have been reluctant to force sailors to join. The cost of maintaining an unhappy conscript, who, even if he did not rebel or desert, would be unlikely to fully cooperate, outweighed the benefit.

A similar cost–benefit calculation led to the acceptance of some former slaves as regular members of pirate crews. Leeson believes that around 1720, ‘upward of a quarter of the average pirate crew may have been black’ (p. 175). It might have been possible to enslave these sailors and deny them a share of the loot. However, the benefit to the individual pirate of his share of the slave’s share of the loot would be small, and the potential cost of betrayal by the slave would be very high. Therefore, ‘pirates sometimes had to put aside their thinking about black and white to focus on seizing silver and gold’ (p. 188).

Leeson describes writing this book as ‘academic fun’ (p. xiv). To say that the book is also a fun read is by no means to dismiss it. Piracy continues to be a serious constraint on trade. Contemporary pirates may operate as independent crews or as agents of crime syndicates. They may attack vessels on the Indian Ocean or trucks on the highways of Central America. Often they may steal ideas rather than goods. Sometimes they seem to operate like privateers, with government support.

Moreover, underlying Leeson’s book is a serious attempt to apply contemporary microeconomics to the private provision of public order. Where do the rules of the game come from, if not from a constitutional government? How are the economic incentives that arise in different contexts reflected in and modified by the chosen rules? Similar questions have been asked by those who study informal sectors, technology transfer, global public goods, and economic activity in the absence of enforceable contracts.

Leeson’s book is wide-ranging. However, it does not attempt to place ‘the hidden economics of pirates’ in any sort of general equilibrium framework. Numbers are hard to pin down, but the statistics given on page 9 suggest that in 1720 the number of seafaring pirates was about one-seventh the number of sailors in the Royal Navy. Was the volume of pirate activity great enough to have affected labor markets, goods markets, or the volume of international trade?

Consider labor markets first. If, as argued, seafaring labor was mobile between pirate and merchant vessels, did wages and working conditions on merchant vessels improve
and deteriorate in step with the conditions on pirate vessels? Was some sort of labor market equilibrium reached? If not, is that because labor was mobile only one way, with merchant sailors becoming pirates but pirates not able to move back to legal seafaring?

What about the prizes? Gold or silver could be put immediately into circulation, I suppose. Were other goods ever captured and then sold? If so, was the volume of such sales great enough to affect prices? Students of mine in San Salvador have described a contemporary problem with hijacked shipments. Once stolen, they say, goods are sold on the street at prices below the prices charged in the stores that paid for the original shipment. The stores can insure against the loss of the shipment, but not against the price effect of a bustling thieves’ market. Did eighteenth-century piracy have any analogous effect on goods prices?

Finally, how did piracy in this period affect the volume of trade? Motivated in part by the example of sixteenth-century predation on Spanish–American trade, James E. Anderson and I tried to develop a formal model of interaction between predators and prey (Anderson and Marcouiller, 2005). The basic issue is straightforward. High volumes of trade may induce people to move into piracy, but high volumes of piracy then discourage trade. Are such considerations relevant to eighteenth-century piracy?

How much of this analysis can be applied to contemporary piracy off the coast of Somalia? I don’t know. I do know that Leeson’s book is stimulating, provocative, and, of course, a fun read.

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References


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Regional Trade Agreements: Law, Policy and Practice

by David A. Gantz

The last few years has not only seen a flurry of regional trade agreements (RTAs) being negotiated, but also an increase in the number of books being published on this important area of international trade law. Many of these publications are edited compilations, including Bartels and Ortino (2007)¹ and my own two-volume edited collection (2009).² Fortunately, each of these collections has a different structure, focus, and style. David Gantz’s sole authored book covers much of the same terrain

1 Lorand Bartels and Federico Ortino (eds.), Regional Trade Agreements and the WTO Legal System (Oxford University Press, 2007).
2 Simon Lester and Bryan Mercurio (eds.), Bilateral and Regional Trade Agreements: Commentary and Analysis (Cambridge University Press, 2009); Bilateral and Regional Trade Agreements: Case Studies (Cambridge University Press, 2009).