Peter Leeson, *The Invisible Hook. The Hidden Economics of Pirates*

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Peter Leeson declares that he has two fascinations, one with pirates and the other with economics. At a superficial level the book provides us with many delightful details and quotes about pirate life and frames these into the terms of economic theory. Thus we are supposed to be convinced that pirates just as *homo economicus* in his most basic form were simply taking the appropriate actions to maximise their own interests. They were a beautiful illustration of a simplified form of Adam Smith’s claim that man acting in his own pure self-interest could generate satisfactory collective outcomes. This book, therefore, can be fitted into a new genre of popular literature which purveys economic analysis in a highly simplified form to the general public.

Yet, from the outset, one has the feeling that the author is trying to lead us down a very particular path. He makes the startling claim for his analysis that: “It’s not just that economics can be applied to pirates. Rational choice is the only way to truly understand flamboyant, bizarre, and downright shocking pirate practices.”

From a purely philosophical point of view this claim cannot be justified, although couched in the light-hearted style of the whole book. A little reflection shows that the only reason that this is not obviously false is that the terms used are so loose in their definition. Does rational choice theory here mean the highly stylised and rigorously axiomatic version of it that underlies modern economic theory? If so the structure of the problem depicted so entertainingly by Leeson seems to be far from satisfying the basic conditions. What does it mean to say that “only way to truly understand”? This is more of the order of a religious statement than an analytical one.

I dwell on this point since the new genre of literature which someone has described as “pop economics” lapses too often into simplistic arguments to convince its readers that explanations for

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much of human behaviour can be reduced to elementary economic analysis.

Pirates it is claimed shared many of the motives of ordinary human beings in other contexts. This seems completely reasonable, but as behavioural economics has taught us ordinary human beings often turn out to act in ways which seem to be in flagrant violation of the standard axioms of rational choice.

This does not mean that pirates were *irrational* but it does mean that they may well not have been utility or profit maximisers. Looking at the basic arguments made in the book suggests that there are a number of explanations for their behaviour and that these include a number of game theoretic arguments which, while not denying the rationality, in the strict sense, of the actors frequently does not lead to the social optimum suggested by Adam Smith and the title of the book.

One of the interesting claims in the book is that pirates were pioneers of democracy. There is a brief nod in the direction of ancient Greece but it is suggested that they were ahead of developments in American and European states. One way of looking at the sort of governance that they evolved is to argue, as Bacharach does, that they indulged in “team reasoning” and it was this substitution of group interest for individual interests that led them to behave cooperatively with each other. Indeed, the remarkably equitable sharing of the spoils described by Leeson seems to be consistent with this view. An alternative comparison would be with cooperatives or labour owned enterprises, which used to be intensively studied in economics, for the pirates’ organisational arrangements were not hierarchical as apparently were normal crews in the merchant marine. Indeed it would seem that this analogy would be more appropriate than the comparison with a Fortune 500 company mentioned by Leeson for where were the outside shareholders and the CEO who is far from being democratically elected in modern corporations? The issue as to who owned the pirates’ ships is not fully spelled out. Why did captains have to accept the same miserable living conditions as their crew? It would seem that this was because they were simply elected officials and had no special rights, yet elsewhere they are mentioned as if they were the owners of the vessel and therefore had some special rights.

Now let us look at the interesting argument that pirates sought to establish such a reputation for toughness and brutality that it would lead ordinary ships simply to hand over their bounty as soon as they appeared on the scene. This, of course, was highly satisfactory from the point of view of the pirates who had to invest in a few battles at the outset to achieve their reputation. But, this seems much closer to non-cooperative game theory than to the usual signalling argument. In one sense there seems to be a repeated game argument here, a
reputation is of no use if one is not to meet those who understand the reputation again. But there is no suggestion in the book that pirates had repeated encounters with the same victims. Therefore, the jolly roger which only identified the vessel as a pirate vessel and did not specify which pirate was in command, was a common signal not an individual one. How then did the pirate community come to collectively make this signal? Since battles were potentially costly there would seem to be a "free rider" problem here. Did all vessels have battles at the outset of their careers or did later entries profit from the investment of earlier pirates? This is not explained.

However, later in the book we find out that pirates did, in fact, personalise their flags and would even cite the names and flags of those whom they felt had been aggressive to them or pirates in general. Again, this personalisation of the conflict seems to be more the domain of game theory than of standard economics. Indeed, much of the book could have been more convincingly couched in those terms.

The argument that pervades the book is that we are being told about rational actors whose acts reflected their motivation, even the wickedly cruel punishments meted out to some of the pirates' victims were, to use Voltaire’s phrase, pour encourager les autres ("to encourage the others"). It seems however, difficult to deny that some of the tortures described in almost loving detail in the book went beyond the necessary threshold to achieve their goal. Again, we are told that nobody actually “walked the plank” and that this shows that pirates did not torture for fun. However, the much worse fates that they reserved for their victims seem to contradict this conclusion.

If one is to argue that pirates were rational individuals in a strict sense, then it would seem to be reasonable for the same to apply to their victims. Yet the captain who threw his gold coins overboard when taken by pirates does not seem to fit into this category. If we use the same sort of reasoning as Leeson, the captain’s behaviour was irrational; he ensured himself a horrible fate that he could have avoided had he simply handed over the treasure.

Another argument that is developed concerns the pressing of sailors into the pirates' service. At some points we are told that there were many of these sailors and that they did not participate in the sharing of the loot and that this made them unreliable, at others we are told that almost all pirates had willingly entered the trade. Leeson argues that there was an evolution in this respect due to the toughening of anti pirate legislation, but this does not seem to be an adequate explanation for the wholesale change in “equilibrium” that occurred.

Towards the end of the book Leeson comes clean and tries to outline a management course based on the principles that underlay the pirates’ behaviour. But here he runs into one of the oldest problem
in economics. The basic argument put forward by Adam Smith was that people in pursuing their own selfish interests unwittingly furthered the collective interest. Yet throughout the book we are told that the pirates realised that such and such an act was in their collective interest and that the arrangements that were developed were consciously made with this in mind. This is very different from the notion of the Invisible Hand and indeed the title could well have been the Visible Hook!

But this reveals Leeson’s own prejudice, he is so enamoured of basic economics and of pirates that he wishes to portray both as admirable. Yet, while he bends his account to reconcile the behaviour of pirates and that of economic incentives to justify it, his dismissal of modern pirates reveals his romanticism.

If there is a domain where simple economics arguments could be applied it is surely that of modern Somali piracy. The most recent example is that of the consequences of rising fuel prices. This has given a strong incentive for ships to sail more slowly to economise on fuel. But, in so doing, they have made themselves more vulnerable to attacks by pirates. Ship owners and insurance companies seem to have come to the conclusion that to employ armed security personnel is cheaper than sailing faster. What simpler economic argument could there be than that? But, and there is always a but, in such simplistic arguments, the underlying motivations and circumstances of the Somali pirates are far from clear and a number of articles have been written in their defence. Ethics and economics are not always easy bedfellows.

Although The Invisible Hook is a delightful and informative book about piracy its main message is too facile and as with much of applied economics the “devil is in the detail”.