



Anarchy Unbound, or: Why Self-Governance Works Better than You Think

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No sane person believes that anarchy generates order. The idea that anarchy could be superior to government in some cases seems even more absurd.[1]

Everyone from Thomas Hobbes to Adam Smith repeats the claim that societies need government to protect property and produce widespread cooperation. Even the most libertarian thinkers believe this is true. As Milton Friedman put it, “government is essential both as a forum for determining the ‘rules of the game’ and as an umpire to interpret and enforce the rules decided upon.”[2]

Self-governance, however, might work better than you think. A small cadre of self-described “anarcho-capitalists” reject the anarchy-as-chaos “wisdom.” In the 20th century the most notable of these thinkers have been Murray Rothbard, who grounded his defense of anarchy in natural rights theory, and David Friedman, whose book, *The Machinery of Freedom*, provided the quintessential consequentialist defense of a purely private society.[3]

Despite the important theoretical arguments in these and other anarcho-capitalist works, even among those familiar with them, most remain unconvinced. On the one hand, natural rights defenses of anarchy do not persuade consequentialists, such as economists, who see significant problems with

anarchy's ability to cope with cheating and violence.

On the other hand, most consequentialist defenses of anarchy are purely speculative. In forging responses to how a stateless society could cope with every conceivable contingency it might confront, anarchists often offer imaginative conjecture, in some cases bordering on science fiction.

Ironically, the case for anarchy derives its strength from empirical evidence, not theory.

Most of the world, for most of its history, has existed without effective governments. As noted economic historian Joel Mokyr points out, "In England," for example, "there was not even a professional police force to protect private property" until the 19th century.[4]

Large arenas of economic activity in the world remain anarchic, or nearly so, to this day. For example, there is no supranational sovereign with the authority to create formal international laws to regulate countries or to enforce such laws if they existed.[5] Adding to international anarchy is the absence of state-made, supranational commercial law to enforce contracts between private international traders. [6]

In large parts of the developing world governments are too weak or dysfunctional to perform even the most basic tasks, like securing the property rights of their citizens. According to the 2007 Failed States Index, governments in 129 countries are on or nearing the brink of collapse.[7] Somalia has no central government at all.

Even in the developed world pockets of anarchy persist. The costliness of state enforcement, coupled with the fact that the state's eye cannot be everywhere all the time, means that people cannot in many cases rely on government to protect their property or enforce their contracts even though, officially, a well-functioning state exists.

Despite these significant arenas of anarchy we do not observe perpetual world war in the absence of global government, shriveling international commerce in the absence of supranational commercial law, or even deteriorating standards of living in Somalia. On the contrary, peace overwhelmingly prevails between the world's countries, international trade is flourishing, and Somali development has improved under statelessness.[8]

If conventional wisdom is right then reality must be wrong. How can this be?

Empirical evidence, past and present, sheds light on how individuals under anarchy develop private institutional solutions to address the problems that statelessness presents. The guiding force behind these solutions is none other than Adam Smith's "invisible hand." Importantly, Smith's principle applies not only to individuals' activities in the context of well-functioning institutions, but also to their activities in the development of institutions themselves.

The Invisible Hook

One of the most striking examples of this comes from 17th and 18th-century pirates.[9] In many ways pirate ships were like floating societies.[10] And, like other societies, pirate ships confronted problems of theft and cheating. Since they were outlaws, pirates did not enjoy state protection. Government did not enforce employment agreements between pirates or other piratical "contracts," nor did it prevent or punish theft between pirates, etc.

Notably, the anarchic environment that maritime bandits operated in did not lead them to simply throw up their hands and abandon the idea of their criminal enterprise. On the contrary, the prospect of mutual gains from organizing this enterprise provided pirates with the incentive to find private ways of securing cooperation and order.

Even by modern standards the institutions pirates devised for this purpose were remarkably sophisticated. Pirates created one of the earliest forms of written constitutions they called their "articles, which codified many of the rules that governed their ships, as well as punishments for rule breakers. These included rules specifying the division of booty, "laws" against theft, and even workman's compensation insurance to support crew members injured in battle.

To apply punishments and resolve disputes between crew members, pirates created an office called the "quartermaster." Crew members controlled quartermasters both through their articles, which prescribed the "laws" quartermasters could apply, and by democratically electing crew members to this office.

The office of the quartermaster allowed pirates to overcome another obstacle anarchy posed for their organization—restraining potentially abusive pirate captains. A captain endowed with unlimited authority would be able to prey on his crew, skimming booty, mistreating crew members, and so on. To check such abuse pirates initiated one of the earliest systems of divided power, which transferred authorities susceptible to captain abuse to the quartermaster instead. In conjunction with also democratically electing their captains, pirate checks and balances overcame the threat of captain predation.

This system of governance was entirely voluntary. Pirates drew up the articles governing their ships before taking voyage and required unanimous consent before sailing. Any prospective crew member who disliked the proposed rules was free to exit before sail was underway.

The pirates' private system of governance worked extremely well. Inter-pirate conflict was rare, order was well maintained, and pirates regularly successfully cooperated, making them among the most effective organized criminal outfits in history.

Trading with Bandits

A common objection to anarchy is that without government the strong will plunder the weak. Indeed, perhaps the oldest, most well-accepted argument for the state is weaker individuals' inability to prevent stronger ones from plundering them. How can self-governance alone prevent this?

Many mechanisms of self-governance rely on reputation to secure good conduct.[11] It's not difficult to see how reputation can in many cases prevent cheating even where government enforcement is not an option.

Imagine you go to a restaurant and order a \$30 filet mignon. When your food arrives you take a bite and realize the restaurant has served you a \$10 flank steak instead. The restaurant has defrauded you. You could take the owner to court; but then you realize that the simple time cost this will entail is not worth what you will recover even if you win. Although in principle government exists to adjudicate this matter, in practice it does not.

Your dining experience is a little slice of anarchy. Knowing this, restaurant owners should perpetually serve \$10 flank steaks to customers who order filet mignon. Of course restaurants don't do this. And the reason they don't is because they realize that if they do, you'll stop eating there and tell everyone you know to boycott the restaurant as well. Even without government, Smith's "invisible hand" leads the restaurant to do the right thing.

Reputation-based mechanisms of self governance have a major hitch, however.[12] They require the restaurant owner to not have the power to take your money from you against your will.[13] If, for instance, you announce your boycott of the fraudulent restaurant, but the owner is sufficiently stronger than you and can use the threat of violence to extract "future business," your threat of boycott is useless. Reputation breaks down.

In light of this problem many observers have concluded that anarchy is incapable of dealing with the problem of force. Fortunately, individuals under real conditions of anarchy who have actually faced such problems are more innovative than these observers.

A simple historical case from late pre-colonial Angola illustrates this well.[14] In the late 19th century the coast of Angola was home to a flourishing export market that shipped African goods to Europe. On the one side of this market were European settlers who operated the export industry, and on the other side were African producers in the remote interior who harvested the goods required for export. Connecting these two groups were African middlemen who traveled to the interior to collect the goods and then carried them to the coast for export.

In the 19th century this region was for all intents and purposes anarchic. Although Europeans had settlements with European laws and interior African communities had their own, largely informal institutions of internal governance, there was no government to oversee the interactions between members of these groups or their interactions with the middlemen. The problem this created was that middlemen tended to be substantially stronger than interior producers, posing the threat of force described above. Why pay producers for goods if middlemen could use their superior strength to simply steal them instead?

Like with the pirates, instead of throwing in the towel and either accepting that they would be routinely plundered or stopping productive activities altogether, so that there would be nothing for middlemen to steal, African producers devised an institutional solution to the problem of force that allowed them to realize the benefits of trade with these bandits.

The institution they devised for this purpose was credit. The key to understanding how credit solved the problem of force and facilitated peaceful exchange is straightforward: you can't steal goods that aren't yet produced, but you *can* trade with them.

Here's how the credit institution worked: Producers would not produce anything today but would instead wait for middlemen to arrive in their villages looking for goods to plunder. With nothing available to steal the middlemen had two options: return to the coast empty-handed after having made a trip to the interior, or make an agreement with producers to supply the goods they required on the basis of credit. In light of the costliness of their trip to the interior, middlemen frequently chose the latter

According to their credit arrangements, middlemen advanced payment to producers and agreed to return later to collect the goods they were owed. When they returned for this purpose all that was available for taking was what they were owed, so stealing was not an option. Instead, middlemen frequently renewed the credit agreement, which initiated a subsequent round of credit-based trade, and so on.

This simple arrangement performed two critical functions in allowing producers to overcome the threat of force that middlemen presented. First, it enabled them to avoid being plundered, as though they had not produced anything at all, but also to realize the gains from trade, as though middlemen did not pose a threat of violence. Second, it transformed producers in the eyes of middlemen from targets of banditry into valuable assets they had an interest in protecting. If middlemen wanted to be repaid they needed to ensure that their debtors remained alive and well enough to produce. This meant abstaining from violence against producers and protecting producers against the predation of others.

Better off Stateless

“Okay,” you might think. “So, historically there are some cases where anarchy seemed to work pretty well. But this doesn’t demonstrate that anarchy is ever actually *superior* to government.” True, but recent evidence from Somalia does.

From 1960, when Somalia gained its independence, until 1991, it was ruled by a socialist (though, officially, he later abandoned socialism) dictator named Mohamed Siad Barre. Barre’s policies and behavior looked a lot like the wealth-destroying, wildly corrupt, and highly predatory policies and behavior we observe in many other Sub-Saharan African countries today.

In 1991 a coup d’etat tumbled Barre’s regime. Unlike most coups, which replace one predatory government with another, this one replaced the old regime with nothing. Although there have been a few failed attempts at resurrecting government in Somalia, including the most recent one by the international community-backed “Transitional Federal Government,” for the last fifteen- plus years Somalia has been stateless.

This situation has caused a great deal of hand wringing among international observers who continually point to the severe poverty and other problems in the country. Somalia has thus become the “poster child” for government’s indispensability and evidence that anarchy leads to chaotic decline.

The great irony of these claims is that the data we have on anarchic Somalia point in exactly the opposite direction: namely, anarchy in Somalia has produced a higher level of welfare than government did.

In a recent study I compared Somali welfare under anarchy to welfare under government using all key development indicators for which data allowed comparison.[15] According to the data, of the eighteen development indicators, fourteen show unambiguous improvement under anarchy. Life expectancy is higher today than was in the last years of government's existence; infant mortality has improved twenty-four percent; maternal mortality has fallen over thirty percent; infants with low birth weight has fallen more than fifteen percentage points; access to health facilities has increased more than twenty-five percentage points; access to sanitation has risen eight percentage points; extreme poverty has plummeted nearly twenty percentage points; one year olds fully immunized for TB has grown nearly twenty percentage points, and for measles has increased ten; fatalities due to measles have dropped thirty percent; and the prevalence of TVs, radios, and telephones has jumped between three and twenty-five times.

As Tatiana Nenova and Tim Harford discuss in their World Bank brief, "Anarchy and Invention," much of this development can be attributed to improvements in public goods provided better by Somalia's anarchic private sector than by its former government.[16]

Should we conclude from Somalia's stateless improvement that it is a nice place to live? Of course not. But Somalia's pre- and post-government performance highlights an important point about the desirability of anarchy. Contrary to conventional wisdom, it is simply not true that *any* government is always superior to no government. If state predation goes unchecked, government may not only fail to add to social welfare, but can actually reduce welfare below its level under statelessness. Such was the case with Somalia's government, which did more harm to its citizens than good.

Somalia is extremely poor and remains a country with incredible problems. But this does not demonstrate the desirability of government or the undesirability of anarchy, as many of those who advocate reintroducing government in Somalia pretend.

When thinking about the developing world we must be careful to avoid committing what economist Harold Demsetz called the "nirvana fallacy." [17] The nirvana fallacy involves ignoring real-world constraints that limit the menu of options (and thus outcomes) we have available to us. For instance, in a world in which I am as wealthy as Bill Gates, I might drive a Ferrari. Constrained by my actual income, however, I can only afford to drive a Subaru. Although I would of course prefer the Ferrari, it

would be silly to conclude that I should drive a Ferrari because this is the better car. The fact that the Ferrari is superior is irrelevant; given the constraints I actually face, the Ferrari is not in my feasible choice set.

We can extend this example a step further. Imagine that I wrongly believe I should really be driving a Ferrari, and so I decide to try and do so. My budget constraints prevent me from buying a functional Ferrari. But I can afford a Ferrari with engine problems so severe it may explode when I drive it. So a Subaru and a “lemon” Ferrari are in my feasible choice set. If I purchase the “lemon” Ferrari, am I better off than if I had gone with the Subaru? Of course not. Given the choices actually allowed by my constraints I would be better off with the Subaru.

The same kind of reasoning applies to thinking about anarchy versus government in Somalia and the large part of the developing world that is teetering on state collapse. Although it is certainly reasonable to believe that a transparent, well-constrained, and highly-functional government, like the one we have in the United States, would improve Somali welfare beyond what it has experienced under anarchy, this does not mean that reintroducing government in Somalia would be better for Somalis.

Like all other choices, the choices we face in “selecting” governments are constrained. Unfortunately for most developing countries, the political choice set they face is far smaller than the political choice set more developed countries face. Historical features, such as clan tension, rampant corruption, territorial conflicts, and many others, which cannot be changed in the short run, severely restrict the kind of government countries like Somalia can reasonably expect to have if they have a government.

Sadly, well-functioning, well-constrained governments like the ones we observe in the U.S. and western Europe are not part of this choice set. Ultra-predatory, corrupt, and abusive governments, however, are. And so is anarchy. As Somalia’s experience illustrates, for many LDCs with these limited options anarchy may very well be the best feasible choice.

Parting Remarks

Anarchy, like all political-economic organizations, is riddled with problems. It is not clear that these problems are any more numerous or severe than those that plague governments, however. I have argued that anarchy works better than you think. In the face of obstacles that stand in the way of individuals’ ability to cooperate for mutual gain, individuals develop solutions to overcome these obstacles. This is as true in society ruled by government as one that exists without government. Where the state does not provide law, order, or the institutions required to produce these things, private institutions emerge to perform these roles instead.

My examples from above are not intended to suggest that these particular institutional solutions are generalizable or somehow suggest how other societies without government would evolve. On the contrary, there is no “blueprint” for how anarchy would or does work.[18] This, in fact, is the whole point. Private institutional responses reflect the specific problems, times, places, and other conditions that give rise to them. In a different time and a different place with different people, even the same problem situation may be met differently under anarchy.

The unifying feature of my examples is the incentive individuals have to solve their problems. In this sense, the empirical evidence from anarchy only demonstrates that as long as there are unrealized gains to realize, people will find ways to realize them. Fortunately for anarchists, this “only” is considerable.

Notes

[1] And yet, upon simple reflection must certainly be true under some circumstances. Peter T. Leeson, “Efficient Anarchy,” *Public Choice*, 130 no. 1-2 (2007): 41-53.

Online: http://www.peterleeson.com/Efficient_Anarchy.pdf

[2] Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962), p. 15.

[3] Murray N. Rothbard, *The Ethics of Liberty*, (Atlantic Highlands: Humanities Press, 1982); Murray N. Rothbard, *For a New Liberty: The Libertarian Manifesto*, (New York: Collier Books, 1973); David D. Friedman, *The Machinery of Freedom: Guide to a Radical Capitalism*, (New York: Arlington House, 1971).

[4] Joel Mokyr, “Mercantilism, the Enlightenment, and the Industrial Revolution,” mimeo, 2003, p. 18.

[5] Kenneth A. Oye, “Explaining Cooperation Under Anarchy: Hypothesis and Strategies,” in Kenneth A. Oye, ed., *Cooperation Under Anarchy* (Princeton: Princeton University Press, 1986), pp. 1-24. On the informal institutional solutions countries under international anarchy develop to help cope with this problem, see, Peter T. Leeson, “The Laws of Lawlessness,” mimeo.

Online: http://www.peterleeson.com/Laws_of_Lawlessness.pdf

[6] Alain Plantey, “International Arbitration in a Changing World,” in A.J. van den Berg, ed., *International Arbitration in a Changing World*, (Deventer: Kluwer Law and Taxation Publishers, 1993), pp. 67-84.

[7] Foreign Policy and the Fund for Peace, ***2007 Failed States Index***, 2007.

[8] Bruce Benson's superlative research on the law merchant explains how private international commercial law and order support international trade. Bruce L. Benson, *The Enterprise of Law: Justice without the State* (San Francisco: Pacific Research Institute for Public Policy, 1990). See also, Peter T. Leeson, "One More Time with Feeling: The Law Merchant, Arbitration, and International Trade," *Indian Journal of Economics and Business*, Special Issue, (2007): 29-34.

Online: [**http://www.peterleeson.com/One More Time with Feeling.pdf**](http://www.peterleeson.com/One_More_Time_with_Feeling.pdf)

[9] Peter T. Leeson, "An-arrgh-chy: The Law and Economics of Pirate Organization," mimeo, 2007.

Online: [**http://www.peterleeson.com/An-arrgh-chy.pdf**](http://www.peterleeson.com/An-arrgh-chy.pdf)

[10] Marcus Rediker, *Between the Devil and the Deep Blue Sea: Merchant Seamen, Pirates and the Anglo-Maritime World 1700-1750*, (Cambridge: Cambridge University Press, 2005).

[11] Daniel B. Klein, ed., *Reputation: Studies in the Voluntary Elicitation of Good Conduct*, (Ann Arbor: University of Michigan Press, 1997).

[12] There are actually a few hitches. Another one is small, socially close populations. My research addresses anarchy's ability to overcome this problem through alternative self-enforcing arrangements, such as social signaling, which people historically employed when confronted with this obstacle. Peter T. Leeson, "Social Distance and Self-Enforcing Exchange," *Journal of Legal Studies*, forthcoming.

Online: [**http://www.peterleeson.com/PSH.pdf**](http://www.peterleeson.com/PSH.pdf); Peter T. Leeson, "Self-Enforcing Arrangements in African Political Economy," *Journal of Economic Behavior and Organization*, 57, no. 2 (2005): 241-244; Peter T. Leeson, "Cooperation and Conflict: Evidence on Self-Enforcing Arrangements and Socially Heterogeneous Groups," *American Journal of Economics and Sociology*, 65, no. 4 (2005): 891-907. Online: [**http://www.peterleeson.com/Coop and Conflict Link.pdf**](http://www.peterleeson.com/Coop_and_Conflict_Link.pdf)

[13] Peter T. Leeson, "Anarchy, Monopoly, and Predation," *Journal of Institutional and Theoretical Economics*, 163, no. 3 (2007): 467-482. Online

: [**http://www.peterleeson.com/Anarchy Monopoly and Predation.pdf**](http://www.peterleeson.com/Anarchy_Monopoly_and_Predation.pdf)

[14] Peter T. Leeson, "Trading with Bandits," *Journal of Law and Economics*, 50, no. 2 (2007): 303-321. Online: [**http://www.peterleeson.com/Trading with Bandits.pdf**](http://www.peterleeson.com/Trading_with_Bandits.pdf)

[15] Peter T. Leeson, "Better Off Stateless: Somalia Before and After Government Collapse," mimeo, 2007. Online: [**http://www.peterleeson.com/Better Off Stateless.pdf**](http://www.peterleeson.com/Better_Off_Stateless.pdf)

[16] Tatiana Nenova and Tim Harford, “Anarchy and Invention,” *Public Policy for the Private Sector*, World Bank, Note no. 280, 2004. Online:

<http://rru.worldbank.org/Documents/publicpolicyjournal/280-nenova-harford.pdf>;

Christopher J. Coyne, “Reconstructing Weak and Failed States: Foreign Intervention and the Nirvana Fallacy,” *Foreign Policy Analysis*, 2 (2006): 343-361.

Online: <http://www.ccoyne.com/FPA - Final.PDF>; Peter D. Little, *Somalia: Economy without State* (Bloomington: University of Indiana Press, 2003).

[17] Harold Demsetz, “Information and Efficiency: Another Viewpoint,” *Journal of Law and Economics*, 12, no. 1 (1969): 1-22; Coyne, “Reconstructing Weak and Failed States.”

[18] John Hasnas, “The Myth of the Rule of Law,” *Wisconsin Law Review*, (1995): 199-233.

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