

Piotr SZAFRUGA

Jagiellonian University in Kraków, Poland

p-szafruga@wp.pl

IS THE STATE NECESSARY?

THE CASE OF SOMALI ECONOMY

ABSTRACT

The state is often considered a necessary condition for the existence of social order and economic development. However, except for the group of developed countries, most states are incapable of providing services which are commonly attributed to them. In this paper an approach, according to which the state is the best possible form of political organisation, is confronted with the case of stateless Somalia. Without government since 1991 this country provides an opportunity to investigate the emergence of institutions and supply of public goods in a stateless society. Using the comparative institutional approach the situation in Somalia is compared with the period before the collapse of the state as well as with the situation in other countries of the Horn of Africa region, showing a relative economic improvement after 1991. Considering economic development as an essential indicator describing the stability of social institutions, this corroborates the argument according to which a hierarchical form of political organisation not only may destabilise social order, but also that anarchy can be more successful than the state in providing stabilisation and economic development.

Keywords: anarchy, economy, Somalia, stability, state

INTRODUCTION

Somalia is probably the best known example of a state without an effective government capable of controlling its territory. From many years Somalia has been classified on the top positions of *The Failed States Index* – the list of failed states formed by the Fund for Peace¹. What is important is that this list presents a correlation between the degree of a state's failure and the level of its poverty. A significant fraction of governments incapable of fulfilling its role is located in poor and least developed regions of the world, mainly in Africa. This rises the questions about the relation between the functioning of the state and economic development and about the performance of economy in a country deprived of central governance apparatus. Additionally, it provides an opportunity to consider alternatives for the existing inefficient state structures.

Somalia has lacked any form of effective government since the fall of the dictatorship of Siad Barre in 1991. This moment is the climax of the civil war that erupted in 1988. However, internal fights that endured after the collapse of state structures did not lead to the emergence of new central authority. Simultaneously, a devastating famine resulting from political chaos and the drought in the region caused humanitarian intervention in Somalia in 1992. In 1993 the United Nations (UN) decided to change the character of its involvement, transforming it into a peace-keeping operation, the aim of which was political and economic restoration of the country. However, the inability of the UN to restrain fights among various factions and clans caused the termination of the mission in 1995. Surprisingly, withdrawal of the Blue Helmets contributed to a significant decrease of the intensity of fighting. This had its source from the fact that the UN's involvement sustained the perspective of the establishment of a new government. This, in turn, fuelled disputes between various fractions. Due to international attention which the situation in Somalia received, many local militias found upholding hostilities more profitable than finding a peaceful solution to the conflict, as it was seen as an opportunity to gain political recognition.

Renewed increase of tensions occurred in 2006 along with attempts of the international community to establish a new Somali government. The Ethiopian military intervention in Somalia that occurred in the same year together with the later founding of the Transitional Federal Government in Mogadishu led to escalation of fighting.

Due to the external character of the above factors (military interventions, international attempts to form a new government), which impacted on the stability of the considered country and region, this article focuses mainly on the period before the Ethiopian inter-

¹ A failed or dysfunctional state is a state which lacks the ability to execute certain functions as well as is incapable of the realisation of these functions through market mechanisms, that is unplanned by a state grassroots supply of these functions by private entrepreneurs. Embracing in the definition the possibility of market supply of services attributed to the state is connected with an assumption that is chosen that it is the realisation of functions as such and not the agent realising these functions that constitutes notion of the failed state. The Fund for Peace, *Failed States Index*, at <<http://ffp.statesindex.org/>>, 20 January 2015.

vention. Although it precludes a proper evaluation of the present situation of the Somali economy, it seems to be appropriate in the context of the general problem of how the lack of government influences economy. Moreover, the evaluation of the Somali economy takes place in the form of a comparative analysis, as it is compared with the period before the collapse of the state as well as with the situation in the neighbouring countries. This allows us to avoid the error known as the nirvana fallacy². This term refers to the situation where real-world constraints are ignored and imperfect reality is compared with the ideal, hypothetical state. Such an erroneous approach accepts, often in indirect or unverbaised way, unreal or false assumptions, which are a result of idealised views derived from the subjective worldview of a researcher. In particular it means comparing an existing state of affairs with the perfect state based on the Western notion of the social contract and liberal democracy³. Meanwhile, as indicated by Peter Leeson and Claudia Williamson, in many cases the alternative for anarchy is not the Western model of liberal democracy, but the failed state.⁴ This is confirmed by the considerable part of African states, where forms of governance differ significantly from the ones present in the developed countries. Even if we assume that the part of states to some extent realise the functions which are attributed to them, then still a considerable part of states can be described as dysfunctional. Moreover, following George Ayittey, many of the latter can be described as the vampire states or the predatory states, as they enrich rulers by draining productive indigenous institutions⁵.

THE STATE

The question of whether the state is a necessary condition for the existence of social order is one of the most basic questions of political philosophy as well as of political economy. It refers not only to formation and continuity of legal order, but also to the influence the state exerts upon the economy. In the contemporary world the state is the primary and dominant institution of political order. Therefore, in the context of the above considerations, an analysis of examples of disintegration of state structures seems to be especially interesting.

The considerations regarding relations between state and economy should begin with the identification of the former. For the purpose of this article we consider the state as a hierarchical institution possessing monopoly on the use of force on a given territory⁶. Reference to monopoly, understood as legal exclusiveness, implies that the definition suggests the existence of a strong relation between the state and law. It is

² H. Demsetz, 'Information and Efficiency: Another Viewpoint', *Journal of Law and Economics*, Vol. 12, No. 1 (1969), p. 1-22, at <<http://dx.doi.org/10.1086/466657>>.

³ P. T. Lesson, 'Anarchy Unbound: How Much Order Can Spontaneous Order Create?' in: P. Boettke (ed.), *Handbook on Contemporary Austrian Economics*, Cheltenham 2010, pp. 136-153.

⁴ P. T. Leeson, C.R. Williamson, 'Anarchy and Development: An Application of the Theory of Second Best', *The Law and Development Review*, Vol. 2, No. 1 (2009), pp. 76-96.

⁵ G. B. N. Ayittey, *Africa in Chaos*, New York 1999.

⁶ M. Weber, *The Vocation Lectures*, trans. by R. Livingston, Indianapolis 2004, p. 33.

convergent with contemporary and relatively common perception of the state as an institution responsible for establishing and executing the law. Such an approach points at the legal aspects as the fundamental sphere of discussion regarding the role of the state.

The contemporary debate regarding the necessity of the state and the stability of mono- and polycentric systems of law follows two main issues. The first focuses on the argument formulated by Tyler Cowen that the supply of police and legal services presents network behaviour and has inclinations toward cartelisation. The second refers to the baseline problem introduced by James M. Buchanan. In his criticism of anarchism Buchanan points out that this system requires the existence of a pool of norms, common to all agents, forming a reference point for negotiations between those agents. Therefore the lack of common criteria of just norms hinders or precludes conducting negotiations, which may lead to violence and the collapse of the system⁷. In this sense, the state is considered as the primary structure allowing coordination of various aspects of human interactions and ensuring the functioning of society.

Opponents of the above approach argue that it does not take into consideration the possibility of grassroots formation of social order. Various institutions, such as law, language or money, are examples of spontaneous structures, which have emerged without deliberate planning⁸. As Friedrich A. Hayek writes, because of the complexity of social processes the faith in human abilities to design social order is illusive. He names it 'the fatal conceit.'⁹ Because of this some researchers propose anarchy, understood as the lack of a monocentric system of law formation and execution, as an alternative for the state.¹⁰ Such an approach concentrates on the analysis of the phenomenon in question on the basis of political economy. It tends to show that law, as well as other public goods, could be provided without a redistributive political system.

Considering the fact that the above discussion developed mainly in the sphere of economic sciences, arguments criticising the role and efficiency of the state are often based on market mechanisms. Proponents of this approach argue that the dispersed character of knowledge and complexity of economic processes preclude central planning in economy.¹¹ Such a standpoint is represented especially by the Austrian School of Economics. The theory of dynamic efficiency which was developed by the Austrians emphasises the dynamic character of social interactions and the entrepreneurial and cre-

⁷ J. M. Buchanan, *The Limits of Liberty. Between Anarchy and Leviathan*, Indianapolis 1975 (*The Collected Works of James M. Buchanan*, 7) T. Hobbes, *Leviathan*, Cambridge 1996 (*Cambridge Texts in the History of Political Thought*).

⁸ F. A. Hayek, *Rules and Order. A New Statement of the Liberal Principles of Justice and Political Economy*, London 1973 (*Law, Legislation and Liberty*, 1).

⁹ Idem, *The Fatal Conceit. The Errors of Socialism*, Chicago 1991.

¹⁰ D. Friedman, *The Machinery of Freedom. Guide to a Radical Capitalism*, La Salle 1989; M. N. Rothbard, *For a New Liberty. The Libertarian Manifesto*, Auburn 1973.

¹¹ F. A. Hayek, *The Fatal Conceit...*; idem (ed.), *Collectivist Economic Planning*, London 1963; J. Huerta de Soto, *Socialism, Economic Calculation and Entrepreneurship*, Cheltenham 2010 (*New Thinking in Political Economy*); L. von Mises, *Socialism. An Economic and Sociological Analysis*, trans. by J. Kahane, Indianapolis 1981; idem, *Human Action. The Scholar's Edition*, Auburn 2010.

ative character of the individual, understood as his ability to discover opportunities for profit¹². It also points out the role of the individual as an entrepreneur, whose creativity is the fundamental aspect of any economic activity¹³. Entrepreneurship is a process of forming and discovering of new, often subjective and tacit, information. Due to this creative character it enables recognition of new ends and means, and thus allows individuals to foster coordination in society by identifying opportunities for profit, understood as maladjustments appearing in the social environment. Following this approach, the actions of authorities as based on coercion limit the entrepreneurial freedom of individuals. In this sense, state interventions into economy decrease the efficiency of entrepreneurs by constraining creation and transmission of information between agents, and thereby constraining self-coordination abilities of society. Simultaneously, by precluding the emergence of new information, the central authorities themselves do not possess this information, which makes them incapable to deliberately coordinate the economy through central planning. What is important is that this problem of knowledge is not restricted to the sphere of economic activity. The dispersed and dynamic character of knowledge as well as complexity of social processes are more general phenomena, therefore supporting an argument in favour of polycentric political systems.

LEGAL ORDER

The state is not a necessary condition for existence of legal order, and therefore of social order as such. In its current form based on the idea of sovereignty and nation it is a relatively recent institution¹⁴. Moreover, the fact that the state is nowadays a dominant form of political organisation does not exclude the existence of alternative orders. In particular, the emergence of the modern state should not be treated as an inevitable result of institutional evolution. According to Hendrik Spruyt, the state cannot be treated as a natural successor to the feudal system, as it was only one of many institutions formed in reaction to the dramatic changes in the medieval economic environment¹⁵. Simultaneously, it should be mentioned that historical research shows a number of examples of anarchistic structures¹⁶.

¹² The concept of entrepreneurship has here essentially a humanistic character and is perceived in the broadest sense. Each individual in society is an entrepreneur possessing and creating a certain portion of information which may influence the course of social phenomena. J. Huerta de Soto, *The Austrian School. Market Order and Entrepreneurial Creativity*, Cheltenham 2010, p. 25.

¹³ Idem, *The Theory of Dynamic Efficiency*, London 2009 (*Routledge Foundations of the Market Economy*, 28); I. M. Kirzner, *How Markets Work. Disequilibrium, Entrepreneurship and Discovery*, London 1997 (*Hobart Paper*, 133).

¹⁴ M. L. Van Creveld, *The Rise and Decline of the State*, Cambridge 1999.

¹⁵ H. Spruyt, *The Sovereign State and Its Competitors. An Analysis of Systems Change*, Princeton 1994 (*Princeton Studies in International History and Politics*).

¹⁶ T. L. Anderson, P. J. Hill, *The Not So Wild, Wild West. Property Rights on the Frontier*, Stanford 2004; D. Friedman, 'Private Creation and Enforcement of Law: A Historical Case', *The Journal of Legal Studies*, Vol. 8 (2012), pp. 1979-1979; P.T. Leeson, *The Invisible Hook. The Hidden Economics*

In the case of Somalia, legal order is based on the local, customary law *Xeer*. Customary law is a system of enforceable rules that emerges as an effect of repeated use of customs for solving disputes¹⁷. In this sense, laws do not emerge in a planned way, but rather as an effect of general recognition of particular solutions achieved through their repeated use in juridical processes. According to Bruno Leoni, it is a form of 'collaboration between the judges and the judged in order to discover what the people's will is in the series of definite instances – a collaboration that in many respects may be compared to that existing among all participants in free market'¹⁸. In other words, laws are discovered rather than enacted. In this sense customary law stands in opposition to law created by the legislature. Also, contrary to the latter, it is a restitutive form of law instead of a retributive one.

The customary type of law corresponds with Somali society which is highly decentralised and based on kinship. Such a structure can be historically associated with a pastoral nomadic culture, to which the majority of Somalis belong. Decentralisation of Somali society manifests itself in the political independence of clans. This means that the social organisation presents a very limited political hierarchy. To protect property rights and economic benefits various groups ally with each other on the basis of lineage ties. Alliances, however, are temporary and their duration depends on the aims that are pursued.

Similarly to law, also the security system in Somali society is based on clan structure. The smallest politically independent institution is the *dija*. It contains a group of families linked by blood ties or by marriages. *Dijas* function as a form of cooperation providing defence to its members, which constitute its political independence. They have between several hundred to several thousand members. Apart from providing defence each group provides material support and legal representation to all its members. This specific social security system is based on contributions in the amount of 10 percent of income¹⁹.

A decentralised structure means that, contrary to other regions of Africa, most clans in Somalia do not have an institution of the leader. Power is executed by the elders. As noticed by Michael van Notten, Somalis are independent both in the individual aspect and in the context of the communities they form²⁰.

of Pirates, Princeton 2009; J. C. Scott, *The Art of Not Being Governed. An Anarchist History of Upland Southeast Asia*, New Haven 2009 (*Yale Agrarian Studies*); P. Bagus, 'Wresting Land from the Sea: An Argument against Public Goods Theory', *Journal of Libertarian Studies*, Vol. 20, No. 4 (2006), pp. 21-40.

¹⁷ M. van Notten, *The Law of the Somalis. A Stable Foundation for Economic Development in the Horn of Africa*, Trenton 2005.

¹⁸ B. Leoni, *Freedom and the Law*, Princeton 1961, p. 21 (*The William Volker Fund Series in the Humane Studies*).

¹⁹ S. Anagnoste, S. Agoston, M. Draghisci, 'Somalia: How to Manage an Economy Outside the System', in: B. Katalinic (ed.), *Annals of DAAAM for 2009 & Proceedings of the 20th International DAAAM Symposium "Intelligent Manufacturing & Automation: Focus on Theory, Practice and Education"*, Vienna 2009, p. 1010.

²⁰ M. van Notten, *The Law...*

THE ECONOMY

The fall of Siad Barre's regime in 1991 caused disintegration of all state structures. However, this did not lead to deterioration of the economy. On the contrary, the situation improved compared to the situation before 1991²¹. This may be partially explained by the total collapse during the period of Siad Barre's dictatorship. His politics of central planning led to the economic destruction of the country. Apart from destructive features inherent to any socialist economy²², this was a result of the predatory character of the state apparatus which was used by rulers to keep power and to provide themselves with material benefits. This free-riding tendency led to the fall of the economy and simultaneously strongly constrained any economic activity of individuals. This means that the state not only fulfilled no functions which could be considered necessary for economic development, but also hampered any private initiative. In this sense, the collapse of state institutions in 1991 led to elimination of all administrative barriers. Therefore it freed private initiative and entrepreneurship. Simultaneously, lack of any state regulations and control could not lead to any negative implications for economy, as they already had been a pure fiction from many years. All relations between agents on the market were based on the customary law, which already had been a legal framework for the unofficial economy during previous decades.

It should be noticed that the Somali economy after 1991 developed regardless of internal disputes and lack of political stability. Although an entrance into a territory controlled by a given local militia required payment, such a contribution was lower than taxes that had been levied by the state. Simultaneously, most of internal fights which also had negatively influenced the economy ceased after the withdrawal of the peacekeeping force in 1995.

A positive influence of the changes after 1991 may be observed on the example of the cattle market – the biggest branch of Somali economy – which experienced an increase in both production and export. This fact is especially worth noticing due to the fact that in the 1980s Somalia was the biggest exporter of cattle in the world. In Garissa, a major market in Kenya for Somali cattle, the aggregated value of cattle sales grew 400 per cent between 1991 and 1998 and 600 per cent between 1989 and 1998.²³ In the north part of the country cattle from Somalia and Ethiopia were transported abroad through Somali ports. Two of them – Bossaso and Berbera – in 1999 accounted for 95 per cent of goat export and 52 per cent of sheep export for East Africa²⁴.

²¹ P. T. Leeson, 'Better off Stateless: Somalia before and after Government Collapse', *Journal of Comparative Economics*, Vol. 35, No. 4 (2007), pp. 689-710, at <<http://dx.doi.org/10.1016/j.jce.2007.10.001>>.

²² J. Huerta de Soto, *Socialism...*, pp. 49-98.

²³ P. D. Little, *Somalia. Economy Without State*, Oxford 2003, p. 91 (*African Issues*).

²⁴ *Ibid.*, p. 131.

Economic development occurred also in the spheres of commercial activity in urbanised areas. Analysis of this phenomenon seems to be even more important than of the pastoral sector, because the dysfunctional character of the Somali state affected the population outside the main urban areas only to a minor degree. In cities it was much easier to execute decisions of the state apparatus.

The civil war in the early 1990s strongly constrained the undertaking of entrepreneurial activity. However, as the stabilisation proceeded, increase in investment in urbanised areas followed. Somewhat surprisingly for a poor African country, Somalia has attracted a number of major corporations, such as Dole Fruit Inc., Coca-Cola, DHL and General Motors²⁵. In 2004 Coca-Cola opened a soft drink plant in Mogadishu²⁶. The above-mentioned examples are interesting because apart from intergovernmental agreements based on political guarantees for investors, many companies tend to avoid investing in African states. This, in turn, stems from lack of stability and absence of the rule of law. In this sense the case of Somalia indicates the capability of local structures to provide minimal economic freedom and security of private property.

The leading example of the possibility of conducting commercial activity without any administrative structures is the telecommunication sector. The fall of the central institutions in 1991 caused the disappearance of state monopoly in telephone services together with all regulations and restrictions. This caused the dynamic development of the market of private telecommunication services. There was rapid growth in the number of telephone subscribers and in the percentage of the population with internet access. Free market competition also influenced the quality of services and its price competitiveness. In Somali it takes three days for a landline to be installed, while in Kenya which is politically much more stable the waiting period for the same service is counted in years²⁷.

The phenomenon that contributed substantially to the development of telecommunication networks is *hawala*. It is system based on an international network of brokers and is used to transfer money. *Hawala* is used by the representative of the Somali diaspora who are scattered all over the world, in order to financially support their relatives in Somalia. Information about transfers is sent using telecommunication networks. Thereby it forms a system of international money exchange, independent from the official international banking system. Due to its informal and unofficial character the *hawala* is based mainly on mutual trust between participants. It is estimated that in the first decade of this century approximately 1 billion USD was transferred through the *hawala* system each year²⁸.

Another curious aspect of Somali economy is its currency. The collapse of the state apparatus implied, among other things, the disappearance of the central bank, which was responsible for the monetary policy and which was entitled to issue the Somali shilling – the state fiduciary money. In the central bank system the value of the currency is not based

²⁵ Ibid., pp. 166-167.

²⁶ A. Ali, 'Coke Plant Heralds New Beginning in Somalia', *African Business Journal*, No. 301 (2004).

²⁷ J. Winter, 'Telecoms Thriving in Lawless Somalia', BBC, 19 November 2004, at <<http://news.bbc.co.uk/2/hi/africa/4020259.stm>>, 19 January 2015.

²⁸ S. Anagnoste, S. Agoston, M. Draghisci, 'Somalia...', p. 1010.

on any material good, such as gold. However, its use as the binding means of exchange is guaranteed by the state. Therefore, with the collapse of the state the Somali shilling has lost its position as the legal tender. Without any binding rights to this currency, anyone could print it. What is interesting is that in Somalia, regardless of the collapse and thereby disappearance of the said state guarantees, the Somali shilling remained in common use as a medium of exchange. It was used in small transactions on the daily basis. For bigger transactions the Somalis used the US dollar. What is interesting is that the introduction of new banknotes to the market often occurred to be a part of initiatives supporting particular politicians. Despite these periodic disturbances the stability of the Somali shilling turned out to be higher than in previous years. Compare to the US dollar, it lost its value over three hundred-fold during the 1980-1991 period, while between 1991 and 2001 its value dropped only fivefold.²⁹ For comparison's sake, in the analogical period (1991-2001) the Polish zloty lost three quarters of its value, while between 1992-2001 two-thirds of its value. Despite printing additional amounts of banknotes the Somali shilling preserved a relative stability. Bearing in mind the possible rejection by the market, issuers have never decided to issue banknotes of higher nominal value than of those being in use before 1991. As a result they only copied the pre-1991 banknotes. This caused that with the course of time the marginal cost of printing and transportation of new banknotes achieved their nominal value, making further emission unprofitable³⁰. This led to the stabilisation of the currency, thus enabling it to stay on the market.

The behaviour of the money market in Somalia provides an opportunity, which is nowadays rare, to observe commonly the use of the system of the private supply of money, moreover, a supply which is not supported by any legal system. It does not confirm Hayek's predictions that the privatisation of money supply constrains inflation and leads to more stable market compared to the state control of money supply³¹. Simultaneously, however, it cannot be considered an argument in favour of the latter. Although after 1991 the value of the Somali shilling dropped, contrary to the prognosis of Milton Friedman, there was no unlimited growth of prices³². This suggests that the fundamental factor that allowed the Somali shilling to preserve its role as legal tender was its utility in small, everyday transactions. This, in turn, limited the inflation due to marginal costs of producing new banknotes.

The economic and social situation of Somalia, before and after the state collapse, can be partially provided using selected macroeconomic indicators which describe

²⁹ P. D. Little, *Somalia...*

³⁰ J. A. Mubarak, 'A Case of Private Supply of Money in Stateless Somalia', *Journal of African Economies*, Vol. 11, No. 3 (2002), pp. 309-325, at <<http://dx.doi.org/10.1093/jae/11.3.309>>.

³¹ Inflation is understood here as an increase of money supply. Somali example does not provide corroboration of the hypotheses of possibility of private supply of money or free-banking, as they assume distinguishability of currencies of different issuers. See: F.A. Hayek, *Denationalisation of Money. The Argument Refined. An Analysis of the Theory and Practice of Concurrent Currencies*, London 1990 (*Hobart Paper Special*, 1); L. J. Sechrest, *Free Banking. Theory, History, and a Laissez-Faire Model*, Auburn 2008.

³² M. Friedman, *A Program for Monetary Stability*, New York 1960.

standards of living. Following these indicators allows us to argue that the economic situation in Somalia in the post-1991 period improved in comparison to the pre-1991 period. In particular, this statement is compatible with the indicators of life expectancy, access to physicians, infant mortality rate or the extreme poverty rate.

One of the most basic macroeconomic indicators – GDP per capita – decreased in the 1990s. In the second half of 1980s it estimated value was 836 USD³³, while in 2010 it was approximately 600 USD³⁴. It should be noticed that these numbers do not illustrate the economic situation of the country in question properly. As Jesus Huerta de Soto argues, presumptions upon which notion of GDP is based do not consider the existence of the heterogeneity and structure of capital, thereby ignoring expenses attributed to various levels of production of goods. As a result the method of GDP calculation excessively raises the importance of consumption and reduces the role of investments³⁵. Contrary to the above-mentioned position, in the case of Somalia investments are especially important after 1991, as they were necessary for dragging the economy from collapse. Moreover, in planned economy companies tend to overstate their achievements to reach level of production demanded by the planners. Admittedly, such a situation took place in Somalia in 1980s. Additionally, during that period a considerable part of expenses forming the Somali GDP was used to maintain the military forces³⁶. Simultaneously, Siad Barre's regime was one of the biggest beneficiaries of foreign aid. In the mid-1980s it constituted 58 per cent of country's GNP. In particular, it financed the entire Somali education system.

Table 1. Chosen indicators for Somalia

	1985-1990	2000-2005
Extreme poverty (% <1 USD per day)	60	43
Physicians (per 100,000)	3,4	4
Life expectancy (years)	46	48,5
Infants mortality rate (per 1000)	15,2	11,5
Infants with low birth weight (%)	16	0,3
Population with access to water (%)	29	29
Adult literacy rate (%)	24	19

Source: P.T. Lesson, 'Better off Stateless: Somalia before and after Government Collapse', *Journal of Comparative Economics*, Vol. 35, No. 4 (2007), at <<http://dx.doi.org/10.1016/j.jce.2007.10.001>>.

³³ UNDP, *Human Development Report 2001: Somalia*, at <http://planipolis.iiep.unesco.org/upload/Somalia/Somalia_2001_HDR_en.pdf>, 21 January 2015.

³⁴ CIA, *The World Factbook*, 'Somalia', 2013, at <<https://www.cia.gov/library/publications/the-world-factbook/geos/so.html>>, 15 January 2015.

³⁵ J. Huerta de Soto, *Money, Bank Credit, and Economic Cycles*, trans. by M.A. Stroup, Auburn 2012, pp. 305-312.

³⁶ P.T. Lesson, 'Better off Stateless...'

Although GDP does not provide a basis for evaluation of the economic situation of Somalia after 1991, research conducted using various indicators shows an improvement of standards of living compared to the pre-1991 period³⁷. This is connected with the economic development of the country. Among other things, life expectancy increase and infants mortality rate decrease were observed. There was also an increase in the rate of immunisation of children and improvement in access to physicians and medicaments³⁸. Simultaneously, the percentage of the population living for less than 1 USD per day decreased. Although access to education decreased directly after the collapse of the state, lately also this sector recorded progress³⁹.

When considering the issue of the role of the state in the economy, apart from comparing data from different periods of time, it is crucial to provide comparison with other countries from the region. Regardless of the fact that the standards of living in Somalia diverge from the standards of the Western welfare states, it occurs to be comparable with the situation in other poor states. Comparing values from 1990 to 2005 we can state that Somalia improved its position among Sub-Saharan African countries in terms of the mortality rate (from position 37 to position 17 on 42 countries on the list), life expectancy (from 37 to 18) and tuberculosis (from 40 to 31). A decrease was observed in infant mortality (from 32 to 38) and immunization (from 38 to 42)⁴⁰. Additionally, in 2005 Somalia was in the first half of African countries in terms of access to the internet and number of mobile phones. What is interesting, an improvement in life expectancy, infant mortality and access to sanitation facilities was bigger than in the case of Kenya or Djibouti⁴¹.

Table 2. Changes in the selected development indicators between 1990 and 2005

	Djibouti	Ethiopia	Kenya	Somalia
Life expectancy (years)	-15.4	9	-15.6	5.4
Population with access to water (%)	1.4	-4.3	35.6	0
Adult literacy rate (%)	-	-	3.7	-20
Telephones mainlines (per 1000)	40	-	28.6	1150

Source: P.T. Leeson, 'Better off Stateless: Somalia before and after Government Collapse', *Journal of Comparative Economics*, Vol. 35, No. 4 (2007), at <<http://dx.doi.org/10.1016/j.jce.2007.10.001>>

³⁷ C. J. Coyne, 'Reconstructing Weak and Failed States: Foreign Intervention and the Nirvana Fallacy', *Foreign Policy Analysis*, Vol. 2, No. 4 (2006), pp. 343-360, at <<http://dx.doi.org/10.1111/j.1743-8594.2006.00035.x>>; P. T. Leeson, 'Better off Stateless...'; T. Nenova, T. Harford, 'Anarchy and Invention', The World Bank, Note No. 280, November 2004, at <<http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1303327122200/280-nenova-harford.pdf>>, 20 January 2015; B. Powell, R. Ford, A. Nowrasteh, *Somalia after State Collapse: Chaos or Improvement?*, 30 November 2006, Independent Institute Working Papers, 64, pp. 1-28.

³⁸ It should be noticed that all medical services are provided by the private sector.

³⁹ P. T. Leeson, 'Better off Stateless...'

⁴⁰ B. Powell, R. Ford, A. Nowrasteh, *Somalia after State Collapse...*

⁴¹ P. T. Leeson, 'Better off Stateless...'

The above data do not corroborate the hypothesis according to which the existence of state fosters economic stability and improvement of the standards of living more than its lack. Despite the fact that in terms of access to water or adult literacy Somalia represents itself worse than other states of the Horn of Africa, most of the presented data indicate a similar or better situation than in the neighbouring countries. This suggests, along with the comparison with the pre-1991 situation, that the disintegration of the state structures in fact contributed to the development of the free market and saved the country from economic collapse.

Without doubt the period after the collapse of the central government is characterised by political instability and internal fights, which negatively influenced local communities and economy. Strong clientelism and founding support for the regime based upon clan divisions contributed to the emergence of tensions between various groups. This together with attempts of the international community to create a new government after the fall of Siad Barre led to intensification of fights. Decades preceding the collapse of the state promoted a perception of the state as a prize-system and an instrument to protect the interests of groups in power. Additionally, because such a patronage system functioned at the expense of other groups, centralisation of power is perceived by groups which are oriented toward consensus and are politically independent as something which deprives them of the possessed freedoms in and of itself. Together with the high level of external costs formed by the Somali state apparatus this led to recognition of the existence of the central government as a win or lose situation. In this sense pursuing control over state institutions was necessary not only to gain political power, but also for self-defence against the domination of others. This, in turn, encouraged clans to engage in more aggressive actions, supporting the adaptation of non-cooperative solutions. Consequently, the internal fights in Somalia after 1991 appear to be not as much a result of the lack of the state, but rather of the state's previous existence.

The commonly known negative aspect of Somali economy which emerged after 1991 is piracy. This activity gained intensity especially after 2008⁴². It was a result of various factors, such as the internal fights and the lack of central institutions responsible for protecting Somali territorial waters, which led to disappearance of any control over Somali maritime area. This, in turn, caused the rapid growth of illegal fishing conducted by fishing companies from various countries. Another effect steaming from the lack of maritime surveillance was the illegal disposal of toxic waste off the Somali coast⁴³. All this contributed to an impoverishment of fauna and moti-

⁴² In 2005 illegal fishing on waters around Somalia was conducted by over 700 vessels from Western Europe, Japan, India, China, Russia or Egypt. The estimated value of annually caught fishes was over 450 million USD. K. Pająk, 'Somalia – studium upadku państwa i walki o bezpieczeństwo morskie w regionie' in: R. Kłosowicz, A. Mania (eds.), *Problem upadku państw w stosunkach międzynarodowych*, Kraków 2012, pp. 157-170 (*Studia nad Rozwojem*); M. A. Waldo, 'Somalia Piracy: The Two Faces', *The African Executive*, 28 January 2009, at <<http://www.africanexecutive.com/modules/magazine/articles.php?article=4060>>, 30 January 2015.

⁴³ Greenpeace, 'The Toxic Ship: The Italian Hub, the Mediterranean Area and Africa', June 2010, at <<http://www.greenpeace.org/italy/Global/italy/report/2010/inquinamento/Report-The-toxic-ship.pdf>>, 10 January 2015.

vated a reaction of the local seaside communities, for whom fishing was an important source of revenue. Somali fishermen started to attack foreign trawlers as well as to capture them in order to demand ransom. However, over time the original motivation changed and piracy itself became an important source of income. For a part of Somalis it turned out to be much more profitable than fishing⁴⁴. Simultaneously, the decline of pirates' activity which started in 2012 was possible mainly due to patrol and anti-piracy maritime operations conducted in the Horn of Africa region by the international community⁴⁵.

CONCLUDING REMARKS

Economic development is admittedly an important indicator describing the social situation in a given country. The social and political stability implies reduction of risk and uncertainty connected with entrepreneurial activity. In this sense it fosters investment and economic growth. Simultaneously, economic development fosters further stabilisation, as it promotes cooperation between entrepreneurs. This leads to lowering the risk connected with decision-making. In this sense Somali economic development creates an opportunity for further political and social stabilisation. Simultaneously, it suggests that the state is not a necessary condition for economic development.

The economic situation in Somalia after the fall of Siad Barre's regime improved compared to the period before 1991. It also presents itself relatively well comparing to the situation in other states of the Horn of Africa. This corroborates the hypothesis that the lack of a centralised institution of political power is not a cause of instability. Economic processes allow us to observe how social order can emerge in spontaneous way based on existing, customary rules, as well as newly formed solutions. Although Somalia has not become an anarchistic utopia similar to these described by Murray Rothbard or David Friedman, it simultaneously illustrates weaknesses of constructions based on the assumption of the necessity of the state and the idea of social contract understood as the ground for any social order⁴⁶. The state is one of possible political systems formed within the social order. Admittedly, it is currently the most widespread system, but not the only one. Moreover, its effectiveness in the realisation of functions which are attributed to it and in respecting socially accepted moral rules is question-

⁴⁴ It should be noted that an important catalyser of piracy development was the tsunami which hit East Africa in 2004. It caused huge losses destroying, among others, facilities and equipment used by local fishermen. Additionally, the toxic wastes washed ashore led to pollution of water and soil. In such a situation work for criminal groups turned out to be the only solution for many people. UNEP, *After the Tsunami: Rapid Environmental Assessment*, at <http://www.unep.org/tsunami/reports/Tsunami_report_complete.pdf>, 15 January 2015.

⁴⁵ IMB, 'IMB Piracy Report highlights violence in West Africa', at <<http://www.icc-ccs.org/news/865-imb-piracy-report-highlights-violence-in-west-africa>>, 16 January 2015.

⁴⁶ D. Friedman, *The Machinery of Freedom...*; M. N. Rothbard, *For a New Liberty...*

able⁴⁷. It is the state structure that are partially a source of destabilisation and conflicts, both internal and external ones. Except for the group of the developed countries, most of the states have a dysfunctional character, which undermines any assumptions considering the state as the best possible solution. It is especially apparent in Africa. The situation in Somalia during the dictatorship of Siad Barre provides here a suggestive example. Simultaneously, it shows the negative impact of state-building initiatives on the economic and political stability of the country. This is because attempts to restore the central authorities are strongly based on models according to which these authorities possess exclusiveness for law creation and use of force. At the same time these attempts tend to ignore the possibility of the existence of alternative, polycentric political systems. Therefore state-building processes often lead to conflict with the social order. As a source of power and means of redistribution the state becomes the object of competition between various groups. Together with the substantial role of kinship in Somali society this leads to recognition of the state as an object of competition. In this sense a struggle for gaining control over governmental institutions changes voluntary cooperation, typical for decentralised societies, into a compulsory rivalry. This undermines mutual trust and creates incentives toward non-cooperative behaviours. It is such a situation, rather than lack of the state, that is closer to a Hobbesian state of war of all against all.

The above considerations also refer to the notion of failed state. Rejecting the central role of the state, the approach presented in this article provides a wider perspective to the problem of state's failure. It treats the failed state as a comprehensive term describing a wide spectrum of social phenomena connected with the instability of legal and social structures. In this sense such a state is not understood as a necessary condition for the existence of any formal system of norms within which social order is placed, but as a factor interfering with other social institutions functioning in a given territory.

The above remarks do not imply that the international community should undertake no actions toward Somalia. Many phenomena which emerged after the collapse of the government, such as piracy and the emergence of warlords, have caused erosion of clan structures and the reduction of the role of the elders. This, in turn, has constrained the abilities of traditional, local structures to stabilise the social and political situation. It also has created space for development of various extremisms which, together with the piracy, form threats to the international community. Although this suggests an existence of the necessity to undertake some adequate countermeasures, it does not necessarily imply a top-down shaping of Somali political and social order, as such attempts have already proved to be counterproductive. It is crucial to provide support for local communities, which does not collide with grassroots solutions and customary rules.

⁴⁷ F. A. Hayek, *The Fatal Conceit...*

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Piotr SZAFRUGA, M.A. – PhD candidate in Political Science at the Jagiellonian University in Kraków. MA in International Relations and MSc in Mathematics from the Jagiellonian University, MA in Economics of the Austrian School from the King Juan Carlos University, Madrid. His research interests focus on the phenomenon of spontaneous order.