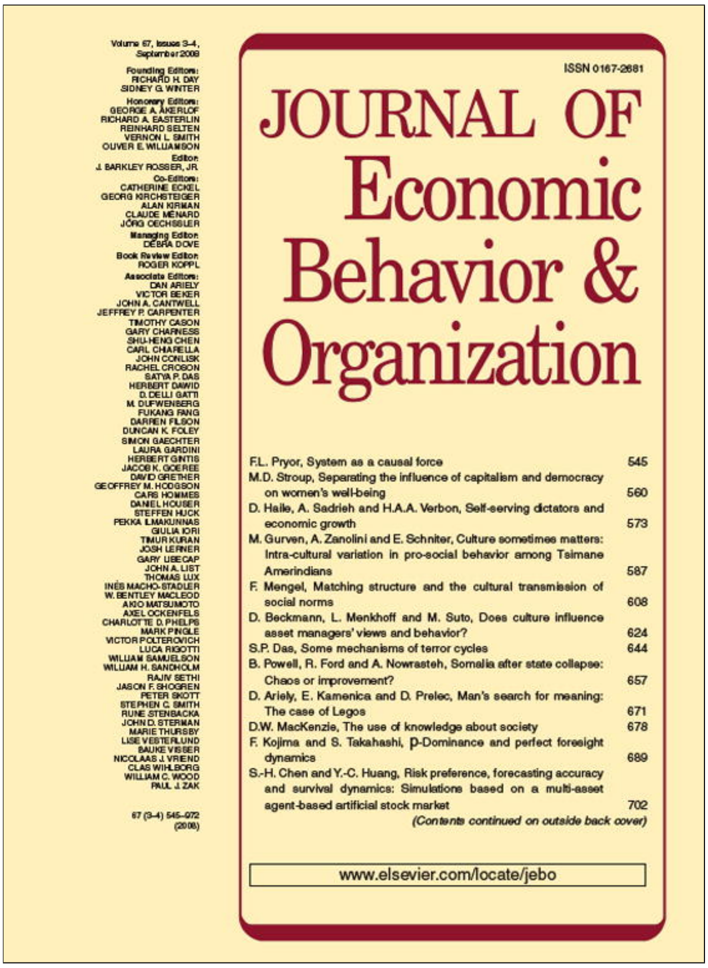

Volume 67, Issues 3–4,
September 2008

67 (3–4) 545–972
(2008)

ISSN 0167-2681

JOURNAL OF Economic Behavior & Organization

F.L. Pryor, System as a causal force 545
M.D. Stroup, Separating the influence of capitalism and democracy on women's well-being 560
D. Haile, A. Sadrieh and H.A.A. Verbon, Self-serving dictators and economic growth 573
M. Gurven, A. Zanolini and E. Schniter, Culture sometimes matters: Intra-cultural variation in pro-social behavior among Tsimane Amerindians 587
F. Mengel, Matching structure and the cultural transmission of social norms 608
D. Beckmann, L. Menkhoff and M. Suto, Does culture influence asset managers' views and behavior? 624
S.P. Das, Some mechanisms of terror cycles 644
B. Powell, R. Ford and A. Nowrasteh, Somalia after state collapse: Chaos or improvement? 657
D. Ariely, E. Kamenica and D. Prelec, Man's search for meaning: The case of Legos 671
D.W. MacKenzie, The use of knowledge about society 678
F. Kojima and S. Takahashi, p-Dominance and perfect foresight dynamics 689
S.-H. Chen and Y.-C. Huang, Risk preference, forecasting accuracy and survival dynamics: Simulations based on a multi-asset agent-based artificial stock market 702
(Contents continued on outside back cover)

www.elsevier.com/locate/jebo

ELSEVIER

Journal of Economic Behavior & Organization 67 (2008) 657–670

JOURNAL OF
Economic Behavior
& Organization

www.elsevier.com/locate/econbase

Somalia after state collapse: Chaos or improvement?

Benjamin Powell [a,*], Ryan Ford [b], Alex Nowrasteh [c]

[a] *Beacon Hill Institute, Suffolk University, United States*
[b] *San Jose State University, United States*
[c] *George Mason University, United States*

Received 11 December 2006; received in revised form 27 April 2008; accepted 29 April 2008
Available online 16 May 2008

Abstract

Many people believe that Somalia's economy has been in chaos since the collapse of its national government in 1991. We take a comparative institutional approach to examine Somalia's performance relative to other African countries both when Somalia had a government and during its extended period of anarchy. We find that although Somalia is poor, its relative economic performance has improved during its period of statelessness. We describe how Somalia has provided basic law and order and a currency, enabling the country to achieve the coordination that has led to improvements in its standard of living.

JEL classification: O10; O17; O57; P16; P50

Keywords: Somalia; Anarchy; Economic development; Africa

Somalia has lacked a national government since the fall of Siad Barre's dictatorship in 1991. Rival factions immediately plunged the country into civil war in failed attempts to install themselves as the new national government. U.S. and UN humanitarian and military intervention from 1993 through 1995 failed to restore peace. In fact, the Somalis united against the foreign presence and eventually forced the U.S. to withdraw. From 1995 through 2005 episodes of criminal behavior and violence occurred, but not at the levels seen when factions vied to control a single government. In fact, with the relative peace, there is evidence that Somalia has been able to increase its standard of living while remaining stateless. However, in February of 2006 the Transitional Federal Government (TFG), which had been created in exile two years earlier, entered southern Somalia. Opposition to the TFG bolstered support for the Islamic Courts Union (ICU) which itself became a defacto government in some areas of southern Somalia, including the former capital, Mogadishu. In December Ethiopia invaded, overthrew the ICU, and installed the TFG in the former capital. However, there is little popular support for the TFG; its control is weak, and there are frequent decentralized attacks against TFG officials and soldiers and their Ethiopian supporters. It remains to be seen whether the TFG will gain greater control over the country or if clan factions and warlords will overthrow it. This study examines Somalia's period of statelessness up to 2005, the last year for which data was available. Thus, it should be kept in mind that the recent fighting in an attempt to impose a new national government, which has negatively impacted living standards, is excluded from our data analysis.

* Corresponding author. Tel.: +1 617 573 8023.
E-mail address: benjaminwpowell@gmail.com (B. Powell).

0167-2681/$ – see front matter
doi:10.1016/j.jebo.2008.04.008

Somalia's extended period without a national government in the modern era provides us with a unique opportunity to study the political economy of a stateless order. Some theorists (Hobbes, 1996; Buchanan, 2000) have argued that without a government society would plunge into a war of all against all, the result of which would be a life that is "nasty, brutish, and short."[1] In the absence of a complete collapse, standard economic theory still predicts that many public goods and more complex market transactions would not be provided. On the other hand, a few theorists (Rothbard, 1973; Friedman, 1989; Benson, 1990) have contended that a stateless "anarcho-capitalist" society could provide essential public goods and maintain a high standard of living.

Somalia's experience fails to conform to any of these theories perfectly. In fact, although the Somali nation state ceased to exist, two regions in the north, Somaliland and Puntland, have declared themselves independent states, and though they complicate our analysis, as will be discussed later, it is not clear that they should be considered states in the traditional sense of the term. Despite the initial civil war and recent violence centered around the attempt to impose a new national government, Somalia has been relatively peaceful for most of the period since becoming stateless, and living standards have not collapsed. Some public goods are being provided with more success than others. But Somalia fails to live up to the thriving economy predicted by anarcho-capitalists. The Somali experience does, however, provide insight to the robustness of markets when states collapse.

This paper approaches Somalia from a comparative institutional perspective. Somalia's achievements in a stateless order are compared to its performance when it had a state as well as to the performance of neighboring African states. Most African nation states are far from governments that only correct market failures and provide the background institutions for markets to operate. In fact, George Ayittey (1998) refers to many African countries as "vampire states" that suck the life-blood out of the population for the benefit of the rulers. Somali anarchy also falls far short of the ideal stateless institutional environment. This paper compares these imperfect institutions in Somalia and Africa.

Although some standard data are available, much of the traditional data economists use to measure development is lacking in Somalia. In this paper we use traditional measures when available as well as ethnographic and anecdotal evidence from work in other social sciences. However, all data should be treated with extreme caution. The quality of the data in much of Africa is unreliable, and this may be particularly true of Somalia.

Our paper proceeds as follows. The next section provides some background on the major events leading up to the collapse of the Somali state and its economic performance under a national government. Section 2 examines data on living standards and economic activity to compare Somalia's performance while stateless to when it had a state and to other African countries. Section 3 describes how Somalia has produced public goods and other complex market transactions without a state. Section 4 contains conclusions.

1. Somalia before state collapse

When Somalia became independent in the 1960s, no sense of national identity existed. Different languages, monetary systems, and styles of government all made central governance difficult. Somalis preferred to be known as Isaaq, Darood, or Bantu rather than Somali because loyalty to one's clan, village, and ethnicity took precedence over loyalty to the national government (Federal Research Division, 1993).

In 1969 a military coup assassinated the president and closed down the parliament. The constitution was abolished, and General Siad Barre became dictator. Shortly after taking power, Barre announced that the new regime's goals would be to put an end to tribalism, nepotism, corruption, and misrule, and that those goals would be achieved through the application of "Scientific Socialism." However socialism was formally abandoned in 1980 after the Soviet Union cut off economic and military support to Somalia in 1977. During the 1980s liberalization was promised as Somalia courted IMF and U.S. aid. In both the 1970s and 1980s, regardless of the formally declared economic system, the focus of the regime was on resource extraction for the benefit of Barre and his allies. Although Barre had outlawed the use of any terminology referring to the clans, he illegally gave land and water rights to specific clans that supported his rule (Besteman, 1996a, p. 126).

Most Somalis were rural pastoralists or small farmers who traded their produce across Africa and the Middle East. Since political power was concentrated in urban cities, these rural Somalis had little influence in shaping Barre's

[1] Powell and Wilson (2008) provide experimental evidence that the Hobbesian jungle is likely more efficient than Hobbes and Buchanan have theorized.

policies and were routinely mistreated. Beginning in the 1970s state laws nationalized access to land and water and imposed severe restrictions on the livestock and qat (a popular stimulant) trades, stripping the nomads and rural farmers of their productive assets (Besteman, p. 127). By making state-controlled title registration the only legal way to hold land, the land tenure laws of the 1970s and 1980s quickly resulted in the nationalization or redistribution of the nation's most fertile farmland. However, land reform in the 1980s worsened the rural farmers' problems because as the land was privatized, it was transferred to small cliques of politicians or politically connected urban businessmen. In some cases entire villages of local farmers became victims of Barre's policies (Besteman, p. 127).

A major program to resettle all refugees started immediately after Somalia's defeat in the Ogaadeen War. By 1981, 700,000 refugees were being resettled in the north to weaken the Isaaq clan, which was openly resisting Barre's regime (Schraeder, 1986, p. 647). The northern clans were non-hierarchical pastoralists who resisted government attempts at centralization and increased control; the southern clans were more open to political manipulation because of years of political favors and government money (Schraeder, p. 648). As refugees displaced northern farmers and the government confiscated ever-larger tracts of land for their resettlement, fighting broke out between the malnourished refugees, the Somali Armed Forces, and the dispossessed farmers. This eventually led to the 1991 civil war.

Throughout the 1970s and 1980s, the government did conduct a large public investment program, but it was unproductive and created much public debt (Mubarak, 1997, p. 2028). In 1989 the consolidated non-financial public sector deficit was 37 percent of GDP; by 1990 the total outstanding foreign debt was 277 percent of GDP (Mubarak, 1997, p. 2028). The population received few benefits from this spending. About 90 percent of spending was on defense and administration, while spending on social services fell to less than 1 percent of GDP during 1988–1989 (Mubarak, 1997, p. 2028).

The banking industry was also in shambles. As Mubarak (1997, p. 2028–2029) puts it,

> In the 1970s and early 1980s the banking system was largely a financing tool for public agencies. . . The Commercial and Savings Bank was declared bankrupt, and the Development Bank was unable to provide new lending in 1989. The financial system fell into deep crisis and, with the complicity of corrupt officials, most of the daily operations of the banking system fell to the black market.

As the public sector failed to provide goods and services during the 1980s, informal black markets expanded to fill the void. The informal sector replaced former government monopolies by providing financial, health, and educational services. For example, the informal sector "provided credit and investment-financing to small producers, since access to the official credit market was granted only to state monopolies and businessmen with political connections. It facilitated the channeling of remittances by Somalis living abroad and gave private traders access to the foreign exchange" (Mubarak, 1997, p. 2029). Overall, by the mid-1980s, the informal black market sector was the largest employer of labor (Mubarak, 1997, p. 2029).

In addition, the rural pastoral sector saw particularly few benefits from the national government. The pastoralists employed 70 percent of the labor force and produced 65 percent of the GDP, but only 6 percent of public spending (1.2 percent of GDP) was directed to the sector annually from 1974 to 1988 (Mubarak, 1997, p. 2029). Most rural pastoralists were either exploited or ignored by Barre's national government. As Little (2003, p. 16) put it, in rural areas, "the state was an entity that extracted some local resources and was punitive at times, but could not be counted on to govern daily affairs".

The Somali national government was predatory and it existed largely to benefit Barre and his allies rather than the average Somali. In fact, the average standard of living was so low that Somalia had one of the lowest per capita food intakes during the 1980s (Farzin, 1988). The upside to the neglect and exploitation suffered under Barre's rule is that Somalis relied on traditional clan networks and informal markets to survive. These clan networks, which had existed for generations, and the new informal markets that emerged during the 1980s would play an important role in Somalia's economic performance after the national government collapsed in 1991.

2. Economy and living standards without a state

After Barre's government collapsed in 1991, rival warlords plunged the country into civil war, each attempting to install himself as the new dictator. After the UN withdrew in 1995, the prospect of a new national government being installed diminished, and so did the fighting. Although multiple governments in exile have been created, none has been able to establish its rule over a significant portion of the country. In the south the TFG is currently trying to establish itself as the government, but it is still unclear whether they will be successful. In the north the regions of

Somaliland and Puntland have declared their independence, though no national governments recognize them as states. These regional "governments" do provide some administrative services, but as will be discussed in Section 3, they lack many characteristics typically associated with a state.

While the civil war hurt the economy and lowered living standards, once a relative peace was established the economy began to grow. Mubarak finds that the Somali economy has suffered more from droughts and the civil war than from the loss of state institutions; overall, he (1997, p. 2028) finds that "as far as economic welfare is concerned, absence of government has proven to be better than the repressive institutions and improper policies of Barre's government."

This is not to say that Somalia has an optimal business environment. As Little notes, "For the merchant today, there are still fees to be paid to greedy faction leaders and militia at ports and roadblocks but levels of taxation and trade restrictions are considerably below what they were pre-1991" (p. 7–8). This section examines the comparative institutional question of how well the imperfect Somali anarchy performs compared to the imperfect Somali state pre-1991 and other imperfect African states.

2.1. The pastoral sector

The pastoral sector was largely neglected or harmed by the central government.[2] In the rural pastoral lands the government rarely constructed roads, health clinics or schools. The population did not use the government to settle disputes or administer justice, and the government generally took more in revenue than it gave back in services (Little, p. 15). Not surprisingly, the pastoral sector has mostly done well since the collapse of the central government. Herders who have always relied heavily on social relationships and kinship to gain access to markets do so even more heavily now, and they can do so without active government interference.

The Somali live animal trade, which flows between neighboring Ethiopia and Kenya as well as to overseas markets, has increased dramatically. In Garissa, a major export market in Kenya for southern Somali cattle, the value of cattle sales increased 600 percent and the volume of sales quadrupled from 1989 to 1998 (Little, p. 91). In the north animal trade from Somalia and neighboring land-locked Ethiopia flows to northern Somali ports for export. The two northern ports of Bossaso and Berbera exported nearly 3 million head of goat and sheep in 1999, accounting for 95 percent of all goat and 52 percent of all sheep exports for East Africa (Little, p. 131). Overall, the volume of trade in sheep and goats in Somaliland and Puntland was greater in 1999 than when the regions were governed by a single national government. In fact, Somaliland is the leading exporter of livestock from eastern African nations (Little, p. 132). In 2002 Somalia as a whole exported more than 480 million metric tons of agricultural products and more than 180 million metric tons of livestock (Country Watch, 2005, p. 40).

The livestock sector has experienced some problems, however. Droughts in particular have caused hardships, but this is true for the entire region, not just stateless Somalia. Little notes that, "Pockets of severe food insecurity remain in the Somali borderlands, but local herders have generally fared as well as – if not better than – neighboring pastoral populations. Even with the devastating drought of 1999–2000, the food situation in Somalia was not markedly different from in other parts of the Horn of Africa" (p. 138). In fact, Somali herders did better than those in Kenya, who saw nearly 50 percent of their cattle perish in recent droughts (Little, p. 67).

With the collapse of the government, some might be concerned that lack of security would raise transaction costs and prevent large-scale trade. However, in Somalia this has not happened. Although armed escorts are sometimes hired, transport costs per animal are usually less than $0.01/km, and this price has not increased greatly since the collapse of the government (Little, p. 103). In a 1998 survey of 84 rural pastoral traders, only 24 percent of respondents reported security related concerns, and only 13 percent thought security was more of a problem than it was in 1990 (Little, p. 125). Since the rural pastoralists had traditional dispute resolution mechanisms to fall back on (see Section 3), security has not been a major issue for herders since state collapse.

Although much of the rural pastoral sector is doing better than it did when Barre was in power, the riverine peoples have had difficulties. Much of the fighting occurred on their lands and their assets were often claimed by rival warlords. However, this was not entirely unique to Somalia's statelessness, as Besteman (1996a, p. 127) noted, "attacks on southern villagers followed the familiar pattern of state appropriation of resources established during the colonial

[2] This subsection draws on the work of anthropologist Peter Little, whose 2003 book, *Somalia: Economy Without a State*, focuses on the performance of the Somali pastoral sector and makes extensive use of ethnographic data, such as interviews, surveys, and field research, to uncover information that is not widely reported in traditional economic sources.

period and Barre years. Those who 'liberated' the state by deposing Barre claimed as their reward control over the same kind of resources claimed by the urban elites in the 1980s". The fact that many people in the riverine area are Bantu, who are viewed by many Somalis as inferior, has also played a role in their lack of security both during Barre's regime and the period of statelessness.[3]

Overall, the performance of the rural pastoral sector in the absence of a state has been quite remarkable. Since the sector depended little on the state, and often suffered under it, pastoral Somalis have generally done better without a nation state than with one.

2.2. *Commercial business activity*

Urban commercial business activity interacted more with the national government than the pastoral sector did. Cities have thus been more affected by the government's collapse. In some cities peace has been difficult to achieve. Where peace has been more stable, business activity remains strong. This section will examine major corporate business activity in Somalia as well as general business activity in the city of Borama.

Perhaps somewhat surprisingly for a poor, stateless, African country, Somalia has attracted a number of major corporations. Italian agribusiness companies and U.S.-based Dole Fruit Inc. have invested in the agricultural sector since the state's collapse.[4] One of Somalia's media companies has affiliated with the British Broadcasting Corporation (BBC). The courier DHL serves Somalia (DHL, 2006). A British Airways affiliate flies to Somalia, and General Motors also does business there. In 2004 Coca-Cola opened a soft drink plant in Mogadishu that will employ 120 Somalis and have a productive capacity of 36,000 bottles per hour (Ali, 2004). Many companies avoid doing business in a number of Africa's nation states, so the fact that these international companies are willing to do business in Somalia is an indication that it has been successful in providing a minimum security of property rights and economic freedom.

What may be more remarkable than the pastoral economy's success is that cities, at least those that are relatively peaceful, have been able to maintain order and business activity without a state. Borama is one such city.

Borama is located in the Awdal region of northwest Somalia in Somaliland. This region borders Djibouti, Ethiopia, the Somaliland province of Woqooyi Galbeed, and the Gulf of Aden. The Somaliland government claims Awdal is part of Somaliland, but it is in fact a sovereign clan council ruled area (Davidson, 2001). Adwal's most populous city is Borama, with a population ranging from 150,000 to 300,000 depending on season (Davidson). Borama appears to have some type of tax collection for municipal works, as it is cited as having tax revenue of 958,225,000 Somaliland Shillings (roughly $150,000 U.S. dollars) (Somaliland in Figures, 2003, p. 23). How these funds are collected or what they are used for is not certain, but considering the city has a population of 300,000, this is a rather small amount of taxation per capita.

Borama has much commercial activity; the following figures are from eight years after the end to formal government in Awdal. Borama is home to 95 teashops, 82 restaurants of B, C, or D grade (non-star rated restaurants), 145 elementary shops, 8 star level restaurants, 69 wholesale stores, 106 retail stores, 137 clothing and shoe shops, 19 emporium shops, 30 retail pharmacy shops, 16 hotels (4 of which are star rated), 7 fuel stations with underground tanks, 4 with above ground tanks, and 10 selling fuel from barrels (Somaliland In Figures, 1998). Borama also has a DHL drop off station (DHL 2005). The Borama airport was running nearly a flight a day as of 2001 (Somaliland in Figures, 2003, p. 40). There is a hospital that employs three doctors, three nurses, two laboratory technicians and an X-ray technician (Somaliland in Figures, 2003, p. 64). A private university created in 1996 now has more than 1000 students, 45 teachers, and a library of more than 100,000 books (Amound University, 2006).

Borama illustrates that a large city with a variety of businesses can exist without a national government. The fact that international companies are willing to do business in stateless Somalia is also encouraging.

2.3. *Overall living standards*

It is no easy task to measure Somalia's overall living standards given that no state exists to collect traditional data, and even when Somalia's state existed its data were often unreliable. As such, all statistical data in this section should

[3] See Besteman (1996b, particularly pp. 583–584) for a description of the genealogical makeup, discrimination against, and performance of Bantu Somali.

[4] All companies mentioned in this paragraph come from Little (pp. 166–167) unless otherwise cited.

be treated with caution. We begin by reviewing other research on Somali living standards. We then use 13 measures from the World Bank's *World Development Indicators* that are available for a large cross section of African countries and in some cases are available over the past 20 years to examine how the Somali economy functioned over time compared to other countries.

This section builds on research comparing living standards conducted by Nenova and Harford (2004), Coyne (2006) and Leeson (2007). Nenova and Harford compared current living standards in Somalia with averages from neighboring Kenya, Ethiopia, and Dijbouti as well as an average of 22 West African countries. They compared per capita income, Gini coefficients, percentage of the population living on less than PPP $1 per day, roads and telephones per 1000 population, the percentage of the population with access to safe drinking water, and the illiteracy rate. Of these seven measures they find that Somalia outperforms its neighbors on three of them (Gini coefficient, population living on less than $1 a day, and telephones) and ties them on roads. Somalia outperforms and ties the West African average on the same measures.

Coyne expands on Nenova and Harford by examining measures of income, health, children's health, telecommunications, and infrastructure. He finds that Somalia compares relatively well on measures of poverty and infrastructure provision. It has difficulty in health issues, but, "even on most of these [health] margins, Somalia is not drastically worse than comparative societies that possess a central government" (p. 16).

Leeson builds on this literature by comparing how 18 development indicators have changed in Somalia since the collapse of the state.[5] He compares these indicators for the last five years Somalia had a state, 1985–1990, to those same indicators for 2000–2005. Although the statistics clearly paint a picture of a very poor country, they also demonstrate that Somalia is doing better today without a state than when it last had one. Of the 18 development indicators, 13 clearly improved since the collapse of the state, and only two, adult literacy and school enrollment, clearly declined. Leeson attributes the declines in these two measures to decreases in aid, not lack of state provision.

To build upon the existing literature we examine Somalia's performance relative to a broader set of countries over time. We use the *World Development Indicators* to compare Somalia's performance with 41 other sub-Saharan African countries in both the current period and, when data allows, Somalia's relative performance over time. Other cross sectional studies do not address whether Somalia is continuing to improve, and Leeson's longitudinal study does not address how Somalia's economy evolved relative to other African countries that had states. Thus our comparison addresses a gap in the literature by establishing whether Somalia improved its relative performance once it shed its nation state.

Unfortunately, using a broad cross section of countries over a 20 year time period for a region with often unreliable (or uncollected) data limits our metrics of comparison. We examine 13 measures: the death rate, infant mortality, life expectancy, child malnutrition, telephone mainlines, mobile phones, Internet users per 1000 population, households with television, DPT immunization, measles immunization, percent of the population with access to sanitation and an improved water source, and cases of tuberculosis (Table 1).

Although Somalia's 2005 standards of living are low by western standards, they compare fairly favorably with other African nations. Of our 13 measures, Somalia ranks in the top 50 percent of nations in five of them and ranks near the bottom only in infant mortality, immunization rates, and access to improved water sources. Although in 2005 the nation ranks in the bottom 50 percent of countries on seven measures, it has actually improved performance relative to other countries since the collapse of the Somali state. Somalia ranked in the bottom 50 percent of all seven variables for which we have 1985–1990 data. In the last years of the Somali nation state (1985–1990), its performance relative to other African countries deteriorated from the early 1980s, with Somalia losing ground in life expectancy, death rate, and infant mortality as well as DPT and measles immunization. Only telephone main lines showed a slight improvement during this time.

Life expectancy in Somalia fell by two years from 1985 to 1990, but it has increased by five years since becoming stateless (1990–2005). Only three of the 42 countries improved life expectancy as much since 1990. While Somalia's infant mortality ranking has continued to slide, its death rate has improved, jumping from 37th to 17th since 1990. While

[5] His measures consist of life expectancy, infant mortality, maternal mortality rate, infants with low birth weights, population with access to at least one health facility, population with access to treated water, population with access to sanitation, population living in extreme poverty, GDP per capita, one year olds immunized against TB, one year olds immunized against measles, fatality due to measles, doctors and nurses (per 1000), TVs (per 1000), radios (per 1000), telephones (per 1000), combined school enrollment, and adult literacy.

Table 1
Somali living standards

	2005	Rank among 42 sub-Saharan countries		
		2005	1990	1985
Death rate (per 1000)	17	*17*	37	*30*
Infant mortality (per 1000)	133	38	32[b]	31
Life expectancy	47	*18*	*37*	*34*
Child malnutrition (% of children underweight)	26	20[a]		
Telephone-main lines per 1000 people	25	*8*	*29*[b]	*33*[b]
Mobile cellular phones per 1000 people	63	*16*		
Internet users per 1000 people	25	*11*		
Households with TV (% households)	8	*27*[c]		
Immunization, DPT (% children 12–23 months)	30	41	38[d]	*21*[e]
Immunization, measles (% children 12–23 months)	40	42	38[d]	*19*[f]
Improved sanitation facilities (% of population with access)	26	24		
Improved water source (% of population with access)	29	41		
Tuberculosis (per 100,000 people)	411	31	40	

Data from closest year preceding listed date was used when data for given year was unavailable. Italics indicate a tie for the given rank with at least one other country.
[a] Ranking out of 36.
[b] Ranking out of 41.
[c] Ranking out of 40.
[d] Ranking out of 39.
[e] Ranking out of 37.
[f] Ranking out of 36.

still in the bottom 50 percent in cases of tuberculosis, Somalia's relative rank has improved from 40th to 31st since the collapse of the government. Although Somalia's immunization rates for measles and DPT are among the lowest in Africa, its problems in this area existed before the collapse of the state. During the last five years of government rule Somalia's immunization rankings fell from 19th and 21st, respectively, to next to last in both categories. While the country has stayed near the bottom of this ranking, the percentage of children immunized has improved. In 1990, 19 percent of children were immunized for DPT, and 30 percent were immunized for measles. In 2005 these numbers had improved to 30 percent and 40 percent, respectively. Although its rankings did not improve, Somalia's rate of immunization relative to the median sub-Saharan African country did. The percentage of Somali children immunized for DPT relative to the median improved from 30 percent of the median country in 1990 to 41 percent in 2005. For measles the percentages improved from 49 to 57 percent.

Access to improved water sources is a problem in Somalia. It ranks considerably better in access to improved sanitation facilities. Unfortunately, neither of these measures was available over a long enough time period to compare performance prior to the collapse of the state.

Telecommunications is a major area of success in Somalia. The one measure for which we have complete data, main lines per 1000 of population, shows dramatic relative improvement since Somalia became stateless, moving from 29th to 8th among the African countries included in our survey. We have data only since the collapse of the state for mobile phone, Internet usage, and households with televisions. Somalia ranks highly in mobile phones (16th) and Internet users (11th), while it ranks 27th in households with televisions. In many African countries state monopolies and licensing restrictions raise prices and slow the spread of telecommunications. In Somalia it takes just three days for a land-line to be installed; in neighboring Kenya waiting lists are many years long (Winter, 2004). Once lines are installed, prices are relatively low. With a $10 monthly fee, local calls are free, and international calls are only 50 cents per minute on land-lines; web access costs only 50 cents an hour (Winter). According to the *Economist*, using a mobile phone in Somalia is "generally cheaper and clearer than a call from anywhere else in Africa" (2005, p. 89).

The collapse of the state has played a major role in the development of communications. Abdullahi Mohammed Hussein, a manager at Telecom Somalia, which was set up in 1994 when there was still fighting in Mogadishu, said, "The government post and telecoms company used to have a monopoly but after the regime was toppled, we were free to set up our own business" (Winter). This freedom has led to intense competition in the Somali communication market and has resulted in low prices and good access to services by African standards.

Table 2
Somalia's rank among peaceful sub-Saharan nations

	2005	1990	1985
Death rate (per 1000)	*8*	17	*14*
Infant mortality (per 1000)	17	15	14
Life expectancy	*9*	*17*	*16*
Child malnutrition (% of children underweight)	12		
Telephone-main lines per 1000 people	6	*15*	*16*
Mobile cellular phones per 1000 people	10		
Internet users per 1000 people	6		
Households with TV (% households)	*12*[a]		
Immunization, DPT (% children 12–23 months)	17	17	*11*
Immunization, measles (% children 12–23 months)	16	17	*10*
Improved sanitation facilities (% of population with access)	15		
Improved water source (% of population with access)	18		
Tuberculosis (per 100,000 people)	12	18	

Data from closest year preceding listed date was used when data for given year was unavailable. All rankings out of 18 (17 peaceful nations plus Somalia) unless otherwise noted. Italics indicate a tie for the given rank with at least one other country.
[a] Ranking out of 17.

In addition to domestic economic institutions, war is another major cause of poor economic performance in Africa. Of the 42 nations examined, only 17 have been continually at peace since 1980.[6] To insure that Somalia's relative performance during its period of statelessness is not being driven by other countries' periods of war and peace, Table 2 compares Somalia with only the 17 peaceful nations.

Somalia's improvement during its period of statelessness is similar to when it is compared to the entire sample. Of the 13 standard of living measures Somalia ranks in the top 50 percent of peaceful countries in four of them (death rate, life expectancy, telephone mainlines, internet users). Compared to the full sample they only fell out of the top 50 percent in mobile phone users, but their ranking of 10th among peaceful nations only misses the top 50 percent by one spot. Infant mortality rankings decline in both samples' rankings. Somalia also continues to rank poorly in access to improved water and sanitation as well as in immunization rates, but like the full sample, immunization rates were already a problem before the collapse of the Somali government. Tuberculosis rankings improve in both samples, and the overall rankings of child malnutrition (top 55 percent vs. top 66 percent) and televisions (top 67 percent vs. top 70 percent) are approximately the same in both the full and peaceful samples. Of the seven measures for which we have pre- and post-state collapse data, in both the full sample and the peaceful sample Somalia made significant improvement in its ranking in four of them.[7]

Until recently most of the violence in Somalia occurred between 1990 and 1995. To disentangle the effects of war from the effects of statelessness further, it is useful to compare Somalia's performance against other African countries that experienced wars at approximately the same time. Djibouti (1991–94), Mali (1990–96), and Togo (1991–1992) all experienced civil wars, and Senegal and Mauritania (1989–91) warred with each other at approximately the same time as most of the war violence in Somalia. Relative rankings do not change a great deal in this small sample, so Table 3 compares the percent improvement made from 1990 to 2005 in these countries.

Somalia made greater improvements than the average of the other five countries that experienced war at about the same time in five out of the seven measures. The other countries improved more than Somalia only in infant mortality and lost less ground in cases of Tuberculosis. Given the heterogeneity of these countries and small sample size, one should be careful not to overstate the importance of Somalia's relatively better performance. However, stateless Somalia has performed better than the other African countries that warred and achieved peace at approximately the same time as Somalia but did not shed their nation state after the war.

Although all data from Somalia must be treated with some caution, when looking at these 13 measures of living standards, the overall picture seems clear. Somalia may be very poor, but the loss of its government does not appear

[6] The 17 peaceful countries are Benin, Botswana, Central African Rep., Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Kenya, Madagascar, Malawi, Niger, Nigeria, South Africa, Swaziland, Tanzania, and Zambia.
[7] In the peaceful sample Somalia also increased its ranking from second to worst to third to worst in measles immunization.

Table 3
1990–2005 percent improvement compared to nations that warred at a similar time

	Somalia (%)	5 Country Avg (%)
Death rate (per 1000)	22.7	12.6
Infant mortality (per 1000)	0.0	12.7
Life expectancy	11.9	3.7
Telephone-main lines (per 1000 people)	1150.0	271.3
Immunization, DPT (% children 12–23 months)	57.9	46.2
Immunization, measles (% children 12–23 months)	33.3	24.2
Tuberculosis (per 100,000 people)	−20.5	−11.1

Five Country Avg Comprised of Djibouti (91–94), Mali (90–96), Mauritania (89–91), Senegal (89–91) and Togo (91–92).

to have harmed standards of living. On many measures Somalia compares favorably with the other 41 sub-Saharan countries, the peaceful nations, and those who warred at approximately the same time as Somalia. Since losing its central government, we find that Somalia improved measures of well being both in absolute terms and relative to other African states.

3. Public goods

Urban businessmen, international corporations, and rural pastoralists have all functioned in stateless Somalia. The question is how. Foundation, or meta-market institutions need to be in place for an economy to function. At a minimum, laws that protect person and property, a dispute settlement process, and a currency are needed. People often assume that these are public goods that the government must provide, but the Somalis have managed to provide forms of all of these without a national government.

Though unrecognized internationally, two "states" exist within the former Somali nation state. Southern Somalia remains completely stateless while local authorities have claimed sovereignty for two states in the north, Somaliland in the northwest and Puntland in the northeast (see Fig. 1).[8]

However, one defining characteristic of a government is a geographic monopoly on ultimate dispute resolution and its enforcement, but Somaliland and Puntland lack this characteristic. The governments of Somaliland and Puntland are not the main suppliers and enforcers of law. Much of the subsection on law that follows draws on Van Notten (2005), whose primary experience with non-state decentralized customary law took place in the Awdal region of Somaliland. Van Notten (p. 12) notes that customary law often refers to the law of a specific clan and that "none of these localities correlates with modern geopolitical terms like 'Somaliland.' Each has its own customary law, yet running through all is a common, multi-stranded thread." Though there are local differences throughout the country the basic common law legal system that operates in the completely stateless south is also the dominant system in Somaliland and Puntland.

Money is the other meta-market institution we describe below. Somaliland does have its own currency while Puntland and the south of Somalia operate on the same system. It is not clear that either Somaliland or Puntland provide many other public goods that governments traditionally provide. In 2005 Somaliland had only $24.7 million of total tax revenue, and Puntland had only $19.7 million (United Nations, 2006, p. 13). Of this revenue, as the U.N. report noted, "Minimal allocations of expenditure are made for the provision of public goods such as infrastructure and social services" (p. 13). Since neither Somaliland nor Puntland provide a geographic monopoly on dispute resolution or provide a significant level of domestic public goods, it seems safe to classify the domestic base of their economies as relatively stateless, like southern Somalia, despite the nominal existence of "states."

However, one important caveat is necessary. Though their overall budget is small, Somaliland spends approximately 36 percent of its total budget on security while Puntland spends approximately 41 percent of its budget on security (UN, pp. 12–13). Ethiopia's recent invasion of Somalia occurred exclusively in the south. Whether Somaliland and Puntland were spared invasion entirely because Ethiopia was trying to secure the former capital, Mogadishu, which lies in the south, for the Somali government in exile, or whether the existence of some defense forces in Somaliland and Puntland played a role is not clear. In the sense that we can refer to Somaliland and Puntland as

[8] Map downloaded from http://businessafrica.net/africabiz/countries/somalia.php.

Fig. 1. Map of Somalia.

(ultra-minimal) states it is because some provision of defense, and a small amount of tax collection exist. Yet neither of these characteristics likely improved Somalia's overall economic performance in the period 1990–2005 analyzed in this study.

In absence of state provision Coyne identified two main mechanisms that allowed meta-market public goods to be provided: (1) the use of clan and other local trust networks coupled with the simplification of transactions, and (2) importing governance by relying on foreign institutions. In this section we examine how the Somalis provide law and order and a currency that allow the Somali economy to operate.

3.1. Somali law

Somali law is based on custom, and decentralized clan networks interpret and enforce it. The Somali customary law (Xeer) has existed since pre-colonial times, and it continued to operate under colonial rule. The Somali nation state tried to replace the Xeer with government legislation and enforcement. However, in rural areas and border regions where the Somali government lacked firm control, people continued to apply the common law. When the Somali state collapsed, much of the population returned to their traditional legal system.[9]

The Xeer outlaws homicide, assault, torture, battery, rape, accidental wounding, kidnapping, abduction, robbery, burglary, theft, arson, extortion, fraud, and property damage (Van Notten, p. 49). The legal system focuses on the restitution for victims, not the punishment of criminals. For violations of the law, maximum payments to compensate victims are specified in camels (payment can be made in equivalent monetary value). Typical compensation to the

[9] This section on Somali Law draws on Van Notten.

family of a murder victim is 100 camels for a man and 50 for a woman; an animal thief usually must return two animals for every one he stole.[10]

Clan elders chosen on the basis of their knowledge of the law judge cases. The elders cannot create the law; they only interpret the community customs. Elders who make decisions that deviate from community norms are not consulted in future cases. When a dispute arises between two members of different clans, their clan elders must reach a compromise. If they are unable to do so, they appoint an elder from another clan to settle the dispute.

After a verdict is reached, the criminal must compensate his victim the appropriate amount. If he is unable or unwilling, his extended family must pay the compensation. Every Somali is born into an insurance group based on their lineage to a common great-grandfather. Out of their own self-interest these insurance groups help enforce the judgment on wrongdoers. When an individual becomes particularly troublesome, a family can publicly declare that the person is no longer a member of their group, effectively making the person an outlaw. Outlaws must find another insurance group willing to sponsor them or be expelled from the larger clan. In cases in which more formal enforcement of the law is necessary, clan elders can call for all clansmen to form a posse to enforce the verdict; clansmen are obligated to answer the call.

Since each Somali court is independent of the others, they often interpret customary law differently. Within clans, differences of interpretation are usually quickly resolved, but this process can take much longer on the national level (Van Notten, p. 36). Ultimately, through the resolution of disputes the law is discovered and conflicts in interpretation are resolved. Although the interpretation of the law stems from clan elders, the clans are not de facto governments. Throughout all of Somalia upon becoming an adult, individuals are free to choose new insurance groups and elders. They are allowed either to form a new insurance group with themselves as head or join an already established group, provided it will accept them. As described by Besteman (1996a, p. 124),

> Movement between Somali clans is not only possible but it is particularly widespread in the populous south. People switch clan affiliation for protection, for marriage, for grazing or land rights, for labor, for political reasons – or for other personal reasons. The process of affiliating with a clan other than the one into which a person was born is quick and easy in the south, and not necessarily permanent. Some clans, especially those in the south, may have more members who are adopted than members who are descended from the purported founding ancestor.

The individual clans and insurance groups are not geographic monopolies. As Little (p. 48) notes, "In no way does the geographic distribution of clans and sub-clans correlate with neatly defined territorial boundaries. . . drought and migration blur the relationship between clan and space."

While local cleric courts became the dominant source of law in some regions, and Qur'anic law is traditionally applied to marriage and inheritance, the common law of Xeer and the accompanying elder dispute resolution and insurance groups are the main source of law in Somalia. The Xeer shares common attributes focusing on restitution and the protection of life and property with English common law and other polycentric systems.[11] The traditional Somali legal system existed unofficially during the reign of Siad Barre, and since state collapse it has emerged to provide some level of the rule of law on which coordination in the Somali economy could be based.

3.2. Money

During the late 1980s the Somali central bank expanded the amount of currency in circulation from 3.8 billion Somali shillings (SoSh) in 1985 to more than 155.7 billion SoSh in 1990.[12] During this time the difference between the official exchange rate and black market rate was as large as 275 percent (Little, p. 7). The Somali central bank and the rest of the state-owned banking system disappeared with the collapse of the central government. Demand deposits disappeared, and inside money contracted by 54 percent. Despite the collapse of the central government, Somalis continue to accept pre-1991 Somali shillings. The collapse and continued absence of the central government have not shaken people's expectation that the currency has an exchange value.

Since 1991 no central bank has existed to issue currency, and four currencies have been introduced in Somalia; however, the system that has emerged does not reflect the type of private competing monies envisioned by theorists

[10] See Van Notten (pp. 70–71) for a more complete listing of payments.
[11] In particular its blood payment system is reminiscent of Friedman's (1979) description of law during Iceland's medieval period of statelessness.
[12] This section draws on Mubarak (2002). Statistics come from this source unless otherwise cited.

such as Hayek (1976). The Na' shilling was first introduced in north Mogadishu in 1992 and then again reissued in 2001. A distinct note that does not resemble the pre-1991 notes, it has failed to gain widespread acceptance and circulates mostly within a single clan. The region of Somaliland has established its own central bank and issues a currency intended to circulate as the exclusive currency in its territory. A south Mogadishu leader issued Balweyn I bank notes in 1997. These notes are widely accepted forgeries of the pre-1991 central bank notes. Similarly, the Puntland administration has issued its own forged pre-1991 Balweyn II SoSh. By 2003 new bank notes and forged currency accounted for about 80 percent of all currency in circulation.

Although the Balweyn notes can be distinguished from pre-1991 SoSh, the Somalis have treated them all as the same currency. Unlike a competitive banking system with distinct currencies in which competition could limit the amount of inflation and seigniorage individual issuers could achieve, the competition in Somalia is for seigniorage in the same currency. One would expect this competition to lead to an infinite level of inflation and ultimately public abandonment of the currency. Somalis, however, refuse to accept denominations larger than those that existed in 1991. This has constrained inflation and actually allowed for a relatively stable monetary system to emerge.

Mubarak (2003) estimates that it costs \$0.03 to print and import new bank notes to Somalia. When the first Balweyn notes were printed in 1997, the largest denomination SoSh (1000) traded for about \$0.12. By late 2001 competition for seigniorage had driven the SoSh 1000 note down to about \$0.04. At this exchange rate printing SoSh 500 notes was no longer profitable, and the SoSh 1000 notes were down to nearly their commodity cost, making further printing of them no more profitable than other investments. After the initial bout of inflation, Mubarak (2003, p. 323) reports that "there is no sign of significant inflation let alone an infinite one," and that "Since July 2001 . . . consumer prices have stabilised. If the market exchange rate movements are an indication of price stability . . . the Somali shilling has appreciated slightly since the importation of new reprints slowed". Though very different than the currencies advocated by those who advocate 100 percent commodity backed currencies, the effect of the competition for seigniorage coupled with the Somalis' failure to accept new, higher denominations has led to the creation of a stable 'commodity currency' worth its paper, ink, and transport costs. While such a currency provides some stability, it is not without its problems. To make purchases of any significant size, large bundles are needed. For this reason the SoSh is used alongside U.S. dollars in Somalia. The SoSh is used for small transactions while the dollar is used for larger ones. The Somali people's continued use of the SoSh in absence of a state monopoly is testament to the currency's relative success, as is the fact that it circulates with easy convertability 50 km inside the Ethiopian border while the Ethiopian Birr has little circulation in Somalia (Little, p. 144).

Financial services are provided in Somalia through many of the same informal institutions that existed under the national government. As Little (p. 9) notes, "With formal economic institutions and financial systems exceedingly fragile in the 1980s, their subsequent collapse in Somalia meant little for most of the population." Loans are traditionally secured through family members, not banks. Money transfers are handled through the Hawala system, which allows Somalis to transfer money within the country and from abroad. Typically recipients are asked a series of questions based on clan lineage to verify their identity when they receive funds. This system successfully moves \$500 million to \$1 billion dollars a year into Somalia; commission rates are typically around 5 percent (Coyne, p. 22). Unfortunately, one of the major transfer houses, Al Barakaat, was shut down after the 2001 terrorist attacks on the United States because of suspected links to terrorist organizations. However, as Little (p. 144) explains, "while a resident of Somalia still has little access to formal banking and financial institutions, access to other financial facilities actually has improved with the collapse of the state." The ability of the Somali financial systems to adapt and handle such large sums of transfers is in and of itself an accomplishment for Somalia's stateless institutions, and remittances have played some role in improving living conditions in Somalia. However, it would be a mistake to attribute Somalia's relative success to remittances alone. Nigeria, Senegal, Sudan, and Uganda all received between \$450 million and \$2.3 billion in remittances in the last year data is available (World Bank, 2006). Since 1990 Somalia has improved more than the average of these four countries in its death rate, life expectancy, main telephone lines per capita, immunization for DPT and measles and cases of tuberculoses. These four high remittance countries only improve more, on average, than Somalia in their infant mortality rates.

4. Conclusion

Since the collapse of its central government, Somalia has not become an anarcho-capitalist utopia. However, most African states do not come close to approaching many theorists' views of an ideal state either. In a comparative institutional comparison given existing culture, ideology, history, geography, income, and resources, the interesting question is how well does Somalia function compared to realistic alternatives. Menkhaus (2003, p. 408) summarized the Somali view of the state by writing,

> The revival of a state is viewed in Somali quarters as a zero-sum game, creating winners and losers in a game with potentially very high stakes. Groups which gain control over a central government will use it to appropriate economic resources at the expense of others, and will use the law, patronage, and the monopoly of legitimate use of violence to protect this advantage. This is the only experience Somalis have had with centralised authority, and it tends to produces risk-aversion and to instigate conflict rather than promote compromise, whenever efforts are made to establish a national government.

Given this Somali view of the state, it is unsurprising that the entrance of the TFG into the country has increased violence. Its president, Abdillahi Yusuf, has claimed, "It is totally misguided not to accept the government. The alternative is chaos" (Mitchell, 2006). However, we find that rather than chaos, statelessness seems to have generally improved living conditions in Somalia.

Basic economic order in absence of a state is possible in Somalia because of the existence of a common law dispute resolution system and a non-state monetary system. On that foundation we find that urban business and commercial activity is possible and that the pastoral sector has expanded. Although all African data, and Somali data in particular, should be treated with caution, this paper's main contribution to the literature has been to compare Somalia's living standards to those of 41 other sub-Saharan African countries both before and after the collapse of the national government. We find that Somalia's living standards have generally improved and that they compare relatively favorably with many existing African states. Importantly, we find that Somali living standards have often improved, not just in absolute terms, but also relative to other African countries since the collapse of the Somali central government.

Acknowledgements

We thank the participants at the 2006 Southern Economics Association meetings in Charleston, the Association of Private Enterprise meetings in Las Vegas, the Austrian Scholars Conference in Auburn, the editor, and two anonymous referees for their helpful comments and revision suggestions. All errors are our own.

References

Ali, A., 2004. Coke plant heralds new beginning in Somalia. African Business Journal (August–September), 40–41.

Amound University, 2006. www.amouduniversity.net.

Ayittey, G., 1998. Africa in Chaos. St. Martin's Press, New York.

Benson, B., 1990. The Enterprise of Law: Justice without the State. Pacific Research Institute for Public Policy, San Francisco.

Besteman, C., 1996a. Representing violence and 'othering' Somalia. Cultural Anthropology 11, 120–133.

Besteman, C., 1996b. Violent politics and the politics of violence: the dissolution of the Somali nation-state. American Ethnologist 23, 579–596.

Buchanan, J., 2000. The Limits of Liberty. Liberty Fund, Indianapolis, 1975.

Country Watch, 2005. Somalia Review. http://www.countrywatch.com/.

Coyne, C., 2006. Reconstructing weak and failed states: foreign intervention and the nirvana fallacy. Foreign Policy Analysis 2, 343–361.

Davidson, J., 2001. Somalia and Anarchy. Formulations. Issue 30. Summer.

DHL 2006. www.dhl.com/publish/g0/en/information/countrydetails.high.html?CTRY_CODE=so.

Economist, The, 2005. Somalia Calling. December 24, p. 89.

Farzin, H., 1988. Food import dependence in Somalia: Magnitude, causes, and policy options. World Bank Discussion Papers No. 23. Washington, D.C.: The World Bank.

Federal Research Division, 1993. Somalia: Country Studies. Segmentary Social Order. The Library of Congress. http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+so0048).

Friedman, D., 1979. Private creation and enforcement of law – a historical case. Journal of Legal Studies 8, 399–415.

Friedman, D., 1989. The Machinery of Freedom. Open Court Publishing Company, Chicago.

Hayek, F., 1976. Denationalization of Money – The Argument Refined: An Analysis of the Theory and Practice of Concurrent Currencies. The Institute of Economic Affairs, London.

Hobbes, T., 1996. Leviathan. Cambridge University Press, Cambridge, 1651.

Leeson, P., 2007. Better off Stateless: Somalia Before and After Government Collapse. Journal of Comparative Economics 35, 689–710.

Little, P., 2003. Somalia: Economy Without State. Indiana University Press, Bloomington, IN.

Menkhaus, K., 2003. State collapse in Somalia: second thoughts. Review of African Political Economy 97, 405–422.

Mitchell, A., 2006. Somali leader: peace talks not an option. Washington Post. December 15.

Mubarak, J., 1997. The ‘hidden hand’ behind the resilience of the stateless economy of Somalia. World Development 25, 2027–2041.

Mubarak, J., 2003. A case of private supply of money in stateless Somalia. Journal of African Economies 11, 309–325.

Nenova, T., Harford, T., 2004. Anarchy and invention. Public Policy for the Private Sector, World Bank Group. Note Number 280.

Powell, B., Wilson, B., 2008. An experimental investigation of Hobbesian jungles. Journal of Economic Behavior and Organization 66, 261–278.

Rothbard, M., 1973. For a New Liberty. Fox & Wilkes, San Francisco.

Schraeder, P., 1986. Involuntary migration in Somalia: the politics of resettlement. The Journal of Modern African Studies 24, 641–662.

Somaliland in Figures, 1998. http://www.somalilandforum.com/somaliland/in_figures/.

Somaliland in Figures, 2003. http://www.so.undp.org/pdf/somaliland%20figs.pdf.

United Nations, 2006. Somali reconstruction and development framework: deepening peace and reducing poverty. October. http://www.somali-jna.org/downloads/Somali%20RDF%20Vol%201%20Oct%2030%20TCA-Final2.pdf.

Van Notten, M., 2005. The Law of the Somalis. Red Sea Press, Trenton, NJ.

Winter, J., 2004. Telecoms Thriving in Lawless Somalia. BBC News. November 19. Accessed on www.newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/africa/4020259.stm.

World Bank, 2006. World Development Indicators Online. The World Bank Group, Washington, D.C. www.worldbank.org/data.