

Better Off Stateless: Somalia Before and After Government Collapse*

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Abstract

Could anarchy be good for Somalia's development? If state predation goes unchecked government may not only fail to add to social welfare, but can actually reduce welfare below its level under statelessness. Such was the case with Somalia's government, which did more harm to its citizens than good. The government's collapse and subsequent emergence of statelessness opened the opportunity for Somali progress. This paper uses an "event study" to investigate the impact of anarchy on Somali development. The data suggest that while the state of this development remains low, on nearly all of 18 key indicators that allow pre- and post-stateless welfare comparisons, Somalis are better off under anarchy than they were under government. Renewed vibrancy in critical sectors of Somalia's economy and public goods in the absence of a predatory state are responsible for this improvement. (*JEL*: O1, O17)

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1 Introduction

When most people think of Somalia they think of chaos and deterioration. Some may even think of violence and mayhem. No one, however, thinks of progress when they hear about Somalia, let alone of the possibility that anarchy has been good for its development. Maybe they should.

Indicators of Somali welfare remain low in absolute terms, but compared to their status under government show a marked advance. Under statelessness life expectancy in Somalia has grown, access to health facilities has increased, infant mortality has dropped, civil liberties have expanded, and extreme poverty (less than \$1 PPP/day) has plummeted. In many parts of the country even security has improved. In these areas citizens are safer than they've been in three decades (UNDP 2001). Somalia is far from prosperous, but it has made considerable strides since its government collapsed 15 years ago.

Despite this progress, there has been much hand-wringing over what to do about the situation of anarchy that has characterized the country since 1991. To be sure, this concern is not without cause. In the year following the state's collapse, civil war, exacerbated by severe drought, devastated the Sub-Saharan territory killing 300,000 Somalis (Prendergast 1997). For a time it seemed that Somali statelessness would mean endless bloody conflict, starvation, and an eventual descent into total annihilation of the Somali people.

Though largely unrecognized by economists, the widespread violence that ravaged Somalia in its first year without government vanished considerably by 1994. By the mid-1990s peace prevailed over most of the country (Menkhaus 1998, 2004). Since 1997 most indicators of Somali development show slow but steady progress and today are above their pre-stateless levels. Nevertheless, conventional wisdom sees Somalia as a land of chaos, deterioration and war, and is certain that statelessness has been detrimental to Somali development.

The reason for this belief is two-fold. On the one hand, popular opinion sees government as universally superior to anarchy. Government is considered necessary to prevent violent conflicts like those that erupted when Somalia's state first crumbled, which disrupt economic activity. Government is also considered critical to supplying public goods such as roads, schools, and law and order, which are important to the process of development. From this perspective it is easy to conclude that Somalia, which has no central government, must have been better off when it did.

Second, there is a tendency upon observing problems in distressed regions of the world to see only on the "failure" of the current situation, ignoring the quite possibly even worse state of affairs that preceded it.¹ This is especially easy to do for Somalia, which by international standards is far behind indeed. Educational enrollment is abysmally low—a mere seven percent for combined primary, secondary and tertiary schooling. Average Somali income is less than \$1,000 (PPP), and preventable diseases like malaria are a genuine threat to Somalia's inhabitants. These facts, however, say nothing about the status of Somalia before its state collapsed. Thus, forgetting Somalia's experience under government, it is easy to imagine that nothing could be more damaging to Somali development than the current state of anarchy.

This paper challenges the wisdom that Somalia has deteriorated without government. On the contrary, I argue that statelessness has actually enhanced Somali welfare. Although a properly constrained government may be superior to statelessness, it is not true that *any* government is superior to no government at all. De Long and Shleifer (1993), for instance, find that in pre-industrial Europe, countries without unified governments performed better in some ways

¹ This remains a common problem in evaluations of Russia as well. The tendency here, like with Somalia, has been to focus on the significant defects that remain without an appreciation of the fact that, however severe these troubles are, they pale in comparison to the troubles of Russia under communist rule. Russia is undoubtedly better off today than it was under socialism. On this see, Shleifer and Treisman (2005).

than those with absolutist autocracies. If a state is highly predatory and its behavior goes unchecked, government may not only fail to add to social welfare, but may actually reduce welfare below its level under anarchy.² I show that this was the case with Somalia's government, which did more harm to its citizens than good. The government's collapse and substitution with statelessness subsequently opened the possibility for progress.

I use an "event study" to investigate the impact of statelessness on Somali development. This study compares the state of 18 key development indicators in Somalia before and after its government collapsed. These indicators are comprehensive in covering all angles of development for which data are available pre- and post-statelessness. While it is important to avoid romanticizing Somalia, the results suggest that statelessness has substantially improved Somali development. I find that on nearly all indicators Somalia is doing significantly better under anarchy than it was under government. This improvement has been made possible by renewed vibrancy in key sectors of the economy and public goods in the absence of state predation.

Section 2 of this paper considers Somalia's pre-stateless political economy. Section 3 uses an event study to examine Somalia's welfare under government vs. anarchy. Section 4 investigates what accounts for Somalia's improvement under statelessness. Section 5 concludes with some remarks about the possibility of reestablishing central government in Somalia in light of my analysis.

2 The Grabbing Hand: Somalia under Government

In 1960 British Somaliland and Italian Somalia gained independence from their colonizers and joined together to form the Republic of Somalia. A bloodless coup in 1969 led by Major-General

² Moselle and Polak (2001) provide a theoretical model demonstrating when this is the case.

Mohamed Siad Barre overthrew the democratic government that ruled Somalia since independence. Barre went on to take power, and established an oppressive military dictatorship.³ He reigned for 21 years until 1991 when Somalia's government collapsed and statelessness ensued.

In 1970, under the influence of the Soviet Union, Barre transformed his military dictatorship into a socialist one. Full-scale central planning pursued under the government's policy of "scientific socialism" brutalized the Somali people. The government slaughtered civilians who posed threats to the government's plans or political power, used coercive intimidation to create artificial support for its activities, and forcibly relocated others to further the political or economic ends of Barre and his cronies. "Both the urban population and nomads living in the countryside [were] subjected to summary killings, arbitrary arrest, detention in squalid conditions, torture, rape, crippling constraints on freedom of movement and expression and a pattern of psychological intimidation" (Africa Watch Committee 1990: 9).

The state ruthlessly suppressed free speech and controlled all forms of information reaching Somalis. Newspapers (only one was officially permitted by the government), radio, and television were fully censored and dissent in any form squelched with force. Under Somalia's National Security Law No. 54, "gossip" became a capital offense. Twenty other basic civil freedoms involving speech, association and organization also carried the death penalty.

The state invested aggressively in building its military. Besides weapons and troops for foreign defense, massive resources were devoted to military structures of domestic repression. Government created a secret police squad called the National Security Service, and paramilitary unit called the "Victory Pioneers" for spying on and eliminating dissenters. Both had legal

³ As is often the case in dictatorships, technically, the Somali "constitution" of 1979 guaranteed democratic elections for its "president." In practice, however, this guarantee was worthless. The first "election" for Barre was in 1986 in which he received 99.9 percent of the votes (U.S. Library of Congress 2006).

discretion to detain, invade, kill, and torture at the state's behest (Africa Watch Committee 1990).

This created a two-fold dire effect for development in Somalia. On the one hand, it left few resources for investment in public goods, like education, health, or transportation infrastructure. This was especially so in pastoral areas where most Somalis lived (Little 2003: 15). On the other hand, Barre's military dictatorship eliminated any vestiges of restraint on the government's predatory power. Law No. 1 repealed the constitution and all democratic checks. There were no elections for any political positions; all were appointed by Barre. Military suppression prevented popular uprising. Even dissent through free expression was eliminated. Government was let loose to plunder and abuse citizens for the ends of political rulers.

The state was notoriously corrupt and violent. Political actors and bureaucrats embezzled state funds, extorted and murdered weak portions of the population, and engaged in aggressive asset stripping of state-owned firms. As the UN Development Program characterized it, "The 21-year regime of Siyad Barre had one of the worst human rights records in Africa" (UNDP 2001: 42). This is no small feat considering that during this period Africa was home to some of history's most savage dictatorships, including the Democratic Republic of Congo's Mobutu.

In 1975 all land was nationalized along with nearly all major industries and the financial sector. This facilitated government's ability to expropriate citizens' property for state projects, like massive state-operated farms, and for politicians' personal use. Unpopular minority groups, such as the Gosha, were particularly easy prey. In the 1970s and 80s Barre expropriated Gosha-occupied land to create state-owned irrigation schemes that benefited his allies. In other cases his minions expropriated land for their private use, making Gosha serfs on their own property (Menkhaus and Craven 1996).

State control of industry in Somalia created inefficiencies like in the Soviet Union. Between 1984 and 1988, for instance, the government-owned Kismayo Meat Factory was open only three months per year. Government also owned tanneries. The “Hides and Skins Agency” paid herders less than half the market value of hides to process in these factories. These firms also utilized only a tiny fraction of their capacity. All told, capacity utilization of Somalia’s state manufacturing firms was less than 20 percent (Mubarak 1997: 2028).

Incentives to be productive, keep costs down, or cater to consumer demands were virtually absent. Factory managers cared only about meeting quotas. This led them to pursue wasteful activities, such as purchasing inputs worth more as raw materials than the output they produced (Little 2003: 39). Some state-owned enterprises were developed purely to benefit political rulers and their friends. For instance, government created the Water Development Program to subsidize private watering holes for the livestock of Barre’s allies.

In the late 1970s Barre abandoned full-blown socialism to attract aid from the IMF. However, government continued to rely on central planning. “Parastatal companies continued to receive subsidies, foreign aid was channeled through state institutions and the state remained sole arbiter in the allocation of profitable contracts. Private sector autonomy was further curtailed by political patronage, which was the easiest way to access resources controlled by the state” (UNDP 2001: 140). In the 1980s there was only one bank in Somalia, state owned and operated. Government used it to keep afloat failing public firms and to reward political supporters. Only state enterprises or politically well-connected Somalis were able to obtain loans (Mubarak 1997).

Government also remained involved in most other important economic sectors. Livestock and pastoral-product exports have long been critical to Somalia’s economy. In the 70s Barre nationalized most of this trade, and continued to control it throughout the 80s. Government

restricted imports and exports and introduced a bewildering array of regulations. Foreign exchange controls were also strict. They required exporters to exchange at least half their foreign exchange earnings at the state-set rate, which in 1988 overvalued the Somali shilling to the US\$ by more than 120 percent (Little 2003). This benefited wealthy political patrons who consumed imports but decimated Somalia's export industry.

In the 1980s government turned to inflation to finance its corrupt and bankrupt projects. Between 1983 and 1990, average annual depreciation of the Somali shilling against the US\$ was over 100 percent. In some years depreciation exceeded 300 percent (Little 2003). Hyperinflation destroyed the savings of Somalis who managed to accrue modest sums over time. It also incapacitated the monetary unit as a means of economic calculation.

Government's willful mismanagement of public resources prevented the state from being self-supporting. International development agencies, eager to woo Somalia from the influences of Eastern Europe, filled the shortfall with massive inflows of foreign aid. By the mid-1980s 100 percent of Somalia's development budget and 50 percent of its recurrent budget was funded by foreign aid (UNDP 2001: 118). In 1987 more than 70 percent of the state's total operating budget was financed this way (Mubarak 1996).

The early-1980s saw a temporary spike in government expenditures on items like education. But by the late 80s the weight of nearly 20 years of rampant corruption, repression, and state control had reduced Somali welfare to horrifically low levels. Well prior to the government's collapse the agricultural economy was in a shambles, and malnutrition and starvation were common place (Samatar 1987). In the 1980s Somalia had one of the lowest per capita caloric intakes in the world (UNDP 2004). At the end of the decade government spent less

than one percent of GDP on economic and social services, while military and administration consumed 90 percent of the state's total recurrent expenditure (Mubarak 1997).

Government consistently used state resources to privilege members of Barre's clan at the expense of others. "The Barre regime awarded certain client groups preferential access to arable land and water . . . Indeed, the Somalia case is a good example of ethnic (and clan) favoritism where private land-grabbing in the Jubba and Shebelle Valleys favored the late president's clan, the Marehan, while alienating other groups" (Little 2003: 36). In 1988, for example, Barre supported Marehan herders' unlawful appropriation of Ogaden water points in Southern Somalia.

Barre's "ethnic favoritism" created tension between Somali clans. In the late 80s exploited clans reacted by forming faction groups like the Somali Patriotic Movement (comprised largely of Ogaden), the Somali National Movement (comprised largely of Isaaq) and the United Somali Congress (comprised largely of Hawiye). United against government's predation on non-Marehans, they joined forces to oust Barre. Unfortunately, the inter-clan tensions Barre created did not immediately disappear with him. The seeds of clan conflict sewn by 20 years of "divide and rule"⁴ policy erupted into violence when government crumbled.

3 The Hidden Hand: Somalia under Anarchy

In 1988 civil war broke out in the northern part of the country (Somaliland), setting in motion the beginning of the end of government in Somalia. In January of 1991 a *coup d'etat* toppled Barre's regime, creating statelessness in its wake.⁵ Tellingly, the same year anarchy replaced

⁴ The application of this terminology to Barre's regime is from Little (2003).

⁵ When Somalia's government first collapsed, clans in the northwestern part of Somalia declared this territory an independent sovereignty called the Republic of Somaliland. Somaliland continues to exist, though unrecognized by the global community. In 1998 a number of clans in neighboring eastern portions of northern Somalia also declared themselves autonomous, forming Puntland. Unlike Somaliland, Puntland does not aim at independence from Somalia, but instead sees itself as an independent territory within Somalia. Although Puntland and Somaliland (to a

government, 400,000 Somali refugees in Ethiopia returned to their homes in Somalia (UNDP 2001: 59). For the next two years, rival factions fought to establish power. These were the days when Somali “warlords,” such as General Hussein Aideed of Mogadishu and Ali Mohamed Mahdi, battled to solidify their bases of strength. At the same time severe drought struck the country, creating famine in its aftermath. In 1992 the UN sent troops to Somalia to quell the conflict and ease suffering, but failed to establish authority, stability or peace in the region.⁶

Some fighting continued into the mid-1990s, but died down considerably since 1991. By the late 90s peace prevailed over most of Somalia. Today conflict is isolated and sporadic, confined when it does occur to pockets of small-scale rivalry in a few areas (Menkhaus 1998, 2004; Nenova 2004). Important to this expanding peace has been expanding commerce, discussed below (Menkhaus 2004; Nenova 2004). In modern Somalia, businessmen, not warlords, wield the lion’s share of the power.

Most depictions of Somalia grossly exaggerate the extent of violence. In reality, fewer people die from armed conflict in some parts of Somalia than do in neighboring countries that have governments. In these areas security is better today than it was under government (UNDP 2001). About the same number of annual deaths in Somalia are due to childbirth as are attributable to war—roughly four percent of the total (UNDP/World Bank 2003: 16). And these deaths are combatants, not civilians. “Atrocities against civilians are now almost of unheard of” (Menkhaus 2004: 30). This is still too high, but far from cataclysmic. In fact, it’s not far from the

lesser extent) both have “governments,” and thus more formal structure than the southern part of Somalia, these “states” remain weak at best. Neither “government,” for instance, has exhibited the ability to raise significant revenue through taxation. Somaliland and Puntland also dispute territory along their border creating confusion about which entity governs what, and contributing to the stateless or quasi-stateless atmosphere in both.

⁶ Interestingly, after the UN evacuated the country in 1995, rather than deteriorate, the Somali economy actually improved (Little 2003: xvii).

percentage of deaths due to homicide in middle-income countries such as Mexico, which in 2001 was 3.6 (WHO 2006).

3.1 Improved Overall Human Development

There is no statistical office in Somalia to collect economic, demographic or other types of data that could be used for regression analyses.⁷ Even before 1991, government collected almost no such information. However, the UNDP, World Bank, CIA, and World Health Organization have collected sufficient data to conduct an “event study” that identifies the impact of anarchy on Somali welfare. Such a study allows us to compare Somali development before and after statelessness emerged. To do this I examine all development indicators in Somalia for which data are available pre- and post-statelessness, using the most updated figures in each case. 18 key development indicators allow for comparison. I consider the last five years of government preceding the emergence of statelessness (1985-1990) and the most recent five years of Somali anarchy (2000-2005).

Data for the pre-1991 period come from the United Nations Development Program’s (UNDP) *Human Development Report-Somalia 2001* and the World Bank/UNDP’s (2003) most recent *Socio-Economic Survey in Somalia*. Data for the post-stateless period are from the *CIA World Factbook* (2006), UNDP’s (2001, 2006) *Human Development Report*, the World Health Organization’s *WHO Somalia Annual Report 2003* (2004), and the World Bank/UNDP (2003) *Socio-Economic Survey in Somalia*. Table 1 contains all 18 indicators and the results of the pre- and post-statelessness comparison.

⁷ The “governments” in Somaliland and Puntland have been able to collect some statistics, but nothing substantial or that covers Somalia as a whole.

Table 1. Key Development Indicators Before and After Statelessness

	1985-1990 ^a	2000-2005	Welfare Change
GDP (PPP constant \$)	836 ^b	600 ^{c,e}	?
Life expectancy (years)	46.0 ^b	48.47 ^{c,g}	Improved
One year olds fully immunized against measles (%)	30	40 ^h	Improved
One year olds fully immunized against TB (%)	31	50 ^h	Improved
Physicians (per 100,000)	3.4	4 ^h	Improved
Infants with low birth weight (%)	16	0.3 ^l	Improved
Infant mortality rate (per 1,000)	152	114.89 ^{c,g}	Improved
Maternal mortality rate per (100,000)	1,600	1,100 ⁱ	Improved
Pop. with access to water (%)	29	29 ^h	Same
Pop. with access to sanitation (%)	18	26 ^h	Improved
Pop. with access to at least one health facility (%)	28	54.8 ^k	Improved
Extreme poverty (% < \$1 per day)	60	43.2 ^k	Improved
Radios (per 1,000)	4.0	98.5 ^k	Improved
Telephones (per 1,000)	1.92 ^d	14.9 ^k	Improved
TVs (per 1,000)	1.2	3.7 ^k	Improved
Fatality due to measles	8,000	5,598 ^{j,m}	Improved
Adult literacy rate (%)	24 ^b	19.2 ^j	Worse
Combined ⁿ school enrollment (%)	12.9 ^b	7.5 ^{a,f}	Worse

Notes: ^aUNDP (2001); ^b1989-1990; ^cCIA World Factbook (2006); ^d1987-1990, World Bank/UNDP (2003); ^e2005; ^f2001; ^g2006; ^h2004, UNDP (2006); ⁱ2000, UNDP (2006) ^j2002, WHO (2004); ^k2002, World Bank/UNDP (2003); ^l1999, UNDP (2001); ^m2003; ⁿrefers to primary, secondary, and tertiary gross enrollment.

The data depict a country with severe problems, but one which is clearly doing better under statelessness than it was under government. Of the 18 development indicators, 14 show unambiguous improvement under anarchy. Life expectancy is higher today than was in the last years of government's existence; infant mortality has improved 24 percent; maternal mortality has fallen over 30 percent; infants with low birth weight has fallen more than 15 percentage points; access to health facilities has increased more than 25 percentage points; access to sanitation has risen eight percentage points; extreme poverty has plummeted nearly 20 percentage points; one year olds fully immunized for TB has grown nearly 20 percentage points, and for measles has increased ten; fatalities due to measles have dropped 30 percent; and the prevalence of TVs, radios, and telephones has jumped between 3 and 25 times.

Per capita GDP (PPP) is lower than its 1989-1990 level, but the data overstate the size of average income in the pre-1991 period, which is likely lower than in it is today. Three sources of bias inflate pre-1991 per capita GDP as a measurement of well-being. First, firm managers in planned economies have strong incentives to over-report output to meet quotas or obtain rewards (Shleifer and Treisman 2004). Although Somalia officially abandoned socialism by 1980, the state continued to play a significant role in production until its collapse. In this environment, firm managers likely inflated reported output, leading to artificially high GDP figures. Second, under government a great deal of Somali production was military hardware that citizens did not consume. In fact, to the extent that this hardware was used to suppress the Somali population, this sizeable portion of pre-1991 GDP was actually negative value added from the perspective of citizens' welfare. Finally, in the pre-stateless period Somalia was one of the largest per capita foreign aid recipients in the world (UNDP 2001). In fact, "Pre-war Somalia was considered a classic case of an aid-dependent state" (UNDP 2001: 118). By the mid-1980s foreign aid was 58

percent of Somali GNP (UNDP 1998: 57) compared to only nine percent today (UNDP 2001). In 1987 more than 70 percent of the state's operating budget was financed by foreign aid (Mubarak 1996). And before government collapsed, nearly 100 percent of Somali education was financed by foreign aid (UNDP 2001: 120). This discrepancy inflates pre-1991 GDP per capita compared to per capita income today.

If it were possible, accounting for fictitious production under government, the negative value added of military expenditures, and the "foreign aid gap" would likely reduce Somalia's pre-1991 average income level below its post-1991 level.⁸ The dramatic increase in post-1991 Somali consumption depicted in the data corroborates this fact. A substantial observed rise in consumption without an attendant rise in per capita GDP suggests an unmeasured increase in per capita income between the pre- and post-anarchy periods not reflected in the data.

Only two of the 18 development indicators in Table 1 show a clear welfare decline under stateless: adult literacy and combined gross school enrollment. Given that foreign aid was completely financing education in Somalia pre-1991, it is not surprising that there has been some fall in school enrollment and literacy. This is less a statement about the Somali government's ability to generate welfare enhancing outcomes for its citizens than it is a reflection of foreign aid poured into Somali education by the international development community before government collapsed.⁹

Importantly, the indicators in Table 1 also do not measure the substantial increase in personal freedoms and civil liberties enjoyed by Somalis since the emergence of anarchy. The Somali government ruthlessly suppressed free speech, censoring newspapers, radio and

⁸ The census information used to calculate pre-1991 per capita GDP in Somalia is also controversial (UNDP 2001: 57) and, if understated, would further overstate per capita GDP under government compared to statelessness.

⁹ Furthermore, according to one source at least, overall enrollment in Somalia may actually be higher than its peak in the 1980s (Nenova 2004).

television. Most forms of free expression were punishable by death and foreign travel was severely restricted. Today, in contrast, Somalis are free to travel as they please (restricted only by governments of other nations) and enjoy greater freedom of expression, both privately and publicly. 20 private newspapers, 12 radio and television stations, and several Internet sites now provide information to the Somali public (Freedom House 2005). Satellite-based televisions enable the transmission of international news services, including CNN (Little 2003: 170-171). Authorities in Somaliland and Puntland have attempted to interfere with media providers in their territories, but freedom of expression remains improved compared to its status under government. This constitutes an additional important, though unmeasured, increase in Somali welfare under anarchy.

As a point of comparison, it is useful to consider Somalia's development improvements from the 1985-1990 period to the 2000-2005 period relative to movements in the same development indicators in its neighboring countries, Djibouti, Ethiopia, and Kenya. Looking at these countries helps to interpret the findings in Table 1. In particular, it helps to establish if Somalia's development improvements were the result of its predatory government's collapse and substitution with anarchy, or if Somalia would have experienced the same improvements even if it had remained under government simply because 'it was time' for Somalia to improve.

In Table 2 I perform this comparison for all development indicators that data permit. I calculate the percent improvement (+) or decline (-) for each indicator in each of Somalia's neighbors between the 1985-1990 period and the 2000-2005 period. The comparisons are unavoidably 'rough' in the sense that they do not compare the precise years from Table 1 in all cases. Further, they fail to capture the fact that Somalia's pre-anarchy government was considerably more predatory than the governments of Djibouti, Kenya, or Ethiopia. Thus, the

experiences of these countries provide imperfect points of comparison that tend to understate the difference between Somalia's strides under anarchy and the strides it would likely have made under Barre. Nevertheless, they are sufficient to address the general question I am interested in.

Table 2. Somalia vs. its Neighbors

% Improvement or Decline in Development Indicators between 1990 and 2005				
	Djibouti	Ethiopia	Kenya	Somalia ^d
GDP per capita (PPP) ^a	---	+15.5	-4.1	+?
Life expectancy (years) ^b	-15.4	+9	-15.6	+5.4
Adult literacy (%) ^c	---	---	+3.7	-20
Infant mortality rate (per 1,000) ^a	+16	+28.5	+7.4	+24.4
Pop. with access to improved water (%) ^c	+1.4	-4.3	+35.6	0
Pop. with access to improved sanitation (%) ^c	+3.8	+333.3	+7.5	+44.4
Telephone mainlines (per 1,000) ^c	+40	---	+28.6	+1,150

Notes: Except for Somalia: ^a1990-2005, WDI (2005) and CIA World Factbook (2006); ^b1990-2006, WDI (2005) and CIA World Factbook (2006); ^c1990-2004, WDI (2005) and UNDP (2006); ^dFor sources and years, see notes in Table 1.

The data reject the hypothesis that Somalia would have improved equally whether it remained under government or not. Consistent with Table 1, Somalia performs worse on adult literacy compared to its neighbors between the periods. Still, on the majority of the indicators considered here, Somalia improved more than its neighbors over the same period, suggesting that the collapse of government resulted in greater development improvements than would have occurred in its absence. In a number of cases, Somalia has been improving while its neighbors have been declining.

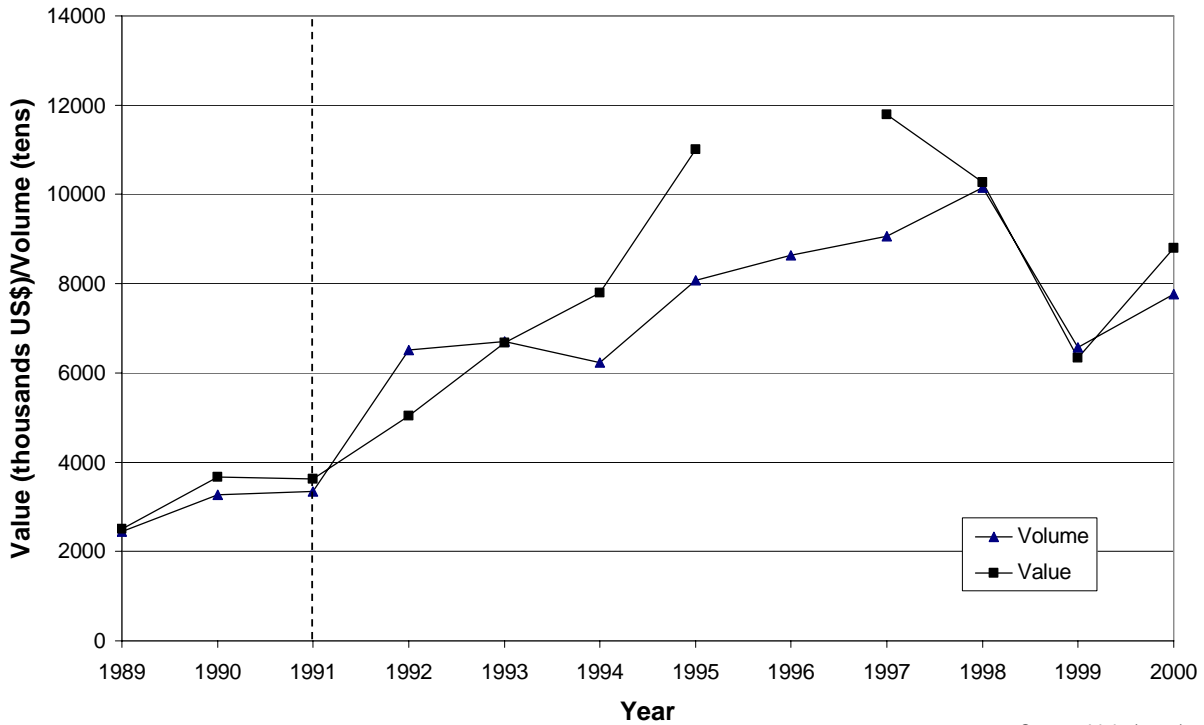
4 The Sources of Somalia's Progress

4.1 Economic Advance

Much of the credit for Somalia's improved development belongs to its economy, which has been allowed to flourish in the absence of government predation. Although economic advance has been uneven, "in some areas, the local economy is thriving and is experiencing an unparalleled economic boom" (Mubarak 1997: 2027). Somalia's cross-border cattle trade with Kenya is particularly instructive of this progress. Livestock is the most important sector of the Somali economy. It constitutes an estimated 40 percent of Somalia's GDP and 65 percent of its exports (CIA World Factbook 2006). Examining changes in the cross-border cattle trade before and after statelessness is therefore a useful way of establishing changes in Somalia's economy since anarchy emerged.

According to data from the Kenyan Ministry of Agriculture and Livestock Development collected by Peter Little (2003), Somalia's export of cattle to Kenya more than doubled between 1991 and 2000. Figure 1 provides an event study investigating the effect of statelessness on Somalia's cross-border cattle trade.

Figure 1. Cross-Border Cattle Trade



Source: Little (2003)

This figure examines changes in the Somali-Kenya cross-border cattle trade between 1989 and 2000. These data draw on the cattle trade at Garissa, the main Kenyan border district and a major livestock trading market in the Kenya-Somali borderlands. The dashed vertical line at 1991 demarcates the emergence of anarchy. Since this time the value of the cattle trade has increased 143 percent, and its volume has increased 132 percent. Between 1989 and 2000 the value and volume of the cattle trade increased 250 and 218 percent respectively. Even during the most intense period of civil war between 1991 and 1992 the cattle trade grew substantially. Remarkably, this growth actually understates the true increase in cross-border cattle trade since the onset of statelessness. In 2000 severe drought struck Somalia and Kenya closed its border¹⁰ to Somali livestock for fear of importing animals infected with Rift Valley Fever. This depressed

¹⁰ Saudi Arabia also banned livestock exports from Somalia during this period owing to the Rift Valley Fever.

livestock trade in the final year for which data are available, shrinking its growth for the period 1991-2000. Between 1991 and 1998, for instance, the value of cattle traded at Garissa grew 400 percent, and between 1989 and 1998 this trade grew 600 percent. In terms of volume, annual sales grew from less than 25,000 cattle in 1989 to more than 100,000 by 1998. Further, these data reflect only official cross-border cattle exports from Somalia to Kenya. They do not include the substantial cattle trade that occurs without the Kenyan government's approval. In 1998 unofficial exports entering Kenya from the Lower Jubba region alone add an estimated 70,000 cattle to these data (Little 2003: 38).

The frequency of larger-scale livestock traders has also grown under statelessness. In 1987-1988, 80 percent of livestock traders had annual sales between one and 600 (small scale). Only 20 percent had annual sales above this level (large scale). By 1998 the percentage of large-scale traders had doubled. Consider Table 3.

Table 3. The Growth of Large-Scale Livestock Traders

Annual sales	Percentage of traders		
	1987-1988	1996	1998
1-300	50	17	34
301-600	30	18	26
601-900	--	20	5
901-1,200	5	28	22
> 1,200	15	17	13

Source: Little (2003)

Information about crime in stateless Somalia can also be gleaned from this thriving sector. The cross-border livestock trade is facilitated by brokers (*dilaal*) who certify for buyers and sellers that traded livestock are not stolen. *Dilaal* incur liability if livestock they certify is illegitimate. In this capacity they act as insurance for cross-border traders. Data on brokers' fees pre- and post-anarchy suggest that fees have not risen since government's collapse. Between 1988 and 1998 *dilaal* fees remained the same (Little 2003: 109). If thievery increased between 1988 and 1998 we would expect to *dilaal* fees to have risen. The fact that they have not suggests that, at least in the sizeable livestock sector, thievery has not increased under anarchy. In fact, *dilaal* fees are lower on the Somali side of the cross-border trade than they are on the Kenyan side, indicating that thievery is more problematic in Kenya, which has a government, than in Somalia.

The livestock boom is not limited to cross-border trade with Kenya. During the 1990s Somalia accounted for more than 60 percent of all livestock exports in East Africa. In the northern part of Somalia (Somaliland and Puntland) production and annual exports of sheep and goats from the major ports of Berbera and Bossaso have surpassed their pre-1991 levels (Little 2003: 37-38). In 1999 these two ports alone were responsible for 95 percent of goat and 52 percent of sheep exports for all of eastern Africa (Little 2001: 194).

Nor is Somalia's economic advance under statelessness limited to its largest economic activity. Other sectors of unprecedented vibrancy include service and hospitality. A large part of this progress has been in telecommunications. Local providers have joined forces with multinationals like Sprint, ITT and Telenor to provide cheaper, higher quality, and more extensive coverage than ever before (UNDP 2001: 107). In fact, Somalia boasts the cheapest, clearest cell phone calls on the continent (*The Economist* 2005). Transportation is also a growing

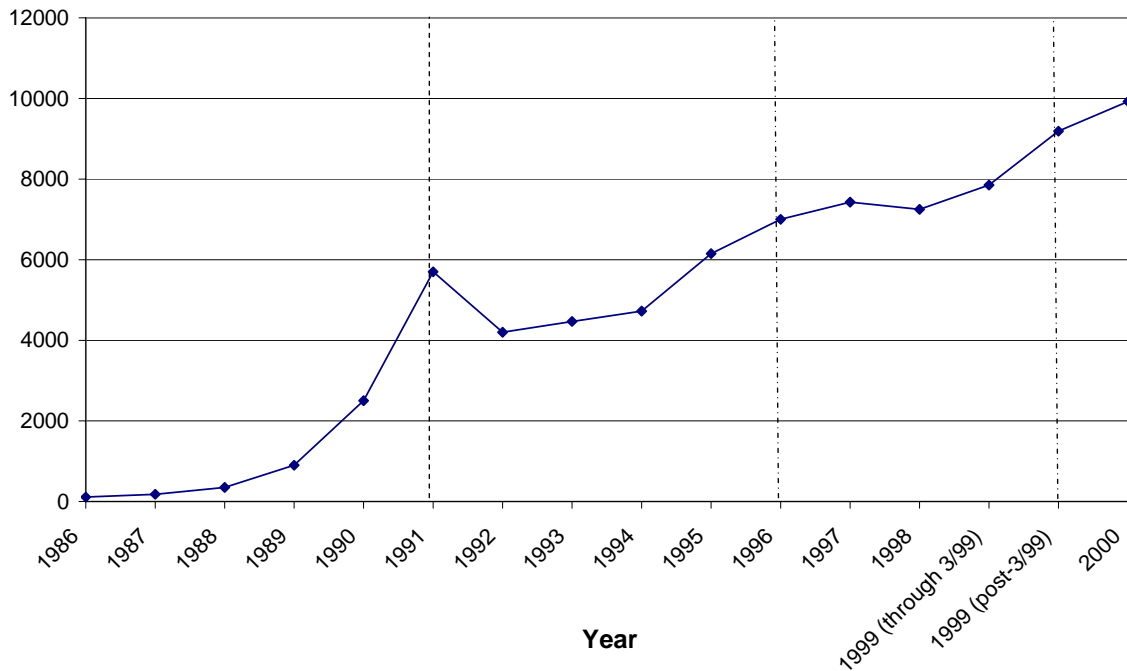
service industry in Somalia. In addition to local transportation services, Somali-owned airlines provide international service connecting Somalis to the rest of the world. By 1997, 14 firms operating 62 aircraft were up and running. The airline industry offers greater service to more parts of the world than when Somalia was under government (Nenova 2004). In the hospitality sector “unprecedented” construction is taking place in Mogadishu and other major urban centers (UNDP 2001: 203), facilitating the growth of new restaurants and hotels. And according to the UN, “In Hargeisa, Mogadishu, and Bosasso, investments in light manufacturing have expanded, indicating local investor confidence in the economy and local security” (UNDP 2001: 39).

An improved monetary climate has also contributed to Somalia’s burgeoning stateless economy. Inflation was a significant problem pre-1991 when government appealed to the printing presses to fund its corrupt activities. Skyrocketing inflation made it increasingly difficult to purchase consumables. It also created business uncertainty and distorted monetary calculations of economic participants. Under anarchy, however, the Somali shilling (SoSh) has been much more stable.

The SoSh was the official currency of pre-1991 Somalia. Post-1991 there was no government to mandate its usage; however the SoSh continued to trade on the world market. Today the SoSh, along with the US\$, is the basis of Somalia’s private monetary system.¹¹ There is no central bank or treasury in Somalia. This means that primarily old notes circulate, though in a few cases discussed below private parties have printed new currency, adding to the SoSh supply. Figure 2 examines the SoSh/US\$ exchange rate between 1986 and March of 2000.

¹¹ Somaliland also has its own currency, the Somaliland shilling.

Figure 2. SoSh/US\$ Exchange Rate



Source: Little (2003)

I again use an event study, this time to identify the effect of statelessness on Somalia's monetary environment. The first dashed line in 1991 indicates the emergence of anarchy. Under Barre's predatory regime the exchange rate soared. Steep depreciation drove the SoSh from SoSh 110 per \$1 in 1986 to SoSh 5,700 per \$1 by 1991. Following the coup the exchange rate fell precipitously to SoSh 4,200/US\$ despite the fact that Somalia was in the throes of civil war. Since the introduction of statelessness, the SoSh has shown remarkable stability. It lost significant value against the dollar only twice—first around 1996, and then after March of 1999. These dates, indicated by the second and third dashed lines, mark two monetary increases. The first was instigated by the Mogadishu-based warlord, Hussein Aideed, who imported new shillings he had printed abroad to fund his faction's activities. The second was instigated by the fledgling Transitional National Government in the spring of 1999. In an attempt to establish the TNG as a formal authority, its supporters imported SoSh 30 billion they had printed in Canada.

Since 2000, TNG supporters have further added to Somalia's money supply leading to additional depreciation against the dollar. Nevertheless, the average annual rate of depreciation under anarchy is still only a fraction of its size under government. In just the last four years under government (1986-1990), average annual depreciation of the SoSh was nearly 120 percent. In the first nine years of statelessness (1991-2000), average annual depreciation of the SoSh was just over six percent. The 2000 monetary injection of TNG supporters boosted the 1991-2001 average to around 14.7 percent.¹² But this still pales in comparison to triple-digit inflation under government.

The SoSh's stability is also reflected by the fact that in parts of neighboring Ethiopia the SoSh is more extensively used than Ethiopia's own currency (Little 2003: 144). In fact, prior to the last large monetary injections in Somalia in March of 1999 and then in 2000, the SoSh showed greater stability than the national currencies of both Ethiopia and Kenya. From 1996-February 1999 the SoSh depreciated against the US\$ only 12.14 percent. Between 1996 and 1999 the Kenyan shilling lost 32.55 percent against the US\$ and the Ethiopian birr depreciated against the dollar 26.58 percent.¹³

Somalia's financial market has also improved under statelessness. Numerous remittance firms, called *hawilaad*, handle an estimated \$500 million-\$1 billion sent by members of the Somali diaspora to their friends and family in Somalia each year (UNDP). *Hawilaad* are instrumental in connecting Somalis with the resources they need to survive and expand their enterprises. At least one of the Mogadishu-based firms is multinational with branches in countries throughout the world (Little 2003; UNDP 2001). Remittance businesses are also morphing into private depository/lending institutions and will likely contribute the development

¹² Calculated using data from Little (2003) and UNDP (2001).

¹³ Calculated using data from (IMF 2006) and Little (2003).

of a Somali banking sector. Some offer travelers checks and non-interest bearing deposits, make small loans, and perform other bank-related services (Nenova 2004). Though still in its nascent stages, Somalia's financial sector affords greater access to most Somalis today than it did under government when financial services (especially loans) went exclusively to public enterprises and political allies (Mubarak 1997). As a result, today "Somalis lend and borrow and extraordinary amount of money to one another" (Menkhaus 2004: 34).

The financial sector is not alone to attract attention from multinational businesses. Others have also found stateless Somalia an attractive place to invest. Dole Fruit, for instance, has invested in Somalia. General Motors' Kenya subsidiary has as well. Total Oil Company now operates in Somaliland, and the BBC has forged a formal affiliation with one of Somalia's emergent media companies. Several international companies have expressed interest in investing in Somalia's energy industry, and numerous fishing fleets from Europe and Asia have reached agreements for commercial fishing in Puntland (Little 2003: 166-167). The Somali economy has a long way to go, but in many ways has progressed since statelessness emerged.

4.2 Improvement in Public Goods

Supporting the growth of the Somali economy is a renewed public goods sector. Public goods remain extremely low, especially in Somalia's rural areas. However, like Somalia's economy they show important progress under anarchy. While some factions are able to "tax" Somalis traveling on roadways they control, taxes and restrictions on Somalis' movement and trading activities are substantially lower under statelessness than they were under government. "Taxes, payable to a tentative local authority or strongman, are seldom more than 5%, security is another 5% (more in Mogadishu), and customs duties are next to nothing. There is no need to pay for

licences, or to pay to put up masts” (*The Economist* 2005). Importantly, Somalis are not any less likely to enjoy the benefits of fees paid to militia leaders than they were when they paid considerably higher taxes to government (Little 2003: 7-9).

Public goods come from a variety of sources in stateless Somalia, including the “taxes” charged by militia. Clan militias provide security to citizens in their territories, and militiamen for hire protect businesses, seaports, large markets, and trade convoys. In other cases *shari’a*, a form of religious law/courts discussed below, provide security by including guards in their court militia in return for payment from businessmen (UNDP 2001: 109-110). Clan leaders also work together to provide needed public goods in areas outside of Somalia’s big cities where very few exist.

Law and order is provided privately by *xeer*, Somali customary law, which establishes rules regarding marriage, war, resource use, and social contracts between clans. It is also supported by *diya*, which defines rules regarding the punishment of misconduct, such as murder or theft.¹⁴ Although some secular courts exist, *shari’a* courts perform an instrumental function in creating legal order. Private courts are funded by the donations of successful businessmen who benefit from the presence of this public good in urban centers. Under anarchy, dispute resolution is free and speedy by international standards (Nenova 2004; Nenova and Harford 2004). This constitutes a marked improvement in the provision of law and order compared to before 1991. When government was in charge, there was only the arbitrary use of force by the state against its enemies (Africa Watch Committee 1990; Menkhaus 2004). “[H]arassment, arbitrary arrest and imprisonment, denial of a fair public trial, and invasion of the home were common features of the life of the Somali citizen” (Hashim 1997: 90). Rampant corruption and political pressures rendered the police and judiciary useless for most Somalis. Because of the state’s collapse,

¹⁴ On the private provision of law and order see, Benson (1990, 1991, 1995).

private providers of law and order have been freed to step in. As a result, “in some parts of Somalia, local communities enjoy more responsive and participatory governance, and a more predictable, profitable, and safer commercial climate, than at any time in recent decades” (Menkhaus 1998: 220).

Education has also benefited in important ways under anarchy. There are more primary schools in Somalia today than there were in the late 1980s under government (UNDP 2001: 84), and this number is growing rapidly. The number of formal schools has increased from 600 in 1990 to 1,172 under statelessness (UNICEF 2005b). There are many Koranic schools as well. These focus mostly on the Koran, but students also learn Arabic. Higher education has similarly benefited by statelessness. There was only one university in Somalia prior to the emergence of anarchy. Under statelessness universities have sprung up in Borama, Hargeisa, Bossaso, and Mogadishu. These universities offer subjects from computer skills to accounting. According to UNICEF, although the state of education in Somalia remains poor, there is evidence of “gaining momentum in the education sector” (UNICEF 2005a: 2) and improving children’s literacy and numeracy.

Somalia’s “private sector has [also] proved to be a relatively effective provider of key social services, such as water or transport” (UNDP 2001: 42). Today, transportation for freight and people connects even the smallest villages in Somalia to major urban centers, and is relatively inexpensive (Nenova 2004). A state-owned electricity provider opened in Hargeisa in 2003. However, most Somali electricity is privately provided. Water needs are also supplied by private firms. Private social insurance provides a safety net financed through impressive remittances from abroad. These remittances average \$4,170 annually per household (Ahmed 2000: 384). Expansive domestic clan-based social networks also provide social insurance. In

hard times, private welfare can contribute as much as 25-60 percent of household income (UNDP 2001: 68). Private healthcare is also available. Although the state of medicine in Somalia remains extremely low, medical consultations are very affordable (\$0.50/visit) (UNDP 2001: 108). Further, the percentage of Somalis with access to a medical facility has nearly doubled since 1989-1990 before statelessness emerged. Privately-provided public goods like “education and health care services . . . and utility companies such as electricity and water, are also providing new income generating and employment opportunities” (UNDP 2001: 39) that further contribute to the growing Somali economy.

5 Concluding Remarks

Somalia remains a country with severe problems. But it is better off today under statelessness than it was 15 years ago under government, and shows signs of continuing improvement without a central authority. A comprehensive view of the data that allow pre- and post-anarchy welfare comparisons suggest that anarchy has improved overall development. Contrary to the typical case, in Somalia social welfare has improved because of, rather than despite, the absence of a central state. Somalia’s government was oppressive, exploitative, and brutal. The extent of this predation created a situation in which social welfare was depressed below the level it could achieve without any government at all. The emergence of anarchy in 1991 opened up opportunities for advancement not possible before government’s collapse. In particular, economic progress and improved public goods provision in critical areas flourished in the absence of a monopolistic and corrupt state.

Recognition of this is not to deny that Somalia could be doing much better. It clearly could. Nor is this to say that Somalia is better off stateless than it would be under *any*

government. A constitutionally-constrained state with limited powers to do harm but strong enough to support the private sector may very well do more for Somalia than statelessness. De Long and Shleifer (1993), for example, show that while pre-industrial European countries under “feudal anarchy” performed better in some ways than those under absolutist autocracies, countries under limited government performed better than both. But this was not the type of government that collapsed in Somalia 15 years ago. The relevant question for Somalia’s future is thus whether or not a government, were a stable one to emerge, would be more like the constrained variety we observe in the West, or more like the purely predatory variety that systematically exploited Somalis between 1969 and the emergence of anarchy in 1991.

In August of 2000, select Somali clan leaders gathered in Djibouti at the urging of the international community. At this meeting they established the Transitional National Government (TNG) in an attempt to reestablish formal government in Somalia. The TNG, while remaining in name for three years, failed to establish authority. It was crippled by a lack of popular support and an inability to raise tax revenues. The terms of the TNG expired in 2003. This gave rise in 2004 to the Transitional Federal Government (TFG), led by Abdullahi Yusuf Ahmed. The plan is for the TFG to go to Mogadishu and set up the center of the new central government. However, strong divisions within the members of the TFG have prevented this. Instead of creating a new government, the TFG has effectively fractured into two new rival faction groups that do not fundamentally differ from the “warlord”-led factions it sought to replace. Like the TNG, the TFG lacks the necessary support and has failed to establish authority. Somali statelessness persists (IRIN 2006).

Harold Demsetz (1969) famously cautioned economists to avoid committing the “nirvana fallacy,” which compares an imperfect reality with a hypothetical ideal state. Instead we should

compare the situation we confront with the relevant alternatives actually available to us. The plans for a path from here to there must be grounded in an assessment of how things were, how they are, and how they realistically could be. His caution is especially useful when considering reforms in the developing world and, as Coyne (2006) points out, for Somalia in particular.

A consideration of the relevant alternatives based on realistically assessing Somalia's past and present suggests it is unlikely a new central government, at least in the near future, would resemble anything like a constrained, supportive state. The history of Somalia's experience under government, as well as the ongoing experiences of its neighbors, implies less optimism than is often projected by the advocates of recreating government in Somalia. The factional disagreements that led to civil war in the few years after government's collapse remain strong. Any ruler to come to power from one of these groups would likely turn the state's power against its rivals rather than to the good of the country, much as Barre's regime did before it ended. The TFG has sparse support and is internally divided precisely because of this and because faction leaders recognize the strong possibility that any one faction gaining too much power could mean the virtual annihilation of the others.

Indeed, thus far in the stateless period, the two greatest disruptions of relative stability and renewed social conflict have occurred precisely in the two times that a formal government was attempted—first with the TNF and more recently with the TFG. In both cases the specter of government disturbed the delicate equilibrium of power that exists between competing factions, and led to increased violence and deaths due to armed conflict (Menkhaus 2004). Even the recent increased volatility of the Somali shilling is rooted in these attempts at recreating a central state. At the moment at least, it seems that in upsetting this delicate balance of power the attempted reestablishment of government in Somalia is likely to lead to more conflict and obstacles to

progress rather than less. This would have the undesirable effect of reversing the strides toward increased development Somalia has achieved since 1991.

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