

# Law of the Rum-Runners: Self-Enforcement Mechanisms Given Weak Focal Points\*

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October 14, 2007

## Abstract

From 1920 to 1933 the United States made it illegal to sell, manufacture, or transport liquor. Americans were thirsty and the Noble experiment proved a failure. Nowhere was the law ignored more than in Detroit. The city shared the Detroit river with Windsor, Canada and with the river less than a mile wide at points the liquor flowed into the city, in fact 75 percent of all the liquor that was imported into the United State during prohibition came through Detroit from Canada. Despite being outside the protection of the law, rum running was far from lawless. The rumrunners created focal points that acted as self-enforcing mechanisms. Trade flourished and the liquor industry was second only to automobiles.

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\*I would like to thank Mises Institute for funding to work on this paper and all the 2007 Mises Institute summer fellows, particularly Dan D'amico for their helpful comments. As usual all errors are my own.

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# 1 Introduction

*People can often concert their intentions or expectations with others if each knows that the other is trying to do the same. Most situations—perhaps every situation for people who are practiced at this kind of game—provide some clue for coordinating behavior, some focal point for each person’s expectation of what the other expects him to be expected to do. (Schelling, 1960, p.57)*

*But rum-running was not totally lawless. It had its own commandments, its own unwritten constitution, statutes, and code of fair play. Rules were set and appended by the syndicates, the big shippers, and the small independents proud enough to call themselves “legitimate” rumrunners. Legitimate rumrunners learned that the size of their market depended to a great degree upon the ability to supply a product of fairly high quality. A reputation for bad quality or a fraudulently labeled product distributed to those who diluted the imported liquor, undercut the market and hurt all shippers. (Engelmann, 1979, p.94)*

National prohibition during the 1920s is often called the noble experiment. Many viewed the consumption of alcohol as an evil but it wasn’t until non-moral arguments were brought in, such as increased work efficiencies and crime reduction, that the prohibition movement gained momentum. It was seen to be a cure for poverty and crime. In the words of Billy Sunday<sup>1</sup> on the eve of prohibition,

Good bye John [Barleycorn].<sup>2</sup> You were God’s worst enemy. You were hell’s best friend. I hate you with a perfect hatred. I love to hate you. The reign of tears is over, the slums will soon be a memory; we will turn our prisons into factories and our jails into storehouses and corncribs. Men will walk upright now, women will smile, and children will laugh. Hell will forever be for rent. (Quoted in Mason, 1995, p.36)

But when prohibition came these predications were far from true. Rather than peace and

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<sup>1</sup>William “Billy” Sunday was a nationally known revivalist and evangelist who was a former big league baseball player for the Chicago White Stockings and an ordained minister known for his charismatic crusade for prohibition.

<sup>2</sup>Referring to the ballad of John Barleycorn which is a British folk song that represents alcoholic drinks. This quote is from the obituary for John Barleycorn in which the Drys were celebrating the advent of prohibition.

quality of life the 18th amendment produced crime and corruption.<sup>3</sup> All over the country people defied the liquor laws. This led to an increase in violence and corruption which eventually led to the 18th amendments repeal in 1933.<sup>4</sup>

Prohibition did, for the most part, decrease public drunkenness<sup>5</sup> but it failed to stop drinking altogether. Despite enforcement attempts, enacted by the Volstead Act, a black market emerged where bootleggers and rumrunners supplied customers with drinks of all kinds, from homemade to imported liquor, beer, and wine. People drank a lot whether at home or in the speakeasies, blind pigs, roadhouses, and private clubs<sup>6</sup> that made the 20s notorious. As Sann, noted (1957),

This is one of the reasons—only one—why we call it the Lawless Decade [referring to the 1920s]. The law that had the greatest impact on the wide and wonderful land evoked the least obedience from the people. Liquor—good, bad, indifferent or deadly—flowed like a giant waterfall all during the thirteen wobbly years of the thing Herbert Hoover called “an experiment . . . noble in purpose.”

Prohibition did, in a sense, create a lawlessness, in that it fostered a great deal of contempt for the governments laws, or at least for the law of prohibition. However, this lawlessness is too often extended farther than was true. The great deal of diversity of drinks offered under prohibition, some that were mentioned earlier, help to illustrate the extent of demand and as Thornton (1991) has shown prohibition does little to stop consumption altogether. However, there is a leap in logic to say that the market for alcohol was lawless because it took place outside the oversight of governmental law. The black market for liquor during prohibition was far from lawless.

Black markets are distinguished from other markets in that they operate illegally. Apart from this they would operate just as any other market would. As Brennan and Buchanan

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<sup>3</sup>At least in the eyes of the prohibitionists. Up until the great depression the country did enjoy prosperity. Something which the Drys took credit for at the time. In truth, though, much of people’s fortunes were made through the illegal black market for liquor. For example the liquor industry was second only to automobiles in Detroit, See Engelmann (1979).

<sup>4</sup>This will be explained further in section three.

<sup>5</sup>For evidence of this in Detroit see Engelmann (1979), for evidence for the more rural area of Butte, Montana see Murphy (1997).

<sup>6</sup>These are terms used for many of the drinking establishments that replaced the saloons after prohibition.

(1985) have shown a market without rules would hardly be conducive to trade and this is no different for black markets. Because they operate outside the central authority<sup>7</sup> the rules must come from means other than a top-down authority. A great deal of literature exists on the subject of self-enforcement mechanisms used to facilitate trade without government (see, for instance, Clay 1997; Dixit 2004; Greif 1989, 1993; Kranton 1996; Landa 1994; Leeson 2007a, 2007b, 2006a; Milgrom et al 1990; Stringham 2003; Zerbe and Anderson 2001). There is more than one way to facilitate trade in any given market using self-enforcing arrangements. This can be done through multi-lateral punishment, signals of credibility, the emergence of norms, just to name a few. Market action that takes place without government is not lawless<sup>8</sup>. Law does not need to come about through legislation. Self-enforcement shows that in the absence of formal enforcement, agents or actors do not immediately and always fall into conflict. In fact, as Leeson et al (2006) show, “Private, informal institutional arrangements of self-enforcement create a stronger degree of mutually reassured expectations or cooperation by preventing and/or punishing antisocial behavior.”

This paper will illustrate the order and cooperation brought about in the rum running industry in Detroit Michigan during prohibition. This is a perfect case study because Detroit had a major illegal liquor industry, one that was second only to the “legitimate” automobile industry, that is often remembered for its violence. The violence and organized crime that occurred often invoke the term, lawless but rum running on the Detroit River had more order than is admitted. Focal points emerged that acted as self-enforcing mechanisms and thus enabled an incredible amount of liquor to move between Windsor, Canada and Detroit along the Detroit River. While perfect order was far from achieved this case study does exemplify how order can be achieved without a government. The violence that took place in the market is explained by external forces not the instability of the self-enforcement mechanisms themselves. In essence the rumrunners’ self-enforcement mechanisms were focal points that

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<sup>7</sup>Most black markets not only operate away from the central legal institutions but are also even face pressure from the enforcement of the goods being prohibited.

<sup>8</sup>Lawless here meaning without order.

allowed all to coordinate their behavior and allow trade and business to take place. As I will show, the strength of the focal points were effected by outside forces allowing for more violence and conflict then there would have otherwise have been.

Section II will discuss the focal points of the rumrunners. Essentially there were nine commandments the rumrunners were expected to follow that acted as self-enforcing focal points. Section III will explain why the majority of the violence occurred. It all comes down to the strength of the focal points. Section IV will conclude.

## 2 Rumrunners and Focal Points

Prohibition became law in Michigan two years before the rest of the country. Almost immediately rum running became the norm for many in the state. Entrepreneurs saw an opportunity to smuggle liquor into the state from the start. First, in the two years preceding national prohibition rumrunners jumped into cars and smuggled liquor between Toledo, Ohio and Detroit. The forty miles of road known as Dixie highway soon became known more commonly as “Avenue de Booze” and “Rumrunners’ Runway” (Engelmann 1979). Once national prohibition took effect the major source of liquor changed from Ohio to Canada.<sup>9</sup> Canada passed a law that allowed the retail of liquor to any non-prohibition country after January 1, 1920 and soon many along the great lakes area jumped in their boats and headed to Canada with a promised destination of Cuba, a promise they did not hold. Soon Detroit emerged as the major port for smuggling in liquor along the Canadian border, no doubt because the Detroit River separated Detroit from Windsor, Canada by just under a mile. As Roy A. Haynes, the national Prohibition director, described the Detroit river, “The Lord probably could have built a river better suited for rum-smuggling, but the Lord probably never did” (Quoted in Mason 1995, p.39) In all 75 percent of all liquor that was imported into the United States during prohibition came from Canada into Detroit (Mason 1995, p. 39).

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<sup>9</sup>That is not to say the only source. Despite the large amount of liquor being smuggled in from Canada a large amount of bootlegging and home brewing took place throughout the state and for that matter the whole country.

A wide array of people could be found smuggling in liquor and with a large amount of clever means of doing so. Many could be described as Mom and Pop operations. One Smuggler said of the early days,

“It was common people. They weren’t gangsters. The majority of the guys that were buying the whisky were all people like us that would go out and buy, invest their money, to try to make a little bit on it. It was all common people and neighbors together and one neighbor would land at another neighbor’s place and so forth. They never thought there was nothing criminal about it.” (Quoted in Engelmann, 1979, p.76)

Soon rum running began to evolve into a more organized industry full of big and small shippers and even the formation of syndicates. With this formation came the emergence of laws and norms. Realistically these were welcomed by any “legitimate” rumrunner, meaning any rumrunner who had any long term plans to continue to supply liquor to “thirsty” people. For Reputation, like in any other industry, is important and to not follow the laws and norms would most likely not be in their long run self-interest.<sup>10</sup> Because rumrunners competed with other liquor suppliers like bootleggers, home brewers, and even east coast rumrunners they knew that in order to keep the size of their market up most of the rumrunners had to supply a high quality liquor that wasn’t too diluted. If too much low quality, highly diluted liquor came in from Canada all shippers were likely to be hurt by this. As Engelmann notes, “The ideal business in this respect, and the one to be emulated by aspiring rumrunners, was William McCoy of the Atlantic Coast Rum Row, whose product was sold as ‘the real McCoy’” (1979, p.94).

Those who recognized this importance realized they needed to take action themselves. It was important that the customers need not fear the quality of the liquor that was imported from Canada just as those who purchased their liquor from McCoy on Rum Row. Warnings were sent to those who diluted, corrupted, or poisoned their liquor. Thus emerged nine

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<sup>10</sup>As we shall see in the next section many did not follow them and many did not last long, still reputation is very important.

inviolable commandments that helped to establish a dependable and smooth-running liquor industry. According to Engelmann (1979, p.94) they were,

Thou shalt not use denatured or wood alcohol in “cutting” or diluting good Canadian liquor; thou shalt mind thine own business; thou shalt not cooperate with police authorities; thou shalt not cooperate with news paper reporters; thou shalt know nothing about nothing involving crimes on the river; thou shalt not steal from other rumrunners; thou shalt not default on debts because of capture by police; thou shalt not use counterfeit money to pay for liquor; thou shalt not undercut another’s market.

Rumrunners who followed these laws were more likely to make more money and last longer, not only in the industry but in life in general. Because those who did not had the rumrunners’ fair trade commission to deal with and that was “simply a boat with a gun-toting commissioner who pulled along side a commandment breaker and put him out of business permanently” (Engelmann 1979, p. 94). An interesting example of this occurring dealt with a pirate known as the Grey Ghost, as Engelmann (1979, pp. 94-95) explains,

The most widely known case of rumrunner flaunting all the commandments was that of the legendary Gray Ghost (real name unknown) of Detroit. A pirate, extortionist, and counterfeiter, he worked the river as an outcast from both respectable and rum running societies. The Grey Ghost piloted a gray boat, dressed in gray with a gray hat and gray mask, carried two gray pistols and a gray machine gun. His favorite practice was to plunder pullers on their way to the Canadian export docks. Intercepting them in midstream, gliding ghost like in his speedboat, he robbed them of the cash with which they planned to purchase their products. But he incurred the enmity of big shippers when he purchased a large load of liquor in Canada with a bad check. Five wholesalers then pooled 1,000 dollars each and hired a fair-trade commissioner to take care of the transgressor. A few days later the Gray Ghost was shot down on a Detroit street by an unknown gunman in a passing automobile. The case, of course, was never solved.

The commandments are there for the self-interest of all the rumrunners. Following the commandments was in the self-interest of each rumrunner directly, in the sense that others may send the fair trade commission on them, and indirectly, in the sense that to break them was bad for all involved in the industry, including themselves, in the long-run. Thus the

commandments were self-enforcing. No need for an overall enforcer or anyone to have a monopoly on enforcing the rules.

Each commandment is meant to help all participants in the market. They are all self-enforcing. The reason for the first commandment was the quality of the liquor is important for the reputation of all involved in the market. If anyone were to break it all participants would be hurt, thus it is in everyones self-interest to see it enforced. The next four are important because they help keep information away from the authorities who are trying to enforce the prohibition. Everyone is at risk of arrest and being shut down so it is important that the operations and all relative knowledge be kept as secret as possible. The final commandants are necessary in order to police the market itself and essentially create honor amongst so-called “thieves.”<sup>11</sup>

The laws or commandments, as they were apparently called, are not legislated laws. No one wrote them up and decided to just enforce them. Instead they came about through time spontaneously to the betterment of the market as a whole. They helped to facilitate trade within the market and allowed the consumers to get the products that they demanded despite the attempts to stop its trade under recognized authority. Basically the commandments were focal points, or as Alfred Schutz called them, “nodes of orientation” for human decision-making (Leeson, Coyne, and Boettke, 2006). It became an expected mode of behavior among the rumrunners. Each rumrunner expected at least that much from the other rumrunners and in return he was expected to act that way as well. As Leeson et al (2006), point out, focal points...

...constitute shared expectations that coordinate the activities of diverse individuals collectively or independently seeking their ends. Focal points accomplish this by creating commonly understood and anticipated behaviors in situations of uncertainty where a range of potential responses (i.e., a multitude of equilibria) is possible. By harmonizing expected responses, focal points reduce uncertainty despite the presence of imperfect information, enabling individuals to coordinate their activities toward the achievement of their goals.

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<sup>11</sup>This term is mostly used as a joke, being that most rum runners were not thieves, even if you consider what they did criminal, still it did help create honor amongst accused criminals.



Focal points are greatly needed in this market particularly due to the dangers associated with running a black market. More than just the danger of earning a loss on the venture one must also calculate the risks of arrest and other penalties. Thus it is very important to have expectations about how others are going to act. The enforcement of these expectations thus becomes self-enforcing because it is for the self-interest of all that they are. Rule breakers amongst the rumrunners will only put them at more danger than they already are.

Yet, what about all the violence that did occur? That is the subject of the next section.

### **3 Weak Focal Points Leads to Violence**

Tales of violence can be told from all over the country during prohibition. Detroit was not only not an exception it could even be considered an extreme. Like a lot the major cities Detroit had a large gang problem. The most notorious to come out of the city was the Purple Gang. The gang was ruthless and even Al Capone didn't dare move in on their racket. Their activities varied and their methods were tough. As KaviEFF (2001, p.72) notes,

The Purples really established their reputation in the Detroit underworld as hijackers, and their methods were brutal. Typically, hijacking involved taking a load of liquor and killing everybody with the load. The Purples would then take good-quality Canadian whiskey and cut it. In this manner, one bottle of good whiskey could be made into at least three bottles of cut product. Purple Gang cutting plants were operating all over the city by 1925. These operations went on seven days a week, around the clock, to provide for the growing demands for illegal liquor. In 1925, there were an estimated 25,000 blind pigs operating in Detroit.

Gangs were not the only problem. A great deal of hijacking took place along the river that were not associated with any gangs. As Engelmann (1979, p.93) showed,

Even greater dangers were presented by pirates. For if large profits were to be made by "honest" rum running, even greater profits could be made by anyone unscrupulous enough to rob rumrunners. As early as 1921 pirates were reportedly roaming the river like the English sea dogs of the sixteenth century who sailed

the Spanish Main in search of plunder. Because of these individuals, pariahs even of the society of rumrunners, crossing the river at night became even more dangerous than might be expected. Rumrunners therefore not only watched for police boats but also for the boats of masked pirates who pulled alongside and transferred a cargo at gunpoint.

A lot of the violence and conflict that occurred has come to be exaggerated. The gang violence is not as dominating as many make it sound. Meyer Lansky, a famous gangster whom many consider part of the big time mobsters, when asked about the Purple Gang apparently replied “They were nothing” (Rockaway 1993, p. 86). They essentially just built up a reputation that was probably more of a romantic aura. Rockaway (1993, pp. 85-86) says of the gang, “Despite their seeming power and reputation for ruthlessness, the Purples were, in truth, a local gang that never made it big; a neighborhood mob that, for all its swagger and braggadocio, remained small-time.” As for the pirates, trade still flourished during this time so while it certainly existed it was probably not as large as many have come to imagine. At that time, according to the New York Times the annual liquor turnover in Detroit was 215 million dollars, another study showed it at 219 million dollars, with beer and wine accounting for another 30 million dollars (Engelmann 1979, p.125). Violence occurs even in industries under the government. In fact, a great deal of the violence that occurred had nothing to do with conflicts between those involved in the market itself but rather between police and rumrunners. Enforcement of prohibition had to be weakened because pleasure boaters were being shot by wild bullets from the coast guard chasing rumrunners. Still, exaggerated or not some violence did exist.

The Question now becomes: were the focal points, that existed in the market, functioning or not? Focal points exist all around us and are sometimes created with intention or without. However they are formed, focal points can move a worst case scenario (pure conflict) into cooperation (partial or complete). How complete the cooperation is will depend on the strength of the focal point. The strength, or weakness, of a focal point is determined by how many members of society recognize it. The more people that recognize it the stronger it will

be. Focal points do not need to be unanimous they just need to be strong enough to avoid conflict. Take another example. Driving on the right side of the road in the United States is a focal point. When one drives they expect others to also drive on the right side. If ten British people move here and decide to all drive on the left side of the road certain incidences will most likely occur but absolute chaos does not incur, the focal point still functions. This is similar to the rumrunners in detroit. The focal point still functioned but something made the focal points weaker then they normally would have been.

Black markets often have weak focal points because they constantly change. Pressure from enforcement makes the market unstable. Entrepreneurs in the market constantly find new ways of getting around the enforcement in order to not be detected. But different people constantly enter and exit black markets because high profits are offset by the risk of getting caught and punished, or worse. This makes the formation of focal points difficult. Given how developed the black market for liquor was in Detroit they were able to develop fairly strong focal points, but they were still weaker then they would have been without the enforcement pressure from the authorities. This pressure may even make the costs higher then the benefits of following the commandments at that given time thus leaving violence as the answer.

The real reason for the violence has nothing to do with the spontaneous enforcement mechanisms used in the market. The real reason is the external enforcement of the prohibition law. Whether prohibition was right or not is not the question. This case study reveals that self-enforcement can work without the help of a government.

## 4 Conclusion

Rum running was extremely profitable in the 1920s and early 1930s. High profits offset the risks and dangers that accompanied the job for many. The fact that rum running was so profitable should in itself be enough to question any claims of lawlessness. In order for the

market to function properly some amount of order is necessary to facilitate trade in the black market. Still, many claims of lawlessness are made against rum running and other markets for illegal liquor during prohibition. In reality these markets were far from lawless. As we have seen rum running had its own commandments that acted as focal points. These focal points helped to establish cooperation and trade rather than foster conflict. While the governments' failed attempts to enforce the prohibition of liquor did weaken the focal points, which allowed more violence than most likely would have otherwise been, they were still functioning focal points. Thus the situation was one of partial cooperation rather than one of pure conflict.

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