

A conceptual framework for understanding Recorded Human History

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June 20, 2005

The fundamental question of economic history can be asked in two ways: how did a handful of countries achieve sustained rates of economic growth and development in the late 18th and early 19th centuries? and why have most nations failed to achieve sustained economic growth over the last three hundred years? A century ago the question would have been answered in terms of technological change and the failure of non-developing countries to industrialize. In today's world, when Brazil and China make automobiles, our answers lie deeper in the institutional structure of the political, economic, and cultural systems of individual societies. What historical process(es) have generated institutions in a handful of countries capable of sustained economic development in the twentieth century, while most countries still fail to develop thriving markets, competitive and stable politics, and cultures that promote deep human capital accumulation for most of their populations?

This essay sketches out a conceptual framework, really the skeleton of such a framework, that illuminates the key structures of social orders that promote or retard economic, political, and social development. Its beginnings stretch back to the emergence of anatomically modern

¹This is a very preliminary draft, prepared for discussion at the NBER DAE 1005 Summer Institute. Please consult with the authors before quoting or citing, and please excuse the incomplete references.

humans 50,000 to 80,000 years ago. Most of our attention, however, will be focused on the last five hundred years.

Our argument merges political and economic explanations. Rather than thinking of political and economic systems as distinct solutions to separate problems and then connecting them, we begin with the premise that political and economic systems emerge as the simultaneous solution to the same problem. It is not simply that political and economic systems are endogenous, that they react to each other, but in a more fundamental way they are organically whole. Social orders are composed of political, economic, religious, and other institutions that constantly interact and support or irritate one another. Human history exhibits three fundamental social orders: a primitive order covering the last 50,000 years; a limited access social order that arose roughly 5,000 years ago; and open access social orders that first emerged about 500 years ago. The transitions between the three orders are familiar to all economic historians. The first social revolution: the neolithic revolution, the discovery of agriculture, and the rise of civilizations all occurred in a relatively brief historical period between 5,000 and 10,000 years ago. The second social revolution: the industrial revolution, the development of service economies, the rise of modern science, and nation states appeared in an even briefer period beginning 500 years ago. The phenomenon we wish to explain is the stable existence of three very different ways of organizing societies, and the rapid transition from one social order to another.

All human societies have governance structures. Even a band of 25 hunter-gatherers structure their social relations to insure a modicum of order and productive interaction. Humans, and their primate cousins, appear to be genetically endowed with the mental and social ability to

interact and coordinate within groups of 25 or so. We take this ability as given. The difficult question to answer is how do societies form with basic units of more than 25 people? This is really the fundamental problem: how do societies support the creation of organizations that extend the power of individual members through coordinated action, when our natural history equips us only to form groups of 25?

Organizations are the central focus of our inquiry. New ways of structuring human interaction, what we tentatively call governance structures, emerged about 5,000 years ago that enabled much larger and durable forms of social organization to arise. These new forms of organization must have developed incentive compatible ways to structure their internal agreements, i.e. their governance structures. After all, there were no third parties available to enforce contracts. We call the form governance structures that developed “natural states” and the social order in which they are embedded “limited access orders.” Natural states solved the problem of creating internal cohesion within the “state” and providing order to society as a whole. Natural states did this by limiting access to valuable economic and political privileges to a select group of individuals. These “elites” enjoy economic rents from their privileges, and the existence of those rents enabled the formation of a larger, more durable, and incentive compatible agreement between the principles. Natural states extended the size of social units far past 25 individuals, introduced formal governance structures that the anthropological and historical literature identifies as “states,” and provided a framework of social order that dramatically increases the productive capacity of society.²

²We differ from the traditional literature on “states” by asserting that all human societies have states, governance mechanisms. Some states are, in the felicitous phrase, acephalous, that is, headless.

Natural states promote a degree of growth, as the comparison of the ancient empires with their hunter-gatherer predecessors attests. But in the long run, they stifle economic and political development. Critically, the most valuable privileges granted by natural state are the right to form organizations. The natural state is willing and able to act as a third party enforcer only to agreements reached within and among elite organizations. The limited access order contains a political system whose internal stability depends on limiting access to economic privileges: it is simultaneously a political and an economic system. Limits on the ability of organizations to form and function not only creates market power and economic rents, a wide range of market controls restricts the ability of markets to allocate resources, and lack of competition fundamentally cripples the ability of prices to signal the highest valued uses for land, labor, and capital.³ Most countries today are still governed by natural states.

The first open access social orders began developing in Europe 500 years ago. In the beginning, as in all natural states, the number of new groups that were allowed to form organizations and enter into new lines of economic activity was small. The transition from a limited to open access order involved a continual increase in access to both political, economic, religious, and other forms of social organization, and positive support of those organizations by the larger society. In the simplest terms, open access to political and economic organizations enabled political and economic competition to emerge as stable social outcomes. We are all familiar with the benefits of a competitive price making market, particularly the enormous productive forces that are unleashed when the price mechanism allocates goods, labor, capital,

³Cripple may not be the right word, since thriving price making markets do not yet exist under a natural state.

and resources between competitive uses and organizations. Thriving markets and polities are not sustainable without competition, competition is not sustainable without entry, entry is not sustainable without organizations, and organizations are not sustainable in a social order that limits organizations to the few elites favored by the government.

In a nutshell, that is our argument. The development of social orders that sustain open access to political and economic organizations and thereby sustain thriving markets and competition as a mechanism for insuring incentive compatible social institutions, explains why some countries today are rich and the remainder are not. The source of modern economic growth is the development of open access social orders.

What follows is broken into two parts. The first is an extended discussion of concepts and the vocabulary of organizations and social orders. This is followed by a discussion of natural states, open access orders, and the transition between the two.

II. *Concepts*

The central consideration in our approach is the way a society structures organizations. We describe three “social orders.” Social orders encompass political, economic, military, religious, educational, all other “systems” within a society. There appear to have been just three social orders in human history. Each order is characterized by the way human interaction is organized. The internal structure of social orders varies enormously across societies, that is the structure of their economic, political, and other systems varies. What is common across societies in a social order is the way organizations are structured and supported. We begin with definitions organizations and then consider social orders.

II.1 *Organizations*

Organizations form the core of our analysis for several reasons. First, the ability and productivity of an individual acting alone is extremely limited. Individual tasks of production and distribution are very often done more productively by organized groups of individuals. This is true even of the smallest societies. The structure of organizations has a direct effect on productivity. Second, some sort of social organization is required to facilitate trade, and therefore specialization and division of labor. Across societies, the ability of individuals to organize into coordinated and purposeful groups is a primary determinate of both productivity and the structure of society. Third, political activity is almost always carried out within the contexts of organizations and groups. Finally, all states are organizations.

There are two main types of organizations: adherent organizations and contractual organizations. The distinction between them is simple, but profound.

Adherent organizations are characterized by self enforcing, incentive compatible “agreements” between their members. Adherent organizations, by definition and construction, cannot rely on third parties to enforce agreements between members. At every point in the existence of the organization, it must be in the interests of all of the members to remain in the organization, or those individuals cease to cooperate.⁴

Contractual organizations, on the other hand, utilize third party enforcement of

⁴The awkward term “adherent” may not stick, but it was chosen because adherent groups rely only on internal agreements to structure their organizations. Internal agreements are the glue that enable the group to adhere.

“contracts” between their members.⁵ Incentive compatible agreements among members in contractual organizations are not absent. But contractual organizations are able to employ third party enforcement so that members can pre-commit to a subset of arrangements among themselves that may not, at every point of time in the future, be incentive compatible.⁶

The nature of sovereign states requires that states always be adherent organizations. The fundamental problem facing any would-be state is how to structure internal agreements between members that are incentive compatible and self-enforcing.

Violence, of course, can play a role in adherent organizations, since some incentive compatible arrangements involve the credible threat of violence by one or more members. A subset of adherent organizations, which we term voluntary organizations, do not involve coercion as part of their internal agreements.

The range of activities that can be undertaken by any organization depends on its internal structure. Voluntary organizations can undertake less than adherent organizations.⁷ Adherent organizations are more limited than contractual organizations. The range of contractual organizations far exceeds the range of activities that can be undertaken by adherent

⁵For ease of exposition we will generally refer to agreements as relationships between individuals that are incentive compatible and self-enforcing; and contracts as relationships between individuals that may require third party enforcement.

⁶There are a wealth of examples of both voluntary and contractual organizations in the industrial organization, game theory, and political economy literature.

⁷Of course, there may be situations in which the threat of violence precludes incentive compatible arrangements from being reached. Voluntary organizations cannot function under those circumstances. If a prohibition on violence is enforced by a third party, then the organization is a contractual one, even if all its members are “free to leave” and not bound by third party enforced internal contracts.

organizations. Modern, developed societies are literally full of contractual organizations.⁸ The wide range of contractual organizations supported by an open access social order is the key to its success as a political and economic system.

The problem, of course, is who will act as a third party?

A derivative form of organization also exists: a coercive organization. Coercive organizations use violence or the threat of violence in their relationships with individuals outside of the organization (or other organizations).⁹ Although not all third party enforcers are coercive organizations, through history most have been. Coercive organizations have an adherent organization at their core.

In every society with contractual organizations, there must exist somewhere in society an organization that provides third party enforcement (whether it uses coercion or not). That organization has to be formed from purely incentive compatible agreements between its members. That organization, of course, is what we call the state.

II.2 *Social Orders*

Integrating political and economic theory requires the semantic identification of a level of social organization more general than a political or economic system. A social order

⁸This includes the full gamut of non-profit organizations like the EHA or NBER who, while participation in the organization is purely voluntary, nonetheless utilize the third party services of the state to enforce agreements between their members.

⁹Asking what happens when two organizations reach incentive compatible agreements or third-party enforced contracts involves us in an infinite regress problem. Does the new agreement or contract create a new organization, are there still distinct old organizations, etc. We wish to avoid this problem for now. Coercive organizations, however, do use the threat or use of violence to deal with people outside of organization.

encompasses the political, economic, cultural, religious, military, and educational systems.¹⁰

Social orders are not specific manifestations of particular political, economic, or other institutions. For example, “democracy” is not a social order and capitalism is not a social order.

A social order determines the characteristic organizational pattern of its constituent systems.

Within the three social orders we identify, there are many possible constituent systems. As social scientists we are used to thinking about alternative forms of economic or political systems, and then comparing outcomes or determinants of the systems. We need, for a moment, to rise to a higher level of abstraction. We identify three social orders and their associated characteristics:

Primitive Orders: Primitive orders are characterized by small groups, the modal group is a band of 25 individuals. Intergroup ties are weak or non-existent. Repeated interaction in small groups produces personal exchange and political and social interactions based on reputation and social capital. Specialization is extremely limited, although there is typically specialization by gender. All organizations in the primitive order are adherent organizations. Anthropological evidence suggests that primitive orders are usually characterized by an aggressive kind of egalitarian social structure: everyone performs the same functions, everyone is more or less equal, and individuals who attempt to assert dominance may be successful but will likely face social discipline. These societies are also extremely violent. Intergroup violence is a regular feature of life in a primitive order.

Limited Access Orders: Limited access orders are characterized by larger social units, in geographic and demographic terms. The size of limited access orders varies widely.

¹⁰ So, for example, democracy is a political system, constitutional democracy a more specific political system, parliamentary representative democracy an even more specific political system.

Specialization is extensive, including a well defined difference between members of the dominant coalition and everyone else: between the governors and the governed. Socially powerful groups interact with each other to limit entry and use the rents created from limited entry to create credible commitments between the groups, thus limited access order.¹¹ We call these groups “elites,” and they can be political, military, religious, commercial, industrial, or educational elites. Elites are not an ex ante category of individuals distinguished, for example, by social status or heredity (although in some systems elites have those characteristics). Elites are identified simply by their participation in the dominant coalition.

Limited access orders have a characteristic form of political economy we call the *natural state*. Maintaining a multi-member coalition without third party enforcement requires incentive compatible arrangements between coalition members. Natural states limit economic entry to members of the coalition (elites); limits on entry create economic rents; and all members of the coalition therefore have an incentive to support the existing coalition or lose their rents. All states are made up of multiple actors. Our conceptual assertion is that those actors who comprise the natural state credibly commit to one another by manipulating the economy to create rents which they all lose if the coalition disintegrates. The assertion is inherently appealing because it is intrinsically refutable: it maintains that natural states adopt a specific way of holding the dominant coalition together. The assertion is also utilitarian for it immediately links economic institutions to political institutions. Limited political and social entry is the defining characteristic of a limited access order.

¹¹The use of limited access to create rents, and the use of those rents to create stable states is described in detail below.

The natural state limits access to organizational forms as well as markets and privileges. Natural states provide some third party enforcement, but only for the organizations created by elites.¹² There are a limited number of contractual organizations in a limited access order. The state is only willing to enforce the rights and privileges of a small part of the population. The lack of support for other groups and organizations means that the typical scale of organization in a limited access society is quite small, on the order of the organizations in a primitive order.

Open Access Orders: Open access orders are also characterized by a wide variety of demographic and geographic sizes. Entry into political, economic, and other organizations is “open access.” Within broad limits, any group can form an organization to engage in economic, political, educational, cultural, or other social activities.¹³ The state provides third party enforcement for organizations. Access to the administrative and judicial does not depend on personal relationships with the government (however the government is defined).

Competitive political and economic systems are the defining characteristic of open access orders. In politics, people have rights of participation and representation by virtue of being citizens, not by virtue of their relationship with those in power. In economics, widespread access to third party contact enforcement fosters impersonal exchange vastly increases the types of transactions that can be reliably enforced, particularly over time. This in turn greatly increases

¹²This is, of course, a stark way of making our central point about natural states. Some natural states may provide some third party enforcement to non-elites. The essential element of the natural state, however, is that not access to the most valuable state functions and private privileges is limited access.

¹³The one type of organization that is not typically allowed in an open access order is a military organization. The open access state, in Weber’s term, has a “monopoly of legitimate coercion.”

the society's degree of specialization and exchange. Competitive political and economic systems are the defining characteristic of open access orders. The classic shorthand notation for the political economy system that evolves in an open access order is *limited government*. The powers and abilities of the governed and the government are well defined, if incompletely, in ways that are understood, can be monitored, and can be policed if officials threaten to overstep their powers.¹⁴

Open access orders are capable of legally supporting a wide a variety of organizational forms. Most organizations, even ones that are ostensibly voluntary, rely on some aspects of third party enforcement and are this contractual organizations. This is obviously true for market-based organizations, but also for all organizations, including voluntary social organizations. Even voluntary organizations may own property, contract for the services of labor or capital, meet in ways or forms that are sanctioned by the state and require protection (e.g. some forms of religious worship). The essence of the natural state is that third-party enforcement is available to (almost) everyone, and universal access to third party enforcement in an open access order often leads us to take it for granted. The availability of basic third party enforcement enables individual organizations to develop highly articulated and sophisticated internal structures and external relationships with individuals and other organizations. The scale of private organizations in an open access order can be substantial.

The three social orders are ideal types. They are defined sharply to draw distinctions

¹⁴We are struggling with the open access order corollary to the term “natural state.” *Limited government* has problems, but then so do the other terms we have experimented with, like *defined government*.

among them.¹⁵ Clear distinctions, of course, are less easy to apply to real societies. The typology of three social orders sets out five intellectual tasks: models of the three social orders, a model of the transition from primitive orders to limited access orders and a model of the transition from limited access orders to open access orders. In our larger project, the transition from limited to open access social orders is clearly the most challenging and rewarding process to understand. But we need to first understand where that transition begins.

With concepts this large, it may be useful to be specific about what we are not saying. First, there is no chronology implied by the progression from primitive to limited access to open access orders. Three hundred years ago, when the first open access orders emerged, significant parts of the world still lived in primitive orders. The rise and fall of civilizations, large and small, suggests that progress is not linear and that regression can occur. So, for example, the world today is full of limited access orders, some on the verge of breakdown into violent anarchy (e.g. Rwanda, Bosnia, Cambodia, and the Sudan) and some on the verge of, or in the process of, transiting from natural states to open access orders (Taiwan and South Korea spring to mind).

Second, while the conceptual framework gives a clear break between the three orders, history does not. The transition between orders is complicated, not neat. Anthropologists have long tried to identify “great divide” where states first appear, and we believe marks the transition from primitive orders to limited access orders. Their difficulties are evidence of how messy the transition is. Bands, tribes, chiefdoms, kingdoms, and states are all arrayed along the transition path.

So too the transition from limited access orders to open access orders is not a clean break.

¹⁵ Actual human society contains elements of all three orders.

Indeed, it appears that the transitions of Germany and Japan involved both a significant amount of time and an extremely costly period of regression to the natural state, namely World War II. We cannot identify the day, year, or even decade when a clean transition is made, because the transition is a process, not an event.

Third, it does not appear historically that societies are laid out in a gradual continuum of social orders.¹⁶ There really are three, no more, no less. Primitive orders are demonstrably and discontinuously different from limited access orders. Limited access orders are demonstrably and discontinuously different from open access orders. We interpret the strong and persistent difference in social structures and economic outcomes in the developed and non-developed worlds as clear evidence of the discontinuity. Transiting from one order to another (in either direction) is not easy and it does not happen frequently in history.

Fourth, all kinds of specific political, economic, military, religious, educational, and other “systems” are possible within a given social order. For example, a natural state may exhibit a large number of possible coalition structures, and with them associated limits on economic entry, that sustain a viable dominant coalition. Dictatorships, strong men, juntas, aristocracies, monarchies (hereditary and not), single party regimes, and representative assemblies (of the elites not the masses) all seem to represent viable internal structures for a natural state in some historical circumstances. Historically, natural states are vulnerable to internal revolutions, particularly palace coups, that change the faces of the leading elements in the dominant coalition without changing the nature of the social order. Hence, our statement that

¹⁶We readily admit to the apparent contradiction of saying that the shift from a limited access order to an open access order is a process and not an event, with the assertion that the three orders are distinct. We are struggle with language and concepts here.

social orders are stable, but not static.

One basic conclusion of western political philosophy is that a system of government that mixes elements of different systems, what is often called balanced government, is the most effective way to provide good government.¹⁷ What distinguishes a limited access order from an open access order is not the structure of its political system per se. It is the character of access, entry, and competition in whatever political and economic system manifests itself.

Finally, while social orders are stable, they certainly are not static. In every society the balance between and organization of political, economic, religious, military, and education power is in continual flux. Individuals, groups, and organizations are always contending for power, resources, status, and other rewards. What does appear to be stable, across time in individual societies, is the pattern of interaction with respect to access to organization forms in the individual spheres of social activity.

III. Limited Access Orders, Open Access Orders, and the Transition: A Framework

The next two sections briefly lay out the main aspects of limited access orders and open access orders, and the third presents a rough theory of how societies historically have made the transition from one to the other. A brief mention is made of primitive orders and the first transition, but we focus on the last 500 years, not the last 50,000.

III.A Limited Access Orders and the Natural State:

¹⁷The classic terms of political philosophy identify three pure types: rule by the one, the few, or the many.

A primitive society is made up of many small social units, very little specialization and division of labor, and a high level of violence. The creation of larger social units enables a greater level of specialization and division of labor, but simultaneously creates the two problems: the emergence of specialists in violence and the need to coordinate social interaction within and among larger groups. Our theory proposes a specific mechanism by which both problems are solved – a combination of political and economic institutions we call the natural state. Historically, the natural state stretches from 10,000 years ago to the present day. We simply lay out the central elements of the natural state in this paper, and will address the historical evolution of the natural state in later work.

Imagine a society with large numbers of small social units, each with some internal specialization and division of labor, including specialists in violence.¹⁸ How can a larger agreement among various units be reached that will enable the creation of a stable larger political unit (however organized) as well as an increase in exchange? The problem is creating incentive compatible arrangements between powerful groups -- where power is military, economic, or religious – that bind the interest of the groups to the continued existence of the state.

Part of the problem to be solved is Hobbesian: failure to create self-enforcing agreements among various specialists (or potential specialists) not only leaves surplus foregone but often implies a great degree of disorder and violence.

Two features of the natural state solve these problems:

1) The natural state creates and maintains privileged rights to valuable resources, such as

¹⁸One can think of Greek City states around 1,000 BCE, feudal Europe in the 14th and 15th century, or Afghanistan in the 1990s as examples of regions with many, highly fragmented, social units.

land, or valuable social interactions, such as trade or worship. We define individuals or groups who possess these rights as elites. Elites are thus not an exogenous category but arise endogenously through the agreements that create the natural state.

2) The natural state limits recognized rights to a portion of the population and, as a result, creating rents associated with the rights. The rents to land, trade, and worship are more valuable the more stable and peaceful the society and the greater the degree of specialization and division of labor.

The rents serve two purposes. First, they bind the interests of elites to the current dominant coalition. Any threat to the existing coalition threatens the rents of all elites, because a breakdown in social order reduces everyone's rents.¹⁹ Second, the existence of rents creates incentives, at the margin, for policies that increase stability and trade.

In combination, this form of state creates social stability that prevents disorder by creating a set of self-enforcing agreements among elites that simultaneously create political and economic relationships within the state.

The social order that emerges under these conditions is a limited access order. Rights to valuable resources and activities are limited to a small portion of the population. The rents created by limited access serve as the glue that hold the state together.

All natural states, therefore, face an ongoing dilemma of how big to make the dominant coalition. Increasing the size of the coalition gives it more power, but dilutes the rents that hold

¹⁹This, of course, does not preclude factions within the elites from scheming to overthrow the current coalition, or continuous contention within the coalition over the distribution of rights and rents.

it together.²⁰ The state will balance these two effects, limiting the size of the coalition so that elites receive sufficient rents to remain in the coalition. Elites help support and maintain the state because failing to do so threatens their rent flows. Elites are also able to enforce their rights by threatening to withdraw from the coalition. Since the state needs to maintain sufficient support to survive, this threat of elite withdrawal forces the state to honor its part of the agreements to elites. On the other hand, if the coalition becomes too large, that also dilutes the ability of elites to threaten the natural state (and its support coalition) by withdrawal of support.

This equilibrium approach also implies comparative statics. As circumstances change (e.g., through technological change, demographic change, the rise of new economic opportunities), the relative power of the different elites change. As a result, the natural state must

²⁰ To model the natural state, we draw on the theory in Greif, Milgrom and Weingast (1994). We assume that increasing the size of the coalition increases the probability the state will survive, but at a declining rate: the marginal value of an additional individual's support declines as the size of the coalition rises. Expanding the coalition has three separate effects. First and most obvious, a larger coalition increases the probability of survival; second, it dissipates the rents across a wider group, lowering the average value of the coalition to its members; and third, the declining marginal value of support means that increasing the coalition lowers the costs to the state of defection. The natural state therefore faces a trade off: expanding the support coalition increases the probability that the coalition survives but also dissipates the rents and lowers the costs that coalition members can impose on it in the event that the state fails to honor its agreement. Too large a coalition implies that the rents are insufficient to bind particular groups to the coalition, and hence they will defect.

In repeated interaction, the principal mechanism by which members of the support coalition police the state is by withdrawing their support. To police its agreement, each individual or group that is part of the coalition must be able to impose sufficient costs on the coalition for defecting. This implies that if the state attempts to assemble too large a support coalition, it lowers the costs that each coalition member can impose on it, threatening their defection. Thus, leaders of the natural state address their fundamental tradeoff by assembling a coalition just large enough so that the cost to the state of the marginal supporter just equals the marginal value (increase in the probability of survival) to the state of retaining that member. This also means that the state's probability of survival is generally less than one: all natural states are, to a degree, insecure.

adjusts, if in fits and starts, conforming to the changing distribution of abilities and powers of its members as well as the nature of external threats.

Since the natural state is a coalition, there is always the possibility that an external competitor can be integrated into the coalition. The distinction between internal and external relations is usually blurred in a natural state.²¹

The distinction between the stability of a social order and the changing nature of political and economic systems should now be clearer. A limited access order is characterized by the creation of privileged access to valuable rights and activities, enforced by a dominant coalition. That pattern does not typically change over time (at least from the emergence of larger social units 5,000 to 10,000 years ago up to the emergence of open access orders 500 years ago). The specific elements of the dominant coalition, the particular rights and privileges created and enforced by the natural state, and the identity of the major players, however, are subject to constant adjustment. Social orders are stable, but not static. The kaleidoscope of recorded history is largely a record of the shifting patterns of coalitions and systems within the framework of the limited access order.

The limited access order possess real advantages over a primitive order. Nonetheless, the natural state imposes long-term limitations on society. We begin with the advantages.

The limited access order builds on personal relationships inherent in human nature.

²¹Over the last two hundred years, the rise of open access orders in the western world resulted in the rise of nation states with well defined boundaries (an issue discussed in the next section). The expansion of European power to the rest of the world in the 19th and 20th century produced a world defined by boundaries. Those boundaries persisted even after the end of colonial rule (see Tilly, *Coercion and Capital*.) Well defined national boundaries were not a feature of most states before 1700.

Natural states are hierarchies of personal relationships. Elites hold power by virtue of their personal position in the dominant coalition. Rights are never impersonal in a natural state, they are always subject to revision (no matter how they are stated legally). The corresponding limitation of economic exchange to personal relationships, however, is a major limitation on the productivity of a limited access economy,

That said, a limited access order provides the framework for the emergence of well defined property rights. The fundamental cohesion of the natural state arises because elites recognize each other's rights to the possession of valuable resources and activities. The mutual recognition of rights is credible because of the underlying gains from the natural state. This leads to a prediction:

The origin of property rights and legal systems is the definition of elite rights.

The second major benefit of the natural state is the incentives it creates for the promotion of trade within and among groups and the associated increase in specialization and division of labor. The right to trade will be a privilege defined by the dominant coalition, leading to another prediction:

All natural states will exercise control over trade between states.²²

The third major benefit of the natural state is the support it provides for organizations. Perhaps the most valuable right possessed by elites is the ability to form contractual organizations whose internal and external relations can be contractually enforced by a third party. The ability to create and support contractual organizations vastly increases the

²²There is a great deal of evidence that the primary activity of chieftans in nascent states identified in the political anthropology literature is control of trade. See Claessen and Skalnick, and many others.

productivity of individuals in a limited access order as compared to a primitive order. The right to create organizations, however, is limited to elites, it is not available to everyone, leading to another prediction:

All natural states limit access to organizational forms.

For example, the difficulty in starting a t-shirt factory in Peru, amply documented by De Soto, is a classic example of how the state refuses to support the creation of organized economic activity.²³ The “crony capitalism” common in today’s developing world represents another manifestation of the natural state’s inherent tendency to limit access to organizational forms only to members of the dominant elite.

We are now sliding into the negative aspects of the limited access order. Obviously, despite the limited access order’s ability to promote trade, it also possesses an inherent tendency to create market power. Indeed, the two are intimately linked.

Second, the natural state is fundamentally unable to credibly commit to protect the rights of non-elites. Independent of what the laws or constitution of a natural state say, non-elites cannot depend on the state to credibly protect their rights, because non-elites cannot credibly threaten the state. The reason is that the natural state’s survival does not depend on the support of non-elites, so they cannot punish the state for failing to respect their rights.

The natural state’s inability to credibly commit to non-elites has two results. First, non-elites make smaller investments in physical and human capital than they would if their rights could be credibly guaranteed. Second, non-elites employ what James Scott calls “the weapons

²³The De Soto cases have been extended in a series of studies carried out by the Coase Institute, as well as extensive studies done by the World Bank.

of the weak” in order to protect what property and assets they do have. The rational peasant (non-elite) behaves in systematic ways to make it more difficult for the lord (elite) to determine whether the peasant is working hard and using resources effectively. Foot dragging, malingering, dissimulation are the order of the day. As a result, not only are property rights poorly defined conceptually, transaction costs are deliberately raised.²⁴

Third, and most important, limited access prevents market prices from allocating resources between competing uses. Figure 1 gives the typical market power diagram, with constant marginal cost. The neo-classical analysis predicts that the monopolist will charge P_M , but that conclusion depends on profit maximization by the monopolist. In a natural state, valuable privileges are used to hold the political economy system together. Rather than capturing rents by charging a high price, the possessor of a privilege may exploit it by charging a low price and allocating the resource to political allies. The seller in this market may charge any price between P_M and P_B . For example, in many non-developed countries, public water is provided at prices below cost. In return for access to water, individuals must deliver politically valuable votes or support.

It seems counterintuitive, but a limited access order where all elites charged the monopoly price in all markets would be a much more efficient and productive society than one in which elites do not charge market clearing prices, but instead allocate goods and services at

²⁴The problem is even worse. A primary way to limit access indirectly is by raising transaction costs, so both elites and non-elites engage in behavior that deliberately raises transaction costs.

prices reflecting political advantage.²⁵ When elites charge less than market clearing prices to secure political ends, the result is that prices cannot be used to impersonally coordinate the behavior of individuals in a limited access order. The natural state literally cripples the price mechanism, since prices fail to convey information about marginal benefits and marginal costs.

Neo-classical economists believe that prices always work to allocate resources and have throughout all of human history. Perhaps, however, it is not surprising that modern economic analysis of the price mechanism did not develop until open access orders with competitive markets began to develop. Competitive uses for resources have existed since the dawn of human existence, but competitive markets with prices that convey information capable of coordinating human action are a relative recent development.

III.B *Open Access Orders and Limited Government:*

The next section considers how societies make the transition from limited access orders to open access orders. First we have to describe the characteristics of an open access order. As with the limited access order, the open access order is not simply an economic or political system, it is a social order composed of constituent systems that share fundamental characteristics.

Where a limited access order limits access to organizations that enjoy the right and ability to engage political and economic activities, an open access order opens access to a variety of

²⁵This corresponds closely to Shleifer and Vishny's ideas about different forms of corruption.

organizational forms that can engage in political and economic activities.²⁶ Because access is open, political and economic competition is the normal state of affairs. Economic theory provides us with an understanding of how market competition produces welfare enhancing outcomes, a fundamental understanding of how competitive markets work, and a deep appreciation for the price mechanism as an impersonal way of coordinating individual behavior. Political theory has not developed a comparable understanding. The result of political competition is the selection of a “winner.” A central problem in political theory has been understanding how constraints on the winners prevent them from expropriating the property, and lives, of the losers. Hence the concern with constitutions and “limited government.” Just as the natural state combines political and economic institutions to produce a social order with limited access, we believe that an open access order is composed of political and economic systems that maintain open access. But our open access political theory is less well developed.

We neglected discussion of two issues in the context of limited access orders: individuals and violence. Because the natural state is composed of personal relationships, and an individual’s “rights” are determined by his or her place within the dominant coalition. Impersonal rights of individuals – that is, right accorded individuals by virtue of being a citizen – do not, in a fundamental way, exist.²⁷ That is, a person does not possess rights by virtue of

²⁶No open access societies provide complete and open access to political and economic organizations for all of their citizens. Age, sex, race, religious, and criminal standards limit the definition of individuals possessing a full complement of rights. In open access orders, however, rights are possessed by a substantial portion of the population and, critically, competition is not restricted by limiting specific rights to specific individuals. As we discuss, the “impersonal” nature of rights is of central importance, rather than the universality of rights.

²⁷In our stark and simple model, individuals outside of the dominant coalition do not possess rights at all.

meeting some impersonal characteristics like residence, place of birth, age, sex, or some combination of similar requirements.²⁸

Individuals possess rights to act as individuals, and they possess rights to act collectively through organizations. The right for an individual to act alone as he or she pleases is not a major threat to society or a state (excepting the obvious individual threats of physical violence and criminal action against other individuals). But what rights do individuals have to act in a coordinated manner? And what contracts between individuals, that is what kind of coordinated activity, will states sanction and enforce? For example, how do individuals share ownership in land or capital? How do they structure a joint decision making process when multiple economic actors are involved? Who has discretionary control over time and effort in a labor contract? Many of the individual rights realized in open access societies today are, in fact, the right for individuals to act as coordinated groups under contractual arrangements enforced by the state.

An open access order is characterized by open access to organizations forms, specifically to contractual organizational forms, that are open to all individuals who meet impersonal requirements. By organizational form we mean a specific set of third-party enforced contracts that can be used to structure interaction between individuals. For example, a corporation or a partnership is an organizational form. In an open access order, organizational forms are available to everyone.²⁹

An open access order does not, however, support any or all organizational forms. The

²⁸Whether the amount of property a person owns is a personal or impersonal characteristic is a fascinating question in this regard.

²⁹In a modern open access society “access to organizational forms” is an individual right.

forms of contract and organization are typically limited to a relatively small number of transparent and well understood forms.³⁰ In the 19th century, Britain, France, the Dutch and the Americans began codifying accepted and supported forms of organizations. These included churches, library societies, towns, cities, counties, fire houses, banks, partnerships, and corporations.³¹

Weber defined the state as “the organization with a monopoly on the legitimate use of violence.”³² In all open access orders the state possesses a monopoly on the legitimate use of

³⁰The development of standardized legal forms for contracts and organizations is the theme of James Hurst’s *Law and the Conditions of Freedom*. The creation of a small number of contractual and organizational forms, however, allows for an infinitely varied number of actual organizations.

³¹Seavoy discusses corporations in New York. J.S. Davis provides a longer history of American corporations and their European antecedents. Wallis, “Market Augmenting Government” and “Constitutions, Corporations, and Corruption” shows how American states came to adopt “general incorporation” in the early 19th century. General incorporation acts are a formal legal recognition of open access. In this time, corporations encompassed a wide variety of organizations, and the term was not yet associated with business incorporations as it is today.

³²Max Weber, *The Theory of Social and Economic Organization*, p. 156. “3. Since the concept of the state has only in modern times reached its full development, it is best to define it in terms appropriate to the modern type of state, but at the same time, in terms which abstract from the values of the present day, since these are particularly subject to change. The primary formal characteristics of the modern state are as follows: It possesses an administrative and legal order subject to change by legislation, to which the organized corporate activity of the administrative staff, which is also regulated by legislation, is oriented. This system of order claims binding authority, not only over the members of the state, the citizens, most of whom have obtained membership by birth, but also to a very large extent, over all action taking place in the area of its jurisdiction. It is thus a compulsory association with a territorial basis. Furthermore, to-day, the use of force is regarded as legitimate only so far as it is either permitted by the state or prescribed by it. Thus the right of a father to discipline his children is recognized - a survival of the former independent authority of the head of a household, which in the right to use force has sometimes extended to a power of life and death over children and slaves. The claim of the modern state to monopolize the use of force is as essential to it as its character of compulsory jurisdiction and of continuous organization.”

violence. The monopoly may alternatively be expressed in the following way: the state does not support any private organizational forms that produce coercive organizations.

This does not mean that any society where the state possesses a monopoly of legitimate force is an open access order. Indeed, most natural states attempt to monopolize the use of violence by including the most powerfully violent members of society in the dominant coalition. But in many natural states there are numerous competing organizations that use violence. Think of England in the 15th century with the liveried retainers of the major lords, or Afghanistan in the 1990s.³³ A natural state that does possess a monopoly on violence is just one of many political systems possible in a limited access order.

In an open access order, however, legitimate organizations are prohibited from competing

³³ “The idea enshrined in this [Weber’s] definition corresponds fairly well with the moral intuitions of many, probably most, members of modern societies. Nevertheless, it is not entirely satisfactory. There are ‘states’ - or, at any rate, institutions which we would normally be inclined to call by that name - which do not monopolize legitimate violence within the territory which they more or less effectively control. A feudal state does not necessarily object to private wars between its fief-holders, provided they also fulfil their obligations to their overlord; or again, a state counting tribal populations among its subjects does not necessarily object to the institution of the feud, as long as those who indulge in it refrain from endangering neutrals on the public highway or in the market. The Iraqi state, under British tutelage after the First World War, tolerated tribal raids, provided the raiders dutifully reported at the nearest police station before and after the expedition, leaving an orderly bureaucratic record of slain and booty. In brief, there are states which lack either the will or the means to enforce their monopoly of legitimate violence, and which nonetheless remain, in many respects, recognizable ‘states’.

Weber’s underlying principle does, however, seem valid now, however strangely ethnocentric it may be as a general definition, with its tacit assumption of the well-centralized Western state. The state constitutes one highly distinctive and important elaboration of the social division of labour. Where there is no division of labour, one cannot even begin to speak of the state. But not any or every specialism makes a state: the state is the specialization and concentration of order maintenance. The ‘state’ is that institution or set of institutions specifically concerned with the enforcement of order (whatever else they may also be concerned with). The state exists where specialized order-enforcing agencies, such as police forces and courts, have separated out from the rest of social life. They are the state.”

Gellner’s *Nations and Nationalism*, p. 3&4.

with one another through the use of violence and coercion. The state exercises an effective monopoly on the use of legitimate violence.

This implies, as a result, individuals and organizations must compete for political and economic power in an open access order through means other than violence.³⁴ This requires, at the very least, three features of all open access orders:

1) The ability of the state to use legitimate violence must be clearly specified in a widely understood manner; further, the illegitimate use of violence by the state can be identified and policed by sanctions against members of the government.

2) Well specified, well understood, and non-violent mechanisms enable rival groups and organization to: (a) compete for control of the state be developed; (b) protect their rights against encroachments by both the state and other private groups; and that these mechanisms work. One implication of this competition (to paraphrase Przeworski) is that in an open access order the government actually loses elections.

3) The ability to form contractual organizations is open to a wide spectrum of individuals in society. In contrast to the natural state's personalistic relationships, the spectrum of individuals with the ability to form organizations is defined by impersonal characteristics. Further, impartial third party enforcement of contracts among and within individuals and organizations is available.

The three requirements reflect the symmetry of political and economic organizations and

³⁴Think for a moment on the American Civil War, and the miracle that after violence was used to prevent the South from seceding, that the use of violence by the Union was legitimated by ultimately allowing the Southern states to return to the Union on the same terms as they had left the Union.

institutions. For political competition to work, individuals must be able to form their own organizations and to access the state's third party enforcement mechanisms. The same holds for economic competition to work. Without this ability, there can be no sustained open political or economic access. What we believe is critical, however, is that all three requirements are simultaneously necessary for the social order to be self-sustaining. Competitive economic systems are necessary to support competitive political systems, and competitive political systems are necessary to support competitive economic systems.³⁵

The outcome of political processes differ from the outcomes of economic processes (at least neo-classical economic processes) by being non-marginal. Control of the political process carries with it the possibility of winner take all outcomes. All human interactions involving violence have the potential of winner take all outcomes, that is, ultimately of leaving someone dead.

As Weingast (2005) analyzes, a critical element in all successful political constitutions are mechanisms that limit the stakes of power. A system of "limited government" is described in terms of individual rights. But individual rights are only protected if the mechanisms of government articulated in the constitutional structure, the checks and balances and multiple veto points of a functional open access constitution, are backed by incentive compatible commitments on the part of relevant groups in society to act to protect those rights.

A political constitution that relies solely on the coordinated action of uncoordinated individuals to detect and punish violations of the constitutional rules by members of the

³⁵The necessary correlation between the structure of political and economic systems is something we call the "theory of the double balance." It is an idea that will be developed, but would take up more space than we have in this brief introduction.

government is doomed to fail. The creation of effective economic, political, and social organizations through the use of contractual third party forms enforced by the state, however, dramatically reduces the coordination problem. Citizens need to coordinate their coordination. Hence, the political constitution must be a focal solution to many of the most important citizen coordination dilemmas.³⁶ In a society filled with large, well organized groups of various types, any action by the government that adversely affects a large number individuals will be noticed and contested.³⁷

The existence of well organized economic interests strengthens the credible commitment of, for example, a democratically elected majority not to exploit the interests of the minority. Likewise, the existence of well organized political organizations operating in a competitive political environment strengthens the credible commitment of the state to allow open access to most forms of economic activity.

In this way, political competition strengthens economic competition, economic competition strengthens political competition, and the persistence of competition enables the price mechanism to function. Functioning markets bring with them a multitude of benefits. Resources are able to move to their highest valued use because of open access, and because prices reflect marginal costs and marginal benefits, resources can actually seek out and

³⁶Not every citizen needs to pay attention to what the government is doing all the time. The creation of focal points in constitutions, and both political and economic organizations, enable a society to effectively monitor the behavior of the state at relatively low cost.

³⁷This is not to say that large numbers of individuals in an open access society cannot be repressed or exploited, obviously they can. But it is very difficult to systematically repress or exploit individuals who have the right to form contractual organizations and use those organizations to contest for political or economic power.

determine their highest valued use.

Perhaps as important, impersonal exchange becomes a reality. Historians have long emphasized that a major aspect of long-term economic growth is the emergence of impersonal exchange (North 1981, Greif 2005). Truly competitive markets police a wide range of cheating and opportunistic behavior. Individuals who trust that they will not be cheated at the grocery store invest far fewer resources (i.e. transaction costs) to measuring, monitoring, and transacting in general. Transaction costs throughout the system fall, and markets in general are not only supported, they operate more efficiently.

How then is the transition to an open access order accomplished?

III C *Explaining the Transition from Limited access orders to Open access orders*

We have laid out three social orders. The orders can most simply be characterized by the type of organizations they support. In a primitive order, all organizations are adherent organizations. There are no contractual organizations. Social groups are small, and economic activity is unspecialized. The development of limited access orders and the rise of natural states enabled the creation and support of a limited number of contractual organizations. This expanded the scale of social organization, permitted a marked increase in specialization and division of labor as well as trade, and increased social order. The stability of a natural state, however, depends on limiting access to valuable resources and activities to elite organizations. Price making markets do not function effectively in a limited access order. Finally, open access orders are able to support a wide variety of contractual organizations. Open access creates political and economic competition.

How does a limited access order transition to an open access order? The transition is a process, not an event. Historically, at least three sets of societies appear to have come close to open access without completing the transition: Athenian Greece, Republican Rome, and the Italian city-states of the 14th and 15th century. In all societies, the internal configuration of political and economic systems encouraged more open access to organizational forms and credible state commitment to enforce rights than is typical in a natural state. In particular, externally expansion of the size of the society through conquest and/or trade provided new opportunities for rent creation, and internally quasi-representative governing structures and a broadly defined citizenship supported relatively open access. But these societies either failed to maintain military superiority over their rivals – Sparta in the case of Athens, and a combination of Spain, France, and the Hapsburgs in the Italian city states – or to prevent internal instability from limiting access, as the imperium did in Rome. The failed Roman transition, interestingly, has provided the historical example of “the best government” for centuries of western political thinking. The end of the republic and the rise of the imperium is the iconic example of the inevitability of tyranny if corruption is not resisted.

The first modern societies to make the transition to open access, beginning around 1500 or so, were Britain, France, Dutch Republic, and the United State. They share features with the earlier quasi-open access societies of Ancient Greece, Rome, and the Italian city states. Britain, France, and the Dutch Republic were all expanding colonial empires, taking advantage of weaknesses and openings in the Spanish and Portugese empires to gain footholds in the non-European world. The territory that became the United States was, at one point or another, part of the colonial system of Britain, France, or the Dutch Republic. All four countries, in various

combinations, fought with and against one another over a period of several centuries. By the middle of the 19th century, the outlines of open access orders were clear in all four nations. Of course, all four were nations by 1850; they also led the modern development of the nation-state.³⁸

Economic historians are used to comparing and contrasting the first movers, particularly Britain and France. This exercise yields negative conclusions about France (e.g., North and Thomas 1973).

Our perspective here suggests that comparing Britain with France is the wrong comparison because it fails to help understand the shared features that distinguish them from other regions and, eventually, nations. It is true that Britain led France in economic development. But it is further true that the difference between Britain and France is small in comparison to the growing difference between these two, along with the Dutch Republic and the United States, and the great many natural states throughout the rest of the world. Despite their differences, all four countries shared common features directly tied to the development of open access institutions.

At the risk of extreme simplification, we focus on one common element in the transition in each country: corporations. The concept of the corporation has a long history in western Europe, stretching back to Roman law. Originally, corporate entities were most often religious, social, or educational rather than commercial. The central feature of a corporation is its existence as an impersonal social entity. Corporations possess “personhood” without a corporeal body. In modern terms, a corporation is an artificial “person” whose existence is independent of

³⁸For an extended discussion of the rise of the nation-state see Tilly, *Coercion, Capital, and European States, 990-1992*.

the lives or identities of its constituent members or owners.

Significantly, the British and Dutch began their overseas adventures by creating corporations. The first British joint-stock company was the Russia company, formed in 1553, followed by the Africa company. These were followed by the Merchant Adventurers, the East India Company, the Virginia Company, the Massachusetts Company (name?). The Dutch charted their own East Indies company, the VOC, in 1597 (be sure about date of charter) to exploit opportunities in the Portugese-controlled Asian trade, the New Netherlands company in 1614 to exploit North America, and in 1621 created the West Indies Company.³⁹ In France, Colbert created the state-subsidized “French East and West Indies Companies in 1664, plus a *Compagnie du Nord* (established in 1669) to compete with the Dutch in the Baltic.”⁴⁰ There were other French companies before 1664, but the sources on French corporations are more difficult to access.⁴¹

These corporations were pure natural state creations. The corporate charters granted extensive and exclusive privileges to these companies in return for fiscal and (occasionally) military support for the government, as well as explicitly recognizing the sovereignty of the state in the expanded territory of the companies. The grant of a corporate charter was an explicit political manipulation of economic access, creating exclusive privileged rights to resources and activities. In competition with Spain and Portugal (and each other), the British, Dutch, and

³⁹Jan DeVries and Ad Van der Woude, *The First Modern Economy*, New York: Cambirdge University Press, 1997, pp. 382-408.

⁴⁰De Vries and Van der Woude, p. 410.

⁴¹The ongoing research of Naomi Lamoreuax and Jean-Laurent Rosenthal and their collaborators on the comparative history of corporations in Europe and the United States promises to shed a great deal more light on these developments.

French created colonial empires by licensing “merchants to organize colonial rule.”⁴²

We understand, in retrospect, the importance that corporate forms played in mobilizing resources and carrying out the colonial policies of the European powers, but perhaps we underestimate the accomplishment of creating corporate forms. The grant of a corporate organization form in 1553 was complicated. What did it take to create a perpetual lived, impersonal organization like a corporation? How could a natural state, headed by a mortal ruler, credibly commit to creating an organization with perpetual life? How could investors in that corporation be convinced that their rights and privileges would be honored by successive governments?⁴³ How could a state based on personal relationships create an organization possessing state enforced privileges when membership in the organization was impersonally determined by the purchase of shares?

As these questions suggest, a tension and symmetry existed between a mortal state creating an immortal organization. A perishable state cannot guarantee perpetual rights. To create perpetual rights required development of a perpetual state. That is, a state had to be developed whose definition as an organization extended beyond the lives and identities of the specific individuals who held office and power within the particular system of political economy. In short, in order for the state to charter a corporation with perpetual life, the state itself had to possess a charter identifying its salient characteristics and committing the state, impersonally, to

⁴²Charles Tilly, *Coercion, Capital, and European States, 990-1992*, Cambridge, MA: Blackwell, 1992, p. 92.

⁴³Perhaps it need not be mentioned that stockholders in the first corporations were almost always extremely powerful members of the dominant coalition.

honor commitments into the future. Put simply, this required that constitutional government had to develop.

The major steps in Britain's struggles to redefine its "state" beginning in the 16th century are unmistakable. The definition of the British state mirrored the creation of private corporations. Here is how Maitland describes it:

In Plowden's reports of these cases we may find much curious argumentation about the king's two 'bodies', and I do not know where to look in the whole series of our law books for so marvellous a display of metaphysical- or we might say metaphysiological-nonsense. Whether this sort of talk was really new about the year 1550, or whether it had gone unreported until Plowden arose, it were not easy to say; but the Year Books have not prepared us for it. Two sentences may be enough to illustrate what I mean:

So that he [the king] has a body natural adorned and invested with the estate and dignity royal, and he has not a body natural distinct and divided by itself from the office and dignity royal, but a body natural and a body politic together indivisible, and these two bodies are incorporated in one person and make one body and not divers, that is, the body corporate in the body natural et e contra the body natural in the body corporate. So that the body natural by the conjunction of the body politic to it (which body politic contains the office, government and majesty royal) is magnified and by the said consolidation hath in it the body politic.⁴⁴

Economic historians are familiar with the struggles to identify and define the structure of economic organizations in 16th and 17th century Europe. They have produced a huge literature associated with the "old" economic history on mercantilism and government involvement in industry.⁴⁵ Neither the old economic historians nor we new ones have appreciated the

⁴⁴Maitland's essay on "The Crown as a Corporation" Reprinted in Runciman and Ryan, ed. *State, Trust, and Corporation*, pp. 35-39.

⁴⁵Nef, Hecksher, etc. The following long quote from William Hyde Price, *The English Patents of Monopoly*, p. vii. Cambridge: Harvard University Press, 1913, gives something of the spirit of the old economic history:

connection between the creation of well defined private corporations, whose value to the elite groups who received charters was greater if the charter could be made perpetual and impersonal, and the corresponding creation of a state that could credibly honor the charter. We do not wish to place undue emphasis on the economic side of the symmetry, for in the long run it was the development of governments with charters and constitutions that proved capable of sustained open access social systems.

The four states that first moved to open access social orders were also the first four states to experiment with impersonal incorporation: Britain, the Dutch Republic, France, and United States. A generalization of the transition process is:

In order for the state to credibly commit to the formation of impersonal contractual

“ DURING the sixteenth and seventeenth centuries, England experienced a series of attempts to establish monopolies by royal letters-patent, both for external and internal undertakings. The external or commercial monopolies were conceded to groups of merchants who exported to foreign countries the staples and manufactures of England. These great commercial companies, notably the Merchant Adventurers and the East India Company, embodying conspicuously as they did so much of national ambition and energy, have naturally attracted the attention of investigators, while the internal monopolies, less prominent but no less interesting, have been hitherto comparatively neglected. The avowed motive of both the foreign and domestic monopolies was that of organizing trade and industry under a national regulation which should protect and stimulate these enterprises. The system of internal monopoly, however, included a greater variety of objects and a greater complication of motives than did the group of external monopolies. It included, for example, a control of the press and of postal communication, primarily for political purposes; it comprised also licenses for contraventions of penal statutes, inspired by fiscal motives as well as the necessity of relief from cramping regulation. More important, from an economic point of view, than either of these were the undertakings in which it was hoped that the establishment of monopoly, under royal sanction, might be the means of encouraging new or weak domestic industries. The value of a systematic investigation of the latter, and the justification of this monograph, lies not only in the light derived from one experiment with industrial privileges, but in the special significance of this phase of English economic history. With some allowance for overlapping, it maybe said that in England "monopoly" formed the connecting link between" mercantilism" and" protection."

organizations – that is, organizations whose existence and internal/external structure do not depend on the personal identity of its principals or its members – the elites must recognize and create an corresponding impersonal structure for the state.

When a society begins to define impersonal organizational forms, it begins moving into a transition. Whether the transition is sustained depends on whether impersonal guarantees to allow contractual organizations to form and exist are maintained; that is, on the sustainability of open access. The pressure for impersonal organizational forms comes from within the elites, and is symmetric with an impersonal immortal definition of the state itself. The generalization generates a prediction:

All societies that make successful transitions to open access orders explicitly create legal, social, and customary structures that guarantee/enforce an impersonal form of contractual organization.

The three European colonial powers and their new world creations vied for global military supremacy at the very time when the ability to mobilize capital through the mechanism of impersonal and perpetual organizations became integral to military success. Their success as states depended on their ability to mobilize vast amounts of labor, capital, and resources which all three European states did by creating impersonal organizational forms that supported contractual organizations.

Once independent, the United States entered into the same global competition. The United States utilized, refined, and in a sense perfected, open access organizations.⁴⁶ The first

⁴⁶The critical decade for this development was the 1840s and the widespread adoption of general incorporation institutions that guaranteed impersonal and open access to the corporate form. See Wallis “Constitutions, Corporations, and Corruption.”

mover advantages enjoyed by western Europe and the United States persist to this very day.

IV Conclusions

This paper addresses one of the largest problems in the social sciences: why have a handful of countries and peoples managed over the last five centuries to adopt political, economic, and other social institutions that enable sustained economic growth, vibrant and competitive polities that respect individual rights, thriving markets, and previously unwitnessed investments in human capital? Our answer rests on several severe abstractions, that are nonetheless plausible:

1) that all human individuals are more productive when they are able to work in coordination with others.

2) that the form of interaction that can be supported by purely voluntary and non-coercive interaction of individuals is quite limited.

3) that all humans are genetically endowed with the ability to successfully interact in groups of about 25 individuals, but beyond those limits of personal exchange and interaction it becomes difficult to engage in sustained, organized, yet interaction.

4) that the scale of human organizations can be significantly expanded through the use of third-party enforced agreements, what we have called contractual agreements, but that raises the difficult question of who will be the third party.

5) that an organization with the potential to enforce third-party contracts, must itself be constructed around self-enforcing agreements. Some adherent organization has to develop that

can provide third party enforcement, or society will be stuck in the primitive order.

6) that around 10,000 years ago humans began devising larger organizations capable of reaching self-enforcing internal agreements, what we call *natural states*. The glue holding natural states together was the internal recognition of the property rights of the members of the state, the elites. By recognizing rights and limiting access to those rights only to elites, the natural state created economic rents which could be used to create incentive compatible political relations between the members of the state.

Although a limited access order may manifest in different political and economic systems, at root economic and political institutions are two sides of the same coin.

7) The limited access order was capable of producing substantial economic growth through specialization and division of labor and increased trade. However, over the long run, the natural state proved incapable of economic development. Limited access to organizations created rents, but hobbled the majority of the population who did not possess elite privileges and were subject to market controls. Critically, lack of competition, and the use of economic assets to secure political stability, fundamentally crippled the price mechanism's ability to effectively allocate resources and coordinate individual decisions.

8) The most valuable right granted by the natural state was the right to form a contractual organization.

9) Open access orders are characterized by a wide range of socially supported organizational forms, open to all (or most) individuals. Open access political and economic institutions are mutually supporting and incentive compatible, and open access in both the polity and the economy are required sustain an open access order.

10) The transition to the first open access societies occurred in Britain, the Netherlands, France, and the United States.

11) In each of these societies, experimentation with corporate forms of organization eventually led to deliberate, legal, structured open access to organizational forms. The four first movers were also the first societies to adopt open incorporation.

12) Corporations were necessarily impersonal organizations. Their perpetual life and transferrable shares required the creation of an impersonal legal identity. Recognition of a perpetual and impersonal legal corporation identity required a symmetric perpetual and impersonal “state.”

13) What developed in all four first movers, were well understood charters of government, constitutions, that specified, defined, and limited government activity to well identified spheres. This involved acknowledging the government’s monopoly on legitimate violence and the associated denial of the legitimate use of violence to private individuals or organizations.

14) The source of modern political and economic development is the rise of open access social orders.

We place a great deal of emphasis on the difference between social orders and the constituent elements of those orders: their political, economic, religious, and educational systems. Social orders are stable, but not static. Political and economic systems changed regularly and continuously throughout history without producing modern political and economic development. Social orders have their own logic, and the central element in their logic concerns

organizations.

It is extremely difficult to make the transition from a limited access order to an open access order because it involves a fundamental transformation of the social fabric: the structure of organizations and human interaction. The same political institutions, like democracy, work differently in limited access orders and open access orders. Simply transferring the American constitution to a South American republic did not produce political or economic change, because transferring a “constitution” does not, in and of itself, change the nature of access and social order. The same economic institutions, like capitalism, work differently in limited access orders and open access orders as well.

The failure to appreciate the intimate dependence of both political and economic behavior on the nature of the organizations enabled and supported in a society has blinded us to the fundamental causes of economic and political development in the “developed” world over the last three centuries. Piecemeal policy recommendations for either economic or political changes have generally failed to produced results. This is not surprising. The natural state manipulates economic privilege to create political stability. In the process it also generates substantial rents for elites. Yet is a grievous error to suppose that the system only exists to promote the interests of elites and that in the absence of a particular regime, democracy, capitalism, rule of law, and individual liberty will emerge.

Until we understand what limited access orders and natural states are; until we understand what open access orders are and how they work; we have no hope of devising historical analysis or policy recommendations that will produce a transition to an open access social order.

