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DEFINING THE STATE

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Defining the State

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What follows is an outline of ideas rather than a complete paper.

The main ideas are set out in the first 12 pages in a narrative outline. Supporting material is provided in the sections that follow. The narrative outline is a bit sketchy and abstract. The supporting material has not yet been integrated into the narrative, most of it is taken from other things we have written. We hope that the main ideas come through, at least in the seminar.

Max Weber, from "Politics as a Vocation" (1948, pp. 77-78)

"But what is a 'political association' from the sociological point of view? What is a state? Sociologically the state cannot be defined in terms of its ends. There is scarcely any task that some political association has not taken in hand, and there is no task that one could say has always been exclusive and peculiar to those associations which are designated as political ones: today the state, or historically, those associations which have been the predecessors of the modern state. Ultimately, one can define the modern state sociologically only in terms of the specific *means* peculiar to it, as to every political association, namely, the use of physical force.

"'Every state is founded on force,' said Trotsky at Brest-Litovsk. That is indeed right. If no social institution existed which knew the use of violence, then the concept of 'state' would be eliminated, and a condition would emerge that could be designated as 'anarchy,' in the specific sense of this word. Of course, force is certainly not the normal or the only means of the state – nobody says that – but force is a means specific to the state. Today the relationship between the state and violence is an especially intimate one. In the past, the most varied institutions – beginning with the sib – have known the use of physical force as quite normal. Today, however, we have to say that a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. Note that 'territory' is one of the characteristics of the state. Specifically, at the present time, the right to use physical force is ascribed to other institutions or to individuals only to the extent that the state permits it. The state is considered the sole source of the 'right' to use violence. Hence, politics for us means striving to share power or striving to influence the distribution of power, either among states or among groups within a state."

I. Introduction

Rather than pretending to present a complete paper today, we want to talk with you about a new set of ideas we have about “defining the state.” Although many definitions of the state have been proposed, Weber’s most famously, none of them work really well for thinking about the dynamics of change in human societies. We were made painfully aware of this in our recent book with Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Human History* (hereafter NWW), where we admitted that we had no “theory of the state.” It became clear, as we continued to think through the implications of our argument about the way political, economic, and social institutions are shaped by the need for societies to control violence in some way, that beginning with an assumption that the state or state actors (or violence specialists) somehow possessed a comparative advantage in violence or an abundance of violence potential, was inadequate.

The violence that matters in any society is *organized* violence. The starting point for any theory of the state, therefore, has to be how the state organizes violence rather than how it uses violence. It seems extremely unlikely that violence can be organized only through the use of coercion (the threat of violence). Can one person coerce a group in a way that organizes the group?¹ No, everyone has to sleep. A group that uses coercion on others has to be organized internally on a basis other than raw coercion. That suggests that we cannot explain the structure of a state, and therefore its behavior, primarily in terms of violence and coercion.

Once you take seriously the problem of organization, you have to supply a logic capable

¹Why a single individual cannot persistently coerce a group, is nicely discussed in Christopher Boehm’s *Anarchy in the Forest*, which concerns the egalitarian nature of hunting and gathering societies.

of coordinating the actions of multiple individuals with violence potential. That is the central argument of NWW. The state is made up of many actors, who are held together (organized) by an interlocking set of interests and the interests are created by the ability of their collective action to better organize human relationships. The dominant coalition creates rents for its members by limiting access to valuable resources and activities. The key is that the coalition can act as the third party for the organizations that its members create. It seems to follow directly that the power of the state flows from its ability to organize other organizations. The first point we want to establish is that, following Weber's logic for defining a state by the means it uses rather than the ends it pursues, the means that what identifies the state is its ability to organize people, specifically to organize other organizations.²

1) The state is the organization that organizes other organizations

One of the problems with Weber's definition of the state as that group with a monopoly on the legitimate use of violence is that, in many societies, no group has a monopoly on violence (legitimate or otherwise). Weber was careful to specify that it is in modern societies where states have a monopoly on violence, not all societies. In order to think about states in pre-modern societies (if that is the term) we have to separate the concept of the state and the concept of the government. Since the state is the organization that organizes other organizations, the "government" can only be identical to the state if the government organization is the organization that organizes all other organizations.

In most developing societies (perhaps in all), many organizations operate without the

²These arguments about organizations and the state are described in greater detail in Section II of the supporting material.

sanction or support of the government. Indeed, this is precisely the definition of a “weak state” or what we will call “weak government.”³ Governments are just one type of organization that the state organizes. Governments are distinguished from other organizations by being “public” organizations, that is their membership and structure is a matter of public knowledge and awareness. Many organizations are not public in this way. Whether governments are legitimate or not is an interesting question. Nonetheless, the origins of government are not in legitimacy, but in the ability of the powerful actors that make up the state to sanction and support a formal government organization. The origins of governments, therefore, are to serve the interests of powerful groups who are capable of sustaining formal public organizations.

Most government are ‘weak’ governments. They are organizations sustained by the dominant coalition of society and created to perform specific functions. Government organizations, as a result, are often not integrated into one over arching organization. The reach of government does not extend into every area of society. Multiple and independent government organizations can coexist in a society. There are also independent ‘private’ organizations that do not depend on the government for support and, therefore, cannot be disbanded by the government (hence, weak governments). The second main point is:

2) Governments are organizations that states form

Formulating the distinction between governments and states in this way -- that

³“Political scientists have long emphasized the problems created in many less developed nations by “weak states,” which lack the power to tax and regulate the economy and to withstand the political and social challenges from non-state actors.” Acemoglu, “Politics and Economics in Weak and Strong States,” 2005, abstract. A weak state exists when private organizations are beyond the control of the government.

governments are public organizations that states form – acknowledges that the state in many societies is not a public organization. The state is a coalition of powerful individuals and organizations, and the identity of those individuals and organizations is often not readily apparent. This has the disturbing empirical implication that we may not be able to easily ‘see’ the state in many societies. It also explains why most societies appear to be corrupt in western eyes, when corruption is defined as the use of public office for private gain. In many societies, the public offices are established to help coordinate the ‘private’ interests of the organizations that make up the state: governments are just the *visible part* of the network of organizations that make up the state.⁴

If we think of the state as an interlocking set of organizations whose internal relationships enable them to support other organizations (our definition of the state), and that some of the organizations that states form are public government organizations, then it follows that many organized relationships in societies will be governed not by arrangements enforced by public government organizations but through ‘private ordering.’ Avner Greif’s work on institutions provides several clear examples of the private ordering of exchange relationships: the Mughabi traders and the community responsibility system are two prominent ones. Both Greif (2006) and North (1981 and 1990) emphasize the importance of “impersonal” exchange for the growth of the modern economy. Impersonal exchange is defined as an exchange between people who do not personally know one another and have no expectation of knowing one another in the future. In Greif the development of this kind of impersonal exchange is the key step on the “path to the

⁴Whether the concept of corruption is relevant in these societies is, therefore, a pressing question for policy makers, particularly in light of the good governance and anti-corruption emphasis of much of current development policy.

modern economy.” The emergence of impersonal relationships plays the central role in NWW explanation of open access social orders over the last two centuries.

But just as NWW failed to distinguish between governments and states, we also failed to think through completely what we meant by impersonality. The explicit notion of impersonality in NWW is “treating everyone the same.” Treating everyone the same is not the same kind of impersonality as defined by Greif and North as “dealing with people you do not know.” Indeed, the structure of the community responsibility system, for example, depends on the ability of individuals who do not know one another personally to identify which organizations the other belongs to. Traders from Genoa who go to Hamburg to trade, can only do so with confidence because traders in both cities can identify each other as members of their respective organizations. For convenience, we will call this kind of exchange or relationships “anonymous” relationships: anonymous relationships occur between individuals without personal of each other, but whose relationship is embedded in a larger social context.⁵ The third main point is:

3) We must distinguish impersonal and anonymous relationships and exchange

The distinction is of central importance to social scientists who wish to understand private and public ordering of relationships. States are interlocking sets of organizations that can support private ordering of relationships. Governments are public organizations. Private ordering of relationships is private to the extent that it does not involve governments as third

⁵ The concepts of anonymous and impersonal relationships are discussed in Section III and in Wallis, 2010. Wallis lays out the distinction between impersonal and anonymous relationships in greater detail and uses the distinction to generate a hypothesis about how and why rule based societies emerge.

party enforcers of agreements between individuals.

Economic relationships in 21st century developing countries and in most of human history are either based on personal, repeated interactions or anonymous relationships in which the identification of the parties to agreements can be located in larger social organizations. These are not societies characterized by “rule of law” or impersonal exchange relationships where everyone (or a large class of citizens) is treated the same.

How do societies develop the capacity to support impersonal relationships?

It appears obvious that impersonal relationships can only be sustained in a society with rule based interactions between individuals. All citizens must be able to access the same set of rules, and the rules must apply equally to everyone: rule of law. The rules, therefore, must be publicly known as well as supported and enforced by a public organization: a government.

The problem in societies with ‘weak governments’ is that private organizations exist that are capable of sustaining anonymous exchanges without the support of the government. In fact, the independence of private organizations is even stronger. The government is incapable of disciplining or disbanding the network of private organizations that make up the state, because the existence of the government is predicated on the existence of the state (the network of organizations), rather than the other way around. Powerful private organizations in these societies are self-sustaining, and their power as organizations rests on their ability to order anonymous relationships. NWW call these societies ‘limited access orders’ because the very fabric of social arrangements depends on the rents possessed by powerful organizations (and their members as individuals) that sustain an interlocking set of interests that control violence and order exchange relationships. This is why the ability to organize, not violence, is the most

important tool of the state!

As long as organizations exist beyond the reach of the government, there will be significant areas of economic and political interaction beyond the reach of impersonal competition. Impersonal relationships cannot be embedded in terms of the organizational identity of the participants, that is anonymous exchange.⁶ Impersonal relationships require that the same rules apply equally to everyone, regardless of their organizational identity. Because private organizations always have the potential for supporting private ordering of relationships by embedding relationships in organizational identities, how can a society transition to support impersonal relationships on a broad scale?

The answer has two elements (the logic of the argument is more complicated and is laid out in Section IV). First, the rents associated with specific organizations are what enable private ordering. The rents from specific organizations are reduced if everyone can form an organization. This is the logic of Schumpeterian creative destruction. Second, organizations must be prohibited from using violence to coerce their own members or the larger society. Both of these elements are central to what NWW call the transition from limited to open access societies.

The only way to sustain impersonal relationships on a large scale is if the ability to form an organization that the larger society will support is ‘open access.’ That requires that the public

⁶This raises the philosophical point of where anonymous relationships end and impersonal relationships begin. In the United States ‘citizens’ enjoy an impersonally defined bundle of rights. Those rights are embedded in the identity of the organization of the United States and are, therefore, anonymous. But there are so many citizens that the identity is effectively impersonal and, in the United States, almost everyone is treated the same even if they are not a citizen. This is the heart of the problem with the new identity law in Arizona.

organizations of government become the sole source of legitimate organizations in the society. Again, stating the two elements in another form: First, the government must provide a well understood menu of organizational forms (corporations, churches, schools, towns, political parties, volunteer associations, etc.) that the government will support and that is available to all citizens. Second, that the government must possess the ability to deny formal organizational recognition to any group who violate rules for acceptable conduct by organizations. The most important rule is that private organizations cannot use violence. The use of violence becomes a monopoly of public government organizations, the Weberian criteria.

‘Open access orders’ can only emerge when the ability to form an organization is open to all citizens. Because the state is the organization that organizes other organizations,

4) Open access requires that the government become the state

The government has to become the organization that organizes other organizations. Because the government can never prevent private organizations from forming (any group of people can form an organization without external support if the interests of all the members are to coordinate and cooperate, what NWW call *adherent organizations*), the government must possess the ability to withhold public support for all organizations that break the rules. This requires both that the government enforce organizational rules equally for everyone, and all organizations that operate outside the rules are criminal or illegitimate organizations.

The inability of weak governments to discipline private organizations is a not a consequence of bad governance. It is a consequence of a limited access social order in which private ordered organizations that make up the dominant coalition are, in fact, the source of support for the government.

In open access societies the government possesses a monopoly on the legitimate use of violence. Powerful private organizations are willing to concede the government that power because those organizations are capable of organizing at will to pursue political and economic purposes. It is the interaction of political and economic competition that limits what governments in open access societies can do, even though open access governments are much ‘stronger’ than governments in limited access societies.

Thus we come to an explanation for one of the fundamental paradoxes of our modern world. Societies with strong governments that possess a monopoly on the use of violence and whose governments are more powerful organizations than the world has ever seen are, nonetheless, characterized as societies with ‘limited government.’ Societies with weak governments that cannot discipline significant parts of their societies, nonetheless regularly terrorize their populations through the use of torture, coercion, and even genocide. “Weak governments’ exercise unlimited powers, ‘strong governments’ do not. We cannot possibly understand this outcome unless we

- 1) define the state as the organization that organizes other organizations**
- 2) recognize that the government is an organization that the state organizes**
- 3) understand the difference between anonymous and impersonal relationships**
- 4) realize that open access societies capable of supporting impersonal relationships only emerge when the government becomes the state.**

The tendency to associate the means of the state with violence rather than with the state’s ability to organize, and the tendency to conflate the government and the state, have hampered our ability to understand the process of social dynamics and institutional change in the modern

world.

Supporting Sections:

Section II.A: An economic theory of organizations

In “The Nature of the Firm,” Coase asked why certain transactions were carried out within economic organizations (firms) rather than in markets. An element of the nature of the firm less emphasized by Coase than others who followed, is an insight about the relative importance of relationships and contracts. The firm is not simply a bundle of contracts, a firm entails relationships that persist for some period of time whose elements are not completely specified by contracts. Incomplete contracts, ala Grossman and Hart and others, entail ongoing relationships where some part of the relationship is sustained by reputation or repeated interaction rather than explicit contractual arrangements. The various folk theorems of game theory demonstrate how individuals can find it in their interest to cooperate and interact repeatedly with one or more individuals over time. Essentially, each of the partners to the relationship (because the folk theorem is not about contracts, all the relationships are inherently self-enforcing because of the interests of the partners) earns a rent from the existence of the relationship. The net present value of future interactions within the relationship including potential punishments are, under the right conditions, sufficient to ensure that all parties cooperate.

Folk theorems explicitly require rents, particularly the existence of rents at the margin, to ensure cooperation. The greater the rents, the greater the probability of sustained cooperation. In more sophisticated versions of the folk theorem, partners are able to threaten credible punishment for deviators by refusing to cooperate with the deviators for some period in the future. The threat that deters defection is directly related to the size of the rents that will be lost

when cooperation is withheld. Rents that derive from relationships are created because two or more people are able to credibly believe that it is in the interests of all partners to cooperate on the specific dimensions of their relationship over time. Williamson's extension of Coase's, depends primarily on the creation of forms of relationships between partners that enable them to believe that the other partner will not defect from the relationship, e.g. non-salvageable assets and relationship specific investments.

Institutions are repeated patterns of interactions between individuals, often within and between organizations. Institutions consist of the pattern, people's beliefs about the pattern and its implications, and means of enforcement (implications) when individuals deviate from the pattern. Norms and rules are examples of patterns; beliefs may be grounded in all kinds of experiences, ideologies, and education; and means of enforcement vary from social pressure to imprisonment or execution.⁷ Bonding or the giving of hostages are a simple institutions that structure relationships in a way that can extend the range of cooperation between people or within an organization. Hostages, for example, create greater rents from maintaining the relationship by threatening a large loss if the relationship is terminated. The larger rents lead to more predictable behavior and greater cooperation.⁸

⁷Institutions can be thought of as the complete description of a game, in which the payoffs, the strategies of all the players, as well as the beliefs of the players about each other's actions, make up a complete description. The 'game' then is a self-contained social equilibrium, a set of self-enforcing arrangements. This is the sense of an institution in Greif (2006).

⁸ Hostages and bonding mechanisms increase the rents from cooperation by threatening higher costs to parties who fail to cooperate. Here the relative choice concerns the comparison between continuing the relationship (cooperating) and ending the relationship (defecting or deviating).

Rather than thinking of an organization as a bundle of contracts, the folk theorem suggests that we think of an organization as a bundle of relationships. Partners in the organization look down the game tree and cooperate as long as they perceive that continued cooperation will generate rents and is credible. Intra-organizational arrangements, like bonding and hostage holding, emerge as ways for partners to bridge times when their individual interests in cooperating may diverge. Hostages, for example, are not the source of the rents that an organization produces, the rents come from the relationships. The hostages are only there in order to create a shadow (a threat) under which the relationships are more predictable because the threat raises the rents from continued cooperation. If the hostage option has to be exercised, the relationships are already in trouble. Hostages are just one example of possible punishment strategies in which parties agree to incur substantial costs if one, or more, parties deviates.

Many arrangements between partners involve the transfer or commitment of valuable assets – human capital, tangible physical property, control over functions and intangible property – to one partner or another, even if the partner who controls the asset may not be the most ‘efficient’ owner of the asset. If I send my child to live in your household as a hostage, you are unlikely to be the child’s best parent, but presumably the costs of misallocating the hostage resource is offset by the gains from our relationship.⁹ The *ex ante* commitment of valuable economic assets to ensure cooperation incurs a cost. Where it is possible, partners may wish to replace *ex ante* transfer of assets to *ex post* promises of punishments and rewards. Many possible *ex post* promises are difficult to enforce, because the interests of the parties diverge

⁹ Examples of transferring the use, control over, or ownership of things, like natural resources, will be an important part of simple organizations that appear early in LAOs.

when a deviation from their agreement occurs. One possible solution arises if the two parties can agree to or access the involvement of a credible third party.

Credible third parties dramatically expand the kind of relationships that individuals can sustain and thus the organizations that can be constructed. Third parties directly reduce the cost of pledging assets to secure credibility and avoiding punishment strategies that involve real resource costs. Third parties, once established, are also able to sustain much more complicated kinds of arrangements. Of course, the incentives facing the third party have to be incorporated into the expectations understood by the organization's partners and those incentives must provide rents to the third-party sufficient to ensure that the third-party acts appropriately.

The *means* by which organizations are created and supported is through the provision of credible third-party services. This is the critical function of the state, the organization of other organizations. If we presume that an individual or organization already exists that can act as a third-party because of its control over the means of violence, and then attempt to figure a way to credibly constrain the third-party to honor its promises, we miss the entire dynamics of the process by which credible third-parties are created. We miss a fundamental piece of how and why states exist and are internally structured. We return to these questions about the way in which societies create credible third-parties in the next section.

But before that, in order to keep track of the use of third-parties we will denote two types of organizations. An *adherent organization* is one where all of the members have an interest in cooperating with each other (on the relevant dimensions of the organized activity) at all points in time. In an adherent organization interests are structured in such a way that all individuals have an interest in belonging to the organization, even if their interest result from being coerced. In

contrast, a *contractual organization* is one where relationships between the group members are not inherently self sustaining, and the group maintains itself only through the presence (or potential presence) of an external third party. The third party may enforce relationships within the organization or between the organization and other external parties.¹⁰

All states must be adherent organizations.

Organizations should be thought of as bundles of relationships, where the various parties engaged in the organization are induced to cooperate through the existence of rents created by their ongoing relationships. In order for an organization to be self-sustaining (self-enforcing?), all the members must receive rents from cooperation. Folk theorem logic is enough to explain the existence of organizations. But organizations that depend only on the coordinated interests of their members without recourse to external enforcement of arrangements are likely to remain small in size and limited in complexity. Ensuring cooperation is expensive, particularly when cooperation is attained through the continual *ex ante* transfer of real economic assets or costly threats to destroy economic assets. The really difficult question, therefore, is where do credible third parties come from? The answer to that problem is the nub to our thinking about the nature and definition of the state.

Section II.B: Rents, Organizations, and the logic of the ‘natural state’:

¹⁰The distinction between adherent and contractual organizations is somewhat arbitrary, but very useful. At a high enough level of social organization all organizations are adherent, and so one could say that all of the organizations within the society are adherent. But such an approach hampers our ability to understand how specific organizations work and how organizations interact.

The previous section laid out how organizations could become more productive and larger in the presence of a third-party. One of the central questions in institutional economics and political science has been how to establish credible third-parties.¹¹ While the answer that NWW give to the question ask how a society can control violence is directed towards the creation of larger social organizations, it also is implicitly a solution to the problem of effective and credible third-parties. The creation of a ‘dominant coalition’ is based on an interlocking set of rents, created by organizations, in which powerful individuals can credibly serve as third-parties for one another. Understanding the logic of the natural state is critical to understanding how rents created by organizations can be used both to increase the (potential) productivity of organizations and simultaneously provide incentives that stabilize the coalition of powerful individuals and groups. The logic of the natural state lies at the heart of the dynamic relationship between stability and productivity that this paper seeks to understand.

NWW begin their analysis with a world in which individuals base trust on personal interaction, and ask how, in a world where violence is a viable option, some individuals can deal with dangerous and potentially violent individuals with some degree of confidence. They start with specialists in violence, each of whom is associated with a group of clients. The specialists mistrust one another and will not lay down their arms and coexist because they believe such behavior will lead the other specialist to destroy or enslave them. Armed conflict is the equilibrium outcome. The NWW solution, in simple terms, is for the violence specialists agree to divide the land, labor, and capital in their world between themselves and agree to enforce each

¹¹In recent years North 1981 and 1991, Olson 1995, Barzel 2000, and Bates 2001 and 2008, have all asked how an organization powerful enough to protect property rights can credibly promise not to expropriate property rights — the Weingast paradox.

other's privileged access to their resources. The rents they receive from privileged access depend on their continued cooperation. If the value of the rents they earn from their privileges are enough larger under conditions of peace rather than violence, each specialist can credibly believe that the other will not fight. The specialists remain armed and dangerous and can credibly threaten the labor around them to ensure each other's rights.

The arrangement is represented graphically in Figure 1, where X and Y are the two violence specialists, the horizontal ellipse represents the arrangement between the specialists that create their organization/institution. The vertical ellipses represent the arrangements the specialists have with the labor, land, capital, and resources they control: their 'clients,' the x's and y's. The horizontal arrangement between the specialists is made credible by the vertical arrangements. The rents the specialists receive from controlling their client organizations enable them to credibly commit to one another, since those rents are reduced if cooperation fails and the specialists fight. There is a reciprocal effect. The existence of the agreement between the specialists enables each of them to better structure their client organizations, because they can call on each other for external support. The specialist's organization is what NWW call the 'dominant coalition.' The dominant coalition is a state: it is an organization that organizes other organizations.

In Figure 1, the horizontal relationship between the violence specialists create an adherent organization. The vertical relationships between the violence specialists and their clients are contractual organizations because they rely on the external presence of the other violence specialists. The vertical client organizations might be organized as kin groups, ethnic groups, or patron-client networks. The combination of multiple organizations, the 'organization

of organizations,' mitigates the problem of violence between the really dangerous people, the violence specialists, creates credible commitments between the specialists by structuring their interests, and creates a modicum of belief that the specialists and their clients share a common interests because the specialists have a claim on the output of their clients.

The nature of the rents that hold the coalition and the organizations together must exhibit certain properties. First, for X and Y to believe that they will continue to cooperate, some of the rents that X and Y enjoy must depend directly on their cooperation. Likewise, their credible belief that the other will not fight depends on the existence of rents from peace for X and Y. That is, the rents that X and Y derive from their organizations must be sufficiently lower in the presence of violence to sustain beliefs that X and Y will not fight.¹² The agreement between X and Y enables Y to serve as a credible third party for X's organization, and X to serve as a credible third party for Y's organization. By enabling X and Y to form larger and (potentially) more productive organizations rents are created that depend on the cooperation of X and Y. The relationship between X and Y is made credible by the existence of rents that depend on their continued cooperation, and it does not matter whether those rents raise or lower social output, it only matters that the cooperation create rents for X and Y. There is no inherent dynamic that would lead X or Y to structure organizations that raise productivity, but equally there is no inherent dynamic that leads X or Y to structure organizations that reduce productivity.

The dependence of the whole set of limited access social arrangements on rents reflects a fundamental property of rents: rents make people's behavior more predictable. Predictability is

¹²As with all of these statements, terms like 'must' and 'sufficiently' should not be interpreted to mean that these conditions will always hold, but that if they do not hold the social arrangements will fall apart.

good in the sense that people can be more secure and larger social organizations and networks can be sustained, generating greater social output through the process of specialization and division of labor. X can believe that Y will cooperate and not fight, because the rents that Y receives from peace and cooperation are large enough that small changes in circumstances will not drive them to zero. At the same time, a social order based on the existence of rents at the margin, which limited access clearly create, suffers from two handicaps. Behavior is predictable precisely because people who enjoy rents do not respond to small changes. The system as a whole, therefore, is less flexible and adaptable. Small positive or negative shocks do not lead to the kind of constant adjustments typical of an open access society where behavior at the margin adjusts to even the smallest changes. But perhaps even more important, to the extent that any negative shock reduces rents, it makes people's behavior less predictable. A limited access society is both less responsive to shocks, and negative shocks by the very nature of the social order make people's behavior less predictable.¹³

The figure is a very simple representation. In a functioning society, members of the dominant coalition include economic, political, religious, and educational specialists (elites) whose privileged positions create rents that ensure their cooperation with the dominant coalition and create the organizations through which the goods and services produced by the population can be mobilized and redistributed.¹⁴ Limited access orders are hierarchical, with interlocking

¹³In an open access order, people's behavior is less predictable because of the constant marginal adjustments that take place. Over all, however, the greater ability to adjust appears (and here the word 'appears' is the right one) to make them more stable over time.

¹⁴North, Wallis, and Weingast, 2009, chapter 2. Earle, 1997 and 2003, and Johnson and Earle 2000, provide a series of anthropological examples of how chiefs come to power and the scale of society increases by the systematic manipulation of economic interests.

groups of elites whose interests are tied by networks of economic privilege. Their political systems tend to be clientelistic, with patron-client networks playing a prominent role in many. Limited access order societies live in the shadow of violence: either the threat of imminent violence that requires on-going changes in institutions to balance the interests of potentially violent groups, or that key institutions were established in the wake of past violence in order to establish incentives for controlling it in the future.

Section III: Impersonality

Impersonal relationships occur when two individuals interact in a way that does not depend on their personal identity. Impersonal relationships only occur in societies that are capable of creating and sustaining an impersonal identity of “citizen” or “resident” that applies equally to a large number of people.¹⁵ The essence of impersonality is treating everyone the same. Impersonality pervades open access societies, in law, markets, education, religion, politics, and the delivery of public services.

While there is nothing controversial in this definition of impersonal relationships, it is not always the one most often used in the social science of institutions. The problem of impersonal relationships or impersonal exchange is often motivated by considering how two individuals who do not know each other personally and have no expectation of a continuing relationship in the future can come to agree on a social relationship. Defining an impersonal relationship as dealings between individuals who do not know each other personally, however, differs

¹⁵Impersonal rules do not have to apply to everyone universally. Whether a rule is impersonal or not always depends, in part, on the identity of the people it applies to.

considerably from the impersonality of Lady Justice, which defines impersonality as treating everyone the same. We need to separate two types of relationships. For purposes of clarity, *anonymous* relationships or *anonymous* exchange refers to situations where people who are not personally known to each other interact on some dimension, although the parties know the social identity of the other in the relationship. Social identity, the group, organization, tribe, city, etc. that an individual is identified with, is a key element of anonymous relationships. In contrast, *Impersonal* relationships refer to situations where people are treated according to the same rules, whether they are personally known to each other or not.¹⁶ Social identity is not a part of impersonal relationships since, in the limit, all people are treated identically.

North and Greif both place impersonality at the heart of modern institutional development, but the point holds for a much wider literature.¹⁷ North has long stressed the importance of impersonal exchange for economic development and he clearly had impersonality in mind when he used the sports analogy to define institutions as the rules of the game and the methods of enforcement and organizations as the teams: rules in an athletic event should apply equally to all participants (North, 1990). North wrestled with defining impersonal exchange and placing it within a transaction cost framework.¹⁸ His solutions illuminate the problem at hand, as he identified three kinds of exchange and two kinds of impersonal exchange:

¹⁶I am grateful to Nick Crafts for suggesting the terms anonymous exchange.

¹⁷See Fukuyama (1995), Cook, Hardin, and Levi (1995), and Lupia and McCubbins (1998) for a discussion of trust between individuals. For the credible commitment literature see Weingast, Weingast and North, etc.

¹⁸Specific discussions of North's approach to personal and impersonal exchange can be found in North, 1981, pp. 182 and 204; 1990, pp. 22, 34-35, and 55-60; North, 2005, pp. 70-71, 84, and 119.

“Personal exchange involving small-scale production. Repeat dealing, cultural homogeneity (that is a common set of values), and a lack of third-party enforcement (indeed little need for it) ...”

“Therefore a second general pattern of exchange has evolved, that is impersonal exchange, in which the parties are constrained by kinship ties, bonding, exchanging hostages, or merchant codes of conduct. Frequently the exchange is set within the context of elaborate rituals and religious precepts to constrain the participants.”

“The third form of exchange is impersonal exchange with third-party enforcement. It has been the critical underpinning of successful modern economies involved in the complex contracting necessary for modern economic growth. Third-party enforcement is never ideal, never perfect, and the parties to exchange still devote enormous resources to attempting to clientize exchange relationships. But neither self-enforcement by parties nor trust can be completely successful.” (North, 1990, pp. 34-35)

North begins with the idea that humans are enabled by their genetic endowment to use face to face interaction and repeated dealings to develop credible relationships.¹⁹ The rise of impersonal exchange, therefore, involved dealing with people who one “didn’t know” personally and, therefore, impersonal was implicitly defined as “not personal” or “not known.”

And yet, very little of the North’s first type of impersonal exchange under kinship ties, bonding, exchanging hostages, or merchant codes of conduct could be reasonably classified as impersonal under the “treat everyone the same” definition. In those relationships, people can deal with people they do not know personally, but only because these anonymous relationships are embedded in social organizations that prescribe roles and behavior and constrain the participants. This is anonymous exchange. Anonymous exchange explicitly does not invoke

¹⁹The genetic endowment argument is clearly laid out in his 2005 book. The ability of people to deal with one another in small groups forms the basis for the “foraging” order in NWW. The evolutionary heritage plays a central role in evolutionary psychology and the general notion that modern humans are evolved to deal with small groups and are, therefore, maladapted for the complex societies that have developed over the last 10,000 years; Cosmides and Tooby 1992, Pinker, 1997.

treating people the same, as the parties to the exchange are constrained by kinship ties, etc. These social institutions are embodied in organizations that create unique (and therefore personal) roles and identities for individual actors. Individuals are able to deal confidently with some people they do not know, because their anonymous relation with the unknown individual is embedded in a social organization that effectively constrains both their behaviors. This is not quite the antithesis of treating everyone the same, but it is nowhere near the notion of impersonality as defined here.

Greif describes impersonal exchange:

What were the institutions, if any, that supported interjurisdictional exchange characterized by separation between the *quid* and the *quo* over space and time? Specifically, were there institutions that enabled such exchange that was also impersonal, in the sense that transacting did not depend on expectations of future gains from interactions among the current exchange partners, or on knowledge of past conduct, or on the ability to report misconduct to future trading partners?

The theoretical and historical analysis presented here substantiates that in premodern Europe impersonal exchange characterized by separation between the *quid* and the *quo* across jurisdictional boundaries was facilitated by a self-enforcing institution: the community responsibility system. (Greif, 2006, p. 309)

Greif motivates impersonality as a relationship between two individuals who did not know each other, but could nonetheless reach agreements that spread across space and time. Again, what Greif describes is anonymous exchange: exchange embedded in larger social organizations that enable individuals to credibly deal with one another because expectations about the other's behavior are grounded in the social constraints on the other person.

The point of this discussion is *not* to suggest that North or Greif misunderstood the nature of impersonality, both appreciate the importance of treating everyone the same. Because both North and Greif were developing general theories of institutions, their theories must span

anonymous and impersonal relationships. They compounded the two types of relationships when it may have been more productive to separate them.

Constraining the behavior of individuals involves both positive and negative incentives, and may also involve coercion. NWW frame the basis of social cooperation in terms of dealing with the problem of violence: the solution to inducing cooperation between individuals is to embed them in organizations and relationships where their interests are shaped in such a way that both parties can see the other party's incentives to cooperate. With respect to violence, this is accomplished by devising individual privileges that create rents that are threatened by the possibility of violence (the logic of these arrangements are considered in the next sections.) The prevalence of these types of arrangements in all large societies that appeared over the last 10,000 years, led NWW to call this the "natural state." Natural states create individual privileges and rents through social organizations, and use those rents to bind powerful individuals into a sustainable coalition. Natural states create organizations that make anonymous relationships sustainable in larger societies.

Unlike natural states, impersonality underpins all open access societies. Treating everyone the same involves enforceable impersonal rules with two characteristics. First, the same rules must apply in the same manner to all people (or all citizens). Second, the rules must be enforced impersonally, impartially, and without bias. Even societies that have unbiased third-party enforcement of the rules will not be able to sustain impersonal exchange if different rules apply to different people.²⁰ The dynamics of institutional change involve competing

²⁰ NWW consider the difference between biased enforcement and unique identity on pp. 154-158.

organizations and their attempts to shape institutions, both formal and informal, to their own ends. If we think of the “state” as the organization that organizes other organizations, and the organizations it organizes include government organizations, then the political economy puzzle is to understand how states evolved that could enforce rules in an unbiased manner as the impartial third-party, particularly with respect to the rules about forming and structuring organizations. These are important puzzles to set ourselves and, ultimately, to solve, but we need to start with the right questions, we need to separate anonymous and impersonal relationships.

Section IV: Institutional Dynamics

IV.A Rents, Rules, Organizations, and Individual Interest

The limited access society depicted in Figure 1 is capable of anonymous exchange on a large scale, but not impersonal exchange. A limited access society is capable of formulating rules that can be sustained by the interaction of interests in the dominant coalition and contractual organizations, capable even of forming sophisticated organizations, but it is also a society that rests on the creation of rents and, ultimately, relationships between powerful organizations and individuals. Institutional change occurs along two primary dimensions. One is changes in the rules and norms that structure the dominant coalition and client organizations; the other is periodic reallocations of rents within the coalition. Reallocations of rents can be occasions for violence, even civil war, and the shadow of that violence effects the dynamics of institutional change throughout society. NWW address how such forces might produce a situation where impersonal rules emerge, this section focuses on how it can be in the interest of

the dominant coalition to support those rules and why individuals find it in their interest to support impersonal rules rather than their organizations.

All societies are subject to constantly changing conditions: relative prices, climate, neighbors, the character of leaders, and the like. Ordering social relationships through rent creation enables people to believe that their relationships will persist through small changes, because the existence of rents on both sides of the relationship means that neither partner is at a margin where a small change in circumstances could lead to defection. To the extent that an institutional change can increase productivity that can be used to strengthen existing organizations it will be pursued. Yet, even if institutional change increases productivity, if the change lowers rents and increases the likelihood of defection the change is more likely to be resisted. The dynamics of social relationships in a limited access society are such that any institutional change that alters rents sufficiently to destabilize the dominant coalition, even if the change is implemented, will be self-defeating. Destabilizing the coalition increases the risks civil war. If violence breaks out, relationships between individuals quickly polarize into us and them, those who are for us and those who are against us. The importance of group identity and group affiliation assumes an overriding importance. In a very real sense, when violence breaks out within the dominant coalition all the rules immediately become subject to change. It is in the interests of individuals to be associated with powerful groups and it is in the interest of individuals to act in support of their organization, rather than in support of impersonal rules.

The key to stability in a limited access order is that only members of the dominant coalition have access to the organizational tools offered by the coalition. The identity of the coalition members can be separated from the tools the coalition makes available to its members.

Even if every organization draws on the third-party enforcement of the same rules, nonetheless the personal identity of the coalition member guarantees that he or she derives rents from being able to access the externally enforced rules. The identity of coalition members and the rules the coalition will enforce are not independent of one another, they are intimately related. In times of uncertainty about the coalition, the dynamics of institutional change should move in the direction of changes in the rules that assign more privileges and decisions to the personal identity of the coalition member.

NWW posit three doorstep conditions for a transition from limited to open access: the existence of rule of law for elites, the existence of perpetually lived elite organizations inside and outside the formal structure of the state, and consolidated control of the military. NWW emphasize that the doorstep conditions are important because they create the possibility for *impersonal* elite relationships. What they might better have said is that the doorstep conditions create an opportunity to transform anonymous elite relationships into impersonal relationships.

Allowing all elites access to the same social tools to support their organizations involved two elements. The first applies both to elites and non-elites and has to do with the nature of rents. The second applies only to elites and has to do with protecting their interests within the coalition.

Most economic rents are “socially constructed” in the sense that all rents depend on the relevant alternative: the value of the best alternative foregone. A key element of institutions is structuring the range of choices available to individuals, and it is important to understand that institutions often frame choices in such a way that there are more than relevant alternative to be foregone. For example, in the 2008-2009 basketball season, the Los Angeles Lakers paid Kobe

Bryant a reported salary of \$21,262,500.²¹ He was the fourth highest paid player in the league. Almost certainly, Bryant would have been willing to play basketball for an amount far lower than \$21 million a year, say \$1 million a year. So his rent from playing basketball was roughly \$20 million a year. The rent he receives from playing for the Lakers, however, was far less. Many other teams would be willing to pay Bryant somewhere in the neighborhood of \$20 million a year, so his rents from playing *for the Lakers* are somewhere in the neighborhood of \$1 million a year.

Not all the rents that Bryant receives from playing basketball are available to secure his relationship with the Lakers. Those organization-specific rents are only \$1 million a year, and if the Lakers offer Bryant a salary lower by \$1 million he leaves for another team. Bryant's individual-specific rents, the \$20 million rent he gets from playing basketball, are related in part to Bryant's unique personal characteristics and, in part, on the existence of the National Basketball Association (NBA). The NBA is an organization responsible for setting and enforcing formal impersonal rules and informal norms. Bryant's individual-specific rents are directly related to the success of the NBA as an organization, and to the extent that the NBA's success is related to the public perception that the rules are enforced in a fair and unbiased way, Bryant also has an incentive to support the rules. By most accounts, Bryant is an extremely competitive and motivated individual, and whether his interests in winning (perhaps by bending or breaking the rules or intimidating the referees) dominate his interests in supporting the rules is an interesting problem. What the example makes clear is that the rents Bryant puts at risk if he

²¹<http://www.insidehoops.com/nbasalaries.shtml>

cheats are not the rents he receives from the Laker's, but from the larger NBA, i.e. in this case the impersonal rules.

The Bryant example illuminates the first element in the rise of impersonality. If the balance between organization-specific and individual-specific rents shifts away from organization rents, more individuals may find it in their interests to act in support of the rules, rather than in support of their organization. If the value of their alternatives outside the organization they belong to increase, then individuals may find it in their interest to support rules that sustain a larger number of alternatives. Allowing more organizations to form will change the value of outside options for all individuals.

This factor by itself is not capable of providing a general explanation for the rise of impersonal rules, however. The interests of individuals are too likely to be compromised by free rider problems and fluctuations in the relative returns to supporting the rules and breaking them. Nonetheless, the emergence of impersonal rules and organizations that enforce them will systematically change individual interests, an issue we return to shortly.

IV.B The Dynamics of Organizations and entry

A second factor is capable of explaining the rise of impersonal rules. In the simplest terms, elites may find that the best way to protect their individual interests from intra-coalition competition is to open access to organizations. Members of the dominant coalition (elites) always have more to fear from each other than from the rest of the population. As military power is consolidated under the government, economic organizations become a more important influence in the polity, and coalition members seek to prevent the accession of a sub-coalition,

an elite “faction,” that uses the manipulation of economic privileges to control the political system and deposes part of the existing coalition. When control of the means of violence is dispersed throughout the dominant coalition, all coalition organizations live under the shadow of violence and could, potentially, become violent. The rise of powerful non-military organizations (doorstep conditions 1 and 2) enable coalition members to consolidate control of violence in one or more government controlled organizations, the military and police, because coalition members are confident that they can collectively discipline the government to prevent to military organization from abusing its power. But how do coalition members ensure that they can compete with the government/military organization? They move to open impersonal access to the tools that support organizations, so that any elite group can organize to defend or advance its interests. These interests are capable of sustaining impersonal rules with respect to the formation of organizations, and it is the dynamics of these organizational interests that we must understand.

The logic is easiest to see in the history of business corporations in the United States and western Europe. Business corporations are only one type of important organization, but they offer an easily visible form of deliberately structured elite organizations. The first business corporations appeared in Northwestern Europe in the 16th century. Corporations had existed in Europe since Roman times. While the complexity and sophistication of corporations developed over several centuries, corporations were always organized privileges. The grant of a corporate charter, of a legal identity to an organization, occurred within the dynamics of the dominant coalition. Corporate charters were both a grant of privilege (often including a monopoly on some activity) and the explicit recognition of a set of contractual rules governing the corporation’s internal and external relationships.

The legal structure of the corporation was a bundle of contractual rules that the dominant coalition would enforce for the corporate organization. Most early corporations enjoyed unique and valuable privileges. Through the 18th century, the number of corporations grew slowly and the procedures for granting new charters were heavily weighted towards protecting existing privileges, rather than granting new ones.²² Pressure to open the system of chartering came from elites, sometimes powerful elites, who were unable to obtain privileges for themselves. For example, the South Sea Act of 1720 established a duopoly of marine insurance in London that stood for one hundred years. In the 1820s a group headed by Alexander Baring and Nathan Rothschild petitioned parliament for a charter to establish a third company, and their efforts were initially frustrated (Harris, 2000, pp. 207-215; Kingston, 2007).

The first general incorporation acts, which allowed a corporation to be formed through a simple administrative act that did not require explicit permission of a legislative or government body, first appeared in the United States in the 1810s, followed by widespread adoption in many states in the 1840s. Britain adopted its general incorporation act “Registering, Incorporation and Regulation of Joint Stock Companies” in 1844, followed by registration with limited liability in 1856. France adopted its registration act in 1867.

Changes in the rules supporting organizations extended well beyond business corporations in the early 19th century.²³ Churches, schools, universities, political organizations

²²For Britain see Harris, 2000, for France see Freedeman, 1979, for the United States in the early 19th century see Wallis, 2005 and 2006. NWW consider the British, French, and American cases in detail, pp. 190-250.

²³Neither was it the case that simply passing a general incorporation law immediately produced open access. “Other European countries shortly followed the lead of France and England in providing free incorporation: Spain in 1869, Germany (North German Confederation)

and ultimately political parties, and voluntary organizations of many types were increasing able to avail themselves of government sanctioned rules for their internal and external relationships. In fact, the first general incorporation act appears to have passed by the New York state legislature in 1783, it was a general incorporation act for churches (Seavoy, 1982). Although colonial New York officially exercised religious tolerance, only Dutch Reformed and Church of England congregations were able to obtain charters. Without a charter, the congregation had no legal identity apart from its members. Financing a sanctuary with a mortgage required a partnership, which left every member of the congregation legally liable for the entire obligation.

The contemporaneous changes in the ability of elites to form organizations are proof enough that the changes in business incorporation were not exogenous but part of a larger pattern. Do not, however, lose sight of the inherently impersonal nature of the rules about forming an organization that a general incorporation law represented. *Any* qualified individual could form an organization and draw on the support of the state to structure the internal and external relationships of that organization to other organizations and individuals. General incorporation acts did not change the rules that the dominant coalition would enforce, it changed the identity of the individuals who could call on the rules and third-party enforcement.

The advent of impersonal rules for forming organizations affected institutional dynamics in direct and obvious ways. The formation of new economic, political, and social organizations (and the elimination of old organizations) occurred quickly in response to new opportunities and alterations in circumstance. Rather than constraining the formation of new organizations, the

in 1870; Belgium in 1873, and Italy in 1883” (Freedeman, 1979, p. 144). No rule operates in isolation, and the adoption of general incorporation laws did not produce an increase in the number of business organizations in Germany, Spain, or Italy.

number of formal organizations mushroomed.²⁴ Negotiations among powerful interests, which before took place between a (relatively) stable group of organizations and individuals, now had to accommodate the rapid rise of new organizations and ever changing, and now uncontrollable, patterns of interest.

Open access to organizations transformed the nature of political and economic competition. Short of putting the genie back in the bottle by reversing course and limiting access to organizations, elites now found it in their interests to maintain open entry. The best response to Schumpeterian creative economic destruction was innovation, which required new organizations (Schumpeterian entrepreneurs being consummate organizers). Open access did not signal the end of interest group politics, groups still had an incentive to press for special privileges, but impersonal rules about the formation of organizations meant that many of the rents that could be created by privileges would ultimately be competed away.

Two conditions had to be maintained for the transformation to persist. First, elites had to continue to find it in their interest to support impersonal rules for organizations. Once open access is in place, however, going back became quite difficult. Any attempt to limit access would undoubtedly create winners and losers within elites, so how was a change in policy to be brokered? Such a negotiation would be complicated by the changing nature of elites. Open access itself would begin to erode the distinction between elites and non-elites, and some newly

²⁴The formation of new incorporations after the registration acts increased by a factor of 10 in Britain and France, Harris, 2000, p. 288 and Freedman, 1993, p. 9. The already high rate of corporate formation increased after general incorporation, but there are no national counts. See Wright, 2010 for estimates. The increase in incorporation was not limited to business, for example, Novak, 2001, documents the incorporation of over 3,000 voluntary organizations in Connecticut between 1787 and 1865.

rich and newly powerful non-elites would now be able to demand a voice in the governance process. Elites who were currently on the inside of the governance organization, but feared that they might soon become outsiders, had a strong incentive to maintain the open access rules. Open access to organizational tools would enable them to reorganize and continue to compete.

The second condition concerns the organization of the government and the services it delivers. This paper has laid out the rudiments of a theory of the state that defines the state as the organization that organizes other organizations. One type of organizations that states organize are governments. The advent of impersonal rules for organizations requires a shift in the structure of the government, as several of the organizations within the government must now deliver impersonal third party enforcement of specific rules. Namely, the administrative organization(s) that grant recognition to organizations and the judicial organizations that enforce the internal and external rules regarding the actions of organizations. Here is where Greif's insight about anonymous exchange leading toward the "path to the modern economy" is accurate: societies that cannot support extensive anonymous exchange do not possess the institutional resources to implement impersonal rules. Until institutions that can support sophisticated anonymous exchange are in place, it is extremely unlikely that conditions leading to impersonal relationships to be adopted by elites will arise.

This is why NWW place so much emphasis on the doorstep conditions. A mature limited access society already knows how to structure sophisticated organizations, like corporations, but those organizational structures are embedded in a framework of personal, rent creating relationships. Moving to impersonal rules for organizations does not involve changing specific rules, since the formal rules for the internal and external relationships of the organizations can

stay the same, what changes is the institutional dynamics that now allow anyone to create an organization that can call on the support of the state.

Impersonal rules require an unbiased bureaucracy: a nameless, faceless, rule bound organization that does not recognize personality or identity, but only relies on whether the rules are being correctly applied. Insistence on impersonal bureaucratic administration of certain government policies is essential for open access to survive. In an open access society the government provides a wide range of services on an impersonal basis. The enforcement of impersonal rules cannot be based on personal relationships, and so the parts of the government organization that administer impersonal rules must be governed by rules of law not by rules of men. Since politics is inherently based on personal relationships and coalitions of interest, impersonal rules will not be sustainable without an institutional dynamic sustained by open access.

IV.C Equality and Impersonality

Impersonality is one facet of equality: treating everyone the same. Equality is a more complicated concept, however. Equality of opportunity requires impersonality, as everyone enjoys the same opportunities; equality of outcome requires treating everyone differently according to their endowments and abilities to ensure equal outcomes. Without going more deeply into the nature of equality, the following argument attempts to answer the question posed at the beginning of the paper: how can individuals find it in their interests to support impersonal rules rather than the organizations they belong to, even at some immediate cost to them as individuals?

Interests result from a combination of factors: opportunities, relative prices, preferences, and beliefs. As opportunities broaden, the rents associated with any specific relationship and organization decline relative to the rents individuals accrue because the value of their personal abilities increases in other relationships and organizations. University professors undoubtedly benefit more from living in a society where universities compete for their services than they do from increasing the endowment of the university they happen to be located at. As in the Kobe Bryant example, when individuals are able to employ their human capital in a wider range of organizations, then the rents they enjoy come to depend more on the existence of other organizations than on the interests of the specific organization they happen to belong to. Individual interests in maintaining the system of organizational entry and competition are unlikely to motivate people to support impersonal rules rather than their organization in general, however, because in specific instances the benefits of acting against the rules may be too great.

Well organized interests are faced with competing incentives in a similar way. On one hand, they would like to use their position to influence the government and society to create rents for themselves, ala Mancur Olson (1965, 1982). On the other hand, they understand that their ability to organize, and to form new organizations, is critical to their continued success in a constantly changing dynamic environment. This is true of both political and economic organizations.

Just as allowing open access to economic organizations unleashes Schumpeterian creative economic destruction, allowing open access to political organizations appears to unleash creative political destruction. Schumpeter's theory of politics in *Capitalism, Socialism, and Democracy* (1942) was perilously thin and turned out to be wrong. He predicted that the

protective strata of politics that enabled capitalism to flourish would evolve in a suffocating layer of regulation. Not only did that not happen, but allowing open economic competition profoundly affected the polity. New and unpredictable patterns of interests, thrown up by innovation and growing markets, were not captured or smothered by politics but the reverse. What Schumpeter failed to see was that open economic access would unleash creative political destruction as well.

Rent seeking plays a major role in the operation of open access politics, that part of human nature has not changed, but the rent seekers in open access societies have not been able to sew up a package of interlocking rents that persist over time and are capable of limiting entry on a wide scale, at least not in the short period of historical time that open access societies have existed. New technologies, industries, firms, and groups with a strong stake in maintaining open entry are always on the cutting edge margin of economics and politics. Coalitions of political, economic, and social interests vie for control of the polity, but no specific coalitions in the developed world have proven capable of exerting long term hegemony. A viable competing coalition always emerges, as Arrow's impossibility theorem suggests (1950). The only way to short circuit the formation of a competing coalition would be limiting the ability of a new coalition to organize.

In Greif's institutional framework, the only sustainable casual beliefs individuals can hold are ones that are consistent with actual outcomes. Economists often dismiss beliefs in equality as unrealistic, give then clear and obvious inequalities in endowments and outcomes across individuals. One might have trouble swallowing a belief that all laws are enforced in an unbiased manner, that all politicians are honest, that free markets always produce the best outcomes, or that people engage in impersonal exchange because they have no fear of being

cheated. But perhaps it is only part of the belief in equality that needs to apply: that part that says treat everyone the same. While this belief, by itself, is not capable of transforming a society into one where impersonal rules are present and enforced, it is possible that this belief can emerge as a sustainable belief in a society with open access to organizations. That is, belief in equality in more general terms may be sustained by specific rules about equal access to organizations.

If a society possess the social tools capable of supporting complex organizations (and many do not) and extends those tools to everyone (citizens), so that in the dimension of organizations everyone is treated the same, then the dynamics of institutional change are fundamentally altered. Personal relationships, rents, relational contracting, and hierarchy all still exist. None of the fundamental features of how human societies that emerged five or ten thousand years ago wither away: large social organizations are still held together by relationships and rents. But anonymous relationships between people who do not know one another personally, but nonetheless must be able to place each other within an existing social framework, can give way to truly impersonal relationships.