

ECONOMIC
RESEARCH
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منتدى
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2011

working paper series

POLITICS, ECONOMICS, AND VIOLENCE:
THE ORGANIZATION OF SOCIETIES
AND THIRD-PARTY ENFORCEMENT

John Wallis

Working Paper No. 634

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September 2011

This paper originated as a short presentation at the meeting of the Economic Research Forum meeting in Antalya, Turkey, March 2011.

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First published in 2011 by
The Economic Research Forum (ERF)
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Dokki, Giza
Egypt
www.erf.org.eg

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Abstract

The question “Who will guard the guardians?” is at the heart of a set of questions about how politics and economics interact. If government provision of justice and protection to societies is an integral part of how well societies perform in economic and political terms, how is it that governments are constrained to perform their functions as agreed in the explicit or implicit social contract? This short essay uses the conceptual framework developed by North, Wallis, and Weingast in *Violence and Social Orders* (2009, hereafter NWW) to think about the nexus between governments and economies and the nature of their interaction, particularly the ability of governments to enforce rules by serving as an unbiased third-party enforcer of public laws as well as contracts entered into by private individuals.

ملخص

يقع سؤال "من سيكون في حراسة الأوصياء؟" في قلب مجموعة من الأسئلة حول كيفية تفاعل السياسة والاقتصاد. إذا كان توفير الحكومة للعدالة والحماية للمجتمعات هو جزء لا يتجزأ من الأداء الجيد من الناحيتين الاقتصادية والسياسية للمجتمعات ، فكيف يتم تقييد الحكومات لأداء وظائفها على النحو المتفق عليه في العقد الاجتماعي الضمني أو الصريح؟ هذا المقال القصير يستخدم الإطار المفاهيمي الذي وضعه كل من North, Wallis, and Weingast في *العنف والأوامر الاجتماعية* (2009 ، NWW الأخرى) ليقودنا إلى التفكير في العلاقة بين الحكومات والاقتصادات وطبيعة تفاعلها، وبخاصة قدرة الحكومات على تطبيق القواعد التي تعمل بمثابة الطرف الثالث والمنفذ المحايد للقوانين العامة ، فضلا عن العقود التي يبرمها الأفراد.

“Quis custodiet ipsos custodes?” Juvenal, *Satires*, (Satire VI, lines 347–8)

The question “Who will guard the guardians?” is at the heart of a set of questions about how politics and economics interact. If government provision of justice and protection to societies is an integral part of how well societies perform in economic and political terms, how is it that governments are constrained to perform their functions as agreed in the explicit or implicit social contract? This short essay uses the conceptual framework developed by North, Wallis, and Weingast in *Violence and Social Orders* (2009, hereafter NWW) to think about the nexus between governments and economies and the nature of their interaction, particularly the ability of governments to enforce rules by serving as an unbiased third-party enforcer of public laws as well as contracts entered into by private individuals.

Juvenal’s character’s concern was the guardians charged with protecting the virginity of his wife while he was gone. The problem parallels the Weingast paradox: how can a government powerful enough to protect property rights be constrained not to expropriate property rights, but the Weingast formulation introduces another element, property rights which presumably apply to everyone in the society. Implicitly, we assume that the rules the guardians are supposed to enforce are rules that apply equally to everyone, what I call “impersonal” rules. We need to acknowledge the possibility that societies can constrain governments/guardians to enforce some rules, but that the rules that can be credibly enforced are not impersonal rules. In many developing countries the rules that governments can enforce apply differently to different people. These deviations from rule of law are often portrayed as problems of governance and as a primary cause of underdevelopment. The critique presumes that governments intend, in fact, to create and enforce impersonal rules, but fail to do so. We must also consider the possibility that social dynamics create situations in which governments do not intend to enforce rules impersonally, but instead intended to enforce rules in a way that depends on the groups and organizations that individuals belong to, what I call “anonymous” rules. This paper asks that question.

Most of the political economy literature begins with an already existing government capable of enforcing rules and agreement if it wants to, and treats that government as if it were a single-actor with a well defined set of interests and objectives. The starting point here is a world in which there are no governments and the ability to form organizations and third-party agreements must be explained. Following the argument laid out in NWW, I show how, in a world of endemic violence, organizations capable of providing third-party enforcement of private agreements in the absence of any formal government can arise as a way to limit violence and sustain larger social organizations. The coalition of powerful organizations that appear in such a society is generally incapable of enforcing impersonal rules that apply equally to everyone. The coalitions are, however, capable of creating and enforcing anonymous rules that apply differently to people in different organizations. Anonymous rules are an inherent part of the social dynamics that limit violence and make larger social organizations possible.

Rather than interpreting the inability to enforce impersonal rules as a failure of governance – the guardian’s inability to enforce their own rules – the appearance of anonymous rules that apply differently to different organizations appears to be a solution to the problem of getting some rules established in the first place. This is a problem of social dynamics. The social dynamics that sustain third-party enforcement of anonymous rules have their origins in attempts to limit violence through the creation of organizations with interlocking interests created by applying a different set of rules to each organization. Anonymous rules serve to purposes: limiting violence and ordering human coordination. The answer to the question who guards the guardians is a network of interlocking organizational rents in which different groups of guardians guard each other. Impersonal rules do not solve the problem of endemic

violence, they are sustainable only when other arrangements to limit violence are in place. Rather than interpret the inability of governments to enforce impersonal rules as evidence of corruption and lack of government capacity, the argument here suggests that we should look more carefully at the nature of social dynamics, particularly the interaction of economic and political organizations, to see whether impersonal rules are even a possibility in many societies. This short paper lays out a way of thinking about that problem.

2. The Logic of the Natural State and the Organization of Violence

Many theories of the state assume that a government with the institutional capacity to enforce rules and agreements already exists. Such an assumption will not work if our interest is in the emergence of governments capable of enforcing rules. The institutional capacity to enforce rules and contracts in the larger society has to be created in a manner that is logically consistent with the potential for individuals to be violent. Ultimately, this brings us to the difficult questions of where third-parties come from, how people can believe that third-party enforcement will be credible, and the government's potential role as a credible third-party.

Social scientists have a predilection to think about governments by beginning with a single actor, a powerful individual who has a comparative advantage in violence. They proceed by identifying the interests of this single individual and then theorize about the conditions under which the enforcer/guardian will honor his or her commitments to provide third-party enforcement to his clients (including protection). Because the single-actor is able to coerce people, he can form an organization of individuals which can be kept together because of his ability to coerce. The single-actor assumption, however, avoids all the interesting and difficult questions about how powerful actors emerge in the first place.¹

Instead of starting with a single-actor endowed by assumption with a comparative advantage in violence, we start with people who possess more or less the same potential for violence and see how it is possible to organize a group capable of organized violence. The question then becomes how do credible organizations form? NWW develop an insight about the organization of violence to explain how societies can use organizations to limit violence. In order to be clear about the nature of organizations, they define an *adherent* organization as an organization where the relationships between the members are completely self-enforcing. In contrast, a *contractual* organization is an organization where some of the agreements between the organization's members are enforced by an external third-party. The distinction between adherent and contractual organizations is the ability of the organization to access third-party enforcement of organizational arrangements: the ability to access rules. Contractual organizations are capable of doing anything that an adherent organization can do, but adherent organizations are considerably more limited.

With those terms in mind, begin with two individuals, each members of a different group. Each of the groups are initially egalitarian, in the sense that no individual is capable of coercing the group and economic outcomes are relatively equal.² As a beginning assumption, suppose that if the two individuals can cooperate and form a coalition, they can overawe either of the groups they belong to. They agree to come to each other's aid in the case of a conflict and by doing so agree to recognize each other's rights to the land, labor, and

¹North (1981) defines the state as the organization with a comparative advantage in violence and then analyzes the interests of a revenue maximizing monarch. Olson (1993) compares the behavior of a roving bandit with a stationary bandit. Bates (2001, 2008) and Bates, Greif, and Singh (2002) begin with a violence specialist. Weber (1978) builds his ideal types of states and ideal types of organizations explicitly around a single leader, and then speculates about why followers are willing to follow the leader. All of these are single-actor models of leadership and governments.

²The evidence that small foraging bands are quite often aggressively egalitarian seems well established. See Boehm (2001) and Kelly (1995).

capital in their respective groups.³ Because of their coalition, each of the coalition members is able to coerce his own group and gain control over resources. Since the land, labor, and capital the coalition members control is more productive under conditions of peace, if violence breaks out, the rents each coalition member gets from his own group will go down. As a result, both coalition members can see that there is a range of circumstances in which they can credibly believe the other will not fight. The rents from their groups serve as a mechanism for limiting violence by coordinating the two coalition members. NWW call this the “logic of the natural state.”

There is no assumption that the coalition members possess any special physical characteristics. If coalition members can cooperate, then they can overawe the members of their respective groups: their strength comes from their organization. The ability of the coalition members to form a credible coalition is what makes the members of the coalition “violence specialists.” They are violence specialists in the sense that only coalition members are capable of calling on the organized presence and violence potential of other members of the coalition.⁴ Their coalition is, and must be, an *adherent* organization. The relationship between the coalition members creates rents from non-violence that provide incentives for the specialists to continue to cooperate. NWW call this organization the “dominant coalition.”

The nub of the agreement within the dominant coalition is about violence and rents. The ability of each coalition member to see that the other members will lose rents if they are violent enables each of them to credibly believe that there is a range of circumstances in which violence will not be used. The difference between the productivity of the member organizations under violence and under non-violence, the rents to non-violence, make the organization of the coalition members credible and sustainable. Note that the coalition members do not “share” anything except the responsibility of coming to each other’s mutual aid: they each keep the gains from their own organization and there is no sharing rule or *ex post* bargaining.

Figure 1 represents a simple version of these types of arrangements graphically. A and B are members of different groups, represented by the vertical ellipses. The horizontal ellipse represents the arrangement between A and B that creates their adherent organization: the dominant coalition. The vertical ellipses represent the arrangements the coalition have with the labor, land, capital, and resources they control: their “clients,” the a’s and b’s. The horizontal arrangement between the specialists is made credible by the vertical arrangements. The rents the members receive from controlling their client organizations enable them to credibly commit to one another, since those rents are reduced if cooperation fails and the members 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.

In Figure 1, the horizontal relationship between the coalition members creates an adherent organization. A and B become violence specialists because of their ability to call on each other, and their ability to coordinate with each other is made credible by the rents each receives from their respective organization. Because A and B can credibly call on one another for support, then the vertical relationships between the coalition members and their

³The assumption is unrealistic, in the sense that only two individuals cannot possess enough coercion to overawe either of the respective groups. Two is also too small a number to solve the problem of guarding each other while the other sleeps, a major force for egalitarian outcomes in small groups (Boehm, 2001). So the number of people who reach the agreement to enforce each others claims to property is certainly larger, but two is a much easier number to visualize and represent in the figure that follows.

⁴The comparative advantage in violence that the coalition enjoys vis a vis the unorganized general population is a function of the organization of the coalition, not of the violence capacities of the coalition members.

clients can become contractual organizations that rely on the external third-party presence of the other dominant coalition members. The vertical contractual client organizations might be organized as kin groups, ethnic groups, patron-client networks, organized crime families, guilds, or firms. The combination of multiple organizations, the “organization of organizations,” mitigates the problem of violence between the really dangerous people, the violence specialists in the dominant coalition, creates credible commitments between the coalition members by structuring their interests, and creates a modicum of belief that the coalition members and their clients share a common interests because the coalition members have a claim on the output of their clients.

The figure is a very simple representation. In a functioning society there are many more groups. Members of the dominant coalition include economic, political, religious, and educational specialists (elites) whose privileged positions create rents that ensure their cooperation within the dominant coalition and create the organizations through which the goods and services produced by the population can be mobilized and redistributed.¹ Which is why we should not privilege the idea that political and economic organizations operate more effectively when they are separate. In natural states, all organizations in the dominant coalition have both economic and political aspects to them, indeed most organizations possess a latent ability to use violence.

The simple society depicted in the figure provides enough, however, to see how credible third-parties can emerge out of the social arrangements that limit violence. In the adherent horizontal organization of the dominant coalition, no member or organization has a monopoly on violence. What deters the use of violence is the potential rents that coalition members might lose if they choose to fight. Those rents do not come from within the dominant coalition, but from the vertical contractual client organizations. The members of the dominant coalition are able to call on each other to serve as third-parties for their client organizations. Initially, those services might only include simple recognition of each other’s boundaries and clients, as well as a working agreement to live and let live, but the roots of more sophisticated arrangements lie in the credible commitments that coalition members can make to one another.

The society depicted in Figure 1 has a dominant coalition, but no government. There is a structure of power, based in organizations that are mutually supporting through an interlocking set of interests. But there is no public organization, just the members of the coalition and the organizations they head. The dominant coalition is a coalition of guardians who have commitments to each other, through the adherent organization of the dominant coalition. What commitments the guardians have with the members of their contractual organizations depends, therefore, on the nature of relationships within the dominant coalition.

3. Rents from coordination in a Natural State

The inclusion of organizations in the previous discussion may seem extraneous. Why don’t A and B just form a coalition that is capable of coercing everyone else and then extract as much rent as possible from the population, perhaps as stationary bandits with some incentive to promote extra output because they get to keep it.² The problem with such an approach is first explaining how A and B can believe that the other will cooperate. After all, B is the most dangerous person to A, and A is the most dangerous person to B. Placing the interests of A and B in the contractual organizations they lead, however, solves the theoretical problem

¹North, 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.

²See Olson 1993.

of how they cooperate/coordinate, as well as allows us to develop a much richer model of the larger society.

It is the second important way that relationships between the coalition members is stabilized through the presence of organizations that add richness to the concepts. The ability of coalition members to call on each other as third-parties for their own organizations enables coalition members to convert their adherent organizations to contractual organizations. To be explicit, the presence of B allows A to enter into credible third-party enforced agreements with the little a's. Enforcing agreements within the organizations of coalition members creates new rents from coordination. Following the logic of the natural state, these organizational rents also strengthen relationships within the dominant coalition because the "coordination" rents depend on continuing coordination within the coalition. The rents from their organizations work for coalition stability in the same way that rents associated with non-violence work for coalition stability. The rents that coordination produce through the higher productivity of members' organizations strengthen the incentives holding the coalition together.

Note that the coalition's ability to provide third-party enforcement does not depend on interests that members of the coalition share, but on interests that interlock: the distinct interests that each coalition member has in their own organizations. The dominant coalition does not act cooperatively to produce a joint product and then figure out how to divide up the gains (the standard contracting problem). Instead, the coalition decides on a series of strategies that make each member of the coalition better off and are thus sustainable, the idea of "coalitional rationality" (Ambrus, 2006). These individually rational interests provide the organizational incentives that make up the relationship among organizations in the "organizations of organizations." It is the multiplicity of organizations that makes third-party enforcement possible. If there is only one organization, there is no possibility of credible third-party enforcement. There must be at least two organizations. The dominant coalition is an organization of organizations.

The implications of this point are easy to overlook, but profoundly important. Only rents that are adversely effected by violence or by lack of coordination within the coalition support coordination between coalition members. The balance within the dominant coalition is always fragile, a point we return to shortly. This view contrasts sharply with the widely held view that the purpose of elite coalitions is to maximize the rents of elites. Dominant coalitions include many organizations with competing as well as interlocking interests. The biggest threat to members of the coalition is usually other members of the coalition. An increase in rents for one group may destabilize the coalition if the new source of rents is unaffected by violence or coordination. The group with larger rents may seek to reconfigure the coalition to reflect its increasing power or resources. Attempts at reconfiguration may lead to a breakdown rather than more stable arrangements. Dominant coalitions cannot exist simply to maximize the rents their members receive. Stable coalitions must structure rents in a way that create interlocking interests.

4. Coalition Fragility

There is wide agreement that political and economic development occur together historically and equally wide disagreement about what that means. But there is much less appreciation for the nature of economic growth. In basic economic theories, rich countries have high incomes because they grow faster. That must be true on average over some time period, but it is relevant question to ask how fast to rich and poor countries grow when they are growing, and how fast do they shrink when they are shrinking? Table 1 provides basic answers to those questions. Taken from the Penn World Tables for 180 countries for all years for which there is data from 1950 to 2008, the data underlying the table were first sorted into years of

positive and negative GDP growth rates. Then the average growth rate in positive and negative years was calculated for each country, as well as the percentage of years in which growth was positive. The table reports the average of these country averages, for countries in six income categories, ranging from the very poorest countries (per capita income less than \$2,000 in 2000 US\$) to the richest countries (per capita income over \$20,000 in 2000 US\$ without substantial oil income). Several striking characteristics of the table are at variance with the idea that rich countries simply grow faster than poor countries.

First, rich countries grow substantially slower when they are growing than poor countries, roughly 3.8 percent per year compared 5.3 percent per year. Countries below \$20,000 in income grow at roughly the same rate when they are growing regardless of their level of income, but they do vary significantly in how rapidly they shrink. Rich countries shrink at -2.3 percent per year when they shrink. Countries between \$15,000 and \$20,000 in per capita income shrink at -4.25 percent per year when they shrink. The rate at which economies shrink becomes faster as countries get poorer, with the poorest countries shrinking at -5.38 percent per year. Even more dramatic, rich countries grow in 84 percent of all years, while poor countries grow in only 56 to 76 percent of all years, with the share of positive growth years falling with income. The very poorest countries shrink as rapidly as they grow, -5.38 percent to +5.37 percent, and they grow in only 56 percent of all years.

The poorest countries are poor because they shrink as rapidly as they grow, and they shrink in almost half of all years. Their rates of growth do not explain why they are poor in any more than a simple arithmetic sense. The high variability of their growth rates and the prevalence of negative growth experiences explains why they are poor. Neoclassical growth theory has little or no explanation for why economies shrink, and thus gives limited insight into why poor countries are so poor.

In the natural states described in the previous sections, the political process manipulates the economic process to create rents, and then uses those rents to structure relationships among powerful individuals and organizations in the dominant coalition. Dominant coalitions are, by their nature, based on personal and idiosyncratic relationships between coalition members. It is important that rents be attached to specific individuals and organizations, rents that merely increase the incomes of elites do not coordinate the coalition. Because of these unique and personal relationships, dominant coalitions are susceptible to change in the relative power, position, or circumstance of coalition members. When interests within the dominant coalition are not aligned and balanced, there is always the possibility that coalition arrangements may be renegotiated or may break down. Such renegotiations are not like elections in the developed world, where two or more parties compete for control of the government organization. Renegotiation within the dominant coalition always carries with it the threat that violence may break out. Natural states live in the shadow of violence in a way that developed societies simply do not.

The economies of natural states, therefore, are burdened by two sets of social dynamics that are largely absent in developed societies (what NWW call open access societies in contrast to limited access natural states). The first is that economic arrangements are sustained in part because they support political arrangements and not only because they promote economic productivity. This is a reasonable outcome, since political arrangements are necessary to limit violence, and economic productivity plummets in the presence of violence. Natural states may be better off economically with less productive economic arrangements if those arrangements limit the probability of violence. Because societies are never static, these political burdens on the economy are always adjusting as different organizations and interests find their circumstances changing.

The second burden follows from the dynamic nature of rent creation in a natural state. When instability rises, the tendency is to move towards the creation of economic rents that more closely tie members and organizations of the dominant coalitions into personal relationships to ensure their continued coordination. This force does not drive the economic process towards ever increasing growth in productivity. In developed societies, ala Schumpeter, increasing productivity is driven by innovation and entry. In a natural state, entry reduces the rents that sustain existing social arrangements. Entry, therefore, is limited by the very nature of the logic of the natural state. Which is why NWW sometimes call natural states limited access orders.

Grasping the logic of the natural state is crucially important to understanding the stop, go, and sometimes go backwards process of economic and political development in most societies. The standard interpretation of the last 200 years of sustained growth in the developed world is that growth is caused by the emergence of technological change. Industrial technologies, however, have spread to many other places in the world without reproducing the movement towards political development that occurred in western Europe and a handful of other places in the late 19th and 20th century. The societies that developed in the 20th century managed, by ways that are still poorly understood, to move away from social dynamics and social orders based on limited access and make the transition to social systems based on open access and the social dynamics of economic and political entry and competition.

Countries within the developing world show an enormous variety of economic and political institutions and performance and the variation occurs within the context of natural states. The development process largely occurs within the context of limited access orders. Natural states do not grow more rapidly in some periods because they suddenly get better property rights or become more like the developed west. They grow because conditions occur that allow for relatively greater stability within the dominant coalition. The real development problem is becoming a natural state that can get a handle on the dual problems of limiting violence and sustaining productive elite organizations.³ Only then is it possible for societies to begin moving towards the open access institutions and outcomes that characterize the developed world, what NWW call the transition process. The fragility of natural states is both endogenous and problematic. Until we understand it better, we are unlikely to have more success at the process of stimulating development through policy changes than we have had so far.

5. Governments and Rules

Max Weber's definition of a modern state as the organization with a monopoly on the legitimate use of violence captures the essence of how many of us think about the appropriate role of government and rule of law.⁴ Governments that possess a monopoly on legitimate violence are able to enforce rules because of their ability to threaten rule breakers with violence. Citizens find it in their interest to obey the rules because of the threatened punishments, and because everyone can see that others have an incentive to follow the rules, the benefits from coordination increase enormously. Governments can decide whether to enforce personal, anonymous, or impersonal rules; but the decision lies within the government. It is in this context that Juvenal's question about guarding the guardians becomes so relevant for the interaction of politics and economics: how are the guardians constrained to obey their own rules?

³North, Wallis, Weingast, and Webb (2012) define two development problems. The first is development within limited access orders. The second development problem is making the transition from limited to open access orders.

⁴Weber, 1948, pp. 77-78.

The foregoing description of natural states, however, suggests that Weber's definition may not be a fruitful starting place for thinking about the ability of governments to create and enforce rules. To begin with, the dominant coalition in a natural state is not a government, it is a coalition of organizations.⁵ Some of the organizations in the coalition may be public organizations identified as governments, but many organizations in the coalition will not be. Within the dominant coalition no organization has a monopoly on the use of violence, so the Weberian criteria does not apply. Terms like "state capacity" and a distinction between "weak" and "strong" states/governments are often used to approximate the relative position of the government within the coalition. Weak governments do not possess the capacity to discipline powerful private organizations, therefore their ability to enforce rule of law is handicapped. It is not at all clear, however, that it is the capacity of government organizations within a dominant coalition that determine whether a government can enforce impersonal rules. The logic of the natural state suggests that social dynamics within the coalition require anonymous rather than impersonal rules.

This requires us to think more deeply about the nature of rules. The logic of the natural state explains how private organizations provide a matrix within which credible third-party enforcement of rules can arise, even in the absence of a government. All societies that support complex organizations, therefore, possess the ability to create credible guardians to enforce some rules. As a result, however, there are no societies in which the government possess a monopoly on third-party enforcement of rules. There is no rule enforcement corollary to the Weberian monopoly on violence, even in modern societies. Not only do individuals and organizations always have the option of creating adherent relationships and organizations that do not require external enforcement of rules through internal ordering of relationships (self-enforcing rules that support adherent organizations), but it is also always a possibility that some organizations will be able to create interlocking sets of interests that enable the organizations to act as third-party enforcers for each other (ala the logic of the natural state).

A society in which most of the third-party enforcement of rules is carried out by private organizations will also have a "weak" government, not matter how "strong" that government is in military terms. Agreements between powerful private organizations will be supported by interlocking interests, rather than depending on the third-party intervention of governments.

Avner Greif (2006) has examined such arrangements, which he calls "private ordered" contracts, in his important work in institutional economics. A deeper look at one of Greif's examples of private order contracting illuminates why governments cannot have a monopoly on enforcing rules. Greif's historical work investigates how societies develop institutions that can support long distance trade between people who did not know one another personally. What he calls the community responsibility system grew up in northwestern Europe. The communities that were part of the system had organized merchant guilds and merchant courts. A trader from Genoa who went to Hamburg was identified as a merchant from Genoa. If the Genoese merchant was cheated in Hamburg, the merchant guild in Genoa would expropriate all of the Hamburg merchants currently in Genoa, and vice versa for Hamburg merchants in Genoa. The merchant guilds created rents from trading for both Hamburg and Genoese merchants. Those rents were at risk if the two communities (organizations) were willing to carry out threats to expropriate traders if the rules were not enforced in an unbiased manner. The identity of the two organizations, the merchant guilds in Hamburg and Genoa, made these arrangement credible. As long as merchants could be

⁵NWW did not draw a clear distinction between the dominant coalition and the government, nor did they attempt to define the state in a meaningful way.

easily identified as members of the Hamburg or Genoese merchant guild, the community responsibility system could long distance trade between merchants who did not know each other personally.⁶

Both economic history and institutional economics have stressed the importance of impersonal relationships as a foundation for modern economic development and growth. We have, however, been vague about how impersonal relationships are defined. In one definition, impersonal relationships occur when two individuals interact in a way that does not depend on their personal or social identity. The essence of this form of impersonality is “treating everyone the same.” While the definition is not controversial, it is often not the one used in the social science of institutions. As just described, the problem of impersonal relationships is usually 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. This definition of impersonal is simply “not personal.” Defining an impersonal relationship as dealings between individuals who do not know each other personally, however, differs considerably from the impersonality defined as treating everyone the same.

We need to separate the two types of relationships. For clarity, define *anonymous* relationships as situations where people who are not personally known to each, but nonetheless know the social identity of the other in the relationship, interact on some dimension. Social identity -- the organization that an individual is identified with, be it a group, tribe, city, or office -- is a key element of anonymous relationships. In contrast, *impersonal* relationships refer to situations where people are treated in the same manner (according to the same rules), whether they are personally known to each other or not. Social identity is not a part of impersonal relationships since, in the limit, all people are treated identically.⁷

One important implication of the logic of the natural state is that the society depicted in Figure 1 can support personal or anonymous relationships, but not impersonal relationships. It matters which of the three organizations in the figure a person belongs to when interacting with any other individual in the society. Put another way, the society depicted in Figure 1 is capable of enforcing *anonymous* rules that apply differently to specific organizations, but is incapable of enforcing *impersonal* rules that apply in the same way to everyone. Only traders who can be identified with Genoa and Hamburg have access to the enforcement of the anonymous rules.

Now we are in a position to answer Juvenal’s question. The first part of the answer is trivial: guardians are guarded by placing them in institutional arrangements where the rents they receive from enforcing the rules outweigh the benefits they receive from breaking the rules. That, in itself, is not an interesting insight, it is simple economics. The interesting and substantial second part of the answer is that in all societies, the interests of the guardians are shaped by the organizations they belong to. Organizations create rents that enable anonymous rules to be credibly enforced by guardians embedded in those organizations. Anonymous rules cannot exist if there is only one organization, there must be multiple organizations, because anonymous rules cannot be sustained if all the organizations are the same. This is not a property of anonymous rules, it is a property of the social dynamics that enable anonymous rules to work, ala Grief’s analysis. The rules are made credible by the existence of rents created by the very fact that the organizations exist.

⁶Although one might wish to argue that the trade guilds were government organizations, they did not possess substantial military capacity within their organization, but were part of a coalition of organizations some of who possessed active military capacity.

⁷The distinction between impersonal and anonymous relationships is considered in more detail in Wallis (2011).

If we rephrase Juvenal's question to be "who will guard the guardians charged with enforcing impersonal rules that apply equally to all individuals and organizations," the answer is that no one can in a natural state. Anonymous rules can be enforced in natural states, but not impersonal ones. The inability of governments in natural states to credibly enforce impersonal rules is not the result of a lack of capacity on the part of the government, but the nature of social dynamics between the powerful individuals and organizations that make up the dominant coalition. Those dynamics require that organizations in the coalition enjoy unique privileges that underlay the rents that make the coalition stable. The logic of the natural state offers us a window into those dynamic relationships.

Even if government organizations are strong relative to other organizations in the coalition, they cannot unilaterally apply impersonal rules across organizations in the coalition without destroying the very source of rents that make dynamic arrangements within the coalition stable. Impersonal rules are not dynamically sustainable within the context of a natural state. It is only when organizations in the dominant coalition find it in their interests to support rules that treat all organizations the same that impersonal rules are sustainable.⁸ Again, the statement by itself is not insightful, since it simply asserts that elite organizations will not support impersonal rules unless it is in their interest to do so. The more substantial insight is that the ability of the government to create and enforce impersonal rules depends on the social dynamics within the dominant coalition, not on the capacity of the government relative to other organizations in the coalition.

6. The Arab Spring

The talk on which this paper is based was given in March of 2011, in the middle of the events that have come to be known as the Arab Spring and I was asked to comment on those events as part of this paper. Two aspects of the Arab Spring stand out, both for thinking about what happened in 2011 and what may happen going forward.

First, most societies in the Middle East and North Africa are natural states, characterized by social systems that utilize anonymous rather than impersonal rules to order relationships between individuals and groups. Anonymous relationships are reflected in descriptions of the social organizations that matter: family, tribe, ethnicity, religion, and geography. The tendency to regard these social ties and organizations as inherent in the culture and obstacles to further development dangerously overlooks the fact that these social organizations are the persistent elements from which social order is constructed and maintained. There is not a fixed template for the elements of dominant coalitions in the region, there are changing mixes of social, political, and economic organizations of a complex nature. Families, tribes, ethnicity, religions, and geography all play some role in the structure of coalitions across the region, but in no case is the structure of the coalition fixed over time or invariant in its composition.

What is stable over time is the pattern of a natural state. These are societies in which identity of the organization(s) and groups to which one belongs matter. Governments are weak, in the sense that governments are not the primary source of third-party enforcement for social arrangements. Social arrangements are sustained by the interlocking interests of private organizations. While governments are weak, they are also not credibly bound by impersonal rules that social dynamics can enforce. As a result, governments are capable of truly terrible acts against their own citizens. This reinforces the incentive to embed rules in private organizations, rather than in government organizations.

⁸The conditions under which elite organizations may come to find it their interest to move toward impersonal rules for elite organizations are called the "doorstep conditions" by NWW and examined in chapters 5 and 6.

Second, dominant coalitions in the region include many powerful non-government actors who may even be difficult to identify and whose resources are embedded in the dynamics of the dominant coalition. Formal government organizations are only parts of the dominant coalition. The relative power of the government organizations depends on coalition dynamics rather than the absolute capacity of the government. Whether military, police, and intelligence organizations should be characterized as public or private organizations is problematic. They are elements in the dominant coalition, but their cooperation with the formal, public, government organization is not governed rules but by the dynamics of the coalition.

For example, these relationships quickly became clear in the case of Ben Ali and Tunisia, when the Ben Ali organization was removed by elements of the coalition in response to the public uprising. After the police failed to quell the popular uprising in Egypt, it also became clear that the Army reconsidered its role in the coalition via the Mubarak organization. In both Egypt and Tunisia it is accurate to say that Ben Ali and Mubarak were removed because of the popular uprising. But it is also accurate to say that the dominant coalitions in Tunisia and Egypt removed the Ben Ali and Mubarak organizations from the coalition in response to the changing opportunities and conditions created by the popular uprising. In Libya, in contrast, the popular uprising produced a fracturing of the coalition and a civil war ensued.

Events of the Arab Spring illuminate that government “regimes” are not themselves dominant coalitions, they are only parts of coalitions.⁹ Governments in the region are not integrated organizations with a firm control of military resources and a monopoly on the use of violence, legitimate or otherwise. The extent to which the formal government controls the army and police forces undoubtedly varies widely, but the extent of control is extremely difficult to observe and document. When arrangements within the coalition become more fluid in the face of rapidly changing conditions, the control that the government organization possesses becomes problematic. This is not a pejorative criticism, but simply an observation of the dynamics of the dominant coalitions in the region. There does not appear to be a viable alternative to controlling armies and armed groups, including potentially armed groups, other than embedding them in a set of economic and social privileges that constrains the use of violence, that is the logic of the natural state. That requires enforcement of anonymous rules that support organizations within the coalition in a way that ties those organizations to incentives that limit violence and encourage coordination. When those incentives weaken because of changing circumstances, natural states are as likely to move in the direction of more personal rules as they are in the direction of more impersonal rules.

Taken together, these two observations suggest that societies in the Middle East and North Africa, as are societies in many places in the world, have internal social dynamics that are capable of supporting anonymous rules, but not impersonal ones. Their guardians guard, but what they are guarding is not a set of property rights or rules that apply equally to all citizens. Moreover, they are not a set of privileges and rules that apply equally to all elites and their organizations. The system does not to maximize the rents elites receive, although the system is often interpreted as if that was its primary purpose. To the extent that the system provides stable incentives it does so through interlocking rents. The case of Ben Ali’s family, particularly after the marriage to his second wife, appears to be a clear case where attempts to

⁹My home town newspaper, the Washington Post, has just recently come to understand that what happened in Tunisia and Egypt was not a “regime” change. In their report on the fall of Gaddafi, they commented that “This was also the first outright regime change of the Arab Spring. Although people power forced Egypt’s Hosni Mubarak and Tunisia’s Zine el-Abidine Ben Ali to step down, their regimes remained largely intact, with military leaders from the old order stepping in to oversee the transition to a still-undefined new one.” “Libyan rebels storm Gaddafi compound in Tripoli,” August 23, 2011.

increase the rents of one organization within the coalition led to a temporary breakdown within the coalition itself. The breakdown was remedied by removing the Ben Ali organization.

To the extent that open access economies and polities of the developed world require impersonal rules that treat everyone, or at least all citizens, the same along a minimum of dimensions, societies in the region are not on the verge of a transition to open access. It seems unlikely that the dynamic changes unleashed by the Arab Spring will lead to more impersonal rules in either the political or economic systems, although it is not an outcome that can be dismissed either. What seems clear is that if we judge the reforms that follow the Arab Spring by the standards of open access societies and demand that governments create impersonal rules and act as effective guardians of those rules, that the demands will not be met and the reforms will be judged a failure. To the extent that the judgments are internal to the societies, the legitimacy of reforms will be weakened, even if the reforms move the societies towards better organizations and more stable social arrangements.

Treading the line between supporting corrupt regimes that prey on their own citizens versus supporting regimes and reforms move societies in the right direction but do not immediately produce impersonal rules is a delicate one. We simply do not know enough yet about the internal dynamics of natural states to know exactly how they move forward. Equally important we have little or no clue about how to prevent them from moving backwards. Until we examine societies through the lens of natural states, rather than from the perspective of open access societies, we are unlikely to understand those dynamics very well.

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Figure 1: Logic of the Natural State and the Organization of Violence

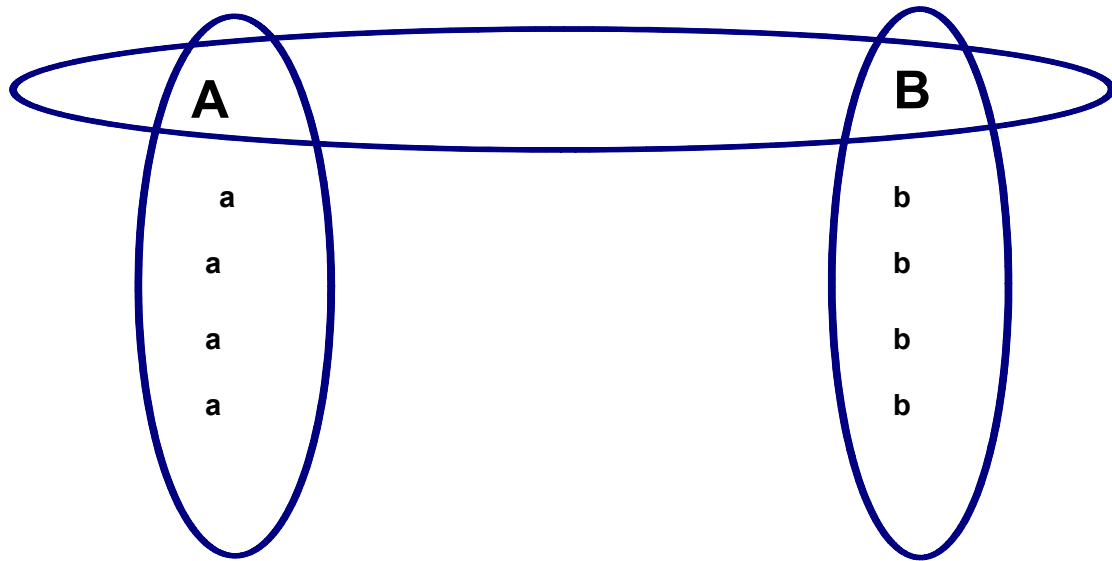


Table 1: Growth rate averages in years where GDP grows and shrinks and share of years with positive GDP growth

Per Capita Income in 2000	Average Positive Growth Rate	Average Negative Growth Rate	Share of Positive Years
Over \$20K no Oil	0.0388	-0.0233	0.84
\$15 to \$20K	0.0559	-0.0425	0.76
\$10 TO \$15K	0.0527	-0.0407	0.71
\$5 to \$10K	0.0525	-0.0459	0.73
\$2 TO \$5K	0.0539	-0.0475	0.66
\$.3 to \$2K	0.0537	-0.0538	0.56