

To Christine Leon de Mariz

In the Shadow of Violence

Politics, Economics, and the Problems of Development

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The department of political science at Stanford University hosted a conference of the team in January 2010. We thank Eliana Vasquez and Jackie Sargent who did a great job of hosting.

When the GPF grant was approved in early 2009, Christine de Mariz took charge of administering the project's most intense phase of contracting consultants, monitoring preparation of case studies, and organizing the team meetings. Christine was a full intellectual member of the team and also did a wonderful job of organizing, coordinating, and inspiring. In May 2010, however, Christine was seriously injured in a car accident while on a World Bank mission in Haiti. We dedicate the volume to Christine, in thanks for her assistance in 2009–10 and in hope for her swift and complete recovery.

ONE

Limited Access Orders

An Introduction to the Conceptual Framework

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1.1 The Problem of Economic and Political Development

Success in economic as well as political development depends primarily on improving institutions. This has become the consensus among economists over the last twenty years, as the world has witnessed many development failures in spite of abundant capital, natural resources, and educated populations, who emigrate or stagnate if institutions do not put them to good use. The question now is: What institutions are right? As elaborated later in this chapter, some argue that developing countries should emulate the institutions of the most successful, high-income economies of the OECD. We and others, however, see evidence that most low- and middle-income countries are not ready to utilize many Western European or North American institutions or that these institutions function very differently if transplanted into these low- and middle-income economies.

The purpose of this volume is to develop and apply an alternative framework for understanding the dynamic interaction of political, economic, and social forces in developing countries, which was first laid out by North, Wallis, and Weingast (2009, hereafter *NWW*). The standard approach begins with neoclassical assumptions that growth will occur whenever profitable opportunities present themselves unless the intervention of political or social impediments prevent markets from working. In contrast, the alternative perspective presented here begins with the recognition that all societies must deal with the problem of violence. In most developing countries, individuals and organizations actively use or threaten to use violence to gather wealth and resources, and violence has to be restrained for development to occur. In many societies the potential for violence is latent: organizations generally refrain from violence in most years, but occasionally find violence a useful tool for pursuing their

ends. These societies live in the shadow of violence, and they account for most of human history and for most of today's world population. Social arrangements deter the use of violence by creating incentives for powerful individuals to coordinate rather than fight. The dynamics of these social arrangements differ from those described in neoclassical models, and this difference limits the value of the neoclassical tools for understanding the problems of development.

Our framework builds on the exciting work of a range of scholars studying the political economy of development. Some draw heavily on international contrasts of historical experience through detailed analysis of cases (Abernethy 2000; Bates 1981, 2001; Haber et al. 2003, 2008; Herbst 2000; Fukuyama 2011; La Porta et al. 1999; Landes 1998; Mokyr 1990; Spiller and Tommasi 2007; Tilly 1990). Our framework tries to take account of the events portrayed in those case studies. Other authors use econometric analysis to test for the historical origins of institutional differences (Acemoglu and Johnson 2005; Acemoglu and Robinson 2006; Engerman and Sokoloff 2008). Our framework aims to provide a new institutional explanation for why patterns of political economy have persisted for centuries. Another group of studies elaborates theoretical models of political interaction that give explanations for the dysfunction that plagues developing countries (for example, Buchanan et al. 1980; Bueno de Mesquita et al. 2003; Cox and McCubbins 2000; Levi 1988; North 1981; Olson 1993; Przeworski et al. 2000). Our framework takes more account of the issues of violence and of organizational structures within the elite. The studies closest to our approach not only look directly at institutions in developing countries today but also argue that no simple or linear relationship exists between institutional and economic development (Collier 2009; Easterly 2001; Grindle 2007; Khan 2004; Khan and Jomo 2000; Rodrik 2007; Shirley 2009). Our approach provides a more systematic explanation for some of the nonlinearities that they identify.

Others have also discussed how the institutions of developing countries differ qualitatively from those in developed economies. Marx, of course, noted how capitalist societies differed from their predecessors. Huntington (1968) and more recently Collier (2009) see the importance of the problem of violence in these societies, suggesting that they may not be ready for some of the institutions prevalent in more economically developed countries. Grindle (2007) and Rodrik (2007) see the need for developing countries to strive for "good enough governance," with the implication that the institutional needs in these places is qualitatively different from in developed countries. Alston et al. (2010), Khan (2004), Khan and Jomo (2000),

Moore (2010), and Shirley (2009) also see an institutional agenda for developing countries that is not the same as an incremental and linear adoption of the institutions in developed countries. Compared to these earlier analyses, our integrated conceptual framework enables us to think about the interaction of economic and political behavior, explicitly considering the problem of violence as an entry point.

The problem of violence has increasingly become a concern of the World Bank. The central message of the 2011 World Development Report on *Conflict, Security, and Development* "is that strengthening legitimate institutions and governance to provide citizen security, justice and jobs is crucial to break cycles of violence" (World Bank 2011, p. 2). The report offers many dimensions of analysis within the theme that creating widespread trust in institutions and popular satisfaction with outcomes – like employment and rising living standards – are integral to reducing the threat of violence. Our approach puts more emphasis on the nature of organizations and the relations between their leaders – the elite, broadly defined. The WDR acknowledges a role for elite bargains, but sees them as a temporary solution at best for the problem of violence. Our framework sees elite bargains as the persistent core of developing societies and seeks to understand which types of elite bargains have contributed to positive economic and social development and which have not.

1.2 The Logic of Limited Access Orders

The conceptual framework emphasizes that developing societies limit violence through the manipulation of economic interests by the political system in order to create rents so that powerful groups and individuals find it in their interest to refrain from using violence. We call this way of organizing a society a *limited access order* (LAO), and this section explains the logic of these societies.

LAOs are social arrangements – simultaneously political and economic – that discourage the use of violence by organizations. Even in a world where violence is a viable option that cannot credibly be deterred by a third-party or central authority (like a government), some or all potential violence can be discouraged so that it remains latent, allowing individuals and organizations to have some confidence of peace in dealing with other organizations with violence potential. The LAO framework builds on the importance of organizations, both as a way of coordinating individuals and as a way of generating rents and shaping incentives consistent with individual behavior.

We develop the underlying logic by starting with a simple example that focuses on two groups and two leaders. Real societies are much larger and more complicated. The story begins with self-organizing groups that are small and that have no way to develop trust between individuals beyond ongoing personal relationships. Members of one group trust others within their group but distrust members of the other groups. Because they recognize that disarming will lead the other group to destroy or enslave them, members of neither group will lay down their arms. To avoid an outcome with continual armed conflict, the leaders of the groups agree to divide the land, labor, capital, and opportunities in their world among themselves and agree to enforce each leader's privileged access to their resources. The privileges generate rents, and if the value of the rents the leaders earn from their privileges under conditions of peace exceeds that under violence, then each leader can credibly believe that the others will not fight. The leaders remain armed and dangerous and can credibly threaten the people around them to ensure each leader's privileges.

An important feature of the agreement between the leaders is the ability to call on one another to help organize and discipline the members of each leader's group. Especially they *limit* the possibility for others to start rival organizations. Limited access to opportunities for organization is the hallmark of LAOs. The arrangement is represented graphically in Figure 1.1, where individuals A and B are the two leaders and the horizontal ellipse represents the arrangement between them. The vertical ellipses represent the arrangements the leaders have with the labor, land, capital, and resources they control: their clients, the a's and b's. The horizontal arrangement between the leaders is made credible by the vertical arrangements. The rents leaders receive from controlling their client organizations enable them to credibly commit to one another, since those rents are reduced if cooperation fails and there is fighting. The rents from peace that are lost if violence occurs create incentives that curtail violence.

A reciprocal effect also exists. The agreement among the leaders enables each leader to structure their client organizations better, because they can call on each other for external support. In effect, the ability of the leaders to call on one another can make their individual organizations more productive. The rents the leaders enjoy, then, come not only from their privileged access to resources and activities, but from the leaders' ability to create and sustain more productive organizations.

We call the coalition among the leaders the *dominant coalition*. The dominant coalition provides third-party enforcement for each of the member organizations. The vertical organizations might be organized as political

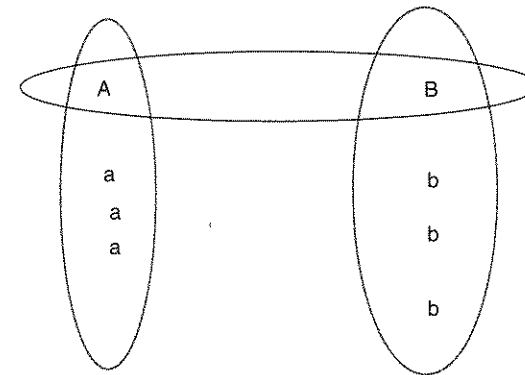


Figure 1.1 The logic of limited access.

parties, ethnic groups, patron-client networks, or crime families. The combination of multiple organizations, the organization of organizations, mitigates the problem of violence between the really dangerous people, creates credible commitments between the organizations with violence capacity by structuring their interests, and creates some belief that the leaders and their clients share common interests because they share in the value of rents.

The figure is a very simple representation. It portrays the dominant coalition as an organization of individuals, when the coalition in reality is usually an organization of organizations. They are often portrayed as patronage networks. The LAO framework calls attention to their function not only as the distributors of spoils but also as essential institutions to bring about cooperation rather than violence among organizations with violence capacity.

In a functioning limited access society, members of the dominant coalition include economic, political, religious, and educational leaders (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. Among the most valuable privileges members of the dominant coalition enjoy and the primary source of rents within the coalition is the ability to use the dominant coalition to enforce arrangements within the organizations of the coalition members. The rents created by those exclusive privileges are part of the glue holding together the agreements between the organizations. Limiting access to enforcement of rules by the coalition creates rents and shapes the interests of the players in the coalition.

The creation and structuring of rents are the heart of the logic of limited access. The framework focuses attention on rents to elucidate how a

coalition of organizations provides order, but it differs in two ways from the uses of the term *rents* in recent economic literature. One difference is terminological, but the other difference illuminates how the LAO framework depicts the dynamic interaction between political and economic institutions.

Ricardo classically defined rents as a return to an asset or action higher than the return to the next best opportunity foregone. The neoclassical proposition is that individuals maximize net benefits: the difference between total benefits and total costs, where costs are defined as opportunity costs. Net benefits are rents, therefore rational individuals maximize rents. A smoothly operating market achieves the maximum amount of rents, the sum of consumer and producer surplus.

In the last few decades, a relatively narrow use of the term *rents* has come to dominate both academic and policy discussions about development. Krueger (1974) and Bhagwati (1982) extended the ideas of public choice economists like Buchanan, Tollison, and Tullock (1980) that individuals not only maximize rents, but that rational individuals are willing to devote resources to gain rents for themselves, an activity called *rent seeking*. The problem, from society's point of view, arises because individuals devote resources to pursuing rents that have no socially useful purpose. For example, suppose the government is deciding whether to impose a tariff on imports, which will create winners and losers. Both sides devote resources to gaining their desired end, spending up to their expected value of winning. The resources expended by winners and losers are directly unproductive rent-seeking activities (DUP), since the expenditure of resources creates no value for society as a whole. When rent seeking leads to outcomes that make society worse off, it creates DUP rents.

Common practice has dropped the *DUP* qualifier. A popular element of recent development policy, including the governance and anticorruption agenda, is the elimination of *DUP* rent seeking. Unfortunately that often is stated simply as eliminating rent seeking. Defined in the classical way, however, rent seeking is a ubiquitous characteristic of human behavior. Adam Smith pointed out how individual rent seeking could benefit society. We want to be explicit that the LAO framework uses the term *rents* to mean classical rents, not just *DUP* rents.

Our thinking about elites and dominant coalitions emphasizes that rents make people's behavior more predictable. An individual willing to work for ten dollars an hour but is paid fifteen dollars an hour receives a rent of five dollars an hour. A small change in circumstance will not lead that person to quit his or her job. In contrast, if the worker is paid \$10.05 an hour, he or

she receives a rent of only \$.05 an hour and may quit the job if even a small change in circumstances raises the value of his or her alternatives or reduces his or her benefits from working.¹

Following the logic of limited access, rents are critical to coordinating powerful members of the dominant coalition because rents make their behavior predictable. But not all rents make behavior with respect to violence more predictable. The rents can limit violence within the coalition only if rents are reduced when violence breaks out. The logic of limited access therefore emphasizes a kind of rent creation effected by violence that can serve to coordinate members of the dominant coalition.

This logic also shows why organizations are so important to the dominant coalition. In Figure 1.1, A and B enjoy rents that will be reduced if they are violent, creating a credible incentive for both of them to be peaceful. But A and B also receive rents from their organizations that depend on their continued cooperation. If A and B serve as credible third parties for each other, then their vertical organizations become more productive. The gains from making their organizations more productive are the rents from cooperation. If A and B do not coordinate, the rents from their organizations are reduced.

This understanding of rents distinguishes the LAO framework from other schemes that focus simply on the maximization of elite rents from any source.² The *DUP* approach ignores violence and implicitly assumes that the creation of rents is unrelated to the underlying nature of the society in which the rents appear. The LAO focus on violence and instability highlights the trade-off between stability and efficient growth. Specifically, when is it better to allow some costs to the economy, and perhaps to civil or political rights, in order to maintain or strengthen stability? The conceptual framework shows that the appropriate counterfactual about eliminating rents is not a competitive market economy (as the *DUP* perspective suggests), but a society in disorder and violence. To the extent that rent creation in LAOs is the means of creating stability, rents are a symptom of the development

¹ This is the logic of "efficiency wages" laid out by Akerloff and Yellen (1990).

² In a stable LAO (effectively motivating restraint of violence), everyone in the dominant coalition is getting a efficiency wage, which means that they are dividing the pie so that no one individual or group is maximizing its rent. If someone were maximizing in the neoclassical sense, it would mean pushing someone else close to the edge and ready to change loyalties if there were a marginal change in prices. Limited access allows all the members of the dominant coalition to enjoy extra rents and not be at their lower margin. Of course, sometimes a big change in relative prices precipitates discontinuous changes in the LAO dominant coalition. But the more robust LAOs have enough excess rents in the system to avoid this most of the time.

problem, not the cause of it. Attempts to remove institutions and policies that support economically unproductive rent creation and corruption need to be done in ways that avoid recurrence of instability and violence, which derails development in a LAO.

Combining the dynamics of rent allocation within the dominant coalition with the neoclassical idea that individuals seek to maximize rents allows us to understand the uncertain dynamics of limited access orders. One important implication is that limited access orders do not have a strong tendency to adopt arrangements that increase rents in the aggregate by making social organizations more productive. Individual elites usually have a complicated mix of rents, and their interests in maximizing rents through the dominant coalition is not wholly predictable. As a result, limited access societies are not characterized by steadily increasing stability or productivity. Rather, they have periods of rapid growth and periods of stagnation or collapse.³

LAOs are not static. When a crisis hits a limited access society, the dynamics of the dominant coalition lead it to focus on the rents – old or new – that sustain coordination and limit violence, and the creation of new rents that do sustain coordination and limit violence, as in the cases of Mexico in the 1930s, Chile in the 1970s, Korea in the 1960s, and Zambia in the 1980s. Or a crisis may lead to a free-for-all, as in Mozambique in the 1980s or in the DR Congo since the 1990s. A lot depends on the personality of the leaders in these times of crisis (Alston et al. 2010). Whether the new rents are good or bad for economic growth is not predictable. In some cases, new rents seem to cause social decline, as in Marcos's crony capitalism in the Philippines. In other cases, the new rents move societies forward, as when privileges were granted to conservatives in the 1980 Chilean constitution. The mixed role of rents in limited access orders explains why these societies do not inevitably improve over time.

Another implication of the framework is that limited access to organizations and economic rights necessarily limits competition and economic productivity. In other words, the solution to the problem of violence may become an impediment to long-term economic development, although it does not set an absolute limit to economic growth.

To summarize, LAOs constrain violence by limiting the ability of groups to form political, economic, social, military, and other organizations to engage in social activities. The rents created from those limits on access form the incentive structure that controls violence: powerful groups and individuals understand that their rents will fall if violence erupts, so they

³ See NWW, chapter 1.

are more likely to be peaceful. At the center of all but the most fragmented LAOs is the dominant coalition, an organization held together by the interlocking interests of its members. A valuable privilege for members of the dominant coalition is that it provides exclusive third-party services to enforce arrangements between and within the organizations in the coalition. The rents created by those exclusive privileges are part of the incentives holding together the agreements between the organizations and their leaders. Limiting access to enforcement by the coalition creates rents and shapes the interests of the players in the coalition.

The logic of how LAOs solve the problem of violence has striking implications for economic development. Limits on the rights to form organizations and numerous privileges for rent creation necessarily mean extensive political constraints on the economy. Local monopolies and restrictions on economic entry hinder competitive markets and long-term economic growth. Put simply, the means by which limited access orders solve the problem of violence is part of the development problem.

Before the twentieth century, the problem of development was really the problem of human history. For roughly ten thousand years after the first large societies emerged in the Middle East, the long-run growth in the material standard of living of most of the population was essentially zero. The field of economic development largely ignores the long expanse of human history, focusing almost exclusively on the last century of relatively slow or zero per capita economic growth of societies outside the twenty-five or so countries that achieved high incomes by the late twentieth century. Viewed in the context of long-run history, the developed world was decidedly abnormal while the slow or nondeveloping world appeared normal.

By the end of the twentieth century, however, the LAOs of the world, including many newly liberated former colonies, were in a world economic and political system dominated by OAO economies and organizations. This has had many effects (North et al. 2007), but an important one for long-term growth was that the LAOs could access technology, markets, and even institutions from the OAO part of the world, especially Western Europe and the United States. This has allowed many developing countries to have significant per capita GDP growth over several decades while maintaining LAO institutions to restrain domestic violence as well as to benefit the elite in the dominant coalition. While some countries have had major reversals of growth, taking productivity and living standards temporarily back to levels of past centuries (like the DRC and Mozambique in our sample), other LAOs do not seem likely to have huge reversals and could plausibly keep growing. Even without making the transition to open access they are growing in the wake

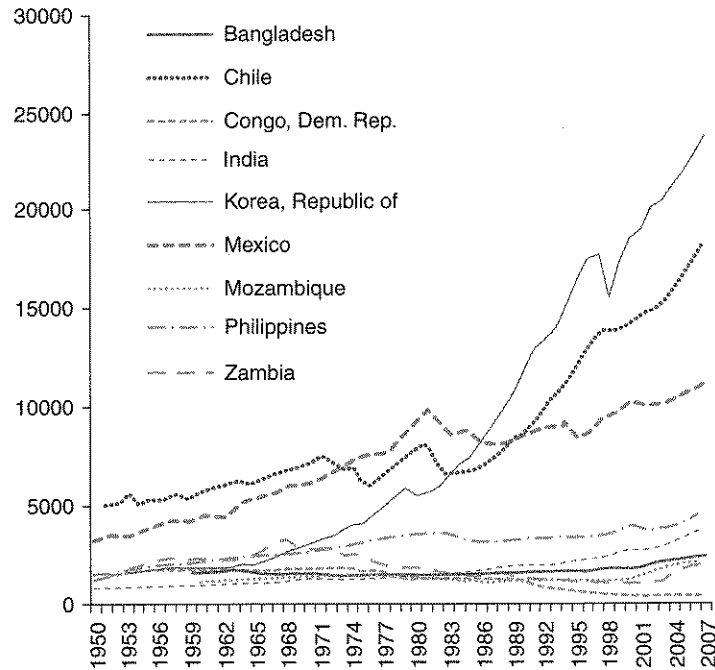


Figure 1.2 GDP per capita in nine countries (2007 prices).

Source: Heston et al. 2009.

of the OAOs – Mexico, India, and Zambia in our sample, along with Brazil, China, Indonesia, Malaysia, Vietnam, and South Africa.

Figure 1.2 shows the last half century of per capita GDP in our sample countries – usually but not always growing. There is a lot of room for most developing nations to grow economically and improve their institutions while remaining LAOs. To properly advise developing countries, we need to understand better how the LAOs work.

1.3 The Spectrum of Limited Access Orders

How do LAOs improve or regress? Although all low- and middle-income countries today are limited access orders, they have per capita income levels that differ by a factor of twenty or more, reflecting wide differences in the quality of institutions. To differentiate limited access orders and to think about the process of change within them, we developed a spectrum (not categories!) of fragile, basic, and mature LAOs. The three labels are not distinct stages, but variants of an ideal type: points on a continuous spectrum of

societies differentiated by the structure of their organizations. The formation of organizations as a means of creating rents lies at the root of the logic of limited access. The nature of organizations that a society can sustain also defines the dimensions of the LAO spectrum. Whereas the LAO/OAO distinction reflects a fundamental difference in the dynamics of social orders, the different types of LAOs are shorthand terms for ranges that are not clearly distinct.

In the *fragile LAO* range of societies, the dominant coalition can barely maintain itself in the face of internal and external violence. These societies find it difficult to sustain organizations that persist through time. Most organizations are closely identified with the personality of their leadership, and leaders are personally connected in the dominant coalition. Contemporary examples include Afghanistan, Haiti, Iraq, the DR Congo, and several other places in sub-Saharan Africa. Among the powerful individuals and organizations that make up the coalition, a distinct organization called the government may or may not exist, but if it exists it has no monopoly on violence, and – as in the DR Congo – may control only a small fraction of the country's nominal territory.

The bottom billion described by Collier (2007) live in fragile LAOs, in which each faction in the dominant coalition has direct access to violence, and violence capacity is the principal determinant of the distribution of rents and resources. If the allocation of these rent flows is out of alignment with the balance of power, factions demand or fight for more. Because of their instability, fragile LAOs have simple institutional structures for the government. Individuals in fragile LAOs may perceive the potential benefits from better institutional structures, but the inability to maintain the coalition over long periods creates pervasive uncertainty about outcomes and prevents individuals and organizations from credibly committing to observe rules in many possible circumstances.

In the *basic LAO* range of societies, the government is well established compared to a fragile LAO. A formal government is often the main durable organization (or more accurately, an array of government organizations), although nongovernment organizations often exist within the framework of the dominant coalition.⁴ Elite privileges and organizations are closely identified with the coalition and often with the government. Contemporary examples include Burma, Cuba, North Korea, Mexico at the height of PRI hegemony, and many Arab, former Soviet, and sub-Saharan African

⁴ One of the clearest implications of the framework brought out in the case studies is the large number of nongovernment organizations that exercise substantial power and sometimes have violence capacity in LAOs.

countries. In twentieth-century socialist countries and other one-party states, almost all organizations were embedded within or closely linked to the ruling party. In contrast to fragile LAOs, basic LAOs create and sustain fairly stable organizational structures for the government.

As the society develops a more sophisticated internal institutional structure, it may provide more organizational forms to citizens, but usually within the direct orbit of the dominant coalition, including ruling parties. Basic LAOs do not support organizations outside the orbit of the coalition itself, even for elites, for several reasons. In some cases, independent private organizations potentially threaten the dominant coalition. In other cases, the coalition cannot commit to honoring the private organizations' rights and privileges, so members of the elite as well as the non-elite are reluctant to create economically significant private organizations for fear of expropriation. As a result, private elite organizations are closely and often personally tied to the coalition, even the branches of multinational companies operating in the country. Basic LAOs differ in the extent to which they tolerate (even without supporting) organizations outside the dominant coalition. As these LAOs mature, organizations start to proliferate and compete to gain acceptance in the dominant coalition.

The specialization and division of labor within a basic LAO government mainly involves its ability to create organizations (such as ministries, public enterprises, and banks) to provide public and private goods for the dominant coalition, such as managing trade, education, religion, tax collection, and economic infrastructure. Violence capacity in basic LAOs usually remains dispersed among government organizations, such as police, secret security, and branches of the military, each with a way to extract rents through corruption or monopolies. Sometimes nongovernment organizations also have significant violence capacity. Although not every organization in a basic LAO has violence capacity, those that survive have connections to some organization with violence capacity; in case violence actually erupts, members of the elite know they will need protection.

In the *mature LAO* range of societies, the dominant coalition supports a large variety of organizations outside the government, as well as within it, but still the LAO limits access to private organizations that the government allows and supports. In this way, the dominant coalition limits competition and creates rents to maintain itself and prevent violence. Mature LAOs include most of Latin America, China, South Africa, and India. Mature LAOs have durable institutional structures for the government and can support a wide range of elite organizations that exist apart from the government. A mature LAO, therefore, has a body of public law

that specifies the offices and functions of the government, the relationship between the offices and functions, and provides for methods of resolving conflicts within the government, and by extension, within the dominant coalition. The law may be written or unwritten, but it must be embodied in a government organization, such as a court or bureaucracy, that articulates and enforces the public law. The Chinese Communist Party, for instance, recognizes this need and is attempting to create such institutions in a manner consistent with the Party and its many goals.

As LAOs mature, a two-way interaction occurs between increasing the sophistication and differentiation of government organization and the parallel development of (nonviolent) private organizations outside the state. In a mature LAO, the government's commitments to policies and institutions can be more credible because elite private organizations are in a position to put economic pressure on the government to abide by its commitments. This ability arises as private organizations act to protect their interests in the differentiation and autonomy of public institutions, such as courts and the central bank.⁵ In this way, independent elite organizations are not only a source of economic development, but their presence also allows more sophisticated institutions and organizations to mature within the government. On the other hand, without more complex public sector institutions, like courts, independent private organizations cannot prosper.

Mature LAOs are more resilient to shocks than fragile or basic LAOs. The public institutions of a mature LAO are capable, in normal circumstances, of lasting through both a range of changing circumstances and changes in the makeup of the dominant coalition. Nonetheless, strong shocks always have the possibility to cause breakdowns, and mature LAOs typically face intermittent crises. The extent to which mature LAOs have more durable government institutions than basic ones is a matter of degree rather than of kind.

Table 1.1 summarizes the spectrum of LAOs. Although the types can be ordered in a progression from least to most developed, the progression does not imply a teleology; societies do not inevitably move from fragile to basic or from basic to mature; indeed, many societies regress instead of progress while others stay as one type for decades or centuries. Further, some societies exhibit a mix of types – Colombia appears mature in Bogota and Medellin but fragile in many rural departments. Ecuador, Venezuela, and Russia seem to be regressing as they nationalize, inhibit, or outlaw

⁵ The same process plays a more visible role in open access orders, where sophisticated private organizations in a market economy serve as a counterbalance to the government and other political organizations.

Table 1.1 *Types of limited and open access orders*

Type (Examples)	Economic Organizations (EOs)	Political Organizations (POs)	Violence Capacity (VC)
Fragile LAO (Afghanistan, the DR Congo, Haiti)	EOs and POs are not clearly distinguishable, except perhaps for multinational firms present in fragile LAOs.		All surviving organizations have VC. Civilian and military not clearly distinguished.
Basic LAO (USSR, Saudi Arabia, Tanzania 1970–90s, Mexico 1940s–80s)	All EOs – public or “private” – are linked with the coalition; some are also linked with multinationals.	Most POs are controlled by the state, for example, a one-party state or dictatorship. Opposition parties are under threat.	Many VC organizations are part of government, yet significant nongovernment organizations possess VC.
Mature LAO (Mexico since 1990s, Brazil, South Africa, India, China)	Many private firms, some multinationals. Effectively limited entry, requiring political connections.	Multiple POs, but dependent on central permission. Democratic process, if present, cannot challenge major economic powers.	Government controls most organizations with VC, but exceptions here are common.
OAO (Western Europe, USA, Canada, Japan)	Most are private. Nondiscriminatory rules for any citizen to start an EO and get government legal support.	Nondiscriminatory entry rules for any citizens to start or join a PO.	Civilian government controls all organizations with VC.

once independent organizations. Similarly, other societies fall into violence and regress, such as Somalia and Rwanda and the former Yugoslavia in the 1990s. Germany in the 1920s and 1930s regressed from a very mature LAO in 1913 to a basic LAO under the Nazis.

1.4 Development within LAOs

LAOs are not static. They often progress across the LAO spectrum, because the progression increases rents and elites can make themselves

better off if they manage to retain power while moving from a fragile to a basic LAO or from a basic to a mature LAO. But many LAOs stagnate or regress. The reason is that all LAOs are vulnerable to internal shocks and to changes in the environment – relative prices, technology, demographics, external threats – that affect the relative power of elites. As relative power shifts, those gaining power naturally demand more rents. If all members of the dominant coalition agreed on how power has shifted, they would adjust the rents through peaceful bargaining. But when elites in an LAO disagree about relative power shifts, they may end up fighting, particularly if some elites believe they are stronger than others believe they are. Thus, LAOs often regress into disorder. At other times, changes in world prices that alter rent pools force or allow members of the dominant coalition to restructure their societies (as exhibited in the Philippines under Marcos and Venezuela under Chavez, both regressing). In short, LAOs frequently change even as they remain within the logic of limited access.

Three processes seem to be key for the maturation of an LAO; they are important advancements and are the basis for most of the recent reduction of world poverty: First, some LAOs bring more of the country’s organizations with violence capacity into relationships that successfully reduce actual violence. This does not usually involve bringing all of them under the direct control of the government (in the Weberian sense of a state monopoly on violence).⁶ Rather, it involves allocating the rent-generating activities in the LAO in a way that motivates organizations with violence capacity to refrain from actually using violence.

Second, other LAOs increase the scope of relationships in which rule of law is effectively maintained. Expansion of the rule of law is sustainable only when it is consistent with the arrangements that generate adequate incentives for organizations to restrain violence. Even when its scope is limited, having some rule of law seems to reduce violence and promote economic growth. Rule of law that covers all public relationships among elites arises late in the maturation process. It is even later that rule of law is extended to become effective for the wider population, and some aspects of rule of law may become universal before others.

⁶ Complete consolidation of violence under control of the political system is an aspect of an LAO reaching the doorstep of transition to OAO. It means that only specialized organizations (military and police) may use violence and that these organizations are controlled by the government and follow explicit rules about the use of violence against citizens. This consolidated control over violence is a step in the separation of powers and purposes, which is a hallmark of stable and effective democracies (Cox and McCubbins 2000).

Third, LAOs also mature by increasing the reliability across time with which the government provides support for the organizations and enforces agreements among them. Strengthening organizations that make up the government – executive, legislative, military, police, dominant political parties, public sector unions – depends in part on strengthening organizations outside the state – private firms, opposition parties, and so forth. The organizations of the government achieve more coherence and credibility when the organizations independent of the state achieve enough strength and coherence to hold the state accountable for its commitments, independently of the individuals who initially made those commitments. As elaborated in the concluding “Lessons” chapter, a country is often at different stages on the three dimensions.

1.5 Open Access Orders, the Transition, and the Doorstep Conditions

To understand LAOs, we must also look at open access orders. OAOs are sustained by institutions that support open access and competition: political competition to maintain open access in the economy and economic competition to maintain open access in the polity. In OAOs, the Weberian condition holds, so that the government has a monopoly on violence, potential and actual. Organized violence is consolidated in military and police forces; other organizations are not allowed to use violence. Exemplifying the extensive credible commitments in OAOs, the political system controls the organizations – military and police – that have a monopoly on the legitimate use of violence.

An open access order fosters economic, political, and social groups that can organize and reorganize themselves at will to defend their interests in response to government policies and to pressure for change. In the presence of appropriate constitutional institutions, strong private organizations help to check the use of military and police force by the government.

Open access is sustainable in societies where entry into economic, political, religious, and educational activities is open to all citizens as long as they meet standard (impersonal) requirements. This access requires that the government supports forms of organizations in these areas and makes access to those forms open to all citizens. The rule of law must be enforced impartially for all citizens. The portion of the population enjoying open access need not be 100 percent in order to sustain open entry in economic and political systems, which points to the importance of defining citizens.

The *transition* from limited to open access orders has two features. First, within LAOs it is possible, following the logic of the LAO, for a mature LAO to develop institutional arrangements that enable impersonal exchange among elites. Second, the transition process begins when members of the dominant coalition find it in their interest to expand impersonal exchange and, therefore, incrementally increase access. The system changes from the logic of limited access rent creation to open access entry.

Historically, societies that developed sustainable property rights and rule of law began by making credible commitments to sustain those rights for elites. Later, as elite rights came to be defined impersonally, then it became possible to extend those rights to wider circles of society. Defining and enforcing legal rights occurred as societies developed sophisticated public and private elite organizations (i.e., becoming mature LAOs) and increased the range of credible commitments the state could make (NWW).

We identify three *doorstep conditions* that make impersonal relationships among elites possible:

- 1) Rule of law for elites.
- 2) Support for perpetually lived elite organizations (including the state), both public and private.
- 3) Consolidated political control of the organizations with violence capacity (including military and police forces).

These conditions are the culmination of the three dimensions of improvement within LAOs. Historically, the doorstep conditions built on one another in the first societies to move to open access. Although it is not clear whether the historical order of development is necessary, the two of our cases that are making the transition – Chile and South Korea – did achieve these conditions.

1) Rule of Law for Elites. The dominant coalition in every LAO is an adherent organization, a group of individuals and organizations bound together by mutual interests and threats. Their constant interaction inevitably gives rise to the possibility of regularizing behavior through rules, both informal and formal, governing specific relationships among the elite. Adjudicating disputes among elites is a fundamental part of sustaining relations among elites. In mature LAOs on the doorstep, these functions not only become formalized into a machinery of government and justice, but they also became operational for the elites. As mentioned earlier, the origin of property rights and legal systems is the definition of elite privileges in the LAO.

2) Perpetual Lived Forms of Elite Organizations. A perpetually lived organization lives beyond the life of its individual members. Because a

partnership must be reformed on the death or withdrawal of any partner, a partnership is not perpetually lived. A corporation is a perpetually lived organization because its structure allows it to live beyond the life of the members who create it; no single member (excepting the case of a single individual with majority control) can dissolve the corporation at will. Organizations that exist at the pleasure of the current king or leader are therefore not perpetually lived. Perpetual life is not eternal life, but a life defined by the identity of the organization rather than the identity of its members. Perpetual life is a doorstep characteristic of both public and private organizations, and if a government cannot credibly commit to honor its agreements beyond the current dominant coalition, then it cannot commit to enforce the agreements of an elite organization whose life extends beyond the lives of its members. The second doorstep condition requires development of perpetual life for the government as the most important elite organization.

3) Consolidated Control of the Organizations with Violence Capacity. The third doorstep condition is consolidated control of the military, police, and other organizations with violence capacity. In LAOs, the government often lacks consolidated control of the military and the capacity for violence is dispersed throughout the elite. Consolidated control of the military requires the existence of an organization with control over all the military resources of the country; control over the various military assets is consolidated in that organization; and a set of credible conventions that determine how force is used against individuals and coalition members.

Consolidated control of violence capacity is a subtle problem. In some basic LAOs, a faction within the dominant coalition may gain monopoly control of military and police resources. But such an LAO is not a society on the doorstep, but is probably a tyranny, as Nazi Germany and the former Soviet Union illustrate. Moreover, societies where a single faction dominates the military are unlikely to sustain consolidated control for long, since the factions and groups in the dominant coalition without the means to protect themselves have no reason to believe that the commitments made to them will be honored. In most LAOs the absence of consolidated control of the organizations with violence capacity is simply a fact of life, as in Bangladesh, India, Mexico, and the Philippines. Therefore, one cannot expect these places to make a quick transition to open access. South Korea and Chile are the only ones among our cases that had achieved this condition by 2000, although each clearly had an earlier period when the civilian government did not control the military.

All three doorstep conditions are consistent with the logic of the LAO and arose historically within some limited access orders. The establishment of laws and courts is the means by which the dominant coalition regularizes relations among elites. Perpetually lived organizations are a vehicle for limiting entry and generating rents in a more systematic manner. Consolidating military power and other violence capacity under control of the political system creates a monopoly on violence that dramatically reduces the frequency of violence. Combined, the three doorstep conditions create the possibility of impersonal relationships within the elite.

Unlike the gradual distinctions among types of LAOs, the distinction between an LAO and an OAO seems to be a matter of substance rather than gradation. Unlike the historical pattern in which limited access societies move back and forth along the continuum between fragile, basic, and mature LAOs, the transitions from LAO to OAO have occurred rather quickly, usually over fifty years or less. So far in history none of the transitions to OAO has been reversed.

1.6 Case Study Countries

The concluding chapter discusses in detail the lessons from the nine country cases. Here we emphasize four commonalities that clearly stand out from the application of the LAO framework. The first commonality is the centrality of violence, its management, and prevention in the history of these countries. Violence is important not only in the interaction of formal military and police forces with the government but also in the presence of powerful nongovernment groups that threaten and use violence to affect the course of national affairs. In only three of the cases, Zambia, Mexico, and India, was the army under the control of the political system for the entire period under consideration; but violence capacity was not limited to the official organizations. Even in Korea and Chile, two of the more successful cases studied, the military at times took control of the government. In none of the societies considered has the government always maintained a monopoly on organized violence, although the degree to which nongovernment groups use or threaten violence varies widely.

The second commonality is the central place of organizations in structuring relationships within and between the polity, economy, and wider society. In every case, powerful groups enjoy the explicit and privileged support for their organizations – for example, unions and business elites in Mexico, *chaebols* in South Korea, and ruling families in Bangladesh and the Philippines. The privileges enable those organizations to act in

the domestic and international economy under conditions that differ from their fellow citizens.

The third commonality is the pervasive use of rents to organize political and economic coalitions. Indeed the source of rents is often the privileges provided by the dominant coalitions of powerful interests. Social dynamics in limited access societies are driven by attempts on the part of dominant groups to seek rents, which efforts have important effects on growth and control of violence. Sometimes these goals are compatible and LAOs grow spectacularly, at least for a time; for example, the so-called Brazilian and Mexican miracles of the 1960s and the more recent East Asian miracles. At other times the institutions to reduce violence constrain growth. And sometimes the institutions that once reduced violence fail, with disastrous consequence for the well-being of all, as in Mozambique in the 1980s.

The fourth commonality is that none of these societies have been static. All of them have gone through significant changes, with some falling into violence. Nonetheless, except perhaps South Korea, they all remain limited access orders. The cases therefore illustrate the varieties of LAOs and how individual LAOs can exhibit remarkable change over time, sometimes being democratic, while at other times being authoritarian; sometimes growing and at peace while other times shrinking and mired in violence.

The case studies that make up this volume do not simply apply and confirm the existing LAO/OAO framework. They offer new insights that expand the framework. One set of comparisons results comes from the four regional groupings. We chose the comparison of South Korea and the Philippines in East Asia because they appeared to be in roughly the same circumstance in the 1950s, with the Philippines perhaps in a slightly better situation. Their courses have since diverged widely, as South Korea moved to become a more developed LAO and is now in the process of making the transition to an open access order. In contrast, the Philippines appears to have made some progress but then regressed toward the kind of LAO where personal connections and organizations play a larger role in a more unstable environment.

In South Asia, Maharashtra, West Bengal, and Bangladesh (former East Bengal) offer an intraregional comparison of different development trajectories coming from similar legal and institutional origins. Mexico and Chile have different outcomes today although they share the Latin American pattern of high inequality, important mineral export sectors, long histories of electoral processes, and periods of authoritarian rule. In Africa, Zambia, Mozambique, and the DR Congo all had periods of one-man, one-party rule starting shortly after independence, but they reached

very different outcomes by the 2000s. Mozambique illustrates the difficulty and the possibility of achieving control over violence, while the DR Congo illustrates a situation in which violence and disorder have become more widespread. Zambia has had relatively little violence since independence.

Organizations provide a different set of comparisons. Some societies are capable of sustaining independent public and private organizations; South Korea and Chile have moved the farthest in this direction. They can be compared to societies with durable elite organizations that are, nonetheless, not independent of the ruling coalition – the *chaebols* in early Korea, Pemex in Mexico, and the sugar cane lobby in Maharashtra. These can be compared again to societies where powerful organizations require personal leadership and close coordination with the dominant coalition as in the Philippines, Bangladesh, or the DR Congo. In the cases, these differences in organizational characteristics appear to correspond with broader levels of economic and political development.

Another dimension of comparisons appears when we group countries by development outcomes. We have chosen this dimension to order the individual case studies. We begin with countries at the fragile end of the LAO spectrum – the DR Congo, Bangladesh, and Mozambique (along with Zambia). Then come the cases that are basic or mature LAOs but not yet on the doorstep – the Philippines, India, and Mexico. The last two cases – Chile and South Korea – have matured the most and achieved the doorstep conditions for transition to open access. The case studies represent societies moving toward better organized mature LAOs and perhaps toward open access, as well as societies regressing toward the basic and fragile, respectively, end of the LAO spectrum.

The concluding chapter draws lessons from the combined experience of the case studies. Readers may wish to go directly to the concluding chapter, or refer back to the introduction and “Lessons” chapters as they read the case studies. The development of the case studies, both individually and collectively, opened our eyes to the problem of development in limited access orders. We hope it will help you reframe the concept of development as well.

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