

Book Reviews

WHEN GREAT ECONOMISTS KNOW A LOT ABOUT HISTORY

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Douglass C. North, John Joseph Wallis, Barry R. Weingast. Violence and Social Order: A Conceptual Framework for Interpreting Recorded Human History

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Is the book by North, Wallis and Weingast about economy or about history? This question is not difficult to answer. Every economist educated in Europe knows that the greatest economists were also good historians. They simply understood that people are familiar with recorded human history, so that the explanation of economic theories using historical examples had the biggest chance to be understood. Moreover, the greatest economists also knew that the interpretation of recorded human history is crucial for understanding of social phenomena and the misinterpretation of historical facts might have disastrous impact on the evolution of every society. North, Wallis and Weingast are certainly aware of these facts. As such they can be rightly considered as great economists.

Studying the human recorded history is always a challenging adventure. Explaining new theoretical concepts using historical examples is even more challenging. North, Wallis and Weingast try to provide an understanding of the nature of pressing problems like poverty and economic development with

the use of an impressive method. They do not only stress the collection and interpretation of historical facts. Instead of formal logic, they simply use historical examples to explain their theoretical model. As they conclude: *"We are not writing a history of the world. The history provides examples and illuminations rather than conclusive test of our idea"* (p. xii). In my opinion the book *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, is thus more theoretical than empirical even though it contains facts from history. North, Wallis and Weingast realize that pressing problems like poverty and economic development need to be understood with the help of an accessible conceptual framework.

"The central task of this book is to articulate the underlying logic of the two new patterns of social organization, which the authors call social orders, and to explain how societies make the transition from one social order to the other" (p. 1). In the introduction, following the traditions of the new institutional economics, the authors provide evidence

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suggesting that human organization determines the pattern of incentives inducing entrepreneurial activities and promoting economic development. Solution of pressing problems of poverty and economic development thus lays in the organizational arrangement of societies. But why are some societies better organized than others? North, Wallis and Weingast argue that it is because successful societies control violence. The problem is not how to organize a society to be economically successful but how to control violence in order to enforce successful economic organization. The book therefore concentrates on explaining the ways to control violence in two kinds of social orders – *the natural state* and *the open access order*.

In the **first chapter**, the authors shortly explain the conceptual framework of the natural state and the open access order. While the natural state is a hierarchical organization based on patron-client relationships, the open access order is based on impersonal and reciprocal partnerships. In the natural state, elites control coercive power throughout the social recognition and overall acceptance supported by religion and ideology. The elites control also trade. In the natural state, there is a market. However, it is crippled due to limited access. One of the striking examples limiting access is a privilege (charter) to form subordinated market organizations. Contrary to the natural state, the open access order is an organization with open access to economic activities and with limited coercive power. In the open access order, coercive power is used without manipulation of elites. As North, Wallis and Weingast emphasize: “*The origins of legal system lies in the definition of elite privileges*” (p. 49). Naturally, the open access order is more economically successful than the natural state.

The second chapter is dedicated to the explanation of the natural state. “*The natural state is natural, because, for the most of the last ten thousand years, it has been vir-*

tually the only form of society larger than a few hundred people that has been capable of securing physical order and managing violence” (p. 49). “*All natural states limit access to organizational forms. All natural states control trade* (p. 38).” And, as was said above, *in the natural states, the legal system is subordinated to the elites*. To illuminate the meaning of the natural state the second chapter presents two historical examples. The first is the example of the Aztec Empire and the second is the example of the Carolingian Empire. The Aztec Empire was ruled by the coalition of three ethnic groups living in the three city-states. The leaders were organized in the Council of Four. The Aztec Empire was interesting for its specific religion, which helped the ruling elites to maintain order via ideology of hierarchical structure, and for its educational system, which was training warrior skills, values, reading and also arts. As all natural states the Aztec Empire was also controlling trade. Both, the local agricultural production and privileged long-distance trade with luxury goods were under control of regulating and taxing by the state. Contrary to the Aztec empire, the Carolingian Empire was culturally different, nevertheless, it is characterized by similar organizational structure. After collapse of the Roman Empire in Europe the Catholic Church retained its influence. Later, in the year 800 when the Charlemagne was recognized as emperor, the pope broke political relationships with the Eastern emperor and became a part of the Carolingian Empire. The Carolingian Empire was ruled by the military occupying vassals. The long-distance trade was controlled by the privileged coalition of traders protected by the emperor. In alliance with the clergy Carolingians were regulating and taxing trade between monasteries and a few trade centers. The church was responsible for education, social welfare and the system of courts enforcing law through religion. Inner dynamics of the natural states and the reasons why they

broke up is interestingly described further in the second chapter.

The third chapter applies to the natural state. In the natural state, the key requirement for extracting rents is the definition of property rights to the land. North, Wallis and Weingast describe how the land law evolved in England. They describe how the law was changed and how the court system enforcing property rights was structured. With the rise of “bastard feudalism” in England, the military enforcing the landlords’ privileges created the atmosphere of violence.

The fourth chapter explains the open access order, which is less violent than the natural order. The open access order is specific with its ideology of freedom and equality. The open access order is ruled with the help of military and police, but these are governed via transparent rules. A typical open access order is market democracy, in which the citizens share same believes and rights ensuring the access to public goods such as enforcement of contracts. The citizens also have open access to political power through elections or they can control political power with the help of free media. An interesting characteristic of the open access order is a large state. The large state, however, does not privilege elites because: “*it is harder for these states to force potential opponents to support the state by threatening to cut off important services if they fail to do so*” (p. 113). The state has a monopoly on violence. In summary, the open access order is characterized by: “1. A widely held set of believes about the inclusion of and equality for all citizens. 2. Entry into economic, political, religious, and educational activities without restraint. 3. Support for organizational forms in each activity that is open to all (for example, contract enforcement). 4. Rule of law enforced impartially for all citizens. 5. Impersonal exchange” (p. 114).

Further in the chapter, North, Wallis and Weingast discuss issues connected with the description of the open access state.

Especially interesting is their discussion of the role of the state in countries like Austria, Belgium, Ireland, Italy, the Netherlands or the Scandinavian countries. The combination of a welfare state and market economy is qualified by international market competition and impersonal application of rules constraining violence (p. 121). This might be an inspiration for the Czech Republic. Another interesting discussion stresses the importance of competition; not only market competition or political competition, but also competition in violence. The authors argue that when market competition ensures economic success and when political competition prevents rent creation, the open access order is more competitive in war.

The fifth chapter is dedicated to the transition from the limited access order, the natural state, to the open access order. The question of transition is as follows: Why should the ruling elites extracting rents transform the limited access order into an open access order and lose thus their rents? Understandably, transition without the support of elites is impossible. North, Wallis and Weingast argue that even the elites face competition and in some historical and economical circumstances they must deal with inner conflicts and ruling agenda through impersonal relationships. Transition from personal to impersonal relationships in the ruling class is the first step inciting the transition from the limited access order to the open access order.

Further in the chapter, North, Wallis and Weingast argue that the transition itself must fulfill three doorstep conditions to be successful. “DC#1. Rule of law for elites. DC#2. Perpetually lived organizations in the public and private spheres. DC#3. Consolidated control of the military” (p. 151). The rule of law means that the elites, even though the law does not threaten them as ordinary citizens, have open access to political power. This means that political power is distributed through the impersonal and transparent rules

that are applied to every member of the ruling class equally and without manipulation. This, however, does not mean that the rule of law is completely established. The rules regulating impersonal relationships among members of the ruling class must be enforced via an independent court system, which is also able to protect citizens against the government. Both, ordinary citizens and members of the ruling class must have the same access to the enforcement of the law even though the law treats them differently. Interestingly, this does not mean that rules enforced by independent court system must be fair; only the access to the enforcement of the law must be opened. Doorstep condition #2, perpetually lived organizations in the public and private sphere, extends doorstep condition #1. To establish impersonal relationships between members of the ruling class and ordinary citizens, it is necessary to separate the organizational agenda from the ruler or the governor. Perpetually lived organizations are those, which are independent from the person of ruler or governor and fulfill their tasks even after the death of their architects. North, Wallis and Weingast explain and describe the separation of rulers and governors from perpetually lived organizations with the help of several historical examples. In my opinion, perpetually lived organizations are somewhat like impersonal bureaucracies in the sense of corporation. The doorstep condition #3, consolidated control of the military, is interesting. The question of the third doorstep condition is, however, how to transform the military from “*exploiting the master to protecting the servant.*” “*The big question is whether to kill the goose that lays golden eggs and eat the goose today, or pamper the goose and enjoy a flow of gold in the future*” (p. 174). North, Wallis and Weingast argue that this question is solved by the ruling elites. When the ruling elites recognize that the revenues from trade are able to provide the military with more wealth than the exploitation of citizens’ property, the third

doorstep condition is fulfilled. At that point the military must fall into the shade and conform to the control of citizens or independent ruling elites approving its activities and its purchases of the war equipment. This minimizes the risk that the military will be used against citizens. Without this rational decision considering the impact of use of military on the future economic development of the social organization the control of the military is impossible. Again, North, Wallis and Weingast explain and describe the transition of the military using very impressive historical examples.

In the sixth chapter the authors present again a range of very interesting historical examples. In this chapter the authors also demonstrate their deep insight into the history of Western civilization and general social science including social philosophy. In my opinion, the most interesting part is the presentation of democracy as an example of an evolving social experiment. The authors patiently demonstrate the forgotten truth that democracy is the type of organization that must be learned. Only brave and ideologically self-conscious elites were able to transform privileges into political rights and thus open the possibility to explore new and historically successful organizations. In this spirit, the authors suggest that democracy is not the end of the transition and therefore barriers to entry must be eliminated again. Even though we cannot know what will happen in the future, we must give the society a chance. The sixth chapter provides evidence that the authors might be considered to be the followers of Friedrich August von Hayek (*i.e.* 1991) and as the proponents of the discovery process and the process of creative destruction. They simply apply it to the endogenous evolution of political institutions.

In the seventh chapter the authors conclude their book clearly inspired by Schumpeter:

“Adaptive efficiency entails the creation

of institutions and organizations that encourage experimentation, reward successful innovation, and, equally important, eliminate failures. There is clearly no guarantee that humans will find solutions to the new and novel problems that we will confront in the future, but some sets of social institutions [the open access order] and organizations make it more likely we will do so.

Creative destruction in both the economic and political realm appears to be necessary requirement for adaptive efficiency. Schumpeter's failure to imagine creative political destruction led him to conclude that capitalism was ultimately doomed to failure. Perhaps he will ultimately be proved right: open access social orders may turn out not to be sustainable in the same way that natural state have been sustainable for ten thousand years. Nonetheless, the durability of the open access order society in the face of ubiquitous efforts to create rents is testimony to the crucial role of adaptive efficiency.” (p. 253)

These words summarize the contribution of the North's, Wallis' and Weingast's book. In my opinion, the central message of the book is the following. Open access order must be protected, because on the one hand it is successful in adaptation to the pressing problems of poverty and economic development and on the other hand it is vulnerable to transform into the limited access order. Open

access order is not an exogenous social order; open access order is evolving and its adaptability makes it the most stable and durable kind of social order in the world. These are the reasons why we should extend what we have learned so far, and why we should suppress the violence. Social scientist thus should not answer the question how to create the open access order, but they should answer the question how to suppress violence.

What could be added? North's and Wallis' and Weingast's book is well written, well structured and presents new explanations of some historical myths. Moreover, the book contains many sometimes old and conservative but patiently clarified impressive insights. I heartily recommend this book to every proponent of new institutional economics, Austrian economics and more importantly to every economist concerned with economics of transition. Violence and Social Order contains important suggestions for public policy for countries in transition. However, Kohn (2009) criticizes the authors for laying too much stress on the Hobbesian nature of human behaviour. According to Kohn, the book treats the man more as a violent creature than a cooperative social being. This criticism thus demonstrates the character of the whole book, which according to Kohn lacks the detailed explanation of endogenous evolution of market institutions.