

The two forms of social order



The Two Forms of Social Order essay · In any society, who is allowed to form an organization that competes with powerful economic and political interests? In their 2009 master work, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, 1 Douglass North, John Joseph Wallis, and Barry R. Weingast give a striking answer. They say that either almost no one is allowed to form an organization that competes against powerful interests, or almost everyone is allowed to form such an organization. In their terminology, there can be a limited-access order or an open-access order, but nothing in between. “ In order to have a stable order, a society must deal with the potential for organized violence.” In order to have a stable order, a society must deal with the potential for organized violence. In a limited-access order, which the authors often refer to as a “ natural state,” groups with the potential for organized violence join in a (possibly fragile) coalition to rule the country.

This coalition excludes others from key economic activities, reserving rents for its members. Satisfied by these rents, coalition members refrain from violence. To the extent that limited-access orders are corrupt by American standards, such corruption serves an important role in providing its members with an incentive to remain in the coalition. As the authors put it, Systematic rent-creation through limited access in a natural state is not simply a method of lining the pockets of the dominant coalition; it is the essential means of controlling violence...

Limiting the ability to form contractual organizations only to members of the coalition ties the interests of powerful elites directly to the survival of the coalition, thus ensuring their continued cooperation within the coalition.

(page 17)The other form of order is an open-access order, of which the United States and other Western democracies are examples. Economic entrepreneurs are allowed to challenge entrenched businesses. Political reformers can fight corruption without destabilizing the system.

This is not to say that open-access orders make it easy for outsiders to unseat incumbents. When I was growing up, television cartoons might show nasty leaders in an automobile race tossing bottles, nails, and oil behind their vehicles in an effort to obstruct other cars. It strikes me that in a similar fashion, established interests will seek to use regulation to thwart competition, as when taxi companies try to impair ride-sharing services or when teachers unions try to restrict charter schools. But at least these upstart competitors have been able to get their cars on to the race track. The authors warn that the transition from a limited-access order to an open-access order requires many changes. Layers of cultural beliefs, political norms, and formal institutions must be accumulated before the transition to an open-access order can take place.

Without these preconditions, attempts to impose or encourage a limited-access order to adopt some of the practices of an open-access order can backfire, leading to violence and instability. The recent failure of democracy to take root in Iraq or Egypt would have been predictable using the authors framework. Open-access orders are likely to be highly stable. Everyone who is ambitious and able to organize others is free to attempt to earn a profit or address a political problem. This gives citizens a feeling of having a stake in the system. Moreover, the layers of beliefs, norms, and institutions that

precede the open-access order all serve to reinforce the order once it is in place.

For example, Americans are culturally committed to free speech, disdain for corruption, and obedience to the Constitution. The authors make some claims about open-access orders that challenge hard-core libertarian thinking. First, they suggest that the stability of an open-access order requires a pervasive and effective government. An integral feature of the open access order is the growth of government. Incorporation of mass citizenry induces responsiveness to their interests.

.. Public goods spending on education and infrastructure involves expensive programs, as do the various programs that provide social insurance, including unemployment insurance, old age insurance, disability, and health insurance. Governments in open access orders are therefore larger than those in natural states, and their actions and policies are more complementary to markets.

(page 112)Second, they suggest that an open-access order creates internal checks on rent-seeking, or what libertarians sometimes call “crony capitalism.” In Schumpeterian terms, political entrepreneurs put together new organizations to compete for the rents and, in so doing, reduce existing rents and struggle to create new ones. ... Although open access does not eliminate rent-creation, it significantly constrains the kind of rent-creation that creates negative effects for society.

Rent-creation that benefits a narrow interest is not impossible; it is simply much less likely to occur in an open access society than in a natural state.

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Conversely, rent-creation that benefits large and encompassing groups” that is, rent-creation that is productivity enhancing rather than limiting” is much more likely to occur in an open-access society than in a natural state. (page 24) Later, the authors write, Rent-creation cannot be the primary product of party competition in open access orders...

Successful parties in these systems are therefore large, encompassing organizations that combine a wide range of disparate groups and interests... Because parties need to gain the support of many interests, they must temper the (rent-creating) demands of each. (page 126) They point out that,...

. the interests active on any issue are endogenous. If a group attempts to extract too much, then other groups who normally are not active on an issue are likely to begin paying attention and become active, with the potential to alter dramatically the political forces on this issue... a few open access order markets might be cartelized or protected, such as agriculture, and certain markets regulated to produce rents, such as airlines in mid-century United States. However, these markets are the exception, not the general rule. (page 128) For more on these topics, see the EconTalk podcast episode Weingast on the Violence Trap.

See also “ The Elusive Goal of Political Stability,” by Arnold Kling, May 4, 2015, Library of Economics and Liberty, and North, Wallis, and Weingast, by Arnold Kling, EconLog, May 17, 2009. In short, the authors argue that political competition in an open-access order is more likely to lead the state to produce public goods whereas in a limited-access order the focus is on

preserving private rents. My guess is that libertarians will object to this relatively optimistic view of the powerful state in an open-access order.

A libertarian might argue that as the state expands, an open-access order becomes something like a limited-access order in disguise. Elite groups and entrenched interests tighten their control over economic and political power. In the United States, large banks, public-sector unions, and regulated professions, particularly in law, higher education, and health care, have arguably become the ruling coalition, while others find themselves squeezed out of political and economic life. While I would not go so far as to say that the United States has fallen back into the natural state, it seems to me that the extent of rent-creation activities is larger and the competitive political forces feebler than North, Wallis, and Weingast suggest.