

Limited Access Orders: Rethinking the Problems of Development and Violence

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Abstract

The paper lays out a framework for seeing problems of development in a new light. It emphasizes that all societies must solve the problem of violence and distinguishes between two ways in which societies solve this problem. *Limited access orders*, covering most developing countries today, solve the problem of violence by granting political elites privileged control over parts of the economy, each getting some share of the rents. Since outbreaks of violence reduce the rents, elite factions have incentives to refrain from violence most of the time. Stability of the rents and thus of the social order requires limiting access and competition. In contrast, *open access orders*, which dominate the modern developed world, control the problem of violence through open access and competition. The framework has new implications for understanding development. It shows that transplanting institutions from open access orders into limited access orders – such as markets, elections, and corporate law – often do not have their intended effect because the institutions work differently under limited access than open access. When development policy advice threatens the logic of stability in limited access orders, these societies often resist or sabotage the recommended measures.

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I. The Problem of Economic and Political Development

How can low and middle income societies improve the conditions of their people? Progressive governments and development agencies ask this every day. To address this problem, we need to understand better the structure of economies and polities and the sources of change. By structure we mean that countries fall into different *social orders*, distinct patterns of organizing society that allow us to simultaneously understand the operation of political, economic, and other systems. In particular, this concept allows us to understand how society controls violence, the form of its institutions, the nature of its organizations—especially who can form them—and the dynamics of its economy. All of human history has had only three social orders in our framework. Two of them concern us, the *limited access order* (LAO), which includes all large societies up to 1800 and most of them since, and the *open access order* (OAO), which includes around two dozen countries today.² To understand these social orders, we draw on the recent work of North, Wallis, and Weingast (2009) and on nine country case studies, sponsored by the Development Partnership Facility and the World Bank.³

Violence, potential or actual, is a problem for all societies, but they address it in different ways. *Limited access orders* solve the problem of violence by using the political system to create and allocate rents, arising from arrangements such as government contracts, land rights, monopolies on business activities, and entry to restricted job markets. When individuals and groups with access to violence receive rents—ranging from extortion and corrupt payoffs to land rent, natural resource royalties, and monopoly profits—they have incentives to restrain the violence, because fighting reduces their rents. In contrast, *open access orders* solve the problem of violence through open access and competition. All citizens have the right to form contractual organizations, as long as they are not violent, and open access helps sustain both economic and political competition as well as an active civil society. In OAOs the state has a monopoly on violence.

The framework of limited and open access orders provides a new way of understanding the development problem. The framework leads us to think of development over the last two

²The *foraging order*, reaching back in time before recorded history to the beginnings of human societies, will not concern us.

³ The cases and authors are as follows: Bangladesh (Mushtaq Khan), Chile (Patricio Navia), DR Congo (Kai Kaiser and Stephanie Wolters), India (the states of Maharashtra and West Bengal, Pallavy Roy), Mexico (Alberto Diaz-Cayeros), the Philippines (Gabriela Montinola), South Korea (Yong-sung You), Mozambique and Zambia (Brian Levy).

hundred years as two different processes: the evolution of LAOs and the transition to OAOs. Since several millennia ago, development has taken place within LAOs, as societies improved economic performance and political stability within limited access political and economic institutions. Starting in the 19th century, a new development process began, as a few societies made the transition from limited to open access order, becoming what is usually considered a developed country— with an openly competitive polity and market economy – institutions that bring in their wake sustained capital accumulation and technological dynamism. As elaborated below, this also changed the context for the remaining LAOs, which continued to evolve, but now in a world where OAOs dominated and set the models for political and economic institutions.

The framework implies that rising income, by itself, neither constitutes development of the second type nor is capable of inducing such development. Table 1 compares GDP per capita in a range of countries today with an historical timeline of Britain and the United States. Mexico, for example, today has the GDP per capita of the U.S. around 1960. But Mexico today still does not have OAO institutions like those of the U.S. in 1960 or Britain in 1970, including firmly established rule of law, efficient contract enforcement, an openly competitive polity and economy, and a state monopoly on organized violence. Shirley uses cross country evidence to reach a similar conclusion—that institutions are the key factor that distinguish developed from underdeveloped countries (Chapter 2, 2009).

Table 1: GDP Per Capita Across Time and Across Countries

	2007GNI per cap (PPP)	= US GDP in year	= UK GDP in year
USA	\$45,840	2007	
UK	\$34,050	1994	2006
Mexico	\$13,910	ca.1960	late 1960s
Colombia	\$8,260	late 1930s	late 1930s
China	\$5,420	1900s	1890s
Bolivia	\$3,150	1880s	1880s
Kenya	\$1,550	1820s	1810s

Sources: Maddison 1982, appendices A and B; World Bank, World Development Indicators; US Commerce Dept. website.

Rising incomes alone do not make Mexico, Colombia, Bolivia, China, or Kenya open access societies. Because of technological change originating in the developed world (OAOs), the world production possibility frontier has been moving out rapidly for the past two centuries, and LAOs can grow in the sense of rising income per capita without making the transition to an OAO – without solving the second development problem. Although Brazil, China, and India have been developing in the sense of economic growth since the 1980s or longer, many developing countries are not even developing in this sense. Nothing in the LAO framework suggests that all countries will solve the first development problem, much less the second; it does, however, shed new light on some of the problems they face.

This framework has significant implications for the problems of economic and political development—reviving an earlier idea (largely discarded since the 1980s) that the political economy of developing countries is qualitatively different from that in high-income nations (e.g. Huntington 1968). Policy prescriptions that work in the environment of OAOs are unlikely to work, or may work perversely, in LAOs. For instance, attempts to implant institutions from OAOs – such as democracy, competitive markets, and corporate law – into LAOs often fail to achieve their goals because these institutions work differently in the context of limited access than in open access and elites use them for their own purposes. These societies have often created limits on competition in order to solve the problem of violence as well as to entrench elites or stimulate economic growth. Attempts to transplant free markets into this environment may fail to achieve sustained economic growth and instead may undercut the rents that prevent violence. They therefore might make people worse off, not better, and are therefore resisted.

Our framework builds on the work of many scholars studying the political economy of development. Some draw heavily on international contrasts of historical experience through detail analysis of cases (Abernethy 2000; Bates 1981 and 2000; Haber et al. 2003; Haber et al. 2008; Herbst 2000; La Porta et al 1999; Landes 1998; Mokyr 1990; Spiller and Tommasi 2007; and Tilly 1993). Our framework tries to take account of the events portrayed in their case studies as well as our own and looks at them through a different lens. Other authors use econometric analysis to test for the historical origins of institutional differences (Acemoglu and Johnson 2005; Acemoglu and Robinson 2006; and Engerman and Sokoloff 2005). 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 2007; Khan and Jomo 2000; Rodrik 2007; and Shirley 2009). Our approach attempts to find more systematic explanations for some of the non-linearities that they identify.

This paper proceeds as follows. Section II discusses the logic of LAOs. Section III turns to the topic of OAOs, while section IV discusses the transition from LAO to OAO. Section V points out several features of the modern world that affect development in LAOs. Section VI concludes with the main implications for development policy, including an analysis of why it frequently fails.

II. Limited Access and Control of Violence

A. The Logic of Limited Access Orders

Establishing a society that limits violence and fosters specialization and exchange requires the creation of incentives for groups to compete peacefully rather than fight most of the

time. LAOs are the natural response of societies to the threat of internal or external violence, and so North, Wallis, and Weingast (2009) call a limited access order a *natural state*. An LAO controls violence by forming a dominant coalition that includes the groups with potential for violence. Because rents of the elite are reduced when violence breaks out, it creates incentives for the elite to limit violence and creates credibility when they commit to limit violence against each other. Sometimes they fight anyway, but the cost of fighting makes it less likely.

Maintenance of the rents depends on stability of the coalition, and vice versa. The creation and distribution of rents thus motivates elite loyalty to the system, which in turn protects rents, limits violence, and prevents disorder most of the time. These causal links reflect the LAOs arrangements as a kind of social equilibrium: all the parts interact to sustain the social order. Rent-creation provides the glue that holds the coalition together, enabling elite groups to make credible commitments to one another to support the regime and to perform their functions.⁴ For instance, allocating rents to key groups with violence capacity allowed the restoration of order in Mexico after the turmoil of 1910-30, in India and Bangladesh after the violence of partition and force resettlements, and in African countries after the exit of colonial powers.

An important feature of a LAO is that it allows only certain groups to form organizations, such as corporations, labor unions, political parties, and organizations that make up the civil society. The limits to entry are needed partly because open entry would erode the rents that hold the order together and partly because open entry could enable opponents of the regime to organize and threaten it. While rents often result from the allotment of resources and economic privileges to particular groups and individuals, the control of organizations that perform specific social, political, or economic functions also generates rents and shapes the interests that hold the dominant coalition together.

Sophisticated organizations require the ability to make internal and external agreements that rely on enforcement by a third party. Such enforcement is often provided by the entity called the “state,” but not all LAO societies have a government that can or will do this. Part of developing a more sophisticated society is structuring a coalition whose members obtain support for their organizations. Some elite organizations are within the government, some outside, and the ability of the coalition to structure more durable arrangements for both public and private organizations is a central element in the first development problem, within the range of LAOs. Limiting access to perform key functions and to utilize organizational forms and contracts that the coalition will enforce is the key to the LAO: it creates rents through exclusive privileges and directly enhances the value of the privileges by making elites more productive through their organizations.

Although LAO societies do not inevitably adopt institutions that are good at supporting public and private organizations, as discussed in the next section, historically LAOs were a major innovation over the previous social order of hunter-gatherer societies. Limited access does not mean closed access and refers to a general strategy for organizing society, not a specific set of political, economic, or religious institutions. LAOs formed the great civilizations of the past, with substantial specialization, exchange, and wealth. Some LAOs of the past and the present

⁴ Others have advanced some of these ideas in a different form: Barzel 2001; Buchanan et al 1980; Bueno de Mesquita et al 2003; Khan and Jomo 2000; Levi 1988; Olson 1993.

have been more successful than others. Some have failed. LAOs include the Roman republic and empire, Mesopotamia in the third millennia BCE, Britain under the Tudors, and modern Nigeria, Bolivia, and Russia. Some are vicious authoritarian regimes (Uganda under Idi Amin) while others have elections (Argentina); some are failed states (Zimbabwe) while others exhibit long-term stability (Mexico); still others have been socialist states (the former Soviet Union). All share one basic logic: manipulating the economy to produce rents, motivate stability, and reduce violence. Obviously these rents make the elite rich and powerful, as well as motivating the control of violence, but it is this latter function that most other frameworks overlook.

B. The Spectrum of Limited Access Social Orders.

All low and middle income countries today are LAOs, yet they have income levels that differ by a factor of twenty, which highlights the extent of development that can take place within LAOs. Three processes seem to be key for the maturation of an LAO:

1. ***Increasing the scope of relationships in which rule of law is effectively maintained.*** Expansion of the rule of law will be sustainable only when it is consistent with the arrangements that generate adequate incentives to restrain violence, and some rule of law seems to be effective even when its scope is limited. It can be late in the maturation process when the rule of law covers all public relationships among elites, and even later when rule of law is effective for the wider population.
2. ***Increasing the reliability across time with which the state provides support for the organizations and enforces agreements among them.*** Strengthening organizations that make up the state—executive, legislative, military, police, dominant political parties, public sector unions—depends in part on strengthening organizations outside the state—private firms, opposition parties, etc. The organizations of the state achieve more coherence and credibility as 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.
3. ***Bringing more of the organizations with violence capacity into relationships that successfully minimize actual violence.*** This does not necessarily involve bringing all of them under the direct control of the state (in the Weberian sense of a state monopoly on violence), although this is part of the maturation process in an LAO reaching the doorstep of transition to OAO (described below). The remarkable but under appreciated feature of LAOs is that they can motivate organizations to restrain their violence capacity even when the central authorities do not have complete control of violence, as we see in the cases of Bangladesh, India, Mexico, Mozambique, and the Philippines.

We distinguish three broad types of LAOs along a spectrum—fragile, basic, and mature—in order to help think about differentiation and the process of change within LAOs. They are not distinct stages, but a continuum of societies differentiated by the structure of their organizations, the control of violence, and the predictability with which they enforce rules.

In the *fragile LAO*, the dominant coalition can barely maintain itself in the face of internal and external violence. Contemporary examples include Haiti, Iraq, Afghanistan, DR Congo, and several other places in sub-Saharan Africa. Among the powerful individuals and organizations that make up the coalition, there may be a distinct organization called the “government”, but it has no monopoly on violence. The bottom billion, described by Collier (2007), live in fragile LAOs, where 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, and they cannot support private elite organizations. 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. If fragile LAOs attempt to create commitments among elites, their instability makes the commitments not credible.

The middle or *basic LAO* range of societies have a variety of institutional arrangements. Establishment of a more formal government, compared to fragile LAO, makes the state itself the main durable organization (or more accurately, an array of government organizations). In some cases, sanctioned organizations in the basic LAO are mostly elements of the state itself, including the party, such as in Cuba, North Korea, Mexico at the height of PRI hegemony, the Soviet bloc countries, and one-party states in Sub-Saharan Africa. In other cases, such as Bangladesh since the 1980 and Zambia since Kaunda accepted electoral defeat in 1991, one sees a variety of basic LAOs with competitive clientelism. In these, much like the mature LAOs discussed below, a dominant elite organization—perhaps military—allows various lower level groups to compete for recognition and rent collecting opportunities, but without any chance to grow strong enough to challenge the dominant coalition. Often access or denial of access comes through informal and selective enforcement of the formal rules.

The specialization and division of labor within the basic LAO state derives from 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 state organizations, such as police, secret security and branches of the military, each with a way to extract rents through threats, corruption or monopolies.

In most *mature LAOs*, the state supports a large variety of organizations outside the state, as well as within it, but still each sanctioned organization effectively needs to have a specific permit from the state. This allows the ruling coalition to tolerate limited competition and create rents to maintain itself. Mature LAOs include most of Latin America, China, South Africa, and India. Mature LAOs have durable institutional structures for the state and can support a wide range of elite organizations that exist apart from the state.

As LAOs mature, there is a two-way interaction between increasing the sophistication and differentiation of government organization and the parallel development of (non-violent) private organizations. 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 state. At the same time, without more complex institutions, independent organizations cannot exist. This is because the private organizations will act to protect their interests in the differentiation and autonomy of public institutions, such as courts and the central bank.⁵ 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 punish the government economically if it deviates from its commitments.

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

Table 2 summarizes the spectrum of LAOs described above. Although the types can be ordered in a progression from less to most developed, the progression does not imply a teleology; societies do not inevitably move from fragile to basic or from basic to mature. Societies regress as well as progress, and many societies stay in one part of the spectrum type for decades or centuries, even as they alternate between authoritarian and competitive clientelistic versions. Some exhibit a mix of types simultaneously—Colombia appears mature in Bogota and Medellin but fragile in many rural departments. Ecuador, Venezuela, and Russia seem to be regressing to authoritarian LAOs, as they nationalize or outlaw once independent organizations.

C. Development within LAOs

LAOs are not static. They often progress across the types of LAO, 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 a basic to a mature LAO. But many LAOs stagnate or even regress. The reason is that all LAOs are vulnerable to internal shocks and to changes in the environment – relative prices, technology, demographics—that affect the relative power of elites. As relative power shifts, those gaining power will naturally demand more rents. If all agreed on how power has shifted, peaceful bargaining should adjust rents. But when elites in an LAO disagree about relative power shifts, they may draw on their violence potential and end up fighting, particularly if some elites believe they are stronger than others believe they are. Societies that fell into extreme violence and fragility, such as Bangladesh after the break with Pakistan, Mozambique in the civil war and Mexico after the 1910 revolution, all regress for a time and recover initially as authoritarian basic LAOs. Germany in the 1920s and 30s regressed from being a mature LAO on the doorstep of open access in 1913 to become a basic LAO under the Nazis. In short, LAOs continually evolve while remaining within the logic of limited access.

Although most LAOs have not become OAOs, some but not all do become more mature— achieving status as “emerging market economies”. These are important advancements and are the basis for most of the recent reduction of world poverty.

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

Table 2: Types of Limited and Open Access Orders

Type (Examples)	Economic Organizations (EOs)	Political Organizations (POs)	Violence Capacity (VC)
Fragile LAO (Afghanistan, DR Congo, Haiti, Mozambique 1980s)	EOs and POs are not clearly distinguishable, except perhaps for multi-national firms present in fragile LAOs.		All organizations have VC. Civilian and military not clearly distinguished.
Basic Authoritarian LAO (USSR, Korea with military government, Mexico 1940s-80s)	All major EOs—public or “private”—are linked with the central state; some are also linked with multi-nationals.	Most POs are controlled by the state, eg. one-party state or dictatorship. Opposition parties are under threat.	Most VC organizations are part of state, yet some may compete with or threaten the civilian state.
Basic Competitive Clientelist LAO (Philippines, Bangladesh and Zambia, since early 1990s)	Some private firms, some multi-nationals. Political connections needed for major economic success.	Competing POs, but effective power is dependent on central permission.	
Mature LAO (Mexico since 1990s, Chile since 1990, India, China)	Many private firms and multi-nationals. Political connections needed for major economic success in face of informal mechanisms of limits..	Multiple POs, but effective power is dependent on central permission. Democratic process, if present, cannot challenge major economic powers.	State controls almost all VC.
OAO (Western Europe, USA, Canada, Japan, S Korea since 2000?)	Most are private. Non-discriminatory rules for any citizen to start an EO and get state legal support.	Non-discriminatory entry rules for any citizens to start or join a PO.	No non-state organizations have VC.

III. The Logic of Open Access Orders

To understand LAOs, we must also look at OAOs, not only as a contrast but also as dominant players in the world today. 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, control over organized violence is consolidated in military and police forces, and other organizations are not allowed to use violence. The political system controls the organizations—military and police—that have a monopoly on the legitimate use of violence.

An OAO sustains itself because economic, political and social groups can organize, reorganize, and reformulate themselves 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.⁶

Schumpeterian creative destruction plays a central role in OAOs; entry into economic activities is open to all citizens, and potential entrepreneurs get state support for organizational forms like partnerships, corporations, and contract law. When entry is open, economic actors create rents through innovation. Competition erodes those rents in unpredictable ways, as firms and individuals enter into new lines of business or transform old activities.

Economic actors typically want to use the political process to restrict entry and maintain their rents. Similarly, political actors would like to use the political process to restrict entry, create rents, and bind economic actors to support their political coalition. That, of course, is the logic of the LAO. In an OAO, however, the state and the larger society do not control the distribution and content of economic interests, which are constantly and unpredictably changing. So the political system cannot effectively manipulate economic interests to order its internal arrangements. OAOs maintain their equilibrium by allowing a wide and constantly shifting range of economic and social interests to compete for control of the polity (cf. Klein and Leffler 1981; Przeworski et al. 2000).

As discussed more below, organizations based in OAOs—such as multinational firms—often enter LAOs, where they do not face such systemic constraints to their monopolistic and clientelistic ambitions. And they become part of the local LAOs, as in Mexico, Mozambique, the Philippines, Zambia and DR Congo.

IV. The Logic of the Transition from Limited to Open Access Order

The *transition* from limited to open access orders has two parts, achievement of the doorstep conditions, which occurs within the LAO; and the transition proper which begins when the dominant coalition finds it in the interest of elites to expand impersonal exchange and, therefore, incrementally widen access on an less personal basis.

In the first part of the transition, we hypothesize that a country must achieve three *doorstep conditions*: (1) rule of law for elites; 2) support for a perpetually lived organizations, including the state itself and elite organizations outside the state; and (3) centralized and consolidated control of violence. These conditions culminate the processes, listed earlier, that make an LAO more mature, although they are not sufficient to bring about a transition into an OAO. Even without a subsequent transition to an OAO, these reforms improve the economic performance of an LAO.

The achievement of one condition helps to achieve the others. Consolidated and centralized control over violence greatly reduces the probability that disputes among organizations will result in violence; this condition therefore allows increased specialization and exchange in the society. Rule of law for elite transforms the LAO's system of privileges into a

⁶ The conditions under which a constitution is self-enforcing is the subject of a lively literature. See, e.g., Fearon (2006), Przeworski (2006) and Weingast (1997).

set of rights for elites, allowing some property and political rights to emerge along with impersonal contract law and impersonal exchange. Finally perpetually lived organizations allow greater pooling of risk and far more complex organizations. A perpetually lived state allows significantly more credible commitments by the state, including the ability to today’s rulers to bind their successor to today’s rules, a necessary condition for the rule of law, for the long-term success of markets, and for stable democracy (Weingast, forthcoming).

Despite the logic of this interdependence, one can observe wide variation in the extent to which a country achieves the doorstep conditions. Table 3 summarizes the status in 2000-10 in the nine country cases we have studied.

Table 3: Status of Doorstep Conditions in Nine Country Cases

Country	Rule of Law for Elites	Perpetually lived organizations (state and non-state)	Consolidated control of violence
Bangladesh	No for political process; substantial for economic contracts	No for the state; substantial for economic organizations	No
Chile	Yes	Yes	Yes
DR Congo	No	No	No
India	Partial	Yes	No at local levels, Yes at national level
Mexico	No	Yes	No
Mozambique	No	Yes	No?
Philippines	No	Yes	No
South Korea	Yes	Yes	Yes
Zambia	Yes for political process, No for economic decisions	Yes	Yes

Source: country case studies

In moving to the doorstep and transition of LAOs historically and in the cases of Chile and South Korea, some areas of the economy and polity became more open through the extension of impersonal forms, while the institutions that controlled access—like the constitution and the banking sector—remained dominated by limited access arrangements. The tipping point came when open access in one dimension – economic or political – allowed liberaizers to achieve sufficient power to press successfully for open access in the other dimension. For example, in the U.S., open access on the political side had progressed by the 1830s to the point of bringing universal white male suffrage in most states and bringing Jacksonian Democrats to the national presidency. When the economic crisis of the 1840s came, the states of the North, which controlled access to the economic commanding heights (banks and transport companies), established open access economic institutions, such as general incorporation laws (Wallis 2005). Many features of open access were present in the U.S. earlier, and many features of limited access persisted -- notably in the South for another century -- but the tipping point came when opening access on the political side reached high enough to push through effective open access rules for the top of the economy. By contrast Germany in 1913 had all the doorstep conditions for transition to OAO, but it did not cross the threshold because a small elite retained control of the upper echelons of the economic and political systems.

When the tipping point comes, the dominant coalition finds that its interests are better served by supporting intra-elite competition, rather than intra-elite collusion to perpetuate existing mechanisms of rent-creation. At this point in the transition, rapid and fundamental changes institutionalize open access. Once the elite has created political, economic, legal, and social institutions that define elites as citizens and all citizens as equally and impersonally guaranteed to rights and privileges, it becomes possible to extend citizenship and access to larger segments of society. Further research is needed to see whether transitions since 1950s (e.g., in central and southern Europe) show similar features.

V. The Modern World and its Effects on Limited Access Orders

The world today differs substantially from that of the 19th century when the first transitions occurred, in large part because OAOs have grown and controlled most of the planet for the last two centuries. In light of the logic of the LAO and with evidence from country studies, we examine four dimensions of the effects of the developed on the developing world – the availability of institutional forms from OAOs, multinational firms, technology, and the world political order. Practitioners and academics in the development community have hoped that these new factors in the modern world would make it easier for LAOs to mature and perhaps become OAOs, but usually this has not happened.

Institutions. Extensive experimentation with political and economic institutions has occurred in the past 200 years – constitutions for presidential and parliamentary systems, federal and unitary states, different types of socialist systems, and various forms of limited liability companies and financial institutions. Extensive literatures in law, political science, and economics describe the outcomes associated with these institutional forms. Decision makers in developing countries – established elites or newly empowered leaders of the revolution or the former opposition – look at this annotated menu when they create or consider changes in their systems. Many elites in LAOs have been educated in the OAOs of Europe and North America and bring back ideals of the institutional models from where they have studied or from former colonial metropolises. Often they hope for quick transitions at home, but find that implementing OAO institutions is much more difficult than the latest production technology.

Do these menus allow faster maturation in LAOs and easier transitions from an LAO to an OAO? In a few places, like Chile, Korea, Europe in the second half of the 20th century, the answer seems to be yes, but in many places, like Mexico, the Philippines, South Asia and Africa the effect is unclear. Many developing countries today have most of the formal institutions associated with OAOs – corporations, legislatures, formal executives, courts, bureaucracies and elections – but these institutions nonetheless sustain limited access rather than open access. Access to welfare programs, business licenses, and judicial services, typically require personal connections and often bribes. Ration cards in India, for example, often never reach the poor; instead they are sold informally to people who can afford them, generating income for those who distribute these cards. In LAOs, elections are often a means for political control or for gauging the strength of organizations, rather than for revealing citizens' preferences. Political officials in these states can short-circuit electoral competition by making basic services such as water, electricity, and garbage depend on whom citizens vote for. The logic is at once tragic and

brilliant —for example, in the PRI era most Mexicans voted for the incumbents, despite preferring the opposition, because they wanted to maintain their services and saw no hope for a regime change (Diaz, Magaloni, and Weingast 2006).

Whereas limitations on access were often formal in earlier LAOs, such as European feudalism or imperial China, many limitations in LAOs today are informal. Indeed, the informal limitations on access often determine who can effectively utilize the formal institutions associated with open access in the developed countries – political parties, legalized property rights, and corporate organizations. Only the elites have full access to them, thanks to personal connections. So, even though the law *de jure* supports impersonal exchange, the weak enforcement of laws means that exchange remains personal *de facto*. Even if formal limits on access are not in the law, informal barriers (which do not much bind elites) are tolerated and perhaps encouraged, as elites benefit from the limits to competition.

Multinational Corporations. Private firms from OAO countries have a strong presence in almost all LAOs today. These organizations make manifest the most important economic institutional forms of the OAO world order, and thus potentially smooth the way to form similar organizations in LAOs. Most firms from OAOs operating in today's LAOs, however, rely on personnel connections or on the institutions of the international OAO to support their contracts and therefore do not need to rely on the LAO's legal institutions to maintain themselves. That is, multinational organizations rely much less on the third party enforcement and support of the host country; instead, they bring it with them. This gives multinational firms significant advantages over domestic firms in an LAO. In today's LAOs the private sector development programs of the international financial institutions and donors typically emphasize the formal steps of creating OAO institutional forms, but the results are frequently disappointing because they do not address the fundamental incentives to restrain access.

As described in North, Wallis, and Weingast (2009), the institutions of modern private firms emerged over the last 400 years in today's OAOs (especially in the first movers, Britain, France, the U.S., and the Netherlands) when the local elites had a material interest to have such organizations in order to expand the scope and profitability of their operations. To meet their needs, elites in LAOs (who did not know they would become OAOs) had to develop domestic legal institutions to support these organizations, institutions that later became accessible to wider circles of society. In LAOs today the elites have other options to create viable organizations, such as alliances or joint ventures with a multinational firm. They can also invest their assets through a multinational firm, such as a bank or investment company, in London, Tokyo, Zurich, New York, or Miami rather than relying on domestic instruments of investment (Global Witness 2009; Root 2008).

This institutional retardation may inhibit not only achievement of the doorstep conditions and an eventual transition to OAO, but also the maturation of the basic LAO. The ability of LAO elites to rely on multinational firms for profitable interaction with the global system lessens their incentive to improve domestically established organizations and even the organization of the government itself. Thus rulers of Equatorial Guinea and Mobutu's Congo (Zaire) sell oil and other minerals to the world and have the profits sent to their personal bank accounts in the US or Europe; they have what they want without a functioning ministry of finance, much less a domestic private financial sector. Even in a high middle income country like Mexico, foreign

firms dominate the banking sector, which does little domestic lending, and the stock market is dominated by Mexican based multi-nationals.

The result is that many LAOs today have dualistic economies, with a domestic economy governed by LAO rules and international enclaves run by a separate set of rules and institutions, sometimes enforced by foreign OAOs. Other observers have remarked on the duality in terms of production efficiency and incomes; our analysis highlights the duality in access to security for contracts and organizations, which underlies the other dualities. Even in places that are quite lawless in some ways, international firms and their local partners enjoy relatively good protection of their contracts, such as oil companies in Mexico during the revolution and Zaire (Congo) under Mobutu.

Observers and advisors from OAOs wonder why the duality persists. The logic of the LAO suggests that participation in the enclave of the global economy, with access to international capital and secure property rights, particularly when access to the enclave is limited, is a source of rents that can be manipulated to sustain the political regime. By allowing additional streams of rents without threatening the domestic order, enclaves allow elites greater rents and thus greater incentives to maintain the LAO system. Because of their international connections, local elites in LAOs today have less incentive to create better local institutions (outside the enclave). This tendency is reinforced because the weakness of local institutions creates a barrier to entry that benefits incumbent elites.

Technology. Compared with 200 years ago, technology is the most eye-catching difference in the world today, both in the level and in the rapidity of change (Landes 1969, 1998; Mokyr 1990). Technology transfer has the promise of letting more backward economies catch-up quickly in terms of GDP per capita. Unfortunately, on the institutional dimensions that are the crux of development in our framework, internationally available technology has mixed effects. Elites in LAOs can adopt technology in a selective way, without needing to enable the organizational maturity required for home-grown technology development (c.f. Acemoglu and Robinson 2006).

This point does not deny the productivity benefits to the elite in a country that has its own technology development; rather it recognizes that the dominant coalition of elites faces a cost for having the open access necessary for local technological progress – a cost in loosening the control on access to organizational forms, communications, etc. If elites can get most of the technology they want without allowing a flowering of potentially competing organizations, then they are less likely to allow such institutional change, which could threaten their situation.

Also, two centuries of change in the technology of weaponry and communications—essential for forming and maintaining organizations—have altered the way that LAOs operate. Think of the AK47, the cell phone, and the internet. These topics warrant further research.

World Political Order. The world political order has changed fundamentally since 1800; including in the way that governments define themselves, their population, and their territory. Until the latter half of the 20th century, the survival of a country depended on the ability of its elites to maintain enough internal order and economic strength to be able to defend its borders. Since the 1950s, however, the United Nations and other multilateral institutions (including

World Bank and IMF) and rules of Cold War competition effectively guaranteed the external borders and provided access to emergency aid to any UN member. Some of these national states have developed institutions to maintain internal order and external autonomy, while others drifted in and out of failed status. By contrast, in the world order of 1800 and before, failed states were typically taken over by more powerful neighbors (Abernathy 2000; Herbst 2000; Tilly 1990). International policing of borders thus generates a paradox: a society ruled by a failed state. A failed state lacks a coalition that can dominate the society within the externally imposed boundaries. In places like Afghanistan, Iraq and DR Congo, the ongoing inability of powerful groups to form a stable coalition, even if fragile, perpetuates violence and civil war (Bates 2001; Collier 2009).

Elites in failed or poorly performing states today can stay in power with financing from various combinations of foreign military and economic assistance and sales of natural resources – Ecuador, Venezuela, Surinam, Guyana, Nigeria, Zambia, Pakistan, and so on. Even states that fail to control major parts of their nominal territory, such as Congo, Somalia and Sudan, still obtain international backing and subsidies to maintain the guise of a national state.

The main lesson is that states now face weaker negative sanctions that in the past would pressure their elites to develop institutions to make their domestic economies strong (Bates 2001). Only a few places on the front line of the cold war – like South Korea, Taiwan, and West Germany– faced such pressures since the mid twentieth century, and this may have facilitated their transitions toward open access. These places also needed an army to deal with external threats, and this in turn required an economy sufficient to support the army. In Latin American and African countries, by contrast, the military has typically played primarily a domestic role, supporting the ruling coalition in maintaining limited access. Herbst (2000) describes how the internationally guaranteed border since the latter half of the 20th century has shaped the incentives of leaders in post-independence Africa and how this contrasts with earlier experiences in Europe. The change in the external environment seems to have made achievement of the third doorstep condition – centralized civilian control of the violence – more difficult. More research is needed to understand why.

VI. Implications for Development Policy and Assistance

As seen through the LAO lens, developing countries face two separate development problems, with different policies necessary to address each problem. The first development problem, to mature as an LAOs and eventually to create the doorstep conditions, is more relevant for most recipients of development assistance, especially the poorest, most fragile, and most prone to violence. Improving as an LAO has great potential to raise incomes and reduce poverty, as we have seen recently in Bangladesh, Chile, India, Mexico and Mozambique. Easterly (2009) distinguishes transformational and marginal approaches to development, and the maturation of an LAO is in the marginal category, for it is rarely rapid or comprehensive in each step. The transition from LAO to OAO would be in the transformational category; indeed, the governance part of the vision for transformational approaches to development often amount to a transition to OAO, which very few countries have actually achieved and many are not even ready to try.

Making progress under the first development problem requires fostering reform of institutions as well as policies in situationally appropriate ways. Khan and his co-authors have shown the positive as well as negative roles that rents can play (Khan 2007). Rodrik and co-authors have used the concept of binding constraints to advance our thinking about how to tailor economic policy to the actual situation of developing countries, which is usually too far from the first best for that to be the relevant model (e.g. Hausman, Rodrik, and Velasco 2008; cf Grindle 2007). Our framework can complement that by shedding light on how the binding constraints are not just policy errors but are often integral parts of the LAO.

The relevant agenda of institutional reform in an LAO depends on its starting point. In states with high active violence, reducing violence is an essential step and may require rent-sharing deals with unsavory elites, like war-lords in Afghanistan. Failed states cannot simply turn themselves into OAOs, and attempts by outsiders to do so may be counterproductive. Achieving some peace in violence-torn societies involves strengthening a fragile LAO, not in creating an OAO with democracy and markets, nice as that may be for a long term goal. Fragile LAOs thus need to concentrate on steps to help the state solidify itself and gain more state control through bargains that contain violence. Basic LAOs need to mature by fostering private firms and non-state organizations, usually still dominated by elites, and by establishing rule of law within the state, such as following rules for presidential succession, party leadership, and resolution of intra-elite economic disputes. Mature LAOs should focus on creating the doorstep conditions, like improving the legal framework for independent private non-state organizations. Because LAOs are elite-controlled, many of the reforms will have the immediate effect of helping elites increase their rents, with later and secondary effects of improving the lives in wider circles of society (cf. Kuznets, 1971 for predicting a similar phenomenon based on capital accumulation).⁷

In the last fifty years, donor organizations have provided developing countries (and failed states) with policy advice, technical assistance, and money. The recommendations from the standard approach to development aim to introduce elements of OAOs into developing societies—property rights, competitive markets, institutions of the rule of law, and competitive democracy (for example, World Bank 2000). Such policies often fail when inserted into LAOs because the advice does not take account of the problem of the endemic distribution of violence capacity. Some of the standard policies can work in LAOs, indeed they may help the movement toward a more mature LAO and the achievement of the doorstep conditions, but our model predicts that policy reforms will yield the expected benefits only if consistent with the logic of limited access in the country's actual circumstance.

Reforms risk failure and institutional regression if they depend on an open-access notion of the state having a monopoly on violence and using it to deter all violence by others. Except in developing countries that have attained the doorstep conditions—only Chile and South Korea in our sample—LAOs do not deter violence through the state's ability to project violence. Indeed, basic LAOs where the government possesses a true monopoly on violence are likely to be tyrannies, such as Nazi Germany and the former Soviet Union. On the other hand, allowing

⁷ Although our framework involves different stages of development, it differs from modernization theory (e.g., Inkeles and Smith 1974, Rostow 1960) in several respects. For example, unlike modernization theory, in our framework, no teleology moves countries forward in the progression; indeed, countries often move backwards (e.g., the breakdown of a mature LAO into basic LAO or even a failed state, through violence and civil war).

order to break down does not lead to a fresh start where open access institutions can flower, but rather it strengthens the appeal of using limited access to restore order, as in Mexico in the 1920s, Bangladesh and Chile in the 1970s, Mozambique in the 1980s, and the DR Congo since the 1990s.

More competitive electoral democracy and freer markets can help some countries, but in others these measures weaken the rent-creation system that holds an LAO together; they therefore risk increasing violence and making a reversion back to disorder and a less mature LAO. Mexico and the Philippines may face such dangers now, in contrast to the optimism of the 1990s. Of course, groups who benefit directly from market distortions – firms that receive monopoly profits or groups that receive services at subsidized prices – will resist the reforms. Paradoxically, many who are exploited by these policies may also hesitate to support the reforms that threaten the LAO, because they see disorder and violence as worse than being exploited economically.

Another problem is the possibility that the government in an LAO may adopt the institutions proposed by international donors without fundamentally changing the way the society operates. Since institutions and mechanisms operate differently in different societies, recipient countries often adopt the recommended institutional forms and then co-opt those forms to sustain or strengthen their LAOs. This is particularly problematic in countries, mostly low income, where aid is a large source of budget support and there is extensive governance conditionality (World Bank 2008b). In retrospect, donors evaluate these programs and complain that the reforms were mere window dressing or that the country lacked “political will.” A more useful diagnosis requires that we look through the LAO lens to understand how elites have incentives to subvert these reforms or, as they would see it, to adapt the institutional forms to local conditions.

Our approach addresses the problem of poverty in that mature LAOs are significantly richer than fragile LAOs, and the ratio of income differentials is much wider among LAOs—from \$400 to \$8000 per capita—than between OAOs and the middle-income LAOs. When developing countries mature as LAOs, the middle class typically expands and poverty declines (Dollar 2005). The poor also benefit as these economies become more resilient to shocks and therefore suffer fewer debilitating crises.

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