

Governments and States:
Organizations, Politics, and Social Dynamics

John Joseph Wallis
&
Douglass C. North

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But this draft is very preliminary. We apologize for the yet to be completed parts and look forward to your comments and suggestions.

Are states and governments the same thing? Although states are often equated with governments, few terms have such wide currency and such varied meaning as “state.” In contrast, “government” has a general and narrowly accepted meaning as the public organization(s) that perform certain functions. Concern with understanding the intertwined processes that produce political and economic development has increased as the gap in the economic and political performance of societies widens. The problem of development seems to us to be a problem of social coordination and organization. Societies capable of sustaining greater coordination, through markets or not, are better organized and more productive. Governments appear to be at the center of both the problem of social coordination and the solution to becoming better coordinated. Bad governance explains both why societies are poor and why they fail to develop. In political science and economics this is expressed in the different shades of meaning conveyed in variations on the concept of state as government in phrases like failed state, fragile state, sovereign state, state building, and state capacity.

If we define states, in very general terms, as the configuration of power between the powerful organizations and individuals in a society, then it seems clear that governments as organizations are part of the state and sometimes not. More importantly, the process of reaching coordinated decisions about how individuals and groups interact is always located in the state, but sometimes not in the government. A powerful and obvious implication flows directly from this observation: in some societies the government is not the organization through which social coordination is effected, so changes in government “policy” may have little effect on social outcomes. The observation is not particularly profound, but it goes right to the heart of development policies that assume that governments are the levers that can be moved to shape

societies.

Our purpose in this paper is not to quibble about definitions, but to look more closely into the social dynamics of societies where states and governments are distinctly different compared to societies where the state and government are integrated, although not identical. To that end, after briefly surveying current ideas about the “state,” we will use the term “dominant coalition” to refer to the constellation of powerful interests underlay the process of social coordination. The semantic substitution is not substantive in itself, but we hope it focuses attention on the meaning of the state relevant for the problem of development.

Our fundamental interest is in social dynamics, not in mechanisms of governance. We are particularly concerned about the possibility of violence between groups and individuals and how societies construct arrangements that limit violence and shape (or coordinate) expectation about the use of violence. That brings us quickly to the nature of organizations within a society, for it is in concrete organizations that institutions, rules, norms, and beliefs capable of limiting violence become substantiated. But it is also those patterns of social interaction and coordination that determine what rules and norms can be supported. The emergence of societies capable of formulating impersonal rules, where impersonal rules are explicitly defined as that apply equally to all citizens without reference to the personal identity of the individual, is central to the process of modern political and economic development.

To understand how a developed society creates and sustains impersonal rules, we have to understand why most societies cannot support impersonal rules. The reasons turn out to be intimately connected to the nature of organizations and power relations within the dominant coalition. If social order depends more on organizations more than rules, then rules will never be

truly impersonal. We show how third-party enforcement of agreements can credibly emerge within the context of the dominant coalition. Rather than impersonal rules that apply equally to everyone, third-party enforcement within the coalition, every powerful organization will have its own rules. Disputes between organizations may be mediated by third-parties, but will be resolved as much by the relative influence of the two organizations within the dominant coalition as by the application of impersonal rules. Governments arise as means of creating common knowledge about agreements reached within the coalition. In our framework, the primary characteristics of governments is their public role and ability to create common knowledge. The government's ability to create common knowledge, first within the dominant coalition and then in the larger society to a large extent determines the attainable degree of social coordination and therefore the level of political and economic development. The extent to which dominant coalitions are willing to work through the public organization of governments plays a critical role in the development process.

Unlike most theories of the state, the power of the state and the government flows from the ability to organize and coordinate human behavior, not from violence. The ability to use violence, or coercion which is the threat of violence, is not the source of power in the state. The ability to coerce follows from the ability to organize. We begin, then, by considering Weber's famous definition of states as organizations that use violence.

2. Some definitions of the State

Max Weber's definition of the state is a touchstone for many scholars and his two points of emphasis are ideas we want to push against. What follows is not a comprehensive review of theories or definitions of the state or even of Weber, but it gets us started on the tricky problem

of the organization of violence. The first part of his definition acknowledges that states do many things, so defining them by the functions they perform is problematic. Instead, states are defined by the means that they use, and those means are violence:

“But what is a ‘political association’ from the sociological point of view? What is a state? Sociologically the state cannot be defined in terms of its ends. There is scarcely any task that some political association has not taken in hand, and there is no task that one could say has always been exclusive and peculiar to those associations which are designated as political ones: today the state, or historically, those associations which have been the predecessors of the modern state. Ultimately, one can define the modern state sociologically only in terms of the specific *means* peculiar to it, as to every political association, namely, the use of physical force.” (1948, pp. 77-78).

The second part of Weber’s concept of the state applies only to the modern states or to “today”:

If no social institution existed which knew the use of violence, then the concept of ‘state’ would be eliminated, and a condition would emerge that could be designated as ‘anarchy,’ in the specific sense of this word. Of course, force is certainly not the normal or the only means of the state – nobody says that – but force is a means specific to the state. Today the relationship between the state and violence is an especially intimate one. In the past, the most varied institutions – beginning with the sib – have known the use of physical force as quite normal. Today, however, we have to say that a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. Note that ‘territory’ is one of the characteristics of the state. Specifically, at the present time, the right to use physical force is ascribed to other institutions or to individuals only to the extent that the state permits it. The state is considered the sole source of the ‘right’ to use violence. Hence, politics for us means striving to share power or striving to influence the distribution of power, either among states or among groups within a state.”

The second point is easier to deal with than the first. Weber was concerned with the emergence of modern societies. The nature of government changed in the modernization process and the modern “state” was the result. The transformation of government and the emergence of the modern states in the 19th century is a vast field of inquiry. Charles Tilly (1993) has been the most influential recent analyst of the rise of national states, as he calls them. More generally, the

field studies the emergence of sovereign states: Ertman (1997), Spruyt (), Poggi, Easton, Schmitt, and before them Elias, Finer, Hintze, Strayer, etc. (this is an incomplete list). Focus on the modern state has led to statements like “Most scholars now agree that the State is a comparatively recent phenomenon in terms of the long history of human existence.” Vincent, (1987, p. 5)

There is no denying the central importance of the modern state in the process of economic, political, and social development since the late 18th century, but tying our concept of the state to just modern states handicaps us. We miss continuities and connections with the phenomenon of earlier states. Most societies in the contemporary world do not have Weberian governments with a monopoly on violence, nor governments with the capacity to mediate a representative process of governance and deliver public service in the manner of developed societies. Narrowing the definition of “state” to just modern states also has a pernicious effect. Most societies in the world today do not have modern states and the implication that the lack of modern states somehow represents a failing in those societies is a major hinderance to development policy. We do not want to use a conceptual terminology and framework that cuts societies with modern states off from either history or the contemporary world.

Although Weber’s definition equates states with governments – the organization with a monopoly on legitimate violence within a well defined territory – much of the literature on the modern state acknowledges that the state is something bigger than the government. “The most crucial of these features is the idea of the State as a continuous power above both ruler and ruled.” (Vincent, 1987, p. 19) If the state is above the government (ruler), that involves us in the complicated problem of determining exactly what the state is. It brings to mind Lincoln’s

formulation in the Gettysburg address of a government “of the people, by the people, and for the people.” Although Michael Mann (1986) defines the state as equivalent to a government in his wide ranging study of *The Sources of Social Power*, he also has in mind that all governments (states) both modern and pre-modern are embedded in a social fabric made up of other powerful political, economic, social, religious, and military organizations.¹ As we develop in the fourth section of the paper, there is no modern or pre-modern society in which the government possess all of the power, even if it has a true monopoly on violence. Our thinking about governments and states must be consistent with this basic fact.

The association of the state with violence is a deeper problem. One of us has made use of the association in past work. “...a state is an organization with a comparative advantage in violence, extending over a geographic area whose boundaries are determined by its power to tax constituents..” North (1981, p. 21). Every social science thinks about the importance of rules and the means by which rules are formulated and enforced. Rules and norms are the root of secure property rights, civil rights, human rights, and basic personal dignity. In the absence of rules and norms human societies can be truly terrifying. In one logical sense, the ability to enforce rules appears to ultimately depend on violence. “Even more than regulating the scope and methods of conflict, the law generally stands ready to enforce agreed settlements. But note the word “enforce”: *regulation* of conflict can be achieved only if the regulator has the power to inflict even heavier damages.”² While not all theories place violence at the center of the state,

¹We return to Mann later in the paper, as his idea that there are multiple sources of power in any society, and that government is only one of those sources, resonates with our approach.

²Hirschleifer, 2001, p. 13. Hirschleifer and Skaperdas are the leading economists studying violence in human societies.

many make it the essence of states. Poggi, for example, opens his book with a discussion of Easton (1953) and Schmitt's (190_) theories of the state: "The extreme contrast of Easton's and Schmitt's views makes all the more striking their agreement on one basic structural feature of political business, namely that whatever agency is responsible for that business must have privileged access to facilities for physical coercion." (1978, p. 11) The need to enforce rules requires that the state have privileged access to coercion: "We have not asked ... how those activities are patterned, except to the extent of suggesting that rule always involves a more or less exclusive disposition over means of coercion." (p. 13) While Poggi's subject is *The Development of the Modern State*, he clearly intends that his violence based concept of the state applies to all states, modern and pre-modern.

We could go on with definitions (for a long time), but Weber's definition illuminates the basic problem with using violence as the defining characteristics of states. Governments capable of enforcing rules through coercion by necessity have privileged access to the means of violence. Before modern states developed historically in the 19th century, few if any governments had a monopoly over physical coercion and, therefore, their privileged access to violence was always contested and problematic. In many contemporary societies governments still do not possess a monopoly on violence. Many organizations in these societies have access to and use violence.

Simply dropping the monopoly assumption, however, does not by itself immediately produce a better concept of governments and states, for doing so still leaves the nature of violence unresolved. We must deal directly with the nature of violence. The violence that really matters in the world is *organized* violence. It is one thing to say that the state is "that organization with a comparative advantage in violence" and a completely different thing to

explain where that comparative advantage comes from. We take as our starting point the fundamental truth that coercion cannot be organized by coercion. Suppose a king heads an organized group capable of inflicting violence on other people and therefore capable of coercion. The internal organization of that group cannot be based on the coercive power of the king vis a vis every member of the group. The king cannot organize the group simply because he can beat everybody up, for it is impossible for a single individual, as an individual, to physically coerce two or more individuals of equal physical capacity.³

Before we can begin to speculate about how an organization uses violence we have to understand how violence can be organized. This is why, as a logical priority, we need to understand how the state organizes organizations (whether the organizations use violence or not), before we can begin to understand how societies control violence through the threat of coercion. The next question to address is the nature of organizations, and then we move the organization of violence.

3. What Do Organizations Do?

Organizations coordinate human activity. Organizations are bundles of relationships that create incentives for coordinated and sustained interaction between individuals over time and space. Individuals have an incentive to participate in an organization because they are better off if they do so. In the language of classical economics, people belong to organizations because they get rents from doing so. Organizations create rents in two basic ways. The first is

³There are of course many refinements and qualifications, the king may have a gun for example. In the end, however, the king has to sleep sometime, and those who protect the king while he sleeps must be motivated to protect the king by something other than the fear that he will coerce them when he wakes up. Boehm has an insightful analysis of this problem in his study of why most hunting and gathering societies are egalitarian, (2003, pp.).

characteristic of all relationships that persist through time. When two individuals come to know each other and expect to interact in the future, they have a relationship. Relationships create rents when the alternative to which the relationship is compared is the prospect of dealing with strangers whom one expects never to meet again.⁴ These rents come both from our increased knowledge of the other person and from our expectation that our interaction will continue. These elements enable us credibly to coordinate our behavior through the logic of the folk theorem.

Coordination is the second source of the rents that organizations create. For many activities, people who work in teams are more productive than people who work individually. If the organization is a firm that produces goods, the gains can be measured in terms of physical output. But the gains from coordination are not limited to standard economic activities. Churches are organizations that coordinate behavior in ways that enhance the value of the community and the religious experience. Individual church goers receive rents from their participation in the church's activities, and it is those rents and the personal knowledge that results from participation that enable church goers to coordinate.⁵

Organizations, then, provide a framework for relationships that are more valuable to individuals than one-shot interactions with strangers. The value of relationships makes it possible for people to coordinate their actions, and that coordination in turn generates rents in the

⁴When we get to know a person we may learn that we do not want to interact with him or her, but even that negative information produces a rent in comparison to dealing with a person whom we do not know.

⁵Organizations are not the only way that people can coordinate. The gains from specialization and division of labor can be obtained in markets, in which the price mechanism coordinates individual decisions.

form of higher output or benefits than could be obtained by a comparable group of uncoordinated (unorganized) individuals.

Understanding how organizations work has been a mainstay of the new institutional economics, beginning with Ronald Coase's (1937) insights about the firm and continuing on through Oliver Williamson (1975 and 1985), Sanford Grossman and Oliver Hart (1985), and a host of others. Robert Gibbons has argued that organizations should be thought of as interlaced bundles of relationships and contracts (1998, 1999, 2003). Relationships between individuals are sustained by repeated interaction and the existence of rents to both parties. Contracts are agreements between individuals that are enforced by third parties, that is, another person outside of the relationship. While some organizations can be described as self-enforcing sets of relationships, most organizations rely on some form of contractual enforcement using third-parties. A robust theory of organizations should encompass both relationships and contracts, rather than relying on one or other as the "organizing" principle.

As just described, one starting point for a theory of organizations is the folk theorem intuition that two individuals can maintain a relationship over time if both individuals receive a rent from the relationship. The players in the folk theorem receive rents from their specific relationship, so their individual identity and the identity of their partnership matters. The existence of rents makes their relationship incentive compatible. The folk theorem partnership is what we call an *adherent* organization, an organization where both or all members have an interest in cooperating at every point in time. Adherent organizations are inherently self-sustaining or self-enforcing; they do not require the intervention of anyone outside of the organization. Mancur Olson's famous "Logic of Collective Action" (1965) relies on the

existence of rents enjoyed by members of the organized group, which he calls selective incentives, to explain voluntary associations. Members only cooperate if the rents are positive and, critically, if the rents are only attainable within the organization.

The higher the rents the more predictable is the behavior of members of the organization. That is, partners can sustain a higher degree of cooperation when members of the relationship expect to receive higher rents on an ongoing basis. Members who are pushed to the margin are not reliable partners: if a member receives total benefits that are just equal to the total costs of membership, then rents are zero and that member is indifferent to cooperating. The behavior of indifferent partners is unpredictable. Any small change in circumstances may lead them to defect. Organizations want to ensure that all members earn some positive rents so that their behavior is predictable.

If the members of an adherent organization look forward and anticipate that rents may not be sufficient to ensure the cooperation of every member at every point in time in the future, then defection is anticipated and cooperation may unravel. There are, however, ways for the members to protect against defection, like giving hostages, which provide insurance against the possibility that rents will become zero or negative at some point. The threat of killing the hostage imposes large penalties on defection, making possible incentive compatible and time consistent arrangements for the organization. The various folk theorems lay out how such punishments for deviators (non-cooperators) might be credibly imposed (Benoit and Krishna 1985, Fudenberg and Maskin 1986).

The folk-theorem logic is enough to explain the existence of adherent organizations. But organizations that depend only on the coordinated interests of their members without recourse to

external enforcement of arrangements are likely to remain small. Even within adherent organizations, cooperation is often embedded in a set of norms or rules: expectations about what may happen in certain circumstances. Rules may be constraints on behavior, but often rules are not constraints, but defaults. Rules come into play and when relationships erode or break down and individuals opt to choose the default arrangement. One default is always to end the relationship, but others, like kill the hostage, can be much more complex. The actual behavior of an organization is not described by its rules, but by the nature of relationships within the organization.⁶ Rules are default arrangements and when rules are credible, relationships operate in the shadow of the rules.

Ensuring cooperation is expensive, particularly when cooperation is attained through the continual *ex ante* transfer of real economic assets or costly threats to destroy economic assets *ex post*. Third-parties are one way to reduce the costs of enforcing rules when it is necessary to do so. Rather than tying up valuable resources in the form of hostages or other insurance arrangements within the organization, rules and contracts enforced by third-parties offer a more efficient possible way of ensuring that rents stay positive. An organization's members accept terms and penalties for defections that the third-party enforces. The resources of the third-party need only be engaged when necessary, offering gains from resource use and specialization and division of labor. The incentives facing third-parties are an endogenous part of this relationship.

Organizations that rely on some form of external enforcement of agreements are

⁶Marriages are relationships, and marriage law applies not to the conduct of marriages but the conduct of divorces. Marriage law, therefore, does not describe the behavior of people in their marriages, but does describe how the parties interact during a divorce.

contractual organizations. Anything that an adherent organization can do a contractual organization can do, but many things that contractual organizations can do are impossible to accomplish with purely adherent organizations. It is difficult to overstate the importance of contractual organizations. Those of us who live in societies with open access to organizational tools may have trouble appreciating just how many of the organizations we consider “voluntary” are contractual, not adherent, organizations. We swim in a sea of organizational tools so pervasively present that we often do not even notice their existence. Which brings us to the central problem with organizing violence: where do third-parties come from and how can people believe that credible third-parties will be credible?

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

In her study of *Primitive Governments* in east Africa, Lucy Mair wrote that: “It has been a principle of this book that a man who wants to secure a following must be able to offer his followers some material advantage.” (1962, p. 136) We take the essence of Mair’s logic to be an alternative version of what we stated at the end of section 2: violence cannot be organized through coercion, it must be organized through the creation of some tangible advantage or interest.

This is a deep chicken and egg problem. If violence requires non-coercive incentives to be organized, and the creation of those incentives depends on agreements or rules that can somehow be enforced, and enforcement of agreements requires an organized third-party that can enforce rules through coercion, then where do we break into this circle of reasoning? Many theories of organizations assume that the institutional capacity to enforce rules and agreements

already exist in the larger society.⁷ Such an assumption will not work if our interest is in the emergence of organizations capable of enforcing rules. The institutional capacity to enforce rules and contracts in the larger society has to be created in a manner that is logically consistent with the potential for individuals to be violent. Ultimately, this brings us to the difficult questions of where third parties come from, how people can believe that third-party enforcement will be credible, and the government's potential role as a credible third-party.

Mair's quote begins with the desire of one man for a following. Social scientists have thought about organizations in a similar way, by beginning with a powerful individual who has a comparative advantage in violence. They proceed by identifying the interests of this single individual and then theorize about the conditions under which the enforcer/guardian will honor his or her commitments to provide third-party enforcement to his clients (including protection). We believe that a single powerful individual the wrong place to start. The puzzle within the puzzle is that violence cannot be organized simply by violence or coercion. A violence specialist cannot organize other violence specialists simply by threatening to beat them up or kill them, because a coalition of any two or more violence specialists can always defeat a single violence specialist, no matter how strong the individual specialist is. Since most male humans are more or less endowed with similar physical capacities for violence, an adherent organization cannot evolve in which one person uses the threat of violence to organize the rest of the group.

⁷For example, Bolton and Dewatripont begin their *Contract Theory* with the explicit assumption that "the benchmark contracting situation ... is one between two parties who operate in market economy with a well functioning legal system. Under such a system, any contract the parties decide to write will be perfectly enforced by a court, provided, of course, that it does not contravene any existing laws" (2005, p. 3).

Organizations that use violence must be organized by something other than coercion.

In our book with Barry Weingast, *Violence and Social Orders* (2009, hereafter NWW) we developed an insight about the organization of violence to explain how societies come to limit violence. Think of two individuals, each members of a different group. Each of the groups, to begin with, are egalitarian in the sense that no individual is capable of coercing the group and economic outcomes are relatively equal.⁸ Suppose that if the two individuals cooperate and form a coalition, they can overawe either of the groups they belong to.⁹ They agree to come to each other's aid in the case of a conflict and by doing so agree to recognize each other's rights to the land, labor, and capital in their respective groups.¹⁰ Both coalition members are able to claim resources from their own group. The land, labor, and capital they control is more productive under conditions of peace than conditions of violence. If violence breaks out, the rents each coalition member gets from his own group go down. Both coalition members can see that there is a range of circumstances in which each member can credibly believe the other will not fight. As a result, the rents from their group serve as a mechanism for

⁸The evidence that small foraging bands are quite often aggressively egalitarian seems well established. Whether the small bands that make up the basic unit of most foraging societies are inherently egalitarian or whether they are egalitarian only because of their organizational response to environmental and social conditions, however, is a fascinating question. See Boehm (2001, pp.) and Kelly (1995, pp.) for two different views.

⁹The idea that a coalition of just two members will be able to overawe either of the two groups is unrealistic. But beginning with a coalition of just two members is easier to describe and visualize. An actual coalition would need to include enough members to coerce each of the member's groups.

¹⁰The example is unrealistic, in the sense that only two individuals cannot possess enough coercion to overawe either of the respective groups. Two is also too small a number to solve the problem of guarding each other while the other sleeps, a major force for egalitarian outcomes in small groups (Boehm, 2001). So the number of people who reach the agreement to enforce each others claims to property is certainly larger, but two is a much easier number to visualize and represent in the figure that follows. We describe the solution to the sleeping problem later.

limiting violence be coordinating the two coalition members.

We did not assume that the coalition members possessed any special physical characteristics. We assumed that if they cooperate they can overawe the members of their respective group: their strength comes from their organization. The ability of the coalition members to form a credible coalition is what makes the members of the coalition “violence specialists.” They are violence specialists in the sense that only coalition members are capable of calling on the organized presence and violence potential of other members of the coalition.¹¹ The coalition is an adherent organization, the relationship between the coalition members/violence specialists creates rents from non-violence that provide incentives for the specialists to continue to cooperate. NWW call this organization the “dominant coalition.”

The nub of the agreement within the dominant coalition is about violence and rents. The ability of each coalition member to see that the other members will lose rents if they are violent enables each of them to credibly believe that there is a range of circumstances in which violence will not be used. The organization of each coalition member is more productive if there is no violence. The difference between the productivity of the member organizations under violence and under non-violence are the rents to non-violence. The rents from non-violence make the organization of the coalition members sustainable. Note that the coalition members do not “share” anything except the responsibility of coming to each other’s mutual aid: they each keep the gains from their own organization and there is no sharing rule or *ex post* bargaining.¹²

¹¹The comparative advantage in violence that the coalition enjoys vis a vis the unorganized general population is a function of the organization of the coalition, not of the violence capacities of the coalition members.

¹²This is what Ambrus would call a rationalizable coalition. That is, the coalition members are not producing a joint product which they must then divide between each other.

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

In Figure 1, the horizontal relationship between the coalition members create an adherent organization. A and B become violence specialists because of their ability to call on each other, and their ability to coordinate with each other is made credible by the rents each receives from their respective organization. If the relationship between the coalition members is credible, then vertical relationships between the coalition members and their clients can become contractual organizations because the vertical organizations rely on the external third-party presence of the other dominant coalition members. The vertical client organizations might be organized as kin groups, ethnic groups, patron-client networks, or organized crime families. The combination of

They are producing individual products, which are more valuable if they coordinate in their use of violence and willingness to enforce each other’s rights. Each coalition member can see the incentives for rational behavior facing other members of the coalition. Thus a coalition emerges between non-cooperative actors, in which coordination is achieved.

multiple organizations, the “organization of organizations,” mitigates the problem of violence between the really dangerous people, the violence specialists, creates credible commitments between the specialists by structuring their interests, and creates a modicum of belief that the specialists and their clients share a common interests because the specialists have a claim on the output of their clients.

The figure is a very simple representation. In a functioning society there are many more groups. Members of the dominant coalition include economic, political, religious, and educational specialists (elites) whose privileged positions create rents that ensure their cooperation with the dominant coalition and create the organizations through which the goods and services produced by the population can be mobilized and redistributed.¹ But the simple society depicted in the figure provides enough to see how credible third-parties can emerge out of the social arrangements that limit violence. In the adherent horizontal organization of the dominant coalition, no member or organization has a monopoly on violence. What deters the use of violence is the potential rents that coalition members might lose if they choose to fight. Those rents do not come from within the dominant coalition, but from the vertical contractual client organizations. The members of the dominant coalition are able to call on each other to serve as third-parties. Initially, those services might only include simple recognition of each other’s boundaries and clients, as well as a working agreement to live and let live, but the roots of more sophisticated arrangements lie in the credible commitments that coalition members can make to one another.

¹North, Wallis, and Weingast, 2009, chapter 2. Earle, 1997 and 2003, and Johnson and Earle 2000, provide a series of anthropological examples of how chiefs come to power and the scale of society increases by the systematic manipulation of economic interests.

The society depicted in Figure 1 has a state, the dominant coalition, but no government. There is a structure of power, based in organizations that are mutually supporting through an interlocking set of interests. But there is no public organization, just the members of the coalition and the organizations they head.

There is an important second way that the relationships between the coalition members is stabilized. The ability of coalition members to call on each other as third-parties for their organizations enables coalition members to convert their adherent organizations to contractual organizations. Undoubtedly, when larger societies began to emerge 10,000 years ago, the nature of third-party enforcement was very limited. But the possibility that one violence specialist could help enforce agreements within the organization of the other specialist, and perhaps more importantly, that the coalition members together could help enforce agreements between their organizations, created new rents from coordination. Following NWW's logic of the natural state, these coordination rents also served to strengthen relationships within the dominant coalition. The rents from coordination worked for social stability in the same way that rents associated with non-violence work for social stability. To the extent that the dominant coalition serves as a third-party enforcer for members' organizations, those organizations are more productive. The rents produced by coordination within the coalition and from the higher productivity of members' organizations strengthen the incentives holding the coalition together.

Note that the coalition's ability to provide third-party enforcement does not depend on interests that members of the coalition share, but on the distinct interests that each coalition member has in their own organizations. The dominant coalition does not act cooperatively to produce a joint product and then figure out how to divide up the gains (the standard contracting

problem). Instead, the coalition decides on a series of strategies that make each member of the coalition better off and are thus sustainable, the idea of “coalitional rationality” developed by Ambrus (2005). These individually rational interests provide the organizational incentives that make up the relationship among organizations in the “organizations of organizations.” It is the multiplicity of organizations that makes third-party enforcement possible. If there is only one organization, there is no possibility of credible third-party enforcement. There must be at least two organizations. The dominant coalition is an organization of organizations.

4. Anonymous and Impersonal: Relationships, Exchange, and Rules

Before turning to how the logic underlying Figure 1 translates into governments and states, we need to consider what more than a semantic issue: the definition of impersonal relationships. Impersonality is a key to understanding not only the “modern” world, its absence it is the key to understanding the social dynamics of pre-modern societies.

The progression from personal to impersonal can be illustrated in terms of Figure 1. For most of human history, almost all relationships between people were “personal.” That is, relationships occurred between people who knew each other and had expectations of repeated interaction in the future. In this world, all organizations were adherent organizations. At the limit conceptually, all organizations were vertical ellipses unconnected by any horizontal ellipse.²

Sometime around 10,000 years ago the first societies capable of achieving substantially larger size appeared. Interactions between individuals could not longer be based solely on

²This is too strong, since all societies organized in bands of 25 to 30 people, nonetheless still must maintain relationships with other bands, if only to provide opportunities for marriage. We will return to this in a later section.

personal relationships. Relationships between individuals who did not know each other and had no expectation of repeated interaction in the future needed to be mediated by some form of social institution. Figure 1 shows how a larger society could emerge in which contractual organizations were supported by the dominant coalition. In this society everyone A, B, and the little a's and b's could be identified with a specific organization. Little a's and b's might be able to interact with each other, within the framework provided by A and B, even if "a" and "b" did not know each other personally. What "a" and "b" needed to know about each other is what organization they belonged to.

Both economic history and institutional economics have stressed the importance of impersonal relationships as a foundation for modern economic development and growth. We need, however, to unpack the notion of impersonal relationships. In one definition, impersonal relationships occur when two individuals interact in a way that does not depend on their personal identity. The essence of this form of impersonality is "treating everyone the same." While the definition is not controversial, it is not the one most often used in the social science of institutions. As just described, the problem of impersonal relationships is usually motivated by considering how two individuals who do not know each other personally and have no expectation of a continuing relationship in the future can come to agree on a social relationship. Defining an impersonal relationship as dealings between individuals who do not know each other personally, however, differs considerably from the impersonality defined as treating everyone the same.

We need to separate two types of relationships. For clarity, define *anonymous* relationships as situations where people who are not personally known to each, but nonetheless

know the social identity of the other in the relationship, interact on some dimension. Social identity -- the group, organization, tribe, city, etc. that an individual is identified with -- is a key element of anonymous relationships. In contrast, *impersonal* relationships refer to situations where people are treated according to the same rules, whether they are personally known to each other or not. Social identity is not a part of impersonal relationships since, in the limit, all people are treated identically.³

The society depicted in Figure 1 can support personal or anonymous relationships, but not impersonal relationships. It matters which of the three organizations in the figure you belong to. Institutional economics has come a long way towards understanding how organizations can be used to support anonymous exchange. Here is how Avner Greif defines “impersonal” exchange:

What were the institutions, if any, that supported interjurisdictional exchange characterized by separation between the *quid* and the *quo* over space and time? Specifically, were there institutions that enabled such exchange that was also impersonal, in the sense that transacting did not depend on expectations of future gains from interactions among the current exchange partners, or on knowledge of past conduct, or on the ability to report misconduct to future trading partners?

The theoretical and historical analysis presented here substantiates that in premodern Europe impersonal exchange characterized by separation between the *quid* and the *quo* across jurisdictional boundaries was facilitated by a self-enforcing institution: the community responsibility system. (Greif, 2006, p. 309)

Greif motivates impersonal exchange as a relationship between two individuals who did not know each other, but could nonetheless reach agreements that spread across space and time. Again, what Greif describes as impersonal is what we have defined as anonymous exchange: exchange embedded in larger social organizations that enable individuals to credibly deal with

³The distinction between impersonal and anonymous relationships is considered in more detail in Wallis (2011).

one another because expectations about the other's behavior are grounded in the social constraints on the other person.

Grief is in no way wrong to define impersonal exchange in this way, North defined it similarly in 1990 (pp. 34-35). But neither Grief's nor North's definitions of impersonality differentiate between treating everyone the same – impersonality – and dealing with people you do not know personally because you know what organization they belong to – anonymity.

For our immediate purpose, it is important to understand that organizations form the social background for anonymous relationships to flourish. As Greif shows, the ability of organizations to create and sustain rents within the organization enables organizations to credibly interact in ways that enhance those rents. Organizational rents are the fundamental engine that make Grief's examples of the Maghribi traders or the community responsible systems work. At the same time, rents generated within organizations enable individuals to deal with one another credibly across organizations. These anonymous relationships are embedded in organizations rather than personal relationships.⁴

Societies based on anonymous relationships have trouble enforcing impersonal rules because the very logic of what holds the organizations together is that everyone is not treated the same, that every organization possess unique and valuable privileges.⁵ The next step is to fit governments and states into the picture.

6. Governments and States: The Difference?

⁴ Granovetter's (1985) notion of the embeddedness of economic actions in social structure is precisely what we are identifying in the notion of anonymous relationships.

⁵The conflict between organizations and rules is explored in more detail in Wallis (2011).

We are finally done with the ground clearing necessary to get to the answer to the papers question: are governments and states the same? The answer is no. In our framework, states are dominant coalitions, coalitions of powerful individuals and organizations. Few members of the dominant coalition are powerful as individuals independent of their organizations, but some individuals are more powerful than others. The glue holding the coalition together is the rents that individuals enjoy from their organizations, rents created either from peace or coordination within the coalition. Organizations within the dominant coalitions use violence, and in that sense they meet the Weberian condition for states. But since many organizations within the coalition may use or threaten violence it is not clear how Weber's definition applies to or within the coalition, nor is it clear which organizations he would identify as states and which he would identify as non-state organizations. Dominant coalitions solve the problem of internal violence, although the solution is always a fragile one that depends on the balance of interests within the coalition and the larger society.⁶

Unfortunately, the dominant coalitions is not empirically tractable concept. Powerful individuals and organization within a dominant coalition may not be easily observable to people outside of the coalition. The paper began with a seemingly clear definition of what a government was and no clear idea of what a state was. Now we have a clear conceptual idea of what a state is, but what is a government? Governments are a type of organization, but they are not distinguished from other organizations by some distinctive form. Governments often use violence, but so do other organizations in the coalition. The aspect of governments that truly set them apart is their "publicness." Governments are always visible and identifiable organizations

⁶Dominant coalitions may be threatened by violence from actors external to the coalition, although this is an important problem, we will not consider it here.

(even if some of their members and activities are hard to see).

Publicness is not straightforward to define [and it is the part of the paper that we really need with]. It is not just visibility, since many private organizations are visible. Publicness involves the nature of producing common knowledge and, as a result, potential focal points for coordinated behavior.⁷ Government(s) is the organization(s) formed within the dominant coalition for the purpose of creating common knowledge within the coalition. For governments to play this role within the coalition they must be visible (public) to all members of the coalition and can therefore also perform the function of creating common knowledge in the larger society. Governments are public in both senses, visible within and outside the dominant coalition.

As an example, we can think of roads and driving, since a classic coordination problem is whether people should drive on the left or right side of the road. There are enormous social gains from coordinating everyone's behavior. While a social convention may arise, it is also possible that the government can say "everyone drives on the right." One might argue that the government's ability to provide a focal point is enhanced by or rooted in its corollary ability to punish people for driving on the wrong side of the road (or holding them liable for damages in accidents if they drive on the wrong side).

To separate out the common knowledge role of government from the coercive role of government, consider four scenarios:

Scenario 1) The government does nothing.

Scenario 2) The government announces that people should drive on the right side of the road, but nothing else.

⁷See Suk-Young Chwe (2001) for an introduction to the importance of common knowledge and social rituals.

Scenario 3) The government announces that people should drive on the right. Aristocrats, will not be punished or liable for damages if they drive on the left side of the road. Commoners will be punished or liable for damages if they drive on the left, and will be found liable for damages if they are involved in an accident with an aristocrat no matter what side of the road they were driving on.

Scenario 4) The government announces that people should drive on the right. The government (police) will punish anyone observed driving on the left. Anyone driving on the left will be presumed to be liable for any accident that occurs (taking circumstances into account).

In scenarios 2, 3, and 4 the government is providing common knowledge. The “commonality” of the knowledge does not differ in the three scenarios, but the content of the knowledge does. In the context of the four examples, it is the ability to announce which side of the road to drive on that makes an organization a government.

The scenarios illustrate more, however, and part of what they illustrate is our confusion between governments and dominant coalitions. Scenario 4 depicts impersonal rules about driving that apply to everyone. Scenario 3 depicts anonymous rules that apply differently to different people. Note that the two scenarios imply no differences in the government’s capacity to enforce rules, in both scenarios it articulates rules which it is able to enforce, just different rules.

A government in a society operating under the logic of the natural state, may be incapable of enforcing scenario 4 rules, even if the government announces that it will enforce the traffic laws equally. Some call this a lack of state or government “capacity,” but it is not clear that the government’s inability to enforce scenario 4 rules has anything to do with its lack of capacity to enforce traffic rules rather than the nature of dynamics inside the dominant coalition. In Washington, D.C. drivers learn to be alert for cars with diplomatic plates, since the government will not punish diplomats for violating traffic rules. The diplomats know the rules

and drive in a socially coordinated way (usually). There is nothing lacking in the enforcement powers of the Washington, D.C. police, the cause lies the circumstances impinging on the government lead to a scenario 3 outcome for diplomats.

Another road example is illustrated in Figure 3. Suppose there are five groups in the dominant coalition, arrayed in line. The middle three organizations - B, C, and D – control land in a mountainous region through which there are two possible road routes. Organizations A and E don't care which road is built, but they would like to know where the road will be. B, C, and D negotiate between themselves over which route to pick. If an when they decide on a route how do they make that information common knowledge?

In many (?) countries, including the United States, governments do not actually build roads. They decide where roads will go, the standards of design and construction, and pay for the roads. The government's role is essentially one of public coordination. What is at issue in poor transportation systems around the world is not necessarily the technical capacity to build roads, or necessarily the bureaucratic capacity to set and enforce standards for contractors. Solving the political puzzle of where the roads will go, who will build them, and whether those who receive the contracts will be held to appropriate standards lies in the dynamics of the dominant coalition. Again, one can call this a problem of government capacity, but improving the technical and bureaucratic capacity of the government will not solve the problem.

Both the traffic and road problems highlight the distinction between anonymous and impersonal relationships. In societies where governments are embedded in a network of organizations and the ability to form those organization is limited by the dynamics of the dominant coalition, relationships and exchange will be personal or anonymous rather than

impersonal. Governments will not be able to enforce rules or policies in an impersonal way, because treating everyone the same is not a sustainable “political” outcome. If we revert, just for a moment, and use the word “state” to refer to the dominant coalition, then the fact that governments in these societies cannot sustain impersonal policies is not due to lack of government capacity, but truly because of a lack of state capacity. Conflating the concepts of government and state blinds us to the distinction.

Before moving to consider social dynamics under anonymous and impersonal relationships, we close with a quote from the World Bank’s website overview on traffic safety. Their website clearly articulates the problem of traffic safety as a problem of government capacity, and the proposed solution is a technical one:

“A number of road agencies still lack the capacity to plan and manage their road network effectively. The ideal is to create a small, white-collar agency, paying market-based wages and operating at arms-length from government. The reality is that few countries have managed to do this. Strong vested interests has stalled the reform process. Resistance typically comes from older members of staff, who have either set up parallel income streams to compensate for low salaries, or are delaying the reforms until after they have retired. Younger staff are more supportive of reform and one of the urgent challenges in the road sector is to find ways to give these younger staff more say in how the road agency is managed.” (World Bank, 2011)

The quote beautifully illustrates how the dynamics of the dominant coalition are the problem with roads, not technical capacity. The road problem cannot be solved by a small, young, white-collar agency operating at arms-length from the government, but only by focusing on how the forces that impinge on the government operate. We will never focus on the right problems if we insist on locating the problem in the government, rather than in the dominant coalition.

7. The dynamics of anonymous and impersonal societies: limited and open access

Balance is one of the most powerful concepts in political science. The modern state form

of “checks and balances” refers so explicitly to institutional rules and norms that we sometimes forget that the long history of balance in political theory, in the work of Polybius, Machiavelli, or even John Adams for example, deals with the balance of forces at work within society.⁸ All societies achieve balance or violence and conflict result. That is either axiomatic or tautological, but it is true nonetheless.

We argue that by distinguishing between states/dominant coalitions and governments we can come to grips with the reality in most societies the actors and processes that strike the balance are very often not in government, but in the dominant coalition. Our definition of the state as the configuration of powerful individuals and organizations, is an attempt to define the state as the process by which balance in any society is achieved and maintained. Our focus on government as a public organization is to emphasize that the government is not the place where the balance is struck in most societies, but to emphasize that the government’s ability to provide common knowledge through its publicness may be critical to the maintenance of balance within the dominant coalition. Finally, the distinction between anonymity and impersonality is critical to understanding under the configurations of power in which the balance between interests and organizations within a society can be struck within the government itself. This occurs in only a handful of societies. Modern political and economic development is the result. It is only when the rules governments enforce apply equally to everyone, that everyone is treated the same, that the forces that balance all of the powerful organizations in society must somehow find an accommodation within the framework of the government process. In the sense that the balance of interests is struck within the process of governments, we could say that the state and

⁸A brief introduction to the idea of balance and corruption in western political thinking can be found in Wallis (2006).

government merge. But in another important sense, Lincoln's maxim about government of the people, by the people, and for the people becomes a more accurate picture of the dynamics at work in the state. Expanding the number of organizations that can form to all citizens and supporting those organizations through impersonal rules, creates the social dynamics in which reaching a social balance must occur within the rule making and enforcing process, and therefore location where the social balance is struck moves into the government, even though important elements of the dominant coalition, i.e. the state, remain outside the government. It is more accurate to say that the dominant coalition is transformed into the people, than it is to say that the dominant coalition and government merge.

The argument has three parts and can be stated briefly: We introduced the first part in the previous section. In most societies, the logic of the natural state operates to provides social order and balance through organized interests and anonymous relationships. In these societies, the government is often an important organization, but is almost always only one of many powerful organizations. Balance in these societies is achieved through the interaction of organizations. The interests of individual actors is embedded in the organizations that they belong to or represent. The logic of Greif's community responsibility system (2006) provides a clear example of how private ordering through organizations, without a formal government organization, can sustain social coordination over distance and time. In terms of North's 1990 definition of institutions as the rules of the game and means of enforcement and organizations as the teams that play the game: these are societies in which the teams shape the rules, different rules apply to different teams, and individuals find their interests more closely aligned with the organizations they belong to rather than the maintenance of rules (Wallis, 2011).

Governments are not organized to provide a “function,” but one function governments perform is providing common knowledge through public action and public ritual. Governments emerge to better coordinate interactions within the dominant coalition, but they also provide common knowledge and coordination for the larger society, the second part of the argument. Governments are often powerful organizations in their own right, with “private” as well as public functions. But as “governments” their role is to coordinate rather than coerce. While the organization of society depends, in an important way, on the ability of the government to coordinate actions within the coalition the reverse is also true: the level of organization and coordination within the society is directly related to the extent to which the dominant coalition acts through the agency of the government.⁹ The more activities the dominant coalition organizes publicly through the government, the better those societies tend to work, even though they remain beset by the danger that the dominant coalition will become unstable.¹⁰

As long as social order is sustained by organizational rents among the dominant coalition, then power relationships within the coalition remain personal or anonymous. The larger society

⁹Lant Pritchett made this point in a presentation at the Economic Research Forum in Antalya, March 2011.

¹⁰NWW muddled this second point by failing to distinguish between governments and states. We identified the three types of natural states as fragile, basic, and mature and the criteria for each as the relationship between organizations and the “state.” We would have been better served to distinguish between the dominant coalition and the government. In a fragile natural state all organizations exist within the immediate framework of the dominant coalition and its ongoing dynamics. In a basic natural state, some institutions are durable, organizations persist, yet they are still closely tied to the dominant coalition (although perhaps not to the government). In a mature natural state, elite organizations are allowed to form outside of the framework of the dominant coalition, although elite organizations are allowed outside the dominant coalition framework through the agency of the government. That is, governments begin to recognize and support elite organizations through rules and norms. It is when the alignment of interests within the dominant coalition leads the government to provide the same organizational tools to any and all elite organizations, that the transition from limited to open access begins.

cannot credibly enforce impersonal rules if the relationships within the dominant coalition are not impersonal. The third point is that truly impersonal rules cannot emerge in a society until the government is capable of articulating and enforcing impersonal rules that apply to all citizens in the same manner. Impersonality does not have to be universal, but it must apply to a large enough group of people that no single organization(s) can manipulate the rules or their enforcement without producing a corresponding push back from other organized interests that are adversely affected by the manipulation.

Without impersonal the ability to articulate and enforce impersonal rules that apply equally to everyone, it will never be in the interests of powerful organization to contend over the nature of the rules in the government process and produce compromises that incompletely satisfy most interest. Instead, powerful organizations will contend in the government process for rules and policies that carve out niches of limited access. Most of the relationships between powerful organizations will occur outside of the government process altogether. In an open access society, powerful organizations should be understood to include labor unions and grass root political organizations that mobilize large numbers of intensely motivated individuals, as well as small concentrated powerful interests. The point is not the presence of organized interest, that is unavoidable in any society. The point is that the interests are contending over the formation of rules that apply equally to everyone.

Only when the government is capable of enforcing impersonal rules do the dynamics of interaction within the dominant coalition force the coalition to act primarily through the agency of government. The other half of the dynamic is that the government can only credibly enforce impersonal rules when any citizen can form an organization and use that organization to press

for their interests in the political process. It is this dimension of openness that produces Dahls' polyarchy of interests and engages those interests in the political process. It is allowing any one to form an organization, including a political party, that produces Hofstadter's credible political opposition. The conflict and balancing on interests that all theories of politics take as starting point, has two very different social dynamics depending on whether everyone, or only a limited number of people, can form an organization within the framework of larger social supports.

It is puzzling that Weber, who was such an acute observer and analyst of organizations did not tackle the problem of how violence was organized. Powerful organizations are powerful because of their internal and external organization; their ability to multiply and enhance their power through violence is a consequence of their organization, not a cause.

Modern societies do not develop because the government has a monopoly on the legitimate use of violence. Modern societies develop because powerful non-government organizations are willing to concede their ability to use violence to the government. They are only willing to make that concession if they believe that the government can be controlled through means other than violence: through political, economic, and other interaction. The government's monopoly of violence is predicated on the credible commitment of the government to allow any elite organizations to form with the government's support, which enables political and economic organizations to enter and re-enter the political process at will. Critically, it also forces the central balancing point over the structuring of social rules to be enforced by the government to be located solidly within the government process.

Anonymity and impersonality are at the center of this process. If rules and norms govern behavior, ala North's definition of institutions, then social contention will focus on those places

and interactions within society where rules and norms are formed. If, however, rules and norms are enforced by the interaction of organizations via anonymous relationships, then the rules and norms differ for every organization and the individuals associated with those organizations. The location of dynamic contention over the rules will not be in the government, but within the organizations that make up the dominant coalition and their interaction in the coalition. Whether the government is a powerful player in the coalition is problematic, and even if the government is a powerful player, it will not be the location where rules are set.

By their nature, impersonal rules must be “public” because they apply equally to everyone, if universal, and to everyone in a specified category, like citizens, if they are not universal. Impersonal rules cannot be private. So contention over the form and enforcement of impersonal rules must necessarily result in a public outcome. The organization that enforces those rules will, again by definition, be a government because of its public nature.

But it is *not* a characteristic of all governments that they are able to promulgate and enforce impersonal rules. That ability is only a feature of modern governments. The ability to enforce impersonal rules may appear to be based in a monopoly of the legitimate use of violence, but such an argument mistakes propinquity with causation. Modern governments possess a monopoly on violence because of the way in which the interaction of organizations has been structured. A society based on anonymous relationships must have many organizations capable of violence, in a society based in impersonal relationships must have just one organization capable of violence.

In Tunisia, protesters escalated calls for the restoration of the country's suspended constitution. Meanwhile, Egyptians rose in revolt as strikes across the country brought daily life to a halt and toppled the government. In Libya, provincial leaders worked feverishly to strengthen their newly independent republic.

It was 1919.