This paper was prepared for the All-UC conference on “Organizations and Property Rights” at Caltech, December 3-4, 2010, organized by Dan Bogart, Jean-Laurent Rosenthal, and Shawn Kantor. We are using the All-UC conference as an opportunity to write a framing paper for another meeting we plan to organize on the economics and history of civil society that will bring together economists, economic historians, political theorists, political economists, sociologists, and perhaps anthropologists who are interested in the nature and development of organizations. As a result, this paper is more of a research agenda than an attempt to put together a sustained argument about the nature of organizations in civil societies. We look forward to your comments and suggestions, and particularly your ideas about the most interesting questions and avenues for future research.
The Economics of Civil Society

Organizations are ubiquitous in developed economies. In the United States today, the average person is likely to work for one organization, worship at another, socialize in still others, vote for candidates run by an organization called a political party, volunteer in parent-teacher organizations to improve their children’s school, donate to charitable organizations, and turn for advice or medical care to professionals trained and licensed by organizations. Virtually every one of the goods or services that she or he consumes on a daily basis is provided by an organization. Organizations are so much a part of our experience that it is easy for us to regard them as natural, and indeed one could make the case that the ability to form organizations is one of the most important characteristics that distinguish humans from other animals. But organizations have a history. The kinds of organizations that humans have created, the ease with which they can be formed, and the role they play in society have changed dramatically over time. Our purpose in this paper is to lay some theoretical groundwork for such a history.

The organizations with which we are most interested are those that make up what is called “civil society.” By civil society we mean the complex of organizations that are intermediate between those that constitute the most personal spheres of human life (families), and those that constitute the state (government). Defined in this way, all societies of any scale larger than hunting and gathering bands have a civil society. Our focus is on the changes that have occurred over time in how these intermediate organizations are structured and how they behave. We are not just interested in the organizations of civil society, but how civil societies are organized. To the extent that the history of civil society has been written, scholars have

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1 This definition is the standard one in the literature. See, for example, Shils 1991.
mainly focused on the explosive growth of voluntary associations in the late eighteenth and early
nineteenth centuries and have typically viewed it as a phenomenon of the Age of Revolutions
(Skocpol 1999). There is much to admire in these accounts, but we think they also miss much
that is important. Because of their chronological focus, they ignore the presence (and hence
overlook the role) of civil-society type organizations in earlier periods. Moreover, they are
preoccupied with the political, social, or cultural role of these organizations to the exclusion of
their economic character (Rosenblum 1998). As a result, they miss what we think is the key
transformation of the period—the shift from strict control by government of who could form
organizations and for what purposes to a virtually unlimited ability to form organizations of all
types. An understanding of civil society before the late eighteenth century is needed to make
sense of the transformation of civil society in the nineteenth century and later.

This transformation from controlled to open access is at the heart of our paper. In order
to explain why we think this transformation was so fundamental, we need to go back to square
one and articulate an economic theory of civil society. The building blocks of this theory are
answers to the following questions: What do organizations do that is economically valuable?
What holds organizations together? What is the role of the particular kind of organization we
call government? Why do governments limit their citizens’ ability to form organizations? How
do strong governments differ from weak ones in their relation to other organizations? What
happens when the ability to form organizations is open to all? With this apparatus in hand, then,
we can return to history and pose a series of questions to be addressed. Our aim in this paper is
not to answer these questions, but rather to lay out a research agenda for a new economic history
of civil society.
What Do Organizations Do?

Organizations coordinate human activity and in the process create rents. The first step in articulating a theory of what organizations do, therefore, is to be clear about what we mean by the term rent. The simplest definition of an economic rent is a return to an asset above its opportunity cost. If a worker is willing to work for $10 an hour (the value of his best alternative use of his time) and receives a wage of $15 an hour, the rent for an hour’s work is $5. The concept of rents applies to choices more generally. A consumer who is willing to buy a pair of shoes for $15 but pays only $10 receives a rent of $5. A producer who is willing to sell shoes for $5 but sells a pair for $10 receives a rent of $5.

The example uses numbers attached to values of consumption and costs of production—that is, to typical economic magnitudes—but the concept of rent applies to all human actions. Two individuals who like each other enjoy a rent from their relationship. The rent is the value of their relationship compared to alternative relationships with other people. While rents can be stated in dollar terms, the rents that motivate human behavior typically are not monetary, but rather take the form of the subjective value we place on relationships with other people and the value of interactions in social situations. The rents that organizations create are very often non-monetary.

Two features of rents play a central role in the argument that follows. First, because opportunity cost is always the value of the best alternative foregone, the concept of rent is inherently relative. Rents always depend on the alternative being considered. Suppose, as above, that I value shoes at $15 a pair and can buy them from you for $10. The rent I receive from buying the shoes is $5, but if I can buy an identical pair of shoes from another seller for
$11, then the rent I receive from buying the shoes from you in particular is only $1. Rents thus depend on the choice under consideration: in this case, to buy or not to buy shoes is one choice; and to buy shoes from you or from a different seller is another. Because they are relative, rents are usually multidimensional and often move differently on different dimensions when circumstances change. Extending the shoe example, if the number of sellers of shoes increases, the rents I get from buying shoes may increase because, even if the price does not change, I may enjoy increased variety or increased ease of purchasing. At the same time, the rents I get from buying from any specific seller are likely to decrease. Rents on these two dimensions tend to move in opposite directions when the number of sellers (or buyers or types of shoes) changes.

Second, rents create incentives to perform actions (make choices), and the probability that an action will be taken in the face of uncertain and changing circumstances is directly related to the size of the rents associated with the action. If the price of shoes rises from $10 to $14, I may still buy shoes, but if the price rises to $16 it is more likely that I will change my action and not buy the shoes. If I buy shoes from you at $10, but you raise your price to $11.50, I change my action and shift to the other seller at $11. The predictability of actions in the face of uncertainty is directly related to the size of rents an individual receives from taking a specific action. Because the rents I get from buying shoes from you specifically are smaller than the rents I get from buying shoes from any seller, whether I will buy shoes from you is less predictable than whether I will buy shoes at all.

The economic theory of organizations sees organizations as bundles of relationships. These relationships create rents in two fundamental ways. The first is common to all relationships that persist through time. When two individuals come to know each other and expect to interact over time, they have a relationship. Relationships create rents when the
alternative to which they are compared is the prospect of dealing with people we do not know and never expect to meet again. These rents come both from our increased knowledge of the other person and from our expectation that our interaction will be repeated in the future. These elements enable us credibly to coordinate our behavior.

This 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. Here the gains can be measured in terms of physical output, if the organization is a firm that produces goods. Again, however, coordination need not be over production processes. Churches provide an organization within which coordinated behavior enhances the value of the community and religious experience. Individual churchgoers receive rents from their participation in the church’s activities, and it is those rents and the personal knowledge resulting from participation that enable churchgoers to coordinate.

Organizations, then, create rents in two ways. Organizations provide a framework for relationships that are more valuable to individuals than one-shot interactions with strangers and to deepen the value of those relationships. The value of their relationships enables people to coordinate their actions, and coordination generates rents in the form of higher output or benefits than a comparable group of uncoordinated (unorganized) individuals.

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2 Not all relationships are “good” in the sense that when we get to know someone better it may turn out that we do not want to interact with them, but even that negative information produces a rent in comparison to dealing with a person we do not know.

3 Organizations are not the only way that people can coordinate. The gains from specialization and division of labor can be created within and between organizations, or in markets in which the price mechanisms coordinates individual decisions.
Rents versus Rent Seeking

In general, economists assume that people rationally maximize net benefits—the difference between total benefits and total costs—which equivalent to saying that economists assume that people behave in ways that maximize their expected rents, since all costs in economics are opportunity costs. People maximize their total rents by consuming, producing, or engaging in any activity up to the point up to the point where marginal benefits equal marginal costs. This is the simplest version of the zero marginal rent condition. In a large society, if markets operate freely (and other assumptions apply), then consumers purchase products up to the point where the price of the product equals their marginal benefit and producers produce up to the point where the price of the product equals their marginal costs. Since the price of the product is marginal cost to the consumer and marginal benefit to the producer, the price mechanism coordinates the production and consumption of the product, as well as allocating it between consumers and producers in a way that maximizes net benefits, or maximizes rents. Competition ensures that rents are zero at the margin, but in the process creates a social outcome that maximizes total rents.

Rents at the margin can be above zero if there are limits to competition. If many people can make shoes, but only a limited number of people are allowed to sell shoes, those with the privilege of selling shoes will receive rents. The rent-seeking literature argues that society loses in two ways from rents at the margin. First, allocative inefficiency arises because marginal costs to the producer are lower than marginal costs to the consumer and increasing output would raise net social benefits. Second, the existence of the rent, particularly if it is artificially created through a government policy like a tariff, will induce some people to devote resources to
convince the government to transfer the rents to themselves or to create new rents. Such efforts are “directly unprofitable activity,” to use Jagdish Bhagwati’s (1982) terminology, since nothing of value to society is being produced. In this case, the efforts to transfer or create the rent may exceed the value of the rent, but in any case the very existence of the rents leads to “dissipation” (see also Buchanan, Tollison, and Tullock 1982).

The idea of rents at the margin has become so important to the economics and political science literature that rent creation has come to be associated only with the existence of rent seeking behavior. But the existence of a rent does not always imply that resources are being misallocated, since many rents accrue to producers and consumers simply because their valuation of a product or their costs of production are different from the market price. Moreover, rents created by limiting access often reduce social welfare (total rents), but that need not be the case. Societies often use the deliberate creation of rents through limiting access to pursue larger social goals. In early the nineteenth-century United States, for example, it was common for governments to grant business firms privileged control of markets or functions, sometimes outright monopolies, in order to induce these organizations to provide public goods that the larger society desired. These grants were very common in transportation and finance. As we stress throughout the paper, the deliberate creation of organizational rents can be used to coordinate social interaction. Sometimes the results are good for total social welfare, sometimes not, but there is nothing inherent in the process of creating rents through organizations that is bad for society as a whole.
What Holds Organizations Together?

Understanding how organizations work has been a mainstay of the new institutional economics, beginning with Ronald Coase’s (1937) insights about the firm, continuing on through Oliver Williamson (1975 and 1985), Sanford Grossman and Oliver Hart (1985), and a host of others. As Robert Gibbons has argued in a series of papers designed to draw together lines of inquiry in economics and sociology, organizations can 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 enforced outside of the relationship by third parties. 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.

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 relationships incentive compatible. The folk theorem partnership is what we can 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) essentially 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.

As in the shoe examples above, 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 as much as possible that all members earn some positive rents so that their behavior is predictable.

If the members of an adherent organization look forward into the future, and they anticipate that rents may not be sufficient to ensure the cooperation of every member at every point in time, 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 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 in size and limited in
complexity. 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. Larger organizations utilize formal or informal rules enforced by people outside of the organization. Hence the other starting point for a theory of organizations is to assume that the institutional capacity to enforce rules and contracts already exists in the larger society.\(^4\) The question then becomes one of arranging relationships between members in such a way as to maximize the net value of the relationship and then divide the value between the members. In these types of organizations, individuals still create valuable relationships that generate rents for each member. It is the rents that hold the organization and the relationships together. The difference is the ability to appeal to an external agency, a third-party, to enforce various terms of their agreements. Organizations that rely on some form of external enforcement of agreements are *contractual* organizations.

It is difficult to overstate the importance of contractual organizations. In simple theoretical terms, 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. Those of us who live in societies with open access to organizational tools may have trouble appreciating just how many of the organizations we take for granted as “voluntary” are contractual, not adherent, organizations. One of the authors was commissioner of a soccer league for six to nine year olds organized by a boys and girls club. The club, as a matter of course, obtained liability insurance for the commissioner. Even though

\(^4\)For 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).
the boys and girls club was completely voluntary—there was no coercion involved whatsoever—it was well understood by volunteers and parents that an aggrieved or upset parent had the ability to sue the club, the coach, and the commissioner if their child was harmed through inappropriate behavior. The larger society provided this voluntary group of individuals with extremely sophisticated and powerful organizational tools to structure and enforce their arrangements. Because those same tools are available to all organizations, however, most of us think of the right to form an organization as a naturally occurring part of all human societies. Such tools and social arrangements are decidedly not characteristic of all human societies, however. The power of modern societies comes from the sophistication of the organizations they support. Virtually all organizations are contractual in modern societies, no matter how informal they appear to be, because all organizations swim in a sea of organizational tools so pervasively present that we often do not see them as social constructions.

**Third Parties and the Logic of a Dominant Coalition**

Of course, the institutional capacity to enforce rules and contracts in the larger society did not always exist. It had to be created, which brings us to the difficult question of where third parties come from and how people can believe that third-party enforcement will be credible. The way that social scientists have thought about third parties has typically begun 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
The problem with single-actor providers of third-party enforcement, however, is that the kind of violence that the third-party needs to wield is not individual violence but organized violence. An integral part of third-party enforcement must be the organization of violence within the organization that the third-party enforcer uses or heads.

The puzzle within the puzzle is that violence cannot be organized simply by violence (or coercion, the threat of violence). That is, 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. Organizations that use violence must be organized by something other than coercion. Douglass North, John Wallis, and Barry Weingast (2009, hereafter NWW) use this insight about the organization of violence to explain how societies come to limit violence. Think of two violence specialists, each members of a group. The two agree to recognize each other’s rights to the land, labor, and capital in their respective groups. The rents from their group serve as a mechanism for limiting violence. Since the rents each specialist gets from his/her own group go down if violence breaks out, both can see that there is a range of circumstances in which each specialist can credibly believe the other will not fight. Following the logic of organizations laid out earlier, the relationship between the 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 of the NWW dominant coalition is about violence and rents. The ability of each violence specialist to see that the other violence specialist 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. Another way to say this is that the adherent organization of each violence specialist is more productive if there is no violence. The difference between the productivity of the organization under violence and under non-violence is the rents to non-violence. The rents from non-violence are what make the adherent organization of the violence specialists sustainable.

There is a second way that the relationship between the violence specialists offers a potential opportunity for the creation of more productive elite organizations. The violence specialists are in a position to call credibly on each other to serve as third-parties for their organizations. This enables the violence specialists 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 specialists together could help enforce agreements between their organizations, created new rents from coordination. Following NWW’s logic of the natural state, these rents would also serve to strengthen coordination within the dominant coalition. They would work for social stability in the same way that rents associated with non-violence work for social stability. To the extent that the dominant coalition can serve 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 can be used to strengthen the incentives holding the coalition together.
Note that the coalition’s ability to provide third-party enforcement depends on the interests that all members of the coalition have in their own organizations. That is, it is the relationship among organizations, the “organizations 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.

This way of thinking about organizations differs subtly from the way that historians and social scientists often think about social elites in general. Many theories of social organization begin with the hypothesis that the creation and maintenance of elite rents through power sharing arrangements motivates elite behavior and lies at the heart of the social order. But the preceding argument suggests that simply maximizing elite rents is not quite an accurate depiction of the dynamics of relationships within the dominant coalition. Although elites, as individuals, have strong incentives to increase the rents they receive, simply increasing elite rents has nothing to do with the stability or structure of the social order. The only elite rents that stabilize a dominant coalition are those that derive from limiting violence or from coordination within the coalition.

The stability of the dominant coalition’s arrangements as an adherent organization is always a bit fragile. The stability of the coalition depends on the balance of interests and capabilities within the coalition. Simply increasing the rents of one or more coalition members may make the coalition less stable, not more stable. If, for example, one coalition member receives higher rents because he obtains control over more land (independently of the coalition), this may lead that member to demand more concessions from the coalition under the threat (and use) of violence. If there is uncertainty about the new power of the coalition member, violence may be a rational outcome for some coalition members. Dominant coalitions
are always a bit fragile. This is a central reason why human history is not a story of steady progress. Social arrangements are always faced with the threat of dissolution. Powerful actors often find that pursuing their own best interest leads to social breakdown.

Another way to say this is that it is the implication of rents that flow from organizations interacting with other organizations is that they make the dominant coalition stable to the extent that the rents result from coordination within the coalition. If coordination breaks down, these rents disappear, thus providing support for credible beliefs about the actions of members of the coalition. In itself, the pursuit of rents is neither good nor bad. Creating rents that are threatened by violence, or creating rents through enhancing organizations through increased coordination, strengthens the incentives that make coordination and cooperation within the coalition possible. We need better to understand the positive aspects of rent creation through organizations if we are to understand the dynamics of human history.

**States, Governments, and Organizations**

Going further along this road is impossible without coming to grips with the nature of states and governments—that is, the specialized organizations that deal primarily in violence, rules, and/or public goods. For the moment let us say that a “state” is the combination of powerful interests and organizations that orders relationships among organizations, and that governments are the specific organizations that provide violence, justice, and other public goods. In many, perhaps most societies what constitutes the state is a difficult empirical question to answer. Many powerful actors are not visible. Governments, by contrast, are always public organizations, which means they must be visible and identifiable. In most societies governments
are “weak” in the sense that they are incapable of disciplining or coercing all of the powerful non-government organizations in society. They are simply organizations supported and structured by the dominant coalition that serve specific functions.

In our view, strong states arise when the provision of third-party enforcement for organizations is concentrated in a set of government organizations. A strong government can “de-legitimate” any existing organization by refusing to recognize the organization’s right to access third-party rules, or it can deny a potential organization existence through the same channel. Our definition is related to that of Max Weber (1948) who focused on the modern state’s monopoly of the means of violence and coercion. In strong states, governments provide organizations with sophisticated third-party support and simultaneously deny that support to any organization that uses violence. Strong governments obtain and secure their monopoly on violence by strengthening private organizations at the same time that they disarm them.

Two Patterns: Limited Access and Open Access

This section describes two social patterns, one in which the ability to form organizations that use third-party support is limited and the other in which the ability to access third-party support is open to everyone (or to all citizens). Each of these patterns is an equilibrium in the sense that there are forces that maintain it over time. However, the specific social arrangements

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6 This is a tricky point to appreciate, and we have not fully thought the implications through. Governments can never have a monopoly on third-party enforcement, since any two organizations can always potentially serve as third-parties for each other. Strong governments can, however, deny such organizations social support and force them to be self-organizing.

7 Charles Tilly (1993) describes essentially this process in his description of the creation of modern European states.
present at any given time in either a limited- or open-access society are not in equilibrium. To the contrary, they are constantly changing.

We emphasized earlier that third-party enforcement requires at least two organizations. The ability of organizations to provide credible third-party enforcement to each other must be based on credible incentives. Incentives are created by the rents generated by external enforcement of internal arrangements in each organization. In theory, each organization must be able to see that the other organization gains more rents from providing the third-party service than they can gain by not cooperating. That makes third-party enforcement credible.

In a society with no government organizations third-party organizational tools are available only to organizations connected through interlocking arrangements. Since these arrangements are based on rents, they are sustainable only if organizational tools are not available to every individual or potential organization—that would reduce the rents from using the tools to zero and the arrangements would fall apart. Whether arrangements like these arise spontaneously in all human societies is an unanswered question. Spontaneous or not, however, they are essentially private arrangements between organizations with personal and unique relationships. They cannot be generalized to include everyone in a society.

The key point of the first equilibrium pattern is that any constellation of interests held together by rents generated from access to organizational tools demonstrates an inherent tendency to limit access to the tools over time. This is true whether the organizations that make up the “state,” that is the organizations capable of providing third-party enforcement, are government organizations or private organizations. In societies with weak governments there are private organizations capable of enforcing their own agreements without the presence or permission of a government organization. At the other end of the spectrum, in societies with the
strongest governments the state is capable of de-legitimizing any private organization. No private organizations are beyond the government’s reach. Regardless of whether a society has a weak or strong government, however, the dynamic interplay of interests means that control over organizational tools is jealously guarded.

The second equilibrium is more difficult to describe than the first—somewhat surprisingly, because it is the world that we live in. Whereas in the first equilibrium governments restrict the number of organizations that can access third-party enforcement, in the second they make that enforcement available to all citizens. In other words, they make organizational tools public rather than private goods. This second equilibrium requires a strong government capable of disciplining non-government organizations, but the government also has to be limited. Hence while modern social science has isolated the power of the state—its monopoly of violence and its inherent ability to coerce—as a source of social order, we focus on what the government cannot do. Perhaps more accurately, we focus on the credible constraints on governments that arise endogenously out of the second equilibrium.

Scholars typically ascribe limits on government to institutional mechanisms, generally constitutions, that create competing and balancing incentives between powerful interests. The problem with using balance alone as a device that limits governments comes out of the first equilibrium. There interests are balanced through the explicit manipulation of rents within the coalition, but governments need not be, and indeed usually are not, limited in their powers by formal agreements but only by real politics. That is, it is the balance of real politics and not the formal agreements that maintain limits on governments. In the second equilibrium formal agreements are usually effective, because they are sustained by the balance of interests. We must understand why the balance of interests sustains formal constitutional rules and
mechanisms credibly limit governments in some societies and the balance of interest fails to sustain identical formal rules and mechanisms in most societies. This requires us to identify the dynamic forces that sustain the rules limiting governments.

Understanding how the ability to form new organizations at will sustains the second equilibrium is a subtle point, because it involves powers that the government does not exert or possess, rather than powers that it exercises. The pivotal change in an open access society is the loss of control over the process of creating rents through organizations. Once access is truly opened, no organizations, public or private, are able to manipulate organizational rents by creating specific organizations or even more important, by disorganizing (de-legitimating) existing organizations or preventing new organizations from coming into being.\(^8\) Allowing everyone access to organizational tools undercuts the foundations of a social order whose political configuration depends on an interlocking set of rents, because open access eliminates the rents from providing organizational tools.

As NWW and Weber both stress, in a modern open access society the government possess a monopoly on the legitimate use of violence. That monopoly is embodied in a limited number of government organizations that organize and use violence: armies, navies, and police forces. Violence-using government organizations are under the direct control of the political system, itself an organization of organizations. Access to the political system, that is the ability to form political organization that can compete for control of the government through agreed upon means, must be open. Open political access is maintained not by political mechanisms \textit{per}
se, but by the parallel open access to economic organizations. If a political faction, that is an organized political group, uses the coercive power of the government to move against a specific group, the affected group has the ability to organize, or reorganize, and push back. Without the ability to mobilize economic and social interests through the formation or reformation of organizations in the economic and social sphere, political organizations cannot be effectively disciplined.\(^9\) This is what NWW call the “double balance”: Open access to political organizations and open access to economic organizations are both self-sustaining and necessary for open access to work.

Whatever the specific political and economic institutions in place in a society, existing organizations learn that maintaining open access is critical to their futures. Losing today’s political battle does not mean that the loser is forever banished; losers can reorganize and regain entry into political competition.\(^10\) Only if an organized group thinks it has a real chance completely to capture the entire political or economic system will it be in that group’s interest to limit access to organizational tools. This understanding of their long-run interests does not prevent political organizations from attempting to use government powers to create rents, they most certainly do. The second equilibrium is extremely messy. All that is stable is the principle of open access to organizations; everything else is subject to constant change. But the stability of the principle means that a striking characteristic of open-access societies is their flexibility dimensions of organizations.

\(^9\)The Tea Party movement is a vivid example of how the ability to form organizations can discipline the political process.

\(^10\)This point has been made many times in many different ways. The importance of acknowledging continuous political competition for the emergence of open access to political parties in early-nineteenth-century America is the central theme of Hofstader’s *The Idea of a Party System* (1969). Sonia Mittal and Barry Weingast stress the importance of constitutions that “limit the stakes of power” as a crucial element in sustaining political competition (2010). If losers are eliminated, the stakes of power increase enormously.
and their ability to deal with shocks in comparison with limited access societies (see NWW 2009, chapter 1).  

The dynamics of these two equilibriums explains why market-based capitalism does not automatically generate sustained economic growth. It also explains why the same institutions produce such different outcomes in different societies. Democracy, for example, works in a completely different way in the first equilibrium than in the second. So does civil society. In an open-access society governments are disciplined by the presence of many competing organizations, rather than, as in a limited-access society, by interlocking interests between government and private organizations.

Research Agenda for an Economic History of Civil Society

This theoretical discussion provides us with the tools that we need for an economic history of civil society. It also suggests a set of historical and theoretical questions that need to be answered if we are truly to understand the rise of open access societies in the modern era. We can now see that, although the various types of organizations that make up civil society had existed for centuries, they functioned very differently when the state no longer limited its subjects’ ability to form them. A new economic history of civil society should be able to explain how this transformation came about and the role that civil-society type organizations played in making it happen. It should also pinpoint how such organizations function differently in open-compared to limited-access environments. Finally, it should be able to explicate the various

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11The ability of Britain, France (?), and the Scandinavian countries to maintain democracy while Germany, Italy, and Spain slid into fascism in the 1920s and 1930s provides the canonical example of the ability of open access societies to maintain open access in the face of severe economic crisis, and the inability of limited access societies to
ways in which the organizations that constituted civil society disciplined the state to maintain the open-access equilibrium.

On the question of the causes of the transformation from limited to open access, clearly the literature’s focus on the Age of Revolutions has something going for it. The strong monarchies of the early modern era should be understood, we would argue, as examples of the first type of equilibrium, in which a dominant coalition had become very powerful by limiting access to organizational rents. Powerful dominant coalitions had been successfully challenged before, but in the past the outcome had simply been a change in the identity of the parties that controlled access to organizational tools. What was different about the challenges that occurred during the Age of Revolutions?

One possible explanation may focus on the organizations of civil society that were already in existence. Like previous dominant coalitions, the monarchies of the Old Regime had actively suppressed organizations that could become sources of power to rival their own, particularly those that could exercise violence, and had severely limited the formation of organizations, such as trading companies, that might compete away rents that benefited coalition members. But they also allowed (and even encouraged) the formation of organizations for a variety of purposes that improved the functioning of society (and thus increased satisfaction with their rule) but that were difficult for them to accomplish administratively. That is, there were spheres (such as charities) in which they not only did not limit access but to varying degrees made widely available the tools (like third-party enforcement) that facilitated the formation of larger, contractual organizations (see, for example, Campbell 1981-82). There were also spheres (such as local government) where they tolerated a significant degree of organizational avoid consolidating the dominant coalition in the face of the same crisis.
autonomy (Levin 1969). One possible explanation of the transition, therefore, is that the expansion of trade and the resulting urbanization that occurred during the early modern period increased the number and importance of organizations in these spheres to the point where they changed the nature of the game (for example, as in Habermas 1989).

At some point the growing power of these organizations would spur the dominant coalition to suppress their independence, as when the Britain’s James II attempted to repeal the charters of incorporated towns that would not acquiesce in his control (Levin 1969). But now resistance to such acts of repression took the novel form of a defense of organizational rights—particularly, the right of existing organizations to autonomy from government control. If this explanation is correct, one should be able to observe a correlation between the extent of civil-society type organizations under the Old Regime and the growth of civil society later on. One should also be able to observe these types of organizations playing important political roles in the transformation.12

A defense of the rights of existing organizations is not, however, the same thing as a defense of the open-access principle. It is important to caution against seeing the multiplication of the organizations of civil society as an automatic consequence of the revolutions of this era or even of the spread of democracy. The new governments formed in the aftermath of the rebellions were insecure and typically sought to forestall challenges to their authority using the old tools of limited access. At the same time as their founders were committed to certain principals of organizational autonomy, they were leery of organizations that created rents that could be used to build a new dominant coalition or a rival base of power. Consequently, they

12 One should observe a similar role in the case of countries that made the transition later on. See, for example, the essays in Bermeo and Nord (2000).
were all initially hostile to political parties and to organizations that, though not overtly political, were large and important enough to exercise political power.\textsuperscript{13} They also controlled access to the corporate form. Only gradually and at a pace and to an extent that varied from country to country did they move toward open access.\textsuperscript{14} Here is another place where more research is needed.

Although there would seem to be a correlation between the extent of democracy and relaxation of limits on access, there are surprising patterns. For example, both Britain and many of the U.S. states passed general incorporation laws for business around the same time in the 1840s and 1850s, opening access to the corporate form, but the British went much further in providing both access to the form and organizational tools. The U.S. states continued many limits on the size and types of organizations that could be formed and denied third-party enforcement for many kinds of contractual provisions (Harris and Lamoreaux 2010). Yet politically the franchise was much more extensive in the U.S. than in Britain. Moreover, contrary to the general view of the U.S.’s openness to voluntary associations, state governments retained control of certain organizational tools that affected their ability to function. For example, during the early nineteenth century many states did not allow individuals to leave their wealth to voluntary associations that were not formally incorporated and, at the same time, retained control of what kinds of associations could be incorporated (Wyllie 1959, Miller 1961, McCarthy 2003). Organizations that were denied corporate charters were hence at an economic disadvantage. Even after states passed general incorporation acts for voluntary associations, they limited the categories of organizations that could avail themselves of the privilege to incorporate.

\textsuperscript{13} For an excellent example, see The Federalist Papers.

\textsuperscript{14} There is a large literature on the spread of general incorporation laws, but see Wallis 2003 and 2005, and
Some states, moreover, continued to subject associations to an approval process (either administrative or judicial), and there were numerous occasions when such approval was withheld (Note 1955, Silber 2001).

Research is also needed to compare how organizations functioned in open-access regimes relative to societies that limited their ability to form. Restrictions on entry raised the rents that existing (permitted) organizations could earn, and these additional rents increased the allegiance of their members. What happened when new entrants were able to compete away these extra rents? Theory suggests that as rents fall, more members become indifferent to remaining in an organization and hence liable to defect. Because defections are most likely in organizations composed of people whose ties to each other are weak, as defined by Mark Granovetter (1973), one obvious way in which to encourage allegiance is to increase the strength of the ties that bind members together—for example, by exploiting ethnic or religious identities. The apparent growing recourse in modern democratic societies to in-group identities has led to an extensive scholarly debate on whether the growth of voluntary associations had entirely beneficial consequences or whether it led to a pernicious fragmentation of society along ethno-religious lines.¹⁵ This discussion could be sharpened by reconsidering it in terms of the problem of organizational rents.

There are, of course, other sources of rent besides limits on formation. In an open-access society successful organizations earn rents for their members through the coordination services they provide, and they may have access to ways of creating rents that are more difficult to accomplish under a limited-access society. For example, in an open-access regime local

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¹⁵ Contrast, for example, Kaufman 2002 and Rosenblum 1998.
organizations can easily unite in national federations, whereas in a limited-access regime such formations are likely to be ruled out because of the threat they pose to dominant coalition. Theda Skocpol (1999) has emphasized the importance of such federations in the nineteenth-century U.S., and it may be that the economies of scale they made possible increased organizational rents.

Nonetheless, even in open-access societies organizations face collective action problems that can often be resolved only through some form of coercion. Of course, there is always the option of third-party enforcement by government, but that is a last resort. In an open-access society organizations can make use of other (often government-supplied) organizational tools that make possible more subtle means of enforcement. For example, businesses worried about defections that might force the untimely liquidation of firm-specific investments may opt for a contractual form (for example, the corporation) in which the investments are sunk (Blair 2003). More generally, John Ahlquist and Margaret Levi (2011) have argued that leaders of organizations have a variety of tools at their disposal and their effectiveness depends on how well they wield them to motivate members and prevent defection. Clearly, more attention to these tools and how they work is in order.

These musing are in line with the standard economics, sociology, and political science literature on organizations, which focuses primarily the internal dynamics of organizations. But there are questions that need to be addressed that move the literature in new directions. For example, it is important to investigate how the structure of different organizations—political, economic, religious, military and social for starters—are related to each other. We are not aware of any existing theoretical literature that ties the emergence of open-access political parties with
open-access economic corporations, but they surely were linked together historically (see NWW 2009, chapter 6).

More critically, the literature needs to address, both theoretically and empirically, the question of how organizations interact, particularly how they provide each other with third-party enforcement. This question becomes more acute if we take government to be a form of organization, as we must. We cannot start from an assumption that governments have a unique ability to use coercion, since historically many organizations use coercion, both internally and externally. The literature on strong and weak states, almost by definition, deals with the relative power of public and private organizations, but the literature on weak states usually ignores the relative position of private organizations except as a pre-condition or starting point. In most societies the mutual interdependence of powerful private groups and governments must be a critical part of social dynamics, but one that has not considered carefully in theories about organizations.16

The emergence of governments as credible third-party suppliers of organizational tools is a central part of the rise of civil society. As we stressed in the preceding section, open access to organizations can only occur in societies with strong states, because only strong states can ensure that all individuals who wish to form organizations can do so. Throngs of intermediate organizations can only appear, therefore, when governments are credibly able to provide organizational tools to a wide spectrum of citizens. However, the question of credible governments is often addressed in a completely different context—in the literature on the rise of sovereign nation states in political science (Krasner (1999), Spruyt (1994), and Ertman (1997)) or in the literature on mechanism design in political economy and game theory (Weingast
(2005), Meyerson (2008)—not in the literature on civil society. For the most part, the latter assumes that all that is necessary for many organizations to emerge is for governments not to suppress them, but surely that is too simple a view. There is a positive side to this development as well as a negative—a dramatic expansion in the variety of organizational tools that governments provide.

Finally, there is the question of how open-access societies are maintained. One possibility is that such orders are self-sustaining once participants realize that open access is in their long-run interest. Thus in limited-access societies parties that lose power are typically destroyed, but in open-access societies they can plausibly make a comeback. Because the chance of staying in power over the long-run is low, parties are better off under an open-access than a limited-access regime.

Human actors often behave myopically, however, so other forces may be needed for the equilibrium to be sustainable. There is a large literature on the importance of civil society for the maintenance of democracy. This literature could be sharpened by focusing more specifically on how precisely the organizations of civil society discipline the government—how they prevent powerful rent-seeking interests from capturing it and limiting access to some type of organization or area of activity. One possible mechanism is cultural. Widespread participation in organizations may naturalize their existence to such an extent that attempts to limit their formation seem unnatural and illegitimate, even criminal. Another possibility comes from the literature on social capital, where citizens’ participation in multiple organizations knits the social order together by exploiting the power of weak ties (Granovetter 1973 and 1985; Putnam 1993). Yet another body of literature suggests that the general availability of organizational tools

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16 A notable exception is Haber, Razo, and Maurer 2003.
facilitates the mobilization of protest groups in opposition to attempts to limit access (Hall 1995).

These questions are not just of interest to sociologists or political scientists. They are critical to economists as well. Limited access states are capable of bursts of rapid economic growth, but as NWW have shown, they are also prone to downturns that wipe out most of the gains. Open-access states, by contrast, experience slower but steadier growth and reap substantial increases in living standards for their citizens over the long-term. Understanding how they are created and sustained is thus critical for understanding the wealth and poverty of nations.

Conclusion

Economic history and economic historians are uniquely placed to understand the changing dynamics between economic and political organizations that is so prominently obvious in the modernization process. Yet over the last half century, the cliometric era if you will, we have increasingly shied away from drawing those connections and have not put understanding them near the top of our research agenda. This is not to say that economic history has not concerned itself with organizations or with the connections between economics and politics. Clearly it has. It is instead to say that economic history has failed to question the inevitability of the open access model of society, in which both political and economic organizations are embedded in open entry competitive markets, as the default interpretation of how the world actually works. We study societies that are historically unique as if they were the historical
norm, with little curiosity about why they are so unique and what makes them work so differently.

Modern economic development is not just the accumulation of more stuff, the result of slow steady growth over a long period of time. It is a fundamental change in the organization of economies and societies, as well as a fundamental transformation in the organizations of society—economic, political, and social in every form. It is time for economic historians to turn at least some of their attention back to the bigger questions we have turned away from. We have something unique to contribute to the larger social science debate about why modern societies develop and work.
References

This is a preliminary reference list that is too extensive for the current paper, but refers to literatures we hope to include in the conference.


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