

PART ONE

POLITICAL, ECONOMIC AND CIVIL FREEDOMS: AN HISTORICAL, CONCEPTUAL AND STATISTICAL OVERVIEW

Chapter 1

Institutions, Economic Growth and Freedom: An Historical Introduction

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This essay* uses an exploratory analytical framework to examine the origins of modern economic growth in the Western world. This growth was inextricably involved with the emergence not only of secure property rights but of political, religious, and “civil” freedoms. Because the Western world evolved in two widely divergent directions, I wish to explore both the “successful” story of Britain (and the Netherlands) and the unsuccessful story of Spain (and Portugal). My objective is not simply to demonstrate that the freedoms were mutually reinforcing aspects of the pattern of successful countries; but, more important, to explore the dynamics of long-run societal change in terms of the evolution of contrasting institutional environments. One story takes us to British North America, the thirteen colonies, independence, and the growth of the United States; the other, to Spanish imperial policy in the Indies, Latin American colonial development, independence, and the subsequent relative failure of Latin American countries.

In the sections that follow, I explore the issues that are involved in the history (I); the nature of institutions (II); the sources of institutional change (III); the initial historical conditions in England and Spain (IV); English development (V); Spanish development (VI). In the final section, I briefly examine the consequences in the New World. Of necessity, the historical sections are little more than outlines, illustrating the framework developed in Sections II and III.

* I wish to thank Elizabeth Case for improving this essay.

I. HISTORY

I shall not tarry long over the definition of freedom. While a lengthy analysis should go into the complexities of this issue, here I simply assert that the freedoms I am concerned with are uniformly applied rules with respect to the security of persons and property over a range of civil, political, religious, and economic activities. They include freedom of religious and political expression; protection against arbitrary imprisonment; the right to bailment; protection against impairment of the right to use, derive income from, or alienate property. None of these freedoms is absolute; nor are they ever perfectly enforced. At the margin they can lead to anarchy, or tyranny, or a reduction in the choices of others. Hence, they are always relative to their consequences upon others.

Their connection to economic growth is straightforward. The more secure are these freedoms, the lower the costs of transacting; and declining transaction costs are (given relatively non-controversial behavioural assumptions) a critical historical source of economic growth. The implications of this assertion are that one can understand neither the nature of freedom nor economic growth in a traditional neo-classical framework, since this framework is devoid of institutions; and that institutions are at the heart of a meaningful understanding of freedom and determine transaction costs in a society.¹

II. THE NATURE OF INSTITUTIONS

Institutions are rules, enforcement characteristics of rules, and norms of behaviour that structure repeated human interaction. Hence, they limit and define the choice set of neo-classical theory. We are interested not in the institutions per se, but in their consequences for the choices individuals actually make.

Constitutions, statute and common laws, contracts specify in formal terms the rules of the game, from the most general constitutional cones to specific terms of exchange. Rules (and their enforcement) are constrained by the costliness of measuring the characteristics or attributes of what constitutes rule-compliance or violation. Hence, the technology of measurement of all the dimensions (sight, sound, taste, etc.) of the human senses has played a critical role in our ability to define property rights and other types of rules. Moreover, since we receive utility from the various attributes of goods and services rather than from the entities themselves, it is the costliness of measuring the separable dimensions that is critical in this study.² The relationship between the benefits derived from rule-specification and the costs of measurement not only has been critical in the

history of property rights (common property vs. private property) but is at the heart of many of the issues related to the structure and effectiveness of enforcement.

If it were costless to measure the performance of agents or the attributes of goods and services as well as the terms of exchange, then enforcement would not be a problem. We would be back in the neo-classical world of the instantaneous exchange of a unidimensional good or service. But because measurement is costly and the parties to exchange stand to gain by receiving the benefits without incurring all of the costs of exchange, not only is enforcement typically imperfect, but the structure of the enforcement process will affect outcomes and hence choices. Let me elaborate both points.

Enforcement is typically imperfect for two reasons: 1) measurement is costly; and 2) the interests of principals and agents are not identical. The costliness of measurement implies that at the margin the benefits from additional monitoring or policing will be balanced against the incremental costs. Moreover, as I shall discuss below, the marginal benefits and costs of policing will be weighed against those of investing at the margin in ideological persuasion. Rules are enforced by agents (police, foremen, judges, juries, etc.), and therefore the standard problems of agency theory obtain. It is important to stress here that both the structure of the enforcement mechanism and the degree of imperfection of enforcement are important in the choices that are made.³

Rules and their (imperfect) enforcement are not the complete story. If they were, the modeling of institutions and hence the costs of transacting could be made, at this stage of our knowledge, much more precise. But norms of behaviour also matter; and we know very little about them.

As a first approximation, norms are informal constraints on behaviour that are in part derivative from formal rules; that is they are extensions of such rules and apply to specific issues. These informal procedures, deriving as they do from formal organizational structures and agendas, are important but still relatively easy to analyze.⁴ Much more important, norms are codes of conduct, taboos, standards of behaviour, that are in part derived from perceptions that all individuals form both to explain and to evaluate the world around them. Some of these perceptions are shaped and molded by organized ideologies (religions, social and political values, etc.). Others are honed by experience, which leads to the re-affirmation or rejection of earlier norms.

However they are formed, and however they evolve, norms play a critical role in constraining the choice set at a moment of time and in the evolution of institutions through time. They are important at a moment of time precisely because of the costliness of measurement and the imperfect

enforcement of rules. To the degree that individuals believe in the rules, contracts, property rights, etc., of a society, they will be willing to forego opportunities to cheat, steal or engage in opportunistic behaviour. In short, they live up to the terms of contracts. Conversely, to the degree that individuals do not believe in the rules, regard them as unjust, or simply live up to the standard wealth maximizing behavioural assumption we typically employ in neo-classical economics, the costs of contracting, that is transactions costs, will also increase. Empirical evidence suggests the price we are willing to pay for our convictions is a negatively sloped function, so that ideological attitudes are less important as the price increases; but both the slope of the function and shifts in the functions are subjects about which we know very little.⁵

The foregoing paragraphs suggest that ideas and value matter at a moment of time. They do so because of “slack in the system,” “agency costs,” “consumption on the job,” etc., all of which result from the costliness of measurement and enforcement. But how do they change through time? Certainly fundamental changes in relative prices lead not only to rule (and enforcement) changes; but to changes in ideas and values, and the rate of these two kinds of change may be markedly different. This subject will be explored below, but first let me raise some specific issues about institutions, transaction costs, and the consequent choices of the “players” which bear on the subject of this essay.

Let me start with a quotation from Bill Riker.

...Every time I convince myself that I have found an instance in which constitutional forms do make a difference for liberty, my discovery comes apart in my hands...Professor Ostrom believes that at least part of the reason we believe we are a free people is that we have certain constitutional forms, but it may just as easily be the case that the reason we have these constitutional forms is that we are a free people.⁶

Now let me quote Bill Riker again, a decade later.

The Constitution was in a formal sense a necessary condition for the achievement, that is had the Articles [of Confederation] survived, the nation would not have flourished. To see this, note the Constitution was, in a formal sense, necessary for political unity and the consequent political dominance of the United States, first in America and its expansion westward, then in the western hemisphere by restraining European empirical expansion and finally in the world, helping to destroy in two world wars Western European monarchies and empires and later in countering the Soviet empire. All this depended on political unity. Yet without the Constitution, North America might very well have been as Balkanized as South America.⁷

Rules themselves are not a sufficient condition for determining outcomes even though they are, on occasion, critical. Indeed, the second quotation is from an extraordinarily insightful analysis of the formation of the Constitution, in which Riker makes the convincing case that its creation results from a rather unique concatenation of events that, as the quote implies, changed the destiny of the thirteen confederated states. But it is important to remember that a number of Latin American countries patterned their constitutions after that of the United States with radically different results.

It may be a slight exaggeration to assert that enforcement is always imperfect, but this statement focuses our attention on a critical and neglected aspect of economic history: the essential role of third party enforcement of contracts for human economic progress. There is a large literature in the new industrial organization on self-enforcing contracts, etc.; but as with so much of modern economics, it misses the larger issues involved in exchange in a specialized world. Personal exchange solves the problems of contract fulfillment by repeat dealings and a dense network of social interaction. But the key to the high-income societies of the western world is still the one that Adam Smith propounded more than two hundred years ago. And increasing specialization and division of labour necessitates the development of institutional structures that permit individuals to take actions involving complex relationships with other individuals far removed from personal knowledge and extending over long periods of time.

The essential institutional reliability means that we have confidence in outcomes increasingly remote from our personal knowledge. As the network of interdependence widens, the institutional requirements necessary to realizing the productivity gains arising from specialization are efficient factor and product markets and a medium of exchange with reliable features. The establishment and enforcement of property rights conducive to the creation of such markets would then allow individuals in highly complex, interdependent situations to have confidence in their dealings with individuals with whom they have no reciprocal and ongoing exchange relationships. This is only possibly as a result of a third party to exchange, government, which specifies property rights and enforces contracts.

Let me emphasize that while third party enforcement is far from perfect, there are vast differences in the relative certainty and effectiveness of contract enforcement, temporally over the past five centuries in the Western world, and more currently between modern Western and third world countries. The evolution of government from its medieval mafia-like character to that embodying modern legal institutions and instruments is a major part of the history of freedom. It is a part that tends to be obscured or ignored because of the myopic vision of many economists, who persist in

modeling government as nothing more than a gigantic form of theft and income redistribution.

In a recent paper, Robert Axelrod tells the story of Alexander Hamilton writing, on the last night of his life, all of the reasons why he should not engage in a duel with Aaron Burr.⁸ They were rational and overwhelmingly convincing reasons but in the end not sufficient to overcome the dishonour that he perceived would result from a code of conduct that required such a solution of disputes amongst gentlemen. Axelrod's purpose in telling this story was to illustrate that norms of behaviour, which are not legal rules, are enforced by the attitudes and behaviour of others in the society.

But this is surely only part of that complex of ideas, customs, dogmas, values, ethical standards, etc., which make up our understanding of the world around us, establish our normative standards, and help define the choices we make. While some norms are externally enforced, others are internally enforced codes of conduct, like honesty, integrity, etc. It would be an immense contribution to have a testable general theory of the sociology of knowledge and therefore an understanding of the way overall ideologies emerge and evolve.⁹ In the absence of such a theory, we can still derive an important and potentially testable implication about norms at a more specific micro-level of analysis, which is derived from an understanding of institutions. Specifically, the structure of rules and their enforcement help define the costs we bear for ideologically determined choices; the lower the costs, the more will ideas and ideologies matter. Let me provide three illustrations.

A basic paradox of public choice is that individual votes don't matter, but lots of people still vote. Brennan and Buchanan point out this dilemma in a recent paper but do not satisfactorily resolve it.¹⁰ Surely one of the things voters are doing is expressing strongly held convictions at low cost to themselves. Moreover, in the aggregate votes do of course matter. The expression "putting your money where your mouth is" characterizes neither voters nor for that matter academics. Both can afford to be in the literal sense, "irresponsible."

Recently a large volume of literature has grown up around agency theory applied to legislators, with the voter as principal and the legislator as agent. Empirical work suggests that legislators frequently vote their own conviction rather than principals' interests.¹¹ Other empirical work suggests that the institutional structure of Congress permits legislators to engage in strategic voting behaviour that effectively conceals their true objectives.¹²

Finally, judges with lifetime tenure can and do vote their own convictions, as even the most casual study of courts in general and the Supreme Court in particular testifies. Moreover, this is not an accident. The constitutional provisions, as interpreted by the Marshall Court (1801-1835), were deliberately designed to remove judges from interest group pressures.¹³

It is one thing to be able to show that ideas matter; but as noted above, it is much more difficult to trace the way they have evolved. For example, the demise of slavery, one of the landmarks in the history of freedom, is simply not explicable in an interest group model. Surely the micro argument described above is important to understanding its end. That is, most of those who voted for its elimination, either directly or indirectly, paid little or no costs; they could simply express their abhorrence of one human being owning another. There was no institutional way for the slave owner to buy off the voters. On the other hand, the *way* in which the anti-slavery movement grew (and frequently was used by interest groups) so that it could lead to these votes is a much more complex story.

It's time we took stock. The neo-classical model describes the output of an economy as a function of the quantity and costs of a set of inputs of land, labour, capital, and entrepreneurship, given some production function derived from the state of technological knowledge. But this formulation is, if not incorrect, largely misleading, since if that were all there were to the output of societies, they would all be rich (given again some rather non-controversial behavioural assumptions). If we make the story more complex by introducing transportation costs as an obstacle to realizing the gains from trade, then we should observe with the decline in those transportation costs, which has been going on for several thousand years, a corresponding growth in wealth and income. As a matter of fact, at the time of the Roman Empire in the first two centuries A.D., there was a Mediterranean-wide market, which disappeared with the empire's demise after the Fifth Century A.D. Here, transportation costs had not risen; rather, the costs of transacting had risen with the disappearance of a unified political system of rules and laws (at least partially) enforced over the Mediterranean world. Restated more usefully, the costs of production are a function of the costs of the traditional inputs listed above and the costs of transacting.

It is important to stress that economic growth can and has occurred as a consequence of increasing productivity associated with either decline in production costs or decline in transaction costs. But while falling production costs are a result of technological change or economies of scale, reduced transaction costs are a consequence of the development of more efficient institutions;¹⁴ and since political institutions are the source of the

specification and enforcement of property rights, our examination must encompass both political and economic institutions.

The measurement of transaction costs is beset with all of the problems of measurement in traditional national income accounting. To the extent that transactions occur in the market economy, they can be measured.¹⁵ However, costs of transacting arising from queuing, waiting, rationing, bribery, etc., which are substantial in all economies but particularly in Third World and socialistic economies, are unmeasured.

In considering historical measurement we must remember that the costs of transacting have frequently been so high that no production or exchange occurred. The lack of institutions and instruments to facilitate production and exchange in factor and product markets (as well as the existence of institutions designed to raise the costs of transacting) resulted in predominantly personalized (and localized) production and trade. The development of institutions to facilitate transacting is marked not only by expansion of production and exchange in particular factor markets, but by a subsequent decline in transaction costs as the institutions develop. The dramatic decline in real interest rates in 17th Century Netherlands and early 18th Century Britain followed the development of capital market institutions; it is probably the best quantitative measure (and the most critical indicator) of improving productivity in the transactions sector.

The foregoing discussion profiles transactions costs in a growing economy. The emergence of political institutions that specify "efficient" property rights and provide increasingly effective enforcement should show up in terms of the development of economic institutions to facilitate market exchanges. As a result, costs per transaction will be falling; but the size of the transaction sector in the aggregate will be a growing proportion of GNP, as increasing specialization and division of labour multiplies the aggregate volume of exchanges. This is precisely the pattern for the United States, where the measured size of the transaction sector in 1870 is about one-quarter of GNP and in 1970 is almost one-half.

III. THE SOURCES OF INSTITUTIONAL CHANGE

There are two issues I wish to address on institutional change: 1) What causes the change; and 2) what determines its path. In neither case have I a completely satisfactory answer.

Before we turn to these two issues, we must examine the role institutions play in reducing uncertainty in human interaction, since it is this stabilizing role of institutions which separates clearly the framework of analysis being developed here from the traditional neo-classical approach.

We can most readily understand the difference if we have ever visited a foreign country and attempted to “do business” with them. We will find that of necessity we must learn their “way of doing things.” The structural forms of human interaction that characterize societies are a combination of rules, enforcement features, and norms of behaviour. Until we learn what these are, the costs of transacting are high. Once we understand them, we can effectively communicate and engage in varieties of social, political, and economic exchange. The function of institutions is to provide certainty in human interaction, and this is accomplished by the inherent features of rules and norms. Rules are typically nested in a hierarchical structure, each more costly to change. But even in the absence of the hierarchical institutional structure, the status quo typically has an advantage over changes in a variety of political structures, as a consequence of agenda control and committee structure.

However, it is norms of behaviour that probably provide the most important sources of stability in human interaction. They are extensions, elaborations, and qualifications of rules that have tenacious survival ability, because they become an integral part of habitual behaviour. The reduction of uncertainty, in consequence, makes possible regular human interaction; but it in no way implies that the institutions are efficient, only that they dampen the consequences of relative price changes.

But institutions do change, and fundamental changes in relative prices do lead to institutional change. Historically population change has been the single most important source of relative price changes, though technological change (including and importantly, changes in military technology) and changes in the costs of information have also been major sources. Moreover, as briefly noted in the previous section, changes in norms of behaviour, while certainly influenced by relative price changes, are also influenced by the evolution of ideas and ideologies.

A stylized characterization of the process of institutional change could proceed as follows: As a result of a relative price change, one or both parties to an exchange (political or economic) perceives that he (they) could do better with an altered agreement (contract). Depending on his relative (and presumably changed) bargaining power, he will, as a consequence of the changed prices, re-negotiate the contract. However, contracts are nested in a hierarchy of rules. If the re-negotiation involves alteration of a more fundamental rule, he (or they) may find it worthwhile to devote resources to changing it; or gradually, over time, the rule or custom may simply become ignored and/or unenforced. Agenda power, free-rider problems, and norms of behaviour will add meat (and lots of complications) to this skeletal outline.

An important distinction in this argument is made between absolute bargaining power and changes at the margin. To illustrate this distinction, I turn to the medieval world. The “agreement” between lord and serf on the medieval manor reflected the overwhelming power of the lord vis-a-vis the serf. But changes at the margin, as a consequence of 14th Century population decline, altered the opportunity costs, increased the relative bargaining power of serfs, and led to the gradual evolution of copyhold.¹⁶

While institutional evolution may proceed in the above manner, without explicit intent or design, dramatic changes in the rules (or their enforcement) occur as well. The gathering in Philadelphia in 1787 is a clear example. Riker, in the essay referred to above, makes clear that the instigators of the convention were Federalists and that their opposition both misunderstood and misjudged their ability to write and ratify a new constitution. Indeed, it was the promised addition of the Bill of Rights as the first order of business under the new constitution that made ratification possible (Riker, forthcoming). Perhaps it is worth noting that the writers were “gentlemen” and that their promise was both believed and carried out.

A special note should be made of the role of military technology in institutional change. Not only have changes in military technology resulted in different, efficient (survival) sizes of political units, but, as in the story that follows, they have consequently induced fundamental changes in other institutions, so that fiscal revenues essential to survival could be realized.

The second issue of institutional change is what determines the direction of change. From what must have been quite common origins several million years ago or even as recently as the hunting and gathering societies that predate the “agricultural revolution” in the 8th millennium B.C., we have evolved in radically different directions (and at radically different rates). How have we evolved such divergent patterns of social, political, and economic organization? To consider a specific example, as I will do in the subsequent sections of this paper, how do we explain the divergent paths of British and Spanish development, both at home and in the contrasting histories of North and South America?

I believe the answer lies in the way that institutional structures evolve. The closest (although by no means perfect) analogy is the way we perceive that the common law evolved. It is precedent-based law: Past decisions become embedded in the structure of rules, which marginally change as cases arise involving some new or, at least in the terms of past cases, unforeseen issue, which when decided becomes, in turn, a part of the legal framework. However, I don’t intend to imply by this analogy that the result is “efficient.” In fact, as we shall see, Spanish institutional evolution moved in the direction of stagnation.

Let me illustrate institutional evolution by reference to a specific act, which was almost as important as the Constitution in United States history. This was the Northwest Ordinance, passed by the Congress (when it was under the Articles of Confederation) in 1787, at the very time that the Constitutional Convention was meeting in Philadelphia. It was the third act dealing with the issues that arose with respect to the settlement, governance, and integration of the vast lands to the west in the new nation. Where did the rules incorporated in these acts come from and how were they arrived at?

The Ordinance is quite simple and brief. It provided for rules of inheritance and fee-simple ownership of land; it set up the basic structure of the territorial governments and provided for the mechanisms by which territories gradually became self-governing. Additionally, it made provisions for when a territory could be admitted as a state. Then there were a series of Articles of Compact, in effect a bill of rights for the territories (i.e., provisions for religious freedom, the writ of habeas corpus, trial by jury, bailment, enforcement of contract and compensation for property). There were additional provisions about good faith to the Indians, free navigation on the Mississippi and the St. Lawrence, public debt, land disposal, the number of states that could be divided up within the Northwest Territory, and finally a provision prohibiting slavery (though the return of run-away slaves was provided for) in the territories.

It is easy to trace most of the provisions. They had evolved and become a part of the rules of political units of the colonies during the previous 150 years (described in more detail below). These included inheritance laws, fee simple ownership of land, and many of the provisions of the Bill of Rights. Some, however, were precedent-based but had become controversial because of new issues. This was particularly true of the size and the conditions for admittance of new states. The precedence base derived from the original provisions of charters and the Articles of Confederation. Controversies arose from the implications of changing political power with the new government. One of the rules, the prohibition of slavery, appears to have been the result of vote-trading between the authors of the Northwest Ordinance and the writers of the Constitution; slavery was prohibited in the former bill in return for counting slaves as $\frac{3}{5}$ of a person in the Constitution, which increased the representation of Southern slave states in Congress (a major issue of the period).¹⁷

The Northwest Ordinance provided the basic framework dictating the pattern of expansion of the American nation over the next century. While its provisions were at times modified by new issues and controversies, it provided a clear, “path-dependent” pattern of institutional evolution. It is only understandable in terms of precedent, new issues, and the bargaining

strength of the parties. It is essential to note that precedent not only defined and determined many of the provisions but also dictated the existing agenda, decision rules, and method of resolution. The larger point of this illustration is that we can only understand historical change by modeling the way institutions evolved through time. That brings us to the following brief outline of English and Spanish institutional change, from the 1500s to the 19th Century in North America and Latin America.

IV. THE INITIAL HISTORICAL CONDITIONS IN ENGLAND AND SPAIN

Despite the similarities between England and Spain (discussed below) at the beginning of the Sixteenth century, the two countries had evolved very differently. Spain had just emerged from seven centuries of Moorish domination of the peninsula. It was not really a unified country. Although the marriage of Ferdinand and Isabella brought Castile and Aragon together, they continued to maintain separate rules, Cortes, and policies. England, in contrast, had developed a relatively centralized feudalism, as a result of the Norman conquest, and had recently established the Tudors with the Battle of Bosworth (1485).

Yet, in common with the rest of the emerging European nation states, they each faced a problem with far-reaching consequences. That is, that a ruler required additional revenue to survive. The tradition was that a king was supposed to live on his own, which meant that the income from his estates, together with the traditional feudal dues, were his total revenue. The changes in military technology associated with the effective use of the cross-bow, long-bow, pike, and gun powder enormously increased the cost of warfare and led to a fiscal crisis first described by Joseph Schumpeter (1919). In order to get more revenue, the king had somehow to make a bargain with constituents. In both countries this initially led to the development of some form of representation on the part of the constituents in return for revenue. In both countries, the wool trade became a major source of crown revenue; but thereafter their stories diverge. We can better appreciate these divergent stories in the framework of a very simple model of the state, consistent with the framework developed in the previous sections of this essay.¹⁸

The king acts like a discriminating monopolist, offering to different groups of constituents “protection and justice,” or at least the reduction of internal disorder and the protection of property rights, in return for tax revenue. Since different constituent groups have different opportunity costs and bargaining power with the ruler, there result different bargains. But there are also economies of scale in the provision of these (semi) public

goods of law and enforcement. Hence, total revenue is increased, but the division of the incremental gains between ruler and constituents depends on their relative bargaining power; changes at the margin in either the “violence” potential of the ruler or the opportunity costs of the constituents will result in re-divisions of the incremental revenues. Moreover, the rulers’ gross and net revenues differ significantly as a result of the necessity of developing agents (a bureaucracy) to monitor, meter, and collect the revenue; and all the inherent consequences of agency theory obtain here. The initial institutional structure that emerged in order to solve the fiscal crisis therefore looked similar in all the emerging nation states of Europe. A representative body (or bodies) or constituents, designed to facilitate exchanges between the two parties, was created. To the ruler it meant the development of a hierarchical structure of agents, which was a major transformation from the simple (if extensive) management of the king’s household and estates to a bureaucracy monitoring the wealth and/or income of the king’s constituents. Let us see how this initial institutional framework evolved in the two cases.

V. ENGLISH DEVELOPMENT

The tension between rulers and constituents (although that would hardly describe the situation at Runnymede in 1215) surfaces with the Magna Carta; but the fiscal crises come to a head with Edward I and Edward III during the Hundred Years War. Stubbs in his *The Constitutional History of England* summarizes the consequences.

The admission of the right of parliament to legislate, to inquire into abuses, and to share in the guidance of national policy, was practically purchased by the monies granted to Edward I and Edward III.

A logical consequence was that in the 16th Century under the Tudors the structure of Tudor government was revolutionized, as Geoffrey Elton has described in *The Tudor Revolution in Government*. This revolution transformed the government from an elaborate household structure to a bureaucracy increasingly concerned with overseeing and regulating the economy. It had early on been the wool trade which had served as the basis for a good deal of tax revenue; and, as told by Eileen Powers (1941), the wool trade involved a three-way relationship between the exporters, the wool growers as represented in Parliament, and the Crown. In this agreement, the Merchants of the Staple achieved a monopoly of the export trade and a depot in Calais. Parliament received the right to set the tax and the Crown obtained the revenue. In England the combined mix of the

growth of the wool trade, the development of fee-simple ownership in land, and the development of arable lands and new crops imported from the Dutch all contributed to an expansion of agriculture. At the same time, in the non-agricultural sector the economy became increasingly diversified. Although the Tudors continued to attempt to control the economy and to freeze the structure of economic activity into guilds and monopolistic activities, their efforts were relatively ineffective. They were ineffective because 1) the statutes only covered existing industries, so that new industries escaped rule; 2) despite opposition by town guilds, industries moved to the countryside and effectively escaped guild control; 3) the control of wages and labourers in the Statute of Artificers of 1563 was only partially and sporadically enforced; 4) enforcement in the countryside was typically in the hands of unpaid justices of the peace who had little incentive to enforce the law.

The cloth trade therefore grew in the countryside. The interplay between the expansion of diverse economic activities escaping from guild restrictions and the pressures for the development of parliamentary control over the sovereign came to a head with the Stuarts, with the fumbling efforts of James I, the continuing fiscal crises that occurred under Charles I, and the articulate opposition of Coke and others. It was Coke who insisted that the common law was the supreme law of the land, and who repeatedly incurred the anger of James I. It was Coke who led the parliamentary opposition in the 1620s, which established common law control over commercial law. By the end of Elizabeth's reign a changing benefit cost pattern of economic activity was emerging with the widening of domestic and foreign markets; the result was the expansion of voluntary organizations in the form of joint stock companies, and growing resentment against the crown sponsored monopolies which excluded private companies from many of these growing markets. *Darcy vs. Allein* was only the most celebrated case reflecting this ongoing struggle to create a set of rights that would be outside the control of the monarchy. Passing the Statute of Monopolies was just another step in the ongoing process.

Yet the issue of the supremacy of Parliament hung in the balance for much of the 17th Century; and as the struggle continued, Parliament not only attempted to wrest from the King's control the granting of monopolies (as in the Statute of Monopolies), but also to protect itself from the King's wrath by establishing religious, civil, and political freedoms as well (such as the Petition of Right in 1629). It distorts the story, however, to think of it as a clear-cut struggle between an absolutist "oriented" king and a unified Parliament concerned with economic, civil, and political liberties.¹⁹ As the Civil War attests, a complex of religious, economic, and po-

litical interests coalesced into armed camps. Moreover, the winning coalition one day could be in the minority the next day. Hence, there was persistent interest and concern with broadly based and impersonally guarded rights.

1689 produced the final triumph of Parliament, and in rapid consequence came a set of economic institutions reflecting the relatively increasing security of property rights. The creation of the Bank of England (1694) and the development of new financial instruments led to a dramatic decline in the cost of transacting and has been described as the English financial revolution. Both institutions and consequent falling transaction costs reflect increased security of the time dimension of property rights, a dimension critical to both the long-term capital market and to economic growth itself.

In terms of the very simple political model outlined in Section II, the original trade of certain rights to Parliament in return for revenues was a product of the fiscal crises of the One Hundred Years War. In the 17th Century the Tudors' tripartite arrangement between the Crown, Parliament, and merchants granted further rights to Parliament in return for tax revenues (and still further rights were granted to the Commons by Henry VIII for support in his controversial seizure of church properties). In consequence, the Tudors required an organized bureaucracy to oversee tax collection and to regulate other parts of the economy. The triumph of Parliament in 1689 simply shifted the locus of decision-making to Parliament, which raises the issue of why Parliament would not then proceed to act just like the King. Tollison and Ekelund argue:

Higher costs due to uncertainty and growing private returns reduced industry demands for regulation and control in England. All this strengthened the emergent Constitutional democracy, which created conditions making rent-seeking activity on the part of both monarch and merchant more costly. When the locus of power to rent-seeking shifted from the monarch to Parliament...the costs of supply and regulation through legislative enactment rose, for reasons suggested by the theory of public choice.²⁰

The framework of institutional evolution I have described suggests a somewhat more complicated story than Ekelund and Tollison provide. They assert, "While it is flattering to think that intellectuals affect public policy—surely they do to some extent—it seems completely out of character for economists to think that intellectual arguments could affect real magnitudes so strongly."²¹ But the embedding of economic and political freedoms in the law, the interests of principals (merchants, etc.) in greater degrees of freedom, and the ideological considerations that swept England in the 17th Century combined to play a role in institutional change.

VI. SPANISH DEVELOPMENT

While the major steps in Spanish institutional evolution are not in question, nor is the final result, I do not believe that the specific steps along the way have been as clearly delineated as in the English story. [It should be emphasized that I am not nearly as familiar with the Spanish literature as with the English; but it is my impression that an explicit analysis of the evolution of property rights and their political origins has not been a focus of Spanish economic history.] However, some sketch is possible.

Prior to the union of Ferdinand and Isabella the kingdom of Aragon (comprising approximately Valencia, Aragon, and Catalonia) had a very different character than Castile. Aragon had been reconquered from the Arabs in the last half of the 13th Century and had become a major commercial empire extending into Sardinia, Sicily, and part of Greece. The Cortes, reflecting the interests of merchants, “had already secured the power to legislate and even to limit the king’s power to issue legislation under certain conditions” (Veliz, 1980, p. 34). In contrast Castile was continually engaged in warfare, either against the Moors or in internal strife. While the Cortes existed, it was seldom summoned,

and as nobility and clergy were exempt from financial exactions that could conceivably join them with representatives of the town in resisting additional levies by the Crown, they did not pose (that is the towns did not pose) a credible challenge...(Veliz, 1980, p. 35).

In the fifteen years after their union, Isabella succeeded in gaining control not only over the unruly war-like barons but over church policy in Castile as well. The result was a centralized monarchy in Castile; and it was Castile that defined the institutional evolution of both Spain and Latin America.

A major source of fiscal revenues was the Mesta (the shepherders guild), which in return for the right to migrate with their sheep across Castile provided the Crown with a secure source of revenue, but also with consequences adverse to the development of arable agriculture and the security of property rights, as well as with soil erosion.²²

Within Castile the other chief source of revenue was the alcaba, a sales tax. But as the Spanish empire grew to become the greatest empire since Roman times, its major sources of revenue were increasingly external, derived from Sicily, Naples, the low countries, and the New World. Control internally over the economy and externally over the far-flung empire entailed a large and elaborate hierarchy of bureaucrats armed with an immense out-pouring of royal edicts. [Over 400,000 decrees had been issued concerning the governance and economy of the Indies by 1635, an

average of 2,500 a year since Columbus sailed first to the Indies (Veliz, 1980, p. 43)]. Designed to provide minute regulation of the economy, guilds also provided a vehicle for internal economic regulation. Price ceilings were imposed on grain and state-owned trading companies, and monopolistic grants provided control of external trade.

As the military costs of controlling the empire outstripped revenues (which declined with the revolt of the Netherlands and the gradual decrease in receipts of treasure), the Crown raised the internal tax (alcaba) from 1.2 percent to 10 percent and repeatedly went into bankruptcy, which it resolved through the seizure of properties and financial assets. The consequence was the decline of the Spanish economy and economic stagnation.²³

In terms of the foregoing model of the polity, the bargaining position of the Crown, vis-a-vis the Cortes, shifted in favour of the Crown and consequently resulted in the decline of the Cortes. The governance structure then became a large and elaborate bureaucracy and there were endless efforts by the Crown to control its far-flung agents. Indeed, the history of the control of the Indies is an elaborate story in agency theory, beginning as early as Isabella's rescision of Columbus' policies towards the Indians in 1502. Distance magnified the immense problem of monitoring agents in the New World; but despite the dissipation of rent at every level of the hierarchical structure, the Crown maintained effective control over the polity and over the economy of the New World.²⁴

VII. CONSEQUENCES IN THE NEW WORLD

It is likewise much easier to trace the institutional evolution of the English North American colonies than their Latin American counterpart. The initial conditions are in striking contrast. English America was formed in the very century when the struggle between Parliament and the Crown was coming to a head. Religious diversity, as well as political diversity in the mother country, was paralleled in the colonies. In the Spanish Indies, conquest came at the precise time that the influence of the Castilian Cortes was declining. The conquerors imposed a uniform religion and a uniform bureaucratic administration on an already existing agricultural society.²⁵

In the English colonies there was substantial diversity in the political structure of crown proprietary and charter colonies. But the general development in the direction of local political control and the growth of assemblies was clear and unambiguous. Similarly, the Navigation Acts placed the colonies within the framework of overall British imperial policy, and within that broad framework the colonists were free to develop

the economy. Indeed, the colonists themselves frequently imposed more restrictions on property rights than did the mother country. (The exception was the effort of proprietors to obtain quit-rents from settlers in proprietary colonies, such as that of Lord Penn. The problem of enforcement and collection in the context of the availability of land resulted in very indifferent success.)

In the Spanish Indies, a bureaucracy detailed political and economic policy.

...the “residencia” was the principal means employed by the king to keep viceroys and other functionaries under control. On the expiration of their term of office, all officials had to undergo the official investigation of their conduct. The fear of the residencia was frequently an incentive to serve the monarch well; it also limited any autonomous inclination of ambitious civil servants in the periphery of the empire. [Veliz (1980), p. 73.]

As for the economy, the Marquis of Pombal, who was the Secretary of State for Foreign Affairs and War and “ruled like a virtual dictator” Portugal and its empire from 1755-1777, is said to have stated:

I find it absolutely necessary to bring all the commerce of this kingdom and its colonies into companies, then all merchants will be obliged to enter them, or else desist from trading, for they certainly may be assured that I know their interests better than they do themselves and the interest of the whole kingdom. [Veliz (1980), pp. 108-109.]

Some merchants and the Lisbon Chamber of Commerce protested.

Pombal properly dissolved the chamber and had several of its leading members imprisoned; the rest were regrouped under direct government supervision into a “Juntado Comercio” that dutifully approved all the minister’s decisions. [Veliz (1980), p. 109.]

The French and Indian War (1755-63) is the familiar breaking point in American history. British efforts to impose (very modest) taxes on colonial subjects, as well as to curb westward migration, produced a violent reaction that led through a sequence of steps to the Revolution, the Declaration of Independence, the Articles of Confederation, the Northwest Ordinance, and the Constitution: a sequence of institutional expressions that formed a consistent evolutionary institutional pattern, despite the precariousness of the process.

In the Spanish Indies the recurrent crises were over the efficiency and control of the bureaucratic machinery. The decline under the Hapsburgs and the revival efforts under the Bourbons led to restructuring of the bu-

reocracy and even some liberalization of trade (under the Bourbons) within the empire. But the control of agents was a persistent problem, compounded by efforts of the Creoles to take over the bureaucracy in order to pursue their own interests. To whatever degree the wars of independence in Latin America were a struggle between colonial control (of the bureaucracy and consequent polity and economy) and imperial control, the struggle was imbued with the ideological overtones that stemmed from the American and French revolutions. Independence brought United States inspired constitutions, but with radically different consequences. In contrast to the United States, in Latin America, “The imaginative federal schemes and courageous attempts at decentralization had one thing in common after the first few years of republican independence: they were all tried but none worked. Some were disastrous; none survived.”²⁶

The contrasting histories of North and South America is perhaps the best comparative case that we have of the consequences of divergent institutional paths for political and economic performance. We are only just beginning to extend economic and political theory to the study of institutions.²⁷ I hope this “Historical Introduction” gives some indication of the promise of this approach for the study of economic growth and the history of freedom.

NOTES

1. In a neo-classical world, economic growth is a function of the growth of the capital stock, broadly conceived to include not only physical and human capital, but the stock of resources, technology, and pure knowledge. Moreover, in this frictionless world one would equalize the rate of return at the margin by investing in whatever part of the capital stock yielded the highest return. Hence, there is not a fixed factor and diminishing returns as in the classical economic result. In this world the rate of growth is a function of the savings rate and the rate of growth per capita is a function of that rate over the rate of growth of population. In this neo-classical world growth is not a very interesting problem, and the distance between that formulation and the economic history of the world is vast and is determined by the cost of transacting.
2. See Lancaster (1966) and Becker (1965) for the origination of this consumer theory argument. It has been extended into the transaction cost framework by Cheung (1974), North (1981) and Barzel (1982).
3. Oliver Williamson's approach is basically deficient for several reasons, but principally because he takes imperfect enforcement as a given (otherwise opportunism would never pay) rather than recognize that both the characteristics of the enforcement process and the degree of imperfection are essential in modeling institutions and to the costs of transacting.
4. See for example Kenneth Shepsle and Barry Weingast, "The Institutional Foundations of Committee Power," 1986.
5. See Kalt and Zupan (1984) for discussion of these issues.
6. *Public Choice*, 1976.
7. "The Lessons of 1787," *Public Choice*, forthcoming.
8. Robert Axelrod (1985).
9. The immense literature on the subject from Marx and Mannheim to Merton is not very convincing, although Robert Herton's chapters written in 1949 are still a good summary of the state of the art.
10. Brennan and Buchanan (1983).
11. Kalt and Zuppan (1984).
12. Denzau, Riker and Shepsle (1985).

13. Landes and Posner (1975) provide an interest group model of the Supreme Court, but the evidence simply does not support such an argument. See Buchanan (1975) and North (1978).
14. For an analysis of the contribution of falling transactions costs on productivity growth in ocean transportation between 1600 and 1850, see North (1968).
15. See North and Wallis (1987) for a lengthy discussion of the issues and measurement of the transaction sector in the American economy between 1870 and 1970.
16. See North and Thomas (1973) for a description of this process.
16. For an elaboration of these issues, see “The Northwest Ordinance in Historical Perspective,” North (forthcoming).
17. This simple “neo-classical theory of the state” is elaborated in North (1981), Chapter 3.
18. Moreover it should be noted that the rights that Parliament had in mind were those of the nobility and the gentry.
19. Ekelund and Tollison (1981), page 149.
20. Ekelund and Tollison (1981), page 151.
21. The history of the Mesta (Klein, 1920) is an exception to my assertion that the history of Spanish property rights has not been told. For a summary of the effects of the Mesta on the development of property rights in Spain, see North and Thomas (1973), Chapter 10.
22. For a more detailed account and sources, see North and Thomas (1973), Chapter 10.
23. For a more detailed account, see Veliz (1980), Chapter Three, “The Regalist Indies.”
24. “The Indian population was subdued and subordinated by the new ruling class of Encomenderos. But the Encomendero class itself was the target of a royal program that reduced its political significance by installing a class of state office holders” (Lang, 1975, p. 220).
25. Veliz (1980), p. 151. Veliz provides a country-by-country summary account of the decline of democratic government and the revival of the “centralist” bureaucratic structure and tradition in Latin America (Chapter 7).
26. See North (1986) for an analysis of the “New Institutional Economics.”

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Discussion

Edited by Michael A. Walker

Herbert Grubel I accept without quarrel as valid North's proposition that economic growth is encouraged by a legal environment that assures present and future property rights and keeps the costs of transactions and contracts low. I am also sympathetic to North's more general point that governments have important roles to play in modern industrial societies and that these functions may well be among the most important.

However, in the few minutes available to me here I want to raise some questions about the validity of his assertion on page nine: "This (the creation of an environment for dealing in confidence) is only possible as a result of a third party to exchange, government, which specifies property rights and enforces contracts."

Put starkly, my argument is that in some circumstances government is not needed to establish property rights and that in other circumstances government is detrimental to the maintenance of assured property rights. It all depends and, as we might expect, the optimal role of government in this enterprise is one of costs and benefits, which are determined by a wide range of factors.

As Anderson and Hill (Anderson, T. and P.J. Hill, "An American Experiment in Anarcho-Capitalism," *The Journal of Libertarian Studies*, III, 1, 1979) have shown, in the Wild West of the United States in the 19th century, private arrangements very effectively took the place of government in creating an institutional framework for the maintenance of property rights and the enforcement of contracts. When wagon trains to the West entered territory that had no effective government, they typically adopted a constitution and sets of laws that guided their relationships. Settlers in these areas similarly adopted systems for the settlement of land-claims and other disputes that resembled closely those which governments would have introduced. However, it is interesting to note that the decentralized private process permitted variations in legal structures and was able to accommodate ranges of settlers' preferences impossible under centralized government programmes.

On the other hand, it is not clear to me that the many laws passed by modern industrial societies in recent decades have been conducive to the assured maintenance of property rights and low transactions costs. Pro-

gressive income taxation, capital gains taxes and the wide range of regulation symbolized by rent-controls are equivalent to forced expropriation of property. Moreover, their adoption has created uncertainty about future laws that may be as important as the direct consequences of the expropriation.

The many laws in all countries that govern financial markets have vastly increased the cost of establishing a global capital market which has been made possible by the development of modern electronic technology. One could blame this problem on the absence of a world government and the global provision of laws and regulations that lower the cost of contracts. But in the light of the Law of the Sea and its effect on the cost of deep-sea mining I am not optimistic about the ability of a global government to generate an efficient legal environment.

These considerations lead me to the conclusion that the issue of when and where the government is an optimal supplier of property rights systems depends on the costs and benefits of the specific conditions. In the wild West the U.S. government simply did not have the technical and financial means to do so. At the same time, the common cultural and religious backgrounds of the settlers made it relatively easy to reach agreement on the preferred laws and enforcement institutions. In the literature on libertarian anarchism, this commonality is known as the Schelling point, after the analysis in Schelling (Schelling, T.C., *The Strategy of Conflict*, Harvard University Press, Cambridge, 1960).

It is very likely that after substantial population and economic growth, efficiency in the definition and administration of property rights was increased by the substitution of government for private institutions in the wild West of the United States. On the other hand, I interpret the current trend towards deregulation in so many industries as the outcome of mainly technical developments which have caused the government to be less efficient than the private determination of property rights. Comparative advantage appears to have moved back to the private provision of rules, regulations and the assurance of property rights.

The perspectives I just presented are of some relevance to North's interpretation of the causes of different development patterns in North and South America. In the absence of reliable knowledge on this matter let me postulate as a hypothesis that throughout the process of settlement of these regions, private institutions for the establishment and preservation of property rights preceded governments and that these governments more or less just accepted the private institutions, much like they have done in the U.S. West.

Under these conditions we should look to the different Schelling points of the settlers in the two continents for the causes of the different evolu-

tionary patterns. I need not repeat here North's analysis of the differences in the strength of democratic rights enjoyed in the countries from which the settlers came predominantly. I would only add that perhaps the organized religions of the two regions reinforced the differences in the traditions of the secular governments. Settlers of South America who came mainly from Spain and Portugal probably were accustomed to the hierarchical and authoritarian organization of the Catholic church and therefore were more tolerant of centralized institutions and arbitrariness in property rights than were the North American settlers who were accustomed to the more decentralized and democratic protestant religions.

I think that it is obvious from my remarks that I find North's paper stimulating and dealing with important issues which deserve much greater attention than economists have given them in the past. We should be grateful to him for this stimulation and a penetrating analysis of the issues he raised.

Raymond Gastil It's a very small point, but it seems to me that what your example of the West illustrates is that if there isn't a government, you have to create a government. In other words, it is just a semantic issue to call this "private" arrangements as opposed to "governmental" arrangements. If they got beyond U.S. jurisdiction, they essentially created a new jurisdiction which then handled their problems for them. So it seems to me it reinforces the point of the paper rather than detracts from it.

Gordon Tullock Actually, in a way I was going to say the same thing. But I have something else. As it happens in the West, the American government was far, far more important. If it had not been for the U.S. Army, the Mexicans and the Indians would have wiped all of these things out. Their property depended entirely on the battles of Buena Vista and things of that sort and the continuing existence of this military force. Now Heaven knows it wasn't as efficient as one might like, particularly in dealing with the Indians, but it was a necessary condition for the existence of that property. Remember the Mexican War? How did they keep the Mexican Army out?

Herbert Grubel I accept your point, but it seems to me that you are talking about external defence. The issue is clearly whether certain types of government functions are carried out more efficiently and with the loss of less freedom at different levels of organization. The examples from Anderson and Hill that I have given are very persuasive to me. The optimum level of government for wagon trains travelling through a wilderness without effective government is the assembly of members of the train, not

some far-away government. This is not inconsistent with your view that once the wilderness was encroached upon by the representatives of an organized state like Mexico, there was a need for a higher level of government to assert its rights there. It did so by sending troops and, I would surmise, using them as agents for later claims and the establishment of a formal government.

Voice I'd bet you would regard the two honourable East India companies as private enterprises.

Voice Dirty question!

Ingemar Stahl When I read this interesting paper I found the Latin American and U.S.A. case very convincing. But if we looked at a larger universe of observation, taking all the colonial powers and all the colonial areas, what would happen? If you have a regression function, including the West Indies, Indonesia and Netherlands, Belgian Congo and Belgium, will your conclusion still be true, that the British property rights system and the British institution transferred to North America was better than taking the Spanish and the Portuguese traditions to Latin America? If you include Netherlands, which was a very democratic country, and look at Indonesia, what would then happen? Or is the determining factor also the share of population that came from the original structure, and the number that were not wiped out in the colonial countries?

Douglass North I was originally going to respond on this point. There is a big literature on all kinds of contracting that can be done without third party enforcement; we all are familiar with this literature. But none of it, it seems to me, really survives when you have very complex economic systems that we think of as associated with high income countries. I know of no high income country that has managed to do without government once it gets into that complexity. It is very easy to think of ways of enforcing property rights by hostages or ways of having repeat dealings and so on in small settings; it is very hard to think of ways to do this when you have the complex world we are talking about.

Ingemar's point is a very good one. In fact, Gordon and I talked about this last December, and I have not confronted the issues of complexities that might arise when I start to look at a lot of places in the world where you had settlement—in this case the Dutch, which is a very good case of other societies. Part of it—and I think Gordon and I have talked about

this—rests with the kind of indigenous populations you have and the kind of society that is already in existence. That makes the American case unique, and you can compare the North American case with those parts of Latin America which had sparse populations like Argentina and so on. There, it seems to me, there is some similarity; you are imposing a set of rules with settlers coming in. Where you have large indigenous populations, I think the problems are most complex and are ones I really haven't dealt with very satisfactorily in this paper.

Walter Block With regard to the settling of the West, certainly there was a cavalry, but I think it was a question, in many cases, of too little and too late. There was a vast area, there were very few cavalymen. I think an awful lot of the supposed government function, namely defence, was provided not by the cavalry—although some was—but by the people themselves. In this regard I am especially out of sympathy with Raymond Gastil's point, namely that these settlers, when they engaged in self-defence and property rights definitions, were just another government. This would seem to eliminate libertarian anarchism, not through any flaws in it but merely by definition. I think this is a mistake, since government should be defined as a monopoly of coercion. These settlers were not engaged in a monopoly and were not engaged in coercion, but rather just in self-defence.

Now with regard to the point of a complex world requiring government, this seems to me to be the argument that is used by many of our friends on the left who are always saying, well, for simple problems we don't need much government planning or central control, but in the modern world there is much complexity, so we need lots of government. Then they go on to justify rent control, minimum wage or whatever on that basis. If we have such a complex world where we need government, why not world government? But we don't have world government; we now have anarchy between nations. I think the anarchy between nations is a very good thing, because a world government would certainly interfere with economic growth. So I don't see these attacks on the libertarian version of anarchism as overwhelmingly convincing.

Alan Walters The striking thing in Latin America over the last 30 years is the difference between the Portuguese and Spanish colonies. The Portuguese performed much better than the Spanish colonies. The reasons for this are unclear to me, but one surely is the absence, in the Portuguese colonies, of the sort of concessionaire system which dominated the Spanish colonies. I would like to see a sort of comparative history since the Portuguese and Spanish are similar in their nature, similar in family structure,

similar in mores and so on. But the critical ingredient is the absence of the concessionaire system, which is ubiquitous in the rest of Latin America but not in the Portuguese colonies.

Assar Lindbeck The topic is so broad it lends itself to rather speculative comments. Herbert Grubel said that one point against North's exposition would be that many governments are destroying property rights, as a matter of fact. I don't think that is really hitting North very much. Douglass is saying that governments are a necessary condition for stable property rights in a complex society. But it is not a sufficient condition and, of course, governments can destroy property rights as well as establish them. So I don't think that hits him. But I think a distinction between necessary and sufficient conditions here might be in place.

You hear that the British culture was good for the colonies, and that Latin America was a failure by contrast to the U.S. But how would you explain that British culture didn't work very well in Britain? Britain started her downfall at the turn of the century or even earlier and has gone down, relatively speaking, all the time.

Douglass North Very briefly, Britain does experience a very high rate of growth. We think of it as the Industrial Revolution that followed on the period that I am talking about, in the late 18th and through the 19th century. You don't predict any society is going to keep growing forever. In fact, one of the things we know very little about is that all of them at some point begin to stagnate and certainly that happened to Britain. But it is long after the period where I am looking at the set of property rights and rules evolving that produced *high* rates of growth in Britain and in its colonies.

Tibor Machan I would like to make the point, somewhat against Walter Block in defence of Raymond Gastil, that it is not the size of the enforcement of rules that determines whether something is a government or not, it is certain structural features. Libertarian anarchists rule out of court John Locke's concept of government by consent of the governed. If that concept is to stay intact and be intelligible, then it should be possible to have a government which is entirely consensual, something the libertarian anarchist refuses to acknowledge. He defines government as inherently coercive and this is not in the tradition of liberalism that we are familiar with.

Raymond Gastil That is pretty much what I was going to say. Essentially, the point being made about government in the West was a point that

certainly has some validity in the sense that small, decentralized governmental units may have more flexibility or be better adjusting to situations than large governments at a distance. But that is rather different from bringing up an argument about libertarian anarchism, which I imagine would have to be based on something other than simply small, decentralized government units, which it seems to me we are talking about in this case.

If I could make another remark in regard to the paper that we are discussing, I found that the argument was convincing enough except that I wasn't sure that it showed exactly what was related to what. There was, of course, a British tradition and a Spanish tradition, with many different features. The result was, in its particular application to North America, that we had a more developing, rapidly growing society, and in Latin America you had lots of problems, both economic and political. But what precisely was in that heritage? I think that maybe some more amorphous and harder to find things in that heritage played a large part, rather than what was mentioned here. Look, for example, at the Portuguese heritage. Certainly, in Africa it hasn't had the effect it had in Brazil. So I find the whole discussion a little hard to pin down.

Armen Alchian I want to call attention to a paper by Ronald Batchelder who was at Texas A & M and is now at Pepperdine. I don't recall details precisely enough to state his position correctly, but he did look at the Spanish method of governing their areas in the Americas, where I believe he was emphasizing there they had a system which induced exploitative immediate expropriation of wealth. I think he said the Portuguese—and here I may be doing him a disservice or putting words in his mouth—enabled people there to acquire the land and to hold it in their own name, and had incentive to invest in it. I don't know where it appeared, but I thought it was quite a good paper, and I just wanted to call it to your attention.

Arnold Harberger Latin America seems to be destined to come up a number of times in this meeting. A couple of points. First of all on what Alan was saying, the actual story, to me, is that Brazil is a late bloomer in Latin America and it was developmentally, far behind Argentina, Uruguay and Chile by the 1930s. The estimates that I have seen on per capita incomes around the world place Argentina, Sweden, Canada and Australia pretty much in one package, well ahead of many of the countries of Europe.

Uruguay, as Ramon Diaz has emphasized in another paper, in its early growth was doing beautifully in a very free, open market setting. It is hard

to lay the responsibility for what has subsequently happened to them on the Spanish heritage. The Spanish heritage was there before.

Ingemar Stahl As far as I can understand, when the United States was founded it was a rather large free trade area for that time. In Latin America, was there anything similar to a customs union or free trade area, or was the interstate trade in Latin America insignificant, and were there obstacles for that type of trade? It could be a kind of supplementary explanation if you have one area that was a free trade area and one that was not.

Douglass North The Latin Americans can probably answer the Latin America one better than I can. Certainly, the U.S. was always a free trade area. Actually, there were some barriers between colonies before they became independent; after independence there was a free trade area. In Latin America, it is my impression that there was some trade between areas, but I don't think there was a great deal of trade. But I am not sure about that.

Ramon Diaz I think that in the origins of Latin America as a set of independent countries, with tariffs impeding trade between them, that was not a very important development. I think more important was the failure of the greater part of Latin America to have stable government and predictable policies.

Svetozar Pejovich I don't have comments, but I have two questions for Doug. What do you mean when you say "freedom"? That's one question. And the second is, you use the terms "economic growth" and "economic performance." Do you really mean the same thing, or do you distinguish? The reason I am asking is because I know of some high growth states, like Russia during the Stalin years, that have not performed that well.

Douglass North Let's take "freedom" first. Milton Friedman intimidated me on freedom, and so I wrote just one page on it to cover myself. I have nothing more at this point to say except that one page—particularly as I look at Milton across the way. But I thought that was satisfactory. I don't think there is any short way to define it. I was at a conference about what we meant by freedom, for four days last year, and I listened to Rousseauians and libertarians and all kinds of other philosophers and the only conclusion we could come to was that freedom isn't easy to define. So I tried to define it very briefly and therefore somewhat arbitrarily.

On “economic performance” I am really using just some standard measures of what we consider growth—growth in output, real per capita income, real output, stability of output, things like that. There is nothing elegant about it.

Brian Kantor The point about Argentina did occur to me as well. Argentina was really one of the great success stories until about 1930, I think. At the start of the Second War the Argentineans were still, perhaps, among the first five groups of people in terms of per capita incomes. Argentina developed her resources with the aid of lots of British capital, and British capital was certainly very much attracted to Argentina. But what is also true of Argentina, as I think is true of the U.S., is that the indigenous population certainly weren’t important; they had been wiped out. The plains were empty.

This is not true, of course, of other areas which were nominally conquered. In fact they weren’t fully conquered ever. If you think of India, the British ruled India indirectly, as they ruled much of Africa. This is a point I am going to make again when I discuss Peter Bauer’s paper. When you rule *indirectly* you leave many of the institutions in place, and those indigenous institutional arrangements are often inimical to economic development.

Milton Friedman Well, Alan and Brian have more or less taken the words out of my mouth, because I was going to refer back to the case of Argentina, particularly in relation to Australia. One of the fascinating things to me has always been that Argentina and Australia were so largely parallel in so many respects. Neither one of them had a large indigenous population; both of them were largely settled by Europeans. In both cases, you had very rapid growth in the late 1930s as you were speaking of. Maybe Argentina would have been a little ahead of Australia, but I am not sure—Al could tell us better about that—but they would have been pretty close don’t you think?

Arnold Harberger They were very close as of 1929.

Milton Friedman They both were countries which had large grazing areas, very similar in their characteristics. It seems to me it is very hard to argue that what happened after Peron came in derives from the Spanish institutions, while what happened in Australia derived from the British institutions. The question arises of trying to interpret why Argentina went

one way—and Argentina isn't the only one—and Australia went the other. It looks as if what happened each time is that when you get a man on horseback you have one problem, and when you don't have a man on horseback you have another problem.

Ramon Diaz On the subject that Milton has just raised, I think that the Spanish heritage may have been instrumental in Peron's success and therefore may, by the back door, have been important at a deep ideological or philosophical level. What we find is a great success story in Argentina, to some extent also in Uruguay. But they were both very vulnerable at a conceptual level. There had been no great national debates about these issues, and there was no intellectual heritage. When Peron came with his new outlook, there was no defence. The country very easily followed this brash populist leader who then led it to destruction.

I think, therefore, that we can say that the destruction of Argentina was in the broadest sense due to a lack of education. It also had to do with institutions that were not solid enough. In that sense I think, not in any more direct a manner, the different cultural background was probably quite material.

Assar Lindbeck Is it really the institutional framework inherent in a country that is important? Isn't it rather a kind of immature political culture in Latin American countries that has been important? Maybe the British brought some maturity of political culture to North America and to Australia rather than the institutional frameworks, if you don't include political culture in the institution, so to speak.

I also have a comment for Walter Block. He said that governments are not necessary conditions for stable rules and property rights in a complex society because we have international property rights without international government. That is not a very strong argument, because what do we mean by "international property rights"? When private agents operate in many countries, they are protected mainly by the national legal system in each country where they operate. Every country has a legal system, and to the extent that you have international rules that regulate interactions between countries in terms of trade, for instance, you have agreements between governments like IMF or the GATT agreements or bilateral agreements. So that is government again. You have not really given an argument on why governments would not be needed here, because it is governments and agreements between governments that guarantee the system.

Tibor Machan Quickly, on freedom. In the paper the term is defined in terms of protection of security. I think that is a little bit more than what it should be. Security might be threatened by earthquakes or a lot of sources other than human beings. We don't want to give government the right to intervene just because it says, "we are protecting freedom by protecting people against hardship or earthquakes or disease." That is just a minor point, but worth making.

Lindsay Wright I just wanted to register a strong disagreement with Walter that we do not have anarchy between world governments. We actually have a very well organized world order that functions to uphold and maintain and preserve consensus about a world capitalist market. I think that the lack of formal institutions does not mean that a consensus on the rules or procedures that govern those procedures does not exist. We need to beware of purely legalistic interpretations of what government entails.

Gordon Tullock I want to go back to Argentina and Uruguay. In the first place, Argentina has an immense Italian population, not Spanish. I think that is true of Uruguay, but my only evidence of that is the fact that Garibaldi fought much more in Uruguay than he did in Italy. Chile and Colombia also had large North European immigration. Another point worth noting is that Southern America was very, very heavily dependent on England for a long time. They used to refer to Argentina as the "sixth dominion." I don't know any positive evidence about it at all, but I suspect that if Argentine governments through most of this time had decided to, let's say, confiscate the railroad, they would have found the British Navy in their ports the following day. It was the weakening, I think, of England after World War II that permitted a reaction back.

Douglass North Well, my point is new, but it turns out that it is going to touch on some of the things that have been said around the table. What I was trying to do in this paper, and in this bigger book that I am trying to write is to really answer two questions that bother me about institutional change, and have bothered me ever since I became concerned about it. One is why there are such divergent patterns of evolution of societies through time, and under what conditions do they converge again? That is, there is a radical change in relative prices or something which causes divergence in institutional development and sometimes we observe some convergence, and sometimes we observe them diverging through time persistently. That is a puzzle that economic historians ought to solve.

The second question is one, of course, that came out of Armen's article of 1950 and that is, if we think of institutions as existing in a world in which there is competition and scarcity, why don't inefficient ones fail? And why do societies appear to be persistently not doing well over long periods of time?—however defined in terms of Steve's concerns.

It is those two questions that are bothering me right now, that I am trying to at least get an initial handle on. It seems to me that some of you have taken me way beyond the scope of the paper. The paper only went up to the beginning of the 19th century; it did not go up to 1900 and what Assar was talking about, or to the present time. It just says, how did we get such very different beginnings in North America and Latin America, and can we say something intelligible about those origins. Can we develop a framework that is going to say something intelligible about those things in terms of looking at the incremental changes, and it is mostly incremental.

One of the things that I am doing now on another paper on the Northwest Ordinance is looking in great detail at the small changes that existed in most specific kinds of property rights and legislation as it evolved in colonial and newly independent North America over the late 18th and early 19th centuries. They *are* small changes, and I want to know where they came from, how they came about, how they link up and what kinds of bargaining strengths produced divergences.

Brian, I think, made the point that is most bothering me now. That is, invading powers come into a society where there is a large indigenous population with existing institutions, as in Peru and other places in Latin America. Then, no matter how hard you try to impose some sort of institutions on them, they are going to get intermingled with the existing ones. You are going to produce some very divergent results, and that is something I am just starting to work on.

Walter Block I wanted to make a point on Doug's paper with regard to economic growth. I accept with alacrity his rejection of the neoclassical view which speaks in terms of capital stock and take-off periods and all sorts of things that really have little to do with economic growth. One of the forerunners of this type of analysis is certainly Peter Bauer, who has directed our attention on institutions and incentives and culture and matters of that sort. I also think that Doug's directing our attention to transactions costs is very helpful, but I don't think transactions costs tell the whole story. It is conceivable to imagine cases where transactions costs were reduced but still there was not a great amount of growth be-

cause of the culture. Peter Bauer talks about India, where they have a culture which is against wealth; it is hard to see how reducing transactions costs would help in such a society. Also we can conceive of a situation where transactions costs were reduced and yet we had marginal tax rates of 99 percent or something like that, which would certainly reduce incentives.

Michael Parkin I would like to come back to Doug's main point, though I'm finding it difficult to keep track of what the main point is and what the sideline points are. I want to go back to the notion that the goal of this research is to try to explain why we see the patterns of divergence and convergence in institutional forms and why we see what Doug called inefficient institutions.

My first thought is that this is such an ambitious undertaking that I would like Doug to give us some clue as to why he thinks that it is an achievable programme of research. It seems to me that we are tackling questions that are, in the nature of things, too big to be successfully pursued with our current technology and ways of thinking about things. I hope I am wrong about that, but if I am I would like some guidance on why this might be a hopeful line of inquiry.

Two things make me worry about this particular attempt, particularly in the context of the late 19th century. What I think we need to do, if we are going to look at the sorts of questions that are being addressed here, is to try to find reasonably isolated environments in which we can observe what happens in these environments. By the late 19th century the world was already a pretty open society with a lot of interaction between the various groups. Gordon's point about the British Navy not being too far away from Argentina underlines the point. I would worry whether you have the sort of independent, isolated data bases that you require.

Second—and this is related but a slightly different point—I worry when people talk about inefficiencies surviving. It seems to me much more fruitful to talk about trying to find explanations for why bad situations are persistent equilibria. Unemployment is a bad situation, but it is something that can persist. Political institutions that are very corrupt and that impose heavy costs on the people are a bad situation, but frequently persist. I would like to see a refocusing of the question. Not why does inefficiency persist, but what is it that makes the apparently inefficient, in fact, the best of a bunch of bad outcomes. In this respect, I suppose that one has to start to look at the sorts of things that the new micro-economists are looking at when trying to explain peculiar situations—things like informational asymmetries and costs of doing business with each other—that are hidden, in some sense. If we could put our fingers on them, we would stand a chance

of making some sense of this big class of phenomena. So, I am really appealing for a more micro, nitty-gritty, get down to some of the tighter issues, rather than this broad-brush approach. But I hope that I am wrong. I hope the broad-brush look at a huge and ambitious period of history will work, and I wonder if you have any words of hope and encouragement.

Douglass North Transactions costs are not institutions, the way I look at it. Transactions costs are a consequence of institutions, and I want to make that clear. It is a misunderstanding of what I conceive transactions costs to be to think of them as institutions. Transactions costs arise as a consequence of the kinds of institutions and market structures and so on that you have. But I want to spend however much time you will give me on Michael's point, because this is what I spend my life on.

What I have been doing, Michael, over the last 15 or 20 years is working backwards towards this set of issues. I started out as a straight neoclassical type of economist applying it to economic history and asking what I could learn. From that, and with inspiration from people like Armen, I moved into thinking that property rights gave me a clue as to how to get behind prices and things to get an idea as to the relative incentive structures in societies. From looking at property rights I moved behind to enforcement of property rights, because it turns out that that in turn can make a big difference in how property rights work. And I keep going backwards.

It seems to me that is the way to go. It is an infinite regress, I am sure, and you never arrive at some point when the Holy Grail is sitting there and you grab it. But I do think you get more understanding of the way in which societies evolve if you move in this direction, and that is what I am trying to do—not, perhaps, altogether successfully, but I don't know any other way to go.

We ought to be modelling and trying to theorize about the things that economists typically hold constant in their models, and that is demographic change, institutional change, technological change. This is where I am going, only I concentrate on institutional change and other people concentrate on demographic change. Whether it is possible to really say something more significant is up to all of you. I think I am getting somewhere, but that is something I will leave to other people to decide finally.

Raymond Gastil I would like to go back to the cultural issue which has been brought up. This paper basically addresses the effects of some cultural differences in regard to institutions that were imposed. The point has been made, of course, that in many of the colonies in Latin America there was a mixture between what was brought in by the Spanish and what was

there before, so one should look at the pure examples. But what strikes me more strongly is that in different periods people of different backgrounds seem to have shown the greatest economic performance. At one time it was the people of British tradition, and wherever you looked around the world, the purer the British impact, the better the performance.

Right now it seems to be the Chinese societies—Japan, South Korea, Taiwan, Singapore, Hong Kong—that are showing the best kind of performance. Sometimes you can point to certain groups of people, even within *other* cultures, who have had outstanding performance at certain times—Parses in India, for example. So it seems to me that it may be that we have a real problem in deciding whether it is particular institutional patterns, definable in the way this paper does it, or something else which is involved in the culture of a people that is really determining the outcome.

I would suggest what one might try to do in this situation is concentrate on examples where you can keep the general culture constant and vary the institutions that are tried in different places at that same time, and then compare that with situations where you can keep the institutions constant and vary the cultures that are operating those institutions.

Alvin Rabushka Just to embellish that, Tom Sowell has written two books on that subject. One looks at a dozen ethnic groups in the United States, a common institutional, legal, political system, and he finds their economic performance varies largely as a result of different backgrounds and up- bringings and attitudes and mores. The other is a book in which he shows that the Chinese do brilliantly everywhere, the Japanese do well every- where, and certain ethnic groups do awful everywhere.

It may just be that an institutional framework is the necessary but not sufficient condition, subcultural norms are necessary but not sufficient, and the two together give you a better overall handle on this.

I agree with what Doug said in response to Michael. I think his approach wouldn't get you anywhere either, worrying about technology and regression leaves out things that can't be modelled in modern economic technology. And I think one has to get at some of these things because they are important.

Milton Friedman I wanted to raise three very broad comments which are peripheral to much of what has been going on. The first of them is the fact that chance—pure chance—plays an enormous role. It wasn't necessary that Peron come on the scene in the Argentinean case. It would be very hard to argue that his arrival was anything more than chance.

The case that has always impressed me the most is the one of the United States at the time of the Revolution. In his biography of George Washington, James Flexner makes the point that the United States was on the verge of establishing a military dictatorship, and it was prevented from doing so only by George Washington's personal characteristics.

There was a military junta of the revolutionary officers, including Alexander Hamilton, incidentally, who were trying to persuade Washington to assume headship of the junta so that they could get their salaries paid and be compensated. They had a fallback candidate whom they were prepared to go to if Washington didn't agree. But not only didn't Washington agree, he was effective enough in his personal intervention with the officer corps to put an end to it. Now, after all, you can't say that that was because of a British influence of democracy when Britain at the time was ruled by George III. Where do you get democracy out of that? So, I think we have to put enormous emphasis on chance at certain crucial points.

That leads to my second point, which has come up in an indirect way several times here. That is, the way to look at things in these respects is that there are often situations in which there are multiple stable equilibria with great difficulty in getting from one to the other. A valley with a hill and a valley. One may be a better one than the other, but you can't easily get to it. Very obvious examples: metric system versus English weights and measures; the Chinese calligraphy, an ideographic versus a phonetic script. Now the phonetic script is, from one point of view, far more efficient, certainly for science, mathematics and so on. Yet, once you have established an ideographic script as in China, it is hell and all to go from one to the other.

In the same way, once Peron emerged in Argentina, once he established that pattern, it was extremely hard to go from there to something else. So that you do have stable equilibria, it seems to me, which may be perfectly consistent with the same cultural background, the same institutions, same reactions.

And the third point is the one that was just raised here about how you shift from one area to another. Social and economic arrangements, political arrangements, have a life history. Alfred Marshall, always used to talk about the "life history of enterprises," of birth, growth, fall—the same as human life. The same thing is true of institutions. You have the theory, indeed, of Mancur Olson which attempts to explain the world in exactly this fashion.

We talk about the Dutch having been leaders at one point, the Portuguese at another point, the English at another point. In each case the process is a kind of a life history in which these develop.

When we talk about necessary and sufficient conditions—obviously we are always much better at necessary conditions than we are at sufficient conditions—they are not conditions which are without a time dimension relative to some kind of an origin. Often that origin was a major chance event that started them off in one direction rather than the other, whether the chance event is finding gold in California or the emergence of a particular person like Peron, who was able to take over, or the emergence of a particular person like George Washington, who was able to prevent something.

Gordon Tullock This is very brief. I don't think you can use Olson any more for this. I would say the statistical studies, of which I get tons because of my particular journal, have killed him. Weede, the German scholar, is still trying to argue that Olson's theory is correct, but I think the evidence is overwhelming. This I regard as very unfortunate, because I like his theory. But I think you have to say that as of now it is demonstrated not to be true.

Herbert Grubel Do you have any ideas on what causes these life cycles? Is this an inevitable form.

Milton Friedman I don't know. I only say that the fact that you have the leadership shift from one area to another, one group to another, suggests that there must be something.

This is a different issue, but I have always been interested in the "golden ages" of history, and all golden ages have limited lives, whether it is 5th century B.C. Greece, or whether it is the early stage of Rome, whether it is the first Elizabethan era—they all last about 75 to 100 or 150 years.

Peter Bauer The life cycles of societies and institutions are both significant and paradoxical. They are paradoxical because you would expect that successful societies and institutions would have cumulative advantages over their neighbours in know-how and capital. These life cycles therefore raise some far-reaching questions and problems. They refute much of modern development economics, including Gunar Myrdal's notion of circular cumulative causation.

Steve introduced the problem of measuring economic growth. There are very real problems here which should not be pushed aside. Since World War II, the U.N. statistics on the East European countries have registered impressive rates of growth. At the same time, many people in the West re-

ceived begging letters from these countries asking for the simplest consumer goods such as razor blades, sewing cotton and the like. Alan Walters has some very informative stories about that.

Next, a few remarks on world government and property rights. In the contemporary political climate, a world government with world sovereignty is likely to be utterly destructive of property rights because such a government would try to standardize conditions world-wide. That would involve massive redistributive taxation and confiscation of property.

On Michael Parkin's point, I think there is much to be said for studying the nitty-gritty of processes and also phenomena on a small scale. Francis Bacon said that it "cometh often to pass that mean and small things discover great better than great can discover small." I might also quote a beautiful phrase by Sir Lewis Namier: "In a drop of dew can be seen the colours of the sun." Again, major cultural matters affecting economic performance, such as refusal to take sentient animal life, widespread in South Asia, are matters which one can observe, on which one can reflect, and about which one can draw inferences, but which are hard to discuss sensibly in macro terms or by means of regression analysis.

Milton Friedman On world government, I just want to tell a story of Bertrand de Juvenelle. Bertrand de Juvenelle, 30 years ago, said he had always been an ardent advocate of world government until the day he crossed the border into Switzerland ahead of the pursuing Nazis.

Assar Lindbeck I too think the life cycle aspect of countries and civilizations is crucial, even if you cannot explain it and even if Mancur Olson might not have an explanation. It is what I call Budenbrook's model. The first generation of a family creates wealth with very hard work and with strong purpose connected with it; the second administers it; and the third takes it as manna from heaven and consumes and destroys it. There is a possibility that after a while a rich society may take as exogenously given sources of wealth that can be consumed, and you get a different attitude. I think most countries seem to believe it.

Let me just make a very casual observation myself that might be wrong. I came to the U.S. for the first time in 1957 as a student. What impressed me in the U.S. at that time was the hard work in the service sector. I had never before seen people working that hard in shops and stores. I said to myself, this is so different from Sweden. But now, it is just the opposite—such sloppiness! I go into a drug store and ask, "do you have commodity X?" and always get the same answer, "I don't know." Over the last 30 years, I have seen a marked difference in discipline in the stores

and in the work ethic in general in the U.S. So I think you are perhaps in the third generation in Budenbrook's model.

Brian Kantor My point is related. Clearly, the life cycle must have something to do with institutions that initially tolerate accumulation and differences in wealth, because everybody doesn't accumulate at the same rate. Some must be allowed to accumulate much faster and, at a later stage the wealth is attacked through processes of redistribution, which spread it around and take away the incentives to accumulate. Therefore growth slows down. I think one sees that pattern.

When societies get rich enough, they certainly become vulnerable to the politics of redistribution. They don't *get* rich unless accumulation is acceptable, at least over some stages of their development. So, I think one needs a theory of redistribution that will explain why people vote for redistributive policies. That is what we need.

Walter Block I wanted to offer an aphorism for what Assar said. The expression is "from shirtsleeves to shirtsleeves in three generations."

Also, on the matter of political life cycles, John Glubb Pasha has written a book where he discusses the rise and fall of about 25 different civilizations. He mentioned that typically each polity lasts about 200 years. This is an analogue to what Assar was saying, only for nations instead of people. According to Glubb: conquer them, but they are strengthened by this experience. The first settlers in the land meet harsh conditions and this resolve and strong character carries over until the third or the fourth generation. But eventually later generations get weaker. They become involved in pornography and rights for homosexuals and things like that. They lose their fervour for nation-building and even to defend themselves.

Douglass North All kinds of things have occurred to me. I want to enter a few caveats, however, to some of the things I have heard around the table, particularly lately. I think you should be cautious about this sort of cycle pattern. Rome really persisted for a thousand years, and it was certainly a very corrupt society for at least four or five hundred of those years. That we do see the rise and fall of nations is correct, but the idea that there is some neat pattern to it I don't think is true—even though I can find some that fit that sort of pattern. We just don't know a lot about this set of issues.

The other thing is, surely we want to draw lessons from history, but to think that the world we are evolving in now is in every sense like the ones in the past is very misleading to say the least. We are a very different

world than any we have experienced before. That's frustrating, particularly for an economic historian—although it's easier to “predict” the past than to worry about what is going to happen next. Easy analogues with the past can be very facile, but I think they are terribly dangerous.