

A CONCEPTUAL FRAMEWORK FOR  
INTERPRETING  
RECORDED HUMAN HISTORY

**Douglass C. North, John Joseph Wallis, and  
Barry R. Weingast**

# Summary of the argument

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- Three distinct social orders
- The limited access order, or natural state, is a social order in which the political system manipulates the economic system to create rents that the political system uses to sustain order.
- In open access orders, political, economic, and other forms of competition sustain order.

# Why we need a new approach to Economic History and Economic Development

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- **It must include:**
  - **How we understand the external environment**
  - **Time**
  - **Cultural Heritage**

# An explanation of social change must have these elements

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- Beliefs
- Violence
- Institutions and organizations

# Social Orders

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- The key concept in our framework is the **social order**.
- **A social order:**
  - ▣ Is comprised of economic, political, religious, military, and social systems.
  - ▣ Captures the way the different systems in the larger society – political, economic, and social systems – interact. **That interaction defines the way a society works.**

## Period

## Social Order

500,000 years ago



**Primitive Order**

10,000 years ago

10,000 years ago



**Limited Access Order**

200 years ago



**Open Access Order**

**Period****Social Order**

500,000 years ago

**Primitive Order**

10,000 years ago

10,000 years ago

**Limited Access Order****Transition**

200 years ago

**Open Access Order**

# Two Fundamental Types of Organizations

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## □ Adherent Organizations:

-- Organizations whose internal arrangements depend only on incentive-compatible, self-enforcing agreements.

## □ Contractual Organizations:

-- Organizations that utilize third parties to enforce some or all of their internal arrangements.

# Limited Access Orders

- A limited access order solves the problem of endemic violence and disorder through the creation of a political and economic system we call the **Natural State**.
- **Natural states** create incentive-compatible agreements among powerful individuals and groups by recognizing the privileges of each individual to control valuable resources and activities.

- In a limited access order, only elites possess the right to form contractual organizations whose internal arrangements are enforced by the state.
- **Access to contractual organizational forms is limited.**

# Typology of Natural States

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- 1) **Fragile Natural States:** Only a dominant coalition; fragile; limited institutions.
- 2) **Basic Natural States:** A stable organization of the state exists, with a potentially durable institutional structure, but limited or no elite organizations
- 3) **Mature Natural State:** Stable perpetual state, and support for public/private elite organizations.

# Open Access Orders

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- The heart of an **open access order** is fluidity and change in social arrangements.
- **Open access** to organizational forms creates fluidity.
  - ▣ All citizens have the ability to form contractual organizations.
  - ▣ Open access creates and sustains both economic and political competition.

# Competition and Rents

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- Distinction between **open access** and **limited access orders**
  - ▣ Not the presence or absence of competition and rent-creation.
  - ▣ But how society channels competition to support access to institutions, rights, and organizations.
  - ▣ Competition erodes rents in both politics and economics.

# The Doorstep Hypothesis

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- Some natural states move to positions in which moves toward open access can be sustained.

# Doorstep Conditions

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- Rule of law for elites
- Enfranchisement of the masses
- Support for perpetual elite organizations
- Political control of the military
- The conditions:
  - ▣ Are self-reinforcing;
  - ▣ Create the possibility of impersonal exchange among elites.
  - ▣ Extend rights to all citizens

# Conclusions

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## □ View of states

**Limited Access Orders**

**Open Access Order**

**Fragile Basic Mature Doorstep**

## □ Two development Problems.

- Why standard advice for developing countries
  - “getting prices right” and market competition
  - fails in natural states.

## □ Alternative perspective.

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