

IPS Roundtable on “How Societies Evolve”

by

Professor Douglass North

Nobel Economics Laureate 1983

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Presentation by Professor Douglass North

1. Professor Douglass North began by saying that the thesis he would share had been constructed primarily on Western experience. It was inherently Euro-centric and therefore had to be tested against the Asian experience of development.

2. He said he was re-thinking how societies evolved and in doing so, he found it was critical to include theories of cognitive science; to understand the way in which people interpret what was going on in the world around them. Nothing by way of current theories explained how we constructed the existing frameworks of human interactions. He said we first had to begin at the level of beliefs.

Beliefs

3. Professor North stated that beliefs were rules and norms people used to construct the world around them and the way that people interacted. Different groups and societies had different beliefs. Everything would begin from these belief systems. We would then order our world to meet those norms and values. This resulted in the creation of institutions.

Institutions

4. In his thesis, institutions were the structure that human beings imposed on human interaction to order the world to meet their objectives. These comprised of formal and informal rules and processes by which they could be enforced. On the other hand, Professor North added that institutions often never worked the way they were intended to.

Perpetual threat of violence and disorder

5. People constructed institutions to limit one human activity – violence. Human beings killed each other with great abandon. All societies were structured to interact in ways to solve problems in the face of the perpetual threat of violence and disorder.

6. Professor North said we lived in a continually changing world yet culture which was made up of beliefs and institutions that we inherited from the past constrained the choices of the present. He

added that it would be insane for economists to make assumptions on behaviour without an appreciation of the past. Institutions and norms of behaviour could vary radically based on history.

Ideal Types of Social Orders

7. Professor North posited that there were three social orders (ideal types) that have characterised human interaction. They were:

Primitive Social Order

8. This was the hunter-gather society which was pre-agriculture.

Natural State or Limited Access Society

9. Natural state also described as the 'Limited Access Society' was where elites had come to dominate as specialisation increased. This specialisation was not just in the area of economic activity but also in the realm of social, political, religious activities which would be undertaken by complex groups of elites. These elite groups from the political, social and religious sectors had to coordinate and cooperate with each other rather than kill each other. Elites protected each other by reinforcing the rents that each created. It was the self-interest of each elite group that supported the establishment of some common framework resulting in the social order of the natural state.

Open Access Society

10. 'Open Access Society' was a product of the last few centuries. The Netherlands was the first, followed by Britain and France. The key characteristic was open competition that could be found in both the political and economic markets. Monopolies were avoided because any monopoly in one would create monopolies in other markets too. The dynamics of the process made it enormously productive; you would have a Schumpeterian economic model. In order to survive, you would have to be more productive which would lead to a dynamic process of continual change. Interest groups would have to compete for rents and this led to an evolution of the social order.

11. Most of the societies fell within the limited access category – this was 80-90% of the world. Professor North listed countries in Western Europe, Japan, United States, Taiwan and possibly Spain as exceptions that belonged in the open access category.

12. Were open access societies stable? Professor North noted that he did not see them slipping back into becoming limited access societies. Argentina was the closest example of an open access society falling back into natural state.

13. There were also three fundamental 'pieces' to human interaction. These were: first, the growth of our stock of knowledge and technological change; second, demographic features such as fertility; and third, our institutions.

14. Professor North observed that thus far, explanations of social change had focused on Malthusian models of development or the growth of stock of knowledge, but not on the way people created societies from different histories, cultures and beliefs.

Transition from Limited to Open Access societies

15. Why did limited access societies get stuck and not change? This would be because the elites had an interest in perpetuating the existing social structure. Yet these societies could also be fragile, on the edge of violence, threatened by other and emerging elite groups. As they stabilised, they evolved more elaborate frameworks. When they did that, there were spaces that could lead to some growth- a wider range of economically productive activities. In the wide array of organisations that developed, some of them were not useful to the transition to open access. Citing the economic development figures released by The World Bank, Professor North saw that once open access features were imposed on societies with limited access, the fabric that the limited access societies were based on would be destroyed. Iraq was such an instance. Professor North advocated that if one were working from a limited access society, incremental changes should be made so that elite interdependence was not destroyed.

Three 'doorstep' conditions for transition

16. There were three conditions for smooth transition. They were:

- (i) Develop property rights amongst elites that were secure because as societies matured, these rights would be limited;
- (ii) Develop more complex organisations that would allow for greater variety of economic activity and the extension of property rights to a larger population so that more rents could be captured by many others; and;
- (iii) Develop civilian control over the military.

17. These conditions had to be fulfilled within the self-interests of the existing set of elites. A natural state would not happen by the elites giving up their rents. It would be a system in which self-

interest expanded to open access as a by-product of the process rather than by intent.

18. Changes would happen differently in different parts of the world, due to different cultural heritage but it would still occur only within the self-interest of existing elite groups that would not otherwise wish to be dispossessed. In this process, one would extend rights of citizenship to a wider group of population, for instance, starting with the elites comprising say five percent of the population to ten percent of the population. Social security, workman compensation etc. for instance should be extended to a broader group of people who would in turn become a stable labour force. This was similar to creating a joint stock company where the extension of share ownership would make the value of elites greater and greater.

The presentation was followed by a roundtable discussion.