Dear Ebonya and Francesco:

I am sorry I could not make the Summer Institute in July,

What follows is the introductory chapter to my book, “Leviathan Denied,” I hope to have a session that introduces the main themes and innovations of the book in November.

I will be at the conference either way.

Best, John

Chapter 1: *Leviathan Denied*

In the 19th century a handful of countries around the world began to *develop*. Societies first appeared that were capable of sustained economic growth over long periods of time, who implemented political systems that selected leaders by elections in which large portions of the population participated, and citizens enjoyed a wide range of political, civil, and personal rights and security. The societies were all capitalisms in the sense that individuals were free to use their resources in whatever way they thought best, within the existing rules. The societies did not all begin growing at the same time, some were large and some were small, some developed modern manufacturing industries and some remained largely agrarian, yet all of them experimented with some forms of democracy at some point. In the crisis years of World War I, the 1920s, and the Great Depression of the 1930s, some of the countries maintained and consolidated their democracies. Others, lost their democracies, fell into different forms of autocracy, and ultimately initiated the conflicts that led to World War II. By the late 20th century all of the countries had recovered their democracies and enjoyed material standards of living not only well above the rest of the world, but unprecedented in human history. Although the details of their political and economic systems varied widely, they were all developed by the criteria above. The list of countries this book studies are given in Table 1.1.

Over the last two centuries people have tried to explain the rise of modern developed societies. One aspect of development is technological change, which has transformed the way people interact with the physical world. The other aspect of development is institutional change, changes in the way people organize their societies, their relationships, and their lives. I will not attempt to weigh the relative importance of technology and institutions, both are important.[1] This book examines the role that institutions played in the appearance of developed societies and in their continued existence. As well, it questions how we think about institutions, their place in societies, and their place in theories about societies. It focuses on institutions as *agreed upon rules* that result from a collective decision process within organizations, whether the organizations are private or public.[2] This is a different, and more limited, definition than is usually used in the study of institutions. Limiting the definition opens up new, broader, and deeper insights into how rules, organizations, and institutions work in society. It also offers insights into the nature of modern developed societies. The new explanation of why and how modern developed societies first appeared in the late 19th and early 20th century this book offers is, in effect, a proof of concept for the adoption of the limited definition of institutions.

The more limited definition leads to insights into the importance of rules that can be enforced, but are not followed. Institutions are defined in many ways, but a general feature is that institutions are "the humanly devised constraints on human behavior." (North, 1990) The

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[1]The last two Nobel prizes in economics were given in 2024 to Acemoglu, Johnson,and Robinson for their work on the role of institutions in development and in 2025 to Aghion, Howitt, and Mokyr for their work on the role of technology in development.

[2]The italicized words in this chapter are all important terms and concepts used in the book. A brief glossary of the terms and definitions is included in Table 1.2.

institutional literatures are sub-fields within the academic disciplines of economics, political science, sociology, and anthropology in the social sciences as well as in philosophy, law, and history. They all talk to one another and are closely intertwined. While some of the divisions within the literatures are very deep, they share a number of common ideas and ways of framing basic problems in understanding how societies work. They are all concerned with rules as constraints and the role that rules play in creating and sustaining social order. Social order depends on the ability of societies to create and enforce rules that enable people to interact and coordinate in more stable ways. By these lights, social order depends on rule following, as well as the creation of the right kind of rules.

The emphasis on stable social orders in the institutional literatures is certainly the right emphasis. Political, economic, and social development is closely associated with increases in social order. The next chapter will show that, in economic terms, increasing stability by reducing the rate and frequency with which economies shrink, is a much more important source of long term economic growth than increasing the rate in which economies grow when they grow. Likewise, developed societies exhibit much lower rates of political instability than other societies.

But rather than basing institutional theories solely on the common sense idea that social order depends on rule following, this book explores the importance of rules that are not followed. Here, the definition of "institutions" is limited to agreed upon rules that result from deliberate collective choice decisions within organizations. Rules are always "agreed upon rules." In this book, norms of behavior, beliefs, values, and culture are not institutions. Norms of behavior are not the result of a *collective decision making process.* They result from patterns of aggregate behavior and, while they do constrain people's choices, norms only exist if enough people follow them. Agreed upon rules, on the other hand, are often enforced but not followed. That may sound paradoxical, how can a rule be enforced and not followed? Answering that question leads us deeper into the nature of agreed upon rules.

Organizations are groups of people who form rules to increase the value of their relationships with each other. All organizations understand that no rule can always increase the value of relationships in all circumstances. There will always be some situations in which following the rule makes people worse off. If enforcing a rule harms existing relationships, then we expect that the rule will be ignored, changed, or abandoned. In those situations, rules will not be followed, since the purpose of the organization and the rules is to increase the value of relationships. Relationships dominate rules within organizations.

Rules that people expect may not always be followed, however, are less effective at coordinating relationships within the organization. Because relationships are more important than rules and therefore rules will not always be followed, organizations face a *fundamental tension* between rules and relationships. As a result, organizations often form relationships with other organizations, they create an *organization of organizations*, to enforce rules for each other. Since relationships trump rules, if the relationships in one organization are independent of relationships in another organization, then the second organization can credibly enforce rules for the first organization. But the first organization does not always want the rules enforced. After all, that is what caused the need for an external rule enforcer in the first place. Always enforcing the rule would sometimes reduce the value of relationships. So part of the agreement that the

two organizations form is that the second organization only enforces the rule for the first organization when it is asked to do so. In other words, these rules are rules that can be enforced, but do not have to be followed. Unless the first organization asks the second organization to enforce the rule, the rule does not have to be followed. Generically, these kinds of rules are *default rules.*

I will give many examples of default rules and other rules that are not followed throughout the book. But many organizations in a large society are, in fact, *organizations of organizations* (think of a university or a large business firm), and they all use default rules to order their internal relationships. When the organizational sociologists began studying how rules within organizations actually worked, that they concluded that many rules were simply not followed. The "assumption [that people follow rules] is based on the view that organizations function according to their formal blueprints: coordination is routine, rules and procedures are followed, and actual activities conform to the prescriptions of formal structure. But much of the empirical research on organizations casts doubt on this assumption." (Meyer and Rowan, 1977, pp. 342-3) Mark Granovetter famously wrote that anyone who believes that organizations follow all the rules they create were "sociological babes in the woods." (1985, p. 502)

By positing that social order depends on rules and rule following, the institutional literatures have almost completely ignored the way in which agreed upon rules that are not followed enhance coordination between people and organizations in all societies. Modern development, however, consists, in part, of increasing the number, size, breadth, depth, and density of organizations in a society. If that multi-dimensional increase in organizations relies on rules that are not followed, then the institutional theories that focus on rule following have a serious hole in their understanding of how rules work and an almost complete ignorance of important changes in the rules involved in process of modern development. This book fills the hole, and then shows how that changes our perspective on the sources of modern development.

1.2 *Rules, Organizations, and Rosettes: Part One*

Part One focuses on how rules and organizations interact, and the implications for the organization of societies. A very simple example of a default rule comes from my own life and illustrates the nature of default rules and important implications of them. My wife and I were both first married to and divorced from other people. She had two daughters and I had two sons. When we married and the six of us moved in together, lots of adjustments had to be made. My wife suggested to me that our youngest son, then nine years old, be responsible for taking out the garbage. I looked into the future and realized that our nine year old would not reliably take out the garbage, even when asked, and that I would be caught in the middle between my wife and my son over taking out the garbage. I suggested that I would take out the garbage whenever she asked me to. We agreed. It was an *agreed upon rule*. It was not a norm of behavior, we had no idea how other people took out their garbage, and it wasn't a pattern that had become a habit of ours over time.

Our garbage rule is enforced, but not followed. I take out the garbage whenever I am asked, usually right away. If you sat by our garbage cans and recorded who took the garbage out, however, you could not infer what our rule was. A half full garbage can bothers my wife more than it bother me, and she often takes out the garbage. Our garbage rule is a default rule.

It enhances coordination in our organized relationship even though it is not followed. The garbage rules creates an *outside option*. It gives my wife the option of asking me to take the garbage out, and when asked, I take it out. Our garbage rule is not a norm of behavior, there is no pattern to who takes out the garbage, and it is not based on our beliefs about how other people take out their garbage.

The connection, or lack thereof, between agreed upon rules and patterns of behavior is crucial. If rules are followed then there will always be a close association between the form of the rule and the pattern of behavior that the rule induces. But if the rules are default rules, then the form of the rule and the pattern of behavior it supports may have very little to do with one another, even in as simple a case as the garbage rule. If we infer from the lack of patterned behavior that the Wallis's have no rule about taking out the garbage, we would be wrong.

Organizations are groups of people, like my wife and I, that adopt rules to increase the value of their relationship by enhancing their ability to coordinate. Organizations use rules to enhance relationships. They do not exist to follow rules. Organizations do not expect rules to always be followed and, looking forward, they make arrangements with other organizations to enforce external rules that they expect will be difficult to enforce internally. I call these organizations of organizations *rosettes*, because they look like rosettes when I draw pictures of them. Societies are rosettes of rosettes, that is, they are organizations of organizations of organizations.... The rules in all the organizations in a rosette interact with one another. One reason this book is titled *Leviathan Denied* is that in Hobbes, all the rules have to come from one source: the Leviathan. In this framework, the rules come from every organization in the society, and what makes institutions work better or worse is the way in which all of the rules in all of the organizations in the society interact.

In addition to the fundamental tension, every organization faces a *participation constraint*. Every member of the organization must be better off from belonging to the organization or he or she leaves. The participation constraint plays an important role in stability, since organizations that cannot reliably meet the participation constraint are not stable. One of the benefits of using external rules is that an organization can decide whether to enforce a rule internally or externally. If enforcing an external rule lowers the value of relationships, or threatens to induce a member to exit, the organization can avoid enforcing that rule, while still keeping the shadow of the rule in place as an outside option.

There is a marked tendency for organizations to adopt rules that apply differently to different people. These rule are *identity rules*, whose form or enforcement depend on the social identity of the parties to whom the rule is applied. Before 1850, roughly 75 percent of all laws passed by the British Parliament or the American states were identity rules. Those laws explicitly identified specific individuals, specific organizations, or specific localities to whom the law applied.

In contrast, *impersonal rules* apply equally to all people to whom the rule applies. An external default rule will be a much more effective coordinating rule if it is an impersonal rule that applies impersonally to all the members of all the organizations that have access to the rule. If every member of a rosette has the ability to access an impersonal rule, then all of the relationships within the rosette potentially become more valuable. If the external default rules are impersonal rules, they will have a significant effect on the productivity of all the

organizations in that rosette. If the external impersonal default rules are created and enforced by a public coordinating organization, a government, then all citizens will have access the rules. The effects could be quite large, perhaps even large enough to explain the onset of modern development.

The distinction between societies with impersonal rule regimes and societies with identity rule regimes is central to the process of development. In my earlier book with Doug North and Barry Weingast, *Violence and Social Orders*, we distinguished between two types of social orders. In a *natural state*, the ability to form an organization that could access external rules was limited to individuals in relationships with other powerful organizations. Most people did not possess the "right" to form an organization the larger society would recognize. In an *open access order* all citizens have the right for form organizations and the rules for forming organizations are impersonal. Part One revisits these ideas in greater detail. Throughout the book I will use the terms impersonal rule regimes, open access orders, and modern developed societies to indicate societies with impersonal rules and open access to form organizations. Likewise I will use the terms identity rule regimes and natural states to indicate societies where the agreed upon rules are identity based and not everyone has access to the rules to form and operate organizations.

Aside from the direct impact of impersonal rules on the ability to form relationships within, between, and across organizations, impersonal rules had a second direct significant economic effect. Impersonal rules allow people to form relationships made credible by the outside option of invoking the rule, but did not require people to structure their relationships to follow the rule. Rather than inducing homogenous relationships, impersonal default rules enabled the formation of heterogeneous relationships. This is true about relationships between individuals, but also about relationships between organizations. *Heterogeneity*, as Adam Smith taught us in the *Wealth of Nations,* when trade is possible is a major source of productivity gains, even in the absence of technological change.

Historically, however, no society we know of was able to limit its government to creating impersonal rules and restricting its government's ability to create identity rules until the middle of the 19th century. The first formal constitutional restriction was in the Indiana state Constitution of 1851. By 1920, thirteen of the eighteen countries listed in Table 1.1 had managed to adopt some aspects of impersonal rule provision, the other five had not. It was those five countries that lost their democracies in the 1920s and 1930s. Part Two develops a conceptual and historical framework for understanding why and how some countries adopted impersonal rules.

1.3 *History, Rules, Democracy, and Political Parties,*

There are no good general histories of the adoption of impersonal rules by different countries. Even in the United States, where impersonal rule legal regimes were adopted formally in state constitutions, there are very few general histories.[3] Impersonal rules for

[3]Charles Binney's 1894 *Restrictions upon Local and Special Legislation in State Constitutions* is the only general history for the United States. For a less detailed over view see

forming corporations, that is, a method for creating a corporation that did not require an explicit act of the government, is an important episode in business history and is better documented across countries. Impersonal rules for forming corporations appeared in the early 19th century in Britain, the United States, the Scandinavian countries, and the Netherlands. In the United States these were called "general incorporation laws" and in Britain and France "registration laws." The extent of impersonal rules spread slowly in these countries, for very different reasons and at different times.

Impersonal rule legal regimes appeared historically when the law making process in a country had adopted either formal rules or informal agreements that most of the laws created would be impersonal. This was a fundamental change in political institutions. The economic benefits of impersonal rules explained in Part One, could not appear until the political process had developed the ability to limit the legislative rules making process to largely impersonal rules. This was not simply a matter of declaring that every citizen enjoyed equal protection under the law. In all societies before 1800 the laws applied differently to different people. Equal access to and enforcement of those laws would produce rules that varied by social identity.

Impersonal rules are not a magic institutional bullet that, once adopted, suddenly create modern development. Different societies in Europe and the new world experimented with a range of political institutions. Some adopted impersonal rule provisions early and some late; some adopted democratic electoral and suffrage institutions early and some late; and some adopted constitutional structures that gave control of the government to parties that won elections (taking away control away from kings and aristocracies) early and some late. There was no pattern across the timing or sequence in which these institutional changes occurred and thus there is no "recipe" for developing these institutions. They were all, however, changes that were manifest and observable in agreed upon rules: institutions.

A fourth development occurred that was not manifest in agreed upon rules, however: the appearance of consolidated political party systems. All of the societies in the developed world have what political scientists call *consolidated party systems*. In a consolidated party system a small number of major parties compete repeatedly in elections and the winning party or winning coalition of parties (in a proportional representation system) do not attempt to wipe their opponents out before the next election. Eliminating or suppressing competing parties who lose elections is a persistent pattern of behavior outside of the developed world. The "Pluralist" tradition in political science were the first to note this pattern in consolidated democracies in the 1950s.

All of these societies, however, are notable for their relative lack of rule about parties. E.E. Schattschneider called this the "alegal" status of parties. Despite that absence of rules about parties, the parties in all the developed societies exhibit the common patterns of consolidated party systems: a few durable long lived "major" political parties that compete in election after election (how many depend on the electoral rules), that do not eliminate their opponents when they win elections, and who all developed the belief that they can lose elections and return to compete in the future.

Ireland (2004) as well as Lamoreaux and Wallis (2018, 2025, and forthcoming).

These are features of developed consolidated democracies that apparently do not follow rules. We could interpret these patterns as "norms of behavior" or as "democratic values." But it turns out that consolidated political party systems only appear in societies where the three democratic elements mention a few paragraphs ago have been implemented. Political parties are organizations formed to win elections. They exist in all societies that adopt elections to select leaders. But in the societies that became developed, instead of adopting explicit rules governing parties, the parties themselves gradually, and somewhat randomly, adopted a suite agreed upon rules that

1) gives the winning party (or winning coalition in a proportional representation system) control of the government under constitutional limits.
2) elections are free and open, voters are not coerced and enjoy privacy and safety when they vote, and any group can form a party to run in elections.
3) all of the major parties agree to pass impersonal legislation when in power.

The logic of how the three elements combine to produce consolidated party systems is straightforward. Parties that win elections get significant benefits from controlling the government. If parties are subject to periodic elections, then their time horizons will include the possibility that they will lose elections. What is to prevent the winning party from forming rules that harass, suppress, or eliminate their competition? If the parties all agree to create and enforce impersonal rules that apply equally to all the parties, then it will be difficult for the party in power to harass, suppress, or eliminate its competitors. If the expected future gains of winning elections are high enough, then all parties can find it in their interest to support agreements that largely limit laws to impersonal rules, because that guarantees the survival of all the major parties into the future.

Part Two develops the logic of that argument in the context of the political histories of the eighteen countries, paying particular attention to the intellectual history of political theories relevant at the time: republican theory, liberal theory, democratic theory, and socialist theory. All of the countries that adopt the three measurable, observable, agreed upon rules about constitutional structures, free and open elections, and impersonal rules (as proxied by impersonal rules for forming corporations) also developed durable consolidated party systems. Even though there were few or no rules about political parties. But none of the countries followed the same path of development, they adopted the three elements in different orders and at different times.

This, then, is another case where rules structure organizations and relationships, but not all the rules are being followed. Indeed, there are very few rules about political parties. But only in the societies that adopt the first three democratic elements does the fourth democratic element, consolidated party systems, appear. Because the Pluralists began in the 1950s to assemble these political histories and data on institutional rules, and their intellectual progeny have continued to do so, we can test whether the existence of the three democratic elements is consistent with the emergence of consolidated party systems. If it is, we can further see if it is correlated with political and economic stability. It is, and the years between 1920 and 1950 provide a clear environment to test the hypotheses.

After developing the conceptual and historical ideas, Part Two present case studies of Britain, the United States, Sweden, the Netherlands, and then Spain, Italy, and Germany (with more detail on Germany) to show that these patterns both empirically and historically are

consistent with democratic development or democratic break down, in the early 20th century.

1.4 *Implications*

Part Three considers implications of the more restricted definition of institutions and the attention to rules that are not followed for current theories of economic and political development. The first chapter explicitly goes back to Hobbes, then on to Mancur Olson, Charles Tilly, Acemoglu and Robinson, and my own work with Doug North and Barry Weingast. The second chapter rethinks libertarian ideas about what political arrangements best protect and enhance freedom and liberty, particularly in Hayek's conceptual framework. It reconsiders the source of modern growth in Doug North and Avner Greif's conceptual frameworks. The implications for organizational sociology and the role of rules that are not followed wraps up the implications for current ways of thinking.

The next two chapters explicitly consider how we define modern capitalism and consolidated democracy and why those definition create so much confusion when we try to explain why some of the world is developed and most of it is not. These considerations return to how we think about stability, both economic and political stability, and why developed societies are so, relatively, stable. These chapters also discuss why development has been limited in the late 20th and early 21st centuries, and why so few societies have managed the transition from identity rule natural states to impersonal rule open access societies. These are pressing questions for our time, as even consolidated democacies are threatened from with in and without.

Table 1.1

Countries Considered in this book

Norway
Netherlands
UK
Sweden
Denmark
Finland
Belgium
France

United States
Canada
New Zealand
Australia

Germany
Spain
Italy
Austria
Portugal

Table 1.2

Glossary of key terms

Default rule: a rule that can be enforced but need not, and often is not, followed.

Prescriptive rule: a rule that is designed to be followed and resources are devoted to enforcing it.

Impersonal rule: a rule that applies equally to all the people to who can access the rule.

Identity rule: a rule that applies differently to different people, depending on their social identities.

External rule: a rule that exists outside an organization that an organization and its members can access.

Internal rule: a rule that applies within an organization

Primary rule: any rule that governs behavior.

Secondary rule: a rule for forming rules within an organization

Collective Decision Making Process: the process an organization follows to create, change, or eliminate rules, the process "agreed" to in the secondary rules.

Fundamental Tension: the fact that within an organization rules are dominated by the value of relationships. Rules that reduce the value of relationships cannot credible be enforced.

Participation Constraint: all members of an organization must be better off from belonging to the organization or they leave the organization.

Organization of Organizations: when to or more organizations agree to form an ongoing relationship governed by some agreed upon rules. They form a new organization, perhaps without sacrificing the identity of the individual organizations.

Rosette: the generic term for an organization of organization. Rosettes of rosettes are very common.

Natural States: Social orders where the ability form organizations that the larger society will recognize and support are limited to elite.

Open Access Orders: Societies where the ability to form an organization and access extenal rules to structure an organization are available to all citizens.

Characteristic Dimensions: The four dimensions on which different tpyes of agreed upon rules can be described.

Note that many of these terms will be introduced in later chapters.

13