

“The Constitution of Coercion: An extension of Wicksellian thinking about violence and the ordering of society”

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In the essay in which Max Weber defines the modern state as the organization with a 'monopoly on the legitimate use of violence,' he prefaces his definition with a discussion of the relationship of states and violence:

"But what is a 'political association' from the sociological point of view? What is a state? Sociologically the state cannot be defined in terms of its ends. There is scarcely any task that some political association has not taken in hand, and there is no task that one could say has always been exclusive and peculiar to those associations which are designated as political ones: today the state, or historically, those associations which have been the predecessors of the modern state. Ultimately, one can define the modern state sociologically only in terms of the specific *means* peculiar to it, as to every political association, namely, the use of physical force.

"'Every state is founded on force,' said Trotsky at Brest-Litovsk. That is indeed right. If no social institution existed which knew the use of violence, then the concept of 'state' would be eliminated, and a condition would emerge that could be designated as 'anarchy,' in the specific sense of this word. Of course, force is certainly not the normal or the only means of the state – nobody says that – but force is a means specific to the state. Today the relationship between the state and violence is an especially intimate one. In the past, the most varied institutions – beginning with the sib – have known the use of physical force as quite normal. Today, however, we have to say that a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. Note that 'territory' is one of the characteristics of the state. Specifically, at the present time, the right to use physical force is ascribed to other institutions or to individuals only to the extent that the state permits it. The state is considered the sole source of the 'right' to use violence. Hence, politics for us means striving to share power or striving to influence the distribution of power, either among states or among groups within a state." (Weber, 1948, pp. 77-8.)

If we define coercion, as Weber would have, as the threat of violence, then a major tool for ordering modern societies is the use of coercion to ensure social order. The threat of violence by the government – through police actions, seizure of property, imprisonment, and corporeal or capital punishment – lies behind many of the incentives that governments create to shape individual and group choices. The arrangements under which governments use coercion and violence are loosely what I call the 'constitution of coercion.' The constitution can be formal or informal, written or understood, and has a direct connection to what Weber would call the

legitimate use of physical force.

Knut Wicksell laid out a framework for making decisions about taxation in a representative (parliamentary) democracy designed to ensure that fiscal decisions promoted social welfare. He proposed that tax legislation be paired with expenditure legislation, so that every legislator knew what the costs and benefits of the legislation would be, and then only legislation that passed with unanimous consent (or close to unanimity) would be enacted. Wicksell's unanimity criteria guaranteed that no legislator was coerced, in the sense of accepting a tax burden that was less than the benefits of the associated expenditures. Wicksellian coercion "arises whenever citizens experience a mismatch between what they receive from the public sector in the way of goods, services or transfers and what they pay in taxes." (Winer, Tridimas, and Hettich, 2011). In common discourse we may not think of this as coercion, but to the extent that the government does enforce the payment of taxes by threatening financial or physical penalties, we can think of this as a species of coercion reflecting the threat of violence.¹

Many have noted that the genius of Wicksell's paper is not the unanimity approval for tax legislation, but his recognition that it was impossible to evaluate the efficiency and equity properties of a tax system without taking into account the associated system of expenditures. The unanimity rules works only because unanimity simultaneously applies to taxes and expenditures. The effect of taxes and expenditures on any individual is endogenous to the structure of both taxes and expenditures. There is no way to evaluate the efficiency, equity, and justice of a tax system holding

¹Note, however, that in reality the government coerces all taxpayers, since the punishments for not paying taxes apply to all persons regardless of the benefits they receive from the expenditures funded by the taxes. Winer, Tridimas, and Hettich more formally define coercion as "We shall define coercion for an individual as the difference between this person's utility under what he or she regards as *appropriate* treatment by the public sector, and the utility that he or she actually enjoys as a result of social planning."

expenditures constant, or vice versa. This is true both at the level of the individual considered as an individual, and the individual considered as part of a larger society. An individual cannot know whether she should consent to a particular tax or not without knowing what the associated benefit from the tax is. Similarly, an individual may not be able to ascertain the burdens of a tax (or benefits of an expenditure) without knowing the distribution of taxes and expenditures among the entire population of taxpayers and beneficiaries.

Were Wicksell alive today, just as he argued that we cannot evaluate taxation without taking into account expenditures, I suspect he would argue today that we cannot evaluation taxing and spending without taking into account coercion. The reason is the slippery distinction between coercion and voluntarism implicit in Wicksell's notion of consent. A simple numerical example is presented in the next section, but you can imagine two individuals who are willing to cooperate by agreeing to pay taxes for expenditures in the future, but who both can see that in the future neither party will have an incentive to pay their tax share unless they are 'coerced' in the future. In this case, both parties are only willing to agree to the policy if they can credibly believe that both of them will be 'coerced.' The parties are willing to voluntarily consent to legislation today that will coerce them in the future.² Is their consent voluntary or coerced?

The political economy question then becomes whether or not the government can play the role of third party enforcer to its own agreements, i.e. to levy taxes, make expenditures, and enforce agreements through coercion. This is a topic usually beyond the reach of pure public finance, but it cannot be left unexamined if we wish to talk intelligently about coercion and

²Wicksell dodged all of these problems in his paper by noting that taxes levied to repay debts should not come under the universality rule.

public finance in Wicksellian terms. In particular, we cannot dismiss out of hand the incentives that the government has to provide third-party enforcement in a biased or unbiased way. The constitution of coercion, the norms and institutions by and through which the government exercises violence and thus coercion, will be central to the expectations of the parties and therefore central to answering whether their agreement to be coerced in the future should be considered voluntary or coerced in the present.

The central point of this paper is that a society in which the government has a monopoly on violence must be structured in a particular way, both to constrain the government's use of violence and to order the economic and political forces that impinge upon the government. The government must use violence 'impersonally,' meaning the same rules for the legitimate use of violence against individuals and organizations apply in the same way to all organizations and citizens. In order to sustain the impersonal use of violence, taxes and expenditures must also be levied in an impersonal manner. This means that the distribution of taxes and expenditures across individuals and organizations within the society is based on some impersonal criteria like income or geography. The need for governments to adopt impersonal taxes and expenditures constrains the ability of governments to implement unanimity rules. Some historical examples are given in the last section to show that over the course of the 19th century Britain, the US, and France moved towards impersonally, rather than unanimous, rules.

The Weberian idea that the government is the government because it uses physical force, whether or not it has a monopoly on the legitimate use of violence, is an extremely pervasive idea in today's social science. In a recent book, *Violence and Social Orders*, Doug North, Barry Weingast, and I (hereafter NWW) proposed a way of thinking about how societies manage to

control violence (not solve the problem of violence since no society has ever done that). Our answer is that a political coalition of powerful individuals and groups manipulates the economic system; those manipulations create rents for powerful organizations that are at risk if violence breaks out; those rents serve as a means for the ‘dominant’ coalition of powerful groups to credibly commit to deal with one another in ways that do not include violence (although they always include the possibility of violence). NWW lay out two fundamental types of social orders that differ in how the larger society creates organizations that limit the use of violence by structuring the incentives facing powerful individuals and groups: natural states and open access orders.³

The key to the two social orders is the way they structure organizations. We have learned that Weber’s formulation of the state as an organization that uses coercion as the *means* to attain its goals, misses the essential element of how states actually work. The violence or threat of violence (coercion) that governments use is always ‘organized.’ It is not violence wreaked upon others by a single individual (e.g. a king), but is always violence wielded by an organized group. In the simplest terms possible, Weber’s formulation assumes the problem of organizing violence away.⁴ Once we acknowledge that violence has to be organized within the state or the government before the government can hope to use the threat of violence to influence

³The third type of social ordering – foraging societies – made up of small-hunter gatherer bands is not of interest here.

⁴Weber is not alone in doing this. Single actor theories of the state are prominent in North’s ‘revenue maximizing monarch,’ Olson’s ‘stationary bandit,’ as well as Bates (1989, 2001, 2008), Bates, Greif, and Singh (2002), Barzel (2001), Bueno de Mesquita, et al. (2003), Levi (1988), North (1981, 1990), Olson (1982, 1983,), and Tilly (1993), just to name a few prominent scholars.

taxpayers and beneficiaries of government policies, then it becomes obvious that the way violence is organized constrains the kinds of coercion that government can use on the public.

Natural states have political systems that manipulate the economy to create rents and privileges that are used to order the polity and society. Natural states almost always are societies where the scope and reach of the government is more narrow than the scope and reach of the state.⁵ In open access societies, in contrast, there is a consolidation of the state and government. A primary function of the state, organizing other organizations, becomes an integral part of the functions of the government. In the process of transitioning from limited to open access, societies must consolidate control of violence under the formal powers of the government. This produces a government that meets the Weberian definition of a 'modern' state with a monopoly on the legitimate use of violence. It is not just that the government has a monopoly on the use of legitimate violence and that monopoly is subject to political control constrained by economic competition. The *power* of the government derives from its monopoly over the process of legitimizing organizations. In order for the government to monopolize violence and control of organizations, it must do so in an impersonal way.

II. Coercion and Voluntary choice

By definition, free choices are not coerced. In Wicksell's framework, a person who realizes \$75 in benefits from the public provision of education, but is required to pay \$100 in taxes to finance the education, will not freely and voluntarily choose to support that public

⁵I will use the term government throughout the paper rather than state. It is not clear that in all societies that the government is the most powerful organization. If we think of the state as the 'powers that be,' then the state must include more than the government in these societies.

policy. If that person is, nonetheless, required to pay \$100 in taxes, she has been coerced. A rational individual will, nonetheless, choose to pay the taxes if the threatened costs imposed on her by the government for failing to pay her taxes are greater than \$25.⁶ Thus a person who rationally opposes a government policy, may also rationally find it in their interest to submit to the policy. The problem usually has a temporal dimension, one votes first and pays later. But it can also be represented at the same instant of time in the contradictory answers to two similar questions: will you vote to support this government policy? and will you support the policy if it is passed by the legislature? In the example, the answer to the first question is no and the second question is yes.

To be clear, Table 1 provides general schedules of expenditures, taxes, and coercion for all the individuals (or legislators) in the society who influence the choice of policy. Expenditures, taxes, and coercion vary across individuals. The schedules are in dollar terms for expenditures and taxes, but coercion is measured in penalties (like jail sentences for tax evasion) and thus are in units that do not add up. The utility of expenditures and disutility of taxes and coercion are in comparable units, and provide the basis for the Wicksell criteria (columns (5) - (7)). Note that the utility and disutility of expenditures and taxes to individual (i) depend on his own taxes and expenditures, as well as the expenditures and taxes of others. According to Wicksell unanimity criteria, individuals only support a tax and expenditure schedule if (5) > (6), the utility of expenditures exceeds the disutility of taxes.

⁶Because coercion is the threat of violence, the costs imposed by coercion are always expectations about possible future consequences, weighted by the individual's subjective assessment of the probabilities associated with the outcomes. This is particularly important in the case of violence, because it is difficult to apply violence in measured doses. Circumstances can quickly change and consequences can escalate unpredictably.

An individual may freely choose to engage in behavior that requires that they subject themselves to coercion. Suppose we have a two-person legislature with a Wicksellian unanimity rule. Person A builds schools, person B teaches school, and both people have children. The collective benefits of educating their children in the second period are sufficient to both pay for the construction of the school in the first period and pay the teacher in the second period. The school costs more to build than it does to operate, and rising marginal costs of taxation make it more efficient to raise the same amount of tax revenue in period 1 and period 2, and borrow to cover some of the cost of construction. Since A is paid in the first period and B in the second period, it may be the case that A's benefit from sending his children to school in the second period is less than the tax burden he bears in the second period. We can imagine lots of possible schemes to solve the credible commitment problem, but all of those solutions will come at some cost because they will involve shifting the tax burden temporally. Nonetheless, the coordination problem may be easy to solve if A and B agree that any one who doesn't pay their taxes is put in jail for one period (assuming that the government can jail a person at low enough marginal cost). By agreeing to be coerced in the future, A and B can credibly commit to an arrangement in the present.

The example demonstrates how Wicksell's problem must be extended beyond the consideration of taxes and expenditures, to include the structure of coercion that the government will employ. Once we admit that coercion can be an efficient way for governments to solve coordination problems between citizens and that it can be in all citizens interests to allow coercion, then we face a difficult problem when we try to apply the unanimity rule in the absence of coercion.

These intertemporal problems of commitment are very important. Willingness to submit to coercion may be a very low cost way to commit, particularly if both individuals can see that it will be in their own interests and the interests of the other to avoid violence/coercion by paying their taxes (honoring their commitment). A government that can effectively threaten to use violence may be able to induce compliance among its citizens to agreements without ever having to use violence. I return to this problem in the next section, since it involves the very tricky problem of establishing credible third-parties. In this case, the government apparently serves as a third-party to its own arrangements, since the enforcement of public agreements about expenditures and taxation involves both the government and an explicit agreement between private individuals.

The coordination problem need not be intertemporal, however. Suppose that legislator A is only willing to pay \$75 in school taxes for an education bill costing him \$100, but \$150 in road taxes for a highway bill that will cost him only \$100. Legislator B is willing to pay \$125 for the education bill costing \$100 but only \$80 for the roads bill costing \$100. There are obviously gains from packaging the two bills together. But such a compromise depends on the willingness of both legislators (and their constituents) to pay taxes for one public service that exceeds the value they place on the service. The ability of the government to coerce may be integral to making these kinds of arrangements.

An alert reader may have already reached the next conclusion. Even if a bill passes the legislature under conditions of Wicksellian unanimity, individuals may still have an incentive not to pay their taxes! Voluntary tax payment, without coercion, will only occur under conditions where tax payment and service delivery are credibly connected. If individuals enjoy

the benefits of expenditures whether they pay their taxes or not, then what induces them to pay taxes is the threat of the disutility of coercion. This brings us back to the venerable free riding problem of Mancur Olsen (which he presumed the government could solve through coercion!) and the work of Buchanan and others on the nature of constitutions. It appears that Wicksell's unanimity solution depends on some unstated assumptions about the nature of the violence and threats of violence that the government can deploy.

A straightforward way to extend Wicksell is to require that all expenditure and tax legislation also explicitly include the coercive measures necessary to enforce the payment of taxes. Then individuals make a decision about the net benefits of the legislation, the utility of expenditures minus the disutility of taxes and coercion. That is all perfectly fine, as long as we take into consideration the effect of government coercion on the way the rest of society actually works. The remainder of this essay focuses on that problem: how does the interaction of individuals, organizations, and incentives affect the use of violence and coercion and vice versa? It turns out that only some ways of structuring coercion are politically sustainable. In terms of Table 1, there are only a limited number of ways to distribute coercion over the population in column (4).

There are two final caveats to keep in mind as we move on to consider the nature of coercion more closely. The first is to avoid the assumption that voluntary coordination without coercion (like Olson's voluntary association) precedes coordination with coercion. Rather than beginning with a theoretical perspective in which coercion is absent and then adding coercion into the mix to see how it changes things (like Wicksell added expenditures to taxes), we should start with the possibility of violence and see what role coercion plays in limiting and shaping the

possibilities of violence. In a world where violence is not deterred by the presence of a third-party enforcer that punishes anyone who uses violence, then any relationship between two individuals contains the possibility that one or both of the parties will become violent, i.e. that coercion – the threat of violence – is always a part of relationships between people.⁷

The second is that the structure of coercion is highly problematic. We can think of the penalties imposed for not paying taxes, as in the examples given earlier. Modern legal codes contain extensive lists of such coercive penalties, as well as the conditions under which the government and its agents can use force and the degree of force allowed. The nature of the threat of violence to be used by the government is essential to the concepts of the rule of law and of limited government. Note, however, that the idea of a rule of law coercion schedule that applies impersonally to all citizens is a very specific form of coercion, one in which the same coercion applies to all individuals. The notion that the same coercive force will be applied to everyone, does not follow from the nature of the threat of violence in relationships between individuals. In the absence of credible impersonal third-party enforcement of rules against using violence, when I consider a possible relationship with an individual, I do not want to know what the general rules about the use of violence are, I want to know what the costs and benefits facing that individual are. I want personal knowledge, not impersonal rules. This is the starting point for North, Wallis, and Weingast's analysis of how societies come to limit violence: the highly personal relationships between powerful individuals and groups that create incentives that limit violence and, in the process, create organizations capable of using violence in systematic ways. The logic of the natural state they develop depends, however, on the fact that individuals are

⁷I first became aware of this in the work of Stergios Skaperdas.

treated uniquely, rather than being treated the same. As a result, there is no violence schedule that applies impersonally to all citizens.

If we want to think about legislators A and B (and C, D,...) making arrangements within a framework that utilizes Wicksell's unanimity concept, but is extended to include taxes, expenditures, and coercion, do we need to have an impersonal violence schedule? Does there need to be a constitution of coercion that delineates when the government can use violence against citizens as well as the extent of the violence? We can't answer that question intelligently without understanding more basic features of violence and the organization of society, to which we turn now.

III. Violence and the Logic of the Natural State

Until 10,000 years ago, archeological evidence suggests that the typical human society was small, organized in bands of roughly 30 people that occasionally came together in larger groupings. There were no Weberian 'states,' no large organizations with a monopoly on the legitimate use of violence, indeed no large organizations at all. Over the last ten millennia, societies have evolved that are both larger and more intricately organized. Few of these societies approached the Weberian ideal either. Whether there was a formal government was often problematic. Even when a formal government existed, powerful groups within society but outside of the formal government often retained not only their arms and military training, but social norms did not confer a legitimacy on government violence that was denied to other groups (for example, England as late as the 17th century). It is difficult to understand how coercion is used in these societies if our starting point is a modern society where the government does

possess a monopoly on legitimate violence and is, therefore, the only source of legitimate coercion.

In *Violence and Social Orders* North, Wallis, and Weingast (2009) lay out a conceptual framework for understanding how societies can control the problem of violence. They also provide an understanding of the process by which societies become better organized. They begin their analysis with a world in which individuals base trust on personal interaction, and ask how some individuals can deal with dangerous and potentially violent individuals with some degree of confidence. Think of two specialists in violence, each of whom is associated with a group of clients. The specialists mistrust one another and will not lay down their arms and coexist because they believe such behavior will lead the other specialist to destroy or enslave them. Armed conflict is the equilibrium outcome. The NWW solution, in simple terms, is for the violence specialists agree to divide the land, labor, and capital in their world between themselves and agree to enforce each other's privileged access to their resources. The rents they receive from privileged access depend on their continued cooperation. If the value of the rents they earn from their privileges are enough larger under conditions of peace rather than violence, each specialist can credibly believe that the other will not fight. The specialists remain armed and dangerous and can credibly threaten the labor around them to ensure each other's rights.

The arrangement is represented graphically in Figure 1, where X and Y are the two violence specialists, the horizontal ellipse represents the arrangement between the specialists that create their organization/institution. The vertical ellipses represent the arrangements the specialists have with the labor, land, capital, and resources they control: their "clients," the x's and y's. The horizontal arrangement between the specialists is made credible by the vertical

arrangements. The rents the specialists receive from controlling their client organizations enable them to credibly commit to one another, since those rents are reduced if cooperation fails and the specialists fight. There is a reciprocal effect. The existence of the agreement between the specialists enables each of them to better structure their client organizations, because they can call on each other for external support. The specialist's organization is what NWW call the "dominant coalition."

Organizations are groups of people with shared interests and goals. An *adherent organization* is one where all of the members have an interest in cooperating with each other (on the relevant dimensions of the organized activity) at all points in time. In an adherent organization interests are structured in such a way that all individuals have an interest in belonging to the organization, even if their interest result from being coerced. Adherent organizations are self-enforcing.

In contrast, a *contractual organization* is one where relationships between the group members are not inherently self sustaining, and the group maintains itself only through the presence (or potential presence) of an external third party. The third party may enforce relationships within the organization or between the organization and other external parties.

In Figure 1, the horizontal relationship between the violence specialists create an adherent organization. The vertical relationships between the violence specialists and their clients are contractual organizations because they rely on the external presence of the other violence specialists. The vertical client organizations might be organized as kin groups, ethnic groups, or patron-client networks. The combination of multiple organizations, the "organization of organizations," mitigates the problem of violence between the really dangerous people, the

violence specialists, creates credible commitments between the specialists by structuring their interests, and creates a modicum of belief that the specialists and their clients share a common interests because the specialists have a claim on the output of their clients.

The nature of the rents that hold the coalition and the organizations together must exhibit certain properties. First, for X and Y to believe that they will continue to cooperate, some of the rents that X and Y enjoy must depend directly on their cooperation. Likewise, their credible belief that the other will not fight depends on the existence of rents from peace for X and Y. That is, the rents that X and Y derive from their organizations must be sufficiently lower in the presence of violence to sustain beliefs that X and Y will not fight.⁸ The agreement between X and Y enables Y to serve as a credible third party for X's organization, and X to serve as a credible third party for Y's organization. By enabling X and Y to form larger and (potentially) more productive organizations rents are created that depend on the cooperation of X and Y. The relationship between X and Y is made credible by the existence of rents that depend on their continued cooperation, and it does not matter whether those rents raise or lower social output, it only matters that the cooperation create rents for X and Y. There is no inherent dynamic that would lead X or Y to structure organizations that raise productivity, but equally there is no inherent dynamic that leads X or Y to structure organizations that reduce productivity. This is the central problem in North's (1981) neoclassical theory of the state. North models the decision making process confronting a monarch constrained by political competition and transaction costs and who, therefore, often chooses to pursue policies that reduce total output rather than raising

⁸As with all of these statements, terms like "must" and "sufficiently" should not be interpreted to mean that these conditions will always hold, but that if they do not hold the social arrangements will fall apart.

total output: taking a bigger share of a smaller pie, rather than a smaller share of a bigger pie. North, however, assumes the monarch is a unitary act. In contrast, NWW view the dominant coalition as facing an internal problem of organizing the coalition and an external problem of dealing with society. How the coalition solves the internal problem depends on the solution to the external problem, and vice versa.

The figure is a very simple representation. In a functioning society, members of the dominant coalition include economic, political, religious, and educational specialists (elites) whose privileged positions create rents that ensure their cooperation with the dominant coalition and create the organizations through which the goods and services produced by the population can be mobilized and redistributed. Limited access orders are hierarchical, with interlocking groups of elites whose interests are tied by networks of economic privilege. Their political systems tend to be clientelistic, with patron-client networks playing a prominent role in many. Natural state societies live in the shadow of violence: either the threat of imminent violence that requires on-going changes in institutions to balance the interests of potentially violent groups, or the fact that key institutions were established in the wake of past violence in order to establish incentives for controlling it in the future.

Recall the two caveats from the preceding section. We cannot understand the structure of human organizations by beginning with non-coerced voluntary cooperation and then adding in violence and coercion. The dominant coalition in a natural state is an adherent organization whose members are held together only by interests and forces created by the interaction of themselves (it is an Olsonian group), but coercion plays an integral role in holding the organization together. The threat of violence is an inherent part of the incentives that make

arrangements between members of the coalition credible. In the figure, A must be able to threaten B, and vice versa. In turn, the existence of the coalition makes it possible for each of the coalition members to have stronger organizations that can utilize the third-party services of the coalition. The member organizations are contractual, because they can access the third-party coercion of the coalition.

The second caveat is that the structure of rents in this society is the result of ‘privileges’ which are often unique to specific individuals, rather than ‘rights’ that apply widely to classes of people like citizens. As a result, the structure of coercion is idiosyncratic as well. Whether you are threatened by violence, and by how much violence, depends on your position in the society. More powerful individuals are, typically, threatened by more coercion than the less powerful, but have accordingly more resources to defend themselves. There is no organization that possesses a monopoly on violence, much less a monopoly on the legitimate use of violence. As a result, there is no uniform schedule of coercion, but there may be specific, even formal, threats of violence that are supported by the coalition.

IV. Organizations, Anonymity, and Impersonality

The logic underlying Figure 1 will not produce a set of interests in and out of the government that will result in schedules of expenditures, taxes, and coercion that look like table 1. In most natural states, laws do not apply equally to everyone; taxes are not paid in equal portion by everyone; tax and expenditure policies usually favor one group and disadvantage others; and, in general, relationships between powerful individuals tend to be personal and fluid. Coercion is not applied in an impersonal way by the government. In many developing societies,

the government is not even in a position to coerce powerful non-government organizations. The pattern of coercion cannot be represented simply as a vector of punishments, because these are not Weberian modern societies with a state monopoly on the use of legitimate violence.

Fascinating as the question is, this paper will not go into the transition from societies where rules and laws cannot be credibly enforced for everyone all the time, to societies where they can be.¹⁴ Instead, the contrast between the role of coercion in natural states illuminates several features of the role of coercion in the open access societies that Wicksell considered. A key difference is between weak governments and limited governments. We can define “weak governments” as governments that cannot coerce all the organizations within its society and limited governments as a public organizations that operate within constraints acknowledged by the government and recognized as such by the ‘citizens.’¹⁵ Paradoxically, modern societies with strong governments that possess a monopoly on the use of violence and whose governments are more powerful organizations than the world has ever seen are, nonetheless, characterized as societies with ‘limited government.’ Societies with weak governments that cannot discipline significant parts of their societies, nonetheless regularly terrorize their populations through the use of torture, coercion, and even genocide. “Weak governments’ exercise unlimited powers, ‘strong governments’ do not.

Weak governments are constrained in their use of violence by the presence of other

¹⁴Wallis, 2010/11 considers this question in greater detail. The transition from limited to open access societies is the subject of chapters 5 and 6 in NWW.

¹⁵“Political scientists have long emphasized the problems created in many less developed nations by “weak states,” which lack the power to tax and regulate the economy and to withstand the political and social challenges from non-state actors.” Acemoglu (2005, abstract). A weak state exists when some private organizations are beyond the control of the government.

powerful groups with the ability to be violent, but also the interlocking set of rents that governments and other organizations create. The essential logic of the natural state is that rent creation (and the threat of losing rents) ultimately constrains powerful actors, not institutional rules enforced by the government. When weak governments decide to use violence, they are only constrained by the costs imposed by other powerful groups and the loss of rents. As a result their use of violence is sometimes unlimited.

The constraints that limit violence by governments are not embedded in credible threats by other groups to use violence against the government, but by the way that organizations are formed and structured by the society.¹⁶ Weber's definition of the modern state is very helpful in illuminating the point for open access societies: a government with a monopoly on the use of violence cannot be constrained from abusing that monopoly by the threat of violence against the government from elsewhere in society, because by definition, the government has a monopoly on violence.¹⁷ The constraints on the government have to come from the interests that political, economic, and other social organizations can mobilize to discipline the government. This is equally true in a natural state.

Looking at the problem this way highlights the critical role organizations play in the logic of the natural state and in the logic of open access societies. It seems obvious, in

¹⁶Doug North and I are working on a set of ideas that follow along the insight that the power of the 'state' is grounded in its ability to structure (or remove) organizations, rather than its capacity for violence. See "Defining the State," draft.

¹⁷We can quibble about the extent of legitimate vs. illegitimate violence capacity, but the fact is that in modern developed societies the government possesses such a preponderance of violence capacity that, if it chooses to use its capacity, it can overwhelm any organized interest within the society. The exceptions occur only when the military and police forces of the government themselves divide, as occurred in the US Civil War in the 1860s.

retrospect, that if violence must be organized to be effective, then the way in which violence is organized will have marked influence on the way it is used. In the natural state, the political and economic dynamics determine the use of violence and coercion within the coalition and within the member's organizations. What is 'limited' in a natural state is not the ability to use violence, what is limited is the ability to form an organization that the dominant coalition will support. Support can include coercion and, if necessary, violence. The limits create rents and the rents shape incentives in a way that encourages both limits on violence and extended coordination and cooperation. In contrast, what is 'open' in an open access society is the ability to form organizations that the larger society, through the agency of the government, will support. As a result, the structure of violence and coercion has to be different in an open access society.

In natural state societies, the capacity for violence is possessed by many organizations. In contrast, in open access societies the capacity for violence is consolidated in a limited number of military and police organizations. Those organizations are under the direct control of the political system. The political system is subject to competition and entry. Political organizations are disciplined by economic competition. Open entry in the economic system produces a constantly changing constellation of economic interests that the political system can control only at the margins. As long as the society maintains open entry to economic organizations (and implicitly to markets), then political competition ensures that the government will maintain open economic access.¹⁸ When the government uses violence against organizations and citizens it must do so in prescribed ways and adhere to certain limits.

¹⁸The structure of the sentence is circular, because political and economic access are critical elements in an equilibrium. NWW call this the 'double balance,' meaning that you cannot have open access politics and limited access economics, or vice versa. Both systems must be open or both must be limited.

Governments must obey the constitutional rules about the use of coercion, as represented by column 4 in Table 1. Governments that attempt to go beyond those limits may be successful in doing so, but only if they are able to prevail against the economic and political forces that will organize to resist it. If the government is able to exceed the constitutional limits on coercion, it will unravel the internal dynamics of open access (so far in history this has not happened in an open access society).

To this point the discussion has focused on the level of organizations and societies, but individuals must also find it in their interests to adhere to the rules inherent in constitutional arrangement. An even stronger requirement is that individuals find it in their interests to support social rules even when it may appear that it is in their immediate interest not to. The collective action problem is most often cast as a conflict between the interest of individuals versus the interests of groups. But a more revealing way to conceptualize the problem is the interest individuals have in supporting the organizations they belong to versus supporting the social rules, even when those rules may harm the organization and individual.¹⁹ An example is the easiest way to illustrate the framing.

In the American presidential election of 2000, George Bush and Al Gore ran an extremely close race that turned, in the end, on the results of voting in the state of Florida. The Governor of Florida was George Bush's brother, Jeb, and the Attorney General of Florida ruled that Bush had won the Florida balloting when many felt that more investigation was warranted. The Florida ruling was immediately taken up through the court system. When the legal rules had played out and the Supreme Court ruled in favor of Bush, Gore and the Democrats accepted it at

¹⁹The remainder of this section is based on Wallis, 2010/11.

considerable cost to Gore as an individual and the Democrats as a political organization.²⁰ In contrast, in December 2007, when the presidential election in Kenya produced a close result and the incumbent, Mwai Kibaki, was declared the winner, Raila Odinga, the candidate of the losing Orange Democratic Movement protested the results. Over the next two months, violence repeatedly broke out in Kenya and hundreds of people were killed. At the end of February, a negotiated agreement, the National Accord and Reconciliation Act, created the framework for the competing factions to restructure the Kenyan constitution, including the creation of a new office of Prime Minister, filled by Odinga, and substantially increasing the number of cabinet posts to accommodate the organizations of Kibaki and Odinga. In the United States in 2000, Democrats acted to support the rules and against the interest of their organization. In Kenya in 2008, Kenyans acted to support their organizations against the rules, and ended their organized conflict only after the formal rules had been fundamentally altered in a very personal way. When do individuals find it in their interest to support their organizations and when do they find it in their interests to support impersonal social rules, when the two are in conflict? This is not a question for Wicksell, who assumes that people will pay their taxes if the legislature asks them to. But why would individuals pay taxes if they bear no costs for not paying them? Why should they simply obey a rule?

Institutional economics has made considerable progress in thinking about these kinds of

²⁰In his concession speech Gore said, “Over the library of one of our great law schools is inscribed the motto, “Not under man but under God and law”. That's the ruling principle of American freedom, the source of our democratic liberties. I've tried to make it my guide throughout this contest as it has guided America's deliberations of all the complex issues of the past five weeks. Now the US supreme court has spoken. Let there be no doubt, while I strongly disagree with the court's decision, I accept it.” As quoted in the *Manchester Guardian*, December 14, 2000.

problems over the last three decades, but there has been confusion about the nature of ‘impersonality.’ Impersonal relationships occur when two individuals interact in a way that does not depend on their personal identity. Impersonal relationships only occur in societies that are capable of creating and sustaining an impersonal identity of “citizen” or “resident” that applies equally to a large number of people.²¹ The essence of impersonality is treating everyone the same. Impersonality pervades open access societies, in law, markets, education, religion, politics, and the delivery of public services.

While there is nothing controversial in this definition of impersonal relationships, it is not always the one most often used in the social science of institutions. Instead, the problem of impersonal relationships or impersonal exchange is often motivated by considering how two individuals who do not know each other personally and have no expectation of a continuing relationship in the future can come to agree on a social relationship. Defining impersonal relationships as dealings between individuals who do not know each other personally, however, differs from impersonality defined as treating everyone the same. To separate the two types of relationships, define *anonymous* relationships or *anonymous* exchange as situations where people who are not personally known to each other interact on some dimension, although the parties know the social identity of the other in the relationship. Social identity, the group, organization, tribe, city, etc. that an individual is identified with, is a key element of anonymous relationships. In contrast, *impersonal* relationships are situations where people are treated according to the same rules, whether they are personally known to each other or not. Social identity is not a part of impersonal relationships since, in the limit, all people are treated

²¹Impersonal rules do not have to apply to everyone universally. Whether a rule is impersonal or not always depends, in part, on the identity of the people it applies to.

identically.

Doug North and Avner Greif both place impersonality at the heart of their work on modern institutional development. North has long stressed the importance of impersonal exchange for economic development and he clearly had impersonality in mind when he defined institutions as the rules of the game and the methods of enforcement and organizations as the teams: rules should apply equally to all participants (North, 1990). North, however, wrestled with defining impersonal exchange and placing it within a transaction cost framework.²² His solution illuminate the problem at hand, as he identified three kinds of exchange and two kinds of impersonal exchange:

“Personal exchange involving small-scale production. Repeat dealing, cultural homogeneity (that is a common set of values), and a lack of third-party enforcement (indeed little need for it) ...”

“Therefore a second general pattern of exchange has evolved, that is impersonal exchange, in which the parties are constrained by kinship ties, bonding, exchanging hostages, or merchant codes of conduct. Frequently the exchange is set within the context of elaborate rituals and religious precepts to constrain the participants.”

“The third form of exchange is impersonal exchange with third-party enforcement. It has been the critical underpinning of successful modern economies involved in the complex contracting necessary for modern economic growth. Third-party enforcement is never ideal, never perfect, and the parties to exchange still devote enormous resources to attempting to clientize exchange relationships. But neither self-enforcement by parties nor trust can be completely successful.” (North, 1990, pp. 34-35)

North begins with the idea that humans are enabled by their genetic endowment to use face to face interaction and repeated dealings to develop credible relationships. The rise of impersonal exchange, therefore, involved dealing with people who one “didn’t know” personally and,

²²Specific discussions of North’s approach to personal and impersonal exchange can be found in North, 1981, pp. 182 and 204; 1990, pp. 22, 34-35, and 55-60; North, 2005, pp. 70-71, 84, and 119.

therefore, impersonal was implicitly defined as “not personal” or “not known.”

And yet, very little of the North’s first type of impersonal exchange under kinship ties, bonding, exchanging hostages, or merchant codes of conduct could be reasonably classified as impersonal under the “treat everyone the same” definition. In those relationships, people can deal with people they do not know personally, but only because these anonymous relationships are embedded in social organizations that prescribe roles and behavior and constrain the participants. This is anonymous exchange. Anonymous exchange explicitly does not invoke treating people the same, as the parties to the exchange are constrained by kinship ties, etc. These social institutions are embodied in organizations that create unique (and therefore personal) roles and identities for individual actors. Individuals are able to deal confidently with some people they do not know, because their anonymous relation with the unknown individual is embedded in a social organization that effectively constrains both their behaviors. This is not quite the antithesis of treating everyone the same, but it is nowhere near the notion of impersonality as defined here.

In the community responsibility system that structured medieval trade, described by Greif, merchants in each commune are embedded in social organizations, like guilds, and a power structure where interlocking rents create interests that sustain cooperation within the commune. Long distance, inter-commune trade is facilitated by a threat. If a merchant from commune A cheats a merchant from commune B and the courts in commune A refuse to compensate the merchant from commune B, then the goods of any commune A merchants resident in commune B are confiscated by commune B’s court. “When this cost [ceasing trade] was too high a commune’s court’s best response was to dispense impartial justice to non-

members who had been cheated by a member of the commune.” (Greif, 2006, p. 310) It was critically important that merchants be identified (accurately) as members of different communes, since it is the credible threat of the cheater being “punished by his own community is at the crux of the community responsibility system.” (p. 326) As a result, individual merchants were not treated impersonally, but “these arrangements enabled a trader to establish his communal and personal identity in interactions with merchants who did not know him personally. Living in the quarters of a particular community represented a way of demonstrating ones’ communal identity.” (p. 334) The community responsibility system supported anonymous exchange in a social context where communes created significant incentives (rents) for their members to interact. Those relationships within the commune were not impersonal. As Greif suggests, the end of the community responsibility system came about when communes became too large to monitor the identity of traders.

It is of some interest that both Wicksell and Lindahl set up their papers as problems of anonymous relationships, the interaction of two groups, rather than a problem of impersonal relationships, a set of tax rates that applied to a number of individuals. Lindahl begins his essay on just taxation with the statement that “We may begin by assuming that there are only two categories of taxpayers; one, A, relatively well-to-do, and the other, B, relatively poor.” (1958, p. 168). Wicksell and Lindahl were both concerned about wealthy and poor individuals as groups because of their recent social experience, rather than just for theoretical convenience. But their formulation followed naturally in a society where individuals looked to the organizations they belonged to to protect and define their interests, rather than an impersonal set of rules.

The tendency to assume that organizations already exist or are inherently self-organizing

is a strong one in economics and other fields. For example, in Hirschleifer's *JPE* paper on anarchy includes the statement that "I will generally treat *groups* as unitary actors that have somehow managed to solve the internal collective action problem."²³ How violence is organized internally within organizations will influence how those organizations behave in interactions with other organizations. The assumption that the solution to the internal collective action problem doesn't matter to the behavior of the organizations is wrong. What I want to focus on here, however, is the implications of anonymous relationships for the role of organizations. Organizations can only secure relationships between individuals in different organizations if the organizations have unique identities. That is, I have to know which organization you belong to and something about that organization in order for your identity as a member of that organizations to convey information that allows me to trust you in an anonymous way, (as in Grief's community responsibility system).

If we were to restructure Table 1 to allow for anonymous relationships, then individuals in the table would have to be identified by the organization(s) they belong to. In Wicksell and Lindahl did this implicitly by discussing rich and poor groups (see the graphical treatment in Escarraz, 1967). In the Kenya example, it would be followers of Kibaki or Odinga. In Shakespeare it would be Capulets and Montagues, in West Side story it would be Jets and Sharks. These organizational identities are not the same as Democrats and Republicans in the United States, or Labor and Conservatives in the UK, because the organizations possess the

²³Hirschleifer is not alone in making this kind of assumption, nor is the assumption confined to economics. For a long and considered discussion of considering groups (or the government) as a unitary actor see Tilly (1993, p. 34). Olson's 'stationary bandit' (1993) or North's 'revenue maximizing monarch' (1981) are also unitary actor models. Also see Bates (2008) and Barzel (2001).

capacity to be violent.

Social stability and order can be sustained in a natural state, through anonymous relationships in which individuals are identified with organizations. The dynamics of those societies, however, cannot support impersonal relationships where all individuals or citizens are treated the same.

V. Getting Impersonal

The changes that have to occur in society to support impersonal relationships involve organizations and explicit rules about the use of violence. The dynamic relationships necessary to sustain impersonal relationships (and open access) also create the necessity of an impersonal constitution of coercion. We can't reach this conclusion if we consider a world populated only by individuals, we must explicitly consider organizations.

In an earlier paper (Wallis, 2010/11), I outlined the logic by which impersonality can be created and sustained. The logic has two parts. First, powerful organizations must find it in their interest to support a set of rules for the formation of organizations that allows any citizen to create an organizations and treats all organizations in the same manner. Why powerful organizations might be willing to concede special privileges in return for equal ability to organize is discussed at length in NWW. It is one of ironies of history that the debate in the late 18th and early 19th century United States over whether all elites should be treated the same, has been read since the late 19th century as a debate over whether 'all men are created equal.' The debate was resolved in the US, UK, and France in the mid-19th century to allow equal access to forms of organizations in economics, politics, religion, and education. An inherent part of

allowing anyone to form an organizations is formally denying non-government organizations the ability to use violence, and thus coercion, as a tool for structuring internal or external relationships. I return to this important point in a moment.

The second part of the logic is that individuals, not just elite individuals, must find it in their interest to support impersonal rules rather than the interests of the organizations they belong to. The logic is straightforward. For example, an individual with a specific bundle of human capital (an occupation, say accountant) chooses to work for firm A. The rents that individual receives from firm A depend on the value of his human capital in its next best employment, say at firm B. Call these ‘organization specific’ rents. The rents that the individual receives from choosing to be an accountant, however, depend on the relative returns in his next best choice of occupation. As the number of firms who hire accountants increases, the rents he gets from working for a specific firm (the difference between his return in firm A and firm B) decrease relative to the rents he gets from being an accountant with many alternative employments for his human capital. Call these ‘individual specific’ rents. If the rules for forming organizations become open and more firms are created, individual specific rents increase relative to organization specific rents. At some point, the individual may find that his interests in supporting the organization he belongs to are outweighed by the interests he has in maintaining rules that increase the number of outside options he can exercise.²⁴

²⁴I first thought of this as the Kobe Bryant problem. Bryant is a star basketball player who makes about \$21 million from his team, the LA Lakers. Bryant would be willing to play basketball for \$1 million, so his rents from being a basketball player are \$20 million. But there are many NBA team willing to pay him \$20 million to play for them, so his rents from playing for the Lakers are \$1 million. Would Bryant cheat to enable the Lakers to win? If his cheating harms the NBA, perhaps not, because he risks the \$20 million in basketball rents to increase the \$1 million in rents from the Lakers.

Individual level incentives alone, of course, will be too idiosyncratic to result in individuals always preferring the abstract rules over the interests of their specific organizations. But if powerful organizations also find it in their interest to support abstract rules that allow entry (that is, that treat all organizations and citizens the same), then a set of interlocking interests can emerge. It is here that violence comes back into the picture. As long as organizations can potentially use violence or coercion to protect (or project) their interests, there are strong incentives to constrain organizations through rent creation by special privileges. An individual organization must either possess the ability to project violence or be allied with another organization that can do so. If all organizations are to be treated the same, however, organizations must be prohibited from using violence against each other. The use of violence by organizations creates the need for special privileges. Prohibiting the use of violence by organizations is accomplished by locating control over violence in a small number of public, government controlled organizations. In *Coercion and Capital In European States*, Charles Tilly calls this process ‘disarming the population.’

Powerful organizations will be willing to concede the option of using violence *only if* other organizations make the same concession. There is a serious coordination problem here. The use of violence will not disappear just because organizations concede their right to use it. The government must formally undertake to enforce rules against the use of violence by organizations (weak governments cannot do this). That requires that the rules about the use of violence be applied equally to all organizations, i.e. impersonally. The other side of the agreement is that all individuals who wish to form organizations be allowed to do so. A powerful group that loses out today, can reorganize and return in the future. Conceding control

of violence to the government is matched with the ability of all interests to form organizations. If organizations cannot freely form, then an interest that is forced out of power or influence today, may not be able to reorganize and reenter the fray. All organizations, as a result, have an incentive to support free entry.²⁵

Conceding power over coercion to the government, then, is an inherent part of making credible and impersonal social arrangements. As the discussion has stressed, impersonal social rules must appear at the level of organizations in order for those rules to be credible at the level of individuals. Organized violence is the truly dangerous type of violence. Conceding coercive power to the government organizations necessarily requires that private organizations no longer use organized violence. The complementary arrangement is allowing any citizen to form an organization that the government will recognize. Government violence is ‘legitimate’ in the narrow sense that the citizens agree that the government has the ability to use violence. Government violence also becomes legitimate in the broader sense, as there must be a ‘constitution of coercion’ that lays out conditions under which it is appropriate for the government to use violence and thus the structure of coercion.²⁶ It is not just that the society agrees that the government can use coercion, but that there are agreed upon circumstances in which it is appropriate for the government to use violence. Private organizations are willing to concede this power to government because they feel that through the operations of a competitive political system, sustained by a competitive economy, that they can discipline any use of

²⁵For any specific organization, the benefit from open entry must be balanced against the specific rents that organization might receive from limiting entry. This kind of rent seeking goes on all the time in open access societies.

²⁶Weingast uses the notion of ‘bright lines’ to denote the conditions under which the government can and cannot use coercion.

government violence outside the agreed upon limits.

What are the implications for Wicksell?

VI. Wicksell, Unanimity, and Impersonality

Wicksell began his paper on just taxation by accepting the charge that he was engaged in armchair speculation: “I accept the charge happily, since it was my purpose above all to construct a complete, comprehensive, and internally consistent system.” (p. 73) In the spirit of Wicksell, I have tried to make our considerations more complete and comprehensive by explicitly thinking about coercion. Drawing on the conceptual framework of NWW, we can see that the structure of coercion is fundamentally different in natural states and open access societies. Natural states require some dispersion of violence capacity between powerful organizations in order to maintain credible relationships between elites. They also require coercion that varies across individuals, particularly in relationships between powerful individuals. In contrast, open access not only requires consolidation of control over violence in public government organizations. It requires that the government enforce the rules that prevent individuals and organizations from using violence and those rule apply equally to all individuals and organizations. The government’s use of violence must be impersonal for the consolidation of violence capacity to be credible and sustainable.

Impersonality pervades many aspects of open access societies. Any citizen must be able to form an organization that the government recognizes and supports, as long as that organization does not use violence. Rules are often written impersonally and applied in an

unbiased manner (rule of law).²⁷ What the Western world considered personal rights are often manifestations of impersonality. Rights are distinguished from privileges by the range of people that possess the privilege. Rights are possessed by all citizens. Rent creation through special privileges does not stop in an open access society, people are still rent maximizers after all. But rents in an open access society tend to be competed away by open entry, and by the development of institutions that implement impersonality in government policies.

Tax and expenditure policies can be personal or impersonal. Table 2 presents an impersonal analog to the schedules in Table 1. Impersonal expenditures and taxation does not imply that everyone pay or receive the same amount. Allocating taxes and expenditures impersonally requires that some impersonal criteria (like income) is used to allocate taxes and other impersonal criteria (like geography) are used to allocate expenditures.²⁸ Impersonal enforcement requires that the same punishments apply to all individuals, which the table represents as a fixed punishment C.

When open access societies find themselves confronted with a trade-off between more unanimity (perhaps more consensus is a more intuitive way of saying it) and more impersonality, that they tend to choose more impersonality. This is my own reading of the history of the modern world.²⁹ Societies that have been successful at moving toward open access have also

²⁷The existence of rules in an of itself does not imply impersonality. Rules themselves can be personal, applying differently to different individuals or different groups of people, and rules can also be enforced in a biased way.

²⁸For example, the current formula for allocating highway funds between the states is one-third population, one-third land area, and one-third miles of rural post roads.

²⁹My intuition is drawn primarily from the economic and political history of the United States over the last two centuries, but also from European history and the experience of new democracies in the 19th and 20th century as well.

moved toward impersonal rules and policies. Societies that have remained natural states have, particularly in crises, been unable to introduce or maintain impersonal rules and policies. Thinking about the trade-offs between unanimity and impersonality bring up very deep questions in the structure of modern societies, questions that those societies are still in the process of answering.

New democracies often place considerable importance on the normative goal of consensus and the idea that some Wicksellian minimum core of public policies will obtain the approval of all of the people. This is probably no less true of independence movements in late 20th century Africa than it was in early 19th century United States. The will of the people becomes an important concept, even if no one knows how to define it. Threats to popular sovereignty are almost uniformly identified as the result of special organized political or economic interests.³⁰ As late as the 1840s in the United States Americans were still arguing that in a true democracy there would only be one party that truly represented the people. This was after several decades in which the inevitability of multi-party politics was apparent to most political observers.³¹ Early 19th century Americans thought that a democratic republic should be based on a wide degree of consensus, but their political system did not evolve in that direction.

Unanimity does not serve as the basis for building workable open access political and economic systems for a number of reasons. Most of the reasons have to do with the dynamic

³⁰For example, read George Washington's farewell address which identifies the major threat to American democracy as political parties and organized economic interests. Or the first revolutionary French Constitution in 1791 which bans corporations several times in the preamble. This argument and some evidence is presented in NWW, chapter 6.

³¹The best treatment of the realization that political parties were an inevitable part of American politics is Richard Hofstadter, *The Idea of a Party System*.

features of societies over time, rather than static mechanisms for making political and economic decisions. One central reason is static, however, the features of a government monopoly on violence that we have already talked about.

Recall the discussion of strong and weak governments and their association with limited and unlimited governments. When powerful organizations concede the possibility of using violence to the government, the government in a real sense becomes stronger. As stressed earlier, powerful organizations will concede control over violence only under three conditions. First, the government must enforce a prohibition on the use of violence by any non-government organizations. Second, the government must adopt a clear set of guidelines for when the government will use violence to discipline organizations. Third, the government must allow any organization to form that does not use violence or engage in prescribed activities.

These conditions require a 'strong' state, with the capacity to discipline organizations within society according to impersonal criteria. Although these requirements are static, they are necessary to sustain a political and economic dynamic that both maintains open access and disciplines both the political and military parts of the government. The selection of political leaders to decide government policy, the political part of the government, must be open and competitive. Universal suffrage and democratic institutions are not the only way to achieve political competition, but so far in history something like an electorally competitive democracy is what societies have moved towards. The political side of the government must be strong enough to discipline the military part of the government (although not through coercion). Political competition for leadership must be sustained by economic competition. A political faction must not be allowed to manipulate economic privileges in order to gain political support.

Economic entry must remain open, which brings us back to the necessity for allowing organizations to form at will.

What happens to political dynamics if we require unanimity? Political consensus requires compromise. Obtaining a compromise between individuals or groups whose interest is not identical, usually involves mutual accommodation. One group gets more of what they want in return for conceding a competing group more of what they want. This amounts to tax and expenditure schedules, T_i and E_i , that vary systematically across individuals (or groups), precisely the solution that Wicksell and Lindahl propose. But it is also possible that the government might choose to implement a coercion schedule that treats different groups differently.

Think of the Alien and Sedition Acts in the United States in 1798 which allowed President Adams to shut down newspapers and put their editors in jail. The Acts explicitly allowed the government to treat and coerce organizations in a way that was not impersonal. In the case of the Alien and Sedition Acts, political competition pushed back, and in the Jefferson administration the government foreswore the necessity of treating different organizations differently and repealed the Acts.³²

The most frequent problems in the United States, however, did not involve coercion through violence but the coercion through structure of taxes and expenditures. Under a unanimity rule, individuals who receive higher benefits from expenditures should receive them if they are willing to pay higher taxes. Farmers in the old northwest (Ohio, Indiana, and Illinois) wanted to build better transportation infrastructure. They understood the logic of unanimity and

³²Hitler and the National Socialists after 1933 show a similar pattern, but one where political competition is too weak to discipline the politicians.

obtained a political compromise to build canals using debt finance by switching their property taxes from per acre taxes to *ad valorem* taxes. The explicit argument was made that those who benefit most from the canal should pay higher taxes, and since property values capitalized the value of lower transportation costs and *ad valorem* tax system enabled New York, Ohio, Indiana, and Illinois to obtain political consensus behind enormous investments in transportation (Wallis 2003, 2005).

These investment looked good *ex ante*, but *ex post* they turned out to be real problems. After the economic downturn in 1839, states stopped construction on their canals, property values fell (particularly along proposed canal routes), and tax payers throughout the state ended up bearing an unexpected tax burden. Wicksell understood that the unanimity rule should not apply to taxation to repay debts. But taxpayers who were now forced to endure higher taxes to repay debts that were supposed to be serviced out of promised canal revenues. Voters and taxpayers could foresee this happening again and again. As a result, in the 1840s many American states began changing their constitutions. An important change was a movement to general taxation, which required that all property be assessed on the same basis and taxed at the same rate. States began requiring that legislatures pass general incorporation laws allowing any one to form a corporation and began prohibiting legislatures from creating special corporations with unique privileges. And to round out the package, state began requiring state wide bond referendums to approve higher taxes before any new debt could be issued.

The motivating idea for these changes was not unanimity, but impersonality. State government learned that a wide a general political consensus could more easily be crafted by legislatures if they were allowed to treat different individuals differently (different in either their

geographical or economic location). *Ex ante* these compromises looked good politically, but *ex post* if the compromise did not work out as anticipated, some groups were inevitably left holding a bigger bag than they anticipated.

The solution was to move to restrictions on legislature that required them to treat everyone the same. In the United States these are called ‘general laws.’ State constitutions began mandating legislatures to pass general laws for property taxation and business corporations in the 1840s, for municipal governments in the 1850s, for a wide range of legislative functions (like granting divorces) in the 1850s, and for forming political parties in the 1880s.

These changes did not have to occur at the constitutional level, however. Britain and France also moved to general incorporation and open political parties between 1840 and 1880. In France, open access for political parties was ensured when the Republican government elected in 1879 refused to use the ‘assembly’ laws that had allowed the party in power to suppress and disrupt competing political parties by denying competing parties the power of assembly.

The point here is not that democratic political institutions have an inherent tendency to move toward impersonal institutions. It is rather to emphasize the opposite. Go back to the idea of the dominant coalition in a natural state. The dominant coalition is an adherent organization whose members coordinate only because it is in their interest to do so. There is no external coercion involved in the coalition. There is internal coercion, members of the coalition remain armed and that is part of the threats that maintain credible commitments within the coalition. You could say the coalition has voluntary unanimity with coercion, since all members find it in their interest to belong to the coalition. But the price of unanimity within the coalition is that

each member of the coalition must be treated differently, i.e. personally.

Democracies face the same set of problems whether they are in natural states or open access societies: how to coordinate powerful individuals and groups and limit their use of violence. The natural way to do this is by creating special, individualized privileges for powerful groups. If the value of the privileges is reduced if violence breaks out or if coordination within the coalition breaks down, the systematic creation of privileges can sustain a social order. An unequal distribution of violence capacity and use of coercion is an inherent part of the special privileges. Democratic elections will not, in and of themselves, eliminate special treatment. There is nothing in the recent history of new democracies around the world to suggest that democracies move towards impersonality.

Wicksell wrote at a time when many European nations were in the process of making the transition from natural states to open access societies (not all of them would make it). Governments in those societies were becoming stronger. Political scientists and economists, both theoretical and empirical, were wrestling with the problem of how best to limit the powers of these stronger governments. Wicksell's unanimity rule was one such proposal. It remains a proposal with very attractive theoretical properties.

Enforcing unanimity or strong consensus between dominant groups, however, turns out not to be a guarantee of open access. The unanimity rule limits 'coercion' in the Wicksellian sense only in the context of a pre-existing set of conditions in which the government has obtained a monopoly on violence. Wicksell assumed that everyone would pay their taxes. I assume that this requires a government with a monopoly on violence that can create incentives through the threat of violence to ensure tax compliance. How does a government arise that is

strong enough to be capable of enforcing the rules with regard to taxation, without government simply engaging in predation?

The social arrangements that make limited government possible involve the explicit constitutional agreement (whether the constitution is a written document or not) that organizations will be allowed to form at will; that organizations will not be allowed to use violence; that the government will use violence only within prescribed limits; and that the use of government coercion will be applied impersonally. In the dynamic behavior of societies as they develop politically and economically, constraining government policies to be impersonal appears to be a much stronger survival characteristic for open access than constraining the government to approve policies by unanimous consent.

VII. Wrapping Up

The powerful insight in Wicksell is that taxes and expenditures must be considered simultaneously if we are to reach intelligent conclusions about what government policies should be. My attempt to extend Wicksell's logic to include decisions about coercion simultaneously with decisions about taxes and expenditures ran up against a serious problem: in most developed societies coercion is applied impersonally. There are fixed punishments for specific crimes, like not paying your taxes, and those punishments do not vary with the social identity of the individual.

We cannot simply assume that a government capable of impersonal enforcement already exists and go from there. Because organized violence is necessary for coercion, how violence is organized affects how it can be used. Until the last two centuries, governments that could

credibly administer impersonal justice, enforcement, and coercion were very rare (perhaps non-existent).

Following the logic of the natural state developed in NWW, in most societies the administration of coercion is anonymous, not impersonal. Rules apply differently to people in different organizations and different places in the social hierarchy. Powerful organizations maintain the ability to use violence.

Powerful organizations and individuals will only be willing to concede their ability to use violence to the government if they are convinced that violence will not subsequently be used against them. This requires 1) that the use of violence by all organizations is prohibited by rules; 2) that the government organization charged with control of violence enforces the rules by punishing any individual or organization that uses violence; 3) that the government organization adheres to a constitution of coercion that stipulates the level of violence appropriate for different circumstances; and 4) that all citizens have the ability to form organizations that the government will recognize and support. The impersonal use of violence and the impersonal application of rules for the formation of organizations are necessary parts of these arrangements.

Open access societies involve more than impersonality. They involve institutional arrangements that provide for political and economic entry. Entry fuels the competitive process, and the dynamics of economic and political competition are what makes it possible for a strong government with a monopoly on the legitimate use of violence to credibly accept limits on the use of violence. Impersonal government policies are the hallmark of open access societies.

Wicksell's unanimity rule can be accomplished by tailoring taxes, expenditures, and coercion to individuals and groups in such a way that everyone is in favor of the policy. But the

assumption that the government can credibly enforce rules when the rules are different for everyone is a Herculean assumption. Perhaps we should be satisfied with a modicum of consensus under rules that are truly impersonal.

Table 1
Expenditure, Tax, and Coercion Schedules,
and their Utility Equivalents

Individual (1)	Levels of Expenditures (2)	Taxes (3)	Coercion (4)	Utility of Expenditures (5)	Taxes (6)	Coercion (7)
1	E_1	T_1	C_1	UE_1	UT_1	UC_1
2	E_2	T_2	C_2	UE_2	UT_2	UC_2
.
.
.
n	E_n	T_n	C_n	UE_n	UT_n	UC_n
Society	Sum of E_i	Sum of T_i	??	Sum of UE_i	Sum of UT_i	Sum of UC_i

Note: Expenditures and taxes are dollar values, while coercion is of the form “if you do not pay your taxes, go to jail for I year.” So coercion measures do not add up. Utility of expenditures, taxes, and coercion may depend on the expenditures, taxes, and coercion an individual faces, as well as the expenditures, taxes, and coercion facing other individuals.

In Wicksell terms, individuals support legislation *ex ante* if $UX_i > UT_i$. But *ex post*, individuals pay taxes if $UT_i < UC_i$. Remember that the UT and UC are ‘disutilities.’

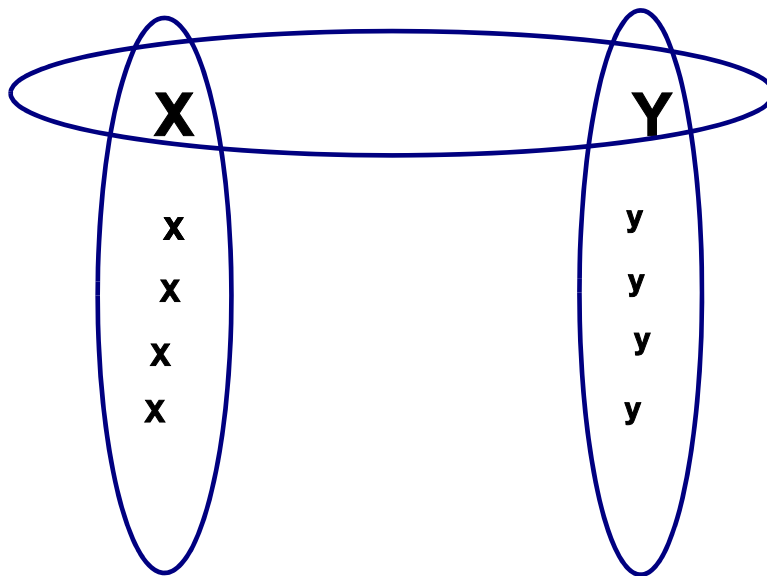
Table 2
Impersonal Expenditure, Tax, and Coercion Schedules,
and their Utility Equivalents

Individual (1)	Levels of Expenditures (2)	Taxes (3)	Coercion (4)	Utility of Expenditures (5)	Taxes (6)	Coercion (7)
1	$E(x_1)$	$T(y_1)$	C	$U_1E(x_1)$	U_1T_1	U_1C
2	$E(x_2)$	$T(y_2)$	C	$U_2E(x_2)$	U_2T_2	U_2C
.
.
.
n	$E(x_n)$	$T(y_n)$	C	$U_nE(x_n)$	U_nT_n	U_nC
Society	$E(x_i)$	Sum of $T(y_i)$??	Sum of $U_iE(x_i)$	Sum of $U_iT(y_i)$	Sum of U_iC

Where x and y are impersonally defined measures that vary across individuals, so that expenditures and taxes are a function not of individual identity, but of an impersonally defined characteristic.

Figure 1

In the figure “X” and “Y” are the violence specialist, their clients are the “x” and “y” respectively. The horizontal ellipse represents their organization, the “dominant coalition.” The dominant coalition is an adherent organization. The specialist limit the ability to form organizations to themselves. Their client organizations, the vertical ellipses, are contractual organizations, which can utilize the dominant coalition as a third party enforcer.



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