Why Competitive Markets Aren't Self-Actuating:
The Political Economy of Open Access

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Markets are ubiquitous in recorded human history. Until recently, however, markets tended to be subordinate to other social institutions and thriving, open, competitive markets were the exception rather than the rule. Why don't open competitive markets automatically create the conditions for their continued existence? In their brief for this conference, Eric Brousseau and Jean-Michel Glachant point out that at least six categories of actors interact simultaneously on three levels to produce the social frameworks that manufacture markets. This follows Brousseau and Glachant by taking as given that markets are complicated social institutions comprised of elements that are intentionally and unintentionally designed; that market institutions persist over time only if the dynamic relationships between political, economic, and legal interests and institutions provide incentives for social actors to maintain specific markets; and that the power of markets to coordinate behavior and allocate resources may be used for purposes other than maximizing social welfare through gains from trade, and so how we evaluate the "efficiency" of any set of market arrangements should not necessarily be limited to the internal operation of markets. Why aren't competitive markets self-actuating?

The paper builds on two unoriginal insights. First, markets are always embedded in organizations. At one extreme markets may be embodied in a single formal organization that creates and sustains the market and a marketplace, like modern stock or commodity exchanges. Medieval European cities, for example, often organized and operated markets. In these limiting cases, the organization that makes the market exists independently of the market participants. In most markets, however, market structure results from the interaction of several or many organizations. Second, all markets are connected to other markets. In neo-classical economics it is the ability of the price mechanism to signal costs and benefits that enables all of these markets to simultaneously coordinate market participants in widely dispersed and apparently independent lines of endeavor.

Neither of these insights is original and both are slightly off the main lines of thinking about markets in institutional economics.[1] Nonetheless, their combination generates new insights into the dynamic relationships between the social institutions that manufacture markets. The sections that follow first layout a way of thinking about how societies use organizations to structure social order by creating incentives for powerful and dangerous individuals to cooperate, drawing on the framework of North, Wallis, and Weingast (2009, hereafter NWW). Next, the connectedness of markets is exploited to show how organizations that promote markets can serve as conduits for structuring incentives within and between powerful organizations and their leadership, even in societies where access to both organizations and markets is limited. This section provides an answer to the question posed in the paper title, why competitive markets are not self-actuating. The social forces that support the emergence of markets on a larger scale, generating economic growth through higher productivity and gains from specialization and division of labor, inherently generate counter forces that limit access to organizations and, therefore, limit some aspects of markets. The counter forces are part of the dynamic relationship between politics and economics in most societies, what NWW call natural states.

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[1]Institutional economics sees markets as the interaction of individual actors (even if those actors are legal persons that represent an organization). Institutions make possible contractual forms which are available to the actors at some cost . Political organizations frame the possible contracts and finance enforcement resources, including courts, which are charged with interpreting the contractual rules, guiding enforcement, and applying penalties in cases of contractual breach. Contracts are not costless and neither is transacting, but contracts provide tools that individual actors can use to shape their relationships. Markets are usually treated in isolation, *ceteris paribus*.

The final two sections of the paper consider these social dynamics in greater detail, with a particular eye to the question of why competitive markets do not automatically generate patterns of economic interest that inherently lead political actors to maintain open access markets. One element of social dynamics is the formation of interests and the process of rent formation. The other element is the nature of impersonal relationships, or more accurately for most societies, the inability to sustain impersonal relationships.

1. Order, Organizations, and Coalitions

Human societies rarely exceeded sizes of 100 people for any sustained period of time until about 10,000 years ago. It seems safe to say that while exchange between groups certainly occurred, markets are a development of larger societies and are an integral part of the way in which larger societies capture gains from specialization, division of labor, and trade. The first question to ask, therefore, is how societies managed to organize or reorganize themselves to sustain larger scales, since larger scale is a prerequisite for markets. This section lays out a simple version of the conceptual framework of NWW, which situates the problem of social scale in the context of violence.[2]

NWW begin their analysis in a world of small societies of 50 to 100 people in which individuals base trust on personal interaction, and ask how, in a world where violence is a viable option, some individuals can deal with dangerous and potentially violent individuals with some degree of confidence. NWW begin with specialists in violence, who mistrust one another, and will not lay down their arms and coexist because they believe such behavior will lead the other

[2]See NWW, chapter 2. This exposition follows Wallis, 2010.

specialist to destroy or enslave them. Armed conflict is the equilibrium outcome. The solution to ongoing violence, 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. If the difference in the value of the rents they earn from their privileges under conditions of peace rather than violence are large enough, then each specialist can credibly believe that the other will not fight. The specialists remain armed and dangerous and can credibly threaten the people around them to ensure each other's rights.

The arrangement is represented graphically in Figure 1, where A and B 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 a's and b'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.[3] It is the rents from peace, that are lost if any of the specialists fight, that shape incentives that limit violence.

There is also 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." In Figure 1, the horizontal relationships between the violence specialists create a

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[3]Note that the rents received from client organizations are classically rents, the return to an asset or activity above its opportunity costs. These are explicitly not DUP rents ala Bhagwati or Krueger. The question of rents is taken up in more detail in section 3.

dominant coalition, an organization held together only by the interlocking interests of its members. The vertical relationships between the violence specialists and their clients are shaped and organized by he external presence of the other violence specialists. The dominant coalition acts as a third-party for each of the member organizations. The vertical organizations might be organized as kin groups, ethnic groups, patron-client networks, or crime families. 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 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.[4]

The key to the whole arrangement is that the rents A and B derive from their organizations enable them to credibly commit to one another. The interests created by these organizations must interlock, that is, the ability of A and B to form organizations depends on their coordination and cooperation, since the vertical/contractual organizations are structured by the third-party enforcement of the dominant coalition. The most valuable privilege members of the dominant coalition enjoy is the exclusive ability to form organizations. A primary source of

[4]North, Wallis, and Weingast, 2009, chapter 2. Earle, 1997 and 2003, and Johnson and Earle 2000, provide a series of anthropological examples of how chiefs come to power and the scale of society increases by the systematic manipulation of economic interests.

rents within the coalition is the ability to use the third party services of the dominant coalition to enforce arrangements within the organizations of the coalition members. The rents created by those exclusive privileges are part of the glue holding the agreements between the specialists together. Limiting access to external support for contractual organizations creates rents and shape the interests of the players in the coalition. At the same time, the institutional structure gives leaders of organizations tools to shape the interests of their clients. The nature of the (vertical) client organizations is critical to the whole structure. Because the specialists can call on the dominant coalition to enforce agreements within their client organizations, those organizations are contractual. The dominant coalition as a group, therefore, has a lever to use over an individual member by withdrawing third-party services, a tool to help coordinate the dominant coalition. By denying those tools to non-sanctioned organizations, the coalition is able to limit organized opposition and better secure their own rents in a way that strengthens coordination.

The entire complex of organizations creates a set of incentives and interests for powerful individuals leading to cooperative outcomes. Organizations occupy the central place in this process and limiting access to organizations shapes interests. Organizations are a primary driver of both the shape of institutions and their change over time. Cooperation cannot be sustained unless powerful individuals believe that cooperation is in the interest of other powerful individuals. Organizations structure interests and so facilitate cooperation.

2. Market Connections, Rent Creation, and the Political Economy of Dominant Coalitions

Figure 1 is too simple. The dominant coalition is never made up of just violence specialists. The whole point of the coalition is to create an interlocking set of rents and mobilizing rents requires other specialists: economic, political, and religious at the very least. It cannot be over emphasized that the creation of organizations that enable larger societies to form immediately creates the possibility of increasing productivity through specialization and division of labor. Once powerful individuals establish a social organization capable of sustaining a larger society, they have strong interests to promote trade and markets.

Figure 2 portrays a slightly more realistic dominant coalition with four members. There are two violence specialists, **A** and **B**, two economic specialists (traders) A_t and B_t, and their associated client networks. A_t and B_t are part of the dominant coalition, they enjoy rents from the control of a function, trade, to which access is limited, and the existence of those rents ties them into the dominant coalition and creates incentives for them to support the coalition. A_t and B_t are also specialists who are able to exploit a comparative advantage in trade that stems from their position in the coalition. A_t and B_t are also market makers. They are able to draw on their position within the coalition to socially and physically create and administer markets and market places.[5] Perhaps even more important, A_t and B_t are able to draw on by **A** and **B** to provide third-party enforcement of agreements. Not only are A_t and B_t able to access enforcement of agreements between themselves, A_t and B_t can enforce agreements between a's and b's as well.

There is little doubt in the historical record that when larger societies form trade is an integral part of the social structure, that trade is always controlled by the dominant coalition, and

[5]By "socially" create markets I mean that the market makers are able to structure repeated interactions of individuals, including rules, laws, norms, and courts; by "physically" creating markets I mean that they literally invest in the physical infrastructure, including market places, transportation, and storage facilities, that enable exchange to take place over larger stretches of time and space.

that some individuals within the social hierarchy enjoy privileged positions with respect to trade and markets.[6] As the anthropologist Timothy Earle puts it when discussing the emergence of chiefdoms (groups of over 200 or so):

> In chiefdoms, control over production and exchange of subsistence and wealth creates the basis for political power... Economic power is based on the ability to restrict access to key productive resources or consumptive goods... Control over exchange permits the extension of economic control over broader regions,... The real significance of economic power may be that the material flows through the political economy can be used by the chief to nurture and sustain the alternative power sources..." (1997: 7)

The point is not to quibble about which came first, larger societies, social hierarchies, or trade and markets, but to acknowledge that all three elements of societies appear to have been intrinsically linked historically. Their simultaneous relationship, their endogeniety, is not in question, but instead forms the basis for thinking about the dynamics of the relationships that support markets.

The first dynamic element is that the use of trade, markets, and economic privileges to create economic rents that are then used to secure more stable political coalitions and social order turns the way we often think about limits on access and markets on its head. Limits on entry, both in terms of entry of organizations that make markets and in terms of market participants, typically reduces the efficiency of markets. In the case of natural states, however, the first requirement for markets is a large enough society with some measure of order. Without a social order that manipulates economic rents to coordinate powerful individuals and groups, the formation of a stable coalition that can provide the political underpinnings of market

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[6]For studies of "pristine" civilizations, that is the first large civilizations that arouse without a geographic predecessor in Mesopotamia, Egypt, India, China, Meso America, and South American, see Service (1975) and Trigger (2003). For the anthropological record on the emergence of larger societies see Earle (1997 and 2003) and Johnson and Earle (2000).

exchange is impossible (or hindered), and so markets do not come into being at all or exist at a much simpler level. We must be careful not to think of the dominant coalition as just a political organization independent from economic organizations, since the close integration of economics and politics glues the coalition together. The ability of the dominant coalition to provide a modicum of peace and physical security, as well as third-party enforcement of arrangements and agreements within the coalition, depends on manipulating economic rents. At the same time, the ability of markets and organizations to generate rents depends on the provision of those services by the coalition.

NWW call this dynamic relationship between economic and political arrangements the "double balance." Political arrangements must be consistent with economic arrangements, and vice versa. The structure of rents in the economic system is an inherent part of the interconnected balance of interests in the political system, and the balance of interests in the political system is an inherent part of the economic system.[7] In this sense, the efficiency of a market cannot be evaluated solely with respect to factors internal to the market. If markets depend on third-party support from the dominant coalition, then market inefficiencies that create rents used to stabilize the coalition are not, in the larger sense, social inefficiencies. If the dominant coalition destabilizes without the rents, and the market cannot function without the coalition, then evaluating the efficiency of a market solely in terms of the way it allocates resources is problematic.

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[7]In an open access order both the political and economic systems are open to entry. The concept of the double balance suggests that an open political system cannot be stable with a limited access economy, nor can an open economy be stable with a limited access political system.

The second dynamic aspect of markets that plays a critical role in the politics of the dominant coalition is their interconnectedness. The market for wheat is connected to the market for land, the market for transportation services, and the market for bread. The stability of the relationship between the players within the dominant coalition depends on the fact that the actions of one player effect the other: if one is violent both lose rents. The expansion of markets is both a way to increase rents and to coordinate the interests of elites. If the dominant coalition includes individuals with privileged access to or control of land, border crossings, ships, bakeries, and markets then a well functioning market for wheat means changes in circumstances that effect the price of wheat effect all of those elites and their interests, simultaneously. By promoting the formation of markets, elites directly raise the productivity of the assets they control at the same time that they are able to better coordinate incentives within the dominant coalition. The benefit does not come without a cost, however. At times, markets may transmit signals to elites that move their interests in directions that reduce cooperation rather than increase it.

3. Rents and social dynamics:[8]

The foregoing provides a basic answer to the question posed by this paper: why aren't competitive markets self-actuating? The answer has to do with the dynamic relationship between political, economic, and other social forces. Markets require larger social institutions and structures in order to function. The dynamic relationships between powerful groups and individuals that makes a larger social structure possible requires the creation of economic rents

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[8]My understanding of rents and social dynamics has developed in conversation and cooperation with Mushtaq Khan and Steve Webb, for a paper currently titled "Rents and Development in Limited Access Orders."

that can be used to coordinate the incentives of political actors. The existence of a natural state, with a dominant coalition of powerful individuals and organizations, creates strong incentives for the coalition to support the formation of some organizations within the coalition that promote trade and establish markets, so there are many more markets in natural states than in hunting and gathering societies. If the dominant coalition has strong incentives to promote markets, however, why don't all societies promote markets with open entry, well defined property rights, and the social infrastructure necessary to support free exchange of goods and services? One part of the answer concerns the way in which rents affect the dynamic relationship between politics and economics. The other concerns the nature of impersonal rules and relationships necessary to sustain open markets, the subject of the next section.

A key implication of rents is that rents make people's behavior more predictable. Classic economic rents exist whenever the benefits to an action exceed the opportunity costs of the action. The predictability of behavior depends on the size of the rent. The behavior of a person n for whom a particular action produces a very small rents is not predictable. Any small change in any of a number of variables could lead to a change in behavior. Competitive markets are flexible because, as neoclassical economics emphasizes, in a competitive market there are not rents for consumers or producers, so their behavior flexibly responds to changing conditions. As rents increase, behavior become more predictable. The choices individual make are more robust to changes. Societies have no interest in making people just indifferent to using violence, societies have a strong interest in creating large rents from not using violence. The NWW logic of the natural state uses the creation of rents to incentivize powerful individuals and groups, and make their behavior more predictable and thus their commitments to each other credible.

While greater rents more predictable behavior, however, the effect of rents has nothing to do with whether the rent makes the larger society better off or worse off. Within the dynamic relationships of the dominant coalition, whether the rents are good or bad for the rest of society is of secondary importance. It is not the size of the rents in aggregate terms that matters, it is the size of the individual rents relative to the choice sets of members of the coalition.

Markets always involve organizations, either as formal market makers or as the significant participants that make the market work. In natural states, the ability to control and participate in markets is a major source of rents. Indeed, the fact that rents come from markets and markets work better under conditions of relative stability and in the absence of violence, is a strong inducement for the members of the dominant coalition to maintain cooperation and make markets work more efficiently. At the same time, the world is a constantly changing place. Dominant coalitions must continuously adjust their organizations and their privileges to maintain stability within the coalition. There is no *a priori* reason to expect that these adjustments will always be in the direction of making markets work better or making organizations more productive. Rents can be generated by making markets work less efficiently, e.g. creating market power, limiting entry, or regulating prices or quality.

In general, rents can be created both by extending the third-party services to elite organizations, or by withdrawing or reallocating third-party service from some elite organizations. There is a continuous play of political forces and of economic forces that reflect the underlying notion of a double balance. Societies that are able to increase the productivity of their political, economic, and social organizations at the same time that they maintain or increase the stability of their social arrangements are societies that manage to grow. Societies that find it necessary to maintain (or restore) stability by reducing the productivity of their political, economic, and social organizations are societies that manage to shrink. These processes are not mutually exclusive, they go on in every society all the time. Given the dynamics of these processes, we should not be surprised that open and competitive markets are not inherently self-sustaining.

4. Anonymous and Impersonal relationships and social dynamics:[9]

The dynamics of rent creation enable us to understand why there is no inherent tendency for natural state societies to become more productive, or for more open and competitive markets to emerge, just as there is no inherent tendency in the opposite direction. But what if a society moves over a period of time toward more productive organizations and markets and experiences economic growth as the result of incremental changes in institutions? Will the organizations and markets in those societies necessarily move closer to the kinds of institutions that support open access, namely free entry, rule of law, and support for impersonal relationships between individuals?

A central tenet of the new institutional economics is that the ability to support impersonal relationships is a critical, if not the central, element of open access economies and polities. The new institutional economics has not, however, been precise about the definition of impersonality or how it develops. Impersonal relationships occur when two individuals interact in a way that does not depend on their personal identity. Another way of saying this is that societies are capable of creating and sustaining an impersonal identity of citizen or resident that applies

[9]The argument of this section is based on Wallis 2010.

equally to a large class of people.[10] The essence of impersonality is *treating everyone the same*.

While there is nothing controversial in this definition of impersonal relationships, it is not always the one used in the new institutional economics. In practice, institutional economists have defined impersonality as *dealing with people you do not know*. The two definitions are not the same and to keep them separate I will denote relationships between people who do not know each other personally as *anonymous* relationships.

The working definition of impersonal as "not personal," is usually 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 relation. Greif and North both place impersonality at the heart of modern institutional development, but the point holds for a much wider literature.[11] North has long stressed the importance of impersonal exchange for economic development and he clearly had impersonality, not anonymity, in mind when he defined institutions as the rules of the game and the methods of enforcement: rules in an athletic event should apply equally to all participants.[12] North started with the genetic human endowment that enabled people to use face to face interaction and

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[10]Impersonal 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.

[11]See Fukyama (1995), Cook, Hardin, and Levi (1995), and McCubbins and Lupia (200) for a discussion of trust between individuals. For the credible commitment literature see Weingast, Weingast and North, etc.

[12]Specific 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.

repeated dealings to develop credible relationships.[13] The rise of impersonal exchange, therefore, involved dealing with people who one "didn't know" personally and, therefore, impersonal was implicitly defined as "not personal" or "not known."

Greif motivates impersonality as a relationship between two individuals who did not know each other personally , but could nonetheless reach agreements that spread across space and time. Greif shows how communal courts in medieval Italian city-states, which were biased against outsiders and non-citizens, were nonetheless capable of providing unbiased judicial decisions on a narrow range of matters.[14] In order for the community responsibility system to work, however, all the traders had to be able to identify each other as citizens of a specific city, e.g. Genoa, Pisa, or Hamburg. If one trader from a city cheated, all traders from that city were punished. It was the rents created within the merchant organizations of their own cities, which were inherently personal, that enabled city merchants and their courts to deliver unbiased justice for a limited number of contracts. What Greif described was a type of anonymous exchange. A trader from Genoa could trade with confidence in Hamburg, even if he had never been to Hamburg and would never go again. But he could only do so because the merchants in Hamburg *knew that he was a merchant from Genoa*.

Greif shows how it is possible to enable anonymous relationships between people who do

[13]The genetic endowment argument is clearly laid out in his 2005 book. The ability of people to deal with one another in small groups forms the basis for the "foraging" order in NWW. The evolutionary heritage plays a central role in evolutionary psychology and the general notion that modern humans are evolved to deal with small groups and are, therefore, maladapted for the complex societies that have developed over the last 10,000 years; Cosmides and Tooby 1992, Pinker, 1997.

[14]"Partial communal courts were thereby motivated to provide impartial justice." (Greif, 2006, 310).

not know each other personally, by embedding individuals in a social context that is personal, not impersonal. Awareness of the larger social situation in which their interactions take place are part of the shared beliefs that make anonymous exchange possible.[15] This is the same logic that NWW use to show how creation of personal privileges can create rents that enable powerful individual to credibly commit to non-violent relationships and thus can order a larger society. The privileges cannot be impersonal: if they were they would not be privileges and they would not create rents.

Impersonality underpins all modern developed societies. It is a necessary condition for open and competitive markets. In order for people to believe that they will be treated impersonally, and therefore have an incentive to treat other people impersonally, enforceable impersonal rules with two characteristics must be present. First, the same rules must apply in the same manner to all people (or all citizens). Second, the rules must be enforced impersonally, impartially, and without bias. Even societies that have unbiased third-party enforcement of rules will not be able to sustain impersonal exchange if different rules apply to different people.[16]

The dynamics of institutional change involve competing organizations and their attempts to shape institutions, both formal and informal, to their own ends. In most societies these dynamics are constrained by the threat of violence. In natural states, even in very sophisticated and successful natural states, political, economic, and social relationships are embedded in a network of organizations that sustain those relationships through identifying individuals with the group or organization they belong to. As in Greif's community responsibility system, the

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[15]Granovetter's (1995) concept of social "embeddedness" is relevant here.

[16] NWW consider the difference between biased enforcement and unique identity on pp. 154-158.

incentives facing individuals within their own organizations enable them to credibly deal with individuals in other organizations. This mirrors the dynamics represented in Figure 1, where the rents elites derive from their client organizations enable them to credibly commit to each other the adherent organization of the dominant coalition. These relationships, however, are not impersonal, they are anonymous relationships.

The fundamental process of creating and supporting organizations, including the organizations that manufacture markets, embed individual relationships in a social framework of anonymous, rather than impersonal, interaction. This social dynamic helps us understand why competitive open markets are not self-sustaining. Even as societies become capable of supporting larger organizations with more complex structures operating over wider reaches of space and time, those organizations are not driven to create and sustain impersonal relationships, instead they create and sustain more complex and sophisticated anonymous relationships. Increasing productivity and economic growth does not inevitably lead to institutions capable of supporting impersonal exchange. We must be careful not to confuse the ability of natural states to dramatically increase the degree of specialization and division through anonymous exchange, with the assumption that greater specialization necessarily requires greater impersonality.

5. Conclusions

The papers in this volume illustrate a wide range of markets and the institutions that make them possible. I have tried to cast some light on the dynamic interaction of political, economic, and social forces that underlay markets with a focus on why thriving, open, and competitive markets do not seem to emerge spontaneously in societies and when they do appear are rarely sustainable. I have not addressed why only a handful of open access societies in our contemporary world appear to be able to sustain competitive markets.

The tension between the use of markets to stabilize political and social arrangements and the uses of markets to increase productivity and the efficiency of resource allocation is the heart of the argument. Markets require larger social institutions and structures to operate. At the same time, the ability to construct larger societies depends upon the development of incentives for powerful individuals and groups to cooperate and refrain from the use of violence. As societies increase in size, there are strong incentives for powerful groups to promote the development of markets (and productivity and efficiency). But there are also strong incentives to preserve rents that markets create that serve to balance interests within the dominant coalition of the powerful. These two forces constantly affect social arrangements. This is the logic of the natural state laid out by North, Wallis, and Weingast that explains, in basic terms, why competitive markets are not self-actuating in natural states.

Why don't the obvious benefits of more efficient markets for social productivity lead societies to reach arrangements that redistribute the gains from better markets in a way that mollifies the interests of the powerful? This is a matter of social dynamics. Arrangements within the dominant coalition depend on the existence of rents to provide credible incentives. Whether those rents make the larger society better or worse off, however, is of second order importance to maintaining stable relationships within the coalition. Since the world is constantly changing, the use of markets to create rents by limiting entry and other regulations, is always a possibility. Hampering markets and enhancing markets can both produce rents, or shift rents within the dominant coalition, and as a result both are likely to occur through time. The efficient market force that inexorably pushes for the enhancement of markets is counterbalanced by the need for stable political arrangements, an example of the double balance between economics and politics.

Even when societies move to enhance markets, they are likely to do so in a way that increases specialization and division of labor by embedding exchange relationships in organizations. More sophisticated organizations provide more predictable rules and norms for exchange, as in Greif's example of the community responsibility system. But the kind of anonymous relationships developed by the interlocking interests of organizations and their members are not the kind of impersonal relationships we associate with competitive markets. There is no inherent social dynamic that leads societies to "treat everyone the same." That appears to be a relatively rare outcome associated with the transition to open access societies that first appear in the 19^{th} century.

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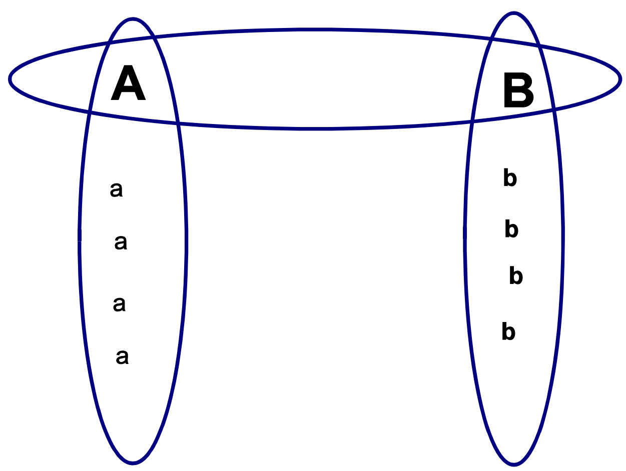
Figure 1



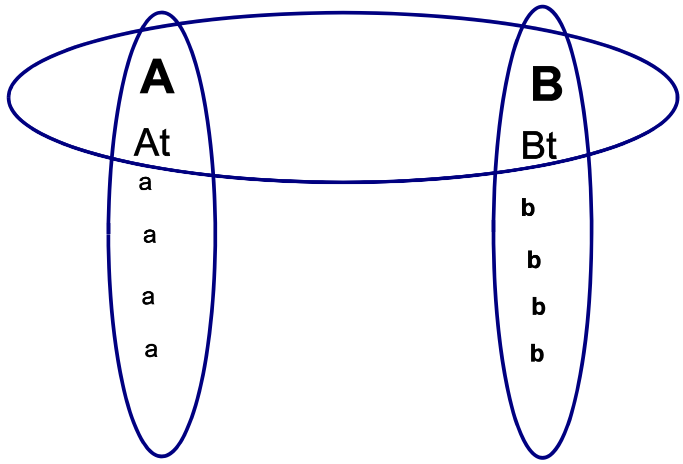


Figure 2