

In the Shadow of Violence: A New Perspective on Development

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Abstract

This paper extends the North, Wallis, and Weingast (2009) framework for understanding the problems of development. Our approach distinguishes two development problems that are normally conflated. Most approaches to development focus on the second problem, namely, the transition of societies from limited access orders (LAOs), which limit access to organizations, to open access orders (OAOs), which allows any body to form an organization. In contrast, the first challenge involves the development of LAO societies toward forms of organization that enable more economic output, reduced violence, stable political outcomes, and greater individual well being within the LAO framework. Most World Bank borrowers face the first challenge.

The control of violence is central to the logic of all LAOs and is therefore at the heart of the problem of development. Because the traditional economic framework fails to understand that LAO's are organized to prevent violence, its policy recommendations usually fail to produce development and sometimes exacerbate the problem. Indeed, the Washington consensus of the 2000s is dominated by efforts to embed institutions of open access orders – property rights, entry into markets, elections, and institutions of good governance – directly into limited access orders. These efforts focus on the second development problem, not the first; they are therefore miss-targeted. Instead, our approach provides specific implications of the approach for development policy in four areas: rents and market constraints, organizations, democracy and elections, and organizations with violence capacity.

1. Introduction

Thinking of developing countries as limited access orders (LAOs) with their own social dynamic rather than flawed or incomplete open access societies (OAOs) affords new insights into

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the impediments and paths to development. This perspective distinguishes between two development problems that are normally conflated. What is really the second problem involves the transition of societies from limited access orders LAOs to OAOs, but the first challenge involves the development of LAO societies toward forms of social organization that enable more economic output, reduced violence, stable political outcomes, and greater individual well being. World Bank borrowers mostly face the first problem: which is about developing as an LAO, from fragile to basic and from basic to mature LAOs, and about avoiding backward movements. What does it mean to become a better developing country, a better LAO? Key outcomes for the populace are reduced violence, increased income, better health, more equality, and more political participation. The cases show that feasible steps towards those outcomes depend on each country's circumstances. What Mexico, Korea, and Bangladesh could do to enhance their LAOs in the 1990s was qualitatively different from what they did in earlier decades of the 20th century, but there are some commonalities.

This chapter summarizes the lessons from the cases; in doing so, it expands the framework summarized in the introductory chapter. In all of the case studies, the first steps toward maturity focused on making rent-sharing commitments among the organizations with violence capacity. Initially these agreements were on a personal level, and overtime they were converted into rule-based institutions—more thoroughly, for example, in Korea than in Mexico. Agreements remain largely personal in the Philippines and Bangladesh. In India, the degree of rule-based institutions (versus personal) varies widely across states. Holding competitive

elections was a later step in these countries, and most of them still do not assure open economic and political access or competition.

The control of violence is central to the logic of all LAOs and hence is central to the problem of development. Cox, North, and Weingast (2015) show that the median developing country faces violent regime change once every seven years. Yet the traditional economic framework fails to understand violence or incorporate an appreciation of the dynamics of violence into policy recommendations. Indeed, the Washington consensus of the 2000s is dominated by efforts to embed institutions of open access orders –property rights, entry into markets, elections, or institutions of good governance – directly into limited access orders. Because these reforms ignore the logic of the LAO, they usually fail to produce development and sometimes exacerbate the problem of violence. The traditional development perspective typically treats violence as a country-specific phenomenon and leaves dealing with violence for local police and courts. By doing so, this perspective fails to understand that LAO's are all organized to prevent violence and that this often hinders traditional reform efforts.

The first section of this chapter highlights four areas of diagnostic insights that emerge from applying the LAO framework in the case studies and that can help us understand the political economy in developing countries: violence and the theory of rents; the dynamics of LAOs; the idea that similar institutions work differently in LAO's than in OAO's; and the pervasive influence of organizations based in OAOs.. The second section of the conclusions concerns more specific implications of the approach for development policy in four areas: rents

and market constraints, organizations, democracy and elections, and organizations with violence capacity. We end the chapter with a discussion of the agenda for research.

I. Diagnostic Insights

The World Bank's agenda for governance and anti-corruption emphasizes explicitly what many have known for years, namely that designing programs to improve governance in a country needs to start with a good understanding of its political economy (World Bank 2007). This requires looking at the country through various lenses, including the limited access order framework emphasized here. Hence this research was designed to try out the LAO lens in nine country cases.

A. Violence and Rents

The efforts to reduce violence shape all LAOs, and all the cases, except Zambia, experienced periods of violence at a level that threatened or overthrew the state. These events cast a long shadow in people's memories and through the institutions that they created to constrain or discourage the violence. LAOs use rents, limited access, and privileges to reduce violence by granting privileges and rents to individuals and groups with access to violence and creating incentives to cooperate rather than fight. Powerful groups enjoy valuable privileges such as exclusive rights to trade, a monopoly on cement or telecoms, the exclusive right to hold a market in a given locality, or a monopoly on the importation of high demand items. In the case of Mexico in the 1930s, India and Bangladesh after the partitions, and Mozambique coming out of

its civil war after 1992, we can see how the allocation of rents to organizations with violence capacity helped to motivate the reductions in actual violence. As Bates (1983) demonstrates, many tropical African states used monopsonistic marketing boards to extract rents from farmers producing export crops. These countries used part of the rents from the marketing boards to keep food prices low, thereby placating urban workers who might otherwise riot and threaten to topple governments. Those with the power to create violence or disorder receive privileges—rents—while those who do not have this power have few rights and are often exploited.

Our approach to rents differs significantly from the literature that emphasizes rent-seeking (Buchanan, Tullock, and Tollison 1980, Krueger 1974) and directly-unproductive-policies or DUP (Bhagwati 1982), as detailed in the framework chapter. Viewed from the LAO perspective, the rent-seeking/DUP approach ignores violence and implicitly assumes that the creation of rents is unrelated to the underlying nature of the society in which the rents appear. The LAO focus on violence and instability highlights the frequent tradeoff between raising hypothetical efficiency and creating stability with diminished violence. This perspective raises a question, when is it better to allow some costs to the economy, and perhaps to civil or political rights, in order to maintain or strengthen stability? Our conceptual framework shows that the appropriate counterfactual about eliminating rents is not always a competitive market economy (as the DUP perspective suggests), but is often a society in disorder and violence. To the extent that rent-creation in LAO's is the means of creating stability, then rents are a symptom of the development problem, not the cause of it. Attempts to remove institutions and policies that support economically unproductive rent-creation and corruption need to be done in ways avoid

recurrence of instability and violence, which derails development in a LAO. Often it is not done right, as in Bangladesh during the emergency government of 2007-09 or in the Philippines under Aquino, causing the LAO to regress. Other examples in our cases show how key organizations with violence potential can be sufficiently satisfied so that they remain in the ruling coalition while still allowing space for dynamic parts of the economy to open up: The army in Chile has kept its 10 percent of the profits from the state copper mine, while private firms were allowed to also enter the sector and now account for the majority of output. Most of the unions in Mexico have kept or even solidified their power in Mexico since the political opening in the 1990s, but NAFTA also opened many opportunities for new firms to emerge.

B. Dynamics of LAO's

Although the patterns of social dynamics within LAOs are persistent, LAOs are not static. As circumstances change, so too do important features of each LAO, even while they remain within the general LAO logic for decades and centuries. Changes occur in response to both exogenous and endogenous factors. Changing relative prices, climatic events, technological change, globalization, and violence from neighbors are all exogenous events. Economic growth or recession within the country, changes in the nature and distribution of rents, the membership in the dominant coalition or asymmetric growth (including violence potential) among these members, and the nature of public policy are all endogenous changes. As the Philippines case shows, Marcos used the threat of violence to impose martial law on what had been an LAO with electoral democracy. Some years later, the Marcos regime fell, in part because the fall in commodity prices reduced the total rents available to Marcos so that his support coalition fell

apart. Electoral democracy returned, but as under Marcos, the new regime perpetuated limited access in both economics and politics, so the Philippines remains an LAO. Similarly, the PRI enjoyed a long-term hegemonic political position in Mexico (roughly 1930 through 1990). The PRI lost its monopoly hold on government in the 1990s, culminating in the election of an opposition leader as President in 2000. The changing regime altered the distribution of rents among political parties but less so among economic organizations. Mexico remains an LAO.

All the cases exhibit significant change while remaining LAOs. On the positive side, South Korea and Chile have moved to the doorstep conditions and, in South Korea's case into the transition to open access. Mozambique has progressed as an LAO since 1992, expanding the range of socio-economic groups in the Frelimo system and building expectations that no major group will be totally excluded from rents. In contrast, the DR Congo has fallen into disorder, as Mozambique did in the 1980s, and Bangladesh exhibited problems following the attempted election in 2007. India and Zambia have exhibited greater stability, although India still experiences episodes of extreme organized violence. LAOs often exhibit episodic crises and regression rather than continuously moving forward. Some move from mature to basic LAOs, such as Chile in the 1970s, Bangladesh in 2007-09, Venezuela under Hugo Chavez, or Russia under Putin. Crisis and disorder in the DR Congo since the decline of Mobutu and in Mozambique in the 1980s pushed these societies from the basic back to the fragile range of the LAO spectrum. The more fragile, less mature LAO's usually had fewer self-correcting mechanisms to adjust policy in the face of new challenges. Even where LAOs replace their leaders or ruling parties, the need to maintain the dominant coalition through rent-creation means

that the new leadership often simply redirects rents. The high likelihood of violence in LAOs makes it hard to create pacts and new policy bargains that solve a crisis. Many elites will fight to maintain their privileges in the face of crises, especially when the proposed solutions to crises involve reducing or removing these privileges.

When we launched the case studies, we conceived of LAOs as spread along a spectrum, with the fragile and mature ranges at the least and most developed ends. Basic LAOs are in the middle, with less sophisticated organizations than the mature and more state organization and control than the fragile LAO. All of the nine cases were basic LAOs for at least part of the time, but they also differed substantially in their characteristics as basic LAOs. The nature of the state in the basic LAOs varied from military (at times Korea, Chile, Bangladesh), to formal single-party governments (Zambia 1972-90, Mozambique 1975-94, Bangladesh 1971-75), to single dominant party (Mexico 1930-1990, India 1950-70s, Mozambique post 1992), and to competitive clientelism (India, Zambia and Bangladesh [at times] since the 1990s). There is not a clear distinction between basic LAOs with competitive clientelism and mature LAOs. Furthermore, as we think about the maturation of LAOs along several dimensions—control of violence, the scope of relationship subject to credible rule of law, and the durability of organizations and agreements beyond the lives of the individuals creating them—we see that the pace and direction of change is not the same on all dimensions. While progress or failure on one dimension tends to reinforce the others, they often move in different directions in the same country during any decade.

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As elaborated in the Organizations section below, all LAOs have had to deal with the questions of how to define the inner circles of elites and how to deal with outside groups that aspired to gain access via economic success or mobilization of violence capacity.

C. OAO-type Institutions Function Differently in limited access orders. LAOs often copy institutions from OAOs, especially since the mid 20th century – and international donors have encouraged these countries to do so as part of reform packages – but these institutions operate differently in the LAO context and thus have different effects than in OAO's.² For instance, most LAO's have banks and many have stock markets, but these fail to become a means of pooling savings from large numbers of citizens, investing capital in enterprises, and making business opportunities open to all citizens. As the case of Mexico illustrates, capital markets (banks in particular) are underdeveloped, typically making loans to insiders, elites, and the government while failing to finance new entrants and entrepreneurs. On paper, banks and stock markets in LAOs may look like OAO institutions -- and some firms in LAOs may even be subsidiaries of OAO corporations -- but they act as parts of the LAO system that keeps access limited. The discussion of capital markets in the Mexican case shows this most clearly. A similar observation holds for laws and other political institutions, notably, legislatures and elections, discussed in detail in the next section. The wording of legislation, such as social insurance policies and corporate law seems to replicate similar OAO polices. Nonetheless, the implementation and enforcement in corrupt courts means that the laws and programs become

² For the historical LAOs discussed in NWW, there was not a world of OAOs, richer and more powerful, from which the LAOs of 1800 like Britain, France, and the US could copy institutions. Now, however, elites in LAOs often get their education in OAOs and bring back ideas for (or against) adopting OAO institutional forms at home (North et al 2007).

another source of patronage and thus part of the LAO. Mexico's anti-poverty program during the Salinas government (PRONASOL) illustrates this effect, although the successor program, Progres/Oportunidades, has relatively impersonal criteria.

D. Third-party enforcement from OAO-based organizations

The issue of third-party enforcement by OAO countries and organizations takes us beyond the original framework. All LAOs face the problem of creating a reliable third party to enforce agreements. In the first movers to OAO—Britain, the US and France, as described in NWW—the problem motivated the development of the institutions that brought about the transition to open access. LAOs in the world have often used third-party enforcement from organizations based in open-access countries— multilateral organizations, bilateral donor organizations, international banks and other corporations—and this pattern seems to have increased since 1950. Usually these come in as partners with some members of the local elite coalition, and they share the rents. This may bring medium-term gains in productivity but it also reduces the incentive for elites in the LAO to develop indigenous institutions for providing third-party enforcement of institutions that could benefit wider circles of domestic firms and households.³ Our cases show a wide variety of arrangements and their effects, some positive and some not.

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The UN has intervened to maintain the territorial integrity or restore order in three of the countries in our sample. In South Korea, the intervention stopped the invasion from the North after a hard war. Continued international military presence for six decades has sustained the

³ For a discussion of the role of third-party involvement in LAOs see Handler (2010).

external borders. The internal effects are not obvious, as the foreigners did not overtly meddle in Korean politics, but the omnipresence of foreign (mostly US) troops had indirect effects, such as discouraging the use of the Korean army against pro-democracy demonstrators in 1987.

In Mozambique, the white minority regimes of Southern Rhodesia and South Africa supported the anti-Marxist Renamo insurgency that launched a decade long civil war in the 1980s. (The UN international framework may have deterred any more direct intervention from Southern Rhodesia and South Africa.) In the early 1990s the Vatican brokered a ceasefire, leading to the entrance of a UN peacekeeping mission that monitored an election in 1992. Regular elections have followed since. Although the Marxist Frelimo Party has won these with increasing margins of victory, the country has become the recipient of and dependent on large aid flows from OAO countries, so it has pursued its socialist aims within a Washington-consensus framework, including respect of property rights.

In Zaire/DRC the UN rules and interventions have helped maintain the nation's borders on paper, but have not stopped internal violence or foreign military incursions. Without the UN framework and interventions, the neighbors would probably have dismembered the country to appropriate its valuable mineral resources. Some regions might have benefitted from this, but it is not clear if the country as whole would have.

Being able to use the international banking system and its guarantee of property rights for depositors has been an important benefit for elites in most of our cases, except perhaps India and Korea, which developed adequate domestic banking sectors. In DRC and the Philippines and to a lesser extent in Zambia and Bangladesh, elites have used the international banking system to

move ill-gotten assets off-shore. In Mexico the domestic banking sector has been repeatedly raided since the 1920s, as it did not find a way to protect itself through rent-sharing (Haber et al 2003); since the mid-1990s Mexico has had a small banking system almost entirely composed of foreign banks and not providing much service to the non-elites.

Foreign direct investment in mineral extraction has played a major role in the economies of many LAOs, including DRC and Zambia in our sample. In both cases there have been cycles of foreign investment, with especially favorable terms during the more welcoming phases, in which some members of the local elite shared benefits. The mining ventures were mostly enclaves, and the internationally linked institutions that provided some third party enforcement for the mineral sectors did not spread benefits to the rest of the economy. Mexico is unique in having expelled foreign firms from its oil industry early in the 20th century—in the 1930s—and maintained a monopoly for the government-owned company ever since. PEMEX and its union became major players in the Mexican political economy, with mixed effects on the rest of the economy. (For a discussion of mineral extraction in other LAOs of Latin America, see Webb 2010.)

A notably beneficial targeted international intervention in our sample was the multi-fiber agreement that created an export-oriented time-bound subsidy for Bangladesh's textile/clothing industry. Most governments have had trouble credibly limiting the duration of subsidies for infant industries, because the program creates a strong lobby for extending the subsidy. With the MFA, however, the international community had set the timetable, out of reach of Bangladeshi lobbying, so the industry knew that it had achieve competitiveness quickly.

II. Implications for Development Policy

Our discussion of concrete policies starts with the policy areas that are of most direct concern to the World Bank and to its governance and anti-corruption efforts. The discussion then broadens to include other related issues. We begin with rents and competition constraints, then move to organizations, elections and democratic reforms, and finally to violence and the military.

A. Rents and constraints to competition

As discussed above, rent-creation and limits on competition can have good as well as bad effects, depending on a country's level of development. Practical policy recommendations, therefore, need to be more nuanced than just eliminating constraints on entry and competition. In an LAO the primary concern is to reduce violence, which is a pre-requisite for any economic development. When rents are eliminated, the relevant counterfactual alternative is often not a competitive market economy but a society with disorder and violence. For the medium-term developments in an LAO, it matters whether the rents create incentives for learning and accumulation of productive capacity. We see positive effects of rents on production (besides discouraging violence) in many of the case studies: Chile, Korea, at times in Mexico, Bangladesh, and India.

These economically productive rents in our cases have two characteristics: they do not last forever and they have some link to the performance of the firm getting them—augmenting the market rewards (see also Khan and Jomo 2000). When the competition for rents becomes a zero-

sum or negative-sum game, as with Bangladesh in the 1980s, the Philippines, West Bengal after the 1990s, and Zaire/DR Congo, then the decline of the aggregate pool of rents at the disposal of the government puts increasing, and perhaps eventually unbearable, strains on the ruling coalition. Limits to access (creating rents) that have particularly negative efficiency effects, such as the trade restrictions and state's telephone monopoly in Mexico and Chile in the 1970s, must be considered in light of how much to the rents can be reduced without destabilizing political equilibriums that keep the peace. In contrast, South Korea slowly transformed the rents to larger firms (chaebols) from patronage in the 1950s and 60s into incentives based on success in increasing exports. In Mexico and other cases those collecting rents have still been able to do well even when there was substantial opening and growth of trade, because then a small percentage rent could be collected on a much bigger volume. Furthermore, economic progress may open new areas for accruing rents. While rates of trade tariffs have come down in India, there is no evidence that the percentages of rent collection have in general declined; corruption appears to have dramatically increased around many government activities, which are also more valuable, like the auction of 3G licenses.

As societies move toward the mature end of the spectrum of limited access orders, rents are increasingly distributed according to impersonal rules. In Korea, for example, import licenses and subsidized credit was distributed in the 1960 and 70s mainly according to firms' demonstrated export performance. On the other hand, as a society moves towards the fragile end of the LAO spectrum, durable organizational rent creation is gradually supplanted by more

personal and less durable rent creation, as occurred in the Philippines, Bangladesh, and more extremely in the DR Congo.

The cases show, not surprisingly, that redistribution of ownership and control over productive property—and rents from it—have major effects on growth and the transition from privilege to more impersonal and equal citizens' rights. The effects are more likely to be positive if the redistribution encourages entrepreneurs and the creation of real assets. The effects are more often negative if redistribution encourages political dependencies. Our cases illustrate this with respect to land reform. In South Korea and Taiwan, land reform increased access to economic opportunity for the lower half of the income distribution. Land reform in the Philippines did not happen. In Mexico land reform did not succeed in opening opportunities for poor peasants; instead it encouraged inefficient land utilization, tying peasants to the land and making them dependent on largess distributed by the PRI at election time.

The distribution of rents in the commercial and industrial sides of the economy also plays a key role in motivating political stability. Commercial and industrial rents have a mixed history in promoting positive economic development. In Bangladesh, the rents from the final years of the regime of quotas on textile exports led, with assistance from a Korean firm, to the creation of a successful textile export industry, as noted above. In Korea, even though the chaebols concentrated the control of the industrial economy in a few hands and benefited from government protection of their oligopoly position, they did accumulate capital, improve their technology, and succeed in competitive international markets. Later the government was able to trim back the special economic privileges it gave to the chaebols, although they retained great market power in

the economy. In India, Mexico, and the Philippines, on the other hand, powerful domestic corporate interests have maintained their personal links with politicians in power, and with illegal organizations at times. Similarly, when countries rely on international corporations to run major sectors of their economy, like mining and banking, these have needed protection from electoral populism or other local forces (and sometimes the military) and have provided reciprocal economic benefits to those in power, as seen in Zaire / DR Congo, Zambia, and the Philippines.

B. Organizations, Parties and Personalities

Organizations play a central role in the LAO framework. The spectrum of fragile, basic, and mature limited access orders is defined in terms of the nature of organizations within a society. All types of organizations matter: political, economic, social, religious, military, and educational. Toward the fragile end of the spectrum, organizations are tied closely to personal identities, and their leaders are connected directly into the dominant coalition. The ability of leaders and organizations to survive and thrive depends on constantly changing conditions.

The cases provide new lessons for the framework. The DR Congo, Bangladesh, the Philippines under Marcos, and Zambia 1964-91 show the importance of organizations based on personality, which attempted to balance interests in an uncertain environment. In other cases, such as West Bengal under the CPM and Mexico under the PRI, the main political organizations were less oriented to personalities, which seems to have made the LAOs more stable.

How should development policy treat organizations? What organizations and rules for interacting among them should be supported? As with rents, the cases show that the value of

organizations for improving the political economy of an LAO depend on each country's circumstances. When the countries in our cases struggled to reduce violence, consolidating political control and limiting economic access was the common outcome. This aimed to make more credible the commitments for distributing rents. Military governments worked temporarily, with their effectiveness in promoting depending on how disciplined they were as organizations, being effective in Chile and Korea, less so in Bangladesh and the Philippines, and least in DR Congo. Minimizing the military's role in directing the economy seemed to help.

Exclusive single-party governments (Zambia 1972-91, Mozambique 1980-90, Zambia/DR Congo 1965-90, and Bangladesh 1971-75) did not do well, with problems in both maintaining stability and promoting development. The successes of China and Vietnam in the last three decades show that a single party government can succeed, however, which case studies sponsored by the French Development Agency will explore in more detail. The Bangladeshi and Zambian cases in the 1970s and 80s reveal two reasons why an all-encompassing single party may fail to restore order: i) if the dominant coalition (party membership) cannot be defined to include all the organizations that have access to violence capacity; and/or ii) if too many of the member organizations in the party demand excessive shares of a fixed rent pool (and they are not themselves generating rents from productive growth). Dominant (but not legally exclusive) single parties in India, Mexico, and Mozambique since 1994 succeeded for a time in maintaining order and promoting growth. Eventually, however, the single or dominant party approach became a hindrance to the sophisticated and impersonal commitments needed for further economic development.

As societies move from the fragile toward the basic range of the LAO spectrum, organizations become more durable, eventually to the point that some live longer than their leaders. The organizations themselves come to take on important roles in balancing interests, even as some remain linked to individual personalities. The organization becomes the framework in which long term relationships are embedded, and organizations develop longer term relationships between each other. The early Korean chaebol, the army in many cases, public/private organizations in Mexico (such as Pemex, Telmex, and the PRI) are durable organizations that provide a stable framework for political and economic interaction, even as they manifest limited access and rent creation. These organizations are closely tied to the government and to the balance of interests in society, yet they are more durable than the personal identity of their leadership.

The movement from basic to mature limited access orders involves organizations that are substantively independent of the state. . In Chile, the outgoing Pinochet regime put clauses in the 1989 constitution that were intended to entrench and secure the position of the conservatives. One might have expected, given the course of events in Chile over the previous twenty years, that when the center-left alliance attained power they would rewrite the constitution and restructure basic government organizations like the legislature. Instead, when this coalition came to power, they kept the conservative constitutional rules for a time, including rules that guaranteed the independence of political organizations from ongoing manipulation and interference. As Navia concludes, Chile is not be an open access order yet, but it is a mature limited access order that appears to moving toward the doorstep conditions.

For concrete policy applications, helping LAOs to make their organizations more durable and rule-based is usually more useful for development than trying directly to promote the appearance of fully open economic and political competition in societies where threats of violence perpetuate limited access arrangements.

Recent research has advanced our understanding of organizations, their extent across different societies, and something of their structure (World Development Report 2003, De Soto 1989, etc.). Attempts have been made to estimate the difficulty of forming a business, getting a license, or obtaining a corporate charter. Typically the World Bank and OAO donors have emphasized the ease of starting a business, entering at the bottom, but the LAO lens calls more attention to the institutions that facilitate or hinder the growth of an enterprise to achieve a scale that is politically and economically important. We also have long known that corrupt courts in many LAO's fail to provide basic services for organizations, such enforcing contracts or collateral agreements in bank loans. Efforts to address these problems should be extended, both conceptually and empirically, an issue we return to below. For the moment, we lack well-defined ways to measure the structure of organizations across countries and how that changes over time. Such measures have not been developed even for OAOs, such as the United States.²

The case studies offer clear examples of movements along the spectrum from fragile to maturity. Korea moved away from personal treatment of powerful organizations, like the chaebol, as unique and idiosyncratic organizations, even while the chaebol remained as important organizations in the dominant coalition. Over time, Korea came to treat them more impersonally

²See, for example, the historical work comparing the structure of corporations in Britain, France, Germany, and the United States: Guinnane, Harris, Lamoreaux, and Rosenthal (2007).

as class of organizations, and in recent years, to just one of a general type of organization (although chaebol still possess enormous market power). In contrast, organizations in the Philippines have moved toward more personal and idiosyncratic privileges. Montinola documents the close personal relationships of the Marcos regime with economic leaders. For countries that have achieved stability for two decades or more, the cases point to the value of widening the range of organizations they support, not only at the initial entry phase but also in increasing the ability of the organizations to make sophisticated commitments internally and with each other, commitments that firms need in order to grow to elite status.

The case studies demonstrate that societies do not inevitably move to more impersonal and credible support for organizations. Although institutional economics has given us a deeper appreciation of institutions as the cause of economic and political outcomes, it has devoted less attention to how institutions evolve as the result of economic and political influences. The LAO/OAO conceptual framework helps us think systematically about these problems.

C. Democracy and Elections

In the 21st century Washington Consensus on governance, elections have become the signature OAO institution to export to LAOs. Viewing the nine cases through the lens of the LAO framework, however, provides two implications about elections: first, holding elections in an LAO differs considerably from democracy in the OAO sense; and second, elections in LAOs sometimes, but not always serve useful purposes, even if they are not free and fair.

The traditional consensus in the donor community has been that democracy is good because it represents the fundamental means of ensuring political freedom. This consensus further implies that countries should move quickly to hold elections and implement democratic reforms. After all, who can be against enhancing freedom and citizen control over government? Many examples in our cases show that this agenda often ignores reality. Moving too quickly to democracy may undermine social stability in a country. In other cases, elections can be useful stabilizing rituals, even if the elections do not express the will of the people or hold the government accountable. The tradeoff between stabilizing and moving toward democracy is especially problematic for fragile LAO's that have recently emerged from disorder (Collier 2009).

For example, Keefer and Vlaicu (2008) show that implementing elections in societies where political organizations are dominated by patron-client networks -- that is societies with highly personal forms of political organization -- is likely to produce an outcome in which the patrons use votes as another medium of exchange. Clients trade their votes for privileges and other services. Elections in this setting may help stabilize an LAO by providing a visible and common knowledge means of assessing the relative strength of disparate groups, thereby reducing the likelihood that they will fight (as emphasized by Cox 2009 and Magaloni and Krischeli 2010). In this sense, elections increase the likelihood that adjustments in power among those with access to violence occur peacefully, making the LAO more stable and preventing downward spirals into violence. Nonetheless, elections of this type fail to produce OAO style democracy; rather, they perpetuate limited access orders. Keefer and Vlaicu see this result as

failure. The LAO conceptual framework suggests that it is inevitable and could be part of a beneficial process of maturing as an LAO.

The relevant question is whether the election in a particular situation facilitates the economic and political development of the society within the LAO spectrum. As elaborated below, the case studies illustrate the varied effects of elections: to destabilize the political system (Chile 1973 and Bangladesh 2007-09), to help consolidate and reassert political control (Mexico 1930-90, Zambia 1972-90), to ratify a peaceful transition to power sharing (Zambia 1992, Mozambique 1994, Mexico 2000, India 1977, Chile 1989-90), or to make genuine choices between well defined alternatives (Chile after 1990). South Korea moved relatively slowly toward democracy, and Chile regressed to dictatorship in the 1970s; now both are among the successful instances of long-term economic and political development.

Elections, even if not free and fair, can be useful as stabilizing political rituals in LAOs. Examples in our cases include the PRI dominated elections in 20th century Mexico, national and state-level elections in India, Zambia 1972-90, and post-Marcos Philippines. Sometimes they are salient steps in advancing a LAO country's development on the political side—as with the elections of 1990 in Chile and 1987 in South Korea that restored civilian rule, the 1994 election in Mozambique that ratified the peace agreement, the 1977 election in India that ended the years of undemocratic rule by Indira Gandhi, and the 1991 election in Zambia after which Kaunda accepted defeat peacefully. As Khan emphasizes in the case of Bangladesh, good election outcomes in an LAO are those that reflect the balance of power between competing groups on the ground, even if the elections themselves did not follow a free and fair process.

Elections may be part of the regular political ritual of stability in an LAO regime, as with

Mexico in the years of PRI dominance, and Zambia in the years of Kaunda's dominance. An unswerving adherence to free and fair elections on western terms may undermine the role of elections in an LAO. Elections that occur when the rules to carry out the results of an election are in sufficiently institutionalized (i.e. that the incumbent party will willingly step down) or when elections produce outcomes that are unacceptable to the existing distribution of economic power often bring on periods of unfortunate instability and violence, such as Chile in 1973 and Bangladesh in 1947(-58). The lesson from cases like Bangladesh, DR Congo, and Korea around 1960 is that the governance agenda should not always push for elections now, but should recognize the prior need to have adequate institutions in place to carry out the election and its results, even if unfair by OAO standards.

Competitive elections in some LAO's make politicians more dependent on donations from major economic organizations (big firms, etc.), which weakens (or keeps weak) the will and ability of the government to curb monopolistic practices and assure more open access on the economic side. Mexico since the 1990s and Korea after 1987 illustrate this effect, where business concentration has remained high or even increased. India and Bangladesh are more complicated. Politicians clearly protect the big businesses that pay them but the economy as a whole is becoming more open simply because the number of players is increasing. And the same is happening in the political sphere of the South Asia cases, where new organizations are setting up more freely.

D. Violence

In most LAOs, the military and police force(s) are part of the array of organizations with violence capacity. Seen through the LAO lens, a Weberian state with a monopoly on violence is not a policy outcome to be strived for in itself, but is rather an outcome of an historical process that is not on the immediate horizon for most LAOs. Helping a weak LAO government achieve a strong military and police force is no panacea for development problems; in many cases, this strengthening allows greater repression and extraction of rents from opponents, hindering development. In other cases, the effort fails completely. The strengthening of government forces, which work in OAOs as coercive threats to deter criminal use of violence, cannot be easily carried over to LAOs as a way reduce violence, since LAO governments usually cannot prevent their military and police from rent-seeking on their own.

The key insight is that successful LAOs limit disorder mainly by creating incentives for individuals not to use violence; these incentives for peace rarely involve the state assuming a monopoly on violence. The DR Congo is the most obvious situation where strengthening one faction and calling it the ‘government’ did not lead to the other factions reducing their use of violence. The cases of Bangladesh, the Philippines, and Mozambique also illustrate the intertwined relations between the formal military and police and other organizations that use violence.

Although violence is central to the internal dynamics of every limited access society, it is only recently that the World Bank has given attention to violence as a policy concern. Problems of crime and violence are treated as something outside the state; societies with wide-spread violence are classified as failed states or post-conflict states. The Bank’s assistance aims to

support rebuilding efforts and deals much less with the causes and remedies for ongoing armed conflict. The cases here, with perhaps the exception of DR Congo, show how countries have successfully reduced violence, although not eliminating it entirely. The LAO framework can help to sort out which of the country experiences in this set is relevant to another particular country circumstance.

In open access orders, control of military and police is lodged with a responsible political system that is effectively constrained by political and economic competition. In limited access orders, however, the government rarely controls all of the organizations that can or do use violence. With the exception Mexico and India, the formally organized military and police have been active participants in the political process at various times in all of the cases. In South Korea, Chile, Bangladesh, Philippines, and DR Congo the army (or armies) were at some point or still are primary players in both the polity and the economy. Rather than an organization under the control of the government, the military in these societies is one among several organizations vying for control of or influence over the government. In Mozambique since independence in 1974, there has been little separation between the military and the ruling Frelimo party.

The role of the military is only one facet of the complex balance of powerful organizations whose interaction results in stability or instability in a LAO. The creation of rents through limited access is systematically connected to maintaining the balance of power and influence. Governance policies in LAOs cannot be divorced from the ongoing problem of balancing powerful interests when those interests are capable of bringing down or taking over the existing formal government or of obstructing the economy with the threat or actuality of violence. All of the countries (except Chile) have or had non-military organizations (some legal

and some not) with serious violence capacity that have played a role in the allocation of political power and economic wealth.

Table 1 lists some of the organizations with violence potential. In OAOs, politics is also about balancing powerful interests, but in the absence of any serious threats to alter the government through the use of violence.

Table 1: Non-military organizations with violence capacity

Country	Organizations inside the state or legally recognized	Informal or Illegal organizations
DR Congo	Regional militias and police	Foreign military
Mozambique	None	Renamo rebel group
Zambia	Unions	Ethnic groups
Bangladesh	Political Parties	
India	Political Parties	Maoists (including Naxalite and separatist movements); organizations based on religion, caste and tribal origin.
Philippines	Unions, student groups	Communist Party (CPP), New People's army (NPA), Moro Islamic Liberation Front (MILF), Abu Sayyaf
So Korea	Unions, student groups, Korean CIA (before 1987)	Partisan guerilla groups (until the Korean War)
Mexico	Local Police, Unions	Drug cartels, Zapatistas,
Chile	None	None

In historical European cases, the military and police established a monopoly on violence as a result of the long-term development of other social, economic, and political organizations that could credibly limit the military (NWW 2009). First, monopoly control evolved as part of a larger development process that moved these states to the doorstep conditions, helping organizations and the state itself to be perpetual lived and capable of implementing impersonal

rules, including control over the military and police. Second, an important feature of the monopoly in the historic cases afforded government control of a military with sufficient capacity to defend the nation from external enemies while simultaneously withdrawing the military from the internal allocation of rents. This happened in over several decades in Korea after 1950, although the Korean CIA was more involved in domestic enforcement of the military dictatorship. In Chile the military had a good professional (non-political) reputation dating back to the 19th century, which was only partially lost in the Pinochet years, since the military restrained its involvement in the day to day governing. The inability of civilian politics to control the military also comes through in the cases of Bangladesh, the Philippines, and DR Congo, although not in Mexico or India.

III. Agenda for further research

The lessons we have learned from the cases both expand and deepen the conceptual framework. Much remains to be done, however, both to improve the framework and to improve policy advice. The most promising areas for future research seem to be:

- A deeper understanding that the principal development problem making improvements within the LAO framework. Compared with the transition to open access, this improving development within LAO's does more to improve the lives of people in terms of proportionally increasing income and reducing incidence of violence. This development problem focuses on the movement of LAO's from fragile to basic, from basic to mature, and from mature into the doorstep conditions. Attempting to skip these steps and focus instead on the transition from an LAO to an OAO is more likely to fail than succeed.

Simply taking elements of OAO's and transplanting them into LAO's – including open access to markets, new legal systems, and democracy – does not seem to work. The framework explains why such policies do not work; these institutions work very differently in the limited access context than they do in an open access one. The case studies suggests some insights into the primary development problem, but far more understanding is necessary.

- Rents pose another central set of conceptual issues, particularly the distinction between rents that facilitate development and those that do not. We also highlight the critical relationship between rents and incentives to maintain peace. Progress on the development problem in low and middle income countries requires that we obtain a clearer understanding of the ways in which rents be changed without increasing the risk of violence.
- The framework emphasizes the role of organizations and their role in the development process. Several directions exist to facilitate organizational power and productivity, including improving access to organizations, improving the legal and other tools used by organizations to maintain themselves, and improving the tools that organizations have maintain relationships and contracts among themselves. We know too little about the tradeoffs between facilitating organizations and undermining the rents they generate that produce stability in LAO's.
- The role of outside organizations, including official aid agencies and NGOs, needs more thought. Outside organizations hold the potential to reduce the threat of violence, and may serve to enforce agreements, pacts and even constitutional provisions; yet doing so

would often require that these organizations operate differently than they do now. We need to know more about how these organizations can work within the LAO framework to facility incremental improvements.

- Because violence is so central to the structure of LAOs, so too is the issue of limiting violence. As is obvious, preventing LAO's from undergoing violence and its attendant problems makes people in these societies better off. The LAO lens provides new insights into how violence can be and is limited. Nonetheless, we need to learn more, particularly about the processes by which governments in different contexts can discourage violence, perhaps without attaining a monopoly control on violence and along with measures that reduce extortion and abuse of citizens. Facilitating an LAO government's monopoly power over violence may simply grant it even stronger abilities to limit access and create rents.
- The cases illustrate the great diversity among LAO's, even those we place on similar points along the fragile to mature spectrum. We need greater conceptual understanding of how this diversity links to the framework's key concepts, such as violence potential, rents, and organizations.
- The framework reorients policy recommendations for LAO's. This conceptual and practical transformation is just beginning.

Finally, any discussion of the list of countries in our project brings out good suggestions for other cases to examine. The French Development Agency (AFD) has already initiated studies on China, Vietnam, Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Turkey, Pakistan, and Gujarat, a state in India. The Government Partnership Facility is also sponsoring through the World Bank a

political economy study in Haiti that is using the LAO framework as part of its approach. This will give us a richer understanding of how the framework applies in places that remain LAOs, despite dramatic changes.

Most of the countries that have made that transition to Open Access or at least achieved the doorstep conditions are in Europe. The Nordic countries and the Low Countries probably made the transition before the First World War. After serious regressions to basic LAOs between the wars, Germany, Austria, Italy and Spain made their transitions to OAO in the second half of the 20th century, within the context of the European Union. The EU has also provided the context and rules of the game for Eastern European countries to move to the doorstep and perhaps make the transition to OAO. Japan is also an important case. Examination of a selection of these cases would help us understand better the requisites to progress in LAOs in the rest of the world and how the international development community could offer relevant support.

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