Institutional Bottlenecks: What Can be Done?*

Christopher J. Coyne and Abigail R. Hall†

1. Introduction

How is it that the Middle East, once one of the most economically advanced regions in the world, became relatively underdeveloped within a few centuries? This is the central question which motivates Timur Kuran’s (2004a,b 2011a, 2012) research on Islam and the development trajectory of the Middle East. In order to answer this question, Kuran engages in a comparative institutional analysis, both within the Middle East and across regions, to identify the key institutions which facilitated or hampered progress. In doing so he identifies several historical “institutional bottlenecks,” path-dependent institutional arrangements, which contribute to economic stagnation. At the time these institutional arrangements were adopted they served to facilitate productive economic activity. These arrangements eventually became bottlenecks, however, as they perpetuated in their original form despite changes to the broader economic environment. The result was economic stagnation due to a gap between path-dependent institutional arrangements based on past economic conditions and the existing economic environment. Even though the bottlenecks themselves

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† Christopher J. Coyne is the F.A. Harper Professor of Economics at George Mason University and the Associate Director of the F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center, and Abigail R. Hall is an economics doctoral student at George Mason University, the JIN Fellow at the Mercatus Center and the Thomas W. Smith Fellow with the Institute for Humane Studies.
have since been removed, their legacies have contributed to the regions’ ongoing stagnations.

The history of the Middle East contains several clear examples of these bottlenecks, including: (1) Islamic laws regarding inheritance which discouraged capital accumulation, (2) the lack of a notion of “corporation,” which resulted in limited organizational forms and a weak civil society, and (3) the waqf, or trust, which resulted in resources being “locked-in” to organizations which proved to be inflexible or inefficient over time. Kuran notes that none of these institutions were inefficient or irrational at the time they were established but, as conditions changed, these arrangements prevented the evolution of economic activity. Due to reforms in the nineteenth and twentieth centuries, none of these historical institutional bottlenecks remain an obstacle to present economic improvements. Nonetheless, the Middle East remains economically underdeveloped. According to Kuran (2011a: 293-298), this is, in part, the result several perverse legacies resulting past bottlenecks. For example, he argues that the Middle East suffers from a lack of key complementary institutions, such as social norms which encourage corruption and low levels of trust, a weak civil society, and inward-looking ideologies which constrain adaptation to changing global conditions.

While Kuran focuses on understanding the economic performance of the Middle East, his research has broader implications for understanding how institutional bottlenecks can lead to economic stagnation in a variety of societal contexts. This leads to a crucial question: what can be done about institutional bottlenecks and the perverse legacies they leave? Our purpose is to use Kuran’s analysis as a springboard to explore the answer to this question. If the purpose of economics is to understand the wealth of nations then Kuran's focus on the role of institutional bottlenecks is of central importance to the whole of development economics. Indeed, “the international development community”—consisting of governments, aid agencies, international aid organizations, technocrats and consultants—exists with the specific goal of curing the ills of underdeveloped societies. The very existence of these agencies and organizations seems to imply that the perverse effects of institutional bottlenecks can be effectively dislodged to allow for economic progress. However, the historical record of efforts to “fix” underdeveloped countries has proven disappointing despite the investment of a significant amount of effort and resources (see Easterly 2002, 2006). This implies that developing solutions to remove institutional bottlenecks and the legacies the leave behind may be beyond our grasp. In order to develop an answer to our
motivating question we draw on the work of F.A. Hayek and further explore the role of institutions and the limits on human reason on improving the world.

We proceed as follows. The next section provides a discussion of institutional bottlenecks and how they contribute to economic stagnation. Although the form of these bottlenecks varies and is context specific, Kurian’s insights regarding their role in economic performance are generally applicable to our understanding of the wealth of nations. Section 3, which consists of two subsections, considers the issues of spontaneity, rational constructivism and the limits of human reason. Section 3.1 discusses what we term “Hayek’s dilemma.” F.A. Hayek was a staunch critic of “rational constructivism,” the belief that man could shape the world according to their wishes and desires through the use of reason. At the same time, however, Hayek made specific recommendations for institutions and rules which he believed would lead to a preferable state of affairs. How can Hayek simultaneously critique the abuse of reason, yet rely on his own to offer specific rules and institutions to improve the human condition? Section 3.2 discusses a resolution to this tension by extending Hayek’s emphasis on feedback and competition in markets to the realm of institutions and rules. What matters for rule formation is not whether institutions are spontaneous or constructed, but rather whether feedback mechanisms exist to generate desirable results for those who live under the rules being formed. In light of this resolution, Section 4 returns to our motivating question—what can be done about institutional bottlenecks?—and offers an answer. We argue that focus should be placed on “unblocking reforms,” which create general rules by removing barriers to discovery as compared to “end-state reforms,” which attempt to predefine and achieve specific outcomes.

2. Institutional Bottlenecks

Institutions can be understood as the formal and informal “rules of the game” (North 1990). These rules create payoffs to various courses of action which, in turn, influence economic outcomes. There is widespread agreement among economists that institutions matter for economic performance. Further, economists know what is required for economic prosperity in general terms, what Dani Rodrik (2007) calls “first-order economic principles”—private property, sound policy, and competitive markets. That said, the specific form of these institutions and policies varies so greatly that economists lack a single, well-defined solution to underdevelopment. This lack of a one-size-fits-all solution is due, at least in part, to the unique historical experiences of different societies. These perspectives serve
as constraints on what can be achieved in the present and future (North 1990, 2005). So while we know that private property rights play an important role in all societies, the specific form these rights take, if they exist at all, varies based on unique historical contingencies.

The idea that history matters for institutional trajectories, and hence economic performance, was recognized by Douglass North (1990) who introduced the concept of “institutional path dependence.” Institutional path dependency, the locking in of certain institutional arrangements due to increasing returns, has its basis in Brian Arthur’s (1988, 1989, 1994) work on path dependence in market settings.1 At the core of this literature is the recognition that small decisions in the past, which often appear insignificant at the time of the choice, can have significant future implications. A key implication of the path dependency literature is that laissez-faire market activity can result in inefficient allocations—e.g., inferior products or inferior standards of operation—which persist or lock in despite the availability of superior alternatives. These self-enforcing lock-in effects are the result of increasing returns which emerge from three sources: (1) fixed costs which result in lower cost per unit as output increases, (2) learning effects which result in lower costs due to increased know how, and (3) network effects, which refers to the greater benefits of adopting a technology or standard given that others have already chosen to adopt that technology or standard (Arthur 1998: 10, 1994).

Increasing returns, in turn, generate the following outcomes: (1) multiple equilibria where a number of potential outcomes are possible, (2) potential inefficiencies as inferior alternatives “win out” over superior ones, (3) potential lock-in of an equilibrium which, once selected, can persists over time, and (4) potential path dependence whereby small choices and events lead to a particular path which constrains the range of future choices. Arthur’s line of reasoning is important because it raises the prospect of market failure whereby inefficient alternatives are not just chosen, but persist over significant periods of time.2 Further, even if the superiority of alternatives is recognized ex post, it can be difficult to coordinate a wholesale shift to the preferable equilibrium because of increasing returns to maintaining the status quo. The standard solution is for

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1 Also important is Paul David’s (1985) work on the economics of QWERTY which raised issues of path dependency in technological standards.

2 It is important to note that Arthur’s analysis and conclusions regarding path dependency and market failure have been challenged (see Liebowitz and Margolis 1990, 1994a,b, 1995, 2000; Kiwit 1997).
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North (1990: 95-6) extended Arthur’s logic of path dependence in markets to institutional arrangements, arguing that increasing returns and positive transaction costs influence institutional paths.\(^3\) The logic of institutional path dependency indicates that two societies may respond to identical conditions in dramatically different ways because of differing historical experiences. It follows that institutional paths serve as constraints on present and future economic opportunities and performance as institutions respond to changes based on past historical experiences.

Kuran’s research highlights how institutional paths can create “bottlenecks” in the form of persistent institutional arrangements which hamper economic progress. The logic of institutional bottlenecks helps to explain why some societies remain underdeveloped and why other societies suffer a reversal of fortunes whereby economic prosperity is followed by economic decline and stagnation. Certain institutional arrangements are locked in even as circumstances change. While these institutions may have served a purpose in the past, as conditions change, these arrangements may become suboptimal. Given today’s information, agents would be better off if they moved to some other arrangement. However, due to increasing returns existing institutions are self-enforcing and can contribute to economic stagnation if they fail to effectively deal with the ever-evolving economic environment.

To provide one example, consider Kuran’s (2004a,b; 2011a) discussion of the waqf system, which refers to an Islamic trust, or pious foundation. These unincorporated trusts were established by a person, under Islamic law, to provide a specified service in perpetuity. The person establishing the trust would establish an endowment to support various social services such as schools, mosques, water infrastructure, etc. The emergence of the waqf was beneficial on several margins. For one, these institutional arrangements allowed for the funding of social services and “public goods” at a time when governments did not fill these roles. According to Kuran (2011a: 110), “In the Middle Ages waqfs financed innumerable services in cities far larger than any western town; and they did so without direct state involvement.” Second, in the absence of weak property rights, the waqf was a

\(^3\) Also see Buchanan and Yoon (1994) and Pierson (2000a,b) who discuss institutional path dependence and its connection to economic development. Kiwit (1997) and Lebowitz and Margolis (2000) discuss some issues with extending Arthur’s notion of path dependency to institutions.
mechanism for protecting private assets in the face of unpredictable expropriation by those in power. As the trustee of the waqf, the founder could pay themselves a salary and also appoint friends and family to central roles within the waqf. Because waqfs held a sacred status, political elites were less likely to engage in predatory behaviors against them, thus allowing for a more predictable and secure income stream for the waqf’s creators and employees.

The emergence of this institutional arrangement was clearly beneficial within existing circumstances as it “represented, in effect, an implicit bargain between rulers and their wealthy subjects. Rulers made a credible commitment to leave certain property effectively in private hands; in return, waqf founders agreed to supply social services, thus unburdening the state of potential responsibilities” (Kuran 2004a: 75). In this regard the institutional arrangements underpinning the waqf system contributed to economic prosperity given the broader context.

Despite the early success of this institutional arrangement, however, over time the waqf system became an institutional bottleneck which hampered economic progress. The inflexibility of the waqf system became evident as necessary goods and services were not being provided. The problem was that the initial constraints established by the waqf system—the dedication of an immoveable endowment to the provision of a specific service in perpetuity—once so beneficial to the development of the Middle East, became a hindrance as needs changed. As Kuran (2004a: 78) notes, “The waqf system lacked the flexibility to reallocate its vast resources quickly to meet the emerging demand for these services.” This inflexibility is evident from a consideration of the fundamental differences between waqfs and corporations: (1) the absence of profit-maximizing behavior, (2) non-transferability of individual shares, (3) the lack of separation between the property of the waqf and trustee, and (4) the waqf’s lack legal personhood (Kuran 2011a: 128-130). The structure of the waqf system created a disincentive to adapt the goods and services provided, hampering large-scale commercial trade as economic conditions evolved. The inflexibility of the waqf system was even more evident when comparing the public services of the Middle East to those in other western societies in the nineteenth century. Other public services were much more adaptable and, therefore, more conducive to economic progress.

The waqf system is just one example how institutional arrangements, which were once beneficial, can evolve into self-perpetuating institutional bottlenecks (as per the logic of institutional path dependency). Further, even when bottlenecks themselves are removed, they can leave perverse historical legacies which may
continue to hamper development. For example, even in the wake of nineteenth and twentieth century reforms which reduced the need for waqfs, past reliance on these institutional arrangements contributed to corruption, ineffective judges, and a weak civil society which contribute to ongoing stagnation (Kuran 2011a: 293-296).

As Kuran’s research program demonstrates, the logic of institutional bottlenecks has potent explanatory power for understanding the varying wealth of societies across both time and space. Many development economists and practitioners, however, are not satisfied with stopping at explaining the differences in economic development. Instead, they seek to actively design and implement reforms to remedy the institutional bottlenecks which they believe contribute to underdevelopment. Such exercises in “rational constructivism”—the use of human reason to attempt to design a preferable state of affairs—is grounded in the aforementioned logic of path dependency.

Where institutional bottlenecks exist, many argue that in order to put actors on a new and improved institutional path, some outside entity, such as the international development community, must provide an exogenous shock to break society out of the suboptimal status quo. Thus, many development economists and practitioners concern themselves with finding the “right” institutional mix to promote progress in various countries. Indeed, the entire international aid complex is dedicated to designing solutions intended to fix underdeveloped countries through institutional and policy reforms which aim to achieve superior economic, legal, political and social outcomes.4

Recognizing the role of institutional path dependence in economic development, as well as the desire to “do something” to remedy what are perceived as inferior institutional arrangements raises an important question: what can be done about institutional bottlenecks? The answer to this question requires an understanding of the limits on human reason to rationally construct a preferable state of affairs to achieve the end of promoting economic progress.

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4 The prevalence of this type of thinking is evident in Easterly’s (2006) critique of “Planners,” in contrast to “Searchers,” in economic development. A Planner “thinks he already knows the answers” while a Searcher “admits he doesn’t know the answers in advance; he believes that poverty is a complicated tangle of political, social, historical, institutional and technological factors” (Easterly 2006: 6). The dominant “Planner” mentality holds that enlightened experts can design institutional reforms to dislodge bottlenecks and achieve economic development.
3. Spontaneity versus Constructivism

3.1 Hayek’s dilemma

F.A Hayek (1941) was a strong critic of what he called the “men of science,” those who attempted to utilize science to transform and perfect society. Hayek’s central critique of constructivism was that there exist hard limits on what human reason is able to comprehend regarding the functioning of society. He argued human civilization was a network of complex institutional arrangements that could not be understood by a single mind or group of minds. This logic applied to economic activity, as evident in Hayek’s (1945) famous critique of socialism, as well as to the array of institutions underpinning the “extended order” of society (1960, 1988). For Hayek (1960: 62), social order is largely the result of following informal rules and conventions which were not imposed from above:

We understand one another and get along with one another, are able to act successfully on our plans, because, most of the time, members of our civilization conform to unconscious patterns of conduct, show a regularity in their actions that is not the result of commands or coercion, often not even of any adherence to known rules, but of firmly established habits and traditions. The general observance of these conventions is a necessary condition of orderliness of the world in which we live, of our being able to find our way in it, though we do not know their significance and may not even be consciously aware of their existence.

According to Hayek, designed orders played a very important role in all societies. These planned orders, however, were embedded within a broader institutional context which was beyond the grasp of human reason. The implication, according to Hayek (1941, 1952), was that the use of science to attempt to rationally improve the world represented an “abuse of reason” which threatened the very foundations of the societies in which planners intervened.

Within this context, a significant part of Hayek’s research program focused not just on critiquing the men of science, but also on developing an understanding of the role of complex phenomena in society. Hayek’s writings on this topic are wide ranging and deep, and we cannot hope to do justice to them here. That said, Caldwell (2004: 309-10, italics original) provides an excellent summary in the form of eight general propositions which capture Hayek’s core insights on the nature of order and complex phenomena:
1. Orders of various sorts exist in nature. An order occurs when the actions of various elements or members of a group are coordinated or brought into mutual adjustment.

2. Sometimes orders occur without anyone consciously designing them. Such spontaneous orders come into being as the result of the individual elements following rules, rules that do not aim at creating the resulting order as a goal.

3. We can say a number of things about the rules that can generate spontaneous orders:
   a. Rules are often simple and often take the form of prohibitions.
   b. Even if individuals are capable of speech, they need not know that they are following rules, and, even if they do know that they are following rules, they need not be able to articulate those rules.
   c. Individuals often cannot say why they are following the rules that they follow, nor can they see what the actual results of following the rules are.
   d. Not all rules lead to order, and, among those that may lead to an order in a given environment, the ability to do so may change as the environment changes.

4. Given what has been said about rules, it should be evident that, typically, they are not consciously selected by individuals aiming at order. Rather, rules persist when the groups in which they are practiced persist.

5. The past history of a group, which includes the environments that the group has faced in the past and the rules that it has followed in the past, determine what rules will be followed in the present and the corresponding nature of the order.

6. Orders vary in complexity. Social orders are among the most complex.

7. When dealing with complex orders, often the best that we can do is to provide an ‘explanation of the principle’ by which they operate. Precise predictions will not be possible; only ‘pattern predictions’ about the range of phenomena to expect will be available.

8. As such, the theories that we develop to explain complex orders will forbid fewer events, and, thus, will be less falsifiable, than those that deal with simple phenomena.

As this overview indicates, Hayek had a notion of institutional path dependence (propositions 4 and 5), though it was not necessarily grounded in increasing returns
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(as are more recent renderings of the concept). In contrast to designed orders, the fundamental foundations of human society are emergent, evolutionary, complex and spontaneous, meaning they are beyond the grasp of human reason. This has important implications for our ability to address institutional bottlenecks and their perverse legacies, as these arrangements are likely part of a complex structure which is fully beyond the grasp of human reason. Further, while the analyst may be able to explain how a complex phenomena emerges ex post, the logic of complex phenomena prevents the analyst from making specific point predictions about future outcomes.

Taken together, Hayek’s insights regarding the nature of complex phenomena and the limits of human reason have humbling implications for what can be done to address institutional bottlenecks. As Hayek writes, “While the assumption of sufficient knowledge of the concrete facts generally produces a sort of intellectual hubris which deludes itself that reason can judge all values, the insight into the impossibility of such full knowledge induces an attitude of humility and reverence towards the experiences of mankind as a whole that has been precipitated in the values and institutions of existing society” (1967: 39). This seems to imply there is little we can do to improve the complex, deeply imbedded and historically contingent institutional bottlenecks. Analysts and planners can never fully comprehend the complex system which they seek to improve. The outcomes of intended developments, even if motivated by the best of intentions, are unclear and may very well do more harm than good. Even what appear to be relatively simple enhancements often turn out to be nothing of the sort, as society is rarely composed of linear and simple regularities and relationships (Hayek 1967).

This said, one notices a tension across Hayek’s writings. While providing strong warning against the abuse of reason, elsewhere Hayek indicates that we can engage in constructivist planning to improve the world. He notes that, “We can ‘plan’ a system of general rules, equally applicable to all people and intended to be permanent (even if subject to revision with the growth of knowledge), which provides an institutional framework within which the decisions as to what to do and how to earn a living are left to the individuals” (Hayek 1939: 8). Elsewhere, Hayek (1944: 85-86) writes that, “The liberal argument is in favor of making the best possible use of the forces of competition as a means of coordinating human

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5 We are by no means the first to point out this tension in Hayek’s writings, see Kukathas (1990), Barry (1994), Vanberg, (1994), Buchanan (1977, 1986), and Sandefur (2009).
efforts, not an argument for leaving things just as they are…It does not deny, but even emphasizes, that, in order that competition should work beneficially, a carefully thought-out legal framework is required, and that neither the existing nor the past legal rules are free from grave defects.”

Hayek (1960, 1967, 1973) clearly recognized that the broader social order was the result of both emergent and designed institutions. He also seemed to recognize that the distinction between emergent orders and planned orders is unclear. The system of rules, he wrote, “is the outcome of a process of evolution in the course of which spontaneous growth of customs and deliberate improvements of the particulars of an existing system have constantly interacted” (1973: 100). These quotes, in contrast to those presented earlier, imply an important role for rationally constructed rules in the broader social order. In recognizing the importance of constructed rules, Hayek is never clear on exactly when the rational design of rules has extended beyond the what human reason can grasp. This is problematic. If spontaneous orders are constituted, at least in part, by constructed orders, then Hayek’s broader critique of constructivism would be significantly weakened (see Sandefur 2009).

Still elsewhere, Hayek makes specific suggestions for changes to rules and institutions which he believes will improve the world. For example, Hayek made a precise proposal for the denationalization of money (1976) and offered a model constitution meant to create a true separation of powers (1979: 105-127). These proposed changes are rationally constructed and rely on the use of reason. In contrast to Hayek’s discussion of complex phenomena, which suggests that we are severely constrained in our ability to improve the world, these quotes imply that we can use human reason to improve upon the status quo. Can we to resolve Hayek’s dilemma? The answer to this question has direct relevance for understanding what can be done about institutional bottlenecks.

3.2 Resolving the dilemma

There have been several attempts to reconcile the tension in Hayek’s writings. Buchanan (1986) argues that we must be weary not of rational constructivism, but instead of “romantic constructivism,” which altogether neglects constraints on human reason. Specifically, he notes that we must, “limit the range of institutional
reform proposals to those which are consistent with man's own behavioural capacities, as these are shaped in part by the culturally evolved rules that he does not understand” (1986: 321).

Vanberg (1994) offers a more comprehensive solution to Hayek's dilemma. He differentiates between “conditional” and “unconditional” evolutionary claims. Conditional evolutionary claims are those that discuss the evolutionary process with an appreciation of specified constraints. By specifying the relevant constraints, we are then able to make general conjectures about what type of evolutionary outcomes will emerge independent from actual observance. Unconditional evolutionary claims, in contrast, are claims about evolution without any reference to specified constraints. While Hayek made conditional claims about market competition—the importance of private property, contracts, etc. as meta-constraints necessary for beneficial market outcomes—he never specified the meta-constraints necessary for the functioning of an evolutionary process of rule formation. Vanberg seeks to remedy this deficiency by extending Hayek's appreciation of conditional claims regarding market competition to rule formation.

In order to understand Hayek’s conditional claims regarding markets, it is important to begin with what he saw as the core principle of liberalism, that is, “a policy which deliberately adopts competition, the market, and prices as its ordering principles” (1948: 110). The argument underlying this fundamental principle was Hayek’s realization that competition is a process of discovery and that markets allow individuals to act on context-specific, tacit knowledge which cannot be known outside of the market (Hayek 1945). Hayek realized that the desirable properties of market would only be realized under certain meta-conditions, stating, “a functioning market presupposes not only the prevention of violence and fraud but the protection of certain rights, such as property, and the enforcement of contracts” (1948: 110). In specifying these meta-constraints, Hayek was making what Vanberg called “conditional evolutionary” claims about market competition. Provisional on certain institutions being in place, Hayek was able to make the pattern prediction that markets lead to a coordination of plans. Moreover, they generate desirable outcomes from the standpoint of the market participants themselves. Within these meta-constraints, there are, simultaneously, many aspects of the market which are intentionally designed (e.g., research and development, the engineering of goods) and other aspects which are emergent (e.g., the spontaneous emergence of money, norms of trust). The broader point
is that within the meta-constraints, within which good outcomes tend to emerge, the emergent-constructivist distinction is irrelevant because both can exist simultaneously and contribute to desirable outcomes.

Vanberg argues we must extend the logic of conditional evolutionary claims to the formation of rules and institutions. Hayek never took this step in his analysis of rules, which is precisely why the dilemma discussed in the previous subsection emerges. What Vanberg concludes is that the focus should not be on the source of rules per se—purely emergent versus purely designed institutions—but rather on the process through which rules emerge and evolve. “What is essential for an evolutionary process,” Vanberg notes, “is not that its competing inputs are undesigned, or that its constraining rules are of spontaneous origin. What is essential is that the framing rules are of a kind that allows for, and maintains, a competitive process with desirable characteristics, desirable, that is, for the persons involved” (1994: 192).

This implies that instead of focusing on the issue of spontaneity versus constructivism when considering reforms to institutions, focus should be on whether changes contribute to a framework allowing for discovery by those who must live under the newly reformed institutional arrangements. As Hayek noted in his discussion of rules, reforms will most likely be the result of some mix of spontaneous emergence and purposeful design. What matters is not so much the specific source of reforms, but whether the reforms avoid Hayek’s warning against the abuse of reason.

4. What Can Be Done? What Has Been Done?

In closing, we return the question that motivated us—what can be done about institutional bottlenecks and their perverse legacies? If we take seriously Hayek’s warnings against constructivism and the abuse of reason, then direct interventions aimed at imposing or achieving specific outcomes are limited in their effectiveness and will generate undesirable consequences. This does not mean we are helpless to improve upon the status quo, however. Based on the preceding discussion, we can make the important distinction between “unblocking reforms” and “end-state reforms.”

Unblocking reforms seek to remove barriers to discovery. This involves making changes to the meta-rules which allow individuals to engage in the process of experimentation and learning that Hayek (1945, 1948, 1960, 1974) emphasized throughout this writings. Unblocking reforms do not seek to predetermine certain
outcomes of evolutionary processes, but rather aim to create an environment in which individuals can discover outcomes for themselves. In stark contrast, end-state reforms seek to make changes to achieve certain, predefined outcomes. Unblocking reforms appreciate Hayek’s critique of rational constructivism while end-state reforms do not. Some specific examples from the Middle East will illustrate this important distinction between the two types of reforms.

As Kuran (2011a: 293-298) notes, none of the institutional bottlenecks that retarded economic change and progress in the past remain an obstacle today. Indeed, a series of reforms were undertaken in the nineteenth and twentieth centuries by governments throughout the Middle East which would, in principle, seem to contribute to the process of modernization and development. For example, the governments of the Ottoman Empire, Egypt, and Iraq all instituted reforms to legal institutions allowing for corporations, contracts, and stock markets. These reforms, which removed past institutional bottlenecks, have been met with widespread acceptance throughout the region (Kuran 2011a, c). In principle, these reforms were of the unblocking variety. They did not seek to select winners or specific end states, but rather sought to create a general environment within which people could engage in experimentation and voluntary economic activity whether it was starting a corporation or participating in the stock market.

Despite these unblocking reforms the Middle East remains relatively underdeveloped (see Kuran 2011: 293). How can this stagnation be explained given the post-reform presence of institutional arrangements conducive to modern economic life? The answer to this question lies in the fact that while the reforms themselves were unblocking in nature, complementary political reforms that limited the grabbing hand of the state were missing. In the absence of these complementary reforms, the unblocking reforms adopted were limited in their ability to generate development. As Kuran (forthcoming) explains in his paper in this volume, in addition to perverse economic consequences, the economic system emerging from these former institutional bottlenecks also had long-lasting political consequences. Specifically, the political legacy of the Middle East is one characterized by a relatively weak rule of law, corruption, and weak protections on civil liberties. For example, consider the case of civil society in the Middle East. Kuran (2011a: 295-296, forthcoming) finds that a weak civil society is a major contributing factor to ongoing economic and political stagnation despite the aforementioned reforms to remove historical bottlenecks. Weak civil society is one perverse legacy of the waqf system which required these organizations to
remain apolitical. This prevented the rise of private associations which may have balanced and checked political power. The result is that in the absence of a robust civil society the state, and not private actors or associations, has been the main player in the post-reform period.

More broadly, what the case of the Middle East demonstrates is that, absent complementary reforms to constrain the predatory proclivities of the state, the implementation of unblocking reforms will result in dysfunctional outcomes in practice. Absent constraints, the political elite may abuse the reforms as opportunities to indulge their personal preferences—e.g., personal enrichment, nepotism, cronyism, etc.—as compared to allowing individuals to engage in discovery and experimentation which would contribute to broader development and improved social welfare.

As another illustration of the distinction between unblocking and end-state reforms, consider again civil society in the Middle East. As noted, weak civil society, which is a legacy of past bottlenecks, continues to be a contributing factor to the absence of effective constraints on the behaviors of governments. What can be done about this situation?

One alternative is for outsiders to subsidize certain groups and associations in the name of fostering the development of civil society to achieve certain predefined end states. As a specific example, consider the case of the Arab Spring. Following the uprisings throughout the region, U.S. government officials highlighted the role of external U.S. funding to activist groups as playing an important role in the protests and in the overthrow of illiberal regimes (see Nixon 2011). While this funding may have contributed to the achievement of specific end states—e.g., the fall of illiberal governments—this is fundamentally different from a civil society in the sense of voluntary associations that emerge as private solutions to collective action problems. Tocqueville (1830-40) emphasized that civil society emerged from the actions of private individuals and served as an important middle ground between the atomism of markets and potential coercion of government. Government-funded civil society is, therefore, fundamentally at odds with Tocqueville’s vision of civil society association. So while external governments can indeed fund certain groups to achieve predefined end states, this is fundamentally different than creating the conditions necessary for the emergence of a voluntary, civil society.

The distinction between unblocking and end-state reforms is important in the context of civil society. Because end state reforms are not neutral they
can have perverse effects on other aspects of civil society. Consider, for instance, the case of Egypt. In the period following the fall of the Mubarak regime, the Supreme Council of the Armed Forces (SCAF), a body of senior officers in the Egyptian military, began a crackdown on a variety of Egyptian NGO’s associated with the U.S. and other foreign governments. Whether accurate or not, the SCAF attributed the ongoing unrest in the country to the meddling of foreign governments through NGOs operating in Egypt. More broadly, this example illustrates that in pursuing specific end-state reforms, interveners can generate unintended consequences in the form of backlash against private associations which ultimately prevents the emergence of a civil society based on voluntary actions. By itself, this line of reasoning does not mean that end-state reforms cannot achieve desired goals, but rather, it appreciates that efforts at rational constructivism can generate undesirable costs precisely because of the limits on our reason to anticipate negative unintended consequences.

As these examples, and our broader discussion indicate, limitations on human reason means that end-state reforms are limited in their ability to fix institutional bottlenecks and their perverse legacies. Furthermore, due to the limits of human reason, end-state reforms will often generate unintended and often negative consequences. This logic can be extended well beyond the case of the Middle East. Indeed, the argument that efforts at change should focus on unblocking reforms, as compared to end-state reforms, is at odds with the typical response to perceived bottlenecks by the international development community which involve top-down plans—i.e., externally designed and imposed institutional reforms, well-timed and spent foreign aid, military interventions, etc.—to achieve specific, predefined outcomes which will supposedly remedy the various problems that supposedly plague underdeveloped societies (see Easterly 2001, 2006; Coyne 2013). This type of end-state thinking neglects issues of experimentation, discovery, and adaptability—precisely what Hayek warned against in his critique of constructivism (see Coyne and Mathers 2010).

In contrast to this typical response, our analysis suggests that where opportunities exist, they will be on the margin of unblocking reforms that frame the subsequent process of interaction and evolution.7 Such reforms appreciate the limits on human reason because reformers are not selecting end states, but instead

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7 One issue of relevance that we do not address in detail is the distinction between “positive” and “normative” political economy. We direct the reader to Buchanan (1959) who discusses this distinction between the two and outlines the process of positive political economy.
are focused on establishing the conditions which facilitate subsequent interactions and learning. Such an approach recognizes that while we cannot know the specific outcomes of evolutionary processes \textit{ex ante}, we can establish constraints to guide it.

Of course, historical experience has repeatedly shown that reforms to a society’s meta-institutions are no easy task, but if there is any role for the political economist it is, as Hayek (1974) noted, “to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants.” More generally, if we are to avoid doing more harm than good, it is crucial to remember that appreciating the limits of human reason are just as important, if not more so, than what can be accomplished within those limits.

\textbf{References}


