Senior Seminar on
The Wealth and Well-Being of Nations:

Each year, seniors in the department of economics and management participate in a semester-long course that is built around the ideas and influence of that year’s Upton Scholar. By the time the Upton Scholar arrives in October, students will have read several of his or her books and research by other scholars that has been influenced by these writings. This advanced preparation provides students the rare opportunity to engage with a leading intellectual figure on a substantive and scholarly level.

Endowed Student Internship Awards:

A portion of the Miller Upton Memorial Endowments supports exceptional students pursuing high-impact internship experiences. Students are encouraged to pursue internships with for-profit firms and non-profit research organizations dedicated to advancing the wealth and well-being of nations.

Charles G. Koch Student Research Colloquium
and Speaker Series:

With generous support from the Charles G. Koch Charitable Foundation, the department has initiated a research colloquium that gives students the opportunity to read and discuss seminal articles aimed at deepening their understanding of the market process. Students also develop original analysis that applies economic ideas to novel contexts. Colloquium participants receive close mentoring as they craft an article with the eventual goal of publication in a newspaper, magazine, or academic journal. The themes of the research colloquium and annual forum are supported with a monthly speaker series featuring the next generation of scholars working on questions central to our understanding of the nature and causes of wealth and well-being.

Annual Proceedings of
The Wealth and Well-Being of Nations:

The keynote address presented by the Upton Scholar is an important contribution to the public discourse on the nature and causes of wealth and well-being. Further, the annual forum includes presentations by noted scholars who expand upon or challenge the work of the Upton Scholar. These presentations are assembled in the Annual Proceedings of the Wealth and Well-Being of Nations, which serves as an important intellectual resource for students, alumni, and leaders within higher education.
THE ANNUAL PROCEEDINGS OF THE WEALTH AND WELL-BEING OF NATIONS

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As the Elbert Neese Professor of Economics, it is my privilege to introduce the first *Annual Proceedings of the Wealth and Well-Being of Nations*. Under the banner of the Miller Upton Programs, the department of economics and management at Beloit College has launched an ambitious initiative to advance understanding of the ideas and institutions necessary for widespread prosperity and human development. The centerpiece of these programs is the annual Wealth and Well-Being of Nations: a forum in honor of Miller Upton. Every fall, the Upton Forum brings to Beloit College a distinguished, internationally recognized scholar who works within the classical liberal tradition. The Upton Scholar engages with students, faculty, alumni, and civic leaders in an informed dialogue around the nature and causes of wealth and well-being. In 2008, we were honored to feature Douglass North, Spencer T. Olin Professor in Arts and Sciences at Washington University in St. Louis and co-recipient of the 1993 Nobel Memorial Prize in Economic Sciences as the inaugural Upton Scholar.

During the week of the Upton Forum, we assembled leading scholars who have advanced Professor North’s intellectual project by extending his ideas into new territory—territory that even Professor North may not have originally considered. We assembled this cadre of scholars to demonstrate that, despite the momentous advances made by our Upton Scholar, the intellectual enterprise of understanding the nature and causes of wealth and well-being is an ongoing project. The essays collected in this volume capture in written form many of the ideas exchanged, challenges posed, and questions considered over the course of the Upton Forum.

Before introducing Professor North and the substance of the contributions made within this volume, let me say a few words about the man for whom the
forum is named. R. Miller Upton was the sixth president of Beloit College and served from 1954 to 1975. A nationally recognized leader in higher education, President Upton was known to harbor two intellectual passions. The first was a steadfast commitment to the liberal arts. He believed that the small residential liberal arts college was the ideal place to engage the “great questions,” as it is here that students are expected to acquire the intellectual habits necessary for critical thinking and open civil discourse. His second passion was for the ideals of the liberal society: political freedom, the rule of law, and the promotion of peace and prosperity through the voluntary exchange of goods, services, and ideas. He understood that transforming the ideals of liberal democracy into real institutions was at the heart of increasing the wealth and well-being of nations and peoples. We believe that the Upton Forum represents a confluence where these enduring passions meet.

A Life of Intellectual Discovery

Let me turn now to formally introducing our inaugural Upton Scholar, Douglass North. As I have already mentioned, Professor North is the co-recipient of the 1993 Nobel Prize in Economics. I would like to offer a brief sketch as to why this scholar’s work has been worthy of such an honor and how it has changed the nature of the economics discipline.

The best place to begin is with the phrase “social institutions.” It is, after all, his research on the evolution of social institutions and the impact social institutions have had on economic performance over time for which Professor North received the Nobel Prize. And the best way to explain the relevance of social institutions is to draw upon a familiar metaphor.

Think of society as a game. There are many versions of the social game. There is the market game, the game we call “family,” and the game we call “politics,” just to name a few. Like any game of sport, these games are played according to a specific set of rules. Some of these rules are formal and can be written down. Others rules (or what we might call “social norms”) are less formal but are every bit as real as their more formal counterparts. And for the rules to work, there has to be some kind of enforcement, which again, might be formal in nature, like a referee, or informal, as in the social sanctions imposed by your teammates for poor sportsmanship. In any game of sport, formal rules, informal norms, and enforcement mechanisms govern individual behavior and provide a structure within which individuals interact with one another.
Similarly, social institutions are the rules, norms, and enforcement mechanisms that govern individual behavior and structure social interactions within the market, within families, within politics, and so on.

In the early part of his career, Professor North focused on eighteenth- and nineteenth-century American economic growth and the use of quantitative economic analysis in interpreting historical change (North 1966). But as he sought to address the deeper root causes of economic performance and change in the United States and Europe, such as the monumental social and economic changes that occurred as Europe transitioned from medieval to modern times, he began to realize that the standard tools of economics were not up to the task of explaining these fundamental changes (North 1971; North and Thomas 1973). Anyone who has taken even an introductory course in economics knows something about these standard tools of what we call neoclassical economic theory. These tools can be marvelously clarifying if you are trying to understand how, for example, prices coordinate the actions of producers and consumers. But notice that such explanations assume the rules of the game—such as private property, money, and rules of exchange—are already in place.

Further, because standard economic analysis assumes that engaging in market exchange is costless—that there are no costs associated with measuring quality, monitoring performance, holding people to the bargains they strike—most standard models did not have to consider the role of social institutions. But in the world in which we live, it is often very costly to monitor the performance of employees, we are often quite uncertain about the quality of goods and services we purchase, and we worry considerably about whether promises others make to us will be honored. In the real world, we have employee bonus incentives, we have laws against consumer fraud, and we have contracts that bind parties to agreements and courts that will uphold those contracts. These are among the rules of the game—the social institutions—that make the market work. Professor North recognized that if we wanted to understand how social institutions work and how they evolve and change, we would need new tools.

In the course of his investigations of American and European economic history, Professor North improved upon neoclassical theory by adding in tools of new institutional analysis that would allow us to understand social change. But questions remained, or as Professor North describes them, there were still
loose ends that did not make sense.” If some institutional arrangements are clearly better than others at expanding wealth, he wondered, why do inefficient institutional arrangements often hang on for long periods of time? Soviet-style socialism, for example, was surely inefficient, but it hung on for more than seventy years. Why didn’t Soviet citizens and leaders abandon such arrangements as we would expect a factory owner to abandon an inefficient production process? Neoclassical economics could help us understand the perverse incentives of political actors, but another factor still seemed to be in play: the role played by ideology or shared belief systems and how politics, ideology, and institutional arrangements each influenced the other (North 1981).

Ideology can act like a kind of glue that gives institutions sticking power. This institutional stickiness can be a very good thing when it reinforces rules such as the private property rights that are so important to economic progress. Think about the many ways we promote ideological support for property. It is woven through our moral and legal code, our religious doctrine, our educational system, and our habits of parenting. The effect of all this ideological investment is to lower the costs of enforcing private property rights, thereby fostering productivity, efficiency, and civility.

But ideological stick can work the other way as well. Sometimes societies get tracked into ideological commitments that make society less productive, less efficient, and less civil. Why? According to the rationality postulate economists assert, this shouldn’t be so, and yet it often is. Perhaps, Professor North considered, rationality is far less important in explaining the choices people make (particularly under conditions of uncertainty and when informational feedback is weak) than we thought (North 1990). Perhaps it is what people believe to be true, how they learn and update what they know based on that initial set of beliefs, rather than what from a rationalist’s perspective is true that directs the evolutionary course of social change over long periods of time. If that is the case, Professor North concluded, economists will have to retool again, this time by diving deeply into the tools of cognitive science to understand the ways in which the human mind learns (or fails to learn), how we succeed in correcting (or fail to correct) our course toward belief systems that foster greater efficiency and

1 See Professor North’s autobiographical statement on the Nobel Prize website http://nobelprize.org/nobel_prizes/economics/laureates/1993/north-autobio.html
civility, or in other words, toward belief systems that foster wealth and well-being (North 2005).

Most recently, Professor North has turned his attention to understanding the evolutionary process by which the liberal democratic order is obtained. Political philosophers, social scientists, and development policy consultants have long assumed, and understandably so, that reforms aimed at introducing market competition and eliminating public corruption would be necessary if societies were to enjoy the fruits of the liberal democratic order. But the sometimes disappointing record of post-Soviet reforms and the many decades of failed attempts to introduce liberal reforms in much of the developing world suggest that a successful transition is anything but certain. And the fact that only a handful of societies can claim to have made this transition successfully suggests an intriguing question of how this success is won.

In his latest book, Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History, published in 2009, Professor North and his co-authors Barry Weingast and John Wallis take on this question, first by considering the systematic qualities of the pre-modern state—what they call the “natural state.” Most civilizations throughout human history (including most contemporary societies) are best described as natural states, in which rulers create social order by restricting access to political and economic markets to a privileged elite. While this form of social order has the evolutionary benefit of limiting violence, it also limits the potential for economic prosperity. Liberal democratic, or “open access,” societies, on the other hand, create order by fostering market and political competition. Professor North and his co-authors argue that by understanding the inherent logic of the limited access order, we are in a far better position to understand the evolutionary process that is required for societies to make a successful transition to an open access society. It is this line of research that Professor North considers in his keynote address, with particular emphasis on the implications this interpretive framework has for understanding our contemporary political and economic circumstances.

In this brief introduction there is no way that I can do justice to the nuance and particular care with which Professor North presents these ideas, but what I hope I have done is to give the reader some sense of the intellectual character of this scholar. He pays careful attention to the tools of economic theory that had been passed down to see what puzzles they can solve. When he comes upon the limits of these tools, he doesn't throw up his hands and say, “If our tools can’t
handle the question, it must not be worth asking.” Instead he doggedly pursues
the question by fashioning new tools. The good questions he has asked have
led to even better (and more difficult) questions that have required interdisci-
plinary inquiry. Such inquiry was not an abandonment of economics: it was an
enrichment of economics. This exemplifies the intellectual character we promote
here at Beloit; one that balances disciplinary grounding with interdisciplinary
discovery; one that fosters open discourse with equal measures of intellectual
passion and civility. It is therefore fitting that a scholar who exemplifies so well
these qualities should be our inaugural Upton Scholar.

*Discovery in Conversation*

If discovery is the principal goal of scholarship, then the conversations it
creates are its principal side benefit. Sometimes our partners in these conversa-
tions are friends, sometimes foes, but either way, the best conversations are those
that make us think hard and discover more. Like President Upton, we believe that
the liberal arts college is the perfect venue to model discovery through engaged
civil discourse and to advance its principles by readying our students for a life of
the mind; a life that is firmly planted in the world, but one that is unapologeti-
cally intellectual. With this purpose in mind, we were honored to feature some of
the key scholars who have participated in the conversations that Professor North
had a hand in creating.

**Barry R. Weingast** is the Ward C. Krebs Family Professor of Political Science
at Stanford University and senior fellow at the Hoover Institution. Professor
Weingast’s research focuses on the political determinants of public policymaking
and the political foundations of markets and democracy. During the course of
their careers, Professors North and Weingast have had many opportunities to
collaborate with one another, including co-authorship of what is now consid-
ered a seminal article on the relationship between constitutional constraints and
economic growth (North and Weingast 1989). In his keynote address, Professor
North was able to describe their most recent collaborative effort and its implica-
tions for contemporary political and economic life. In his contribution, Professor
Weingast focuses on the transition from “personalistic” and impermanent political
rules to impersonal and perpetual rules that do not depend upon the particular
personalities who hold power. Professor Weingast argues that prevailing economic
wisdom has failed to generate effective reforms because economists and reformers
have failed to understand the connection between political privilege and social order within natural states.

Peter Boettke is BB&T Professor for the Study of Capitalism, at the Mercatus Center at George Mason University and a University Professor at George Mason University. Professor Boettke is the author of several books on the history, collapse, and transition from socialism in the former Soviet Union (Boettke 1990, 1993, 2001). As a leading contributor to our understanding of why Soviet-type systems fail to generate widespread economic well-being, Professor Boettke is perfectly positioned to shed light on what has gone right and what has gone wrong in the process of post-Soviet reform. In the contribution he offers here, Professor Boettke examines the lessons learned in this (still continuing) process. In particular, he emphasizes the importance of establishing binding and credible commitments to liberal limits on state action if societies are to avoid suffering the disastrous consequences of illiberal democracy and severely distorted and hampered market economies.

John Nye holds the Frederic Bastiat Chair in Political Economy at the Mercatus Center and is a professor of economics at George Mason University. Before accepting his position at George Mason, Professor Nye had been a long-time colleague of Professor North at Washington University. He is a specialist in British and French economic history and in new institutional economics. His recent book, War, Wine, and Taxes: the Political Economy of Anglo-French Trade 1689–1900 (2007), challenges the conventional wisdom that nineteenth-century Britain was an icon of free trade. In the essay Professor Nye offers here, he examines the question of why elites within pre-modern or natural states, who earn economic rents and other forms of political privilege from the status quo, ever consent to reform.

Christopher Coyne is assistant professor of economics at West Virginia University. In his book After War: The Political Economy of Exporting Democracy

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2 The phrase “economic rent” refers to a return captured by someone who possesses an exclusive and valuable position within society. Economic rent can come from possessing a valuable and difficult to emulate talent (such as the clear tones of an operatic virtuoso), or it can come from possessing some exclusive political advantage (such as the exclusive or protected right to operate within a particular industry). It is this latter source of economic rent that fascinates and troubles economists, as rents and the seeking of politically created rents tend to foster behaviors that stifle economic and human progress. For a full discussion, see Gordon Tullock’s The Rent Seeking Society (2005).
(2007), Professor Coyne deploys the economic way of thinking to shed light on why the West has had such a poor record of success in its attempts at “nation building” around the world. Insights drawn from Professor North’s work are critical in this assessment. In the essay he contributes here, Professor Coyne examines the implications Professor North’s latest work has for international development assistance programs. He argues that specialists working within development agencies tend to hold and perpetuate naively optimistic expectations regarding the effectiveness of their programs because they fail to consider the inherent constraints of operating within the context of a limited access society. Professor Coyne argues further that such expectations can lead to perverse economic outcomes and the failure of development efforts.

Among those invited to present their work at the Upton Forum are distinguished alumni scholars. And given our department’s focus on the social institutions necessary for widespread wealth and well-being and entrepreneurship as the driving force behind human progress, it is not surprising that we have alumni scholars doing work within the intellectual tradition of our Upton Scholar.

Carolyn Heinrich (’89) is director of the La Follette School of Public Affairs and professor of public affairs at the University of Wisconsin–Madison. She is co-author of several books on the empirical study of governance and public management, including Improving Governance: A New Logic for Empirical Research (2002) and Governance and Performance: New Perspectives (2000). Professor Heinrich works directly with both state and national governments assessing programs aimed at human capital development, such as conditional cash transfer programs designed to increase school attendance in the developing world and the provision of supplemental education services in the United States. Based on the insights drawn from the new institutionalist school of economics, such programs are generally seen as possessing tremendous potential as they aim to align incentives between the intended outcomes and program participants. In the essay she contributes to this volume, Professor Heinrich considers both this potential and also the difficulties involved in keeping incentives aligned once the program is implemented on the ground.

Virgil Storr (’96) is a senior research fellow and the director of graduate student programs at the Mercatus Center and the Don C. Lavoie Research Fellow in the Program in Philosophy, Politics, and Economics in the department of economics at George Mason University. Dr. Storr’s research emphasizes the
connections between culture, political-economy, and entrepreneurship. He is the author of *Enterprising Slaves & Master Pirates* (2004), in which he examines the intersection of cultural and economic life in the Bahamas. I have had the great privilege of serving as co-investigator with Dr. Storr on the Mercatus Center’s project on Gulf Coast recovery following Hurricane Katrina. In this research, we examine the role socially and culturally embedded resources play as residents, business owners, and social entrepreneurs attempt to facilitate community rebound (Chamlee-Wright and Storr 2009a; 2009b; 2009c). In the essay Dr. Storr contributes here, he examines what he identifies as an underdeveloped concept within Professor North’s work; that of the “ideological entrepreneur.” Ideological entrepreneurs are those who change institutional structure by cultivating a shift in shared ideology. Dr. Storr argues that as a driving force behind social change, the figure of the ideological entrepreneur requires further development, which he offers by bridging North’s concept to the theories of entrepreneurship advanced by Israel Kirzner and Joseph Schumpeter.

The essays contained within this volume serve as a pointed reminder of the power of ideas in shaping the world. At least from the perspective of this political-economist, it was ideas that shaped the course of human history in the twentieth century, and I expect that this will be no less true in the century we are living in now. Thus, the content of those ideas matters a great deal if we are to understand where we have been and where we are headed. Further, this collection represents a modest but still profound statement of how ideas are advanced—through considered, engaged, and passionate discourse. Preparing students for a life of the mind in which this is regular practice is the enduring and distinctive promise of a liberal education.

With Many Thanks

On behalf of Jeff Adams, the Allen-Bradley Professor of Economics, and the other members of the department of economics and management, I want to extend our thanks to everyone who has played a part in making the Upton Forum and associated programs a reality. Through their financial support, exceptionally good counsel, and willingness to serve as campaign chairs for the Miller Upton Memorial Endowments, Bill Fitzgerald (’86) and Bob Virgil (’56) laid the foundation for this initiative, ensuring that it would serve as a fitting memorial to Miller and provide a signature experience for Beloit College students for many years to come. As the former dean of the business school at Washington
University and longtime friend to Douglass North, Bob Virgil was also instrumental in securing the participation of Professor North as our inaugural Upton Scholar.

I would also like to thank the many scholars and alumni professionals who presented at the 2008 forum. In addition to the contributors to this volume, I would like to thank, James Herbison (‘96), Daniel Hewitt (‘78), Jeffrey Kuster (‘88), and Wendy Olsen (‘82) for participating in the forum events. Thanks also go to the students who worked extremely hard to prepare themselves for the discussions in which they participated. In particular, the members of the 2008 Senior Seminar in Economics are to be commended for their enthusiasm in reading and discussing many books and academic articles by Professor North and our other visiting scholars prior to the forum. Special thanks also go to Jennifer Kodl, managing editor of the *Annual Proceedings* and conference coordinator for the Upton Forum, whose dedication to gracious excellence stands as a model for us all (faculty and student alike) to emulate.

Finally, we would like to thank the Lynde and Harry Bradley Foundation, the Neese Family Foundation, Inc., and the Charles G. Koch Charitable Foundation. Not only have these organizations provided generous financial support to this effort, the people who make these organizations run have also provided inspiration and valuable guidance. Special thanks go to Janet Riordan, Gary Grabowski, Ryan Stowers, and Jayme Lemke.

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