The Paradox of the West

DOUGLASS C. NORTH

THE SEARCH FOR THE ORIGINS of modern freedom entails both an inquiry into the conditions that gave rise to the demand for freedom and an inquiry into the origins of an ideology that promoted freedom as the basic ideal of a society—an ideology of such intellectual power that it is a driving force today in shaping the modern world. It is paradoxical that modern freedom is a product of a part of the world that was relatively backward a millennium ago. From our present day perspective there would appear to have been many more likely candidates for its birthplace—societies with more advanced economies, with more sophisticated scientific and technological knowledge, with more attention paid to the arts, literature, and the pursuit of knowledge in general. And, indeed, along with the progress of freedom in the West did come the relative advance of all those indicators of more advanced civilizations. Therefore a search for the origins of freedom must do more than focus on the polity; it must provide an explanation for the overall rise of the Western world.

A central thesis of this chapter is that economic growth and the development of freedom are complementary processes of societal development. Economic growth provides the resources (and leisure) to support more complex societies; and it is unlikely to persist in the *long run* without the development of political and civil liberties. A world of specialization and division of labor—the roots of economic growth—is going to nurture democratic polities and individual freedoms.

Why might there be such a relationship? The short answer is that well-specified and enforced property rights, a necessary condition for economic growth, are only secure when political and civil rights are secure; otherwise arbitrary confiscation is always a threat. Also

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credible commitment—an essential condition for the creation of capital markets—is not possible without an effective legal system, one that will impartially and systematically enforce agreements across time and space. A longer but more satisfactory answer entails an analysis of the interplay among the more complex, interdependent economies that arise from division of labor; of the consequent evolution of diverse interests and their gradual increase in bargaining power; of the ideas and ideologies that would be congenial to such growing diversity; and of the influence of these belief structures on incremental institutional change. Such an approach can then account for the gradual widening over time of the spectrum of individuals and groups to whom freedom and liberties would be extended.

In what follows I hope to spell out not only the interrelationships that characterized this evolution but also the limitations of and qualifications to the overall thesis. That there is an historical relationship between economic growth and the development of freedoms is evident: the pioneers of modern economic growth, the Netherlands and England, were also the pioneers in the development of representative government and civil freedoms (and the countries that were left behind in western European expansion, Spain and Portugal for example, failed to develop those freedoms). That the relationship is not perfect is equally evident: there were economies such as China that had periods of economic growth without producing either representative polities or individual freedoms, and in the modern world we may look at the Soviet Union after World War II or the experience of some Asian countries. Economic growth may be a necessary but is not a sufficient condition for the development of *modern* freedom. So the puzzle we must unravel is what set of unique conditions—ones not present in more advanced societies during the past millennium—set off economic growth and the development of freedoms in the West? But there is an even more fundamental underlying puzzle: why has economic growth itself been so exceptional?

By economic growth I mean sustained growth in output per head of population. Throughout the long era of human history total output has grown and population has increased; but improvement in overall human well-being associated with output growing faster than population has not been the automatic result. While the statistical data do not exist to give us unequivocal answers, per capita economic growth does appear to have occurred, for example, in the classical era in fifth century B.C. Athens before the internecine war with Sparta, in the era of Rhodian domination of the eastern Mediterranean, and during the first two centuries of the Roman Empire.[1] Economic growth, then, is not unique to the Industrial Revolution, despite a long scholarly tradition identifying the two. But sustained economic growth was the exception before the Industrial Revolution and, for that matter, after that revolution in eighteenth-century England. Indeed, it is only in the very modern era since World War II that economic growth has been widespread. And it is only in the modern era that modern freedoms have become widespread.

The sources of economic growth have variously been ascribed by economists to technology, human capital (education and skills of human beings), and economies of scale (falling costs associated with the growth of large-scale markets). While these are clearly proximate sources of productivity increase and hence growth, they are not the ultimate sources. If they were, growth long since would have become universal, because the desire for improvement in well-being appears to be a universal human trait and all societies would have to do would be to invest in the technologies or skills and knowledge that would produce such desirable results. But throughout history (and even in much of the modern world) societies have failed to make the necessary investments.

Societies do not make the necessary investments because the institutional and organizational structure does not provide the incentives to do so. The failures of human organization underlie not only economic backwardness but social, intellectual, and political backwardness as well. Indeed the search for efficient economic organization leads us to political organization, since it is the polity that defines and enforces the economic rules of the game. It is to the complex (and still not completely understood) interplay between the economy and the polity that we must turn to search for the clues that account for the rise of the West. In going back a millennium to search for the roots of modern freedom, we must look both to the institutional framework and to the intellectual context from which sprang the perceptions that guided human actions. Most important of all, we must explore the dynamics of change that propelled the West into world hegemony.

I

Initial Conditions

Since history is about how yesterday's choices affect today's decisions, any starting point is not just arbitrary but does violence to the essential continuity of history. If we take an initial snapshot of northwest Europe of a millennium ago we do so, therefore, with a self-conscious glance over our shoulder at the background sources of that landscape.

The western Roman Empire disappeared in the chaotic conditions of the fifth century A.D; a more or less arbitrary historical chronology dates the end of feudalism about a millennium later, in 1500. In between these dates western Europe gradually emerged from the anarchy that followed the collapse of Roman order and the overrunning of western Europe by Germanic tribes, to develop the political and economic structure which set the scene for subsequent developments. This evolution was basically conditioned by the heritage of Greco-Roman civilization which persisted (particularly in southern Europe), modifying and ultimately shaping many of the institutional arrangements that emerged in the sixth to the tenth centuries. The manor appears to be a lineal descendent of the Roman villa and the serf of the feudal world appears to be a descendant of the dependent *coloni*. Slavery, too, existed in the Middle Ages. Roman law continued and where order evolved served as the basis for the development of property rights.

The Church carried over the cultural heritage of the classical world to the Middle Ages. It was the lonely repository of learning (and indeed monasteries were frequently the most efficient farming centers of medieval Europe). A major possessor of material wealth, selling salvation in return for treasure and land, it was also characterized by asceticism, hermit life, and devout missionary activity. Most important, it provided a unified belief structure, an ideological frame of reference, that shaped perceptions in the medieval world. This common frame of reference served as the basis for the ongoing evolution of perceptions that would guide choices shaping the future of polities and economies.

Northwest Europe was a geographic contrast to the Mediterranean rim, the seat of Greco-Roman civilization. The latter was char-

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acterized by light and/or seasonal rainfall, light soils, and a varied agriculture ranging from viticulture and olive trees to cereals; the former by abundant rainfall, thick forests, and heavy soils that suited it to livestock and, with appropriate modifications of ploughs, cereal production. These climatic and geographic features determined the agrarian structure of the economies of northwest Europe.

These institutional, intellectual, and geographic background conditions of tenth-century life in northwest Europe must be set in the context of the most fundamental initial organizational condition—the lack of large scale economic and political order. The disintegration of the Roman Empire was followed by more than half a millennium of small scale political units. Whatever advantages had existed in large scale political-economic organization were absent or severely diluted in the era that followed. The Roman Empire did persist in the East until Constantinople was taken by the Turks in 1453; the Moslem world built on the charismatic faith of the new religion did create an empire spreading over North Africa and into Europe. But neither these exceptions nor the short-lived Carolingian Empire denies the critical point that the conditions that made possible a single empire governing the Mediterranean world had disappeared.

Assault from three directions, by Vikings, Moslems, and Magyars, imposed its stamp on the region. Vikings appeared off the coast of England in 786, of Ireland in 795, and of Gaul in 799. London was sacked in 841; Viking longboats moved up navigable rivers to attack such diverse towns as Rouen in the north and Toulouse in the south. Moslem corsairs roamed the Mediterranean and raided the coast from southern Italy to Provence. Hungarian horsemen raided Bremen in 915 and reached as far west as Orléans in 937.

The viable response was the fixed fortification, the heavily armored knight, and the hierarchical, decentralized structure of feudalism. The military result was something of a stalemate. The fortified town and (later) the stone castle were impregnable to all but the most persistent—and well financed—opposition that could undertake the siege necessary to starve out the inhabitants; warfare was typically small scale between heavily armored knights. The Vikings were repulsed at the siege of Paris in 885, Moslem raiders were defeated on the River Garigliano in 915, and the Magyars were defeated near Augsburg in 955. In consequence there was a revival of local order, an expansion of manors—ones being carved out of the wilderness, and a growth of towns. And it is in the context of these initial conditions that the complex interplay between political, economic, and military changes initiated the unique conditions that led to sustained economic growth.

Economic activity took place within the manor (with some exceptions) and in towns. Manorial organization was typified by a threefold division of land into the lord's demesne, the peasant holdings, and the commons. The majority of peasants were bound to the manor as serfs owing labor services and dues to the lord of the manor. They were subject to the lord's jurisdiction, had to seek justice in the lord's court, and were restricted in their movements and in their economic transactions.[2]

Traditional manorial organization provided scant encouragement for economic growth. The isolation of the manor inhibited specialization and division of labor and slowed the diffusion of technology when it did develop. The incentives imbedded in the customs of the manor provided little impetus for the rapid growth of skills and knowledge or technological change. The heavy plough with wheels, moldboard, and colter; the horsecollar; and the horseshoe did make their appearance although the shift from oxen to horses came mostly after the ninth century and then only slowly.[3] Likewise the shift from the two-field to the three-field system of crop rotation was a very gradual change. But population was growing at least from the tenth century on, most likely as a result of the relative improvements in order that followed the end of the incursions of Vikings, Moslems, and Magyars. And this population growth (and subsequent decline) would play a major role in altering the manorial organization.

The evolving towns were the centers of rapid economic—and political—change in response to the improved establishment of order over larger areas. Whether the numerous city republics of north and central Italy or the urban centers that grew up in the Low Countries in the tenth century, they were sources of dynamic changes resulting from the opportunities of expanding trade in the Mediterranean or the basins of the Scheldt and the Meuse and from ties both to south Europe and to the Baltic and North Sea coastal areas.

Prior to 1300 trade was carried on primarily by traveling merchants. Such traders often formed societies for mutual protection;

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some of these even required their members to be suitably armed when traveling in caravans—an indication that problems of peace and order had not been settled completely. But after 1300 the importance of traveling merchants—and of fairs—began to decline.[4] The growth of trade fueled the growth of towns and the settlement of merchants further accelerated their development. The constraints imposed by geography and the high costs of land transport dictated their locations: at the head of a gulf (Bruges), where a road crossed a river (Maestricht), near the confluence of two rivers (Ghent), or at a breakpoint in transportation (Brussels).

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The Sources of Institutional Change

The tenth to the sixteenth centuries in northwest Europe appear to have been a kaleidoscope of endless warfare at every level, from the local ubiquitous internecine conflicts of barons to the relatively large scale battles of the Hundred Years' War in which the English routed the French at Crécy, Poitiers, and Agincourt and the French turned the tables at Formigny and Castillion. They were also an era of radical demographic change, with population growth from the tenth to the fourteenth centuries and then a decline beginning in the early fourteenth century that probably persisted for 150 years before being reversed.

A changing military technology, from the longbow in the English victories to the artillery effective in the French victories to the pike phalanx that undid heavily armored French knights at Courtrai in 1302, led to profound changes not only in the nature of warfare but in the viable size of political units.[5] Warfare became more costly both because of the costs of training disciplined units and because of the increased capital costs of the offensive and defensive equipment. Whether the result was the dangerous employment of skilled mercenaries or the initiation of a professional standing army by Charles VII of France, political units needed more revenue to survive than could be obtained from a sovereign "living of his own" from traditional feudal sources. Yet if the fiscal needs of the sovereign had increased, the potential resources to generate additional revenue in the economies had also increased. Among these were growing trade, expanding markets, and widespread development of many economies.

The demographic decline of the fourteenth century was precipitous in urban populations, a result of the bubonic and pneumonic plagues. The immediate consequence was an absolute decline in the volume of trade and commerce and in the revenue available to be taxed or appropriated by princes. But the decline in commerce was not equal to that in population. The basic institutional structure of rules and laws persisted and provided the essential framework that would serve as the basis of growth when population revived. The impact of population decline on agrarian organization was more fundamental. A change in the land/man ratio made labor scarce and forced an increased competition among landlords, which ultimately altered the organization of the manor and of agriculture.

The revenue necessary to fiscally strapped rulers could be confiscated, could be borrowed (particularly from Florentine bankers), or could be traded by constituent economic groups in return for services provided by the sovereign. All these methods were tried. Confiscation killed the goose that laid the golden egg. Eventually Florentine (and other) bankers were burned by repudiation—but not before monarchs had been supported in expensive wars and some bankers had realized handsome profits from Crown monopolies and other favors from rulers. The third method, the exchange of services—particularly the granting and enforcing of property rights—for revenue, produced a wide variety of structural changes, from the protection of alien merchants, to the incorporation of guild and merchant law into legal codes and enforcement by the state, to the establishment of Parliament, Estates General, and Cortes.

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Institutional Changes

The military and demographic/economic changes had profound implications for institutional and organizational change. The self-sufficient manor with dependent labor (serf, slave, or free) gradually gave way to a market-oriented agriculture, particularly pronounced adjacent to town and cities, with landlords and peasants bound together less by customary rights and obligations and more by an

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evolving structure of property rights. And institutional and organizational innovations further contributed to the growth of towns and cities and an expanding national and international commerce. The evolution of the bill of exchange and the development of techniques for negotiability and discounting required the development of centers where such events could occur—the Champagne and other fairs, banks, and eventually financial houses that would specialize in discounting. Marine insurance evolved from sporadic individual contracts covering partial payment for losses to standard printed contracts offered by specialized firms. Marine insurance was one way to spread risks; another was business organization that permitted either portfolio diversification or the aggregation of a number of investors in the commenda (an arrangement used in long-distance trade in which a sedentary merchant would despatch a "junior partner," usually a relative, to sell the cargo and obtain a return cargo), the regulated company, and finally the joint stock company.[6]

The mechanisms for contract enforcement appear to have had their beginnings in internal codes of conduct of fraternal orders of guild merchants, which were enforced by the threat of ostracism. These codes evolved into merchant law and spread throughout the European trading area; gradually they became integrated with common and Roman law and enforcement was eventually taken over by the state.[7]

It is important to recognize that the economic institutional structure was made possible by the evolution of polities that eventually provided a framework of law and its enforcement. Such a framework is an essential requirement for the impersonal exchange that is necessary for economic growth. The framework developed as polities gradually shifted from Mafia-like extortion to trading "protection and justice" for revenue. The initial impetus for this development was the desperate search for additional revenue; but as noted above that search could take several forms—confiscation or debt repudiation on the one hand or the trading (and enforcing) of property rights for revenue on the other.

Radically different results ensued from the divergent policies of rulers in the face of fiscal crises; but the one constant was the gradual emergence of the nation-state, whether in the context of the economic growth that characterized the Netherlands or of the stagnation that ensued from Spanish policies.

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To understand the success of the Netherlands we must look back to the evolution of prosperous towns of the Low Countries such as Bruges, Ghent, and Liège; their internal conflicts; and their relationship to Burgundian and Habsburg rule. The prosperity of the towns, whether based on the wool cloth trade or metals trade, early on made for an urban-centered, market-oriented area unique at a time of overwhelmingly rural societies. Their internal conflicts reflected ongoing tensions between patrician and crafts and persistent conflict over ongoing efforts to create local monopolies which, when successful, led to a drying up of the very sources of productivity which had been the mainspring of their growth. The overall impact of the advent of Burgundian control was to discourage restrictive practices. In 1463 Philip the Good created a representative body, the States General, which enacted laws and had the authority to vote taxes for the ruler (although each province kept its own estate and the delegates to the States General were given limited powers). This assembly encouraged the growth of trade and commerce. The Burgundian (and later Habsburg) rulers themselves, in spite of vigorous opposition, actively discouraged monopoly privileges embodied in guild and trade restrictions such as those in the cloth towns of Bruges and Ghent. The rulers were supported by new centers of industry that sprang up in response to the favorable incentives embodied in the rules and property rights. The Burgundians and Habsburgs were rewarded by a level of prosperity that generated tax revenues that made the Low Countries the jewel in the Habsburg Empire. Eventually the ever more exacting revenue demands of Philip II led to revolt, the sacking of Antwerp, the successful separation of the seven northern provinces, and the rise to commercial supremacy of Amsterdam. And it was in the Netherlands and Amsterdam specifically that modern economic growth had its genesis.

Contrast this brief story of economic growth with the story of Spain. After centuries of strife with the Moors and ceaseless internal wars among feudal barons Castile and Aragon united, under Ferdinand and Isabella, to form a nation-state. When Charles V ascended the throne in 1516 the great era of Spanish hegemony over Europe was initiated. It was characterized by prosperity, with growing fiscal revenues from Aragon, Naples, Milan, and particularly the Low Countries. Increased revenues were matched by increased expenditures as Charles V maintained the largest and best equipped army in Europe. Maintaining and expanding the empire, however, was ever more costly; and when the Low Countries revolted against Charles V's successor, Philip II, the result was not only to lose a major source of revenue but to incur the additional expenses of war with the seven provinces. The fiscal crisis deepened as treasure from the New World declined. The desperate search for revenue led to granting local monopolies for revenue, to confiscations, and to ever higher rates of domestic taxation. The predictable results were a decline of trade and commerce and bankruptcies of the state in 1557, 1575, 1596, 1607, 1627, and 1647.

These contrasting stories of economic growth and decline have been, with appropriate but usually minor modification, repeated endlessly in history and in the modern world. Growth has been generated when the economy has provided institutional incentives to undertake productivity-raising activities such as the Dutch undertook. Decline has resulted from disincentives to engage in productive activity as a consequence of centralized political control of the economy and monopoly privileges. The failures vastly exceed the successes. Economic growth has been the exception; stagnation and decline have been the rule, reflecting a persistent tendency toward failure in human organization. But both the successes and the failures reflect more than institutional/organizational characteristics of societies. They also reflect perceptions, ideas, ideologies—the beliefs that guide human choices and actions.

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Cultural Beliefs and Societal Organization

Just what is the relationship between beliefs and the human condition? In his *The Protestant Ethic and the Spirit of Capitalism*,[8] Max Weber emphasizes beliefs. In contrast, the dedicated neoclassical economist assumes that ideas, ideologies—indeed beliefs in general—don't matter because people go about pursuing what is in their self-interest. But the economist assumes not only that self-interest always guides choices but that individuals know what is in their self-interest; that they have correct theories and hence make choices that will lead to the desired outcomes. In fact, however, humans face a world of uncertainty and the mental models that they construct to