

Working Paper No. 76, 2014

Institutions in a World System
Contours of a Research Program

Stephan Panther



Working Paper Series



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Panther Stephan 2014: "Institutions in a World System: Contours of a Research Program", **desiguALdades.net** Working Paper Series 76, Berlin: **desiguALdades.net** International Research Network on Interdependent Inequalities in Latin America.

The paper was produced by Stephan Panther during his fellowship at **desiguALdades.net** from 04/2013 to 07/2013.

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Institutions in a World System

Contours of a Research Program

Stephan Panther

Abstract

In this paper I sketch the contours of a research program which draws on the insights of both institutionalist theories of long term economic change and world system analysis in order to analyze the many ways in which national and global inequalities interact. While the political economy approach developed in the research program of Acemoglu and Robinson has provided important insights on the relationship between national inequalities and economic growth, world system analysis focuses on interactions and asymmetries in the global economic and political system and their effects on national trajectories. On the one hand, I propose ways to make national institutions endogenous to international economic and political interaction via the influences these may have on national inequalities. The key to this discussion is the realization that the impact of international economic interaction on domestic distribution may be changed significantly, even in sign, if rights are weakly enforced and “grabbing” type redistributive activities are ubiquitous, especially inside and by the state. On the other hand, I explore the gains from looking at the world system as an institutional system, applying ideas developed by Acemoglu and Robinson, and North, Wallis and Weingast to analyze inequalities and asymmetries in countries to the entire globe. Here, both the question of whether a global elite coalition is to be defined as a group of countries or as a network of global elites in states, business and media and the question of how the international institutional order limits access to global political and economic resources are central.

Keywords: center-periphery | income distribution | institutional theory

Biographical Notes

Stephan Panther studied economics and political science at Ludwig-Maximilians-Universität in Munich, Germany where he also obtained his Ph.D. in public economics in 1990. He received his habilitation in economics at Universität Hamburg in the year 2000 for his work on social relations and the market, which moved his research further into sociology in general and economic sociology in particular. Since 2003 he has been Professor for International and Institutional Economics at Europa-Universität Flensburg. Since the 1990s, his research interests have focused on questions transgressing the borders of economics, history, sociology and political science, such as the debates around social capital or the influence of culture on economies, with a special interest in long run economic change.

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1. Introduction

Inequality is back on center stage in mainstream economic thinking about long run economic development. It got there accompanied by a focus on institutions. Both got on stage by a remarkable return of historical analysis in economic thinking about long run economic change (cf. Nunn 2009 for a reasonably recent overview). Comparing country experiences in search for “natural experiments” became a core method to look for and evaluate explanations for the “great divergence”, the immense increase of global inequality over the course of at least the last five centuries. Differences in national institutions and inequality of access to resources on a national level loom large in the explanations discussed.

However, while historical analysis has experienced a remarkable comeback, the intellectual history of debates in academic discourse itself has not, especially if these debates were ideologically polarized. Thus, the historical turn in mainstream economic thinking about long run economic change has taken place in complete disregard of the debates of the 1970's and 80's, centering in the challenge of dependency approaches to the received wisdom of modernization type narratives. The key idea: Rather than domestic conditions, the workings of the international division of labor itself determine economic change in a country over time.

While the dependency perspective has all but vanished in the social sciences, its intellectual heritage has lived on to a considerable extent and has been developed further in world system analysis, a research program initiated by Immanuel Wallerstein. I think it is fair to say that mainstream economic analysis and world system analysis live in intellectual isolation from each other, not taking notice of each other's achievements. This paper builds on the conviction that this state of affairs is detrimental to scientific advance.

As a very first step to change this situation of “intellectual apartheid”, in this paper I sketch the contours of a research program which draws on the insights of both, institutionalist theories of long term economic change and world system analysis in order to analyze the many ways in which national and global inequalities interact. More specifically, convinced that the institutionalism turned political economy developed in the research program of Acemoglu and Robinson has provided important insights on the relationship between national inequalities and economic growth, I on the one hand propose ways to make national institutions endogenous to international economic and political interaction via the influences these may have on national inequalities. On the other hand I explore the gains from looking at the world system as an institutional

system, applying ideas developed to analyze inequalities in countries to the entire globe.

I start by introducing the research program of Acemoglu and Robinson which most clearly relates inequality in the access to political and economic resources to issues of national economic performance in Section 2. This I contrast by an interpretive sketch of Wallerstein's world system approach in Section 3. In Section 4 I explore different ideas for endogenizing national institutions via the influence of international economic interaction in trade, migration and finance as well as via political/military interaction. In Section 5 institutions meet the world system: consequences of considering the world system as an institutional world system are explored, drawing on ideas developed in the analysis of countries. Section 6 takes a step back before returning to the issues raised in Section 5. It offers some conceptual consideration about geographical space – which had been neglected previously – and points out some initial ideas flowing out of this exercise. Finally, Section 7 provides a summary of key ideas, directions pointed to, and discusses some omissions.

2. A Political Economy of Long Run Economic Change: Acemoglu and Robinson

Starting with the publication of their seminal paper (Acemoglu et al. 2002) Acemoglu and Robinson, initially in close collaboration with Simon Johnson from MIT, over the last decade have extended the institutionalist explanation of economic performance into a political economy of long term economic change. In their chapter in the 2005 edition of the Handbook of Economic Growth (Acemoglu et al. 2005a) they summarize their general approach. Acemoglu and Robinson (2012) is a book length treatment for a wider audience.

By making the economic performance at any point in time depend on the institutions regulating the economic sphere, Acemoglu and Robinson reaffirm the prevailing institutionalist orthodoxy which has been established over the last two decades. By emphasizing distributional preconditions and consequences, they transform it into a political economy approach.

Acemoglu and Robinson (2005a) define “economic institutions” as those rules of society which have a direct impact on the rewards from economic activities and thus shape the incentives economic actors have, especially the incentives to invest in physical and human capital, the incentives influencing the organization of production and technology, and the incentives to innovate, both technologically and organizationally. They have a

decisive influence on economic performance. Acemoglu and Robinson do not deny that there are a multitude of other factors influencing the economic performance of an economy at any point in time. Some of them are temporary, such as external events, some are relatively enduring, such as geographical conditions and culture. However, economic institutions are central (Acemoglu et al. 2005a: 389).

Any economic outcome implies a certain distribution of income and wealth. The distribution of material resources, in turn, is a key determinant of the distribution of political power between different groups in a society. This “de facto political power” of social groups, as Acemoglu and Robinson call it, is one key variable determining economic and political institutions. The second key determinant is the ability of a group to overcome the collective action problem (Acemoglu et al 2005a: 392). While the latter ability is a kind of shift parameter for their analysis, the distribution of resources is a cornerstone.

Acemoglu and Robinson recognize the – partial – autonomy of the political sphere, the sphere of collective decision-making about the rules of the game: Political power of social groups is determined also by the rules for collective decision-making of a society – “political institutions” in Acemoglu and Robinson parlance – resulting in “de jure political power” (Acemoglu et al. 2005a: 392).

Actors use their de jure and de facto political power to influence decisions about both, economic institutions on the one hand and the rules of future rulemaking – that is, political institutions – on the other hand.

Thus, while the proximate causes of economic outcomes are economic institutions, political power, determined both by the formal rules of the political game and the distribution of resources and whatever else may determine de facto political power, determines economic institutions.¹

1 While this essential influence of the distribution of economic resources on both political and economic institutions is natural in many intellectual traditions, in mainstream economics Acemoglu and Robinson have to fend off an objection: Why should political strife about economic distribution stop interest groups from trying to make the “cake” to be divided as large as possible? This objection is based on the Coase theorem (Coase 1937). It shows the independence of efficiency from distribution in the economic sphere in the absence of transactions costs even if property rights are not perfectly defined and enforced. Acemoglu and Robinson emphasize the failure of a political Coase theorem due to the inability of political parties to commit not to use a major shift in de facto political power implied by a change in economic institutions to change the political institutions in their favor. Political transactions costs – usually much higher than transaction costs in markets – add to this. Under these conditions, distributional issues may adversely affect efficiency and therefore growth (Acemoglu et al 2005a).

Conflicts between the efficient use of resources and the maintenance of a political regime based on the political and economic privileges of a – comparatively – narrow elite may arise. In other words: Certain technological or economic changes leading to an increased national income may threaten the economic or political position (or both) of the dominant group, which then has the choice between having a large share of a small pie or a smaller share of a larger pie – and may well go for the former. In other words: wherever a highly unequal income distribution is based on a systematically unequal distribution of political and economic resources inequality may be a stumbling block for economic growth.

The system is recursive and dynamic. Exogenous events as well as endogenous forces of change as a consequence of economic growth and technological change make it a spiral through time rather than a closed system.

In the context of economic neoinstitutionalism the approach of Acemoglu and Robinson incorporates the early traditions of the “New Economic Institutionalism” by Douglass North and others on the importance of economic institutions on economic performance. It bypasses the second generation approaches which have emphasized the importance of informal norms, frequently under the heading of “social capital”. It does so by focusing on the political process and the role of formal institutions. To some extent this is a limitation, because these second generation approaches are likely to be complementary to the Acemoglu and Robinson framework (e.g. Acemoglu et al 2005a). Especially the social capital approaches have an important relationship to de facto political power by theorizing the collective action capability of social groups in an interesting fashion, a line of inquiry certainly worthwhile pursuing within an extended Acemoglu/Robinson perspective (e.g. Acemoglu et al 2005a).

On the other hand, Acemoglu and Robinson (2005a) were able to reopen the inquiry into the role of the distribution of economic resources and political power in the context of mainstream economics only by downgrading issues of collective action to a shift parameter some four decades after Mancur Olson had redirected intellectual efforts in the economic mainstream. Having done so in a highly successful and paradigmatic fashion amounts to a revolution in the way mainstream economists think about political economy and institutions.

However, in another central point of departure, Acemoglu and Robinson (Acemoglu et al 2005a) remain tied to the tacit assumptions of economic neoinstitutionalism: They focus on the distribution of economic resources and institutions on a national (and

sometimes regional) level. International interaction of any kind is secondary at best,² international institutions are not considered. It is as if each country were sitting in its own little box and only internal conditions were decisive for the course it follows in history. This I consider a central weakness, to some extent astonishing in an age talking about globalization so much, a weakness only explainable by the neat separation of intellectual traditions from each other both synchronically and diachronically. The next section will discuss another intellectual tradition, sitting at the opposite end of the national vs. global continuum.

3. A Selective Reading of World System Analysis

World system analysis is an intellectually vibrant descendant of intellectual debates centered on international inequality and development in the 1970's. In that decade, the appearance of the first volume of Immanuel Wallerstein's monumental work (Wallerstein 1974) was part and parcel of a wider intellectual movement countering modernization type of narratives with a critical account. The main takeaway point: Not the internal conditions of a country determine its path in the world economy, but its position in the world division of labor. Once the country has entered the capitalist world system as a periphery, whether by voluntary interaction or forced by colonialism, it was destined to stay there for a long time unless the working of the world economy would change fundamentally. More specifically, according to Wallerstein, the capitalist world economy depends on the existence of center and periphery (and semiperiphery, an intermediate category). The mix of countries belonging to each club may change once in while over time, but in this approach the distinct types of countries are an essential part of any capitalist world economy (Wallerstein 1974).

In the following I will explore these ideas somewhat more in detail. Far from being a survey, this is a selective perspective, based on my reading of Wallerstein's (2004) own introduction into his approach.

One central tenet of Wallerstein's (2004) approach is the idea that the characteristics of economic activities determine center and periphery. In other words, there are center-like economic activities and there are periphery-like economic activities.

2 It is important to emphasize here that external influences are not absent in the work of Acemoglu and Robinson. Indeed some of the central arguments in Section 4, especially in Section 4.1 on trade, are derived from work either by the two authors themselves or by authors following similar approaches. The key issue here is that their research program (Acemoglu et al. 2005a) has not explored the interaction between the international division of labor and institutional lock-in or change in a systematic fashion.

Center-like activities are innovative, quasi-monopolistic industries producing goods the quality of which is difficult to ascertain. In order to function well, they need a set of complementary state policies: patents, subsidies, standard setting, the demand of the state as a purchaser of their goods, e.g. military procurement. In order to be able to invest with a long time horizon in large scale industrial structures, R&D (Research and Development) and the like, center like activities also need relative political stability and internal peace, a state approaching the Weberian ideal of a monopolist of legitimate violence. Tax burdens result in the production of these complementary conditions. Tax evasion is relatively low (Wallerstein 2004).

Periphery-like activities are highly competitive and produce standard goods of easily verified quality. Their demands on state policies are reduced, sometimes massively. Price competition abounds. Profits are low. Using state power to redistribute wealth becomes an irresistible temptation. State control becomes highly contested, internal security suffers. Taxes are seen as burdens, and tax evasion is endemic (Wallerstein 2004).

Center-like activities create well-governed states. Their citizens benefit from the rule of law and effective bureaucracies based on meritocratic access to office as well as other institutional and policy features seen to be favorable if not essential for modern complex economies (Wallerstein 2004).

Periphery-like activities create badly governed states or more precisely, they create states suffering from structural cleavages where the benefits of good governance are concentrated in those few areas, geographical and functional, where they deem appropriate – not for the general public (Wallerstein 2004).

Trade between the center and periphery suffers from unequal exchange. Due to differing levels of monopoly, surplus is transferred to the center.

The relationship between center and periphery has an interesting dynamic generated by long waves of technological change, the so-called Kondratieff cycles. Early on in the cycle more production activities are innovative and complex, the technological-gap between center and periphery widens, the center becomes stronger. Late in the cycle, technological diffusion has outpaced innovation: The technological gap between center and periphery becomes smaller, the center becomes relatively weaker (Wallerstein 2004).

In the field of politics the capitalist world system thrives on the “interstate system” of sovereign states. Capitalism depends crucially on the absence of a “world empire”. Only under this condition can the historical domination of production and exchange by state forces be avoided. In the European center, the system of a balance of military power first created this condition. It was the result of competition between the major states for capital and technology in order to bring about military advantage (Wallerstein 2004).

Competition between states of different strength creates room for strong states to intervene in the internal affairs of weak states. This may take different forms. Strong states may force weak states to open up economically in areas of interest to strong states while refusing to reciprocate. Strong states may pressure weak states to side with them in international conflicts. Strong states may install governments of their liking in weak states (Wallerstein 2004).

Historically, the strongest form of interference of strong states was colonialism. Colonialism occurred when strong states did not find internal bureaucracies capable of implementing the conditions for the expansion of the world system locally. They then took control and implemented the conditions for firms from the strong state to work profitably in the colony. Decisions were taken in the interest of the colonizing powers. Access of other strong states was usually prevented, at least restricted (Wallerstein 2004).

In the realm of culture the capitalist world system manifests itself as a “geoculture”. Its central tenet: ever since the US and French revolutions there is the recognition in social thought that social change is inevitable. Already early on in the process, three reactions to this recognition – novel in world historical terms – developed: Conservatism, attempting to slow down change, liberalism, attempting to direct change and radicalism attempting to accelerate change. Historically, liberalism became dominant (Wallerstein 2004).

Over time, radical anti-systemic movements helped to stabilize the system, by providing the necessary political self-correction to self-destructive dynamics in the system. This is also the case for the tendency towards different types of ideologies prevalent at different levels of the social pyramid. At the top, universalistic ideas provide the support for global economic interactions. At the bottom diverse “divide and rule” ideologies legitimize the inequalities in the world system: sexism, racism, nationalism (Wallerstein 2004).

As stated above, this is no more than a sketch of a very elaborate theoretical and empirical edifice which again is but a cornerstone of a paradigm of social enquiry. However, this should suffice to see how distinct this perspective is from the previously presented one. It is thoroughly relational. What happens in any part of the system cannot be understood without looking at the system as a whole, both in terms of the relations between center and periphery as well as in terms of the relations between “economy”, “politics” and “culture.”

By way of contrast, as summarized at the end of Section 2, while Acemoglu and Robinson (Acemoglu et al. 2005a) present a theoretical perspective connecting politics and economics in a fundamental and insightful fashion, they leave their countries in boxes, their destiny depending fundamentally on internal conditions. I am convinced that this is hardly plausible even if one does not go along with every tenet of world system analysis. Global inequality and interaction do impact on the destiny of any place in the world interacting with internal conditions, and I hypothesize that they do so in an essential way.

Building on this, in the rest of the paper I will sketch two perspectives on how the two approaches outlined so far can be made to relate to each other in fruitful ways, focusing on the role of institutions. In this way I hope to contribute to an end of the intellectual apartheid which has characterized the relationship between approaches centering on global interaction and approaches focused on internal conditions in recent decades, as outlined in the introduction.

4. Endogenizing Institutions – an Interactionist Perspective

In what I call an interactionist perspective, countries are taken as units of analysis. However, the focus of attention lies in the relations (interactions) between different types of countries, between peripheral and central (and semi-peripheral) states. More specifically, causal sequences will be proposed where international interaction has the potential to lock a periphery into its peripheral status via an institutional channel (and conversely, lock states in the center into their advantageous position).

In other words, rather than taking the quality of institutions in a country as exogenous, I want to outline avenues of thought which make them endogenous to a country's position in the international division of labor. Or put in yet another way: I look for potential vicious (and virtuous) circles driven by a country's position in the international division of labor in which institutions play an important role.

To do so, hypotheses about institutional change are needed in order to think about how international interaction will impact national institutions. The Acemoglu and Robinson approach (Acemoglu et al. 2005a) of course already offers such a perspective focusing on inequality of income, wealth and political power as a deep determinant of institutions and institutional change. When focusing on the interaction between a peripheral nation and a nation in the center, national inequality therefore is looked at in terms of its entanglement with global inequality.

How would economic interactions like trade, migration, or financial flows interact with the framework by Acemoglu and Robinson (Acemoglu et al. 2005a) described in Section 2? Since national institutions are determined by the distribution of political power, the impact of international economic interaction on the latter has to be looked at. The main focus will be on “de facto political power”, the influence of international interaction on the distribution of resources between social groups.

Analytically, two separate effects can be distinguished, even though they are more or less intertwined in real life. First, international interaction may change the rewards from activities undertaken in a country and thereby alter the distribution of resources resulting in changes in de facto political power. This will be the perspective used below when looking at trade. Second, international interaction may provide an additional outside source of resources for social groups in a differentiated way – but may also create an additional demand on domestic resources. This perspective will be brought to bear on issues of migration and finance.

Political interaction will also be looked at even though very close to the global perspective opened up in Section 5. Here again the perspective of selective access to additional outside resources or selective drain to domestic resources is relevant from an Acemoglu/Robinson perspective. One historically very important form of interaction, the direct domination of the countries of the Global South by the Global North in the form of colonization – a direct influence on the “de jure political power” in a country – will not be considered here, since it is not the main channel of influence today.

4.1 Trade, Distribution of Income and Institutions

The best starting point to discuss distributive issues related to trade is the international (or more recently, global) political economy literature. Here we find a well-established line of inquiry asking how international trade (indeed, to some extent, how all economic interaction) influences the distribution of income of different social groups and hereby

the policy stances of those very groups concerning trade policy (see Hiscox 2014 for an overview).

One of the well-established starting points of the literature is based on the Heckscher-Ohlin model of international trade.³ Named after two Scandinavian economists who developed it in the early 20th century, it remains a working horse of mainstream international trade theory. It predicts that after trade, returns to the factors of production relatively abundant in a country (relative to the world at large) will rise, while returns to the relatively scarce factors of production will decrease. Interest groups representing those most affected by these shifts will try to influence policy accordingly.

Little is usually said about the effect these changes in the returns to factors of production have on the personal distribution of income, so central in the political economy of Acemoglu and Robinson (Acemoglu et al. 2005a). Here, however, we can identify certain interesting effects.

Take for example the effect of globalization. Globalization translates into the world of trade as trade liberalization. The abundant factors in the countries of the Global North, capital and skilled labor, have profited from globalization. Ownership of capital at least is highly concentrated even in the relative egalitarian countries of the North, while access to education tends to be more egalitarian. Nevertheless, we should expect globalization to have contributed significantly to greater inequality of personal income in the North resulting in the greater political power of established classes frequently diagnosed. Thus, in the Global North trade can be expected to have contributed to undermine the “class compromise” present after World War Two – not the virtuous circle we were looking for.

4.1.1 Trade and Institutions in the Global South – (In)Equality of Power and Ownership in the Case of Natural Resource Abundant Countries

How about in the Global South, the global periphery? In the logic of the above, we should distinguish between countries where natural resources are the abundant factor, as in most of Latin America and Africa, and countries where unskilled labor is the abundant factor, as in most of East and South Asia.

Ownership of natural resources can be very different from country to country and from resource to resource. Agrarian resources especially might be concentrated in

³ See Feenstra (2004) for a good recent up-to date exposition, and Helpman (2011), sections 2.2 and 3 for an introduction for a wider readership written by a leading scholar.

the hands of a few (or few powerful processing companies may effectively carve up a market of dependent smallholder suppliers between them) or distributed in the hands of many (who managed to gain market power by organizing processing cooperatively). Consequences of trade on the personal income distribution will very much depend on how history has settled this issue. In countries with a *latifundista* structure, trade will strengthen the power of an established elite; in countries with more egalitarian agrarian structures, it may actually support a more egalitarian political power structure.

This is very much in line with the results of a research project in the tradition of dependency theory by Dieter Senghaas and Ulrich Menzel in the 1980s, well summarized by Lars Mjøset (Mjøset 2007; Senghaas 1982 and Menzel 1988 are important publications which grew out of this project). In a series of case studies starting from a very different theoretical framework, they also concluded that agrarian egalitarianism, if followed by early modernization of the agrarian sector, was central to prevent “peripherization pressure” from generating peripheries. The main mechanism was the type of political history: more egalitarian agrarian structures led to more democratic structures while less egalitarian agrarian structures were more conducive to autocratic structures. Both would tend to open to trade – and in both cases the existing power balance will be supported by trade.

In the recent stream of literature on the resource curse (Venables 2009), attention has been drawn to yet another issue, absent in the international political economy discussion of the influence of trade on income distribution. In that discussion, in whatever way resources are distributed, property rights over those resources are well defined and enforced. In the weak institutional orders in many peripheral countries, however, exactly this is not the case: redistributive, “grabbing-type” activities by powerful private actors or the state are a central feature of these weak institutional orders – could this change the impact of trade?

It seems likely to do so: Under secure property rights, increased rewards for an economic activity are a chance to become rich. Under insecure property rights, they are a potential threat to become a target for redistributive, “grabbing” type, activities, in the extreme case violent ones (a good summary of the argument is in Robinson and Torvik 2011). This is a theme well represented in the resource curse literature (a much cited article being Mehlum et al. 2006), however with a clear emphasis on oil and other mineral resources. In Marxist-inspired literature this theme is echoed by work on the reappearance of primitive accumulation as a consequence of globalization (see e.g. Harvey 2005). However, no consensus has yet emerged concerning the relevant processes and causes.

What is clear, however, is that here we have a mechanism potentially driving a vicious circle: Peripheral countries with a comparative advantage in natural resources and relatively weak institutions at the outset are driven down a slippery slope of deteriorating institutions, with “grabbing” becoming more profitable, approaching civil war or Hobbesian anarchy at the extreme, while core countries with strong institutions can channel the benefits of trade in natural resources into growth.

A very interesting inquiry along these lines is Acemoglu et al. (2005b). The authors argue that economic windfall gains to be harvested from the opening of the Atlantic trade for Western European nations had different effects in different countries, very much depending on institutional conditions. The greater the power of parliament (nobility and traders) against the central power of the king, the more beneficial the opening up of Atlantic trade became, but where the king could appropriate the gains from trade by monopolizing, by forcing credits, defaulting on debt, etc., no positive effects on growth appeared. Britain and the Netherlands forged ahead, while Spain and France failed to capitalize on the opportunity. The empowerment of the merchants and the nobility in the first case and the central power in the latter quite possibly led to a decrease in the quality of institutions in the latter case and to an improved protection of rights in the former.

Note that hidden in this type of argument are always more or less unequal balances of political, economic and military power. Only if this power is sufficiently unequal, “grabbing” becomes worthwhile.

4.1.2 “Grabbing” Extended – Trade and the “Demand” for Labor Coercion

Let us go back to resource-rich peripheral countries and their characteristics. Extending the distinction made earlier, it is probably fair to say that they are relatively resource-abundant because they are not relatively abundant in low skilled labor – peripheral countries not being rich in capital and high skilled labor by definition. This means, however, that in resource-rich peripheral countries, unskilled workers are relatively scarce. Wages should be – relatively – high. They frequently are not. Why? Again a historical excursion may be illuminating.

The Black Death and its consequences turned out to be a formative experience in European history also institutionally. The pandemic of the 1340s wiped out one-third to one-half of the population in almost all European countries. According to economic logic, this should have made labor scarce, at the latest when economic and social life gained momentum again in the decades after the catastrophic events. And it did,

but the consequences varied greatly between center and periphery in Europe. In the economic center of Europe, in the West, on or close to the areas of high population density and urbanization running from South Eastern England up the Rhine valley into northern Italy, we can observe the consequences one might have predicted: wages rose and feudal ties were loosened. In the East, the periphery, by way of contrast, feudal landholders managed to tighten their grip on rural labor – the so-called second serfdom began.

In other words: the same economic impulse – labor scarcity – influenced institutions in a strikingly different fashion. When theorizing the reasons, one account emphasizes how an initial difference is magnified by an economic impulse. Cities in the East were smaller and the city network less dense than in the West. Thus the “outside option” for agricultural laborers – leaving the countryside for the city – was less attractive in the periphery compared to the center of the continent making it easier for the landed nobility to maintain their power even after the demographic shock of the Black Death: coercive measures or their threat were more likely to succeed when the alternative was less attractive. To sharpen the statement: Initial differences in economic and political power of the nobility were exacerbated by the negative demographic shock (see Acemoglu and Robinson (2012: 96-101) for a popular account and Acemoglu and Wolitzky (2011) for a more theoretical account).

What does this tell us about resource-rich countries? Where initial inequalities in economic resources, especially land ownership, political and military power among actors in an economy are sufficiently large, coercive labor relations in the form of slavery, serfdom or more modern forms possibly in need of identification are likely to prevail. Interpreting the above account using a frame of labor abundance vs. resource abundance, it looks as if these conditions are more likely to prevail in resource abundant conditions. Western Europe was more densely populated than the East, also in the countryside, and did have the denser city network. Relatively speaking, the East was less capital- and labor-abundant and more abundant in agricultural resources, particularly arable land. And it is there that labor scarcity generated more coercive labor arrangements.

To wrap up the argument developed so far, once coercive labor relations have been established, the increase of demand for the final goods produced by this sector makes coercion even more worthwhile (cf. Acemoglu and Wolitzky 2011). Thus, if the potential export sector of a resource rich economy is characterized by coercive labor relations, integrating into the world economy makes coercion more attractive. Integrating into the

world economy under these conditions will therefore increase economic inequality and reinforce exploitative institutions.

This story can also be told with a macroeconomic twist. The more important foreign markets are to the profits of industry, the less important the macroeconomic link between high wages and high demand becomes, potentially limiting attempts to lower wages in an economy. In small open peripheries, the single firm logic, in which low wages always mean high profits, may then actually become the country logic, again making it more profitable to use repression to lower wages. Countries become so-called banana republics, basically run for private profit, frequently in the interest of foreign-owned firms (see also Section 4.3).

And finally: One modern form of “coercion” could be unequal access to education. If lack of education makes people insecure in alien environments and immobile, both geographically and between economic occupations, then blocking the access to education has similar effects as the threat of violence: it makes outside options less attractive.

4.1.3 Same but Different – Abundance in Unskilled Labor

What is different in peripheral economies relatively abundant in unskilled labor? Little work has been done on this issue. Extending the discussion above, two lines of argument seem to support the hypothesis that we should find coercive labor arrangements less frequently here. First, coercion is less attractive in labor abundant countries – labor is cheap anyway. Second, coercion possibly is harder; more workers also mean potentially more resistance capability to coercive attempts. Of course, nothing in principle prevents ingenious divide-and-rule systems to be installed, as for example the Hindu caste system. Nevertheless, overall coercive labor seems less likely in labor abundant conditions.

What has been said above about the impact of trade on institutions does also apply here, *mutatis mutandis*. In labor-rich economies a rise in demand for labor intensive products should lead to a rise in wages – this however under weak institutional conditions makes it more attractive to actually use coercion against labor to avoid wage increases. Repression becomes more attractive. Thus, given a sufficiently strong international demand and a sufficiently large potential for repression, international trade may actually lead to repression where none had been before.

4.1.4 Final Remarks

As to the effects of trade on distribution, we have so far relied on Heckscher-Ohlin theory. However, this framework clearly has its weaknesses. In a Heckscher-Ohlin world where markets are perfect and externalities and increasing returns to scale absent, trade is a great equalizer as developed in various theorems in international economics. As the so-called new economic geography has shown, allowing for agglomeration externalities may change this considerably. This will be discussed in a global, systemic perspective in Section 5.3.

I am convinced that the applying this matrix of abundance of natural resources or labor, equality or inequality of economic and political resources, ease or difficulty of “grabbing”, as well as decreasing or increasing returns sectors of productions will provide a rich field of inquiry. It has already been shown that the notion of the development of underdevelopment – the notion of a vicious circle of peripherization pressure – can be fueled with analytical arguments from the field thus described. The discussion so far is summed up in Table 1.

Table 1: Trade and the Periphery (based on Heckscher-Ohlin Theory)

	Abundant natural resources		Abundant unskilled labor
	Concentrated ownership	Dispersed ownership	
Strong enforcement of rights	Increased income inequality → Increased concentration of power	Decreased income inequality → Decreased concentration of power	→ Rising wages → Decreased concentration of income and political power
Strong grabbing activities	<ul style="list-style-type: none"> • Grabbing becomes more profitable • Increased demand for labor coercion 		
	→ Increased concentration of income and political power	Ambiguous situation: movement possible towards both increased concentration of income and power as well as better enforcement of rights	

Source: Own elaboration

4.2 Migration – Institutions, Brain Drain and Brain Gain

In a Heckscher-Ohlin world, for the country of origin, emigration has distributional effects equivalent to exports of products using the migrating factor intensively. Thus emigration of high-skilled workers should increase their wages at home, and thereby usually increasing inequality, while emigration of low skilled workers should increase the wages of low-skilled workers and decrease inequality.

There exists a long tradition challenging this prediction: Emigration from the Global South is a locus classicus of interaction between center and periphery which may lead to reinforcing or cumulative effects, virtuous or vicious circles. The critique of the brain drain has long argued that the best and most mobile people, those who are highly educated and entrepreneurial, are those who tend to leave the Global South.

The highly educated may become more productive in the North due to a classic agglomeration effect central to the new economic geography approach (Venables 2009). If people belonging to the so-called creative class are more productive when in an environment with others of the same type and these externalities are national in scope, then by free international movement of labor the key advantage of the center in science and technology will in fact be reinforced.

Similarly, those entrepreneurial enough to emigrate, whether highly educated or not, do not use their skills inside the Global South, but eventually, after a period of adaptation, contribute in the North. Even if we do not assume increasing returns to entrepreneurial skills, it is unlikely that this is a case of neo-classical diminishing returns. Only in this latter case will emigration be an equalizer of wage rates between North and South, like trade in the Heckscher-Ohlin case.

As to income distribution: in both a so-called “new geography” world driven by knowledge externalities and a Heckscher-Ohlin world, income distribution in the North may become more unequal. In the first case due to an increasing productivity difference between the creative class and the rest, in the Heckscher-Ohlin world due to a decreasing wage level, if immigration is unskilled. Whether this might eventually destabilize the low inequality political economy present in the North remains an open question.

In both of the above cases, income distribution in the South should improve, thus also improving the political economy. However, the conceptual matrix introduced in the above paragraph also makes interaction more complex in the case of emigration.

An interesting issue in the case of a brain drain is that due to the diminishing size of the creative class network the return to education is reduced in the South. This results in a self-reinforcing effect of emigration of the best brains. With the option to become rich by educating oneself and creating technological advance in effect being exported by emigrating, education back home may at most be used to capture a good job in the relevant network of power. It thus may become easier to maintain a political regime guaranteeing high incomes by special privileges based on political power and restrictive access to education.

This hypothesis does not seem to be too much off the mark. Historically, repressive regimes frequently have used emigration as a “safety valve” to stabilize their regimes, be it Wilhelmine Germany or Castro’s Cuba. Again there seems to be an effect of weak institutions. If emigration is an easy outside option for those likely to oppose repressive/grabbing type arrangements, these very arrangements may actually become entrenched by the possibility of emigration.

Keeping institutions in mind, it can be seen that effects running in the opposite direction are also plausible. If outmigration is temporary or if emigrant communities remain in some type of contact with the population at home, they may well be the source of social and political ideas which eventually contribute to a change away from a regime benefitting only a narrow elite. The brain drain would then turn into a brain gain eventually. Note however that in all likelihood this would entail a temporal dimension with the brain gain setting in after a considerable time lag. This time lag would to some extent be absent if we look at technological and other types of operational knowledge which might be channeled to the country of origin by emigrants.

A final issue discussed in the literature in recent years is the issue of remittances by emigrants into their country of origin. Here we enter the field of financial flows which is the topic of the next section.

4.3 Flows of Financial Capital – Increasing Inequality of Wealth and Power?

Discussion concerning the integration of countries into the international capital market has been quite heated. From the point of view of the present section, the key issue is once again to confront institutionalist narratives with the hypothesis of endogeneity, with a key interest in cumulative causation, i.e. vicious and virtuous circles.

Let us first return to the point at which international interactions influence institutions in the Acemoglu/Robinson framework – their influence on de facto political power via

the distribution of resources. Generally speaking, all foreign financial inflows represent a new reservoir for resources in the political game of a country. Foreign players become involved; sometimes via anonymous market forces when decision powers are dispersed, sometimes in an organized form, sometimes directly as players in the domestic game, sometimes indirectly as sources of power for domestic groups. As long as access to foreign financial resources is distributed unequally between domestic players, the domestic balance of de facto political power is influenced.

The distributional effect of financial openness is not discussed as frequently as the distributional effect of trade. However, it is not unfair to say that in general capital markets favor the well to do by enlarging their set of opportunities. This is clear in the case of bank credit, given the role collateral plays. In the case of stock and security markets, the key argument is based on transaction costs. As long as these have a large fixed component – direct monetary costs, fixed costs of obtaining knowledge about capital markets, or fixed costs of selling and buying – those bringing large financial resources to the capital market have an advantage over those who do not. Overall we should expect access to capital markets to sharpen distributional differences working in favor of the already well-off. The strength of the influence of access to international vs. national capital markets, however, remains an open question.

So far, this narrative based on clearly defined and well-enforced property rights applies to both the Global North and South equally. However, given higher inequality in the South, it might as well push inequality beyond a critical value, making Acemoglu/Robinson growth traps – growth reducing policies supported by narrow elites – more likely.

When trying to come to grips with the impact of access to international capital markets on peripheral countries, however, it again seems promising to move the analysis into the world of weakly enforced rights where grabbing is easier. In order to do so, let us look at a narrative which comes across very much as an institutional trap perspective, a narrative Carmen Reinhart and Kenneth Rogoff developed in the early 2000's in several publications (Reinhart et al. 2003; Reinhart and Rogoff 2004, 2009) centering on serial default and debt intolerance.

The story again is developed against the background hypothesis that access to capital markets is beneficial to countries. Reinhart and Rogoff observe that the critical level of foreign indebtedness (measured in debt to GDP ratios), at which foreign creditors become nervous and financial crises are likely, is a lot lower in peripheral countries in the Global South than in the countries of the North. They furthermore observe that once

countries have defaulted once, they are much more likely to default again (Reinhart et al. 2003; Reinhart and Rogoff 2004, 2009).

This might be explained in part by poor information on the part of international investors leading to very strong reputation effects – assuming that a country which has defaulted in recent history is likely to default again – leading to high interest rates and to default in a kind of self-fulfilling hypothesis.

However, in the present context, another narrative leads to a vicious circle fuelled by external finance. In this story, access to international capital markets opens up a new form of grabbing: While international credits to peripheral governments benefit the narrow elites disproportionately, they are paid back disproportionately by the disadvantaged poor: Financial crises tend to redistribute in reverse, from the poor to the rich. International credits then to some extent work like contracts at the expense of third parties – the non-elite sections of peripheral countries. They make political power more attractive and may draw more talent and effort into a reverse-redistributive state apparatus.

While this story is far from complete – it e.g. does not explain why the credit ceiling in the Global South is systematically lower than the credit ceiling in the Global North – it formulates a hypothesis why under what I call “grabbing conditions” international financial openness may actually be harmful for peripheral countries, entrenching reverse-redistributive and repressive regimes (see Rodrik 1999 for a related but distinct hypothesis).

Somewhat along the same lines, one can discuss foreign aid, especially in contexts where it is effectively the only access to international finance. Also in this case the foreign source of financial inflow may lead to an increase in grabbing activities, usually similar to the features described when discussing the natural resource curse ideas above (see e.g. Robinson and Torvik 2011). This may well be a non-intended effect. However, aid may also be willingly used as an instrument to support authoritarian governments.

When finally looking at foreign direct investment (FDI), the activities of multinational enterprises in the Global South introduce a new sort of player into the domestic struggle for de facto political power. It may be useful to distinguish horizontal FDI interested in selling goods in the country of investment from vertical FDI interested in producing goods for export. In the latter case, the interests of multinational firms in coercive labor arrangements are very similar to the ones described for national elites in

Section 4.1. If foreign interests become very dominant, regimes may actually become extremely negligent of the needs of their own populations because the sources of de facto political power are almost entirely foreign. Banana republics may be a case in point. The only limitation to repression is the assured flow of the natural and human resources needed.

Horizontal FDI, by contrast, has an interest in domestic purchasing power. However, nothing prevents a situation in which the market for which a multinational firm is producing is based on the purchasing power of the privileged elite and middle classes, while still being interested in cheap labor for its production. In this case, FDI may fuel a divided society where a – sizable – minority uses repressive means against a majority which serves as cheap labor. Brazil in the 1970s may well be a good example for this kind of situation.

If we conclude that horizontal FDI in the Global North has no divisive effect, in some ways FDI may serve as an amplifier for a preexisting social and political matrix, enlarging whatever differences there might have been. However, with globalization, classical horizontal FDI has withered away considerably. More and more production is for the global market, wherever it might be located. The temptation for multinationals to press for lower wages has increased.

Table 2: Financial Globalization and the Global South

	Credit Market and Portfolio Investment	Foreign Direct Investment	
		Horizontal	Vertical
Strong enforcement of rights	Improved exit option of the well-to-do → Increased concentration of income and power		Interest in cheap labor limited by legal environment
Strong grabbing activities	Boom-bust cycles with serial default as a form of dispossession of the poor by the well-to-do (sovereign debt becomes a contract at the expense of third parties) → Increased concentration of income and power	Interest in cheap labor potentially limited by the interest in selling output	Unlimited interest in cheap labor leading in the extreme to “Banana Republics” (a form of social contract at the expense of third parties)

Source: Own elaboration.

4.4 International Political Interaction

The discussion on aid and foreign direct investment has brought us close to the discussion in the present section focusing on political interaction between a peripheral and a core country. Like in the case of aid and FDI, in political interaction, foreign resources available in the domestic struggle for de facto political power are controlled by organized entities. They can and have to be negotiated about. Indeed, the direction of foreign aid is frequently politically controlled and the interests of large multinationals influence the politics of the countries they originate from: The discussions above are also relevant here.

Surely international political interaction encompasses not only financial aid and FDI. Adding political interaction extends the analysis productively. Fortunately, David Lake (Lake 2011) has initiated (or at least popularized and focused) a research program very compatible with the perspective of this paper. The main focus of his framework is an

analysis of what he calls international hierarchy, a state of affairs where a dominating country exercises authority over another, subordinate country. Authority is defined as the expectation that the subordinate country takes actions according to the wishes of the dominating country in certain policy areas if so desired by the dominating country. If the subordinated country does not comply, it is considered legitimate by both that the dominant country enforces compliance. In this way, subordinate states delegate sovereignty partially to dominant states (Lake 2011).

The benefit for the subordinate country is the provision of an “international order” by the dominant country. This order as such, understood as a set of rules in various policy areas, is quite plausibly a benefit for the subordinate country if compared with a state of international anarchy. Moreover, the dominant country bears a disproportionate share in the maintenance of that order, under which the subordinate country saves especially military expenses. They have to trade this off however both with the obedience they owe the dominant country and the fact that the dominant country will shape the rules of the international order so that they are particularly favorable to itself and not the subordinate countries. This ability to bend the rules in ones favor is an additional benefit of the dominant country (Lake 2011).

This general framework becomes particularly relevant to this paper when Lake looks at the influence of international hierarchy on domestic distribution of power and resources and its dynamics in a recent paper (Lake 2012). His most relevant finding concerns the compatibility of foreign domination with democracy; in his case, domination by the US, but the argument is more general in character. The hypothesis he discusses: The larger the benefit from domination for the subordinate country and the closer the preference of the median voter in the subordinate country to the preferences of the dominant country, the more compatible is democracy with foreign domination. The smaller the gains, and the more distant the preferences of the median voter from the preferences of the dominant state, the more likely it is that foreign domination is only compatible with an autocracy (Lake 2012).

Let us discuss the argument for a given level of gains from subordination. As the preference distance of the median voter increases from complete coincidence with the dominant state, at first he/she still is in favor of subordination. As preference distance increases, eventually the median voter will start to prefer full sovereignty to subordination. For some range she/he still can be compensated by those who gain from subordination, but eventually the only way to realize subordination is to disenfranchise those voters who object to subordination most. Authoritarian government therefore enters the picture. More generally, in Lake’s argument, subordination always becomes

cheaper if a smaller part of the population has to be compensated for the loss of sovereignty (Lake 2012).

Lake remains agnostic about causation, arguing both that an authoritarian government, whose interest coincides broadly with the interests of the dominant state, will be more likely to seek the help of a dominant state and submerge itself into its hierarchy, as well as that foreign domination may create autocracies where none had been before (Lake 2012).

The approach of David Lake (2011, 2012) is highly compatible with the discussion up to this point and efforts to combine it with previous arguments could prove to be extremely fruitful. Indeed, Lake himself does relate some of the arguments made above on the winners and losers of trade under perfectly enforced property rights to his approach (Lake 2012: 18-19). Against a Heckscher-Ohlin background and arguing that the US-dominated global economic order favors free trade, he hypothesizes that the owners of abundant factors of production will be more in favor of US dominance than the owners of scarce factors of production (Lake 2012). This for example could contribute to an explanation of US dominance in Latin America. In Latin America the abundant factor is land and – autocratic – landowning elites are the historical allies of the US in that region.

When combining Lake's framework with the above, two desiderata stand out. First: The median voter theorem is an overly reductionist framework for policymaking even in western representative democracies. Integrating interest group politics, e.g., would be most desirable. Second: When considering center-periphery relationships we have seen that integrating weak institutional arrangements, where grabbing activities are highly relevant, adds considerably to the analysis leading sometimes to conclusions contradicting the ones reached when rights are perfectly enforced.

5. Towards a Gestalt Shift: An Institutional World System

So far I have explored an interactionist perspective of relating the political economy of Acemoglu and Robinson to a world system perspective, opening up the possibility that institutions, far from being exogenous, are decisively influenced by interactions between an economic and political center and a periphery.

In the present section I will explore a completely different perspective. Essentially the idea is to view the entire world as a single institutional system, applying the insights gained from looking at national economies and societies to the world at large. Of

course, there exists no world state, and despite globalization social and economic interaction is still hampered by national borders. Nevertheless the following pages attempt to show that viewing the world system as an institutional system can provide a second original perspective relating the two paradigms in focus in this paper in a fertile fashion resulting in new perspectives on how national and international inequalities are entangled.

5.1 Korzeniewicz and Moran: Blending Acemoglu and Robinson and the World System Approach

The idea of viewing the entire globe as an institutional system has been pioneered by Korzeniewicz and Moran (Korzeniewicz and Moran 2009). In Chapter 2 of their monograph, they base their approach on a critical reading and reinterpretation of the analyses of Acemoglu and Robinson (Acemoglu et al. 2005a) as well as Engerman and Sokoloff (2000). For the purpose of this paper, their key insight is the classification of national institutional equilibria into two categories: High Inequality Equilibria and Low Inequality Equilibria (Korzeniewicz and Moran 2009).

High Inequality Equilibria (HIE) are characterized by highly unequal access to the means of production based largely on ascriptive characteristics, frequently based on descent (“race”). The selective exclusion (Korzeniewicz and Moran 2009: 26) of large sectors of the population from political and educational opportunities as well as from the more profitable employment opportunities is the key to understanding these configurations. In the center of HIE are institutions establishing various forms of coercive labor. In the eyes of Korzeniewicz and Moran (2009), they are institutional innovations, varieties of capitalist economies, serving well the interests of the privileged few and the colonial powers they in turn serve.

Low Inequality Equilibria (LIE) historically had been marginal areas, abundant in land, where population was scarce. Access to resources had been more equally distributed even initially, a result reinforced by slow and uneven processes of democratization over the last two centuries. In these slow, uneven and conflictual processes, more and more positions and resources have come to be assigned by achievement rather than by ascription. Today these are the (original) OECD countries which have outperformed the countries characterized by high inequality equilibria in terms of per capita income by far, over the last two centuries as well as today.

Korzeniewicz and Moran (2009) see these two configurations as dynamic historical equilibria. Forces are at work which reproduce their high or low inequality characteristics even as social, economic and technological circumstances change.

Based on this dichotomous characterization of national institutional configurations which imply two easily distinguishable inequality regimes, from the point of view of this section the decisive intellectual step is presented in Chapter 4 of Korzeniewicz and Moran (2009): Now the world system is interpreted as being a HIE. The main criteria of exclusion on a worldwide scale is seen in a modern ascriptive criterion, citizenship, and the main mechanism of exclusion today are the immigration policies in place, which only allow for selective access to the privileged conditions of the HIE countries. Thus, according to Korzeniewicz and Moran, the same processes which reduce competition within the HIE countries enhance competitive pressures in the LIE to the detriment of the excluded (Korzeniewicz and Moran 2009: 78).

Beyond pioneering this highly original fusion of institutional and world system approaches into something they call a world-historical perspective, Korzeniewicz and Moran impress with extensive empirical material on the world income distribution at several points in time, carefully blending national and world inequality into one overall picture.

Their study of migration regimes is another strength of their analysis. While this is an important exclusionary mechanism in place, I would argue that it should not be considered as the main mechanism (although Korzeniewicz and Moran 2009: 82 seem to imply this). Selective protectionism by the countries of the center against the import of labor intensive products of the periphery is for example equivalent to restrictive migration policies: trade is a substitute for factor migration under Heckscher-Ohlin conditions. A complete picture of the relevant exclusion mechanisms should cover all the types of interaction looked at in Section 4.

Another problem with their analysis is that the core of their analysis suffers from the same macro-regional bias as the literature Korzeniewicz and Moran (2009) cite: They all take their inspiration very much from the two Americas, and to a considerable but lesser extent from Sub-Saharan Africa. Historically, while the mechanisms described were very important in these contexts, they had a considerably lesser impact in the Middle East or Asia. Thus a more differentiated analysis of the Global South, or indeed much more specific national or sub-national case studies would be of great interest.

Furthermore, the role of competition is ambivalent. While considering the coercive labor arrangements created by European colonial powers as institutional Schumpeterian innovations, competition in itself seems to be largely seen as an element adverse to a high income, and arrangements limiting competition as essential for achieving high income. Competition appears to be limited to competition over a cake of a given size, while the wealth-creating elements of competition are overlooked. Here again a more differentiated and systematic account may add to the strength of the analysis.

Also an analogous issue stressed by Acemoglu and Robinson (Acemoglu et al. 2005a), the development trap caused by unequal distribution, is not developed by Korzeniewicz and Moran (2009) when interpreting the world as a HIE. Applying it leads to the hypotheses that high worldwide inequality creates a global development trap in which the global center may actually try to block development in the periphery due to the fear of obtaining too little of the enlarged share created in a more egalitarian and richer world.

Especially when looking at this last hypothesis, conceptualizing the center as a unitary actor, as the transfer of the Acemoglu and Robinson political economy implies, appears to be seriously limiting. To some extent this is remedied by yet another new institutionalist account of world development to which we now turn.

5.2 Global Elite Coalitions and Organized Violence – Reading North, Wallis and Weingast Against the Grain

“Violence and Social Orders” (North et al. 2009) can be considered a conservative answer to the vision provided by the research program of Acemoglu and Robinson (e.g. Acemoglu et al. 2005a). Just as the latter, it has had considerable impact, the monograph having been translated into Chinese, French, German, Italian, Japanese and Russian. It has entered the academic discussion on economic development and has entered into World Bank discourse (see North et al. 2013).

Like Acemoglu and Robinson (Acemoglu et al. 2005a), it focusses on inequality of resources, adding resources of organized violence to the political and the economic. Even more than the Acemoglu and Robinson approach, it concentrates almost entirely on a comparative institutional exercise. It is illuminating in its own right, both for its achievements and for the issues it does not tackle. It is also instructive to view the entire globe from the point of view of this perspective just as Korzeniewicz and Moran (2009) have done based on the Acemoglu and Robinson approach.

5.2.1 Two Institutional Equilibria to Control the Threat of Violence in Human Societies

Just like for Korzeniewicz and Moran (2009), the fundamental conceptual framework of North, Wallis and Weingast is dichotomous. It is presented as two distinct social orders which have developed over historical time. The central task of these social orders: limiting the incidence of violence in human societies. Throughout most of human history ever since the initial appearance of cities, this has been attempted by what North, Wallis and Weingast (2009) originally call the natural state. More recently they have shifted to the term limited access order (LAO). Only during the course of the last two centuries, a few countries, the original OECD countries, have managed to transform their institutional setup into open access orders (OAO) (North, Wallis and Weingast 2009). Let us briefly look at the two in turn.

The key mechanism by which violence is contained in a LAO is very similar to an efficiency wage mechanism. The rents generated through the cooperation by those who control the resources for violence exceed any expected gains from using violence. Thus natural states are controlled by elite coalitions of actors able to exert considerable command over violence. Their immediate “profession” might be military, but also economic, political or indeed ideological/cultural (educators, holders of religious office). Ultimately however the effective power of a grouping is based on its command of organized violence: directly, by financing it, by legitimizing it, or by negotiating deals with the threat of violence in the background.

Peace among those at the top of these groups controlling organized violence, so the argument of North, Wallis and Weingast (2009), allows them to carve up their world, limiting access to key economic and political resources by their command of organized violence. The same instruments of violence serving as a threat in the bargain against other members of the elite coalition are used to extract resources from the followers of one’s own grouping, by threat or by use. In the slowly growing societies of most of human history, indeed this has been the central key to economic inequality (North, Wallis and Weingast 2009).

This then is the key mechanism: unequal command over organized violence requires unequal distribution of income and economic resources. The internal peace dividend of a society has to flow to those whose command over organized violence makes them powerful in order to keep them from demanding their disproportionate share violently.

This argument looks essentially Hobbesian. A Leviathan guaranteeing internal peace will only come into existence if its components do not gain by challenging the distribution of resources given at any point in time. The alternative to the exploitative Leviathan is anarchy.

The rents generated by limiting access to political, cultural and economic resources will be used partially to distribute them to non-elite members of the respective groupings in exchange for loyal service: feudal systems, systems selling state offices, patron-client networks, etc. Over the course of time the identity of those belonging to the elite may change, both individually and as to the groups being represented, as access of individuals and groups to the means of violence changes.

The key to understand an OAO is the institutionalized civil control of organized violence, the military and the police. In a historically unlikely fashion, societies characterized by OAOs have managed to compartmentalize violence. The Weberian ideal is reached: the state monopolizes violence and that state is controlled by civilians. This is, in the eyes of North, Wallis and Weingast (2009), a fundamental departure from the conditions in an LAO. In a LAO, access to the means of violence is practically open, while access to economic and political resources is limited. In the ideal OAO access to political and economic power is open, while access to organized violence is highly restricted. Key to this is the separation of the control of how to wage war by the military from the control of the political decisions of when to wage war and how to finance it, which are reserved for the civilian state organization (North, Wallis and Weingast 2009).

In the ideal type of an OAO, organizations are what North, Wallis and Weingast label “perpetually lived”: they have potentially an eternal life, independent of the people running them: They have become depersonalized entities. The rule of law is accessible to everybody and so is the right to organize privately or politically. Enforcement of agreements and contracts by third parties is at least in principle available to all too. Politics is competitive and characterized by free entry, as are economic activities. This has important effects: A vibrant civil society controls politics and economics, and economic rents are mostly generated by technological innovations.

LAOs, by contrast, according to North, Wallis and Weingast, come in three distinct varieties, fragile, basic and mature. In fragile natural states, relationships within the elite coalition and within the groupings commanded by the members of the elite are highly personalized. There is no permanent state organization. In basic LAOs, some state organization appears, but is not yet independent of the personal identities of those in the ruling coalition, while in mature LAOs a perpetual state organization exists

independent of the personal identities of those in power. Furthermore, it is possible for elite members to form private organizations independent of the state to some limited extent. While this clearly describes an upward gradient to more and more stable state organization, the authors emphasize that no dynamics necessarily drive a society along the road thus laid out. Reversals to a more rudimentary form of an LAO do occur.

The change from a limited access order to an open access order is considered fundamental by North, Wallis and Weingast (2009) and in their view at least so far has been irreversible. They name three doorstep conditions necessary for a change to an OAO to be possible (North, Wallis and Weingast 2009: 11):

- rule of law for the elite,
- perpetually lived organizations in the public and the private sphere,
- consolidated political control of the military.

The change itself takes place when the rights so far reserved for the elite are granted to ever larger parts of the rest of the society.

5.2.2 Discussion – Bringing Initial Distribution and Collective Action Back in

When critically assessing the above, it is all too obvious that this is a modernization type of narrative describing historical stages leading to the OAO by which rich countries are characterized. The unit of analysis is the (nation) state and internal conditions are key to how history progresses. This key failing of all the institutional accounts from the point of view of this paper will be discussed in the next section. The present section is devoted to a discussion of the approach in its own right. I think both achievements and omissions are considerable.

The first clear achievement of this approach is its focus on violence and its prevention in human societies, which had been largely absent in previous institutionalist accounts. A second theoretical innovation is the key ingredient of the concept of the LAO: the – at least temporal – stabilization of peace through cooperation with rents being appropriated by potentially violent elites. And lastly, the argument that the regulation of intra-elite relations by the law, using perpetually lived organizations, is a precondition for the transformation of an LAO into an OAO is interesting. In some sense it echoes the proposition that revolutionary change presupposes an idea of how to change a social or political order: A credible idea of how things could be done differently. Periodic peasant uprisings are a persistent feature in traditional societies – and it has been argued that they tend to be persistently unsuccessful due to the lack of an alternative

vision for political organization: Looking for “the good king” instead of trying to abolish feudalism.

Conspicuously absent from the account of North, Wallis and Weingast (2009) is a discussion of socio-economic inequality prior to and independent of the command of organized violence and how it might influence the trajectory of a society. The control of the means of violence by an elite in a grouping is taken for granted. This is fundamental. In the logic of the North, Wallis, Weingast (2009) argument, anybody can claim to be part of the ruling coalition who credibly shows a potential for violent intervention – the control of economic resources and military technology being arguably the most important ingredients of this capability. Thus how access to both is distributed in a society might be essential for the course of a society by determining the costs of conflict, the abilities of different groupings in society to organize defensive and offensive potential of violence, etc.

It is probably not a historical accident that low inequality/open access societies have developed out of societies at the margins of empires, ancient or more recent, where the armed arm of the respective centers was weak from the beginning or became weak early when imperial overstretch set in. Elites or their cronies were relatively few and the centralized instruments of violence limited to enforce the type of hierarchical system from which the logics of a LAO may grow.

Very much along the same line of argument, the role of conflict to achieve an OAO is very much downplayed (cf. North et al. 2009: 245). Elites do not just give up their privileges: they do so only if faced with a sufficiently strong threat. How this may come about is of course a research area of its own with both a long tradition and a lot of open questions. It is probably not a historical accident that greater equality was achieved when conscription armies were considered to be the most successful military technology (and barricades were a promising means of street fighting) giving the disenfranchised some leverage also due to their importance for military success.

Let us use all of the above to rephrase the North, Wallis, Weingast account. Phrased very generally (and almost a truism): violent conflict in a society will break out when groups commanding some resources of organized violence have reasons to believe that this will be to their advantage. This is the more likely if the costs of doing so are low and the expected gains high.

More specifically, the LAO argument sees control of organized violence concentrated in the hands of an elite. If we go along with this, intra-elite conflict is unlikely if conflict

would destroy the very spoils a group wants to obtain a larger share of – e.g. by producing anarchy, by doing long-term damage to the economy or by sparking a revolution. However, if access to organized means of violence is more equally distributed in society, if larger sections of society become able to resist in a conflict, or if costs of repression rise (e.g. due to large distance between center and periphery), the resulting distribution of economic resources will become more egalitarian as well. The very ability to organize, i.e. to overcome group-specific collective action problems, or in yet other words, to overcome divide-and-rule strategies employed by the elite, may be a central part of this.

On an even more fundamental note: If the LAO framework contests that military power yields economic power via the extraction of rents from the powerless, does not the disposition over military power itself presuppose economic power? How circular is this argument?

What finally remains entirely unclear in this approach is why this argument should only work with rents obtained from extracting surplus by the poor masses and giving it to the potentially violent few. Peaceful cooperation of the potentially violent few avoids the destruction of rents, in conflict and its aftermath. If rents are generated by repression this may be the case, when conflict may lead to an egalitarian revolution or, more likely, a complete replacement of one elite by another. However, if income of the potentially violent few is high because they can tax a thriving capitalist economy, then the peaceful cooperation of the potentially violent few is even more likely since complex economies suffer even more from organized internal violence than less complex ones. If this is so, it is not clear why societies should necessarily be trapped in an LAO, since even elites in LAO could perceive the potential benefits of moving beyond it. Here the Acemoglu and Robinson approach may help.

Overall, decomposing the elite of Acemoglu-Robinson into an elite coalition is certainly an important advance, and the efficiency-wage hypothesis of stabilization of peace as well as the idea of institutional preconditions for a change to an OAO are both worth exploring. Nevertheless, the relationship between inequality in the access to economic resources and inequality in the disposition over resources of organized violence does seem to be in need of further inquiry. For doing so it could be worthwhile to attempt a synthesis of the frameworks of North, Wallis and Weingast and Acemoglu and Robinson (especially Acemoglu and Robinson 2006).

5.3 The World, a Limited Access Order? Coalitions, Units of Analysis and Mechanisms of Exclusion

After having discussed achievements and omissions of the Limited Access Order/Open Access Order (LAO/OAO) framework of North, Wallis and Weingast on its original turf, the country, this section now turns to its relevance when considering the idea of looking at the entire globe as an Institutional World System as developed in Section 5.1.

Analogous to the Korzeniewicz and Moran move which turned a Global South aspiring to become like the Global North in terms of inequality into a Global South excluded in a global high inequality regime, applying the LAO/OAO framework to the entire world turns the Global South from LAOs which ought to transform themselves into an OAO into the subordinate followers in some global grouping lead by some in the North who wield globally relevant means of violence in a global LAO.

Just as in a national context, the LAO/OAO framework has the advantage to allow for a consistent discussion of intra-elite conflicts. Interesting in this perspective – as a hypothesis – is the importance of possessing relevant means of organized violence as sources of power. The world as a LAO implies stability being assured by elites having access to rents from peace larger than any spoils from war. These rents are generated by limiting the access of the Global South to key economic resources – following the LAO narrative. If this sounds somewhere between neo-feudalism and neo-imperialism, so it should.

Whether the globe today is best described as analogous to a fragile, basic or mature LAO is not uninteresting. It strikes the eye that the establishment of some global institutions via the UN System after World War Two could be interpreted as a move from a fragile towards a basic LAO or even a mature one, given the independence of these organizations from personal relationships and the ease of action for elite organizations outside the “state” (= the UN organizational framework): Multinational companies, regional integration agreements, NGO’s, the Davos meetings, etc. This compares with a pre-1914 framework where personal relationships between monarchs were deemed important by contemporary observers at the eve of World War One.

At this point the question arises: who actually constitutes the ruling coalition on a global scale if one would apply the LAO/OAO framework? Early after World War Two, one would probably have started easily with a state-centered account, dominated by the then-undisputed hegemon United States at the top of an international hierarchy both along the lines described by David Lake (2011, 2012) and discussed in Section 4.4 and

the rapidly dissolving remnants of old-style imperialism. Today a modified description should emphasize the rise of large transnational enterprises, and would consist of a partially competitive, partially cooperative network. For this to make sense for a global LAO/OAO approach, one would have to include a description of how states and transnational enterprises coalesce in directing the use of the potential for organized violence by states.

On a national level this idea has been a major element of our reading of the world systems approach in Section 3. It is also part of the comparative capitalisms approach of Bruno Amable (2003). Basically, certain political power constellations will create economic institutions in their interests. These then encourage economic decisions by many actors adapting to these institutions, creating new interests ready to organize in order to defend and adapt them in the light of new challenges. It would be interesting to look at similar mechanisms around a new highly educated, mobile and connected class of executives relatively high up in the decision-making hierarchy of this government-transnational complex. NGOs could be seen as a global counter elite, torn between being a true challenge to the established powers and being co-opted. To analyze all this, network and Bourdieu-type of analyses of economic and cultural capital of these elites may be very interesting, particularly to assess the degree to which these institutions have become more like perpetually lived organizations than purely personal connections.

Around this narrow core elite we then have those who have been “bribed” into the elite, who have something to lose from a change in the dominant coalition or indeed the global hierarchy as such. Skilled workers in the Global North are a case in point. So are the current state elites in the Global South.

A very important issue in such a narrative is the relationship between direct forms of hierarchy and indirect, more or less anonymous forces of exclusion. More on the direct hierarchy side is the Korzeniewicz and Moran (2009) argument about exclusion via citizenship. However, citizenship only becomes a relevant means for exclusion when the dynamics in the world system maintain the center-periphery gap at the level of countries.

Section 4 below worked out several hypotheses which would qualify as indirect forces here. However, I would like to focus on one set of such arguments not discussed thus far: the so called “New Economic Geography” (see Venables 2009 for an account emphasizing development issues). In the world imagined by this branch of economic thinking, both externalities and increasing returns are introduced and thus it becomes

possible that a reduction of trade barriers between (a commodity producing) periphery and (an industrialized) center may lead to a reduction of welfare in the periphery. The mechanism is easily explained: Due to the reduced costs of overcoming the distance between center and periphery in combination with economies of scale in “manufacturing” it may become more profitable to concentrate manufacturing production in the center and deliver industrial goods into the periphery via trade rather than produce them locally. Trade leads to deindustrialization. This will reduce welfare in the periphery if agglomeration externalities in manufacturing are strong enough and monopoly rents earned there are high.

However, the “New Economic Geography” approach (e.g. Venables 2009) can also be used to support an interesting alternative to citizenship as a major mechanism of exclusion: the idea that exclusion works mainly via limited access to education. Education is the only means by which individuals are able to obtain the appropriate cognitive mindset (cultural capital) which enables them to become part of the global elite network.

Frequently it has been argued that agglomeration effects are particularly strong in innovative, knowledge-intensive industries: Knowledge production in both theoretical and applied forms becomes more productive if in close spatial contact with other knowledge production. If this is the case, education opens or closes doors to an important sector of a modern economy with increasing returns to scale, creating major inequalities in income between those in the network who benefit from the externalities and those who are excluded. Whether externalities travel by pure spatial proximity or network proximity and whether network proximity is national, organizational (transnational companies) or international is an interesting question. It recently has been fueled by large corporations locating their R&D departments no longer merely close to headquarters, in center countries, but more and more distributed in a worldwide network, including major semiperipheral states.

In some ways, access to global knowledge networks and the education opening the doors to enter them has therefore become similar to another major structural exclusion effect hypothesized to be present in global financial markets. It has been very succinctly dubbed “original sin” by Barry Eichengreen, Ricardo Hausmann and Ugo Panizza (see Hausmann and Panizza 2011 for a recent discussion by two of the three original authors) and refers to the problems generated by the Global South not being able to borrow internationally in national currency. When the going gets rough in an economy, its currency tends to weaken. If the country is indebted in a foreign currency, the debt burden rises relative to domestic economic capacity, making it more difficult to service

external debt at the very time when domestic capacity to do so is enfeebled anyway. This makes external debt riskier, policymakers less able to run counter-cyclical fiscal policies, and increases the overall instability of economies in the Global South.

In contrast to the debt intolerance literature discussed in Section 4.3, the original sin hypothesis sees the problem in the structures of the global financial markets, and not in the institutional weakness present in the Global South (see Eichengreen et al. 2007 for a discussion). Essentially, the appetite of global investors to diversify their portfolios is limited on the one hand due to the transaction costs associated with handling additional currencies in the portfolio and on the other hand due to declining benefits of diversification as more and more currencies are added. As a result, the optimal currency portfolio has a limited number of currencies. Big countries have advantages due to the internal diversification they provide by offering an already well-diversified set of economic activities to invest in. Also for trade, network effects play into the hands of a handful of major currencies as carrier currencies. Eichengreen, Hausmann and Panizza (2011) do not deny that institutional weakness might have an effect, but neither does it seem robust nor strong. The gist of the analysis: There is only space for a few currencies in the portfolios of global finance and the big economies of the Global North sit relatively comfortably in their respective slots. As a consequence, the Global South is cut off from the capital flows which could generate a welfare gain and especially help to stabilize national economies.

A fourth possible structural exclusion mechanism has a very similar effect. Ever since the Prebisch-Singer hypothesis, specialization in the export of a very limited set of natural resources has been criticized heavily. Recently Jeffrey Williamson (2011) has prominently argued that the main cause for detrimental effects of entering the global division of labor as a natural resource exporting country are not long term price trends – even though they may well contribute – but the volatility of commodity prices.

Thus, both original sin and specialization in a small set of natural resource exports puts economies in the Global South under the increased strain of a highly volatile economic environment. Clearly these fiscal and economic challenges demand more of institutionally weaker governance structures in the South than from the stable ones in the North. Whether it actually does lead to a vicious circle of institutional deterioration in the South and a symmetric virtuous circle in the North is a very interesting research question.

Table 3: The World as a Global Limited Access Order

The World as a Limited Access Order: Key Research Questions
Character of the global LAO: Basic or mature? <ul style="list-style-type: none"> • Key issues: the role and character of global intergovernmental institutions, multinational cooperation and global NGOs
Character of global elite coalition: A coalition of states or a network of state, business and cultural elites or some composite?
Exploration of mechanisms of limited access/exclusion on a global scale: <ul style="list-style-type: none"> • Migration and citizenship • Global networks in the presence of positive network externalities and differential access to education • Financial flows and “original sin” • Trade and the volatility of commodity prices

Source: Own elaboration

What is the significance of these anonymous mechanisms to which we can add those discussed in Section 4 based on the impact of international economic interaction on national distribution of resources? I think this is most readily understood by referring back to the work of David Lake on international hierarchy discussed in Section 4.4. The dominant state he refers to is the United States, and the international order which is provided is the liberal economic order. If the mechanisms described above and in Section 4 are relevant and dominant, and if all these different virtuous and vicious circles cut at the same point in the socio-economic continuum, then in this liberal economic order there will be a tendency towards the development of underdevelopment. This then provides a reason why the median voter in the Global South has voting preferences opposed to those of the US hegemon and why thus US dominance in the Global South has had the tendency to be associated with the support of autocratic regimes as hypothesized in (Lake 2012).

The question left open on this level is whether this is a necessary consequence of a liberal economic order or not. Avenues in which unequal interaction stabilizes global inequalities have been described. However, nothing in the arguments generated so far presupposes that the capitalist market economy would not thrive when all countries had their share of technological leadership in stable political and economic conditions. Center and periphery may be but one possible configuration of a capitalist world economy characterized by multiple stable political economic configurations.

But have we already reconstructed the globe as an Institutional World System, a global limited access order? No, we have not. The story up to this point has once again turned out to be a story with a single peaked hierarchy, describing at best one of the groups commanding organized violence on the global scale, but not the global coalition – if there should be one. Yes, the global executive elite could be part of such a coalition. But it does not command organized violence comparable to countries. In order to get one step further, we need to step back and ask whether we have grasped the ideas of center and periphery sufficiently yet.

6. Center and Periphery: Bringing Space Back in

6.1 Conceptual Reflections

When looking at the journey covered so far in this paper, one issue is striking: the absence of any explicit consideration of geographical space, even though some issues have of course been part of the discussion so far. In this section I will remedy this somewhat by systematically probing into the concepts of center and periphery.

At a very general level I propose to understand the spatial differentiation of center and periphery as a spatial expression of a hierarchy. One immediate consequence: Center and periphery become a continuum where spaces closer to the center end of the continuum are higher up in the hierarchy and spaces closer to the periphery end are lower down. This has a corollary: The more center-like an activity, a place, an interaction, the greater is its spatial reach. Or, more succinctly: A place is the higher up in the center-periphery hierarchy the larger is the spatial reach of the choices made in it and the less it is subject to decisions taken elsewhere. Whether we measure space by distance or territory or rather by number of people – or, how the interaction of the two is in itself a sign of centeredness – is an interesting issue I shall bypass here.

While the focus on choices/decisions might be due to the author being an economist, it most easily fits for the political dimension considered so far. Within states it is clear that decisions taken by a national government, laws passed by national parliaments, and cases decided by a supreme court determine (often central) aspects of life in the entire country. The decisions taken by federal states – should they exist – in provinces or in local communes have less spatial impact. Insofar as a country is a subordinate part of an international hierarchy or otherwise influenced by other powerful states (see the discussion of the ideas of David Lake in Section 4.4 above) there are other centers which are hierarchically superior – at least in some dimensions.

The more different dimensions of state decisions are concentrated in the same space, the more “centered” is political life in a state. Thus a supreme court might be in the capital or it might not be. Less frequently, parliament and government might not be situated in the same city, ministerial bureaucracies might be spatially concentrated or not. At the extreme, all decisions taken for the entire territory of a state are taken in the same city.

Obviously, if we want to analyze the reach of a political center, it also matters how deep national political decisions, or for that matter, any decisions, interfere with interactions within its territorial reach. Analogous to the concepts introduced by Michael Mann (2012), let us define the spatial reach of a center as its extensive reach and the depth of interference as the intensive reach of a center.

All this seems to work quite well in the political sphere, but how about in the economy? Where economic choices are made inside organizations, little is changed. Strategic decisions taken in the headquarters of a large multinational have both a large extensive and possibly also a large intensive reach. Headquarters of enterprises tend to locate in major cities and indeed, without them, the centrality of a city is considered to be lacking. But what about markets? They can be spatially decentralized, even diffuse. But especially financial markets like stock exchanges tend to be concentrated spatially and here indeed major decisions are taken by market participants and aggregated in the markets themselves (and major actors in financial markets tend to concentrate headquarters in those locations).

More systematically, looked at from economics, the concept of economies of scale (and scope) has been traditionally used to explain the concentration of production in one specific location. It is cheaper to locate a large output of the same product (or the output of many products) in one location and serve a large market area from it rather than disperse production in different locations. The concepts come in two varieties: internal economies require the concentration in one location and one firm, external economies in one location, but not in one firm (economies of agglomeration, see also the discussion in the previous section). The distinction is analytical of course and the phenomena do mix in practice. Analyzing them has been the turf of the sub-discipline of economic geography.

From the point of view of the present discussion, it is decisive that all these varieties of economies of scale and scope lead to the spatial concentration of (production, marketing, R&D, etc.) decisions in one geographic space from which they then affect

the market area served from this location directly or indirectly (product design decisions taken in A and realized in B, C, D from where they are distributed in space).

This is even true in the sphere of wholesale and retail trade. The specialist shop located in a metropolitan city serves a large market area and – at least in the pre-internet age – consumers make their one-time choices concerning this special need in this location. This shop is located there because other special needs shops are also located there: consumers go there to satisfy their occasional needs in one trip and visit other specialist shops too. Here they also find the department stores with the greatest variety of goods and can enjoy cultural events they consume only once in a while (a type of agglomeration economy of scope).

In the economic sphere, the intensive reach of decisions concerns the economic importance of the goods affected. A specialist firm serving a large market for specialist consumer needs has a large extensive reach, but little intensive reach. By way of contrast, the world's financial centers combine large extensive with large intensive reach.

Thus the conceptualization of center-periphery as hierarchy in space and of centrality as a combination of spatial, extensive reach and of intensive reach of decisions taken in a certain location seems to work out well in economics and politics. But it could also be that centrality is not limited to economics and politics.

The Norwegian Stein Rokkan, on the sidelines of his efforts to understand the course and fate of democratization in Europe (cf. Rokkan 2000: 138-170), has developed a four-dimensional model of center-periphery relations, discussing Immanuel Wallerstein, Perry Anderson, Talcott Parsons and Albert Hirschman, among others, along the way. He adds the military and the cultural dimensions to the economic and the political. The earlier discussion concerning the political sphere can be transferred to the military without difficulties. As the social field of organized violence it is overall more centrally organized. It is, moreover, especially closely connected to the political sphere.⁴

The cultural sphere tends to be less centrally organized. Clearly, also in the cultural sphere some fields are populated by hierarchical organizations like churches and firms, where much of the earlier discussion applies without difficulties. However, in

4 Rokkan (2000) is a systematic compilation of the theoretical core of Stein Rokkan's work by the German sociologist Peter Flora. In as far as this is to be taken at face value, it appears that in earlier versions of his theoretical thinking, Rokkan had merged the military and the political dimensions into a single military-administrative one (cf. Rokkan 2000: 138-170). This seems to be a more general issue. See e.g. the discussion about Michael Mann's four sources of power – political, military, economic and ideological (see Hall and Schroeder 2006).

the cultural field much of the influence of a center is not by command and control but rather by diffusion of a trend, a fashion, an idea from creative centers into receptive peripheries. Thus, choices about fashion made in Paris, Milan or New York have a far greater extensive reach than fashion choices made in other locations.

6.2 The Institutional World System Revisited

The conceptual reflections of the last section make it possible to raise a few issues not considered so far: issues that relate hierarchy to space.

The first one is almost trivial, but nevertheless important. There is nothing in the logic of center and periphery that makes it necessary for geographical space to be taken up seamlessly by systems of centers and periphery. There might be empty spaces which fall in between the extensive reach of any center of a particular type in a specific period of time. Is this a benefit or a curse? With reference to history, this debate is indeed core of the seminal article “Reversal of Fortune” by Acemoglu, Johnson and Robinson (Acemoglu et al. 2002), pointing out that those Latin American countries not penetrated deeply by the colonizing powers later had a considerable advantage over the deeply penetrated centers due to the lesser grip of the exploitative institutions that had been installed.

In an interesting further differentiation of this story, the historian James Mahoney (2010) has argued, again analyzing Latin America, that the effect of colonization depends on the kind of regime in place – being more or less left out of a mercantilist system, he claims, is an advantage, while being left out of a liberal regime a disadvantage. While intensive mercantilist colonization establishes a strong landowning class whose power is detrimental to later economic development, strong liberal colonial penetration creates a strong commercial class supporting further economic development. Thus, in this narrative, not only does the same type of regime, the same type of institutions, affect centers, peripheries, and peripheries of peripheries differently, but different type of regimes and the hierarchies they create again have different spatial institutional effects. Thus under some conditions, being in the outback of a hierarchical socio-economic system creates conditions under which a new center may rise, sometimes not; an obvious area for further research.

A second, related, idea results from the realization that in a world of countries – as the prime sources of organized violence in one way or the other central elements of the ruling coalition in the center of the global system – lines of disputed loyalties between different groups in the coalition become geographical areas, contested areas. How

does this status of being contested terrain affect a state? Can it benefit from playing the interested powers off against each other? Or will it be torn apart in the process (divided or thrown back by a civil war fought by parties with diverging international support).

Third: All of the conceptual points made so far can interact to create multifaceted landscapes generating a multitude of entangled dynamics. Cultural multicentricity may go hand in hand with political and military monocentricity. An economic center of great reach may be dominated politically. A location might be a political periphery in a country but right in the middle of the economic center of a larger region. And so on. The combinatorial possibilities are immense.

One example of an attempt to systematically map such a landscape in order to analyze one specific issue is the work of Stein Rokkan himself. When trying to explain the distinct political dynamics of different European states from the early times of nation-building up to the fate of democracy in the 20th century, he traced the dynamics of center-periphery relations in the four dimensions both on a national and a European scale. Thus he for example explains how the political clout of cities in most of the economic center of Europe (the so called “Blue Banana” reaching from London across Belgium and the Netherlands along the Rhine across the Alps to Northern Italy) contributed to the slow speed of state building in this region. And cities of course were strong there because this was the economic center of the continent.

Similarly, it has been argued that the European dynamic of the last millennium was at least partially due to (stable) political and military multicentricity, also in its economic center, combined with cultural homogeneity and shifting cultural centers.

Returning to some of the issues raised so far in Sections 5 and in this section, one might add: Does it influence the character of center-periphery relations if the dominating country is more or less hierarchically structured itself? Or in other words, under some conditions, do egalitarian conditions back home soften international domination? Does it matter whether the political system of the dominant power is democratic or authoritarian?

And how does it influence a system when it is penetrated by a global network of business-government elites? Who shares international benefits of international peaceful order? Under which conditions is it necessary to collaborate, sharing the benefits with the commanders of organized violence in the countries? Adding the debate in political science on the so called “democratic peace” or “liberal peace” to the considerations in these last two sections could be helpful to start to answer these kind of questions.

It would be very easy to continue. At the very moment one superimposes the institutional considerations, the spatial dimensions of the reach of domination, and the different sources of power and hierarchy, a matrix emerges which opens a rich field for both case studies and systematic analytical research. Not all of the logical possibilities may be relevant, but again, finding out which ones are, seems well worthwhile.

7. Final Discussion

At the end of this attempt to fruitfully interconnect the institutional perspective, the dominant explanation of global inequality of income in economics, and world system analysis, what has been achieved, where does it point to, and what are the omissions?

World systems were introduced to the institutional approach using two main lines of attack. The first one, in Section 4, centered on the idea to endogenize institutions via the impact of various forms of international economic and political interactions on the key concepts of the distribution of income and economic and political resources in a country, which are central in the political economy approach of Acemoglu and Robinson taken as the point of departure. The key to this discussion seems to be the realization that the impact of international economic interaction on domestic distribution may be changed significantly, and even in sign, if rights are weakly enforced and grabbing type of redistributive activities are ubiquitous, especially inside and by the state.

The second line of attack, developed in Sections 5 and 6, was centered on the idea to alienate institutional approaches geared towards explaining national developments by applying them to the entire globe. The pioneering approach of Korzeniewicz and Moran (2009), informed considerably by the Acemoglu and Robinson political economy approach (Acemoglu et al. 2005a), could gain by considering the whole range of interactions discussed in Section 4. Alongside that pioneering effort we added a reading against the grain of North, Wallis and Weingast's (2009) more conservative, but also more differentiated account of the interaction of inequality of access to resources. Considerations of the paramount impact of organized violence and its social regulation as well as the issue of considering the privileged elite as a potentially instable coalition seem particularly fruitful. The argument central in North, Wallis and Weingast's (2009) own eyes – rents from repressing the poor are central for peace in a limited access order – has a ring of circularity to it, given that military power – at least in modern days – is itself closely tied to access to economic resources.

Moreover, this – and indeed any – reconstruction of an institutional narrative geared towards the national sphere on the global scale has a lot to gain by explicitly integrating

geographical space into its account of a hierarchical world system – the idea behind Section 6. Key issues retrieved from this exercise are two especially interesting spatial zones – the outbacks of a hierarchy, those regions not or hardly within the reach of a hierarchy, and the contested areas, where the claims of different centers clash. When combined with the idea of different varieties of hierarchies – economic, political, military and ideological/cultural and with the institutional considerations considered before, a conceptual matrix appears with the help of which a rich set of interacting influences can be explored.

As befits its nature, there are many omissions in this exploration of a research program in the making. Let me briefly touch upon two of them. Of the four dimensions of core-periphery relations the political, the economic and the military dimensions have been in the center of the previous discussion – the ideological/cultural dimension has not. I would like to make a point in stressing that this is not because I deem it to be unimportant. However, while evolutionary economists have something to say on the change of mindsets, values and beliefs, this nevertheless is simply not the natural turf of economists. Here collaboration with the cultural sciences is a must and indeed, evolutionary economics may well be the best ground to meet.

What is also left over for the future is a discussion of policy issues. Here I think it important to stress that in the above I have made a conscious effort to emphasize hypotheses which may support vicious and virtuous circles stabilizing a polarization into center and periphery, thus producing global inequality. I understand them as forces pressuring countries in either direction. But there may be counterforces. When returning to the Acemoglu and Robinson framework of Section 2, any factor making national political leadership interested in a more egalitarian distribution of power and resources, a more equal access to education and a better enforcement of rights may be of prime importance in this context. This line of argument had also been stressed by the work of Dieter Senghaas and Ulrich Menzel mentioned before (Senghaas 1982; Menzel 1988), a good starting point for further research in this direction. Any other forces favoring the coherence of national policy making are likely to help too. And as already hypothesized above – the weakening dominance of an ageing center may help as well.

But all this deserves a far more differentiated and less speculative discussion as the ideas contained in the above discussion are translated into specific research projects, putting the research program into action and modifying it along the way. The proof of the pudding is in the eating.

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desiguALdades.net
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D-14195 Berlin, Germany

Tel: +49 30 838 53069
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