

Cambridge University Press

978-0-521-80605-3 - A Theory of the State: Economic Rights, Legal Rights, and the Scope of the State

Yoram Barzel

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A THEORY OF THE STATE

ECONOMIC RIGHTS, LEGAL RIGHTS, AND THE SCOPE OF THE STATE

This book models the emergence of the state and the forces that shape it. State creation is bound to protection needs. A specialized protector-ruler is efficient, but is also self-seeking. Individuals are expected to install rulers only after they have created mechanisms to control them. Among the offshoots of the organized protection are a legal system and decision-making procedures that include voting. The initial “state of nature,” then, may gradually evolve into a rule-of-law state.

The state endows individuals with rights by delineating what it will protect. Enforcement, however, is never perfect. People also use other third parties, such as firms, to enforce agreements. The mix of the actually chosen enforcement methods determines the size and character of the state.

As commodities become standardized, scale economies to contracting increase. We expect the state to expand its contract-enforcement territory by treaty or by conquest in order to exploit the economies of within-state enforcement. The desire to expand the contract-enforcement territory may also explain the creation of rule-of-law empires.

Yoram Barzel received his education at the Hebrew University and at the University of Chicago and has been at the University of Washington since 1961, where he is a professor of economics. His research encompasses applied price theory, the economics of property rights, and, most recently, political economy. His most recent research is on the emergence of the state, applying his model to medieval England and France. He has published extensively in the main economics journals, and in 1995 his essays were reprinted in Edward Elgar’s series *Economists of the 20th Century*. His *Economic Analysis of Property Rights* (Cambridge University Press) is in its second edition. Professor Barzel is president of the Western Economic Association.

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University of Washington



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Preface

In the fall of 1995 I was visiting New College at Oxford University as a guest of Michael Hechter. At that time, I was working on a paper on the nature of the state, and I asked Michael to read it. Once he asked “Why don’t you make it a book?” it became clear to me that that was where I was heading, and there was no going back. Michael, who is now back at the University of Washington, has been a constant source of advice and encouragement ever since.

A major theme of this book concerns agreements, their enforcement, and control of the force-using enforcer. The enforcement organization the state employs specializes in the use of violence. People, however, can use other third parties, such as religious institutions or private firms, for enforcement, or they may engage in self-enforcement. In fact, they frequently use more than one enforcer to enforce individual agreements. The approach in this book differs from other approaches concerned with the state, such as those of Olson and North (as well as Hobbes), by focusing on how enforcers are chosen and how those force-using enforcers are prevented from becoming dictators. An analysis of the enforcement of agreements and the choice of enforcers is shown to require the tools of conventional price theory and of game theory. For that reason, in spite of its non-conventional subject, this book uses tools from the economist’s tool-bag.

The price theory used here is directed primarily toward the analysis of property rights and the cost of transacting. A major distinguishing characteristic of this analysis is the absence of absolutes. Acquisition of information is costly, and knowledge of economic entities is never complete. What people own and what they trade are not fully known. Thus property rights are not fully delineated, and opportunities for theft, capture, and other forms of transfer are ever present. No aspect of the

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material world is “first best,” or Pareto optimal. Maximization requires that we take into account such “imperfections” (relative to conditions in the classic, Walrasian model) in the world in which we live. This is what the transaction-cost approach adopted here attempts to achieve.

My training in the game theory and contract theory needed for this project was acquired on the job, in the process of attempting to solve problems as I ran into them. I believe that aspects of the strength as well as the weakness of this book are due to my attempt to discover on my own the needed applications. Because I have not been constrained by the straitjacket that game theorists impose on themselves, I have been able to probe questions that more conventionally trained researchers are unlikely to ask.

In addition, as mentioned earlier, I may have expanded the scope of the theory by avoiding the assumption that any kind of knowledge is freely available. Statements such as “The principal knows that . . .” are common in the literature. I adopt the notion that what one knows is always costly to obtain and is subject to error. The more productive notion, in my view, is this: “At a cost, the principal can acquire information about X, and the cost of perfect information is always prohibitive.” Errors thus remain, and their existence is accounted for in the model. The weakness of my operating mode comes from having, figuratively, to reinvent the wheel, which results in increased chances for error and awkwardness.

On many occasions, Fahad Khalil and Jacques Lawarreé patiently and graciously steered me out of trouble, corrected my mistakes, and apprised me of hidden assumptions I was making. My warmest thanks to both. I did not consult with them on every issue, however, and probably did not carry out their instructions to the letter. Thus they bear no responsibility for the errors and ambiguities that undoubtedly remain. I would be gratified if game theorists (or anyone else) should find my assertions challenging enough to explore their properties more deeply than I have been able and (after correcting my remaining errors) should delineate and extend the applications of my propositions.

This book suffers from meager scholarship. I am a slow reader, and the relevant literature is vast. I have no doubt that I have failed to examine important materials whose study would have made the book better. In any case, I apologize to those authors whose work I failed to cite; the oversight is not intentional.

My approach is positivistic. In spite of occasionally straying, being carried away with notions that may not have any empirical counterpart,

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I attempt to be operational. I seldom test the predictions I make, however. The historical material serves primarily to indicate that the issues I deal with are not entirely imaginary. In my mind, at least, several propositions are actually tested. Because it would be difficult to convince the reader that I obtained the evidence after forming the hypothesis, I refrain from formal hypothesis testing. It is only proper that others do that.

The material in this book was presented to three cohorts of students. The interaction with the students was most stimulating to me, and hopefully that was mutual. Timothy Dittmer was especially insightful in his comments, criticisms, and elaborations. Materials from Chapters 3 and 5 were presented in a number of seminars, and these chapters were improved greatly as a result of the discussion. An earlier version of Chapter 3 has been published (Barzel, 2000b). John Wallis read an early version of the entire book as well as parts of newer versions. I thank him for the excellence of his extensive comments. I have also benefited from comments made by Douglas Allen, Scott Cameron, Paul David, Robert Ellickson, Edgar Kiser, Margaret Levi, Dean Lueck, Fred McChesney, Haideh Salehi-Estefani, and Dick Startz, as well as comments by an anonymous reader for Cambridge University Press. I had innumerable conversations with Levis Kochin in which he provided great insight into issues we discussed and pertinent empirical observations. Thanks to Karen Russell for drawing my attention to the citation at the opening of the book.

My wife, Dina, contributed significantly to the style and presentation of the material in the book. Early on she was exposed to every wild idea I had along the way. Somewhat reluctantly (being *ezer kenegdo*) she forced me to retract some of them and to rethink and reformulate most of the others. The book is immeasurably better for that experience.