

Organizations not Atoms: Rules, Organizations, and Long-Term Development

or

An Organizational Theory of Development

For the first time in human history, societies began to experience sustained long term economic growth and development as well as sustained democratic political development in the late 19th century. While there is wide recognition of the co-development of “democracy and capitalism,” and there are many attempts to explain co-development, few actually connect political and economic development to a common root cause. The key institutional changes that occurred in the mid-19th century can best be understood in terms of a theory of society, based on rules and organizations. A few societies moved towards “impersonal rules” – rules that treat everyone the same. This both transformed their economies by raising both the productivity and heterogeneity of their organizations, and induced changes in their political systems that led to more durable, long-lived political parties and stable competitive elections. The ideas are illustrated with the development, or failure to develop, stable democracies in the early 20th century.