REVIEWS IN ADVANCE

Hobbesian Hierarchy: The Political Economy of Political Organization

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Abstract

Hierarchy is a nearly ubiquitous form of political organization. This article examines the concept of hierarchy and addresses three questions. What is hierarchy? When is it selected? Why does it matter? I outline and make explicit a theoretical approach common to the disparate literatures on political parties, domestic structures, and international relations. Drawn from the theory of the firm in economics, this relational contracting approach focuses on how hierarchy reduces transaction costs and safeguards specific assets, and it explains the nature and persistence of hierarchy and why it develops in some strategic settings and not others. Relational contracting theory has clear limitations, however, whose gaps are highlighted and sometimes filled by alternative approaches to understanding hierarchy. Integrating relational contracting theory with these alternatives promises a more complete approach.

INTRODUCTION

Hierarchy is a nearly ubiquitous form of political organization. Empires, spheres of influence, states, governments, political parties, and other political entities are all more or less hierarchically structured. Clans and other traditional groups, labor unions, most nongovernmental organizations (NGOs), and many other politically engaged social institutions are also organized as hierarchies. However, cooperatives, social movements, transgovernmental networks, and transnational advocacy networks are nonhierarchically—even anarchically—ordered. International politics is also commonly (albeit mistakenly, I shall argue) understood to be anarchic and devoid of authority. Forms of political organization have some intrinsic interest for political scientists. Methodologically, to the extent that we believe institutions matter in politics, by ignoring the causes of organizations and organizational variation we also risk misattributing to institutions the effects of underlying causal variables. Substantively, explaining organizational form promises better answers to the perennial questions of politics. How can we best facilitate cooperation? Who gets what and why?

This article examines hierarchy as an organizational form and argues that, despite the recent attention devoted to networks, it remains a core feature of politics at all levels. I address three questions. What is hierarchy? When is it selected? Why does it matter? I also outline a common but often implicit theoretical approach to understanding hierarchy known as relational contracting theory. When made explicit, this approach unifies many disparate literatures in political science, including those on political parties, domestic structures, and international relations. By focusing on how hierarchy reduces transaction costs and safeguards specific assets, relational contracting theory also helps explain the nature and persistence of hierarchy and why it develops in some strategic settings and not others. By recognizing and building on this common approach, we can enlarge the variation in both the causes and consequences of hierarchy so as to understand better its role in political life. Relational contracting theory has clear limitations, however, whose gaps are highlighted and sometimes filled by alternative approaches to understanding hierarchy. Integrating relational contracting theory with these alternatives may eventually lead to a more complete approach.

WHAT IS HIERARCHY?

In politics, the concept of hierarchy is typically used in one of two ways. First, hierarchy is understood as a continuum on which one actor has more or less political authority over other actors. In this conception, for example, liberal democracies with limited governments are less hierarchical than totalitarian states that in principle regulate all social interactions. Similarly, classic diplomatic relations between two states are less hierarchical than protectorates, in which a dominant state exercises legitimate control over the foreign and defense policies of a second (e.g., the United States and Federated States of Micronesia), and, in turn, both are less hierarchical than an empire, in which a metropole wholly governs a subject or peripheral polity (Donnelly 2006; Lake 1996, 1999a, 2009).

Second, more sociologically, hierarchy is defined as any form of social differentiation and stratification, such as caste, class, status, or any other dimension on which individuals, groups, or organizations can be categorized and ranked from higher to lower. In international politics, for instance, hierarchy most commonly refers to stratification by prestige (great powers, middle powers, and so on), development (first, third, and fourth worlds), or capabilities (superpowers, supporters, clients, etc.) (Clark 1989, pp. 2–3). Political scientists who use the concept of hierarchy in this sense tend to treat it as an innate, natural, or unproblematic feature of social interactions that does not itself need to be explained (see below).

In this article, I restrict the concept of hierarchy to the first, more narrow meaning of variations in political authority. By doing so, we can more easily identify the common characteristics of hierarchy across different political entities and the common theoretical structure in existing but disparate literatures. Political authority, in turn, is most simply understood as rightful or legitimate rule (on authority, see Raz 1990, Simmons 2002). When political authority is exercised, the ruler, A, commands a set of subordinates, B, to alter their actions, where "command" implies that A has the right to issue such orders (Coleman 1990, p. 67). This right, in turn, implies a correlative obligation or duty by B to comply, if possible, with A's order. As Flathman (1980, p. 35) observes, "If A has authority X, those persons (B's) who are in A's jurisdiction therefore have an obligation or obligations Y." In short, B "surrenders judgment" and accepts the force of A's command. B's obligation implies a further correlative right by A to enforce its commands in the event of B's noncompliance. As Day (1963, p. 260) notes, "those who possess authority in political life, the rulers, are authorized not only to make laws and take decisions but to use coercive power when necessary to ensure obedience to those laws and acquiescence in those decisions." In an authority relationship, individuals choose whether to comply with a ruler's commands but are bound by the right of the ruler to discipline or punish their noncompliance. Many drivers exceed the speed limit, for instance, but if caught they accept the right of the state to issue fines or other punishments for breaking the law.

Authority is not a constant but a variable that exists in greater or lesser degrees in different times and places, thus creating variations in hierarchy. The greater the authority exercised by a ruler, or the larger the range of issues over which she can issue commands and expect compliance, the more hierarchical is her political relationship with the ruled. A may possess authority over B and issue commands regulating possible actions 1–5 but not actions 6–*n*, which remain private to B and beyond A's ability to expect compliance. In other words, citizens may recognize the legitimacy of the government's commands regulating, say, public health (e.g., rights of quarantine for infectious diseases), but not that of any commands regulating reproductive practices, which as of this writing remain private rights in the United States. If A previously possessed authority over actions 1–5 and now exerts authority over actions 1–10, A's hierarchy over B has increased. To continue the example, if the government were to gain the authority to regulate access to abortion, its hierarchy over citizens would expand. In this way, all areas of political interaction can be partitioned into public and private spheres, with political authority exercised over subordinate actors in the former and excluded from the latter. The larger the public sphere, the more hierarchical is the relationship between ruler and ruled.

Liberal democracies are typically less hierarchical than totalitarian states because they possess less extensive authority over their citizens. In liberal democracies, the ruled have a larger sphere of private rights, which the government can encroach on only at its peril, whereas in totalitarian states, at least in principle, citizens have no private rights and all interactions are potentially subject to regulation by the state. In diplomacy between states under anarchy, relations approximate the ideal state of Westphalian sovereignty, in which each state retains full private rights to regulate its own behavior (Krasner 1999). Conversely, in imperial relations, the peripheral polity has no private rights, with all reserved to the metropole.

Although this general definition of hierarchy and, in turn, authority is relatively uncontroversial, considerable debate continues over the sources of legitimacy, or what makes any particular ruler rightful rather than simply coercive. Legitimacy has been variously understood to derive from the charisma of individual leaders, from tradition that is socially accepted and reproduced through ceremony, or from deities (Weber 1978, pp. 31–38, 215–54). In the modern world, political authority largely rests on one of two primary foundations: law, creating what is widely known as formal legal authority, or a social contract, constituting what can be called relational authority.

In formal legal authority, A's ability to command B (and the willingness of B to comply) follows from the lawful position or office that A holds (Flathman 1980, p. 35; Weber 1978, pp. 215–26). We can think of this as the Arnold Schwarzenegger theory of legitimacy. The actor was already famous for his bodybuilding and bloody, violent action movies. After winning an unprecedented but constitutionally permitted recall election against a slate of >100 candidates of dubious pedigree and experience, however, Schwarzenegger became the Governor of California, with all the rights, duties, and powers—indeed, the authority—of that office. Authority did not inhere in Schwarzenegger as a person, only as a lawful official. More generally, in formal legal authority the lawful process of appointment and the position itself is understood to confer authority on the individual. Although perhaps useful for analyzing established hierarchies, a formal legal conception of legitimacy is of limited utility in understanding the origins of hierarchy. Importantly, it presupposes the existence of law and, thus, of authority itself. It takes for granted exactly that which I want to explain.

In relational authority, as originally developed in Hobbes's theory of the emergence of civil society from the state of nature (Hobbes 1651 [1962]), legitimacy follows from an exchange or social contract between ruler (A) and ruled (B) in which A provides a political order that is of value to B, and B confers on A the right to exert the restraints on B's behavior necessary to provide that order (see Auster & Silver 1979, Barzel 2002, North 1981). In equilibrium, A provides just enough political order to gain B's compliance with the taxes and constraints required to sustain that order, and B complies just enough to induce A to actually provide it. The ruler gets a sufficient return on effort to make the provision of political order worthwhile, and the ruled get sufficient order to offset the loss of freedom entailed in consenting to the ruler's authority. It is the two-sided nature of the bargain, and the right of the ruler to enforce her rules embedded within it, that produces what Levi (1988) calls quasi-voluntary compliance. Legitimacy is contingent on the actions of both the ruler and ruled, and an equilibrium is produced and reproduced through ongoing interactions.

Relational authority is more general than formal legal authority and can exist in prelegal or nonlegalized political systems, such as primitive or noninstitutionalized societies, informal political groupings, and international politics. Although it may overlap with charismatic, traditional, religious, and even formal legal authority, it highlights that to endure, authority must provide sufficient benefits for both the ruler and ruled to induce them to comply with the social contract. This does not imply that ruler and ruled benefit equally, or that among the ruled the benefits of the social contract are shared equitably. It does suggest, however, that both sides of an authority relationship must benefit relative to their next best alternatives.

WHY HIERARCHY?

During the last two decades, a unified theory of relational contracting has begun to emerge in the social sciences, including political science. The core idea is illustrated in the possibly apocryphal story of the boatmen who toiled to pull large barges up the Yangtze River in prerevolutionary China. With plenty of men pulling the barge, any one individual could slack without noticeable effect, but if all slacked, the barge would not move and none would get paid. The problem of collective action, in this case, was supposedly solved by the workers' collectively hiring someone to whip the slackers, thereby ensuring efficient effort and higher returns for all (cited by Cox & McCubbins 1993, pp. 90–91). The same idea recurs in theories of economic and political entrepreneurship.

Social institutions are commonly understood as solutions to collective action dilemmas. The concept of hierarchy as a unique solution to such dilemmas first emerged in the theory of the firm in economics but has been significantly broadened now to include other social organizations. The theory of the firm sees hierarchy as an efficient response to problems of market failure. The main insight originates with Coase (1937, 1960), who famously asked why all transactions are not conducted in an arm's-length market between anomic individuals. Hierarchically organized firms, he answered, arise to mitigate imperfect legal liability laws, incomplete information, and the necessary opportunity costs of identifying and bargaining with potential buyers or sellers. Coase demonstrated that in a world of positive transaction costs, firms were at some times and for some purposes more efficient than markets. For example, in early firearms manufactories, each craftsperson was an independent entrepreneur. One would carve the stock and sell it to the second, who would craft the barrel and sell the assembly to a third, who would build the firing mechanism, and so on down the line. The craftsmen benefited from the division of labor, but each was fully independent and responsible for his own sales, expenses, and profits. As firearms manufacturing became more standardized, with specially designed interchangeable parts allowing greater efficiencies, former craftsmen were vertically integrated into hierarchically ordered firms (Stigler 1951, pp. 192–93; Rosen 1988, pp. 53–54).

Coase's insight can be generalized to many social interactions, including issues of governance. Just as economic transactions are internalized in the firm to minimize transaction costs, political authority emerges to minimize transaction costs in society generally. Imagine commuting to work in the absence of a centralized authority to set and enforce the rules of the road. Upon each encounter with other vehicles, drivers would have to negotiate whether they would drive to the left or the right, who should stop (or not) at intersections, who has the right of way when merging onto the highway, and so on. Stops would be frequent, mistakes and accidents common, and commuting times substantially longer. The transaction costs of any single encounter might be tolerable, but multiplied by each encounter for each commuter the sum would quickly become enormous. It does not matter much which rule gets adopted—drive left (as in Britain and Japan) or right (as in the United States and continental Europe), for instance—but virtually any set of rules permits commuters to get to work more safely and quickly and with less physical harm than the absence of any rules. Likewise, daily transactions in many other arenas are greatly facilitated by common property rights, a common currency (or exchange rate mechanism to convert different national currencies), common procedures for resolving disputes, and so on. As Coase realized, the transaction costs saved by living under a common authority are enormous. Although we may chafe under rules precisely because they sometimes constrain our actions, the benefits of life in a civil society create incentives for individuals to abide by rules they dislike and even vigorously oppose.

Although this work is profoundly important, Coase and other scholars in this vein do not fully explain the choice of hierarchy over other organizational forms. As many others have shown, private or nonhierarchical institutions are also effective in reducing transaction costs and facilitating cooperation (Elickson 2005, Keohane 1984, Ostrom 1990). Building on the insight of Coase, however, Williamson (1975, 1985) provides this missing step. The key problem, according to Williamson, is not transaction costs but asymmetrical specific assets in a world of incomplete contracts. Specific assets are investments that return more value in one relationship than in others and may include physical products (e.g., factories, technologies, ports, electrical grids, and so on) as well as intangible assets (e.g., brand names such as Coke and Pepsi or party labels such as Democrat and Republican). Once made, such investments create a risk of exploitation by opportunistic partners who can appropriate the profits or "quasi-rents" of the investor up to the opportunity cost of the asset (i.e., its next best use) (see especially Klein et al. 1978). Knowing that they are vulnerable to exploitation, actors are reluctant to make relationally specific investments unless they are appropriately safeguarded. Because contracts are imperfectly specified, Williamson argues, self-seeking actors will tend to form hierarchies when one, but not both, of the actors possesses or needs to invest in relationally specific assets. An example would be a producer of specialized components for a particular brand of automobile. If one firm builds a plant to assemble, say, transmissions specifically designed to meet the requirements of a second firm, the latter can subsequently bargain down the price for those transmissions to the first firm's next best use of the factory. When the transactions are under unified ownership and both parties are subject to administrative controls (authority), the incentives of the otherwise independent firms to act opportunistically toward one another are greatly reduced. By internalizing transactions within a hierarchy, actors give up the information and discipline that are otherwise provided by market competition but reduce the likelihood that they will be exploited by partners. Thus, Williamson and his many followers predict that the producer of specialized components will be subsumed into a corporate hierarchy within the automotive firm (Klein 1988). In the absence of relationally specific assets or frequent exchanges, on the other hand, actors will prefer to transact at arm's length in a market. When both parties have relationally specific assets, they hold mutual hostages and can coexist effectively in long-term, bilateral, and nonhierarchical relationships.

Williamson's insight, like Coase's, generalizes beyond the firm to a broad class of social relations. Consider a city that controls a river outlet to the sea and a potentially fruitful agrarian valley upriver. If they can get their goods to international markets, farmers will move to the river valley and invest in land and improvements. But because the city controls access, it can potentially tax exports or otherwise appropriate the profits earned by the would-be farmers. Knowing this, the farmers will not open up the inland area for cultivation. Only if both the city and hinterland are governed by a common authority that is responsive to both parties or itself benefits by maximizing the joint product of the two regions will the farmers invest. Just such a problem confronted early Americans who wanted to expand into the Northwest territories and feared Spanish control over Louisiana and the lower Mississippi River. Resolving this dilemma led to a consolidation of federal authority under the Constitution of 1787 (and the Northwest Ordinance) and the Louisiana Purchase. Only after the entire Mississippi River basin was integrated under federal authority (with the Constitution's interstate-commerce clause preventing internal tariffs) did the investment boom in the Northwest territories really begin (Elman 2004, Robertson 1885, Schofield 2002). Buenos Aires and the interior provinces of Argentina along the River de la Plata endured a similar struggle until the city's eventual victory and consolidation of authority in a unitary state (Rector 2009). Very similar problems arise, as we shall see, with party labels, human capital in both the economy and politics, and strategic assets in international security policy.

The key insight of Coase, Williamson, and the relational contracting approach more generally is that, under certain, specifiable circumstances, hierarchy can be a welfare-improving institution for both parties to an exchange. When transaction costs are high or assets are highly specific, hierarchy can safeguard and permit exchanges that otherwise might not occur. It is these welfare gains that create the basis for the social contract that underlies relational authority. In this way, the benefits of cooperation constitute the glue that holds hierarchies together.

Relational contract theory is often criticized as functionalist for explaining the rise of particular organizations by the contracting problem they correct. There is, without doubt, a post hoc quality to much work in this tradition; the choice of organization is often perfectly obvious in retrospect but perfectly unpredictable in advance. Yet, the charge of functionalism is often based on only a simplistic reading of the theory. More accurately, relational contracting theory is premised on an often implicit evolutionary model in which competing entrepreneurs are testing different organizational forms and, given the constraints of path dependence (David 1985), selecting the most efficient one under the immediate circumstances. Like most evolutionary models, this creates a recursive causal system in which institutions evolve in small steps. Just as the modern chicken did not instantaneously emerge from its single-celled, reptilian, or even avian ancestors, the modern corporation or political hierarchy did not emerge in a single flash of human insight and progress. Rather, cooperation problems, including investments in specific assets, lead to elements of hierarchy, which in turn help lower transaction costs and safeguard specific assets that then lead to more hierarchy, and so on. The emergence of hierarchy is not a one-shot solution but an incremental evolutionary process. However, the larger the potential gains from cooperation, the larger the gains from experimentation and the more organizational innovation we are likely to observe. From the many possible solutions, one alternative may emerge as superior and diffuse quickly, crowding out past organizations and producing relatively rapid institutional change. Evolution is not inconsistent with revolutions, a phenomenon sometimes called "punctuated equilibrium" (see Krasner 1984, pp. 240–44). In this way, exogenous environmental changes, most often driven by new technologies, can increase the demand for institutional innovation, which, in turn, elicits its own supply. Modeling the recursive nature of organizational change does not generate simple statements of the form "X caused Y," to the consternation of critics, but it is undoubtedly a more accurate way to characterize how institutions evolve.

RELATIONAL CONTRACTING AND POLITICAL ORGANIZATIONS

Relational contracting theory underlies and has been used in at least three different literatures to explain the origins and functions of legislatures and political parties, the structure of the state, and relationships between states. In this section, I briefly summarize these literatures and highlight concepts and implications drawn from relational contracting theory. The value of this exercise lies not only in clarifying the arguments in specific literatures but also in highlighting the shared theory across these diverse subjects.

Legislatures and Parties

Relational contracting theory has been directly applied to the study of legislative institutions and political parties. Drawing explicitly on the theory of the firm, Weingast & Marshall (1988) focus on how bargains among legislators in the U.S. House of Representatives are enforced absent external commitment mechanisms (e.g., legally binding agreements that can be enforced in courts). In a Coasian perspective, they argue that the contracting problem is solved by creating property rights (the seniority system) in valuable goods (access to the legislative agenda, controlled by specialized committees) and a market through which members of Congress "bid" for seats on committees. In this conception, each committee is roughly equivalent to a hierarchical firm. Although the House itself lacks any central authority, bargains that are difficult to observe and measure (offers are often separated in time and yield unsynchronized streams of future benefits) are enforced by committees that hold one another hostage in what Williamson refers to as a form of bilateral governance. Finally, the potential for opportunism by powerful committees is held in check by majority rule on the floor. This is a promising attempt to resolve the problem of how legislative bargains are enforced. Ideally, the agenda-setting power of the committees, the seniority system, and the bidding process—none of which are specified in the Constitution—ought to be endogenous. But Weingast & Marshall's justly famous paper shows the power of a relational contracting approach applied to organizations other than economic firms.

In explicit contrast to Weingast & Marshall (1988) but sharing a similar analytic tradition, Cox & McCubbins (1993) model political parties as legislative cartels that operate to bolster their electoral prospects, especially when they are in the majority and hold the instruments of power. For political parties, the electoral prospects of individual members are linked under a party label, which can be understood as a specific asset that has value for voters only if it conveys a consistent set of policies. Like a brand name such as Coke or Pepsi, the party label is a specific asset insofar as consumers associate it with a preferred quality. Nonetheless, representatives have incentives to defect from the party line in favor of their particular constituencies. Because the members individually and collectively enjoy a higher probability of election if they win a majority and can, therefore, more easily implement their program, representatives have strong incentives to yield authority to party leaders to enhance their brand (for an explicit Williamsonian version of their argument, see Cox & McCubbins 1994). In this way, an internal hierarchy emerges in which party leaders gain and wield authority to discipline individual representatives and solve the collective action problems that would otherwise beset members. Because the chances for reelection are even greater for party leaders, the posts are highly coveted; this creates secondary incentives for members to strive for leadership positions by serving the collective needs of the party. Altogether, the legislative cartel is incentive compatible for party leaders, the party rank and file, and possibly even voters. As legislative cartels, moreover, parties exert their greatest influence at the level of procedural rules and by setting the agenda for legislation (Cox & McCubbins 2005). Indeed, leadership is most effectively exercised by moving legislation through the process (or, more often, not moving it) and determining what gets to the floor for a vote under what rules. Cox & McCubbins (1993, 2005) present a plethora of evidence to substantiate their claims and provide a convincing account of legislative processes and outcomes. Most importantly, for my purposes, they demonstrate clearly how contractual problems and specific assets in the form of party labels shape institutional design and agent behavior in the realm of party organization and legislative procedures.

Domestic Structures

The concept of domestic structures, common in political science but seldom connected directly to the concept of hierarchy, refers at its core to variations in authority within states. From Tocqueville's (2007 [1835]) famous study of the new United States to analyses of democratic versus totalitarian states or presidential versus parliamentary systems, and in the very concept of "failed" states, analysts are essentially trying to capture critical differences in the structure and varying extent of authority within countries. Focusing more explicitly on hierarchy facilitates comparison and places each of these distinctions into a broader theoretical context. Analytically, relational contracting theory shows how asset specificity shapes domestic structures to produce distinctive styles of politics and how too much hierarchy can suppress information essential to maintaining stability over the long run.

One explicit treatment of domestic structures is Katzenstein's (1978) landmark collaborative study of comparative and international political economy. Simplified into a weak state–strong state dichotomy, this work informed a generation of scholarship (see Comisso & Tyson 1986, Evans et al. 1985, Ikenberry et al. 1988, Migdal 1988). Katzenstein (1978, pp. 323–24) posits three dimensions:

1. The centralization of the state. Authority is progressively (*a*) unified in a majority party or Parliament or (*b*) divided between minority coalitions on a permanent basis or through different branches of government.
2. The centralization of society. Authority within social forces such as labor and capital is progressively (*a*) exercised through unified "peak associations" or (*b*) fragmented and dispersed among many different cross-cutting groups.
3. The differentiation between state and society. This has been interpreted as the autonomy of the state or the range of policy instruments available to political leaders. However, I define it here as the variable frontier between public rights of authority held by the state and private rights possessed by individuals and groups.

Defined in terms of hierarchy, "weak" states lack centralized authority or possess many coequal and competing authorities that can each block action by the government (subsequently termed "veto players"; see Tsebelis 2002). Weak states face centralized private authorities that can enforce effective political discipline on their members and, therefore, can also block government action. Weak states possess large spheres of private rights or, to say the same thing, large numbers of policy areas in which government regulation would be perceived as illegitimate. Strong states, in contrast, possess unified political authority, fragmented and diffuse social authorities, and large spheres of public rights. In this way, domestic structures are a macro-level description of the pattern of political authority within any given polity: Stronger states are more hierarchical and weaker states less hierarchical, with many variants in between.

In extending this conception to "small" states highly dependent on international markets, Katzenstein (1985) began to forge a link to relational contracting theory. Highly specialized countries, which necessarily invest in more specific forms of physical and human capital, tend toward more corporatist forms of political organization, in which hierarchically organized private actors interact with and are constrained by hierarchical states with varying degrees of private (liberal corporatist) and public (social corporatist) rights. Authoritative and disciplined private associations are necessary to keep members in line and to enforce the broader social contract that specialization entails, and more hierarchical states are required to balance and mediate between these powerful private authorities. Without stability in policy and security of employment, workers will be reluctant to undertake the long training and apprenticeship programs necessary to acquire industry-specific and even firm-specific skills, and without policy stability and wage moderation, firms will be reluctant to invest in production processes that require those skills. The contractual problem created by international specialization and, in turn, highly specific industrial assets is solved in these countries by greater hierarchy for both capital and labor and a grand bargain between the two that is brokered and enforced by the state. The key point is that specialization and more specific assets require and then subsequently reinforce hierarchical forms of state and social authority, an evolutionary process that had its roots in the twelfth century and culminated in cross-class compromises in the 1930s in all of the democratic corporatist societies.

This core insight is extended and generalized in what is sometimes called the varieties of capitalism literature, most prominently associated with the work of Hall & Soskice (2001). In cooperative market economies, more hierarchical states and private authorities with larger public spheres encourage the development of more specific assets, both physical and human, which in turn reinforce the hierarchy. Predicated on more centralized wage bargaining, specialized but more regulated markets, and tight links of ownership and control between firms and anchor banks, workers, owners, and financiers invest in more industry-specific assets, especially skills and what is described as "craft" rather than mass-produced goods (Gourevitch & Shinn 2005). Having acquired these industry-specific assets, workers, owners, and the banks have interests in the preservation of the institutional arrangements that produced the policies that led them to invest in the first place. In liberal market economies, by contrast, less hierarchical states and social structures, greater political and economic competition, and larger spheres of private rights discourage firms and workers from investing in specific assets that may open them to costly opportunism by either shifting government policies or other private actors. Invested in more flexible assets and raising finance on equity markets, neither capital nor labor has any strong incentive to demand greater hierarchy, thus reinforcing the lack of hierarchy that existed earlier. The main idea of relational contracting theory—that greater asset specificity and greater hierarchy go hand in hand as efficient adaptations to each other—holds not only at the level of the firm but also at the macro level of states and societies, and possibly at the level of the global economy as well (see Gourevitch 2003; Gourevitch & Shinn 2005, ch. 3; Lake 1999b).

More generally, the industrialized democracies studied by Katzenstein and his collaborators and the liberal market economies (LMEs) and cooperative market economies (CMEs) of the varieties of capitalism literature occupy a middle range on a continuum of state hierarchy. Fragile or failed states lie on the extreme end of this continuum, lacking the ability to "broadcast" authority over their territories (Boone 2003, Herbst 2000). As states fail, authority shifts from the state to social entities, which then compete, negotiate, or fight with one another and bypass the residual structures of government almost entirely. In essence, in failed states, authority does not disappear so much as it becomes privatized, creating a vacuum that is filled by vibrant and sometimes violent bargaining between private associations that represent their members (Rotberg 2004). Understood in this way, relational contracting identifies two key problems of state-building largely ignored in the current literature.

First, as social actors develop new authority, at least the leaders but often others in the entity and those affected by them begin to develop assets specific to this private association. To rebuild the state means not only reconstituting a central political authority but also dismantling the interests newly vested in these private entities. Militias are the most obvious and vexing example. Warlords gain political power and access to resources through their coercive capabilities. In a rebuilt state, their power will necessarily be diminished. Likewise, young men who fail to develop skills other than fighting are limited in their life chances in any political regime in which power flows from something other than the barrel of a gun. In the case of Somalia, the militias that arose in the political vacuum after the fall of Mohamed Said Barre in 1991 and that first prospered by extorting protection money from the international humanitarian organizations fighting the famine have developed a vested interest in continuing political anarchy. Only in the absence of an effective state can they continue to gain from extortion, smuggling, and piracy. These militias remain a key barrier to state-building in Somalia (see Bradbury 2003, pp. 20–21; Menkhaus 2003, p. 417). Some analysts fear a similar result in the new "awakening councils" in the Sunni areas of Iraq. It is not clear whether the local sheiks and their followers, having been paid by the United States to abandon al Qaeda and serve as local policy and paramilitary forces, will yield their privileged positions and integrate themselves into a national, Shiite-dominated police or military force.

Second, in the absence of any assets specific to a particular political regime, it is difficult to stop cycling through alternative sets of institutions or to build a new state. Given the social intransitivity of majority rule, institutions induce political equilibria and, in turn, predictability in politics (Shepsle 1979). But if institutions matter and create one equilibrium rather than another, then the social intransitivity will simply be displaced from policy to institutions, implying that individuals or groups within society will cycle through alternative institutions rather than just policies; institutions cannot induce equilibrium but are objects of political struggle themselves (Riker 1980). In established or stable polities, the necessary equilibrium results from interests vested in assets specific to a particular policy and institution (Gourevitch 1999, p. 144). It is precisely this process of vesting specific assets and interests in a political order that produces the stability and path dependence of the varieties of capitalism literature. And it is for this same reason that Social Security remains the untouchable "third rail" of American politics; because large numbers of workers have predicated their lifetime savings and consumption patterns on the expectation of a state-funded pension, older workers and retirees are strident advocates of both the program and its supporting political and social institutions. However, in failed states, especially after violent civil wars, no vested interests exist, having been destroyed or severely depreciated by the fighting. Without secure institutions, no one will invest in specific assets that might be devalued by some other regime. Thus, failed states typically suffer from an acute chicken-and-egg problem. Expectations of institutional stability are necessary for anyone to invest in specific assets, but in the absence of some such investments, institutions will not be stable. External actors can potentially play an important role in breaking this cycle by fixing expectations of political stability and declaring that a specific set of institutions will be defended; in doing so, they may ignite the process of vesting interests in those institutions. In this way, external actors can "lend" credibility to the new regime (Lake 2007a, Walter 2002). Despite all of the missteps in the Iraq war and especially its reconstruction, the United States and the Shiite-dominated state now led by Nouri al-Maliki may have reached the point where the major groups in the country now expect the regime (though not necessarily the government) to endure and are responding accordingly.

Totalitarian states lie at the other end of the state continuum as "overly" strong hierarchies. As noted, the most distinguishing characteristic of such states is their totalizing public spheres; nothing is nominally beyond their authority (Arendt 1951, Friedrich & Brzezinski 1965). Dependent on the state for nearly everything—cheap food, housing, employment, and more—individuals and groups can also become vested in this extremely hierarchical order and thus fear and oppose change, a condition that leads to political and economic ossification. As elsewhere, assets specific to the regime help reinforce the authority of the state. In the totalitarian state, these assets include not only the industry-specific assets and social insurance programs found in other countries, but also sets of ties to and skills for managing relations with those in power, and state authority is reinforced to a detrimental extreme.

As predicted by relational contracting theory, by substituting hierarchy for market-based information signals, totalitarian regimes become increasingly inefficient not only in the economy (the limits of the command economy were well recognized) but in politics as well. By internalizing all interactions within the hierarchy, totalitarian states lose valuable information about the true preferences of citizens, the real costs of producing public goods and services, and even more effective ways of maintaining their own rule (Wintrobe 1998). Without competitors for political power or a private sphere in which individuals can express their views or experiment with different modes of social hierarchy, state leaders can make (from their point of view) horrendous political mistakes or fail to anticipate sudden political revolutions due to a lack of information (Kuran 1995, Lohmann 1994). The dependence of the people on the state suggests why totalitarian regimes survive as long as they do, often with little visible opposition. But the internalization of all interactions within the hierarchy leads to political and economic stagnation, distorts or at least limits information, and creates inefficiencies that together suggest why totalitarian states must ultimately fail.

In summary, we can understand domestic structures all the way from failed to totalitarian states as variations in hierarchy within state and society. It appears that welfare may be maximized in the middle, where states are neither too weak nor too strong but "just right," and liberal democracies of the LME or CME types prevail. Equally important, though, we see the importance of specific assets in distinguishing between types of liberal democracies and between these states and their failed and totalitarian cousins. Understanding that failed states suffer from too few and totalitarian states from too many assets specific to the hierarchy suggests why both extremes tend to be unstable and problematic.

International Relations

International relations are traditionally understood as a realm of anarchy, not hierarchy. Scholars typically posit that, in the absence of any lawful authority above states, all relations between states must be anarchic, devoid of authority, and functionally undifferentiated (Waltz 1979). Yet, some scholars have identified hierarchies within the international system and drawn heavily on relational contracting theory to understand their origins and variations.

States are the basic units of international politics. How large or small they are determines the contours and textures of world politics. A system of, say, 19 or 1930 states would be very different from our current world of 193 states. Drawing largely on a Coasian perspective, there is a small but rich literature on the optimal size and shape of states as political units, which examines how efforts to minimize transaction costs in a world of changing technologies create pressures for larger or smaller polities. Military technology is a central focus in this literature. Innovations that reduce the costs of projecting force over distance, sometimes referred to as offense dominance, encourage larger political units, whereas innovations that increase these costs, called defense dominance, lead to smaller units (Quester 1977). Drawing explicitly on the theory of the firm, for instance, Bean (1973) argues that the rise of castles led to the smaller political units characteristic of feudalism, and that the maturation of cannons able to destroy such defensive fortifications led first to an arms race with ever larger and more expensive castles and eventually to the centralized state. Solving market failures is also important. Friedman (1977) shows how the social inefficiencies created by independent tax authorities along natural transportation routes, especially rivers, eventually led political entrepreneurs to consolidate control in larger, united states. Finally, Alesina & Spolaore (2003) present a general theory of state size that integrates economies of scale in producing public goods, preference heterogeneity, and regime type (see also Lake & O'Mahony 2003).

Like all Coasian arguments, these various studies explain well changes in the gains from cooperation and the need for institutions to reduce transaction costs, but they do not account fully for why hierarchy per se is necessary. To show that the economies of scale in producing security have increased suggests that units can gain by cooperating, for instance, but this does not itself explain the institutional form that is likely to emerge (Lake 1999a, pp. 67–70). To understand why hierarchies between states or polities arise rather than, say, alliances or customs unions requires, as above, that we also examine the role of specific assets and the potential for opportunism they create.

Drawing directly on Williamson, Frieden's (1994) "new interpretation" of colonialism and foreign investment shows explicitly how site-specific investments led to empire, an extreme form of hierarchy between polities. In the nineteenth century, he argues, foreign investment occurred primarily in raw materials extraction, plantation agriculture, and bonds—all of which, for different reasons, might have been easily appropriated by independent national governments. To safeguard their investments and expand the areas where those investments might be profitably made, investors sought out and encouraged direct forms of imperial or hierarchical control. Since the early twentieth century, however, foreign direct investment in manufacturing or consumer goods and services has grown dramatically in importance. With foreign direct investment typically concentrated in industries integrated into global supply chains that are not easily appropriated by any single national government, Frieden argues, direct political authority or hierarchy is no longer necessary. This explains both the decline in the number of expropriations over time and, more importantly, the global movement away from imperial rule.

Along similar lines, I have posited continua of security and economic hierarchy between states, of which full empire of the classic European form occupies one end (Lake 2007b, 2009). Defined by the extent of hierarchy as described above, security relations vary from diplomacy, at the anarchic end of a continuum, to protectorates, in which the subordinate state yields full authority over its defense and foreign policy to a dominant state. Economic relations vary on a second continuum from pure market interactions under anarchy to dependencies in which one state exercises full authority over the economic policy of another. Informal and formal empires, as they are traditionally known, are characterized by increasingly high levels of both security and economic hierarchy.

For such international hierarchies to form, the joint gains from cooperation must be sufficient (*a*) to cover the costs to a dominant state of governing another polity and (*b*) for the subordinate state to yield some measure of its sovereignty to the dominant state (Lake 1999a, pp. 44–52). Just as individuals give up autonomy for a civil society governed by Leviathan, subordinate states must give up sovereignty for protection, economic welfare, and other benefits provided by the dominant state. For this exchange to be an equilibrium, both dominant and subordinate states must be rendered better off than in the anarchic state of nature they would otherwise occupy. Key to explaining the pattern of hierarchy across dyads, however, are assets specific to the political relationship between states relative to the governance costs to the dominant state. As in any relational contracting theory, specific assets and the form of hierarchy are interactive and typically increase together. For example, the forward-based defense strategy desired by the United States in Western Europe and the Western Pacific after World War II required large deployments of U.S. troops and equipment that could not occur without a measure of hierarchy in both regions. The fortuitous circumstances created by the occupation of Germany and Japan, as well as the creation of strategic trust territories in the South Pacific, permitted the necessary protectorates. Absent some form of hierarchy, the subordinate states might defect to the Soviet side during the Cold War, fail to live up to their responsibilities in the division of labor, or simply demand a larger share of the gains from cooperation, all of which would reduce the returns to the United States. Only by exerting a degree of authority over their foreign policies could Washington limit the potential for opportunism inherent in these relationships (Lake 1999a, pp. 152–65). Similarly, Hancock (2006a, 2006b) links the pattern of hierarchy across the former Soviet Union to the specific assets generated under the Russian empire and inherited by the now nominally sovereign states, especially oil and gas pipelines and electrical grids. Taking the distribution of assets as largely exogenous, not unreasonable for investments made under the integrated Soviet state, she finds that the greater the specific assets at risk the more hierarchic are the post-Soviet relationships.

International hierarchy appears to matter in consequential ways. Greater hierarchy by the United States is associated with lower levels of defense spending as a share of gross domestic product, greater trade openness, and greater support for United States–led multilateral military coalitions by subordinate states (Lake 2009). During World War II, the greater the degree of Germany hierarchy over a state, the higher the rate of Jewish victimization in the Holocaust (Hollander 2006). The form of hierarchy strongly conditions the path of domestic institution formation in the former Soviet Union, suggesting that domestic structures may be linked to forms of international hierarchy (Cooley 2005; see also Gourevitch 1978). In short, hierarchy between states is an important causal variable in many diverse areas of international politics—and one that is nearly always omitted from current studies. Focusing on how hierarchy between polities reduces transaction costs and mitigates opportunism enables a rich and more historically accurate understanding of international relations.

The Way Forward?

Conceiving of hierarchy as variations in authority and explaining hierarchy through relational contracting theory highlights commonalities within and across these literatures. Building on these commonalities will allow scholars to deepen their understanding of hierarchy and draw out what is distinctive about different arenas of politics.

Most importantly, a more general theory will permit researchers to develop better and more valid research designs. The first and perhaps most important rule of research design is to maximize variation in the independent (or if necessary dependent) variables in a study (King et al. 1994, pp. 128–49). Yet, within each literature reviewed above, scholars tend to truncate the range of variation in hierarchy that they study. Nearly all political parties are organized as hierarchies, but they often vary in their degree of hierarchy in ways that are not sufficiently explored. Scholars have focused on the difference between developed democracies, between weak and failed states, and between different types of autocracies (Geddes 1999), but few have looked across these categories. Comparative political economists examine the differences between LMEs and CMEs, for instance, but do not consider the broader range of possible state structures. Similarly, international relations scholars often compare ad hoc cooperation between states to cooperation within international organizations, conceived as weakly hierarchical entities, but they rarely compare cooperation in, say, international organizations to cooperation in federal or supranational bodies, which are yet more hierarchical (Lake 2001). Each individual study limits the range of observed variation to a small segment of the potential variation. This creates selection bias that either increases the uncertainty of our estimates of the determinants of hierarchy or underestimates the causal effect of hierarchy on other variables.

Equally neglected are the likely systematic differences across different arenas of politics. Although it is a mistake to treat international politics as a wholly anarchic realm, it is on average less hierarchical than domestic politics. Most important, because states typically exert less authority over one another than a state does over its citizens, the interstate realm develops fewer vested interests and, thus, has less deeply entrenched hierarchies, which can be and often are more transient than domestic institutions. To really maximize variation in hierarchy would mean comparing behavior across these two almost hermetically sealed areas of inquiry. In assessing the growth of so-called private regulation of industry, for example, it would be better to compare this emerging form to more public regulation at both the domestic and international levels (Woods & Mattli 2009). Similarly, in evaluating the effects of anarchy on violence in interstate relations, the appropriate comparison is not only between, say, multipolar and bipolar international systems (Waltz 1979); interstate violence should also be compared to violence in supposedly more hierarchical states. Interstate war should not be studied in isolation but as an example of violence that also includes civil war and even gang violence (Lake 2003, Wagner 2007). This parallelism between domestic and international hierarchy affirms, overall, that the barriers between domestic and international politics can—and, more importantly, should—be eliminated.

ALTERNATIVES TO RELATIONAL CONTRACTING THEORY

In addition to relational contracting theory, there are at least three alternative ways of explaining hierarchy. Each complements and supplements the approach outlined above and fills in some of its gaps. Together, these alternatives promise a more complete understanding of hierarchy.

The Traditional View

Many scholars have treated hierarchy as an innate characteristic of individuals or societies. Often blurring concepts of status and authority, the apparently pervasive nature of hierarchy has traditionally led scholars to see humans as inherently compelled to create social rankings. In this view, humans naturally organize themselves into hierarchies and escape this particular form of social organization only by intentionally creating formal or informal institutions to restrain drives to domination (Boehm 1999). Flipping Hobbes and other political theorists on their heads, these scholars see inequality as the natural condition. Equality is expected to survive only under limited conditions, and most social relationships are predicted to be organized hierarchically.

Perhaps the best-known example of this approach is Michels' (1966) "iron law of oligarchy," which posits that the need for specialization and the division of labor within organizations produce hierarchy even within bodies that pursue egalitarian goals. Subsequent scholars have rendered this "law" a contingent tendency, but the forces first identified by Michels remain important in our understanding of hierarchy. Other early work focused on ideologies of dominance, including Dumont's (1980) famous work on *Homo hierarchicus*, which found in the quasireligious Indian caste system an extreme form of otherwise innate hierarchy.

Another variant is social dominance theory, associated with the work of Sidanius and his colleagues (see Sidanius & Pratto 1999). Like authoritarian personality theory and other individualist approaches, social dominance theory posits a social dominance orientation that, although universal, varies across the human population and expresses the value people place on hierarchically structured relationships among social groups. Social dominance orientation, in turn, interacts with context-specific institutions and ideologies to produce age, gender, and "arbitrary-set" hierarchies that take the form of clan, ethnic, caste, class, or other types of discrimination.

Grounded in the ubiquity of hierarchy in social and political relationships, and taking hierarchy as the natural condition, this first approach is not well suited to explaining why hierarchy is stronger and more extensive at some times and in some places than others. To the extent that humans are innately "wired" for hierarchy, however, this trait may induce even greater hierarchy than relational contracting theory expects and explain why hierarchy exists even in areas that lack substantial transaction costs or specific assets.

The Distributional School

The distributional school understands hierarchy as emerging from initial inequalities between individuals or groups and then reinforcing those inequalities to produce an even more highly stratified society. Although this school lacks a defining work or body of works, it is central to the anthropology literature on early stratified communities (see Diehl 2000) and implicit in much scholarship in political science, especially in writings on autocratic states, which are presumed to stay in power only through their coercive capabilities. In this view, hierarchy is largely negotiated, albeit under the threat of coercion, by subordinates who accept an inferior status in exchange for access to the economic surplus possessed by the would-be superior. In the "big man" societies of contact-era Melanesia, for example, individuals acquired status and authority by using their comparative advantage in hunting, gardening, ritual knowledge, or violence to accumulate a material surplus, which they then redistributed to needy villagers. Often pressed to appeal to the big man by unexpected downturns in fortune, the supplicants become followers or subordinates in an informal village hierarchy. Over time, or once embedded into some religious or ideological frame, these relations of inequality become accepted as institutionalized rule, with big men or perhaps their sons turning into "chiefs" at some later date. Continued rule is then made possible by the ability to coerce others that follows from the initial inequalities in material capability (Godelier & Strathern 1991, Sahlins 2000). Similar hierarchies unfolded in early monarchies and empires, on the one hand, and in modern capitalist societies, on the other.

Even in autocratic societies, however, inequalities in material conditions and especially in coercive capabilities do not appear to be of sufficient magnitude or frequency to explain the persistence of hierarchy. If hierarchy exists only because of the ruler's ability to police and punish the ruled, we should expect much more coercion on average than we actually observe. Nonetheless, the material inequalities of power matter for a full understanding of hierarchy, especially how it tends to exacerbate inequality over time by accentuating initial differences. Relational contracting theory, although it identifies conditions under which we can expect hierarchy to emerge, is notoriously silent on which party rules and which is ruled. The theory tells us that when transaction costs are high or assets are specific, exchanges will be internalized in a hierarchy, but it cannot predict who commands and who obeys. Prior or even parallel inequalities may matter in determining superordinate and subordinate status. That it is usually the larger party that swallows the smaller in a relational contract, rather than the other way around, should not be a surprise. Power matters not in gluing hierarchy together, for which some degree of mutual gains must exist, but in determining who is authoritative and who is not. In politics, this may make all the difference in who wins and loses in dividing the gains from cooperation.

The Social Constructivist Approach

Hierarchies can also be understood as socially constructed forms of political power embedded in appropriate roles and norms of behavior. In a structural variant of this social constructivist approach, associated most clearly with the writings of Gramsci (1971), scholars focus on the constitutive nature of social relations wherein the position of A exists only by virtue of its relationship to B. Examples of such relations include master-slave, capital-labor, and ruler-ruled oppositions (on structural power, see Barnett & Duvall 2005, pp. 18–20). Unlike the distributional school, which emphasizes how initial inequalities generate further inequalities, this approach highlights how inequalities are created in the first place and allocated to different social positions. In a "productive" variant, structure is itself created by the system of knowledge and meaning and the discursive practice of actors (Barnett & Duvall 2005, pp. 20–22). Associated with Foucault's (see 1977) analysis of the ordinary practices of social and political life, this variant emphasizes how—and, through narrative description, why—the possible and impossible are defined as they are in any given society. In both variants, hierarchy is embedded in social relations in which subordinates are blind—or more accurately, perhaps, blinded—to their own condition. This is not a false-consciousness explanation of hierarchy but, from the point of view of the actors themselves, an "only-consciousness" explanation. Absent a radicalization inspired by an observer who is somehow detached from or superior to this same blinding consciousness, this is the only reality of which actors are aware.

Although insightful, this approach has trouble explaining in a nontautological fashion the resilience of hierarchy even after it has been unmasked. Even as Gramsci, Foucault, and other contemporary observers reveal previously hidden forms and relationships of social power, and gain adherents among critical elites, the masses who should be moved to action by their revelations remain surprisingly passive and, indeed, supportive of the system of their supposed exploitation. Despite the call to arms, few rise to storm the barricades. Still, this approach provides an important explanation for the original design of social institutions. Relational contracting theory is well equipped to explain persistence: Given a particular public-private divide, for instance, investors invest and acquire specific assets, which then give them a stake in maintaining that divide. But as the chicken-and-egg problem of failed states shows, investors will not invest without some stable expectations. When and how expectations congeal around a specific set of initial expectations remains unexplained. Which institutions ultimately get created may rest on the normative ideas prevailing at the time of their founding (Gourevitch 1999). It would be hard to account for the peculiar structure of the American state, for instance, without understanding the Anglo-Saxon legal tradition and Enlightenment thought that informed the views of the Constitution's architects. The same holds for relationships of international hierarchy. Specific assets after World War II fundamentally shaped the United States' grand strategy. As explained above, some form of hierarchy to control opportunism in Western Europe and, more important, Asia was absolutely necessary to the forward defense strategy adopted by the United States. Without a solution, the United States would have been limited to a continental-defense, America-first grand strategy reminiscent of that followed during the interwar period. But why America's postwar hierarchies took the form of protectorates and spheres of influence rather than empire is largely explained by the delegitimation of foreign rule, in which the United States itself was instrumental, and the spreading norm of juridical sovereignty. At the very least, developing ideas and norms of sovereignty limited the extent of international hierarchy.

FUTURE DIRECTIONS IN HIERARCHY RESEARCH

The most important insight of relational contracting theory is that hierarchy can be efficient and, because it produces greater aggregate welfare, can make both ruler and ruled better off. Nothing in this theory implies that parties to the relationship will benefit equally or even equitably according to moral criteria. Given that rules are never neutral and are typically biased in favor of their authors, who gets to rule and who is ruled may matter a lot. Who commands and who obeys may also be the product of distributional inequalities that exist along with the contractual problem that hierarchy aims to solve. But the ruled must perceive themselves to be at least as well off as in their next best alternative if they are to recognize rule as rightful rather than simply coercive.

Relational contracting theory does have difficulty explaining how hierarchy gets started, or how expectations form that a particular set of institutions will arise and endure. And in actuality sometimes these expectations do not form easily, the parties cycle through institutions, and chaos becomes endemic, as in the case of Somalia. Nonetheless, in many instances, ideas will matter and set expectations through broadly shared norms of what is just, right, and proper.

This suggests that future research ought to focus more on the interaction between the gains from cooperation, which draw parties into long-term relationships of domination and subordination, and the ideas that shape this process and are shaped by it. In today's world, norms of human equality, democracy, and sovereignty all constrain the extent of hierarchy. Few call in principled terms for greater or more centralized authority by one person or group over others. When appeals are made they are couched in euphemisms, such as the "responsibility to protect" or the less subtle "white man's burden" (Evans & Sahnoun 2001). Yet, hierarchy continues to exist and exert a positive force because of the benefits it provides to society as a whole. This is a complex nexus of material interests and normative ideals that requires a great deal more focused inquiry.

In addition, the literature on hierarchy, as well as the parallel literature on networks noted in the introduction, tends to treat its subjects as isolated organizational forms. At best, scholars compare hierarchies to markets in which anomic agents engage in self-enforcing interactions. Few compare the conditions that favor markets, hierarchies, and networks. We need to devote more attention to how these organizations are substitutes for and, possibly, complements to one another, and theorize explicitly when one or the other institutional form is more likely to predominate. The key questions, in my view, are no longer when or why hierarchy emerges, even compared to markets, but why hierarchy is selected over networks, or vice versa, and under what conditions (see Jung & Lake 2008, Kahler & Lake 2009). Why are financial flows often subject to national and international authority, whereas central bank coordination occurs within transgovernmental networks? Why are some insurgencies organized as ad hoc "groups of guys" (Sageman 2008), others as networks of operatives working across national borders, and still others as militias with clear, top-down chains of command? Why have networks dependent on social capital given way to externally enforced law in the United States and elsewhere (Putnam 2000)? We need theories not just of organizations but of organizational ecologies that explain how and why different organizational forms can coexist simultaneously, as they obviously do, and how they complement or substitute for one another (Hannan & Freeman 1989). Only then can we understand how and why different organizations can improve human welfare by reducing transaction costs or resolving problems of incomplete contracting.

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