

Review Essay: Daron Acemoglu and James A. Robinson's 'Why Nations Fail - The Origins of Power, Prosperity, and Poverty'

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Introduction:

The Solow-Swan growth model provides a convincing explanation that in the long run, only technological progress can ensure sustained growth. However, the model does not provide any insight regarding what generates technological progress. Economists have been debating on the issue for a long time, and finally, we think that we have an answer, in the book "Why Nations Fail: The Origins of Power, Prosperity, and Poverty," that the contemporary and historical institutional settings of a society determine its ability to generate and incorporate technological change in the development process.

The book is on comparative politics by Turkish-born Armenian-American economist Daron Acemoglu and British economist and political scientist and a professor at the University of Chicago, James A. Robinson. This review consists of three sections: a summary, a critical review and finally, a conclusion. Given the fact that the book is giant and that the 'main strength of this book is beyond the power of summary' (Collier 2012), we have spent comparatively more space on the summary. The review section tries to discuss only the most critical values of the book, followed by some criticism from scholars. The conclusion provides a hint regarding what the reader can get from reading the book.

Section One: Summary

Chapter-One:

The chapter starts with a natural experiment between the two edges of Nogales, one part of which belongs to Arizona, the U.S., and the other part belongs to Mexico. In the Mexican half, the per capita income is three times less than that of the U.S. part, and all other things are equally

inferior. Then the authors have investigated the differences in the historical organization of colonial societies in Latin America and the U.S. and have pictured the varying impacts of those societies on their contemporary political and economic institutions, which, as the authors claim, are the roots of differences in prosperity in the two parts of Nogales.

Another proposition here is that it is tough to eliminate these cross-country inequalities. Because the existing set of institutions better serves the group of people who dominate 'politics and political institutions.' Therefore, 'politics of poverty and prosperity' can explain 'the economics of poverty and prosperity' (pp. 7-44).

Chapter Two:

This chapter investigates the existing explanations of the poor versus rich nation debate by grouping them into three broad categories. Acemoglu and Robinson convincingly show that the geographic characteristics and cultural orientations are unable to explain not only the variances in the prosperity of different nations today (North and South Korea, the two Nogales) but also why some countries languished for centuries and then switched to a speedy development process (China and Japan). Similarly, the ignorance hypothesis is unable to explain the rationale of societal arrangements causing relative poverty. The authors show that the regimes (like Nkrumah in Ghana) adopt bad policies not because they do not know the policy implications, but rather because they know the consequences better and so want to direct policies towards consolidating their power. Therefore, the authors bring new explanations which focus on the role of institutions (defined as the rules governing political and economic actions), the historical heritages of institutional variations and the 'incentives of institutions that prevent unleashing progress' (pp.45-69).

Chapter Three:

This chapter contains the central thesis of the investigation: 'economic growth and prosperity are associated with inclusive economic and political institutions, while extractive institutions typically lead to stagnation and poverty' (p. 101). The inclusive political institution

allows broad-based participation (pluralism) and sets limits and checks on rulers, and thus ensures the rule of law. It also enjoys a certain degree of political centralization for the state to enforce the contracts and law and order. The inclusive political institutions promote inclusive economic institutions characterized by protected property rights and public support (public facilities and regulation) for markets, market competition (free entry of new businesses), and redistribution of wealth to ensure the citizens' greater access to education and other opportunities.

On the contrary, an extractive political institution concentrates power in the grip of a few (absolutism), places no constraints or checks and balances on the rulers, and so, suffers from a lack of the rule of law. It creates extractive economic institutions featured by insecure property rights, barriers to entry for new businesses and the persistence of an uneven playing field.

However, growth is still possible under extractive institutions as they can allocate resources to highly productive sectors to generate resource expansion for extraction (Barbados, Soviet Union, China). However, such growth is not sustainable unless political institutions are transformed from extractive to inclusive' (pp. 70-95).

Chapter Four:

Minor institutional variations and the 'institutional drift' over time can intermingle with 'critical junctures' and historical necessity to yield a transformation in the path. For instance, 'Black Death' shrunk the population in 13th-century England, making labor scarce; from this, a demand-supply based labor market emerged there. The same incident had the reverse effect in Eastern Europe, where the prevailing landowners swallowed even more land and imposed even stricter control over the serfs.

Meanwhile, when the king attempted to fix pay in England, a riot erupted, and measures for fixing wages were never successful after 1381. These historical developments, along with others like the Glorious Revolution in 1688, caused the creation of more inclusive economic institutions that ultimately led to the Industrial Revolution in England. Therefore, the authors argue that investigating the institutional

development in its historical setting can illustrate the 'origins of differences in poverty and prosperity' among nations (pp. 96-123).

Chapter Five and Six:

Rapid Development under extractive institutions is transient as it does not promote technological innovation, which can only explain growth in the long run (Solow 1956, 1957, 1970 & Swan, 1956). Again, for the same reason, growth under inclusive institutions can be lost if the inclusive institutions are transformed into extractive institutions. For instance, Venice in the Middle Ages, with its inclusive political institutions, created highly innovative and inclusive economic institutions and gained prosperity. However, through some adverse institutional innovation, Venice led to the extractive political and economic institutions, and ultimately its prosperity was reversed (pp. 124-151).

On the other hand, England continued its transition towards more inclusive institutions, and consequently, its prosperity continued. Therefore, the difference in the institutional response to critical junctures and the resulting differences in change in institutional settings can sufficiently explain the differences in poverty and prosperity across nations (pp. 152-181).

Chapter Seven, Eight, Nine and Ten:

Technological innovation produces creative destruction, which makes old practices obsolete and brings new dynamics in economic rights and political authority of individuals. Therefore, in every society, the existing elites prevent technological innovation, fearing creative destruction. For example, the global spread of the Industrial Revolution in England was very uneven because different nations had very different institutional endowments. Not to mention that the industrialization process was grounded on the advent of more protected property rights and strengthening the economic institutions that were supportive of innovation and entrepreneurship (pp. 182-212).

European settlers' colonies in North America and Australasia had established inclusive institutions by a distinct route. Japan and France

challenged absolutism immensely. The French Revolution and the subsequent interstate conflicts initiated a dynamic process toward inclusive institutions across Western Europe. Consequently, all these nations were able to create the necessary institutional settings for industrialization, which led to economic prosperity (pp. 213-244).

However, Eastern Europe, Russia, China and the Ottoman Empire continued with their long-standing extractive institutions and so lagged. Again, most of the other nations had extractive institutions which were either indigenous or imposed upon them by the colonial powers. Consequently, all these nations failed to support the innovative process of industrialization and thus remained poor (pp. 245-301).

Chapter Eleven and Twelve:

The nature of institutions hundreds of years ago has a substantial impact on present-day world inequality. Because the forces created by those institutions (inclusive or extractive) lead them to persist over time. As illustrated in the case of Great Britain, the inclusive institutions created after 1688 responded to challenges by bringing more inclusiveness. The authors call this robust process of constructive feedback from the existing inclusive institutions 'the virtuous circle'. The virtuous circle removes extractive economic relations such as slavery and serfdom. It also promotes competitiveness and dynamism by reducing the importance of monopolies. It allows free media to flourish (pp. 302-334).

On the contrary, in the case of many African countries like Angola and Sierra Leone, which inherited the extractive institutions from the colonial powers, they cannot break the process of transitioning toward more extractive institutions. The authors call this counterproductive process of negative feedback 'the vicious circle'. The vicious circle of extractive institutions produces power struggle and bloody civil wars, which causes economic devastation and incomparable human suffering and ultimately cause state failure (pp. 335-367).

Chapter Thirteen and Fourteen:

Extractive political and economic institutions are the main reasons why nations fail today: economically or politically. Because extractive

economic institutions cannot produce the motivations necessary to promote savings, investment and innovation. For example, in countries like Venezuela and Egypt, extractive economic institutions not only failed to generate enough economic activity but also prevented any economic activity that threatens the power of the extractive political institutions and the elites. Again, in countries like Zimbabwe and Liberia, the extractive institutions have ruined not only law and order but also the essential capacities of the state to respond to internal conflicts, famines and epidemics. However, 'history is not destiny' (pp. 386-404).

Effective reform for transforming the extractive institutions toward inclusive ones can induce sustainable growth and development. However, logically, the process is not involuntary; rather, it entails a lot of uncertainty and difficulty. It means that the journey toward inclusive institutions needs some minor or significant revolution in the political area of the impoverished nations. The authors argue that the confluence of factors, especially a critical juncture when tied with any or all of the three following things, can help to break the vicious circles in languishing nations. First, the existing inclusive elements in the institutions, second, the existing inclusive coalitions conducting the battle against the dominating extractive regimes and third, the contingent nature of the past. Some nations, like Botswana and the U.S. South, have successfully demonstrated the transformation process (pp. 404-427).

Chapter Fifteen:

The authors predict that as countries in Northern America and Western Europe have the most inclusive institutions, they will continue to become more prosperous than the other countries of the world. Nations (like Somalia, Afghanistan, Haiti) with a very insignificant level of state centralization will not be able to deliver law and order, and so, inclusive institutions are not likely to take place in these lands. Consequently, these nations are highly unlikely to observe any development. Some Latin American and African countries (like Mexico, Chile, Brazil, Tanzania, and Ethiopia) have created a significant level of state centralization, and the institutions in these countries have gained much inclusiveness. So, these countries are set to grow further (pp. 428-437).

However, as the inclusiveness of Chinese economic institutions is still vulnerable to the highly extractive political institutions, creative destruction through technological innovation is still not possible in China. Therefore, China will ultimately fail to sustain progress (pp. 437-455).

The authors further investigate what will not work in terms of making sustained prosperity. Illustrating the cases and consequences of rapid growth under extractive regimes in Russia, Germany and Japan, they claim that the modernization theory is flawed because economic development has not necessarily generated inclusive political institutions in these countries (pp. 455-458).

Again, development cannot be engineered through policy changes. Because, for example, privatization may take place, but only the businesses with closer contact with the regime are winning the government contracts. Therefore, any program designed to cause a change in any nation under the extractive regime will lead to further extraction. The same is true for foreign aid. Then, the question is what works regarding development (pp. 458-467).

From the Glorious Revolution in England in 1688 to the rising of the working classes in Brazil after 1978, only the changes that have empowered the people have made sense of real change. Therefore, meaningful programs are only those designed towards the empowerment of the masses. Again, free media is crucial for empowerment, as the latter is the logical consequence of the former (pp. 467-475).

Section Two: Critical Review:

The most agreeable issue in the book is its stress that, in an actual sense, history and future are random (Boldrin et al. 2012). Minor events and small differences in early settings can play a crucial role in the broad success or failure of a nation. This emphasis on the contingency nature of history situated the book in the group of modern economic theory, especially the evolution theory (see Kandori et al. 1993 & Young 1998). By substantiating the contingency nature of history with evidence and anecdotes, the authors helped us to find the real interpretation of history in terms of its power to shape our present and future.

Another critical issue is the role of imperfect institutions to deter innovation and, consequently, the flourishing of human society. While chaos and conflict are undoubtedly harmful to the health of the nation, many regimes have supported and still support all varieties of vested interests that hinder innovation and development. The idea is also quietly present in the earlier works, such as that of Max Weber or even Cicero and Plato (Boldrin et al. 2012). The authors put the promotion of vested interests at the center point and then revealed the role of political institutions in facilitating the balancing of these interests

Another value of Acemoglu and Robinson's analysis is that it revives the necessity to consider ideas like the dual-economy (see Lewis 1954, 1958 & 1979 & Harris & Todaro 1970) differently (Currie 2013, p. 157). Acemoglu and Robinson claim that the dual economy is not an outcome of growth; instead, it is a product of extractive colonial policies. So, the prosperity of the modern sector is based on the cheap labor of the underprivileged, backwards sector, and, as we have seen in the case of apartheid South Africa, the movement of people from the villages to cities has been trivial. These explanations can be of critical value for policy choices regarding the most suitable means to support developing nations (Currie 2013, p. 157).

Finally, and most importantly, the book has pulled the growth theory (Solow-Swan) out of its dead-end and provides credible evidence and explanation that inclusive institutions generate technological change and innovation and thus perpetuate development.

However, as the authors have not conducted any quantitative or methodical investigation, it is difficult to evaluate how fairly their institutional hypothesis describes the data in comparison to the alternative hypotheses concerning geography, culture and ignorance (Currie 2013, p. 158). Comparable data on the amount and duration of economic expansion under different institutional arrangements would help us to assess the comparability of cases and also to assess the generalizability of their hypothesis (Currie 2013, p. 158).

Further, the categorization of the entire human history into only two groups, inclusive and extractive, is broad enough to miss the other possible variations. Some scholars have also criticized Acemoglu and

Robinson's work as being very conceptual and an oversimplification of the very complex issue (Fukuyama 2012). Such broad categorizations and oversimplification have made the use of inclusive/extractive dichotomy relatively vague, and consequently, we fail to comprehend not only in what underlying mechanism the political institutions affect the economy but also the varying level of contribution of different political and economic elements (property-right legislations versus free and fair elections) in shaping the free economic institutions (Freire 2012).

Furthermore, the investigation can be accused of selection bias and cherry-picking for three reasons: first, they do not explicitly inform us of their case selection criteria, second, they have repetitively used very few cases (compare the period of investigation) and third, they have used ex-post evaluation of outcomes to say that some institutional arrangement falls in one group or the other (Currie 2013, p. 159 & Boldrin et al.). Therefore, their thesis may not help us to understand why the southern part of Italy is still relatively poorer than the northern part despite the fact that both parts have been under the same institutional arrangements for a long time. Again, though the authors have repeatedly emphasized that development under an extractive institution is short-lived, their thesis does not tell us the length of the period which we can call short or long.

Another frequent criticism is that while accomplishing the daunting task of investigating the entire human history through the lenses of extractive and inclusive institutions, Acemoglu and Robinson's work suffers from omission problems as well. Firstly, the authors have failed to adequately mention the role of cities in the progress of human civilization, whereas cities have made it possible to unite the efforts of arts, science, and technology (Hall in Mulligan 2012, p.378). The same is true regarding demography. Therefore, the readers get insufficient information regarding the role of migration, demographic dividend and the population transition (Mulligan 2012, p.378).

The authors seem to be too engaged with the institutional perspectives that they have even missed many distinctive perspectives like the insights revealed by Amartya Sen (1999) on human capabilities and by Paul Collier on the development trap; these perspectives are not even recognised (Mulligan 201, p.378). However, while it has some

shortcomings, the value of the book is immense, especially its thought-provoking power.

Section -Three: Conclusion

Acemoglu and Robinson's thesis has solved the long-standing question in economics by exploring the fact that inclusive institutional settings generate technological change and innovation and thus enable sustained growth. The book is well-written, and the authors have made reading the book fun through their storytelling-like writing style. In blending a vast volume of evidence across time and place, and putting a hypothesis regarding why some nations fail and some prosper, the book presents a critical phase in this course (Currie 2013, p.160). However, an approach on a more methodical and quantitative foundation would have enabled the readers to test between opposing hypotheses about the methods influencing economic outcomes (Turchin et al. 2012). Nevertheless, anyone thinking about the nature and type of the historical issues regarding their impact on the present-day world inequality and what lessons can be unearthed from that historical account to bring the profits of economic development and political stability for all, should read the book.

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