

Why Nations Fail – A Review

This is a book written by Daron Acemoglu and James Robinson and published in 2012. The book is very famous, and it has been reviewed thousands of times. The authors seek to understand why that some nations succeed economically over the long run and why other nations fail to do so. It is an economics book, but it is also a political science work. Without trying to sound glib, they claim that politics affects economics and economics affects politics. The book is therefore a fitting close to our semester on political economy.

The book is very long and (in terms of concepts) repetitious at times. There is little in the way of theory and much in the way of confirmatory history. I should add that long before this book was written Mr. Acemoglu was a generally acknowledged preeminent scholar in the field of economics, growth theory, in particular. He has impeccable credentials in both theoretical and empirical economics. There is no question of his competence as a scholar or a thinker. I cannot comment on Mr. Robinson, but the fact that he is a co-author with Mr. Acemoglu is enough for me. The book they wrote have merely made these towering thinkers known to the general public.

There are 15 chapters to the book. Each chapter is devoted to some facet of the **general thesis** encompassing the book. So, what is this thesis? Acemoglu and Robinson (hereafter A&R) claim that nations that that encourage “inclusive” economic and political institutions, instead of “extractive” institutions, will succeed over the long run. Those that don’t, will ultimately fail. They proceed to look at a variety of historical vignettes, across a wide set of countries and periods, in order to confirm their thesis.

To succinctly illustrate their thesis, A&R look at a border town in Arizona that has its mirror city in Mexico. The two cities are separated politically by the US-Mexican border. This is like comparing twins, except the two twins are not at all identical. The two cities even share the same name – Nogales (in Santa Cruz County, Arizona, USA and in the Mexican State of Sonora). This type of economic analysis has become known as a natural experiment. It is not a controlled experiment as found in science. But, because of the proximity of the two cities, the experiment nevertheless has many variables remaining roughly constant, allowing A&R to focus on the question at hand. For this reason, it is perhaps the most convincing part of the book. Thus, the importance of including it in the first chapter of their book. Since geography, culture, local diseases and pestilence, as well as the intelligence of policymakers do not seem to be the cause of the large discrepancy in per capita incomes between Nogales (USA) and Nogales(Mexico), A&R reason that the cause of the different performances is due simply to the border. The US has developed inclusive institutions, while Mexico has suffered under extractive institutions. Inclusive institutions as a concept here means strong property rights, individual freedoms, rule of law, decentralization of power, free and fair competition, and a strict barrier between favored elites and the government – a government that can provide the all-important protection to such elites and their relatives whenever needed. This simple and short

example provides a template for all that A&R consider in the next 570 pages. One might characterize the methodology of A&R as a form of **casuistry**. I employ the word in a limited sense to denote the use of a case study that further illustrates principles that may be applied to other historical episodes.¹

Why did Mexico become characterized by "extractive" institutions, while the US eventually became characterized by "inclusive" institutions? This is also taken up in the first chapter.

A&R provide a short but interesting take on North-South colonization in the 16th and 18th centuries. Latin America was largely colonized by Spain. Their *modus operandi* was always first to capture the leader of the natives, force the native population to work for them, extract the gold, silver, precious gems, and any agricultural surplus, and in return guarantee the natives Christian salvation. The conquistadors did little for the population, but they did establish institutions that heavily influenced the path of development of Latin America. This is why that some economists say that growth and development is "path dependent". Development is also determined by initial conditions. By contrast, North America was settled by colonists from England in the 17th century. These colonists tried to employ the Spanish *modus operandi* but failed because the Indians that lived in North America had no gold and would not be enslaved to work for the colonists. This meant that the colonists themselves would have to grow their own food and provide security and shelter for themselves. This eventually led to institutions that extended property rights and freedoms that incentivized the colonists to take care of themselves. These institutions were widespread and inclusive. They were very different from what occurred in Latin American, and Mexico, in particular.

Was the US a paragon of inclusivity? No, not at all. The US adopted slavery, an institution that was completely extractive. It did not allow women to vote, and in some cases refused to allow people who were property-less to vote. But, the American system eventually eliminated many of these extractive institutions and replaced them with inclusive institutions. Finding the right set of inclusive institutions can be difficult. Deciding the nature of one's government is of paramount importance. One is reminded of James Madison's observation

"If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself."
(James Madison in Federalist Paper 51)

¹ Casuistry also has a negative connotation, where specious arguments using a case study are made to justify some moral claim. I am not using the word in that way. See [here](#).

This surely describes the central problem of government and does so succinctly. To be effective and to help people work collectively in a civil society, government cannot be diffuse or weak. Yet, we all feel that concentrating too much power in the government is a recipe for disaster.² Madison and others decided to deal with this dilemma using a constitution with enumerated powers and a system of checks and balances. This is where A&R fail to take a stand. They do not sufficiently discuss the need for separation of powers (mentioned once) or checks and balances (not mentioned at all). They do discuss in detail constitutional issues of some countries including Mexico, Japan, Italy (in the 13th century), US (under Franklin Roosevelt), France, and Argentina. The failure of some modern conservatives is that they do not recognize the first part of Madison's description above of the problem – the need for a sufficiently strong government. The failure of modern progressive liberals is that they do not appreciate the second part of his description. The solution of the American founders, despite being flawed in many ways, was an epic-making event in human history. It was an honest and perhaps even effective way of trying to produce a system of government that would encourage inclusiveness and reduce exclusiveness.³ With all due respect, A&R failed magnificently to appreciate this sufficiently. Since they are trying to understand how one turns failed states into successful states, maybe a dose of mundane study of the founders would have given them some clues.

Another closely inspected aspect of their work is their attempt to explain how that communist countries such as the Soviet Union in the 1950s and China in the 1990s were capable of extraordinary growth. The same difficulty appears when explaining how a country like Japan, which although not communist, kept a very heavy hand on the economy and yet produced exemplary high growth rates as in the 1970s and 1970s. Here is how A&R explain things about China

Perhaps this is most clearly visible when we consider current policy recommendations encouraging “authoritarian growth” based on the successful Chinese growth experience of the last several decades. **We next explain why these policy recommendations are misleading and why Chinese growth, as it has unfolded so far, is just another form of growth under extractive political institutions, unlikely to translate into sustained economic development.** (chapter 15)

² Those that want to greatly empower government should ask how they would feel if the party opposite to their own were to gain power and begin its own dictates. Let's be consistent in our thinking.

³ The rise in political activism in the US, such as Anifa, talk radio, La Raza, the tea party, the 99%-ers, Black Lives Matter, Hollywood celebrities, etc. is directly related to (i) the rise in importance of the Federal government relative to state and local governments, (ii) alternative and highly specialized media on the internet, and (iii) the collapse of religion in American's lives.

Thus it is that A&R dismiss decades of heavy handed Chinese government planning and industrial/ trade programming. Let's face it, A&R are not starry-eyed socialists. Neither are they strident libertarians. Instead they believe that zealous government intervention in the economy (as in China) can lead to high growth in the short run, but apparently cannot sustain such high growth over the long run. For A&R, China will ultimately be forced to give their populace freedoms they currently do not enjoy. We have seen this attitude expressed before (well before) in the writings of the American political scientist Francis Fukayama. Like much of A&R's thoughts on these matters, circumstances matter. Growth and development of an economy is not linear. One does not proceed directly to full liberalism, even when that is the desired goal. Finding ways to push authoritarian governments to liberalize and bring greater inclusiveness remains an ongoing process. Recognizing this and acting upon it in a sensible and timely manner is of tremendous importance. How are such pressures to be introduced into countries that do not operate under democratic rules? How can a strong and vital democracy be best nurtured to deliver inclusive institutions and a glide path for liberalism? This is a subject worth exploring. One sees it most recently in demonstrations in the theocracy of Iran. Continued reductions in the size and scope of government would make such tensions irrelevant, but this solution is not to everyone's likings.

Discussion Questions:

1. Who is Daron Acemoglu and who is James Robinson?
2. Why do you feel A&R's book Why Nations Fail is important?
3. Why is the book a work in political economy?
4. Explain what are inclusive institutions.
5. Explain what are exclusive institutions.
6. A&R claim the Arab Spring was a set of protests for greater inclusiveness. Explain this using Wikipedia.
7. How is a true democracy related to inclusiveness of institutions?
8. A&R claim that economic growth cannot be artificially constructed by government. Explain the role of government in the growth process.
9. Why will authoritarian governments fail to have good growth in the long run?
10. What is the relation between the US constitution and the US development of inclusive institutions? Consider checks and balances, enumerated powers, freeing of slaves, and patent law.

