

Book Review

Why Nations fail - the origins of power, prosperity and poverty

by Daron Acemoglu and James A. Robinson, Crown Business, New York, 2012, 529 pages, ISBN 978-0-307-71921-8

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Why nations fail is a compelling contribution to the classic question of why some countries are poor and some rich, but it is also marred from several shortcomings and under-representations, which cast doubts on the positive messages of creating better institutions and reducing poverty.

The main thesis of the authors is that 'nations fail because their extractive economic institutions do not create the incentives needed for people to save, invest, and innovate'. These institutions are run by elite groups who are exploiting the resources of the country for their own use, leaving little to the population at large. Furthermore, extractive *political* institutions support the economic institutions by cementing the elite power base. The authors argue that 'extractive economic and political institutions, though their details vary under different circumstances, are *always at the root* of the failure' (emphasis added). Moreover, 'another reason why nations fail is that their *states* fail. This, in turn, is a consequence of decades of rule under extractive institutions' (emphasis added). According to the authors, inclusive institutions, on the other hand, provide equal opportunity to all citizens of the country allowing for a broad and sustained prosperity. Furthermore, inclusive institutions are associated with *virtuous cycles of development*, while *vicious cycles of development* are typical of extractive institutions.

Why nations fail is a well-written book based on an intriguing and persuasive narrative over the past half millennium. In my view, the most valuable contribution of the book involves its anti-elitist, anti-racist, and anti-colonial perspectives, as well as the empowerment stance as the way out of extractive institutions, so to '...force the elite to create more pluralistic institutions'. In relation, it is valuable that elite co-optation and intra-elite clashes are pinned down while peoples' struggles against authoritarianism are acknowledged. The appraisal in the chapter 'theories that don't work' is also valuable, albeit rather limited as we shall see below.

A major concern involves the concept of 'inclusive markets', under the larger umbrella of inclusive institutions. Although the book does not contain defining specifications, it is quite easy to trace out important features of their understanding of inclusive markets: 'rule of law', 'property rights', 'patent systems', 'macroeconomic stability', 'creative destruction' and incentives that encourage innovation. It is quite well-known that such a policy bundle falls under the so called new institutional economics. This school-of-thought shares the bundle with neoclassical economics, which is almost entirely equal to mainstream economics. Both these schools-of-thought have been heavily criticized (cf. Ha-Joon Chang 2011 for a concise account), especially in the aftermath of the global financial crises of 2007-2008. The book's 'inclusive markets' incorporate the notion of equal opportunity, but pay no attention to unequal resources. Unequal points of departure, even under inclusive markets and institutions, are likely to benefit the already resourceful (economically, politically, socially, culturally) groups of the society. These groups will find it easier to take-off under improved institutional settings, while resource-poor groups will continue to face severe difficulties in improving their livelihoods. It is highly likely that this asymmetric scenario will obstruct any meaningful development for the society as a whole, as the resource imbalances will be exacerbated by virtuous and vicious cycles of development. Even a 'freedom for all' institutional setting would almost certainly imply unequal points of departures.

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This scenario involves a society, with some members or entities that start with an upper hand, which is likely to produce the very things the authors are against: elitism and authoritarianism. South Africa's post-Apartheid performance is one example of such an outcome. Today, inequality in South Africa is actually worse than under the years preceding the fall of Apartheid, including the inequality between ethnic groups (Leibbrandt, et al. 2010). The implementation of democracy, the removal of sanctions against the apartheid elites and the overall 'inclusive markets' trajectory of the country have done little for the unprivileged half of the population since 1994. It should not be controversial to understand that the already resourceful group, plus a new political class, came to benefit from the improved institutional settings. The book would have benefitted greatly from a discussion on such outcomes that contrasts expected aspirations.

There are also unvalidated omissions of well-established explanatory factors of comparative development. Although it goes without saying that no single work can explain everything, it is the responsibility of authors to address relevant issues accordingly. Such a task may involve two main routes. In the first, the authors clarify and validate their interest in focusing on certain factors. In the second route, authors may dismiss unselected factors through an appropriate line of criticism. Acemoglu and Robinson actually exercise both these routes, but in a restricted manner. As mentioned, they provide an appraisal of geography, culture, the ignorance hypothesis, and later in the book, variants of the modernization theory. In addition, they acknowledge the central roles of colonialism, slavery, racism, critical junctures (such as The Black Death), virtuous and vicious development cycles, and contingency. Their inclusion of the unequal dissemination of industrialism, luck and context-related needs as a driving force are quite unsatisfactory, however. What is worse, they do not account for the clear and present international meddling of the post-colonial era, the cold war in particular, nor colour-coded racism over the time period at hand. The latter factor involves how poverty and wealth of nations today are also related to the unfortunate, but real, process of globalised colour-coded racism. This process originated from the onset of western colonisers and slave traders having lighter skin colours, and the colonised and enslaved people having darker skin colours (Kellecioglu 2010).

As a matter of fact, the book is seriously underrepresenting the role of powerful nations and international entities, such as the International Monetary Fund (IMF), the World Trade Organization (WTO), the World Bank, and transnational corporations (TNCs). The type of institutional developments assessed in the book (at the national and macro level) are certainly influenced by international institutional configurations, which is a topic almost never touched upon in the book. One example are TNCs in the natural resource sector throughout Africa. These TNCs, which are often larger than the countries they operate within, exploit their upper hand in international judiciary, information access, and economic leverage - regardless of the institutional development of the country and the business sector. In a similar fashion, although Zimbabwe is much talked-upon in the book, the destructive roles of the British government and the World Bank over the 1990s (cf. Bond and Manyanya 2003) should have complemented the valid criticism of Robert Mugabe and his cronies. In relation, there are nations, categorised as having inclusive institutions that systematically carry out extractive interventions in other nations. To be fair, one such example is mentioned in the book: the intervention of Iraq in the year 2003. Unfortunately, this point is not taken further to be included in the final analysis. Such international disruptions are likely to obstruct or reverse institutional developments. Rent-seeking international stakeholders exploit existing power imbalances that are not dependent on institutional settings alone.

This takes us to yet another under-representation of the book: the precedents of institutions. By and large, the authors argue that it is difficult to trace emanating factors to inclusive institutions, while holding that England's Glorious Revolution of 1688 was probably an essential critical juncture for the onset of modern-day inclusive institutions. Although the two statements are agreeable, it is plausible that the Western institutional development would have been delayed, if emerged at all, had it not been for preceding extractive institutions, which involved outright piracy and cruel colonisation throughout the world from late 15th century onwards (cf. Landes 1998 and Zinn 2005 [1980]). In such a case, the analytical vista must be altered fundamentally, since the causality run stronger from economic development to institutions, rather than the other way around. In a similar fashion, necessity could be an essential factor to institutional drift. This is

indirectly touched upon in the book, as the success of the Glorious Revolution is attributed to 'the rise of the Atlantic trade that enriched and emboldened merchants opposing the Crown.' All in all, although the objective of the authors is to frame comparative developments with an institutional lens, exclusion of possible originators to institutions-building adds to the under-representation of the narrative.

The point about possible extractive precedents to inclusive institutions is also valid at the national level. The authors classify, for instance, the United States as having inclusive institutions: '[u]ltimately the good economic institutions of the United States resulted from the political institutions that gradually emerged after 1619' (emphasis added). Such a statement triggers a controversy about the yardstick of inclusiveness. The USA exhibit widespread poverty, gross inequalities, structural discriminations and other poor institutional outcomes, while accommodating a small number of extremely wealthy elites, which are able to influence political decisions in their favour (cf. Haring and Douglas 2012 for an accessible source to the USA-as-a-plutocracy debate). As things stand, it may be worthwhile to consider classifying the United States as having *bad* institutions, since extractive processes (both domestically and internationally) seem to dominate over inclusive ones. In relation, note that such unfortunate outcomes escalated over the past decades, precisely under policy features (cf. Crippler 2012) advocated by Acemoglu and Robinson.

Finally, the book encompasses a contradictory usage of the ignorance hypothesis. Acemoglu and Robinson argue that '...if ignorance were the problem, well-meaning leaders would quickly learn what types of policies increased their citizens' incomes and welfare, and would gravitate toward those policies.' Instead, their position is one in which '...poor countries are poor because those who have power make choices that create poverty.' Later in the book, however, they conclude that the programs of the donor community and the IMF are '...based on an incorrect understanding of what causes poverty.' By doing so, they implicitly acknowledge the presence of ignorance. In fairness, it is plausible to make a distinction between international and national decision making, similar to away- and home-advantages. It is actually possible to trace out such a logic in the book, albeit seemingly unintentional: the ignorance hypothesis is not attached to decision-makers in poorer countries, but to institutions based in rich countries. Such a distinction is absurd and, more importantly, contradicts their explicit position. For instance, their portrayal of the donor community and the IMF is portrayed as rather naive, represented by the statement: 'Western nations feel guilt and unease...and foreign aid makes them feel something is being done..'. There are other, immensely more important, motivations for providing aid, for instance political and business influence.

There is also another reason to question the authors' complete dismissal of the ignorance hypothesis. Although it is easy to share this dismissal at the aggregate level, where decisions about the overall direction and distribution of investments are made, there are decision-making processes and levels that may easily involve limited knowledge and engagement. At the more concrete (micro) level, it is rather likely that decision makers and their members of staff do not possess the necessary skills to implement appropriate programs, especially in times of crises, aggressive lobbying, understaffing and disinformation campaigns.

In conclusion, the book is good read, displaying a compelling narrative of recent world economic history. Unfortunately, it is only semi-successful in meeting its objective of answering the question: Why Nations fail. The analytical framework would have benefitted from an explicit inclusion of the (extractive or inclusive) role of international institutions. It is likely that they play a greater role than domestic ones, especially within disempowered nations. After all, the global imbalances (between nations, institutions, corporations, individuals, etc) are immensely larger today than in the past few centuries (Maddison 2001). In addition, the book would have benefitted tremendously if the radical (anti-elitist) narrative was matched with people-centred policy recommendations. Moreover, there are divisive factors, such as colour-coded racism, that are too important to neglect. Finally, the book would have benefitted from an analysis of the notion that (actual or perceived) necessity is the mother of innovations, including institutions.

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