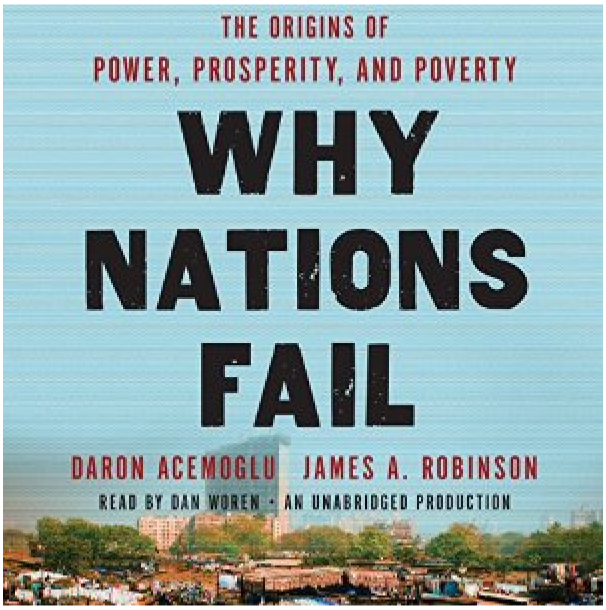
Why Nations Fail: The Origins Of Power, Prosperity, And Poverty



Synopsis

Brilliant and engagingly written, Why Nations Fail answers the question that has stumped the experts for centuries: Why are some nations rich and others poor, divided by wealth and poverty, health and sickness, food and famine? Is it culture, the weather, geography? Perhaps ignorance of what the right policies are? Simply, no. None of these factors is either definitive or destiny. Otherwise, how to explain why Botswana has become one of the fastest growing countries in the world, while other African nations, such as Zimbabwe, the Congo, and Sierra Leone, are mired in poverty and violence? Daron Acemoglu and James Robinson conclusively show that it is man-made political and economic institutions that underlie economic success (or lack of it). Korea, to take just one of their fascinating examples, is a remarkably homogeneous nation, yet the people of North Korea are among the poorest on earth while their brothers and sisters in South Korea are among the richest. The south forged a society that created incentives, rewarded innovation, and allowed everyone to participate in economic opportunities. The economic success thus spurred was sustained because the government became accountable and responsive to citizens and the great mass of people. Sadly, the people of the north have endured decades of famine, political repression, and very different economic institutions - with no end in sight. The differences between the Koreas is due to the politics that created these completely different institutional trajectories. Based on 15 years of original research Acemoglu and Robinson marshall extraordinary historical evidence from the Roman Empire, the Mayan city-states, medieval Venice, the Soviet Union, Latin America, England, Europe, the United States, and Africa to build a new theory of political economy with great relevance for the big questions of today, including: China has built an authoritarian growth machine. Will it continue to grow at such high speed and overwhelm the West?Are America’s best days behind it? Are we moving from a virtuous circle in which efforts by elites to aggrandize power are resisted to a vicious one that enriches and empowers a small minority?What is the most effective way to help move billions of people from the rut of poverty to prosperity? More philanthropy from the wealthy nations of the West? Or learning the hard-won lessons of Acemoglu and Robinson’s breakthrough ideas on the interplay between inclusive political and economic institutions? Why Nations Fail will change the way you look at-and understand-the world.

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Customer Reviews

To an economist like me, reading Why Nations Fail, by Daron Acemoglu and James Robinson, is akin to being set free from shackles worn since I began studying. However, first let me say that the book has many and serious shortcomings. Let me talk about these before I get into why this book set me free. Since I am going to strongly criticize aspects of the book, let me make clear that this is one of the best books on economics I have read in a long time.Several criticisms have been leveled in other reviews against this book: it is simplistic and perhaps overly ambitious, the history is bad, it explains away competing explanations. They are all true.The book is undoubtedly simplistic. Basically, the authors state that the institutions of a nation or society can be placed on a one dimensional continuum running from "extractive" to "inclusive" and this explains the history of humanity from the neolithic to the present day. A second leitmotif is that the economic and political institutions complement each other and that economically inclusive but politically extractive institutions cannot last for long (as well as the opposite). Finally, since political and economic institutions reinforce each other, they are quite difficult to change, leading to what the authors call "the iron law of oligarchy." Needless to say, this really oversimplifies the analysis of institutions and history. While Acemoglu and Robinson give many, many historical examples to illustrate their thesis, some are more convincing than others. They use a huge mallet to hammer all the facts into their mold, either ignoring or re-interpreting contrary evidence.I am no historian, but I do know the history of the region in which I live, Latin America, reasonably well.

Why are some nations rich and others poor? The question has occupied economists since Adam Smith wrote An Inquiry into the Nature and Causes of the Wealth of Nations. As Nobel laureate

Robert Lucas said, once you start thinking about that question, "it is hard to think about anything else." Daron Acemoglu and James Robinson have been thinking hard about it, and Why Nations Fail provides their answer.Their main thesis is "that while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has" (page 43). That the right economic institutions are vital has long been recognized; what Acemoglu and Robinson do is emphasize the critical role of politics. They argue that an inclusive political system will allow for an inclusive economic system. Such a system provides incentives for people to acquire skills, work hard, save, invest, and, most importantly, innovate. In contrast, an extractive political system exists for the benefit of a narrow elite, and creates an extractive economic system. The masses cannot influence the political system, and have no incentives to exert themselves creating wealth that will be taken from them by the political elites. Extractive economic systems can achieve growth for a short while, but cannot achieve persistent growth. That is because they cannot generate significant technological change and because there will be infighting over the system’s spoils.The authors provide a wealth of historical examples from all over the world and from ancient to modern times. The numerous examples allow the authors to illustrate their ideas with concrete examples.

I find the topic utterly fascinating: why do some nations prosper, and improve the life of their citizens, and others fail, often disastrously so? Daron Acemoglu and James Robinson, both academics, propose a model based on the concepts of "extractive" vs. "inclusive" institutions. They attempt to support their thesis by undertaking a very broad review of economic and historical developments in a spectrum of 30 or so countries. They commence, like medical researchers do when they hope to minimize the number of variables, by examining "twins." In the author’s case the "twins" are the cities of Nogales, immediately adjacent, in Arizona, and in Sonora. One is relatively prosperous, the other not so. It is a good start, and later in the book, the author uses the two Koreas. In both cases, geography and culture are relatively constant, which seems to bolster their view that it is the "institutions" that govern the lives of the respective citizens that are causative.However the book can be a bit of a maddening slog in order to find some enjoyable nuggets of information and/or wisdom. For sure, if one establishes a situation in which individuals have incentives to produce they will work harder. So, why is this concept not universally embraced, by corporations and countries? I once set up a "profit-sharing" program for workers in my company; it seemed to change attitudes, improved the operating efficiency and reduce waste. After I left, the owner immediately eliminated it, though he would pontificate on the needs for economic incentives for himself! His outlook was rigid: if he was "sharing" the profits with the workers, he was a loser, and the thought that he might have a slightly smaller percentage of a much bigger pie never entered his mind.