



**NAVARRA CENTER
FOR INTERNATIONAL
DEVELOPMENT**

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Book review:

Why Nations Fail:

The origins of power, prosperity and poverty,

by Daron Acemoglu and James Robinson

Why Nations Fail: *The origins of power, prosperity and poverty*, by Daron Acemoglu and James Robinson, is one of those books that come to achieve an author's main desires. It does not only attract a wide variety of readers, turning the work into a profitable best-seller, but it also creates a great interest among professionals in the field leading to intensive and very interesting debates.

Several reasons explain such a success, among them the main issue being discussed in the book. Problems such as the daunting inequality that takes place in the world, with some countries always being more prosperous than others, are not just an issue within economics or social sciences but also of the whole humanity. Another important reason for its success is the fact that the book is very well written, easy to read and enjoy. Overall, the book manages to synthesize the extensive work made during many years by Acemoglu and Robinson (AR) on the field of development and inequality.

Probably most of the readers of this Book Review already know the theory proposed by *Why Nations Fail*. According to the authors, this could be resumed by the fact that "Countries differ in their economic success because of their different institutions, the rules influencing how the economy works, and the incentives that motivate people." They also state that political and economic institutions can be divided into two big categories: inclusive and extractive institutions.

Inclusive economic institutions, are those open to participation, so that anyone can make free choices and get involved in economic activities where talents and skills are best used. By contrast, extractive economic institutions tend to use the labor of the majority to allocate more resources for an elite minority. This kind of institutions, by failing to secure individual and property rights, does not create good incentives for economic activity, technological development and creative destruction. On the contrary, inclusive political institutions are characterized as pluralistic. They distribute power broadly in society and are subject to constraints, so that political power rests with a broad coalition or a plurality of groups.

On the other hand, extractive political institutions concentrate political power in the hands

of an elite that has incentives to maintain extractive economic institutions, from which it gets economic rents.

In this line of reasoning, AR understand 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." That is, their central hypothesis is built around the idea that economic institutions that can shape incentives towards creating wealth depend on political freedom. Political inclusiveness is the key for the economic success or failure of any country.

Their argument closes by pointing out the existence of mutually reinforcing interactions between political and economic institutions

"Extractive political institutions lead to extractive economic institutions, which enrich a few at the expense of many. Those who benefit from extractive institutions thus have the resources to build their (private) armies and mercenaries, to buy their judges, and to rig their elections in order to remain in power. Therefore, extractive economic institutions create the platform for extractive political institutions to persist", or as virtuous circles ("...inclusive political institutions tend to support inclusive economic institutions. This then leads to a more equal distribution of income, empowering a broad segment of society and making the political playing field even more level. This limits what one can achieve by usurping political power and reduces the incentives to re-create extractive political institutions."

The book can be praised for its clear and thought-provoking theory, providing a well argued hypothesis. The theory, however, is far from perfect. One of the criticisms that have been made about the book is that in trying to explain everything, the book ends up explaining nothing. However, this does not seem to be the intention of AR, as in the book they recognize that the phenomena behind development are varied. Unfortunately they do not explain further these phenomena and their influence. They opt for the thesis that history is contingent. They claim that

countries may end up taking one or another way depending on variables ranging from exceptional people leadership to mere accidents. The outcome is always uncertain but, in retrospect, the story is presented to us under the illusion of inevitable succession of events. Moreover, it can hardly be applied to make normative recommendations, as suggested in the desirability of inclusive economic and political institutions. These two limitations have to do with a problematic issue that Francis Fukuyama detailed in his book review. As highlighted by the famous political scientist, AR absolutely rely on a dichotomous categorization, distinguishing between extractive and inclusive institutions. Both terms or concepts are very broad, so at times it is not clear in which category some institutions fall into. In fact, the authors themselves admit that between these extremes inclusive and extraction there are grey areas. Like all theories, they present a useful simplification for analysis. This conceptual issue has therefore empirical consequences. Specifically, contrasting greatly complicates the theory from the evidence, as we live in a world where extractive and inclusive institutions are mixed.

Another criticism is that the work of AR serves to reduce to a single type of variables that explain the prosperity of a country over time. The book explicitly rules out the influence of other factors, for example the geography. This last point is widely discussed by Jared Diamond in his overview of Why Nations fail – do not forget he is the principal advocate of the theory of the effect of geography on economic development-. It is quite fitting that he should do so. However, Jared Diamond has a very high opinion about the book. He admits that institutions are very important to explain development. The exchange of views between Diamond and AR also helps the reader not only to understand the positions of the two parties, but to form an elaborate opinion of his own.

The analysis of Why Nations Fail is not complete without reading the Fukuyama critique; however, Jeffrey Sachs critique of AR's work is different. The criticism of the Columbia professor in particular betrays some kind of rivalry that exceeds the limits of the healthy intellectual debate. Fortunately, later in the replica of Sachs the pitch is tempered to offer a much calmer comment on the dissertations submitted in Why Nations Fail.

His critique ends with a conclusion that sums up perfectly the assessment of this book:

“Yet they (AR) have also promulgated a simplistic explanation of why countries have succeeded or failed. The evidence suggests that economic development is a multi-dimensional dynamic process, in which political, institutional, technological, cultural, and geographic factors all play a role.”

Our own assessment is that *Why Nations Fail* is an outstanding, highly recommendable book, which provides rich material to reflect on. You may agree or disagree with some of the ideas of AR, but his main thesis –the role of inclusive and extractive institutions- is called to become a reference for the study of institutions and growth.

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