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## Why nations fail? The origins of Power, Prosperity and Poverty

*Daron Acemoglu and James A. Robinson. London: Profile Books Ltd, 2013, 529 pp.*

Why do some countries enjoy prosperity, while others have been languishing in poverty and inequality for ages? What accounts for democratic and economic success in Europe, the United States, Australia and Japan and for persisting impecuniosity, conflicts, and authoritarianism in Sub-Saharan Africa? Why did the Industrial Revolution, a major turning point in the history, transpire in the eighteenth century England and not in Mexico, Congo or Nepal?

Throughout the centuries, economists, political scientists, philosophers and other experts alike have been racking their brain over the answers to these questions (e.g. Adam Smith, 1776; Diamond, 1997; Landes, 1998). Some authors contend that the geographical differences are the main causes of the great cross-country differences in poverty and prosperity. The so-called geography hypothesis draws its main argument on the works of the eminent French political philosopher Montesquieu (1748), who links the hot climate to the laziness and the deficit of curiosity, while associates the vigour with the cold climate. American scientist Diamond (1997) bases his geographical determinism on the technological differences among the parts of the world, which according to him, was due to the availability of plant and animal species, which in turn resulted in the different paths of farming and technological change. Kenneth Pomeranz (2000) examines the early industrialisation within the context of the privileged access of Europe to the New World and ecological limitations of the world's most densely populated regions.

On the other hand, the arguments of the proponents of the culture hypothesis rely on the role of the religious and cultural beliefs, social norms, ethics and values for the

explanation of the global inequality. Some claim that Protestant ethic contributed to the rise of modern industrial society in Europe (Weber, 2002); others question the compatibility of Islam with democracy (e.g. Karmer, 1993; Vatikiotis, 1987); and some others argue how the “social capital” makes some countries, e.g. the south of Italy, poor (e.g. Putnam *et al.*, 1994). All in all, cultural theorists claim persuasively that religion and culture matters for the prosperity.

Others opine that African countries are poorer than the countries of other regions because their leaders might be less informed, knowledgeable and less advised than their counterparts in other regions on how to lead the country. The proponents of the so-called ignorance theory (e.g. Williamson, 1990; Aghion and Howitt, 2009), draw on the famous definition of the economist Lionel Robbins in 1935, “economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” (quoted in Acemoglu and Robinson, 2013: 64).

After having carefully (albeit briefly) analysed the rationales of three main strands of literature on elucidating the world inequality, the authors of the book we are reviewing, Daron Acemoglu (Massachusetts Institute of Technology) and James A. Robinson (University of Chicago), gracefully counterattacks them one by one with arguments based on stories drawn from the human history and the contemporary state of arts of different countries and regions of the world.

Juxtaposing and analysing the historical development of South and North Korea and of the United States and Latin America, the academics illustrate that neither geography, nor the lack of knowledge and information of leaders, nor the cultural differences explain the strikingly different paths taken by otherwise not so different countries and regions. Instead, the economists suggest searching the answers for the challenging questions at the quality of institutions of the countries. The gist of their argument is that the sustainable growth is triggered and encouraged by *inclusive economic institutions*, that “create inclusive markets, which not only give people freedom to pursue the vocations in life that best suit their talents but also provide a level playing field that gives them the opportunity to do so” (Acemoglu and Robinson, 2013: 76-77). Thus, apart from being free markets, these institutions should also push for positive technological and educational changes in the society and be capable of harnessing the potential of individuals. However, inclusive economic institutions rarely exist without the backing of and synergy with inclusive political institutions, which should encompass the “rules that govern incentives in politics” (ibid: 79). “Political institutions determine who has power in the society and to what ends that power can be used” (ibid: 80). Inclusive political institutions are pluralistic and vest powers broadly among the society members. The foremost condition of inclusive political institutions is political centralisation, which is to impose law and order, at the same time protects the private property rights and encourages innovation and education.

One of the premises of the book is that only working in tandem these institutions bring about growth and prosperity. The sustainability of this growth is worth attention, as “good practices” of the work of these institutions create a virtuous circle, just like in the case of

the Glorious Revolution of 1688 and the following Industrial Revolution which led Britain and some European countries towards economic prosperity and a more pluralistic society, according to the authors.

At the other end of the spectrum there are the so-called *extractive institutions*. In some regimes, the elite which hold the power tend to build up economic institutions with one goal: to enrich themselves by extracting as much profit as possible, at the expense of the society. Extractive institutions also create a circle, although a vicious one, generating negative feedback loops and thus enduring for years and centuries. This, the authors contend, is why some nations fail.

So, how are these institutions formed and developed? The authors postulate that it is the “interplay of small institutional differences with critical junctures” that brings about gradual but fundamental differences in development paths of the countries (ibid: 106). An entertaining case study of the Black Death (pp 96-101) as a crucial and critical juncture “disrupting the existing economic or political balance in society” for not only England (the emergence of more inclusive institutions), but also for Eastern European countries (the Second Serfdom in Eastern Europe) explains how tiny differences during the historical junctures could bring about positive or negative consequences for the lives of the population.

Similarly, the authors do not negate the existence of economic growth in the presence of extractive institutions. In fact, they extensively talk about the gargantuan economic growth experienced by Soviet Union between 1928 and 1960 and China’s current breakneck pace of growth. Nonetheless, the academics believe that this growth cannot be sustained in the long-run (as the case of the Soviet Union showed), as any growth built by extractive institutions without the support of inclusive political institutions is doomed to fail sooner or later. The challenge, the academics explicitly acknowledge, is building inclusive institutions and thus creating growth and prosperity in the terrain of extractive ones, which have been persisting during centuries.

The colossal ambition and grandeur of the book has been compared to such masterpieces as Diamond’s “Guns, Germs and Steel” (1997), Adam Smith’s “The Wealth of Nations” (1776), and William McNeil’s “The Rise of the West” by economists and academics. Like these mentioned books, it is a compelling book, full of astounding stories and anecdotes from the human history.

Nonetheless, the idea of “institutions determining the development path of nations” is not new to the political science. The main premise of the authors draws upon the works of the most recent proponents of the new institutionalism who recognize that institutions are “the cause” of economic growth and development; and that different institutions engender different outcomes. Douglass North, who is believed to have laid the theoretical framework of this thesis, states in North (1997:224): “The primary source of economic growth is the institutional/organizational structure of a political economy”. He also contends that, “Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activity that does not encourage productive activity” (North, 1990: 110). The security of property rights, whose importance is extensively stressed by Acemoglu and

Robinson in this book, has also been emphasized by new institutionalists due to its role in explicating the development and underdevelopment of nations (e.g. North, 2005; North *et al.*, 2009).

However, this oeuvre has several shortcomings. Firstly, the determination of the authors to fully debunk the previous explanations of global inequality (namely culture, geographic and ignorance hypotheses) undermines the importance of a constellation of intertwining factors in leading the country towards the prosperity or poverty. The quality of institutions could be crucial in shaping the development path of countries, but the interplay of other factors, such as resource endowments of a country, its geopolitically favourable or disadvantageous position in the world map, unfortunate policies of the leadership, are sometimes equally important. In fact, no single variable could be universally necessary and sufficient for democratic outcome for a country (Diamond, Linz and Lipset, 1999), and likewise we opine that no single factor could possibly suffice to elucidate the failure of nations.

One big strand of literature (e.g. Ross, 2001; Smith, 2004) contends that the oil wealth of resource rich developing countries has a robust negative correlation with authoritarianism. The presence of large oil income, they go on, hinders democratic transition in these countries. The argument draws from rentier state theory, which links the oil wealth to numerous pervasive economic, political and social outcomes for nations (e.g. Mahdavy, 1970; Beblawi and Luciani, 1987).

Likewise, the natural resource endowments are argued to have contributed to the prosperity of some countries (e.g. Norway with its fish, timber and subsequently oil and gas reserves; Botswana with its diamond). The oil wealth has been linked to growth and more democracy for Latin American countries (e.g. Dunning, 2008; Ross, 2009). Resources matter for the countries. So does the geography that determines it.

Furthermore, there are still uncertainties about whether pre-existing institutions cause pervasive political and economic outcomes, or whether institutions are exacerbated by the resource curse (Rajan, 2011: 621).

What is more, the authors extensively disregard the role of the international patronage to and external legitimacy of either poverty or prosperity in developing countries which could be due to the geopolitics of nations. Azerbaijan, a Post-soviet country, richly endowed with oil and gas, is considered to be a strategic energy partner to the EU. Thanks to it being at the crossroads between Europe and Asia, the country boasts of owning a strategic BTC (Baku-Tbilisi-Ceyhan) oil pipeline transporting Caspian oil to Europe and is currently building new gas pipelines within the Southern Gas Corridor project of the European Union in order to provide Europe with non-Russian gas, which is to bypass the Russian territory. The fact itself serves as an excuse for the country's government to get away with endemic corruption, neopatrimonialism, overly extractive institutions and disastrous state of political rights in its soil. Should Azerbaijan be situated in a different geographical location, we might have been talking about a different polity. The geopolitical factor might also help to explain why Georgia, in the face of a hegemonic Russian threat has turned to West for protection and why it has fared better in terms of democratic

transition than its resource-rich neighbour Azerbaijan, or Russia-backed Armenia. These are of course only few of many salient examples of how the geography does influence on economic and political development of a nation.

All in all, we opine that the determinism is not the answer to a complex process of economic and political failure or success of a nation. Neither it is for explaining divergences in the development during a gigantic part of human history, from Neolithic era to contemporary age.

Secondly, the concept of institution, *the heart and soul* of this book, is poorly defined in this work. It is rather concentrated on what institutions could bring about for the prosperity of a nation. One needs to guess what the authors mean by economic and political institutions throughout the book, and only after having read the whole 529-pages book you can vaguely deduce what they could have had in their mind for institutions. It would have been fairly understandable, if the definition of the concept was purposefully left out by authors, if the work was meant for an expert circle. However, what makes this book enthralling is precisely its simplicity in exposing complicated historical dynamic of world institutions with anecdotic stories. That leaves little room for doubt that the oeuvre is meant for general public. Nonetheless, perhaps more evidence-based academic work by the authors of this book could offset this shortcoming (e.g. Acemoglu *et al.*, 2002; Acemoglu *et al.*, 2004; Acemoglu and Robinson, 2006).

Furthermore, *Why Nations Fail* is packed (albeit gracefully) with repetitions. The hidden reason behind it could either be to induce the readers to learn the foremost contention of the article by heart (concurring with a Soviet adage, “repetition is the mother of learning”), or simply an editorial error.

Despite the above mentioned shortcomings, it is undeniable that *Why Nations Fail* is a captivating book, which nests gargantuan chunks of human history within the suggested framework of inclusive vs. extractive institutions and is an elegant endeavour to understand the poverty and prosperity in the world.

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