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Book Review: Why Nations Fail

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1. Introduction

In *Why Nations Fail*, Acemoglu and Robinson argue that economic development and the prosperity or poverty of nations can be traced back solely to "institutions, institutions, institutions" (Acemoglu & Robinson 2012: 368). It is not geography, culture, or the ignorance of policymakers that explains the vast income disparities across nations, but it is the fact that some countries were able to introduce and maintain inclusive economic and political institutions, while others still operated under extractive systems benefitting only narrow groups of elites. The argument of the book is meticulously well-researched and supported by historical evidence spanning a vast range of epochs and continents. Furthermore, Acemoglu and Robinson could hardly have chosen a more appropriate time than 2012 to publish their book. At the time of publishing, the Middle East was still reeling from the revolutionary Arab Spring that many hoped would mark the turn of the Arab world to greater political and economic inclusiveness, Acemoglu's country of origin Turkey was sliding evermore into the authoritarian, extractive wrath of Recep Tayyip Erdogan, and with the Great Financial Crisis of 2008 having exposed an ever-growing income gap between rich and poor states.

Whilst credit must be given to Acemoglu and Robinson for re-injecting the importance of institutions into the discourse on economic development, we will argue that there are two major shortcomings of the book. First, the authors continuously operate through a constrained lens of institutions within a single country and subsequently do not sufficiently consider the interplay of institutions across borders. For instance, the book leaves unaddressed to what extent we can attribute the past economic development of colonising countries to the extractive institutions imposed on their colonies rather than to their inclusive institutions domestically. A greater focus on this international aspect of institutional arrangements would have been of great interest given the current pertinence of tied aid and structural adjustment programs through which harsh institutional reforms are often imposed on developing nations. Second, Acemoglu and Robinson's argument that only institutions matter for development is overly simplistic and dismisses other explanations such as culture, geography, or policy mistakes unfairly out of hand.

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2. Part I: Summary

Why Nations Fail opens with the thought-provoking natural experiment between Nogales, Arizona and Nogales, Mexico (Acemoglu & Robinson: 7-9). Despite the two regions either side of the US-Mexico border sharing almost identical cultures, climate and natural resources, Nogales, Arizona has three times the GDP per capita of its Mexican counterpart. It follows, according to the authors, that institutions must lie behind this vast difference in economic development. Anecdotal evidence such as the above is used throughout the book by Acemoglu and Robinson to demonstrate their thesis that only inclusive political and economic institutions make sustainable development possible. The authors define institutions vaguely as rules and norms directing the actions and incentives of agents operating within the state and partition between the economic sphere and the political sphere (Acemoglu & Robinson: 42). Ultimately, the bridge between a country's institutions and development outcomes is spanned by incentive structures. Inclusive economic and political institutions—those that are pluralistic, accountable, and share economic and political power and opportunity widely in society—support sustained economic development through generating incentives for investment, risk-taking, and innovation. For instance, only when there is secure private property are citizens and enterprises confident in their ability to generate profits commensurate to their efforts and risk-taking and hence become willing to engage in innovation (Acemoglu & Robinson: 75). Conversely, their extractive counterparts that concentrate power in the hands of a narrow elites and primarily facilitate rent extraction stifle development as elites frequently use their concentrated power to put down Schumpeterian 'creative destruction' and as elite infighting over extraction frequently flares up (Acemoglu & Robinson: 132). To be exact, Acemoglu and Robinson do not claim that development is impossible in extractive institutional frameworks but only that due to lacking innovation incentives and frequent elite infighting, this development is ultimately short-lived (Acemoglu & Robinson: 124).

Furthermore, Acemoglu and Robinson further develop two self-perpetuating cycles according to which economic and political institutions develop over time. In vicious cycles, extractive political institutions feed on extractive economic institutions, which subsequently further increases economic extraction (Acemoglu & Robinson: 365). Conversely in virtuous cycles, more inclusive political institutions tend to create more inclusive economic arrangements, which through increased economic prosperity for the masses enhances their political power and hence supports political inclusion (Acemoglu & Robinson: 332-334). Nonetheless, despite these cycles, Acemoglu and Robinson do not posit historical determinism in the realm of institutions, as institutional drift—minor differences in institutions across countries—in combination with so-called critical junctures—major historical events such as the Black Plague—can lead a country to make the difficult switch from extractive to inclusive institutions or vice versa (Acemoglu & Robinson: 432).

The core argument of *Why Nations Fail* is clear, well-researched, and intuitively appealing. Institutions do matter for economic development and the impressive array of historical examples provided by the author give strong backing to their hypothesis. At the same time, however, the book's clarity is also its main weakness: its thesis that only institutions determine development, and not alternative factors such as geography, culture, or policymaking, misses the multi-faceted nature of economic development. Even so, Acemoglu and Robinson can be forgiven to an extent: *Why Nations Fail* was targeted at the general reader interested in economics and politics, and for this specific audience the brashness of the book's argument was crucial in highlighting the importance of institutions. Hence, whilst for a more academic audience the lack of nuance in the book is troubling, the clarity and boldness of the authors' institutional thesis, as well as its systematic analysis only within the boundaries of the nation-state, might have been necessary to jumpstart public discourse on institutions in development.

3. Part II: International interplay between inclusive and extractive institutions

The first shortcoming is the lack of focus on how extractive and inclusive institutions interact across international borders. Firstly, there is insufficient appreciation that inclusive domestic institutions can be supported by extractive ones abroad. Whilst Acemoglu and Robinson do extensively discuss the prominent role of extractive colonial institutions in obstructing the colonies' development, they do not really consider the other side of this bilateral relationship pertaining to colonising countries, where they instead focus more on the importance of domestic inclusive institutions for economic development. Acemoglu and Robinson detail extensively the developing inclusive political and economic institutions in England during the Industrial Revolution, such as strong property rights and the ability to lobby Parliament (Acemoglu & Robinson: 103-104). They pinpoint the relationship between the English Crown and merchants profiting from colonisation in the 17th century as a crucial reason why inclusive political institutions later emerged (Acemoglu & Robinson: 105-106). Indeed, Acemoglu and Robinson emphasise the importance of initially small institutional differences during a critical juncture like the expansion of the Atlantic trade leading to diverging paths for different countries.

However, whilst the authors argue colonising countries benefitted post-critical junctures whilst colonised countries were left incapable of taking advantage of technological innovations (Acemoglu & Robinson: 114), they do not extensively explore the implications of this. It is intuitive that colonists enjoyed economic benefits from colonies, as exemplified by James Watt being partly motivated by economic opportunities from demand in English overseas colonies and domestic markets (Acemoglu & Robinson: 104). However, they do not further expand on this mention of overseas colonies in explaining England's inclusive institutions. They also do not explicate possible causal mechanisms wherein extractive institutions abroad could support the growth of inclusive institutions domestically, in England, such as through revenue streams funding institutional transition or co-optation of domestic elites. The developmental narrative of England, whilst accounting for international affairs, such as military conflicts with the Spanish and colonisation abroad, therefore lacks an explicit explanation on a potential supportive role of extractive institutions. The authors do engage in such analysis regarding South Africa, where white elites created a dual economy to benefit from cheap labour costs and reduced competition (Acemoglu & Robinson: 259-260). It would be rewarding to see similar analysis with England and its colonies, given the attention the authors pay to them.

Besides this, readers are not equipped with a complete toolkit allowing them to fully understand implications of modern international policy such as tied aid and structural adjustment programmes on developing countries. Extending their exploration of the interaction of institutions across borders would provide such a toolkit. Acemoglu and Robinson do discuss the impact of aid, particularly the failure of foreign aid to Afghanistan in promoting development (Acemoglu & Robinson: 451). They note that development aid has often been wasted due to corruption, various costs, and appropriation by dictators overseeing extractive institutions (Acemoglu & Robinson: 452). Moreover, they discuss the ineffectiveness of conditional aid by arguing it does not provide strong incentives to meet the aid's conditions or overhaul extractive institutions in these countries (Acemoglu & Robinson: 453-454). Here, the implication is that conditional aid would assist development if conditions were strictly followed and that it fails because it is ineffective in incentivizing compliance.

However, Acemoglu and Robinson do not explicitly consider a potential parallel relationship with colonialism, wherein conditions of tied aid benefit the aiding country, potentially at the expense of the country receiving aid. For instance, companies from rich countries still receive around two-thirds of aid contracts that are officially untied (Provost 2011).

Furthermore, readers are then not fully equipped to understand the role of international pressure on developing countries more generally. Acemoglu and Robinson could have further considered the presence of foreign pressure even today in either their support or disapproval of extractive regimes. Indeed, the authors detail why Egypt today remains a state of extractive institutions, noting that international financial institutions promoted economic reforms in the 1990s such as privatising state-owned assets. They highlight that privatisation built private monopolies, supplementing the riches of wealthy, politically connected businessmen even further (Acemoglu & Robinson: 396). However, they do not explicitly specify how conditional aid and foreign pressure can inhibit development to the benefit of developed nations. For instance, when Egypt allied with the West, it received conditional US aid which required Egypt to implement economic liberalization, subsequently decreasing Egypt's state revenue whilst shifting the economy away from industry and agriculture (Kandil 2012: 208). Indeed, Egypt's alliance with the US required it to open up the economy to foreign investment (Kandil: 204). Significantly, Western business contacts of Egyptian business elites mitigated democratising pressure on Egypt's regime (Kandil: 209). It would have been relevant for Acemoglu and Robinson to explore how, though inclusive economic and political institutions encourage domestic development in Western countries, Western connections can support further extraction in developing nations. Even prior to the 1990s, American investors helped construct and ultimately benefit from Sadat's open-door policy, *Intifah*, with the aim of facilitating business (Kandil: 204-205). Acemoglu and Robinson note that when the private sector developed, markets were extractive and controlled by businessmen politically allied with Sadat (Acemoglu & Robinson: 395). Nevertheless, they do not explicitly discuss any American allies that supported the growth of this extractive regime. As such, they do not address explicitly and completely the question of to what extent international relations can directly shape another country's institutions today.

4. Part III: Unfair dismissal of other causal theories?

While the thesis of the book is single-minded in recommending that institutions are the chief important factor for development outcomes, readers picking up *Why Nations Fail* may approach the book having some familiarity with other theories of development. The authors none but anticipate this. Thus, next to emphasising the importance of institutions, Acemoglu and Robinson, in Chapter 2 of the book labelled 'Theories That Don't Work', also make a negative argument—using carefully hand-picked examples—against three alternative explanations of economic development: geography, culture, and ignorance. Their institutional thesis is hence stronger than the summary above in fact sets forth.

Looking at the three alternative theories the authors refute: observers of trends in development might note that rich countries cluster away from tropical climates, so could it be that tropical countries, due to a certain lethargy they induce in their inhabitants, disincentivise work that drives development? Or, finding that predominantly Protestant countries tend to be rich while Islamic countries often suffer instability and poverty, could religion and culture determine developmental outcomes? Otherwise, since richer countries clearly possess better technology and knowledge, could it be the ignorance of policymakers in poor countries that hinders development in these cases?

Even as the authors do their best (and correctly) dispel these conjectures, this does not mean that factors of geography, culture, or ignorance do not matter in economic development. To this, the authors intermittently admit throughout the book. A particular geography or a certain culture can make the probability of inclusive institutions less or more likely.

Firstly, geographic factors remain salient. In the extensive discussion of different colonies in the book, one comparison is stark. Natural resource wealth, in the form of gold and silver or diamonds, respectively, is abundant in South America and Africa—where extractive colonies were set up—while absent in North America and Australasia—where inclusive settler colonies were set up. The authors describe the rationale of the differences in colony structure in Chapter 1; extractive colonies could not be set up when the British landed in North America, as they were in the South, exactly because colonists needed other ways to support themselves given the hapless barrenness of the land. Natural resource wealth, due to the set-up costs needed for their extraction, calls for capture by local or foreign elites. Conversely, geographies which give rise to economic opportunity for large swathes of the population promise a better likelihood of inclusive institutions being set up; so, the long coastlines connecting Hong Kong or Singapore to other ports speak for themselves. Geographic arguments are implicitly supported in the book.

Second, on culture, the authors suggest in Chapter 14 that the tribal culture of Bechuanaland, where civil rights are not based on heredity alone, helped its chieftains make inclusive decisions leading to the economic success of the country—today known as Botswana. Tribal leaders took advantage of two critical junctures: the first with the institutional drift of the Bechuanaland tribes towards inclusive political processes and the second with the construction of subsoil mineral rights which channelled the country's diamond revenues into investment for public services. In this case, elements of an inclusive culture allowed for the emergence of institutional drift towards robust institutions, allowing the opportune ramping of Botswana onto the path of becoming the African economic miracle it is today.

Lastly, it is clear that ignorance of the outcomes of economic policy derail development. During the Great Leap Forward in China, an example the authors consider, the backyard steel mills which were a nascent China's attempts at industrialization led the country into a three-year famine in the Chinese countryside. Clearly, disastrous economic policy exacerbates the damage due to a country's institutional flaws.

The authors are right that it is not necessarily the Protestant ethic, as proposed by German sociologist Max Weber, that led England and the Netherlands to the first economic success in early-modern Europe (they claim that France, a predominantly Catholic country, was quickly able to catch on (Acemoglu & Robinson: 60)) or that religion is the reason Islamic countries are poor today (it was rather the history of Ottoman rule that adversely affected the way poorer Middle-Eastern countries developed (Acemoglu & Robinson: 61)). Progress remains contingent based on a country's broader political and economic institutions—none of these factors are deterministic.

Perhaps a point of disappointment in the book is that a detailed account is missing of how factors of geography, culture, or policy-making expertise interact with changing institutions as the machinery of development. For example, how might the global social media culture, at the heart of the Arab Spring's unfolding, give birth to periods of institutional drift? Given that globalization has internationalised policy-making and new technologies can now mitigate starkly different geographies, speaking to the reality of a convergence of economic and political processes between areas as different as San Francisco and Bangalore, it now becomes more important to consider regional differences for the biodiversity of ideas flowing into bodies concerned with policymaking. As the authors show that when periods of institutional drift are lost as opportunities for change, the cogs of economic policy cannot work to turn out inclusive institutions. Where entrenched elite or foreign interests subject a region to extraction and prevent local institutions from building on its region-specific elements of geography, culture, and expertise, inclusive institutions remain only on the horizon. However, when critical junctures emerge, good economic policy must be informed by an intersection of knowledge from geography to anthropology. The authors remind us that discriminatory theories will hinder development by a denial of peoples' potential, yet it is implied by the book that interdisciplinary knowledge to address specific regional circumstances will be integral for its success.

5. Conclusion

To summarise, *Why Nations Fail* is a compelling and well-written read on the crucial role of institutions in economic development. Acemoglu and Robinson carefully construct a framework around extractive/inclusive institutions, critical junctures, and institutional drift to explain the development paths taken by nations and support it with exceptionally well-researched historiography. Nonetheless, the book is also incomplete in two important dimensions: it lacks an appropriate focus on the international dimension of institutions and too rashly dismisses alternative explanations outside the institutional thesis, instead of considering complementarity between different approaches. These shortcomings would have been more than acceptable if the thesis of Acemoglu and Robinson had not been the absolute claim that only institutions matter for development. However, with the stark claim the authors make, these shortcomings act as a thorn in the side for the reader. Nonetheless, with these limitations in mind, we still wholeheartedly recommend the book for anyone interested in learning about the role of institutions in economic development.

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