

The
Economist

Creating economic wealth

The big why

Nations fail because their leaders are greedy, selfish and ignorant of history

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**Why
Nations
Fail:
The
Origins
of
Power,**



Prosperity and Poverty. By Daron Acemoglu and James Robinson. Crown; 529 pages; \$30. Profile; £25. Buy from [Amazon.com](http://www.amazon.com/exec/obidos/ASIN/0307719219/theeconomists-20) (<http://www.amazon.com/exec/obidos/ASIN/0307719219/theeconomists-20>) , Amazon.co.uk (<http://www.amazon.co.uk/exec/obidos/ASIN/1846684293/economistshop-21>)

THE rich world's troubles and inequalities have been making headlines for some time now. Yet a more important story for human welfare is the persistence of yawning gaps between the world's haves and have-nots. Adjusted for purchasing power, the average American

income is 50 times that of a typical Afghan and 100 times that of a Zimbabwean. Despite two centuries of economic growth, over a billion people remain in dire poverty.

This conundrum demands ambitious answers. In the late 1990s Jared Diamond and David Landes tackled head-on the most vexing questions: why did Europe discover modern economic growth and why is its spread so limited? Now, Daron Acemoglu, an economist at MIT, and James Robinson, professor of government at Harvard, follow in their footsteps with "Why Nations Fail". They spurn the cultural and geographic stories of their forebears in favour of an approach rooted solely in institutional economics, which studies the impact of political environments on economic outcomes. Neither culture nor geography can explain gaps between neighbouring American and Mexican cities, they argue, to say nothing of disparities between North and South Korea.

They offer instead a striking diagnosis: some governments get it wrong on purpose. Amid weak and accommodating institutions, there is little to discourage a leader from looting. Such environments channel society's output towards a parasitic elite, discouraging investment and innovation. Extractive institutions are the historical norm. Inclusive institutions protect individual rights and encourage investment and effort. Where inclusive governments emerge, great wealth follows.

Britain, wellspring of the industrial revolution, is the chief proof of this theory. Small medieval differences in the absolutism of English and Spanish monarchs were amplified by historical chance. When European exploration began, Britain's more constrained crown left trade in the hands of privateers, whereas Spain favoured state control of ocean commerce. The New World's riches solidified Spanish tyranny but nurtured a merchant elite in Britain. Its members helped to tilt the scales against monarchy in the Glorious Revolution of 1688 and counterbalanced the landed aristocracy, securing pluralism and sowing the seeds of economic growth. Within a system robust enough to tolerate creative destruction, British ingenuity (not so different from French or Chinese inventiveness) was free to flourish.

This fortunate accident was not easily replicated. In Central and South America European explorers found dense populations ripe for

plundering. They built suitably exploitative states. Britain's North American colonies, by contrast, made poor ground for extractive institutions; indigenous populations were too dispersed to enslave. Colonial governors used market incentives to motivate early settlers in Virginia and Massachusetts. Political reforms made the grant of economic rights credible. Where pluralism took root, American industry and wealth bloomed. Where it lapsed, in southern slaveholding colonies, a long period of economic backwardness resulted. A century after the American civil war the segregated South remained poor.

Extractive rules are self-reinforcing. In the Spanish New World, plunder further empowered the elite. Revolution and independence rarely provide escape from this tyranny. New leadership is tempted to retain the benefits of the old system. Inclusive economies, by contrast, encourage innovation and new blood. This destabilises existing industries, keeping economic and political power dispersed.

Failure is the rule. Here, Venice provides a cautionary tale. Upward mobility drove the city-state's wealth and power. Its innovative *commenda*, a partnership in which capital-poor sailors and rich Venetians shared the profits from voyages, allowed those of modest background to rise through the ranks. This fluidity threatened established wealth, however. From the late 13th century the ducal council began restricting political and economic rights, banning the *commenda* and nationalising trade. By 1500, with a stagnant economy and falling population, Venice's descent from great power was well under way.

Moves towards greater inclusivity are disappointingly rare. The French revolution provides an example, but also demonstrates the authors' unfortunate habit of ignoring historical detail. Revolution put paid to absolutism and led, after a long and messy struggle, to the creation of an enduring republic. Institutions, in the form of a fledgling merchant class, provided momentum for reform, making the difference between the successful French revolution and failed uprisings elsewhere. But the authors give short shrift to the presence and meaning of Enlightenment ideals. It is difficult to believe this did not matter for the French transition, yet the intellectual climate is left out of the story. History is contingent, the authors apologise, but history is what they hope to

explain.

The story of Botswana is also unsatisfying. There, a co-operative effort by tribal leaders secured the protection of the British government against the marauding imperialism of Cecil Rhodes. Despite its considerable diamond wealth, which might have spawned a corrupt and abusive elite, Botswana became a rare success in Africa, assisted by the benevolence of its leaders and by having a tiny population. At times the authors come dangerously close to attributing success to successfulness.

The intuition behind the theory is nonetheless compelling, which makes the scarcity of policy prescriptions frustrating. The book is sceptical of the Chinese model. China's growth may be rooted in the removal of highly oppressive Maoist institutions, but its communist government remains fundamentally extractive. It may engineer growth by mobilising people and resources from low-productivity activities, like subsistence agriculture, toward industry. But without political reform and the possibility of creative destruction, growth will grind to a halt.

Rich countries determined to nudge along the process of institutional development should recognise their limitations, the authors reckon. The point is well taken. It is hard to ignore the role of European expansion in the creation of the underdeveloped world's extractive institutions which, in self-perpetuating fashion, continue to constrain reform and development. Evidence nonetheless hints that contagious ideals, propitious leadership and external pressure matter. The promise of European Union membership encouraged institutional reform in central and eastern Europe. America eventually eradicated extractive southern institutions and placed the South on a path toward economic convergence. There is no quick fix for institutional weakness, only the possibility that steady encouragement and chance will bring about progress.

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