



Book Review:

Daron Acemoglu and James A. Robinson (2012). Why Nations Fail. Crown Business; Reprint edition (September 17, 2013) ISBN-13: 978-0307719225

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Why nations fail is a non-fiction co-authored by Daron Acemoglu, a Turkish-American MIT economist and James A. Robinson, a Harvard political scientist. The book aims to answer the age old question of why some nations are prosperous while others are not. It applies insight into theoretical and historical background of economics: institutional and development . While developing a case for two types of economies, “inclusive” and “extractive”, as basis of “institutions” within nations for causal success or failure.

Based on fifteen years of original research the duo reject the geographic, cultural and environmental theories behind the successes and failures of certain nations in favor of a stance rooted deep in institutional economics. They argue that good politics results in good economics and eventual prosperity, they build this case by giving the example of the Spanish invaders of South America and comparing two present day Mexican cities of Nogales, one in USA and the other under Mexican rule and North and South Korea.

The book in its second chapter debunks cultural, geographic and environmental theories. The chapter: "theories that don't work" criticizes Jeffrey Sachs's approach of economic geography and move on to tackle the vast bibliography that attempts to associate cultural characteristics with economic prosperity (here they point to Max Weber and his monumental work on the Protestant ethic and the spirit of Capitalism).

The authors try to deconstruct what they call the "ignorance hypothesis": the theory that political leaders do not know how to lead nations to prosperity and sustainability. They criticise the theories for lacking the ability to explain long-term trends of inequality. The global aid system in their opinion is also counterproductive in the long term.

For the authors the reason for national success is the stability and inclusive nature of governance, here inclusion isn't limited to just the political process but also equitable distribution of economic benefits. Extractive institutes provide benefits to the ruling elite/privilege groups which eventually lead to revolt or revolution and gradual collapse.

The book elaborates on examples from history from the British Glorious Revolution of 1868, the Spanish colonies of South America, further in the past to the Roman Empire and present day wonders of China. According to the authors the Chinese growth is likely to be short lived and is propelled by the inclusion of capitalist policies,

but unless the governmental institutes include rights of the masses the nation is likely to face the fate of the Soviets.

According to the authors extractive rules tend to self-reinforce, the Spanish New world rules crushed the opposing elite and plundered the locals to the point their existence was marginalised, compared to the middle class settlers of the British empire in the North America where the natives were far and few and the settlers formed a colony which practiced inclusive policies which encouraged innovation and new blood, which destabilizes existing industries destabilized, keeping economic and political power dispersed; which is seen in the case of the weakening of the British monarchy's power and the development of a constitutional monarchy. The result of the two forms of governance are visible today, one part is a super power while the other has a long history of military coups.

Another interesting example in the book is that of Venice, which was the centre of growth and prosperity at one time in history, there was a partnership an innovative '*commenda*' between sailors without capital and the Venetian elite, till the poor sailors started making money and rising through the ranks and challenging the authority of the established wealth. To curb this, the ducal counsel of the thirteenth century began to curtail economic and political rights by banning *commenda* and nationalising trade. As history is witness, these measures resulted in economic stagnation and by 1500's the downfall of the prosperous economy of Venice was well underway.

The cases made by the authors are compelling, but seem to be oversimplified to make the book more readable and perhaps appeal to a greater audience, for example the story of Botswana's success and its fate being different from the rest of Africa. The country is rich in diamond wealth which could have resulted in corrupt elite; instead the leaders seek protection from the British to oust the imperialistic marauding of Cecil Rhodes. The story seems too good to be true relying on the goodness of the elders of the country and almost attributing success to successfulness.

The book itself is a fascinating read, the amount of research backing the narrative is compelling to the point where you start agreeing with the authors, but the macroscopic method employed to discern the mechanics of history leaves many questions. In effect the case the book attempts to make is a simple one: poverty tends to result from political and economic policies of extractive nature. Central to all this is a stable centralised and pluralistic democratic institute for which good governance and politics is principal. They give the examples of Roman Empire and the Soviet Union as extractive nation with economic growth which was short lived.

The basis of the hypothesis presented in the book is predisposed to the theory developed by Douglas North's institutional theory and by Lipset's theses on democracy and economic development.

In the light of which they explore the concept of "creative destruction" by Schumpeter which essentially states that the bad is replaced by the good, a self-overhauling of economy from within

where the masses revolt and produce change, causing an eventual decline of the existing extractive system. The argument put forward is not, however, one of institutional determinism. Small institutional differences and what the authors refer to as "institutional drift" over time can interact with "critical junctures" and historical contingency to produce a change in path. By analysing such institutional evolution in its historical setting, Acemoglu and Robinson argue that we can better understand why some countries are rich and others poor, how that pattern may have changed over time, and even how the problem of global inequality might be addressed in the future

A question that was left in my mind after reading the book was that is the basis of economic success is a well-functioning political institute, and then what will explain a good political institution in the first place? As was seen in the case of Bostwana. The book also laid strict criticism on China, while overlooking the a period of expansive growth and innovation which spanned over six hundred years from 800 to the 1400's. this growth was primarily due to the "time" the nation existed in and its geography rather than the inclusiveness of it's policies.

At the same time the present growth of the chinese for all practical purposes and purported by the norms of modern day economics is seemingly solid and stable and while the world agrees that the policies of the country need to be more inclusive yet at the same

many hundreds of thousands of chinese folk whose lives have changed for the better will completely disagree.

We also have the example of the middle eastern nation of UAE. Although we might not agree with their governance model, their growth has been steady and the local population prosperous. It is safe to say that the present world scenario and its myriad of complex exogenous variables play a pivotal role in the fate of any nation. The argument presented by Acemoglu's and Robinson is far from wrong but does not quite portray the complete image of the success of a modern nation. Regardless the book is a great insightful read.