

## INITIATIVE ONE BOOK IN ONE SNAPSHOT

**Title of the book:** Why Nations Fail

**Authors:** Daron Acemoglu & James A. Robinson

**Date of publication:** 2012

**Sectors/areas of interest:** development theory; world politics; (new-)institutionalism

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### SUMMARY

This historically well-documented book is about the conditions under which nations succeed or fail in prospering. The main argument of the authors is that institutions are key factors determining the behaviour of political leaders. The latter can be constrained in their exercise of power, providing them with incentives to rule for their people: this results from inclusive institutions. They can also rule ruthlessly and seek their own profit: this results from extractive institutions. It is a book about institutional dynamics, historical contingencies, and about the entanglement of politics and economics.

#### 1) Theories challenged by the authors

	<b>Geography hypothesis</b>	<b>Culture hypothesis</b>	<b>Ignorance hypothesis</b>
<b>Intellectual lineage</b>	Montesquieu & Jeffrey Sachs	Max Weber	Lionel Robbins
<b>Factors explaining differences between poor and rich countries</b>	Geographic differences	Beliefs, values and ethics	Bad economic advice provided to political leaders

#### 2) Types of institutions

	<b>Inclusive institutions</b>	<b>Extractive institutions</b>
<b>Politics</b>	<ul style="list-style-type: none"><li>- no use of force by political leaders</li><li>- rule of law + public services</li><li>- centralised/powerful states</li></ul>	<ul style="list-style-type: none"><li>- use of force by political leaders to come into and remain in power</li></ul>
<b>Economics</b>	<ul style="list-style-type: none"><li>- private property + economic competition</li><li>- people encouraged to take part in economic activities</li></ul>	<p>Growth still possible – but unsustainable – if:</p> <ul style="list-style-type: none"><li>- reallocation of resources to sectors owned by the political leaders (cf. USSR) <i>or</i></li><li>- development of inclusive economic institutions (cf. China today)</li></ul>

### 3) Dynamics

#### Critical junctures

- negative ones leading to extractive institutions (cf. the Black Death bringing more serfdom in Eastern Europe)
- positive ones leading to inclusive institutions (cf. the Industrial Revolution in England)
- core ones: Industrial Revolution + Glorious Revolution (1688) + French Revolution (1789)
- according to their institutions, nations can benefit from or reject such opportunities (cf. England ≠ France and Spain during the Industrial Revolution)

#### Factors leading to inclusive institutions

- distribution of power across society: ability of groups to constrain leaders
- political pluralism
- the media (cf. the Arab Springs)
- creative destruction (Joseph Schumpeter); opposition to creative destruction by extractive leaders/groups (cf. Luddites in England, Habsburg's Francis I, Russia's Peter the Great)
- diffusion of prosperity (cf. the UK sending prisoners to Australia, French revolutionaries and Napoleon bringing change across Europe)

#### The ebb and flow of institutionalisation

- nothing is cast in stone: moves towards inclusive institutions can be reversed (cf. Venice during the Renaissance + collapse of the Roman Empire leading to extractive feudalism)
- institutional struggles matter (cf. Magna Carta/Bill of Rights vs. absolutism in England)

#### Virtuous circles: how institutions that encourage prosperity create positive feedback loops that prevent the efforts by elites to undermine them

- demand for greater pluralism once the rule of law has been achieved (cf. England's Black Act)
- preventing monopolies (cf. in the US in the late 19<sup>th</sup> century)
- preventing leaders to falsify legal procedures (cf. F. Roosevelt unable to challenge courts' opinion to fully implement the New Deal)

#### Vicious circles: how institutions that create poverty generate negative feedback loops and endure

- increased potential stakes of the political game = incentives to fight
- the iron law of oligarchy (R. Michels) reproducing existing patterns (cf. Ethiopia's Mengistu, Congo's Laurent Kabila, Sierra Leone's Siaka Stevens)

#### **4) Understanding today's world inequality**

##### Western Europe: countries benefited from the same critical junctures

- the collapse of the Roman Empire
- the Industrial/Glorious/French

##### Elsewhere: colonialism brought institutional divergence

- Latin America: enduring institutions brought by the Conquistadors
- Africa: colonialism built on disorganised states + decolonisation reproduced extractive institutions (cf. Kongo -> Leopold II -> Mobutu)
- Asia: British/Dutch colonialism
- Middle East: Ottoman's colonialism
- exceptions further discussed in the book: Botswana, South Africa, Japan, China's liberalisation, Argentina, Brazil

#### **TAKEAWAY MESSAGES FOR DG DEVCO**

##### Modernisation theory (M. Lipset) does not work

- "authoritarian regimes that have grown more rapidly over the past sixty or one hundred years [...] have not become more democratic. And this is in fact not surprising. Growth under extractive institutions is possible precisely because it doesn't necessarily or automatically imply the demise of these very institutions" (pp. 444-445)

##### Foreign aid does not work

- "Many studies estimate that only about 10 or at most 20 percent of aid ever reaches its target [...]. But most of the waste resulting from foreign aid is not fraud, just incompetence or even worse: simply business as usual for aid organisations" (p. 452)
- "The idea that rich Western countries should provide large amounts of 'developmental aid' in order to solve the problem of poverty in sub-Saharan Africa, the Caribbean, Central America, and South Asia is based on an incorrect understanding of what causes poverty" (pp. 452-453)
- "foreign aid will be ineffective, as it will be plundered and is unlikely to be delivered where it is supposed to go. In the worst case scenario, it will prop-up the regimes that are at the very root of the problems of these societies" (p. 453)
- conditionality of aid could be an option, but here again, records have been mixed.