Economists assert that above all else, political institutions determine the wealth of nations

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Daron Acemoglu. Photo: Allegra Boverman

It is among the grandest topics in scholarship: Why do some nations, such as the United States, become wealthy and powerful, while others remain stuck in poverty? And why do some of those powers, from ancient Rome to the modern Soviet Union, expand and then collapse?

From Adam Smith and Max Weber to the current day, scores of writers have grappled with these questions. Some scholars, like Weber, have argued that religious or cultural differences create vastly different economic outcomes among countries. Others have asserted that a lack of natural resources or technical expertise has prevented poor countries from creating self-sustaining economic growth.

Economists Daron Acemoglu of MIT and James Robinson of Harvard

University have another answer: Politics makes the difference. Countries that have what they call "inclusive" political governments — those extending political and property rights as broadly as possible, while enforcing laws and providing some public infrastructure — experience the greatest growth over the long run. By contrast, Acemoglu and Robinson assert, countries with "extractive" political systems — in which power is wielded by a small elite — either fail to grow broadly or wither away after short bursts of economic expansion.

"You need political equality to underpin economic prosperity," says Acemoglu, the Elizabeth and James Killian Professor of Economics at MIT. More specifically, he says, economic growth depends on widespread technological innovation. But widespread innovation is only sustained where countries promote rights, giving more people the incentive to invent things.

And while Acemoglu and Robinson have documented this thesis during roughly 15 years of joint research, now, in their new book, *Why Nations Fail*, released this week by Crown Publishers, they look more closely than ever at the collapse or stagnation of countries that lack these inclusive political systems.

Elites, *Why Nations Fail* asserts, resist innovation because they have a vested interest in resisting change — and new technologies that create growth can alter the balance of economic or political assets in a country.

"Technological innovation makes human societies prosperous, but also involves the replacement of the old with the new, and the destruction of the economic privileges and political power of certain people," Acemoglu and Robinson write. Yet when elites temporarily preserve power by preventing innovation, they ultimately impoverish their own states.

Why cultural explanations of prosperity fail

In Acemoglu's own telling, their interpretation of history "is obvious at some level. Institutions shape incentives, and incentives are important." However, he adds, "it's not the conventional wisdom."

Indeed, Weber, in 1919, influentially argued that the "Protestant ethic" — a culture of work buttressed by a belief system that rewarded forward-looking investment — had made Protestant European countries wealthy. In a related approach, many writers have recently argued that culture of Islam restricts growth. Others, such as life scientist Jared Diamond in his 1997 best seller Guns, Germs, and Steel, have asserted that the availability of natural resources has had an enormous effect on long-term prosperity.

Acemoglu and Robinson believe that these explanations fall short. For one thing, European countries with different sorts of cultures, Protestant and Catholic alike, have grown rich. Secondly, different countries within the same broad cultures have performed very differently in economic terms, such as the two Koreas in the post-war era. Moreover, individual countries have changed their economic trajectories even though "their cultures didn't miraculously change," as Acemoglu says.

Finally, some countries with similar kinds of natural resources have taken sharply different economic paths in the modern era; the average Spaniard is six times as wealthy as the average Peruvian, for instance.

"We were inspired by Guns, Germs and Steel," Acemoglu says, "but our thesis is very different."

'Natural experiments' around the world

Instead, as Acemoglu and Robinson see it, the "turning point" in world economic history was England's "Glorious Revolution" of the late 1600s, the key moment in a longer-term process that expanded the political and property rights (including patent protections) available to people. Plenty of innovators existed before then, but had not been rewarded for their efforts; by the late 1700s, England had embarked on the largest sustained period of economic growth since the Neolithic age.

To test this reading of history, Acemoglu and Robinson use a variety of "natural experiments" (some developed in collaboration with MIT economist Simon Johnson) to examine how, other things being equal, contrasting political institutions alter the economic trajectories of countries.

Take North and South Korea, two countries with a common history, culture, climate and natural resources. Since their split in 1948, North Korea has become one of the poorest countries in the world, while South Korea is rich; there is now a tenfold gap in wealth between the states. Why? Because South Korea, Acemoglu and Robinson assert, despite political turmoil of its own, has evolved into an inclusive political system. The Korean peninsula, Acemoglu says, is a classic example of "two countries with very different institutions, but not because the people wanted it. That gives you a window into the long-term consequences of an institutional divergence."

Likewise, the city of Nogales, Ariz., shares a culture, history, climate and resources with its twin city of Nogales, Mexico, right across the border. But the Nogales in the United States has an average household income of $30,000, three times that of Nogales, Mexico, which long languished under one-party rule. Similarly, in Africa, Botswana — which has maintained a democracy with property rights since gaining independence in 1966 — has the highest per-capita income in the sub-Saharan region, while its neighbor Zimbabwe remains an impoverished dictatorship.

Countries like Zimbabwe, Acemoglu says, also discredit the idea that autocratic leaders simply do not know which policies would lead to growth, a notion he finds to be “overwhelmingly popular among academics” who want their own findings to be implemented.

“Most consequential ‘policy mistakes’ are by design,” Acemoglu says. “These leaders are choosing policies that don’t maximize economic prosperity, because their objective is different: to hold onto power or simply enrich themselves.”

Why Nations Fail has already drawn plaudits from many social scientists. Joel Mokyr, an economic historian at Northwestern University, calls it an “incredibly creative book,” and hails its emphasis on politics. In decades past, Mokyr says, economists focused more “on models and competition, and institutions didn’t matter.” But in the future, he says, “what will remain influential from Acemoglu and Robinson above all else is an understanding of the significance of political power in the distribution of economic resources.”

Lessons for today

To be sure, some extractive states do experience economic growth due to “technological catch-up,” as Acemoglu and Robinson note in the book. The Soviet Union boasted a tremendous growth rate — 6 percent annually — between 1928 and 1960, as it changed from an agricultural to an industrial economy. But the country had no way to encourage further technological innovation, and began collapsing by the 1980s.

Other states in world history have experienced significant growth, and then collapsed. Acemoglu and Robinson believe that the ancient Roman republic grew in large part by extending rights to citizens and developing a partially inclusive political system, but that when Rome became an autocratic empire around 30 B.C., its economic fate was sealed. The same process occurred in Venice, a trading powerhouse of early modern Europe where the elite class choked off innovation in an attempt to keep the spoils for itself.

Such examples carry lessons for today, Acemoglu and Robinson believe — such as the notion that history does not occur in progressive fashion.

“Political institutions are very conflictual,” Acemoglu says. “They are always challenged. There is no guarantee there won’t be steps back, like in Rome or Venice. I think it’s very important to recognize that, because it prevents complacency.”

Another lesson is that prosperity hinges on rights being granted throughout society, not just to a limited class of people. “Property rights are very important, but in a context where everybody has access to them,” Acemoglu says. “You can’t have a situation where only slave owners or plantation owners have property rights. That’s not enough.”

Looking around the globe today, the limited extension of political rights in China makes Acemoglu cautious about the long-term prospects for Chinese growth “unless the country reforms itself” politically. Yet Acemoglu says he and Robinson are “optimistic” about the prospects for growth in the North African states witnessing revolutions in the last year.

For all the ongoing problems in establishing an inclusive political system in Egypt, he says, “against all odds, people are going on the streets again. The big thing is that the genie is out of the bottle. People know they can have their voices be heard. Once they have that emboldening, it’s much harder to keep a repressive, unresponsive regime going.”

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