Central Bank Review
Vol. 13 (January 2013), pp.83-88

ISSN 1303-0701 print / 1305-8800 online

https://www3.tcmb.gov.tr/cbr/

BOOK REVIEW

"WHY NATIONS FAIL" BY DARON ACEMOGLU AND JAMES A. ROBINSON

Raif Can*

ABSTRACT Daron Acemoglu and James A. Robinson attempt to explain why significant income disparity exists in today's world among nations in their recent book called Why Nations Fail. Acemoglu and Robinson's main argument is that political and economic institutions are the fundamental cause of the income inequality in today's world. They make a distinction between inclusive and extractive institutions in terms of their impact on a nation's development. While inclusive political and economic institutions spur economic prosperity, extractive ones explain why some nations are poor. This book intensely discusses how institutions play a significant role for a nation's development. Application of their institutional analysis at the global and regional levels would give further insights in terms of the impacts of institutions on development.
JEL E02, N10, O11
Keywords Why Nations Fail, Economic Development, Institutions, Inequality, Book Review

ÖZ Daron Acemoğlu ve James A. Robinson son kitapları Ülkeler Neden Geri Kalır'da günümüz dünyasında ülkeler arasındaki ciddi gelir farklılıklarını açıklamaya çalışmaktadırlar. Acemoğlu ve Robinson'un temel argümanı siyasi ve iktisadi kurumların günümüz dünyasındaki gelir farklılıklarının ana belirleyicisi olduğudur. Kurumları ülke kalkınmasına etkisi çerçevesinde dışlayıcı (extractive) ve kapsayıcı (inclusive) olarak ayırmaktadırlar. Kapsayıcı siyasi ve iktisadi kurumlar ekonomik refahı desteklerken, dışlayıcı kurumlar ülkelerin geri kalmasını açıklamaktadır. Kitap, kurumların ülke kalkınmasında nasıl rol oynadığını derinlemesine tartışmaktadır. Yazarların kurumsal analizinin küresel ve bölgesel düzeyde uygulanması kurumların kalkınma üzerindeki etkisi bağlamında ilave analizler kazandırabilecektir.
KİTAP ELEŞTİRİSİ: "WHY NATIONS FAIL" - DARON ACEMOĞLU VE JAMES A. ROBINSON
JEL E02, N10, O11
Anahtar Kelimeler Why Nations Fail, Ekonomik Kalkınma, Kurumlar, Eşitsizlik, Kitap Eleştirisi

*CAN: Republic of Turkey Ministry of Development, Necatibey Cad. No.110/A 06100 Ankara, Turkey, e-mail: raif.can@kalkinma.gov.tr ▪ Georgetown University, 3700 O Street Northwest Washington, DC 20057, USA, e-mail: rc436@georgetown.edu. ▪ All the views expressed in the paper belong to the author and do not represent those of the Ministry of Development, or its staff.

1. Introduction

The vast income and prosperity differences among nations in today's world have been widely studied among economists, political scientists, historians and others. Why is the income of the average Egyptian citizen about 12 percent of the income of the average US citizen? Are poor living conditions and lower life expectancies the destinies of those living in poor countries? If not, how can they improve their prosperity? Daron Acemoglu and James A. Robinson attempt to answer these seminal questions by combining theories of economics and politics in their book called Why Nations Fail. They discuss the subject beyond economics and argue that political processes of nations are responsible for low levels of development. Their conclusion is that failure of nations is on purpose, not by mistake or ignorance.

2. Conceptual Framework of the Book

Acemoglu and Robinson's main argument is that political and economic institutions are the fundamental cause of income inequality in today's world. Douglass North (1981) contributed significantly to the area of institutional analysis of society and the role of institutions for long-term development. Acemoglu and Robinson elaborated North's analysis by making a distinction between inclusive and extractive institutions in terms of their impact on a nation's development. Inclusive political and economic institutions, the authors argue, are the main cause of economic development. Inclusive political institutions are defined as sufficiently centralized and pluralistic political structures in which absolute power cannot appear to govern the system in favor of those holding the power at the expense of the rest of the society. According to their definition, extractive institutions appear if the political system is not pluralistic or not sufficiently centralized (or both). They characterize rich nations as the countries where citizens defeated the elites controlling the power and created a society in which political rights are distributed widely. Also, in this society, the government is responsive to citizens and it is accountable for its actions.

They define inclusive economic institutions as the markets in which people can freely fulfill the opportunities compatible with their capabilities. Inclusive economic institutions provide secure property rights, encouraging innovation and business. Anyone can test his or her ideas by going into business and can make a profit if he or she can survive in the market. Innovators continue to invest since they could reap profits generated from their innovations. Workers could choose jobs in which they can fulfill their productive capacity. Less creative firms can be replaced by more creative firms. This process is the so-called "creative destruction," developed by Joseph Schumpeter.

According to Acemoglu and Robinson, ensuring property rights, widely distributed political rights, government accountability, and a sufficiently strong central government are the key pillars of development. In their theory, the state's role is to be the enforcer of law and order, private property rights, and contracts in addition to providing key public services. They argue that if political centralization is not achieved by the state, society ends up with chaos, which prevents economic development. So, they support Max Weber's definition of the state, an organization that claims monopoly on the legitimate use of violence. They argue that other economic growth supporting factors, like education and culture, are the outcome of the institutional process. For example, the low level of education as a main constraint on growth is attributed to the failure of political and economic institutions in poor countries since economic institutions do not provide enough incentives for parents to value education and political institutions do not provide infrastructure of education.

Acemoglu and Robinson also discuss why other theories are not causal for explaining the income inequality in the world. They refute the idea of geography led by Jeffery Sachs (2006) and Jared Diamond (1997) who proclaim that geographical location of the country is the explanation for development. Acemoglu and Robinson give examples of South and North Korea, East and West Germany, Nogales on the US and Mexico border. Although these places have the almost same geographical characteristics, they have very different development outcomes. Therefore, they argue against the geography hypothesis.

They also do not agree that cultural differences can explain differences in development level. Acemoglu and Robinson provide two examples in this regard. They first point out the example of East Asian success highlighting that religious differences cannot explain differences in development levels. East Asian countries, for instance, have achieved a level of development comparable to Christian developed economies, although they are not widely Christian. Second, they point out the low level of development in Africa, and argue that slavery rather than the African culture, had caused lack of incentive to become productive, and hence can potentially explain the low level of wealth African nations have.

Finally, they argue that the ignorance theory also does not hold. The ignorance theory says that countries are poor because of poor policies implemented by policy makers. The policy implication of the ignorance argument is that the development challenge can be overcome if good economic policies are offered to policy makers. Acemoglu and Robinson argue that existing political and economic institutions determine which policy is good or bad. For example, under extractive political institutions, the king of the Congo may think slavery is a good policy for generating resources. Their conclusion implies that the development business should give greater attention to political processes in poor countries and their implications.

Therefore, income difference between South and North Korea can rather be attributed to institutional differences. Similarly, income difference between the United States and Latin America is due to different institutional systems established during the colonization period. They discuss how critical junctures in history determine different institutional outcomes. While Spaniards established more extractive institutions in Latin America, English colonists in Virginia established more inclusive institutions in spite of their desire to establish a similar system to colonists in Latin America. Spaniards were able to exploit the indigenous people to create wealth from rich minerals like gold and silver. However, English colonists realized that they could neither force indigenous people to work nor they could exploit settlers. In addition, they could not find rich minerals like Spaniards found in Latin America. Therefore, inclusive economic institutions were the only way to incentivize settlers to create wealth out of farming. Acemoglu and Robinson argue that determinants of institutional differences among nations are critical juncture and institutional drift. They give Black Death as an example of critical juncture, or external shock, to feudal societies in Western Europe and Eastern Europe. Because Western peasants had more autonomy and power in comparison to peasants in Eastern Europe, the Black Death caused the end of feudalism in West Europe but not in East Europe. Institutional drift, in this example, is greater autonomy and power of the Western peasants.

Acemoglu and Robinson’s theory suggests that existing extractive institutions strengthen extractive economic institutions, which allocate resources in favor of those holding power. Also, extractive political institutions reinforce extractive political institutions. Similarly, inclusive political and economic institutions reinforce each other. However, the creative destruction nature of the inclusive economic institutions would put pressure on elites to be replaced. This would encourage them to change institutions towards extractive institutions since they may not want to be losers of the creative destruction supported by inclusive economic institutions.

3. Further Institutional Analysis

In the book, Acemoglu and Robinson do not talk about global institutions and their roles in global development or income inequality in the world. In fact, their theory could be extended to the existing global institutions. Can we conclude that existing global political institutions are extractive since they are not pluralistic enough? Or, can we have functioning global government enforcing global rules? Is it possible to achieve global political and economic inclusive institutions that foster broader economic development? These types of questions can easily be asked within the perspective of their institutional analysis. An evolution of global institutions towards more extractive or more inclusive structures could also be further elaborated through the institutional analysis used by Acemoglu and Robinson. Hence, the analysis of Acemoglu and Robinson has strong implications for global institutions, and yet authors did not explore this discussion in the book.

Acemoglu and Robinson analyze the regional income differences between the southern and northern United States. This difference is attributed to institutional variation since states have different political and economic institutions in the US. However, it is still a puzzle why income inequality exists within the country although most of the regions are prone to similar political and economic institutions.

4. Conclusion

In sum, this book provides a powerful tool to explain why some nations are poor but some others are rich. This tool is an interaction of political theory and economic theory, and this interaction makes it powerful in comparison to others. Acemoglu and Robinson disagree with the culture, geography and ignorance arguments as explanations for income inequality in the contemporary world. Political and economic institutions are their main argument to explain global income inequality. Their institutional analysis can be used to explore potential role of global institutions on global income inequality. Also they do not provide enough analysis to explain the income differences within a country despite similar institutional frameworks. Analyzing the role of institutions at the global and regional level seems to be a legitimate validity test for their approach.

References

Acemoglu, D. and J.A. Robinson, 2012, Why Nations Fail: The Origins of Power, Prosperity and Poverty, *New York: Crown Publishers.*

Diamond, J., 1997, Guns, Germs and Steel *New York: W.W. Norton and Co*.

North, D.C., 1981, Structure and Change in Economic History *New York: Norton.*

Sachs, J., 2006, The End of Poverty: Economic Possibilities for Our Time, *New York: Penguin.*

ACKNOWLEDGMENTS The author wishes to thank Salih Fendoğlu, and Patrick Sims for valuable comments and suggestions.