

Comments on  
**Why Nations Fail?**  
**The Origins of Power, Prosperity, and Poverty**  
by Daron Acemoglu and James A. Robinson

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“You saw all this from ground zero”

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# Why all this excitement?

On to something big: interview with James A. Robinson for webpondo.org (2002)

*"If you read, say, Chad Jones's book on economic growth, he realizes right at the end of the book that all these models (...) don't really add up to a satisfactory theory of comparative development, and then he says: "well, there's this other stuff like 'institutions' and 'politics', but we don't really know much about that". Which is true! I mean, we're struggling for a way to think about comparative institutions, which institutions matter, why societies end up with the institutions that they do. How should we think about that?*

*And that's an agenda that North started in a rather vague way, but which has never really been carried through with. It hasn't been carried through with empirically, it hasn't been carried through theoretically, people don't really have models of things like that. So, that's the whole enormous agenda, very exciting, which is really getting off the ground, in my opinion."*

# Why Nations Fail?



# Why Nations Fail? A caricature

Prosperity

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Sustained economic growth



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Investment and Innovation (and creative destruction)

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**Inclusive economic institutions**

Providing a level playing field for the majority of the population to exploit their talents; broad protection of property rights; allowing contracts; unbiased system of law; allowing entry of new businesses; provision of public services.

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**Inclusive political institutions**

Providing political power to a broad cross-section of society, not just to a narrow elite, pluralistic (yet sufficiently centralized).

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**Extractive political institutions**

Providing political power to a narrow elite.

# Why choose failure?

- Some **people** loose.
  - **conflict**: no natural tendency towards pluralistic and centralized political institutions.
- Moreover, negative feedback loops!
  - extractive economic and political institutions persist.
  - extractive economic and political institutions come in clusters.



# Wrong theories

- It is not **geography or culture**.
- It is not **ignorance**.

## Small differences and critical junctures

Extractive political institutions explain why nations fail. And extractive political institutions persist.

Q: But why did they arise in the first place?

A: The interaction of 'critical historical junctures' & small initial differences.

Ex: The plague (**critical juncture**):

- Shook foundations of the social order in Europe. Wages increased, elites everywhere tried to stop changes to labor institutions. They failed in Western Europe. The economic forces won ultimately. In the East, instead, the Second Serfdom.
- Why? (**small differences**) "In the East, lords were a little better organized; they had slightly more rights and more consolidated landholdings. Towns were weaker and smaller, peasants less organized"

# Questions

## If we go back to the origin, is it chance?

- The framework thus implies a long impact of history.
- Q Where do these small differences come from?
- A From longer-term differences: even hunter-gatherer societies have small differences in organization, and then follows a long-term process of institutional drift...
- Q If we go back to the origin: What is it? Chance?

# Should we be pessimistic?

No

- 1 There are many success stories in the book, of countries that 'broke the mold'.
- 2 Even more pessimistic views of why nations fail are attacked (geography, culture).
- 3 Institutions are man-made, so they are conceivably subject to being changed by men too.

# Should we be pessimistic?

Yes

- 1 Not surprisingly, the book is “Why Nations Fail?” not “Why Nations Prosper?”.  
(This may be due to the fact that failure is the reason for concern, but it is also because failure is the norm. Shades of extractive institutions are the norm).
- 2 Institutions are man-made, but not by accident, by design.
- 3 And there is huge persistence. History matters a lot. Chapter 12 is called “How institutions that create poverty generate negative feedback loops and endure”.
- 4 The book is pessimistic on issues people are optimistic about.  
Example: China. Unless there is important change in politics, it will reach the limits of “growth under extractive institutions”.

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No simple answer

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    - Extractive institutions come in many forms, you can always comply on one dimension while keeping institutions extractive.
  - Free media as an important means of empowerment.

## But then, what can be done?

- If free media is an important element, how do we create that? Can we?
- Is this just the way the world is, and there is only so much that can be done? Or will we be able to say more when we more?
- The book leaves you feeling a bit of the two: how should we feel?

## Shades of gray

- It is clear why countries not always choose inclusive institutions: they may hurt the elite that benefits from extractive institutions.
- But why do elites not always choose the (recent) Chinese equilibrium: growth under extractive institutions?
- In other words, if you think that extractive institutions are mostly about redistributing to an elite, why is redistribution some times so much more inefficient than others?
- Many details here, not strictly political, may interact with politics and make a big difference: e.g. natural resources.

# Institutional slack

- It is unlikely that the whole world moves to the 'ideal type' of inclusive institutions. So is a more important focus, in practice, to think how to move to lighter shades of gray?
- And in this case, could there be some institutional slack?
  - In other words, should we be looking for reforms that are significant enough to affect the welfare of many while at the same time being feasible in the sense of not hurting the most powerful people in society?
- The book is against 'modernization' theory and shows with many examples that there is no natural tendency of political development to follow from economic development.
  - But could this be an avenue for gradual transition to prosperity?
  - Or is radical change inevitable given the underlying vested interests in extractive institutions?



# What are 'inclusive political institutions'?

- The book has been overwhelmingly praised.
- Among the criticisms, a common one is: "Inclusive political institutions is a bad term, sounds good to anyone and is too vague to disagree with."
- Reply:
  - the theory is precise on the importance of power for a broad cross-section of society,
  - but itself implies that you can't be too precise about these institutions: they come in clusters, they take many forms, they sometimes (and this is something we know little about) have little to do with what they are formally.
- Still, which political rules are particularly important?
  - The book does have implications for this: rules that give political rights to individuals are more important than, say, a change in the rule that asks for transfers to be given to these individuals but keeps their political rights intact.

# Was Marx wrong?

- This book:

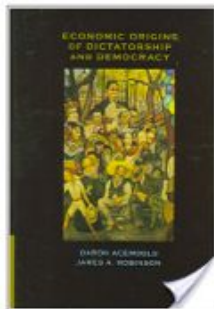
Q Why do countries have the economy they have?

A Politics.

- A recent book:

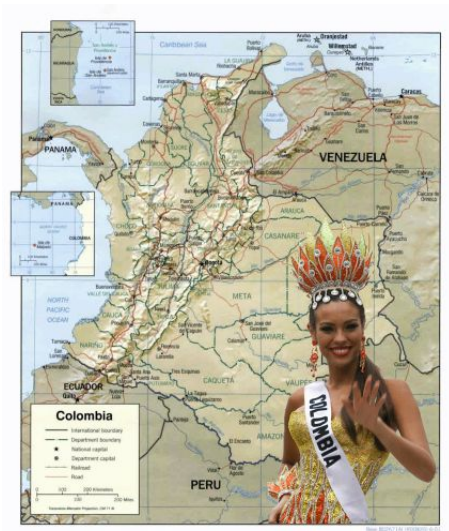
Q Why do countries have the politics they have?

A Economics



- Full circle: politics → economics → politics → ...
- But the stance here is clear: politics is more fundamental.

Ah yes! And what about...



## Bad news...

- **Small difference:** relatively dense indigenous population, unfavorable disease environment for Europeans.
  - **Critical juncture:** European colonization.
- Big difference: extractive institutions set in place.
- Negative feedback loops: extractive institutions persisted (not even full state centralization, though some of our institutions are inclusive).



Incorporating these best responses and using the one-step-ahead deviation principle (e.g., Drew Fudenberg and Jean Tirole 1994, 108–10), we can write the payoff of an elite agent  $i$  recursively as follows:<sup>15</sup>

$$(12) \quad V^E(N|\theta^E, \theta^C) = \max_{\theta^E \geq 0} \{-\theta^E + \gamma^E + p(\theta^E, \theta^E(N), \theta^C(N)|N)[R_c + \beta V^E(N|\theta^E, \theta^C)] \\ + [1 - p(\theta^E, \theta^E(N), \theta^C(N)|N)][R_c + \beta V^E(D|\theta^E, \theta^C)]\}.$$

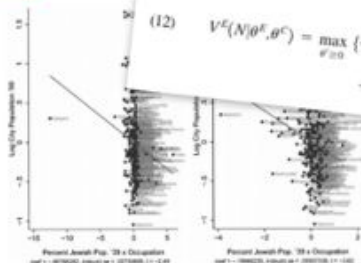
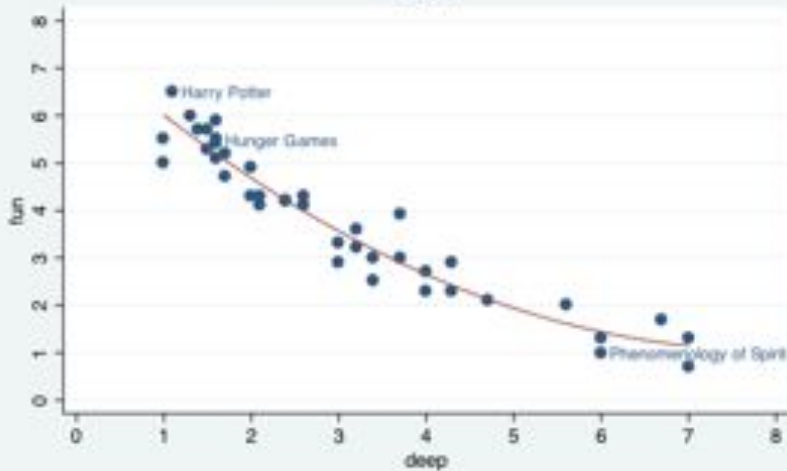


FIGURE II

Growth of Russian Cities 1939–1989 and Potential Impact of the Holocaust

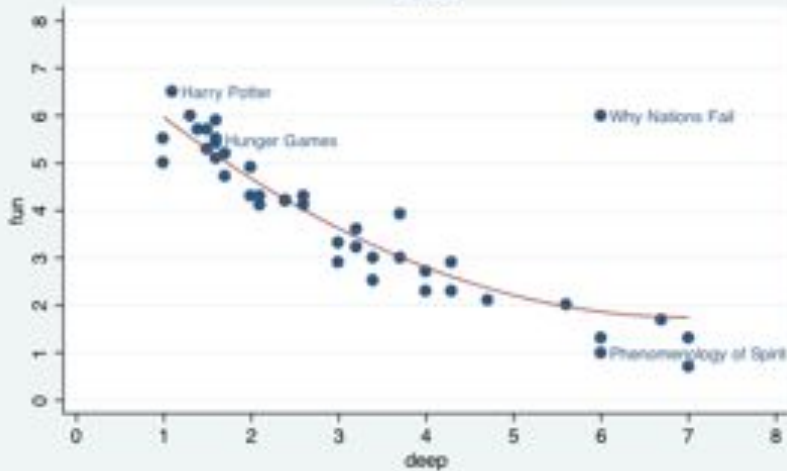
Left Panel: Conditional scatterplot corresponding to Table II, Column 3.  
Right Panel: Conditional scatterplot when dropping Derbent. Robust regression:  
coef = -0.066223, se = 0.0176301.

## Deep and fun indicators 2011



Source: LF (2012)

## Deep and fun indicators 2012



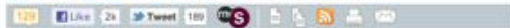
Source: LF (2012)



# The Economics of *The Hunger Games*

Could any real country have an economy like Panem's? Actually, yes.

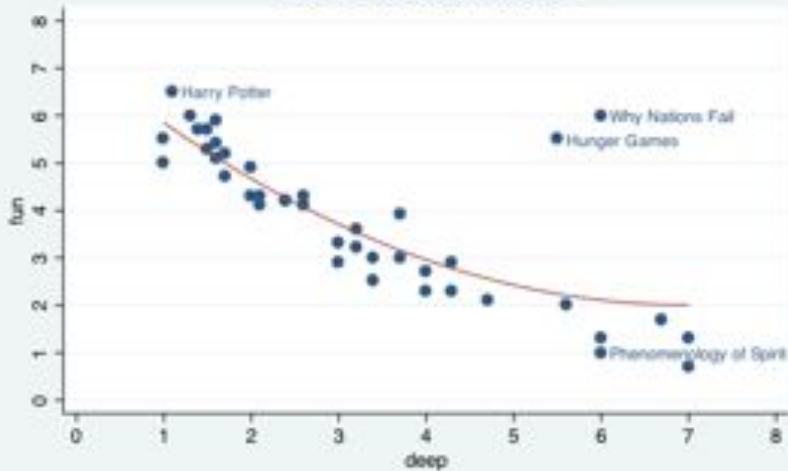
By [Matthew Yglesias](#) | Posted Thursday, March 22, 2012, at 11:59 AM ET



Donald Sutherland stars as President Snow in *The Hunger Games*. The nation of Panem is divided into districts, and wealth and power are concentrated in the Capitol. Mummy Close/Lanegate. All rights reserved.

A book released this week by Daron Acemoglu and James Robinson—the former a professor at MIT, the latter at Harvard—called *Why Nations Fail* can help shed some light on bleak conditions in District 12 but also why Collins doesn't attempt to portray everyday life in many of Panem's other districts.

## Deep and fun indicators 2012 - revised version



Source: LF (2012)

## Why read 'Why Nations Fail?'

- Maybe the most important policy prescription is: changing the way people see the world.
- Maybe little is done because we do not realize how important inclusive political institutions are (more than geography, more than our culture, our 'malicia indígena').
- Maybe this would lead people and nations to realize that we must take advantage of critical junctures when they present themselves. We must create these critical junctures, even.
- And if changing the way we see the world is the policy prescription, you should read this book.

# 'El tocayo'



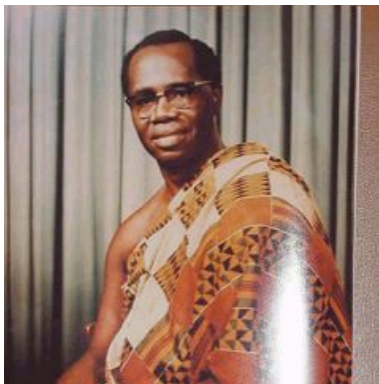
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# Koreas



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# Busia and Acheampong



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