

# Why Nations Fail: The vicious circle of extractive political and economic institutions

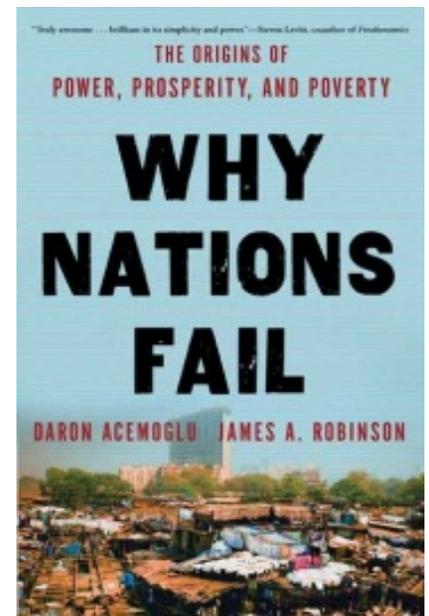
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Based on fifteen years of original research **Daron Acemoglu and James Robinson** marshal a broad range of historical evidence from the Roman Empire, the Mayan city-states, medieval Venice, the Soviet Union, Latin America, England, Europe, the United States, and Africa to build a new theory of political economy, ultimately examining why some nations are poor and others rich. **Janet Hunter** takes issue with the absence of nuancing in the book, but is nevertheless impressed by its striking historical narratives which will do much to captivate readers and stimulate debate.



**Why Nations Fail: the Origins of Power, Prosperity, and Poverty. Daron Acemoglu & James A Robinson. Crown Business. March 2012.**

The scholarly work of Daron Acemoglu and James Robinson is already widely known among economic historians, economists and political scientists. In *Why Nations Fail* Acemoglu and Robinson seek to convey to a much broader audience the results of many years' path-breaking research on the historical role of institutions – defined as “the rules influencing how the economy works, and the incentives that motivate people” – and their impact (p .73). The result is a highly readable work of enormous geographical and chronological range that addresses one of the most pressing issues of the contemporary world. With much of its content consisting of good, old-fashioned historical narrative – something I did not quite expect – this book will without doubt appeal to a broad readership.



The basic case that the authors seek to make in the book is a simple one, namely that nations with extractive political and economic institutions are likely to be poor, whereas those with inclusive institutions are likely to be rich. Politics is paramount: the existence of centralised and pluralistic political institutions is the key to the sustained existence of inclusive economic institutions. While a degree of economic growth may be possible under extractive institutions, such growth is not sustainable, as shown by the cases of, for example, the later Roman Empire or the Soviet Union. Once a nation has started to move towards inclusive institutions a positive feedback

loop may help to keep them in place, but extractive institutions are also sustained by path dependence, with those in power fearful of the “creative destruction” generated by change, producing a vicious circle. 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.

Striking historical examples are used to demonstrate the key importance of institutions, and to reject the explanatory power of geography and culture. The two Koreas, united until the late 1940s, and sharing a common geography and culture, have since diverged dramatically in institutional and wealth terms. Exploitative Spanish imperialists in search of plunder put Latin America on a path of extractive and unproductive institutions, while the same institutions failed to work in North America, allowing the appearance of democracy and institutions more conducive to growth. Case proved? Well, up to a point. It is certainly hard to dispute the claim that “institutions matter”, and the authors themselves have played a major role in demonstrating the significance of colonial institutions, for example, in shaping the economic development of colonised countries, and in the primacy of political institutions in shaping economic ones. Few academic readers will take issue with the basic message of this important book. What many readers will be less comfortable with, perhaps, is the oversimplification inevitably associated with almost any monocausal explanation, and the wholesale rejection of other competing explanations of historical development. To be fair, the authors in the conclusion acknowledge the limitations of their approach, but their exaggerated depiction of the determinism associated with geographical or cultural explanations, for example, prevents them from acknowledging the subtle historical interplay between geographical factors, culture (however that might be defined) and institutions, whether extractive or inclusive. For example, the authors’ own account shows that a major reason why the extractive institutions of the Spanish could not be copied in North America was the very absence of riches (gold and silver) that could be plundered. Acemoglu and Robinson have also in the past been criticised for “compressing” history, and their theory raises major questions about what time periods matter in institutional terms. The extractive Mayan Empire, for example, continued to generate wealth over more than six centuries.

Acemoglu and Robinson are careful to emphasize the importance of historical contingency in their interpretation; institutional dynamics respond to critical junctures and new opportunities. In that context one of the things that comes out of their account is the recurrent importance of chance and luck, and also the importance of individual actors, somewhat reminiscent of the ‘great men’ interpretations of history so popular in the 19<sup>th</sup> and early 20<sup>th</sup> centuries. Botswana, for example, was profoundly fortunate to have as its leader Seretse Khama, who sustained the move towards

more inclusive institutions, unlike Robert Mugabe in Zimbabwe or Mobutu in the Congo. Their historical account is thus populated with a rich cast of heroes and villains of all shades. Not surprisingly for those familiar with their work, imperialism is one of the main culprits, but far from the only one. These, and other somewhat black and white depictions, will do much to sell *Why Nations Fail*, but they will also contribute to the book's arousing strong views, particularly in its absence of nuancing. There is therefore much to commend about this book, and much to take issue with, but even its critics will concede that it is based on serious scholarship, will do much to stimulate debate, and is a very good read.

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