Book Review

WHY NATIONS FAIL: THE ORIGINS OF POWER, PROSPERITY AND POVERTY


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Why Nations Fail argues that the drastic disparity among countries in terms of growth, development, and prosperity can be attributed to their institutional characteristics; and that the contemporary explanations, including culture, geography, and the ignorance of leaders, have limited explanatory power. The book is the result of fifteen years of extensive research and accumulation of arguments put forth by the authors in their previous work, which has been published in various journals in the last decade. The data discussed are mostly historical/archival in nature and are presented in the form of narrative. The authors offer examples from a wide range of societies by historically tracing their peculiar institutional milieu and their influence in shaping the destinies of these nations.
The book consists of fifteen chapters that detail the historical progression of political and economic institutions of the major civilizations and nations. The first two chapters elaborate how the popular and prevalent contemporary theories of poverty and development lack explanatory power; the third chapter lays down the main thesis and theoretical framework of the book; fourth chapter explicates the basic assumptions of the theory that small differences at a critical juncture facilitate institutional change; fifth chapter delineates the conditions underlying the unusual but probable scenario of economic growth under extractive institutions. The middle chapters, six, seven, and eight, provide data regarding the institutional drift experienced in different parts of the world in different epochs and how this drift can be explained by the institutional theory; while chapter nine presents cases that explain why in some instances inclusive institutions revert back to being extractive institutions. Tenth, eleventh and thirteen chapter elaborates the conditions that facilitate the diffusion of inclusive institutions, how institutions persist through the dynamics of virtuous and vicious circles and how the theory can be applied to modern polities to assess their reasons for failure, respectively. The last two chapters, fourteen and fifteen, explain the conditions that can result in changing institutional path dependency and how to make developmental efforts more useful.

The authors argue that institutions matter and that a nation’s present economic and political condition can be explained by tracing its political and economic institutions at different points in history. They distinguish between inclusive institutions, in which colonial powers attempted to emulate their own institutional practices in order to develop the colony and its economy, and extractive institutions, under which the colonial power’s principal intention was to extract resources without investing in institution building. The authors posit that countries with a history of inclusive economic and political institutions at critical junctures end up more prosperous, while those under extractive political and economic institutions remain stuck in the vicious cycle of exploitation, despair, and poverty. Thus, “nations fail when they have extractive economic institutions, supported by extractive political institutions that impede and even block economic growth” (p. 83). The institutions in countries of Western Europe, North America, and some countries in Asia, including South Korea and Japan, are said to epitomize inclusive institutions “that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish” (p. 74). The conditions associated with inclusive economic institutions include “secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers” (pp. 74–75). Secure private property rights are pivotal in motivating the populace to invest in the economy without apprehension of exploitation from elites. Thus, secure property rights, instead of being confined to a few rich and powerful in the society,