

Darn Acemoglu and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business. 2012. 529 pages. U.S \$ 17.00.

“Why Nations Fail: The Origins of Power, Prosperity and Poverty” is an impressive book by Daron Acemoglu and James A. Robinson. In this book, the authors attempt to solve the longstanding puzzle that why some nations, such as the United States, Great Britain, Germany, etc. are rich today, and why the others, such as Zimbabwe, Ghana, Egypt, etc. are poor. The authors show with the help of substantial historical evidence that man-made economic and political institutions matter for the vast differences in the level of economic development among countries. They argue history is the key to understand the difference and evolution of economic and political institutions in different parts of the world. During historical evolution of the institutions, small differences and contingency (e.g., Black Death) matter a lot. According to them, it is not the geography, culture, weather or the choice of wrong policies that make countries rich or poor but it is the institutions that make countries rich or poor.

Institutions, defined as the rules that govern and shape economic and political life, are of two types: inclusive and extractive. Inclusive political institutions are those that are sufficiently pluralistic and are politically centralised. The institutions that do not have these two or any of these characteristics are defined as extractive political institutions. Inclusive economic and political institutions secure property rights, ensure law and order, create incentives for research and innovation and provide level playing field for all the individuals of the state. In addition, inclusive institutions bring a broad cross-section of the society into decision-making process (pluralism) and put restraints and checks on their élites. Extractive institutions, on the other hand do not have these attributes. Societies with inclusive institutions tend to be richer and more prosperous than those with extractive institutions. The pluralistic societies have political institutions that distribute power broadly, engage more people in the process of decision-making and face fewer constraints in the wielding of power.

United States have pluralistic and centralised political institutions that can wield their power to impose their decisions. On the other hand, political institutions in Somalia, for example, are almost pluralistic but none of the institutions is centralised and has power to dominate other institutions. Therefore, the US ends up with greater prosperity and wealth, while Somalia ends up in chaos and poverty.

To assert their point that geography, culture and weather are not the determinants of economic prosperity and wealth but the man-made political institutions are, the authors illustrate the example of South Korea and North Korea. Both these countries have the same geography, culture, weather and people but South Korea is an example of economic success and prosperity whereas North Korea is an example of economic and political disaster.

The book further argues that when countries are distant from the technology frontier, they can grow under extractive institutions and absolutist regimes but this growth cannot be sustained. Once countries reach the frontier, they remain there or fall behind due to lack of technological innovation and lack of creative destruction that is necessary for sustained economic growth. Under Communism, Russia made impressive economic growth and it even surpassed the West in military and space technology but

could not sustain it and disintegrated into many parts. Like Russia, China's institutions are also extractive and political regime is absolutist not pluralistic. China is also making economic progress but that progress cannot go on because to sustain growth, technological innovation and creative destruction is necessary. And it happens in pluralistic political societies with inclusive economic and political institutions.

To answer the question that why some countries have inclusive political and economic institutions and others do not, Acemoglu and Robinson argue that small critical junctures and contingency in the history of nations matter. There is no natural process whereby absolutist regimes and extractive political and economic institutions evolve into pluralistic political societies and inclusive institutions. It is only in the interest of élites to cede power to inclusive institutions if they have fear of revolution. Authors argue that for inclusive economic institutions, political inclusive economic institutions are complementary. The roots of economic prosperity lie in inclusive economic and political institutions, political struggle against the elites and the privileged. The nations that have had this struggle in their history end up having inclusive political and economic institutions and pluralistic political societies with centralised power. These nations like the Great Britain, France, and the United States are among the most prosperous nations of today world.

To understand the nature of differences in the institutional structure, understanding history is necessary. The book presents a tool to understand the nature and role of different types of economic and political institutions and how these differences translate to differing consequences for economic trajectory of nations. The book helps to predict the economic trajectory of the nations that they make take on in the future several decades. Countries that have made sufficient strides toward economic inclusive institutions and politically pluralistic societies with centralised power would be able to grow in the long-run and countries that have not would remain in their current scenario. For example, Afghanistan, Haiti and Somalia are unlikely to grow or able to bring major reforms in their institutions. On the other hand, the Sub-Saharan African countries, such as Burundi, Ethiopia, Rwanda and Tanzania, and Latin American countries including Brazil, Chile, and Mexico would take on the trajectory of higher economic growth in coming several decades.

However, authors argue that their theory requires great caution in making such predictions since response to same policy interventions depends on the institutions in place in different nations. In addition, a confluence of factors (small differences, contingency, vicious and virtuous circles) works in shaping the institutions. Vicious circle implies extractive institutions can recreate themselves in the aftermath of a political struggle against extractive institutions. For example, in Egypt people managed to overthrow Hosni Mubarak from power in the hope to get pluralistic society and inclusive economic institutions. Despite their efforts and a vibrant pro-democracy movement, extractive institutions have recreated themselves. Contingent elements in history make it difficult to predict whether an interplay between critical junctures and existing institutions results in extractive institutions or the inclusive ones. Despite the caution, in the concluding Chapter, the authors propose some policy recommendations based on their theory of institutions.

First, to prosper and grow nations should focus on the root cause of the problems. Without addressing root causes of problems (extractive institutions and politics that keep such institutions in place), the policies of growth are unlikely to be successful. Secondly, foreign aid, conditional or unconditional, has been at the heart of policy prescriptions of international organisations (IMF, the World Bank etc.) and western governments as a panacea for poverty of the third world nations. But it has not been very effective in changing the destiny of these nations. Since flows of foreign aid do not address the roots of the problem as the roots of world inequality and poverty lie in the underlying economic and political institutions of the countries. The foreign aid should be used to shape these institutions to make foreign aid useful. Thirdly, the book suggests that empowerment of the large factions of the people is necessary for inclusive economic and political institutions. Media can play a positive and vibrant role in bringing masses into decision-making process. Book emphasises on the role of civil society, trade unions, student unions and of social media to make privileged and the elites accountable.

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