Can Nations Succeed?



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Why Nations Fail: The Origins of Power, Prosperity, and Poverty. By Daron Acemoglu and James A. Robinson. New York: Crown, 2012. 544p. $30.00.

We are in an era of Big Books, books with a magisterial sweep of the history of the world. All share the desire to explain why some countries flourish, why some start and stall on the path to development, and why others seem never to find the path at all. In sociology, Big Books date back at least to Karl Marx and Max Weber. Their publication has been more or less regular ever since,[1] and their authors tend to elaborate the sort of grand and general theories that have come under increasing attack in recent decades, given methodological advances that have transformed analytic tastes.[2]

Contemporary political economists have traditionally eschewed Big Books despite acknowledging the origins of their discipline in one *very* big book—Adam Smith's *An Inquiry into the Wealth of Nations* (1776). But recent years have seen the publication of weighty tomes by extraordinarily gifted economists and political scientists: Avner Greif, Douglass C. North, John Wallis and Barry Weingast, Francis Fukuyama, and now Daron Acemoglu and James A. Robinson. Smith, Marx, and Weber may have stimulated the ambition to write an encompassing theory supported by erudition and with real policy effects, but the packaging has changed significantly.[3] Today's authors take serious note and advantage of all we have learned as social scientists in the ensuing years and especially in the last three decades. Indeed, some of what we have learned is what they themselves have taught us.

An earlier set of volumes with equally vaunting aspirations and book lengths appeared in the 1970s. Among the names that come to mind are Fernand Braudel, Perry Anderson, and Immanuel Wallerstein. Theirs was a historical turn within a structural paradigm. In contrast, though not in direct response, was the work of political scientist Robert Bates and economic historian Douglass C. North, whose much shorter books advanced a distinctly different approach to considering the issues of economic and political development. Bates and North, along with others, remind us of the importance of political analysis that recognizes the relevant powers of key actors, including those in various positions in government. Instead of conceiving the state as a unified actor, an approach that dominates so much of the literature, they consider the state as a peopled administration that sometimes empowers independent actions by officials and can offer numerous points of access for political leverage.[4]

Bates's seminal book and much of what he wrote afterwards emphasize how the arrangement of incentives in a given polity often makes rational people engage in seemingly nonrational behavior that, once understood, is actually quite rational indeed.[5] Peasants eschew investments that carry high risks. Politicians undermine growth while perpetuating personal power and perks. To put it succinctly: Bad policies are often good politics. But the result is often underdevelopment, even of countries well endowed in natural resources and human capital.

North's ambition is as grand as the authors of the earlier Big Books. He and his coauthors, past (North and Thomas 1973) and present (North, Wallis, and Weingast 2009), attempt to explain all of human history, but in fewer pages and with a conceptual framework grounded in microeconomics and transaction-cost theory.[6] North's *Structure and Change in Economic History* (1981) is less about large economic and political structures (although they received attention) than about the structure of institutions, that is, the rules of the game that create the incentives and disincentives that affect the behavior of political actors. Among these are property rights but also political constitutions. North's pivotal role in creating the "new economic institutionalism" was a key determinant in his selection as a Nobel laureate.

The debt to both Bates and North is evident throughout *Why Nations Fail*; they are much cited and their concepts elaborated. This book is an institutionalist enterprise and, as such, remains as subject to the critique of Adam Przeworski[7] as were the articles from which it is drawn. Przeworski questions, first, whether protection of property rights should in fact be the institution that matters most; second, whether the instrument used is the

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appropriate one for the analysis; and, third, the extent to which the authors actually get around the bugbear of endogeneity. Acemoglu and Robinson offer more than an adequate answer to the first and second concerns in their explicit rebuttal[8] and in this book. As for endogeneity, they deal with this problem as well as anyone does in contemporary social science.

In their book, Acemoglu and Robinson give us a highly readable and very smart book, enriched—and significantly lengthened—by fascinating historical detail. Their arguments build on their much-cited and appropriately acclaimed earlier work,[9] including their fairly recent book, *Economic Origins of Dictatorship and Democracy* (2006). Yet there is little here to reveal how much they depend on the combination of highly sophisticated game theory and statistical analysis to engender and test their theory. While this is a book from which other scholars might profit, its audience is broadened to include those literate, nonacademic readers who still buy books and who care about big ideas.

Why Nations Fail is a master achievement. Seldom—since Weber—have authors conveyed such a sure grasp of the complexities of so wide a variety of countries, leaders, people, ruling cliques, and places throughout history. Acemoglu and Robinson do not suffer from the simplistic Eurocentrism that characterizes so much of the development literature—although England, as always, looms large in the story. They make institutions matter (of course) but also make institutional analysis both sensible and user-friendly. Their basic logic is compelling: Those who already possess economic power protect it by establishing political institutions that reinforce and perpetuate their power; as a consequence of institutional drift, small institutional differences build up over time to create significant variations among nations in prosperity and regime types; changes occur when there is a combination of a critical juncture that "disrupts the existing balance of political or economic power" (p. 106), the preexistence of appropriate institutions, and a coalition able to take advantage of the moment. The key to prosperity is pluralistic power and centralized government, which create, are the product of, and reinforce inclusive institutions. The result is a virtuous circle. However, most nations for most of the history of the world have been caught in a vicious circle, in which extractive institutions go hand in glove with centralized power and ineffective government. The few benefit to the detriment of the many, who suffer from poverty and powerlessness.

Nobel economist George Akerloff, in his cover blurb, compares *Why Nations Fail* to the *Wealth of Nations,* and I suspect, given their chosen title,[10] that is exactly the comparison Acemoglu and Robinson sought. Yet good as their book is, it is far from that good. Institutional drift lacks the heft of the invisible hand, nor do inclusive and extractive institutions explain so much so succinctly as does the concept of division and specialization of labor. And it is hard to match such mellifluous and evocative Smithian phrasings as the following:

> The effects of those different geniuses or talents, for want of the power or disposition to truck, barter and exchange, cannot be brought into a common flock, and do not in the least contribute to the better accommodation and conveniency of the species. Each animal is still obliged to support and defend itself, separately and independently, and derives no sort of advantage from that variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for. (Smith [1776] 2010, 11)

In this one brief paragraph, Smith distinguishes animals from humans, provides a psychology of action, and emphasizes the norms of equality and the promotion of the common good—all in the process of clarifying the benefits of division and specialization of labor within the context of free market institutions.

Later in his text, Smith turns to the institutions that he perceives as hindering the achievement of prosperity via the invisible hand. He believes in government, but one that is limited to providing security of property rights, national defense, and some infrastructure, education, and widows' and orphans' benefits, and he derides the grant of monopolies and other rights that permit a few to block the trucking and bartering of the many.

The comparison with Smith may be unfair, even if it is a comparison that Acemoglu and Robinson invite us to make. Yet, the contrast illuminates both the contributions and defects of *Why Nations Fail.* The authors, too, have a theory of how to promote prosperity for all, and the answer is far more institutionally elaborated than Smith's. They emphasize the quality of the property and political rights, including the extent of popular access, in a way that Smith did not. Most importantly, they focus as much on why countries fail to prosper as on how and why they prosper when they do. Their interest is to understand more fully why the received wisdom of freeing markets and liberalizing governments has not worked and is unlikely to work in much of the world. They, too, offer a psychology of human action, even if it is not as explicit as Smith's. For Acemoglu and Robinson, the disposition to prey and protect personal power and profit lifts a page out of Hobbes ([1651] 1985) but can be overcome by inclusive institutions that constrain the worst instincts of those with power rather than, as with extractive institutions, encourage and facilitate such instincts. Their solution is not the Leviathan; they are deeply Madisonian in their proclivities and approach. The authors are much more attuned to the role of politics and power than was Smith, and this is one of their strengths. Yet their lack of a better, more elaborated, political analysis is one of their weaknesses.

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Why Nations Fail is an excellent and well-written book that both advances and integrates theory derived from the considerable progress of the last decades in economic history, microeconomics, and, to a lesser extent, political science. Yet the whole is less than the sum of its parts—even though the parts are very good indeed. What the authors explain they explain well, but gaps remain, particularly in terms of the promised dynamic explanation of transition. On page 308, they write: "We saw how inclusive economic and political institutions emerge. But why do they persist over time?" This is a good question, but it rests on a problematic statement. They have shown us *that* inclusive economic and political institutions emerge, but not *how* they do. They have described the process and provided wonderful examples in which they emphasize political coalitions, interest groups, and other forms of mobilization, but they offer little in the way of a political analysis concerning how such collective actors come into being and enhance their power. The authors simply assume the existence of collective actors or portray a process of evolution over time as a consequence of small institutional advantages granted for other purposes than significant empowerment.

Acemoglu and Robinson do not need to rediscover collective-action theory, but they could put it and other theories of political identity formation, mobilization, and coalition building (and blocking) to much better use. Organizations, it seems, play a key role—as Greif (2006) and North, Wallis, and Weingast (2009) emphasize in their Big Books—but this is a factor that is far too buried in *Why Nations Fail.* For a book that claims a key role for politics, it pays far too little attention to the actual processes whereby social movements, interest organizations, and political parties contend for power and influence.

The book's other major gap is the treatment of state capacity. Certainly, Acemoglu and Robinson acknowledge the importance of administrative competence, the rule of law, and other aspects of effective government. They worry about corruption and problematic enforcement of the laws. They emphasize the lack of infrastructure as a critical impediment to growth. They suggest a correlation between extractive institutions and low state capacity, but they do not theorize the relationship. Yet we know that authoritarian governments often have significant state capacity, albeit not always of a form that promotes economic growth.[11] Moreover, state capacity can require considerable care and feeding, as the European Union experiences make all too apparent. It is interesting to note that explaining state capacity is one of the goals of Fukuyama (2011) in his Big Book, and it is a growing industry within international organizations such as the World Bank and within academia.[12]

The Acemoglu and Robinson account of the initiation of the vicious and virtuous circles and their transformation from one to the other depends first and foremost on critical junctures. The black plague, the rise of Atlantic trade (and with it colonialism and slavery), the French Revolution, the successful invasion of Japan in 1853, and the death of Mao Zedong are among the examples of critical junctures cited. As the authors note: "A critical juncture is a double-edged sword that can cause a sharp turn in the trajectory of a nation. On the one hand it can open the way for breaking the cycle of extractive institutions and enable more inclusive ones to emerge, as in England. Or it can intensify the emergence of extractive institutions, as was the case with the Second Serfdom in Eastern Europe" (p. 101).

Critical junctures are generally exogenous but mediated by the nation's internal institutions and distribution of political power. How precisely a critical juncture affects a nation is, as the authors recognize, a political process, which makes it all the more necessary to have a political analysis that can account for why even seemingly similar countries can vary so much in their responses to the same set of events. This is what Ruth Berins Collier and David Collier ([1991] 2002) attempt to do in their research on the different ways in which Latin American states incorporated labor mobilization and with what consequences for social policies. Acemoglu and Robinson do rely on the work of Robert Brenner to explicate the effect of the plague in Europe.[13] But whereas Brenner bases his account of the initial distribution of power on Marxist class analysis, there is no apparent theory of power distribution on which these authors draw.

The fact that contingency has its place in the Acemoglu and Robinson account is refreshing and something that could potentially be modeled further.[14] Unanticipated events can become critical junctures, as in the case of the English defeat of the Spanish Armada, and unforeseeable circumstances can lead to major national changes. One of those neat examples of which the book is so full is the case of Seretse Khama, who resigned his kingship and went on to lead the anticolonial movement in Botswana as a result of falling in love with a white English woman in the 1940s while a student in her country (p. 117). The authors have a theory of history, but they are determinedly not historical determinists. They provide an important role for small differences that become larger over time and for contingent factors that have consequential effects.

In virtuous circles, the seeds of pluralist politics, property rights, administrative capacity, and the rule of law respond to critical junctures by developing further, if slowly and gradually, over time, ceteris paribus. The vicious circle lacks these positive features, but fundamentally it is the distribution of power that maintains and reproduces its extractive institutions. At the heart of a ruling elite's opposition to inclusive institutions are two factors. The first, and most convincing, is the fear of Schumpeterian creative destruction, that is, the introduction of technologies that make possible greater growth but often at the expense of those who benefit from the existing system.

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Acemoglu and Robinson offer evidence of this fear with numerous instances in which rulers refused to build railroads or other infrastructure, which, though likely to promote prosperity, would increase the power and the communicative and coordinating capacity of those eager to wrest control over the state.

The second factor is Robert Michels's "the iron law of oligarchy,"[15] which the authors characterize as "a particularly pernicious form of the vicious circle" (p. 112). They paraphrase their version of Michels: "The internal logic of oligarchies, and in fact of all hierarchical organizations, is that . . . they will reproduce themselves not only when the same group is in power, but even when an entirely new group takes control" (p. 360). It does appear to be true throughout history that hierarchies often regenerate themselves even though the people have changed and sometimes changed fundamentally. Was not this one of Tocqueville's insights about the French Revolution? But it was not Michels's point or emphasis. Acemoglu and Robinson appear to have missed that Michels was addressing democracy, the ultimate inclusive institution. Michels is discussing political parties that formed from social movements and that have become bureaucratized. Yes, the leadership concentrates power in violation of the democratic principles on which they are founded. Yes, the parties become more conservative in philosophy and action. While he does argue that oligarchy is inevitable, the oligarchy that alarms him is exactly what we see in the most prosperous and democratic countries, including the United States, where the leadership is drawn from a relatively small circle, be they named Kennedy, Bush, or Clinton, and where the emphasis is more on winning votes than on meeting social and economic goals that serve the common good.

From Michels's perspective, institutions can be both inclusive and oligarchical; de jure power is distributed to a mass electorate while de facto power is concentrated. Surely, the authors of the *Economic Origins of Dictatorship and Democracy* would not deny that. Yet their underdeveloped political theory makes it appear as if they do. The current political moment amplifies their evasion of destabilizing features of virtuous circles, a real limit to their approach. The effects of the global financial crisis have fueled an awareness of new forms of concentrated economic power, as well as the limits of democracy. From the "Occupy" movements in the United States, Canada, and the UK, to the recent protests against bank-imposed fiscal austerity in Greece, Spain, and Portugal, the concentration of economic and political power—and the effects of this concentration on inequality—is a topic of increasing political importance that is also gaining increasing attention by political scientists, in books such as Larry Bartels's *Unequal Democracy: The Political Economy of the New Gilded Age* (2008), Jacob S. Hacker and Paul Pierson's *Winner Take All Politics: How Washington Made the Rich Richer—and Turned Its Back on the Middle Class* (2010), and Jeffrey A. Winters's *Oligarchy* (2011). There are important complementarities between Acemoglu and Robinson's institutionalist approach to distributive conflict and the growing attention among many political scientists to the *politics* of inequality. Acemoglu and Robinson, indeed all of us, could only benefit from more sustained engagement with these political science perspectives.

Criticisms apart, *Why Nations Fail* is a tour de force. In making their case, the authors dazzle us with their knowledge of history and their analytic insights. Sometimes their virtuosity obscures theoretical weakness. But more often than not, it serves their arguments well. For example, they provide a compelling account of why growth can occur under extractive institutions but why it is not sustainable over the long term. China, en garde! In the book, they elaborate on their earlier claim regarding the "reversal of fortune"[16] with applications to a far wider range of societies. With an eye to policy implications, they also demonstrate how strong the vicious cycle is and how resistant it is to even the best-intended interventions of foreign powers, international organizations, and nongovernmental organizations. We should heed their words: "Attempting to engineer prosperity without confronting the root cause of the problems—extractive institutions and the politics that keeps them in place—is unlikely to bear fruit" (p. 450).

We live in exciting times, perhaps even an American version of the Scottish Enlightenment that produced Smith, Hume, and others. Acemoglu and Robinson are among a growing group of theoretically sophisticated and historically knowledgeable social scientists whose use of cutting-edge analytic and methodological tools may actually produce solutions to the poverty and powerlessness afflicting so many. They help us understand why so many nations fail. But we still have much to learn about how to ensure that nations succeed. Without doubt Acemoglu and Robinson shed light on this important question. Further development of the *political* dimensions of their institutionalist argument, in engagement with the best of political science, promises even brighter illumination.

Notes

1 See, for example, Bendix 1978; Eisenstadt 1993; Lipset 1963; Mann 1986, 1993; Parsons 1951; Parsons and Shils 1951.
2 See Geddes 2003; Kiser and Hechter 1991.
3 Arguably, Jared Diamond (1998), the polymath physiologist cum geographer, spurred this recent flurry among political scientists and economists. His contentious but overarching theory of divergent development became a worldwide best-seller, encouraging both publishers and authors to produce other equally attractive, argumentative, and lucrative books. Some of those subsequently produced meet such expectations more than others, of course.

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4 See, e.g., Levi (1988) for a discussion of the importance of bringing people back into the state. See Knight (1992) and Geddes (1994), and, with a somewhat different perspective, Steinmo, Thelan and Longstreth (1992) for authors who combine an understanding of the relationship between institutional constraints and political action. Evans, Rueschemeyer, and Skocpol (1985) emphasize the importance of the state, but only some of the essays in this significant volume people the government.
5 Bates [1991] 2005; 2001; 2008.
6 North explicitly builds on the economic theories of Nobelist Ronald Coase (1937; 1960).
7 In my perspective, Przeworski stands with Bates and North as the third major pillar in what now constitutes contemporary political economy in political science. Less institutionalist and more structuralist, Przeworski has not only offered major theoretical insights about the nature of and limits on democracy but also does so in a way that innovatively combines formal theory, statistical analysis, and rational choice reasoning informed by Marxism. On his own (1985; 1991) and with coauthors (Alvarez, Cheibub, and Limongi, 2000; Sprague, 1986; Wallerstein, 1982, 1988), Przeworski reconsiders the role of class conflict in political life and the relationship between regime type and economic development.
8 Acemoglu, Johnson, and Robinson 2005.
9 Acemoglu, Johnson, and Robinson 2001, 2002; Acemoglu et al. 2008.
10 Acemoglu and Robinson's 2006 book has a title that evokes Barrington Moore's classic *Social Origins of Dictatorship and Democracy* (1966).
11 There is a large and growing literature on the capacity of autocracies. Some of the work focuses on elections. See, e.g., Gandhi and Lust-Okar (2009) and Magaloni (2006). Other work emphasizes the judiciary, e.g., Helmke and Rosenbluth (2009). Przeworski et al. (2000) even find that economic well-being is compatible with authoritarianism under some conditions.
12 For example, see Holmberg, Rothstein, and Nasiritousi 2009.
13 Aston and Philpin 1987.
14 See, e.g., Wood 2007.
15 Michels [1919] 1962.
16 Acemoglu, Johnson, and Robinson 2002.

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