

BOOK REVIEW

Why nations fail: the origins of power, prosperity, and poverty, by Daron Acemoglu and James A. Robinson, New York, NY, Crown, 2012, 528 pp., ISBN 978-0-307-71921-8

This is an interesting book. It attempts to answer an important question about the origins of power, prosperity and poverty. Its title is reminiscent of Adam Smith's *Wealth of Nations*, and more recently of Paul Kennedy's *Rise and Fall of Nations*. It is an attempt at answering a baffling question about why some nations are rich and others poor, as well as how and why many try to avoid falling into the category of the latter and aspire to join the ranks of the former. In a sense, it partially answers the question, although by no means in a definitive way to which one can subscribe unreservedly. Perhaps it might suggest that in the end actually finding an answer is not as important as the process of trying to find the answer.

The first few pages are glowing commendations by prominent economists. No fewer than five Nobel Laureates are quoted: Kenneth Arrow, Gary Becker, Peter Diamond, Michael Spence and Robert Solow. Added to this prestigious parade, others lauding the book include a list of bestselling authors such as Niall Ferguson, Francis Fukuyama, and academics from elite institutions of higher education. With such credentials the book browser as well as serious academics, political scientists and economists would seem compelled to buy and read it!

The authors have utilized their professional experience and academic fields of interest, which are economics and political science in addressing the question; and this is what makes it interesting. Neither a purely economic approach nor a purely political one are adequate to the task, even if one tends to believe that economics is ultimately nothing more than politics in metrics. Circumventing the 'egg or the chicken' paradox, the political framework defines the economic one and the latter reinforces the former. This is the sense, at least, that this reviewer got out of the book even though the authors tend to favour what they call the 'institutional' background propitious to development and the generation of wealth.

The book is made up of seventeen chapters more or less evenly matched in size and easily readable. It also has an impressive bibliography and annotated footnotes at the end. Anecdotes and historical facts illustrate the points the authors try to make. The chapter titles are really invitations to read further and they add to the book's appeal. Some chapters are quite provocative. For instance, Chapter 2 is entitled 'Theories that don't work'. In some 25 pages the authors dismiss many misconceptions 'explaining' economic inequalities among nations including factors such as 'geography' and 'climate'. Whether one agrees or not with such theories the chapter has the merit of outlining the main arguments that have been advanced, but the presentation is such that the conclusion is predetermined, and this is what the reviewer found problematic. The

selectiveness employed in approaching historical developments undermines the strength of the arguments the authors try to make. For instance, they remain largely silent about the issue of slavery in North America. Citing the city of Nogales that lies on the border with Mexico they try to explain why the American side of the city is more prosperous than its Mexican side. Their argument is that the American side has developed institutions not available on the Mexican side.

While this argument seems plausible their embarking on a historical account of Mexico (Aztec and Mayan histories) ignores some important historical factors such as the role of slavery in the development of the United States. Differently stated, if they were intent on resorting to historical justifications for their argument then they should have addressed the issue of slavery and its role. In fairness, they do make the argument that slavery was an impediment to the development of the South (pp. 350–354). The North, by contrast, being more industrialized in 1860 had a much lower percentage of slaves in its total labour force compared with the South (p. 352). The inclusiveness of Northern institutions made progress possible; and the overall gist of their argument: inclusive institutions are responsible for the development of societies. They argue that the South's reliance on agriculture and on a single crop was responsible for its lesser development level compared with the North. The implication – in economic terms – is that the South was earning 'rent', and the economic surplus generated by the slave labour force was captured in its entirety by the ruling elite. On the other hand, in the industrial North there was a more equitable distribution of the economic surplus between employers and employees. We are not sure how 'fair' the distribution of the economic surplus generated in the industrial North actually was, but we take the point that 'inclusiveness' works better than exclusion. What the authors fail to address is the question of why did the institution of slavery develop in the South and not in the North. Were the Northerners that different from their fellow Americans or settlers in the South, and this keeping in mind that the authors reject the notion that objective conditions – such as climate or geography (more conducive to the growing of cotton and tobacco in the South) – play a decisive role?

The authors give credit to England for inaugurating the path towards inclusive institutions.

The Glorious Revolution was the foundation for creating a pluralistic society, and it built on and accelerated a process of political centralization. It created the world's first set of inclusive political institutions. (p. 102)

They go on to add: 'It is not a coincidence that the Industrial Revolution started in England a few decades following the Glorious Revolution' (p. 103).

Comparing France, Spain and England in the late 1500s, all three countries were ruled by absolute monarchs. Yet, there were minor differences that mattered in the long run. England's monarch had to contend with Parliament for finances and the latter demanded concessions, in particular with regard of the right of the Queen to create monopolies: 'It was a conflict Parliament gradually won' (p. 105).

On the other hand, the inclusive economic institutions allowed for technological advances, driving business to expand and invest, and the efficient use of skills and talent. These inclusive economic institutions were founded on England's inclusive political institutions. The latter, according to the authors, 'was made possible because of two factors: a centralized state that enabled her to take the next radical – in fact, unprecedented – step toward inclusive political institutions with the onset of "the Glorious

Revolution”. The second factor was more important in the sense that the Glorious Revolution forged a broad and powerful coalition able to place durable constraints on the power of the monarchy and the executive, which were forced to be open to the demands of this coalition’ (p. 104).

Throughout the authors continually hammer the point: the inclusiveness of economic institutions is a *sine qua non* condition for prosperity. The inclusive economic institutions must be based on inclusive political institutions. Chapter 14’s title reflects the mantra they chant: ‘Institutions, institutions, institutions’. They also demonstrate how institutions that create poverty generate negative feedback loops and endure. There is a vicious circle (pp. 364–367) that can perpetuate either poverty or prosperity depending upon the choice of institutions.

Sometimes the recurrence and reiteration of the central argument seems repetitive and even tedious. Yet, it is a passionate advocacy of inclusiveness and for that the authors are to be commended. By and large, it makes for a pleasant reading and is quite informative with the historical anecdotes it brings. On the other hand, it cannot be considered a full-fledged theory as the authors would like the reader to believe. They do acknowledge the limits of the predictive powers of their theory (pp. 434–435), as in any theory, but in this reviewer’s view the argument made is plausible and sometimes persuasive if not as compelling as they seem to suggest.

Another point that proved bothersome while reading the eminently interesting tome is the concept of wealth being generated in certain countries because of the inclusiveness of the economic and political institutions. While one may accept the authors’ explanation they do fail to address the issue of distribution of wealth, at the end of the day if wealth is not to be disbursed in an ‘equitable’ way then what, one may wonder, is the point of the entire exercise? In fact, are not the ‘wealthy’ countries suffering from issues such as widening economic and social inequality and disparities? Hence, one must ask where does the inclusiveness start and where does it end? Why is there uneven or unequal distribution of wealth, and does such refute the ‘inclusiveness’ of such institutions? Answering these questions would require another book, but that will be for another day.

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