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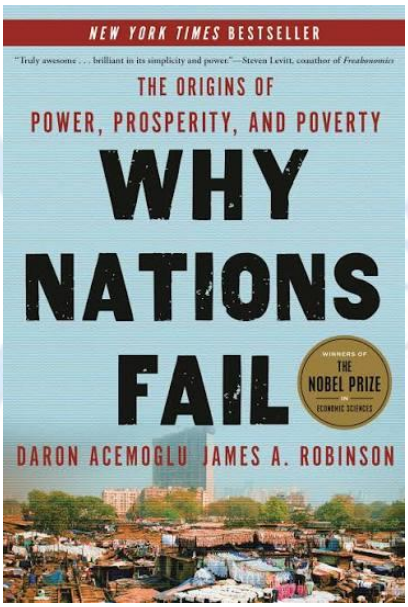
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Book Reviews

Why Nations Fail

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Daron Acemoglu & James A. Robinson | Crown Business | 2012

Acemoglu and Robinson introduce developmental economics in this book as a concept that does not require prior knowledge of the subject. By placing economics at the intersection of politics, they provide a holistic view of the wealth inequalities evident in the post-colonised world. They use a diverse range of case studies to illustrate their point that the key distinction between "poor" and "rich' countries is the inclusivity of their political and economic institutions. The more concentrated political power is, the more a small group in society (usually the elites) tries to extract wealth for itself; in their view, this is a world of 'extractive'

institutions. By contrast, dispersed political power that exists in democracies is conducive to competition, which, in turn, creates the conditions for a broadly shared concept of 'prosperity'. In short, their simple explanation for the disparities in wealth across the world is political institutions.

Britain serves as their chief example. When European exploration began, Britain placed trade in the hands of privateers, leading to the creation of a new merchant elite. Its members secured pluralism and sowed the seeds of economic development. However, Spanish history reveals a contrasting story of development. While Britain entrusted trade to merchants, Spain adopted an alternative strategy of favouring state control of ocean commerce, thereby solidifying Spanish Tyranny and empowering the elite. Similarly, in Central and South America, European explorers established exploitative states better suited to plundering, while the North American colonies witnessed political reforms and strong economic rights, spurring American industrial growth, in stark contrast to the economic stagnation of the South.

Beyond Britain and Spain, the authors present striking images of countries in close proximity that display stark differences in wealth and institutions. The examples used are Nogales,

Arizona, and Nogales, Mexico: one city split by a border fence, and North and South Korea. Same geography, same culture, same people – yet radically different institutions explain the economic divide that persists today. Post-colonial institutions are also assessed to explore how some countries emerge as success stories, while others continue to sink into hindered growth, eventually leading to a neo-colonial structure in the country. Congo, under Belgian colonisation, created institutional path dependencies that persisted even after independence, trapping the country in poverty.

The authors also examine how prosperous nations can undergo institutional reversal. Venice emerges as one such example. Once among the medieval world's most prosperous cities, Venice's elites eventually consolidated power, closed off the merchant class, and innovation collapsed. Similarly, the Roman Empire, which had a rich history of a powerful and prosperous civilisation, collapsed when political power became concentrated, and institutions slid back into their extractive nature.

The authors spend considerable time dismantling alternative theories. The geography hypothesis, advanced by Montesquieu and Jeffrey Sachs, holds that the geography of an area directly influences a country's capacity to increase its wealth. However, Acemoglu and Robinson use the case studies of Botswana and the Democratic Republic of the Congo (DRC)

– both in the same tropical climate- to refute this argument; they indicate that while Botswana thrives, the resource-rich DRC does not. Other similar arguments by various authors, such as Max Weber and his culture hypothesis – Protestant work ethic vs Confucian values – seek to explain how different cultures yield varying results in a country's economic output. However, the authors challenge this theory by presenting North and South Korea as a formidable example that defies this hypothesis.

Central to the authors' argument is the concept of 'creative destruction': innovation that displaces old industries and power structures with new ones. The authors argue that this is the engine of sustained economic growth but also threatens those elites already at the top, prompting active efforts to block new technologies to protect their position. The Ottoman Empire's resistance to the printing press and the European monarchs' suppression of labour-saving machinery are examples. The key insight is that economics and politics work hand in hand, and those who control politics will always shape economic institutions to protect themselves rather than maximise growth for society.

Another major concept discussed in the book is the 'critical juncture', which refers to a major historical disruption - a revolution, plague, colonisation or war - that destabilises existing institutions and opens a window for change. The Black Death is one of the book's most striking examples; by decimating Europe's labour force, it shifted bargaining power towards peasants in the West. In Eastern Europe, the same event produced opposite institutional outcomes, brought about by landlords' decisions to tighten serfdom. This leads to the concept of path dependency, the tendency of institutional trajectories to persist over time. Small differences at the moment of a critical juncture can produce enormous divergence centuries later, and the authors are clear that these critical junctures do not guarantee inclusive institutions, as the outcome depends on the balance of power at that moment.

While the authors' theories largely apply to most of the countries we see today, some countries contain many hybrid systems that don't fit neatly into 'inclusive' or 'extractive' boxes. The book views China through a critical lens, presenting it as a rare exception that has achieved extraordinary growth under deeply extractive political institutions. Its growth may be rooted in the removal of highly oppressive Maoist institutions, but its communist government remains fundamentally extractive. It may engineer growth by mobilising people and resources from low-productivity activities, such as subsistence agriculture, towards industry. But without political reform and the possibility of creative destruction, growth will grind to a halt.

The book deserves credit for its accessibility and ambition, as it synthesises centuries of history into a coherent and readable argument that few academic works attempt. The authors are admirably honest about the limits of their optimism, acknowledging that changing institutions is slow, painful and frequently reversed, with no easy policy prescription. Overall, it is a genuinely important contribution to understanding how we think about development. In an era of rising authoritarianism and democratic backsliding globally, this book feels more urgent than ever, presenting itself as a timely reminder that political pluralism is not just a moral good but the very foundation of shared prosperity.

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