

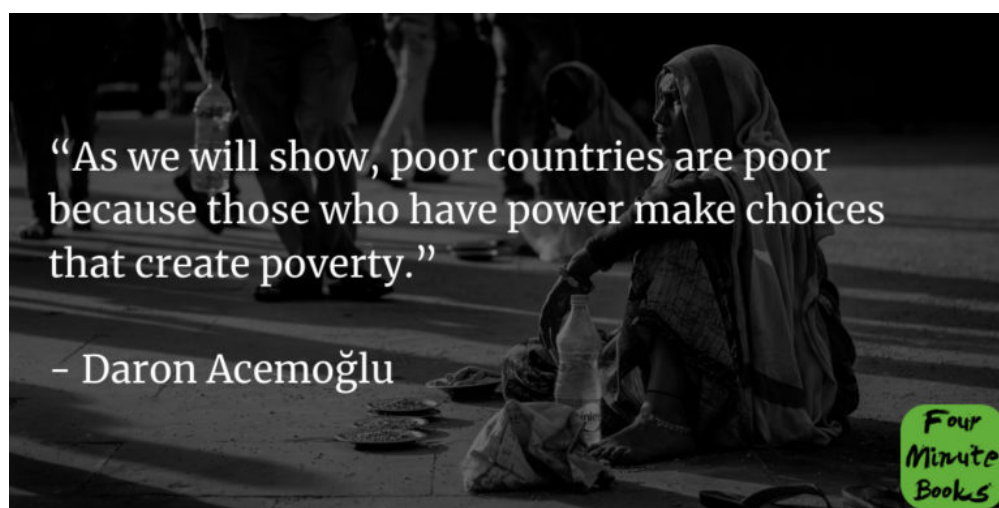
Why Nations Fail Summary

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1-Sentence-Summary: *Why Nations Fail* dives into the reasons why economic inequality is so common in the world today and identifies that poor decisions of those in political power are the main reason for unfairness rather than culture, geography, climate, or any other factor.

Read in: 4 minutes

Favorite quote from the author:



Why do some nations prosper while others struggle and are plagued with poverty and greed? Some people say it has everything to do with a nation's location, culture, or lack of knowledge. But surely this can't be the whole picture.

Just look at Botswana. It currently has one of the fastest increasing economies in the world. Meanwhile, close by Congo and Sierra Leone are stuck in a cycle of violence and poverty.

Why Nations Fail: The Origins of Power, Prosperity, and Poverty by Daron Acemoglu and James A. Robinson centers around the question of why some nations remain poverty-stricken while others live in abundance. In this eye-opening book, the authors explain that the difference is actually the result of economic and political institutions put in place during critical junctures in history.

Here are just 3 of the many eye-opening lessons I got from this book

1. The best way to explain the difference in living standards between countries is by looking at their institutional differences.
2. A single event at a critical juncture can mean a world of difference for a country's success.

3. It can be really hard to break out of the cycle of poverty, but it is possible.

Let's get right to it and see what we can discover about inequality!

Lesson 1: If you want to explain why two countries can have such different living standards, just look at the institutions they have put in place.

Forget age-old theories that some countries struggle economically because of their location. There are far too many countries next to each other that have different living standards to prove this as false.

The economic landscape determines the difference between these countries. These are the regulations directing the economy within a country's borders. This includes things such as public services, property laws, and access to financing.

A country can have either inclusive or extractive economic institutions. Inclusive economic institutions pave the way for economic success because they encourage citizens to participate in economic activities. They are strong in economic freedom.

Examples of this include South Korea and the USA, where the economy benefits from private property laws, developed banking sectors, and strong public education. **This system encourages people to work hard and be creative because they know their efforts will bring wealth.**

An extractive economic institution receives income from one group in society for the benefit of another group. An example of this is colonial Latin America, which had a system built on the exploitation of indigenous people to benefit colonizers. Another example is North Korea, where the Kim family created a repressive regime that didn't allow private property and secured all power for the select elite only.

Similarly, politics can also be either inclusive or extractive. An inclusive political institution has pluralism. This means every group in society is being represented politically. They also need centralized power to ensure that the rule of law is being upheld and groups don't overrun one another.

If a political institution doesn't have pluralism or centralization, they are extractive. An inclusive political institution is best because all groups are represented, which doesn't allow for extractive economic policies.

Lesson 2: One event can mean a country takes an entirely different institutional path, changing the course of its future.

In the mid-fourteenth century, the Black Death took almost half of Europe's population. This caused an economic fallout that was responsible for changing Europe's economic future.

This is why the authors refer to the Black Death as an example of a critical juncture. **This is an event that is influential enough to overturn the sociopolitical balance of a nation or continent.**

Before the Black Death, most of the economic and political systems in Europe were extremely extractive. A country's monarch owned land and he gave his land to lords who in return promised to give military capabilities. Peasants would then take care of the land. They worked hard to make a living but paid most of what they earned in taxes. In addition, they had almost no freedoms.

But when the Black Death hit, there were suddenly huge shortages in labor. The peasants in Western Europe seized this opportunity to demand lower taxes and more rights.

Eastern European peasants were not so lucky, however. They were less organized, and landowners managed to take advantage of this and started hiking taxes higher and making the system even more extractive.

This is why the authors call the Black Death a critical juncture in history. For Western Europe, it spelled the end of extractive feudalism. But in the east, it grew worse. Institutional drift is the result of this difference that led to divergent paths. It's where two similar regions grow in different directions.

We saw a similar institutional drift when global trade expanded and the British colonized the Americas. Sometimes it takes centuries, but a small number of critical junctures can mean institutional drift that creates drastically different economic landscapes between once-similar areas.

Lesson 3: Stopping the cycle of poverty can be extremely hard, but it isn't impossible.

We know that events in history can change the course of a country's future. But what can countries do to fix the extractive institutions they have in place?

First, the authors explain that history doesn't necessarily doom the future of these countries. We know that inclusive and extractive institutions can grow from critical junctures. The cycle can be broken.

The US South's exclusive institutions against blacks are slowly becoming more economically and politically inclusive. There is still a lot to be done, but the civil rights movement meant that good changes were finally coming for blacks in America.

So what can we do? The first thing to do is make sure we encourage inclusive institutions so these countries can grow their own prosperity. Did you know foreign aid does very little to change extractive institutions in Africa and central Asia?

If we want to promote positive, long-lasting change, we need to direct foreign aid in a more meaningful way. **The groups that are excluded from institutions need to have ways to defy the institutions that are oppressing them.**

For example, in Brazil, a grassroots movement of empowered people, rather than politicians, overthrew the country's military dictatorship in 1985. Social movements led by these people paved the way for a coalition that resisted any future dictatorships.

Ever since Brazil broke that cycle, it has seen a huge rise in prosperity. In fact, between the years 2000 and 2012, it was one of the world's fastest-growing economies. This serves as proof that shattering the chains of poverty is never too late.

Why Nations Fail Review

Why Nations Fail will change the way you see the world. I never realized that such simple differences in institutions could mean such drastic differences in standards of living. I think this is an extremely important book that everyone can learn something from, and it helps that it is also an engaging read!

Who would I recommend the Why Nations Fail summary to?

The 56-year-old who hasn't even been able to figure out why some countries prosper while others stay poor, the 19-year-old who is majoring in political science, and everyone who wonders how we can end the awful pandemic of inequality.