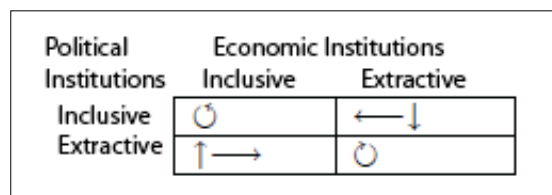


Why Nations Fail develops the political, economic, and historical factors that shape the rise and fall of nations. Acemoglu and Robinson frame this analysis against the divergence of per capita income beginning in the 16th century and accelerating during the Industrial Revolution. Today this results in a per capita differential of 10x between developed and non-developed countries. The authors systematically consider the popular explanations by Montesquieu, Max Weber, and Jared Diamond related to culture, religion, geography, resources, and latitude and find them wanting.

Acemoglu and Robinson attribute the principle causes for this divergence as the gradual adoption of Inclusive Economic and Political Institutions in the West while most nations retained Extractive Institutions. Inclusive Economic Institutions require property rights, effective state services such as law and education, opportunities for citizens, and enable invention and new business entry. Inclusive Political Institutions require broad citizen participation, rule of law, and checks on politicians. In the limit, extractive Political and Economic institutions are dictatorship and "cronyism".

The book draws on fifteen years of published work by Acemoglu and Robinson. I believe the facts, narrative, and conclusions benefit the Policymaker and Intelligent Analyst in evaluating, predicting and defending intelligence and formulating effective policies. An Analyst who cites historically relevant parallels, discerns causal factors, and appreciates the dynamics performs at the highest possible level. Two striking narratives from the book support this.

The two Koreas started life in 1945 with identical history and culture at economic parity. The narrative traces South Korea's evolution from a dictatorship with inclusive economic institutions to a democracy while North Korea maintained extractive institutions. The chart below maps the dynamics of these factors. South Korea moved to what the authors label a Virtuous Circle -- inclusive institutions, while North Korea's extractive institutions spiraled their economy into a Vicious Circle resulting in a 10x per-capita income gap.



Equally striking is the authors dissection of the "irresistible charm of authoritarian growth". We have seen this before. The Soviet Economic Miracle took in the CIA and Economics Nobel Laureate Samuelson. In Samuelson's 1980 text, the dominate University Economics text, he predicted that Soviet Income would surpass the US by 2002. The authors, experts in the arcane field of Growth Economics, once again prove their ability to translate complex political and economic factors into a narrative on China's likely growth path. They attribute China's growth to industrial catch-up, foreign technology imports, and exports of low-end manufacturing products. They find this model sustainable in the short-term; however, the dynamics of extractive institutions create a vicious circle which is extremely destabilizing with the rise of living standards.

This covers the How and Why, but as Analysts we must Judge the When. Here Acemoglu and Robinson agree with Yogi Berra's quote -- "It is difficult to predict, especially about the future."

They caution against reading history backwards to uncover an inevitable path forward. Unfortunately, this deterministic approach has often influenced analysis to conform to Policy Objectives. The authors causal chain is incremental and ephemeral. Their narratives outline small institutional changes, at critical junctures creating divergent paths.

I must confess that I equally enjoyed the narrative history of English democracy, and the "Reversal of Fortune" of the tropical nations and the New World. For this, I also recommend the book.