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BOOKSHELF

The Roots of Hardship

Despite massive amounts of aid, poor countries tend to stay poor. Maybe their institutions are the problem.

By **WILLIAM EASTERLY**

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Far too much intellectual firepower regarding the global poor these days focuses on the (small) things Westerners can do to help—obsessing about, say, how much money to spend on mosquito-blocking bed nets to fight malaria. The bigger questions—about why some societies prosper and others don't, about how to improve the lot of an entire impoverished class—are left by default largely to uncritical admirers of China's growth. The arrival of "Why Nations Fail" is thus a hugely welcome event, since economists Daron Acemoglu and James A. Robinson take on the big questions and in doing so present a substantial alternative to the dominant thinking about global poverty.

For Messrs. Acemoglu and Robinson, it is institutions that determine the fate of nations. Success comes, the authors say, when political and economic institutions are "inclusive" and pluralistic, creating incentives for everyone to invest in the future. Nations fail when institutions are "extractive," protecting the political and economic power of only a small elite that takes income from everyone else.

It is common among those who work in development to wish for a technocratic rule of experts unencumbered by politics. Messrs. Acemoglu and Robinson insist that getting the economics right requires getting the politics right. They support their thesis with evidence so comprehensive that it includes the rise and fall of medieval Venice, the colonization of the Americas, and the tribal politics of Botswana at its independence in 1966.

Inclusive political institutions mean both a broad distribution of political power and limits to that power, such as democratic elections and written constitutions. Inclusive economic institutions encompass

The wrecked palace of Mobutu Sese Seko, whose kleptocratic 32-year rule of Zaire (Congo) ended in 1997. *AFP/GETTY IMAGES*

property rights, contract enforcement, ease of starting new companies, competitive markets, and freedom for citizens to enter the occupation and the industry of their choice. The billionaire telecommunications mogul Carlos Slim, we're told, does not fall into this category. He is extractive, "a master at obtaining exclusive contracts," winning economic monopolies through political connections, but he enriches primarily himself, not Mexico. Bill Gates, by contrast, enriches both himself and the U.S. because he can make money only by creating products that are better or more popular than those produced by rivals.

Just as inclusive institutions feed on each other, so do their opposites: Extractive political institutions support the economic institutions that protect the interests of the elite against new entry from competitors. The wealth of the elite so created can make the hierarchical, authoritarian state even larger and more repressive, increasing elite wealth even more. This vicious cycle means that bad history persists into bad present outcomes. Messrs. Acemoglu and Robinson cite the political and economic lag of Eastern Europe and Russia when compared with Western Europe's progress since the Industrial Revolution. The difference, the authors say, can be attributed to the East's reliance on serfdom deep into the 19th century, long after workers in the West had won many rights.

WHY NATIONS FAIL

By Daron Acemoglu and James A. Robinson

Crown, 529 pages, $30

Much of European colonization was extractive, since either no Europeans or only a small minority of them settled in the colonies for the long haul. That North America was different was due to the majority middle class of family farmers that settled it, compared with a minority European elite in South America. Extractive institutions also produce more violence as rival elites fight over the reins of power —which helps to explain South America's long history of military coups and civil wars.

"Why Nations Fail" also offers this crucial insight: Experts cannot engineer prosperity with the right advice to rulers on policies and institutions. Rulers "get it wrong not by mistake or ignorance but on purpose." Change happens only when a broad coalition revolts, forcing the elite to allow more pluralistic political competition (e.g., the Glorious Revolution in England, the Meiji overthrow of Japanese feudalism and Botswana's democratic ouster of British colonizers).

Extractive states *can* have bursts of growth. After all, even a kleptocratic elite will covet a larger economy ripe for plundering. The elites have an incentive to invest in their own businesses. But authoritarian growth miracles cannot last. As economists have understood since Joseph Schumpeter in the 1940s, sustained economic growth requires "creative destruction," as new technologies replace old ones. The booming Chinese economy may look impressive today, but for Messrs. Acemoglu and Robinson, China's leaders revealed a critical flaw in 2003 when they arrested Dai Guofang and sentenced him to five years in prison.

What was Mr. Dai's crime? He had dared to start a low-cost steel company that would compete with Party-sponsored factories. Members of an extractive elite will not allow creative destruction to eliminate their own enterprises; the potential of existing technologies is fully exploited, but no innovation develops—and growth cannot be sustained. Messrs. Acemoglu and Robinson note that the Soviets experienced rapid growth in the 1950s and 1960s but then, hamstrung by an economy unable to innovate, fell into stagnation and collapse. The authors make a bold prediction: "The spectacular growth rates in China will slowly evaporate," and the Chinese will ultimately follow the Soviet trajectory.

Mr. Acemoglu, a professor at the Massachusetts Institute of Technology, and Mr. Robinson, a Harvard professor, have well-deserved reputations for doing stellar academic work in economics. "Why Nations Fail" is intended for a general audience, but unfortunately the professors have not made the smoothest of transitions. The book has two primary flaws. First, Messrs. Acemoglu and Robinson have dumbed down the material too much. ("The first president of the United States, George Washington," we're informed, "was also a successful general in the War of Independence.") Second, they are overly reliant on anecdotes and don't present more rigorous, statistics-based evidence to support their theories—probably a result of the dumbing-down impulse, since the authors' own academic work is thoroughly based on just such evidence.

For example, the book discusses the long-lasting effect of Spanish colonial enslavement, called the *mita*, on certain provinces of Peru today. The reader is unaware that the anecdotal discussion is rooted in a rigorous and acclaimed analysis by the authors' own research assistant, Melissa Dell (she is mentioned in the endnotes). The Spanish drew a clear boundary for the region where they applied the mita. Ms. Dell compared the average modern-day income of communities a tiny bit outside that boundary with that of communities a tiny bit inside. Average household consumption falls off a cliff at the boundary, with those slightly inside the mita region 25% poorer. There is no obvious explanation other than the long-lasting deleterious effect of a bad institution, the mita.

To give another example, Messrs. Acemoglu and Robinson argue emphatically that the long-ago slave trade is directly linked to the poverty of today's Congo. But that assertion is called into doubt if Congo (and Africa in general) was victimized by slave traders because it was already poor, as seems likely. One of Mr. Robinson's Harvard colleagues, Nathan Nunn, has addressed this matter with a well-regarded statistical analysis. He showed that slave traders intensively targeted certain parts of Africa not because of their poverty but because they were near shipping points with the shortest routes to slave markets on the other side of the Atlantic. Congo, relatively close to the big slave market of Brazil, was not impoverished, it was simply geographically unlucky—a fact that, if cited in the book along with the relevant statistical analysis, would have given firmer support to the proposal that Congo's poverty today is a bad-institution legacy.

In the absence of this kind of evidence, the authors are relying on historical case studies that cannot resolve questions of what causes what. The book's conclusion—that bad institutions are the reason nations fail—would have been considerably buttressed by such hard information.

In defense of the authors' preference for historical case studies, such an approach is probably not used enough in the big debates about democracy and capitalism. But case studies also present a danger that the authors do not entirely avoid: ex-post rationalization. You already know the outcome, and the terms "inclusive" and "extractive" have some vagueness; it is easy to convince yourself that all successes were inclusive, all failures extractive. Did medieval Venice decline because it became more "extractive," as the book says, or because trade routes shifted from the Mediterranean to the Atlantic? The authors' enthusiasm for ransacking history to test their theory enlivens "Why Nations Fail," but the effect is blunted when every episode seems to fit a bit too neatly.

Yet the reader of this ebullient narrative is inclined to forgive such excesses and even overlook the fact that the book only really illustrates the authors' theories rather than proving them. "Why Nations Fail" is a vital work for these times, directing our attention to the big picture regarding the poverty and prosperity of nations. It an eloquent and powerful statement of the long-run success of democratic capitalism at a time when it is under attack.

—Mr. Easterly, a professor of economics at New York University, is the

author of "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good."