

***Why Nations Fail* and Competing Theories of Development**

Introduction. Daron Acemoglu and James A. Robinson's *Why Nations Fail* (2012) sparked an influential debate by attributing national prosperity and poverty mainly to institutional differences. They argue that "inclusive" political and economic institutions (broad political rights, rule of law, competitive markets) generate innovation and growth, whereas "extractive" institutions (narrow elites, concentrated power, arbitrary rule) create stagnation and decline[0][1]. This institutionalist framework emphasizes political power structures, path dependence, and critical historical junctures in explaining why some societies "get it right" and most "get it wrong"[2][3]. Our essay reviews *Why Nations Fail* in depth and then situates it alongside several competing frameworks: Mushtaq Khan's Political Settlement theory, North-Wallis-Weingast's Violence and Social Orders, structuralist/dependency theories of development, Marxist theories of state formation and elite control, and New Institutional Economics (NIE). We compare how each theory explains persistent poverty, inequality, or development successes, highlighting points of convergence and divergence. Our analysis aims to be thorough, objective, and accessible to scholars in political economy and development studies.

Core Concepts of *Why Nations Fail*

Acemoglu and Robinson's framework centers on the **quality of institutions** – the formal and informal rules that govern a society[4]. They distinguish two ideal types:

- **Inclusive institutions** provide broad access to power, protect property rights for all citizens, enforce contracts, and encourage innovation. These emerge when power is widely distributed, enabling "creative destruction" – the entrepreneurial churn that drives sustained growth[5][6]. For example, after 1619 British colonial America gradually developed inclusive political structures (e.g. Virginia's early Assembly), which the authors credit with enabling later economic prosperity[7].
- **Extractive institutions** concentrate power in the hands of a narrow elite that designs rules to maximize its own rents. Such institutions stifle competition and innovation. The Spanish colonial model in Latin America is their classic case: conquerors imposed heavy taxes and forced labor, creating an oligarchic order where "the government violates property rights and concentrates wealth and power in a class of elites"[8]. These extractive political institutions, persisting well past independence, undermined incentives for broad-based growth.

In summary, Acemoglu and Robinson claim *political* institutions determine economic institutions: politics shapes who gets access to economic opportunities[9]. Countries with inclusive political institutions (e.g. early

U.S., post-1688 England) develop inclusive economic rules (secure property rights, competitive markets) and prosper. By contrast, countries with extractive political institutions (e.g. colonial Latin America, much of sub-Saharan Africa) generate extractive economic institutions that produce inequality and poverty[10][11].

Two key dynamics underlie their theory: **path dependence** and **critical junctures**. Path dependence means that small historical differences can be amplified over time by institutional feedback loops. Once an elite coalition gains privilege, it will generally defend it (the “iron law of oligarchy”)[12], making institutional change difficult. Nevertheless, *Why Nations Fail* emphasizes that rare historical shocks (“critical junctures” such as wars, plagues, or revolutions) can upset the status quo. For example, the Black Death in 14th-century Europe drastically shifted labor supplies, enabling more inclusive labor contracts in some regions[13]. If an elite ruling class after a shock is willing to allow innovation and competition, the country can “take off” into a path of inclusive development[14][15]. Thus the interplay of long-term institutional “drift” and occasional shocks can send nations on divergent trajectories. Acemoglu and Robinson present these ideas through historical narratives across continents, highlighting how relatively small historical twists led to vastly different outcomes (e.g. Mexico vs. the U.S. after Spanish vs. British colonization)[16][17].

Strengths and Critiques of *Why Nations Fail*

Acemoglu and Robinson’s work has several strengths: it offers a **coherent grand narrative** linking politics and economics, built on rich historical episodes. Its clear dichotomy (inclusive vs. extractive) is intuitively appealing and provides a lens for a wide range of cases[18]. The book’s emphasis on long-term dynamics and path dependence also highlights that legacies matter: short-term policies (e.g. industrialization plans or foreign aid) alone cannot explain centuries-long divergences. Many reviewers praised the engaging storytelling and the emphasis on how elites stifle innovation to preserve power[19]. Duncan Green notes that the focus on “the dynamics of change” and path dependence is the book’s strongest part, turning institutional analysis into a kind of social “physics” where minor differences at critical junctures produce major historical effects[20]. The concept of creative destruction and “fear of innovation” among elites also resonates with real-world examples (e.g. how entrenched interests can block technology or reforms that threaten rents)[21].

However, *Why Nations Fail* has provoked substantial criticism. A common charge is **oversimplification**. Critics argue that reducing all development outcomes to one dichotomy can gloss over other important factors. Bill Gates, for example, found the analysis “vague and simplistic.” He notes that Acemoglu and Robinson largely dismiss other factors like geography or the role of markets, sometimes without sufficient justification[22]. Gates points out apparent counterexamples: the Roman economy had little cash and was agrarian, so whether Roman institutions were “inclusive” or not likely had minimal impact on growth[23]. He also questions their account of Venice: the book attributes Venice’s decline to less inclusive institutions, but in

Gates' view it was due to competitive losses in trade (e.g. losing the spice trade), not institutional change[24]. In Gates' view, trying to explain *everything* with one institutional theory leads to "illogical examples"[25]. Similarly, *Why Nations Fail* downplays cases like modern China: China achieved rapid growth under predominantly authoritarian, exclusive political rule, which seems at odds with the strict ordering of political inclusiveness before prosperity[26]. Critics say these examples suggest that economic growth can sometimes precede broader political inclusion, contrary to a strict reading of WNF.

Another critique is that WNF remains **descriptive rather than prescriptive**. It convincingly portrays the *problems* of extractive institutions, but offers little concrete guidance on how societies transition to inclusive ones. Acemoglu and Robinson admit institutional change is often "abstraction" that depends on complex interactions, but policy-makers want clearer prescriptions. Some scholars note that WNF tends to celebrate uprisings or revolutions against elites (the 'good Revolution' in their terms) but does not address how external actors or ordinary citizens might foster change when elites resist. Bill Gates, for example, notes that the book "never explains how a country can move to have more 'inclusive' institutions"[27]. Thus a practical weakness is its limited guidance on interventions: if elites fear innovation (as WNF says), how can development agencies or reformers help encourage inclusivity? The book's narrative approach also means it sometimes avoids formal analysis. Important terms like "inclusive institution" are intuitively defined but not rigorously operationalized, making the theory hard to test empirically.

Other scholars have pointed out empirical and conceptual gaps. For instance, WNF downplays **geography** and **culture**, which Acemoglu and Robinson consider minor. Jared Diamond and Jeffrey Sachs have argued factors like disease environment or landlocked geography do matter. *Why Nations Fail* uses the "reversal of fortune" pattern (colonies that were richer pre-colonial are poorer today) to challenge Sachs, but critics say the sample of colonized countries may not generalize globally[28]. The authors dismiss geographic explanations, but as some reviewers note, geography can interact with institutions in complex ways (e.g. tropical agriculture may shape social structures). Additionally, critics argue the book insufficiently accounts for the influence of global economic structures or trade. For example, dependency theorists would argue *Why Nations Fail* ignores how the global capitalist system entrenches elite power in poorer countries through unequal exchange. The authors tend to locate causality entirely within national politics, which some see as a limitation.

Nevertheless, even critics typically acknowledge that *Why Nations Fail* succeeds in foregrounding political power and elites, an improvement over purely economic growth theories. Its portrayal of the "iron law of oligarchy" and how elites use institutions to maintain their rents resonates with real politics[29]. The vivid historical vignettes (e.g. Ethiopia's development stagnation, Mexican vs. U.S. border, North vs. South Korea) help illustrate abstract points, which is a pedagogical strength. Overall, *Why Nations Fail* provides a bold, institution-centric framework. Its main weaknesses – simplification and a lack of policy detail – stem in part from its broad

narrative scope. In sum, WNF frames development as a problem of institutional design and elite incentives, an insight many find valuable, even if they argue for a more nuanced or multi-causal view.

Mushtaq Khan's Political Settlement Theory

Mushtaq Khan's **Political Settlement** approach offers a complementary perspective that is deeply concerned with institutions and power but emphasizes *elite bargains* rather than formal rules alone. Khan defines a political settlement as "a situation where the distribution of benefits supported by its institutions is consistent with the distribution of power in society, and the economic and political outcomes of these institutions are sustainable over time"[30]. In other words, institutions (laws, regulations, policies) must be aligned with who actually holds power. A stable settlement means that the big players (coalitions of elites, bureaucrats, powerful groups) see the rules as legitimate or at least acceptable given their power shares.

Khan's key insight is that **informal power structures** often dominate in developing countries. In advanced economies, political power usually corresponds roughly to economic power (wealthy individuals can exert influence through markets and formal politics). There, formal institutions (Weberian bureaucracy, legal frameworks) are largely self-enforcing[31]. But in many poorer countries, power has roots in historical identities or colonial hierarchies, so formal institutions alone cannot determine who benefits. Khan notes:

"In many cases, the historical roots of [power-holding] capabilities go back to colonial history or earlier. Here, formal institutions alone cannot support distributions of benefits consistent with these distributions of power. Informal institutions like patron-client allocative rules... play a critical role in bringing the distribution of benefits supported by the institutional structure into line with the distribution of power."[32]

Thus, Khan argues that **informal settlements** (often nepotistic, patrimonial, or clientelist networks) coexist with formal laws and can either facilitate or block development. For example, a government might formally enact anti-corruption laws, but if powerful officials ignore them and channel funds through patronage instead, the formal law is essentially hollow. Successful "growth-enhancing" reforms, in Khan's view, require that elites either share some benefits (rents) or are sufficiently compensated so that they tolerate the change[33][34]. His famous "growth-stability trade-off" idea suggests that rapid, sweeping reforms (like complete liberalization) may provoke elite backlash and instability, whereas more gradual or negotiated changes (ensuring key groups are on board) can be feasible.

Under Khan's framework, persistent poverty or inequality arise when political settlements **favor rent-seeking** and exclude broad-based development. If the ruling coalition sees little personal gain from economic growth (for example, if resources are cheap and concentrated), it will maintain extractive norms. Khan classifies developing-country settlements

into types (e.g. **clientelist**, **pre-capitalist**, **neo-patrimonial**, **dominant party**). Clientelist settlements, common in post-colonial states, involve a small elite sharing spoils to co-opt competition but without building effective, impersonal institutions. Growth is often modest or unstable. By contrast, a “capitalist” political settlement has a broader alliance of elites that supports property rights and wealth creation, enabling higher growth. Khan illustrates these ideas with case studies (e.g. how Pakistan’s multiple elites negotiated each party’s share of power) to show why some countries adopt partial reform and others stagnate[35][36].

Compared to *Why Nations Fail*, Khan similarly sees power and institutions as central, but he breaks the abstraction of “inclusiveness” into concrete power relationships. WNF tends to judge a polity by its formal inclusivity (e.g. presence of elections, parliaments). Political settlement theory would ask: *who* is really in those coalitions? Are the people elected true representatives, or proxies of narrow elites? Even a formally “inclusive” government may be an exclusive settlement in practice if underlying power rests elsewhere. For example, Khan would likely view Mugabe’s Zimbabwe: it held elections, but the settlement was managed by a narrow regime that extracted wealth, so the formal institutions did not bring inclusive outcomes. In this sense, political settlement theory adds depth by linking institutions to elites’ incentives. It dovetails with WNF in recognizing that ruling elites control whether creative destruction occurs, but it diverges by incorporating the informal dimension of politics.

Strengths and Critiques of Settlement Theory. Khan’s approach is praised for its **realism** in showing how imperfect institutions coexist with informal norms in many countries. It offers a practical lens: instead of imposing a one-size-fits-all reform, it suggests tailoring institutions to current power configurations, or gradually shifting power by co-opting elites (for instance, involving strongmen in reform coalitions). This perspective has been influential in development circles (e.g. UK’s DFID commissioned his work on political settlements) as a guide to understanding African and Asian political economies. It also resonates with historical evidence: many countries do develop through deals among elites (e.g. colonial extractors bargaining with local chiefs) rather than by excluding them entirely.

However, critics might point out some limitations. Because it focuses on elite bargaining, it may underplay the role of broad social movements or ideas in driving change. By definition, a settlement explains the status quo – but it can become a tautology: “institutions reflect power” is hard to falsify. Like WNF, the settlement approach can struggle to explain how change occurs without assuming some altruism or vision among factions. It also risks being slightly acultural: it identifies coalitions but not why elites end up in one type or another. Finally, because there are many possible settlements (clientelist, neo-patrimonial, etc.), the framework can seem complex and lacks the simplicity of the WNF dichotomy. In practice, diagnosing a settlement can be as hard as solving the development problem itself. Nonetheless, as a theory of persistence, Khan’s framework compellingly explains why many countries maintain low-growth trajectories: the distribution of power simply does not yet reward broad-based development, and any reform threatens existing rents.

North, Wallis, and Weingast: Violence and Social Orders

Douglass North, John Wallis, and Barry Weingast (2009) offer another institutional perspective grounded in the **problem of violence**. Their seminal work, *Violence and Social Orders*, identifies two broad patterns of society, which overlap conceptually with inclusive/extractive divisions. In most of history, societies are “**natural states**” or **limited-access orders**: a small ruling coalition controls coercive power and makes deals to limit violence among elites. They do this by granting each other special privileges (monopolies, land rights, bureaucratic positions) so that elites have an incentive to cooperate rather than fight[37]. In such orders, the economy is heavily manipulated to generate rents for the coalition (e.g. tax farming, monopolies)[38]. According to North et al., the default human organization has been this natural state – even today, about 85% of the world’s population live under variations of limited-access social orders[39].

Limited-access (natural) orders have five key features (as summarized in the book): they tend to have slower growth, frequent violent shocks, small numbers of organizations (civil society is weak), narrow political participation, and personalistic (not impersonal) relationships and laws[40][41]. The natural state solves violence by an elite compact: “Elites agree to respect each other’s privileges, including property rights and access to resources... By limiting access to these privileges to members of the dominant coalition, elites create credible incentives to cooperate rather than fight”[42]. This elite pact means violence is monopolized by the state, but it comes at the cost of broad competition. Technology and resources are often diverted to rent-seeking, which hinders productivity.

In contrast, an **open-access order** emerges when political and economic access are general and impersonal. In an open-access society, organizations and markets are open to entry by new groups, and the political system (e.g. elections, checks and balances) is open to broad participation. Violence is controlled by consolidating force in neutral institutions (e.g. a professional army under civilian control) and by spreading power so no one group dominates the law. North et al. argue that open-access societies (modern democracies) are **both economically and politically more developed**: they exhibit sustained growth, high organizational density, strong middle classes, and impartial rule of law[43][44]. The critical historical transition to open access took place in only a few countries (about 25) over the last 200 years, often through building effective state apparatus and broad coalitions (e.g. post-feudal Western Europe)[45].

This framework helps explain poverty and inequality as functions of how society manages violence. In limited-access orders, wealth is unequally distributed in line with the ruling coalition’s privileges. Most people remain excluded from economic opportunity, so poverty persists. Corruption is systemic (privileges are traded for loyalty), and while the ruling class avoids destructive conflict, the masses suffer stagnation. State failure in this view can occur when the pact breaks down (e.g. after a famine or war), leading to generalized violence. In open-access orders, competition erodes rents (what

Schumpeter called “creative destruction”[46]). Broad political consent means inequality is mitigated by more inclusive policies, even if inequality exists *de facto*. Thus open orders tend to have lower poverty and more stable states.

Comparing to *Why Nations Fail*: North-Wallis-Weingast’s “natural vs open orders” parallels inclusive/extractive institutions. Both see that a narrow coalition controlling power leads to extractive outcomes, whereas broad competition fosters prosperity. The difference is that NWW explicitly ties this to the ability to control violence and to organizational density (number of firms, civil groups). WNF mentions violence only in passing and focuses more on markets and politics. NWW provides a more explicit micro-foundation: elites trade privileges to reduce intra-elite violence[47], whereas WNF focuses on elites stifling creative destruction. Both, however, recognize an “iron law” of power: limited-access elites have a strong incentive to exclude outsiders.

Strengths and Critiques of Violence and Social Orders. North et al.’s theory is praised for integrating political economy with the fundamental problem of coercion. It draws attention to the role of security and order as prerequisites for growth. By categorizing orders by the density of organizations and the openness of access, it provides measurable criteria. Some empirical work by Weingast and others has even attempted to classify countries as limited- or open-access by indices (e.g. measures of rule of law, state capacity). The practical utility lies in identifying whether reforms (like democratization or market liberalization) are feasible given the level of vested privileges.

Criticism of this approach often notes that it may understate other dynamics. For instance, it tends to assume a stage-like progression: a natural state *must* become open access for continued growth. But the path is unclear: why have only some nations transitioned? Also, critics argue that NWW’s categories can oversimplify complex polities (e.g. modern authoritarian regimes may have some “open-access” features like bureaucratic organizations, yet remain extractive). Some Marxist or dependency theorists might say NWW overlooks global power – it is very nation-centric. Others question whether violence control *per se* explains everything. Moreover, as a broad conceptual framework, NWW may describe patterns well but provide less guidance on how to break a natural state’s elite pact. Nonetheless, by linking institutional types to economic outcomes, it converges with WNF on the importance of institutions and diverges by emphasizing *security and organizational density*.

Structuralist Theories of Development and Underdevelopment

Structuralist theories (rooted in mid-20th-century development economics) focus on the **deep economic structures and global constraints** that shape development. Classic structuralists like Raúl Prebisch and Hans Singer argued that developing (peripheral) countries face inherently unfavorable terms of trade: they export primary commodities whose prices

tend to fall relative to manufactured goods from advanced economies[48]. In Prebisch's view, this made development under free trade impossible, as peripheral states would continually lose wealth to the center. The structuralist solution was often **state-led industrialization** (import substitution) and redistribution policies to overcome these rigidities.

Dependency theory, a related structuralist school (Cardoso, Frank, Amin, Wallerstein), argues that underdevelopment is a result of the capitalist world system. As Britannica explains, dependency theory "emphasizes the constraints imposed by the global political and economic order"[49]. Underdeveloped countries are locked into an international division of labor as raw material suppliers, while core countries industrialize. This creates a "vicious cycle" where poor countries must pay high prices for finished goods, depleting their capital[50]. In Andre Gunder Frank's famous phrase, "development of underdevelopment" occurs: the prosperity of the core is simultaneously the impoverishment of the periphery. Structuralist theories hold that inequality and poverty in the Third World are built into the world economy and domestic class structures. They often critique modernization theories (like Rostow) for ignoring the exploitative international context.

How do structuralists explain persistence of poverty or state failure? They see these as results of entrenched structures: unequal land relations, export dependence, and neocolonial relationships. Elite control is often exercised through ownership of key sectors (e.g. plantations, mines) that serve foreign markets. States in the periphery may be "dependent" on foreign capital and therefore unable to implement redistribution. Structuralists would say that extractive institutions (in a WNF sense) are indeed crucial, but those institutions themselves are shaped by external pressures (e.g. multinational corporations, trade terms) and domestic class relations (capitalists vs labor). They might agree with WNF that elites fear losing power, but they emphasize that *which* elites benefit is influenced by world market structures. For example, a plantation elite in Latin America had different incentives (and thus different institutions) than a colonial settler elite in North America.

Strengths of structuralism include its emphasis on **material inequalities and the legacy of colonialism**. It draws attention to factors like natural resource dependence and global finance that institutional analyses sometimes overlook. It has informed policies (like industrial policy, land reform) that governments still consider. However, weaknesses are often noted as well: by framing underdevelopment as nearly inevitable, some critics say structuralism can be deterministic and pessimistic. Import-substitution models sometimes led to inefficient industries and debt crises in practice. Also, by focusing on external structures, it may underplay domestic agency (for example, it would predict Latin America always poor due to structure, whereas some countries outgrew this pattern partly through institutional change).

In relation to the other theories: structuralism converges with **dependency** and (some strands of) Marxism in seeing poverty as structurally produced by capitalism. It diverges from Acemoglu/Robinson by downplaying national institutional reform as a panacea: if global demand and power imbalances

stay fixed, domestic institutional change alone may not suffice. It also overlaps with WNF on the importance of elite interests, but adds that elites' interests are influenced by international economic roles. In practice, structuralism may use some of the same language of inclusiveness (e.g. land reform) to critique elites, but its prescriptions are more about economic policy and global governance than the broad political freedoms emphasized by WNF or Khan.

Marxist Theories of State Formation and Elite Control

Marxist approaches to development similarly stress **class and power**. Classical Marxism posits that capitalist development unfolds through stages of economic modes of production, and the state arises historically to manage class relations. In the simplest Marxist formulation, the state is "the executive committee of the bourgeoisie," serving the interests of the capitalist class. Thus, underdevelopment and inequality are seen as outcomes of class exploitation. Vladimir Lenin's theory of imperialism (1916) extended this to the global arena: advanced capitalist nations export capital and exploit colonies or semi-colonies, generating wealth at the expense of a "chain of dependent economies." Similarly, Andre Gunder Frank and Immanuel Wallerstein (world-systems theory) are often considered Marxist-influenced: they describe how the "metropolitan" core benefits at the cost of "satellite" peripheries, echoing Marx's view of surplus extraction[51][52].

In Marxist theory, state formation is intimately tied to class struggle. Feudal estates gave way to nation-states as proto-bourgeoisie and emerging capitalist classes demanded stable property rights and unified markets. The modern state, from this view, evolved to secure capital accumulation. Accordingly, elite control is central: a small capitalist class (or feudal remnants, or combined authoritarian comprador/bourgeoisie in the periphery) controls the apparatus of coercion and uses it to regulate labor, property and trade. Persistent poverty and underdevelopment in many countries, therefore, are explained by Marxists as the logical outcome of a global capitalist system that privileges the developed core. Marxist theorists point out that even when decolonized countries gain formal independence, their economic structures remain designed to export raw materials. Those benefits largely flow to a local elite tied to foreign capital, so real economic power and decision-making remain narrow.

A strength of the Marxist perspective is its holistic grasp of historical capitalism: it ties macro patterns (boom-bust cycles, imperial wars) to class dynamics and state structures. It also explicitly addresses **inequality** as inherent in profit-driven production. Marxists would argue that WNF's focus on formal political inclusivity misses the deeper economic class basis: even inclusive elections may produce capitalist governments that continue exploitation, unless the state itself is transformed. However, critics of Marxist theory note that it can be overly teleological (predicting inevitable revolution) and sometimes downplays the efficiency and innovation that market economies have achieved. Some Marxist analyses also struggled to explain why capitalist countries do not always collapse under their

contradictions (leading to theories of “state capitalism” or critique of bureaucratic socialism).

Compared to the other approaches: Marxism overlaps with structuralism in emphasizing external exploitation and internal class hierarchies. It overlaps with Khan’s and NWW’s emphasis on elites, but frames them as class fractions rather than broad coalitions. It diverges from NIE by rejecting the notion that institutions (even inclusive ones) can solve underlying capitalist contradictions. In practice, few modern policymakers explicitly advocate Marxist revolution, but many scholars see its legacy in critiques of global inequality and calls for structural redistribution. In sum, Marxist theory explains persistent poverty as the product of entrenched class and global structures.

New Institutional Economics (NIE) and Critiques

New Institutional Economics (NIE) is an economic school (North, Coase, Williamson, etc.) that highlights the role of institutions (especially property rights, contracts, and transaction costs) in economic performance. It asserts that “where institutions lower transaction costs, more transactions will take place, enabling society to achieve greater efficiency”[53]. From this viewpoint, economies with secure property rights, low corruption, good contract enforcement, and low entry barriers can sustain higher growth. NIE contributed by formalizing the idea that poorly defined or enforced property rights can trap countries in poverty – a view consistent with WNF’s emphasis on property rights, but without necessarily tying it to politics.

However, NIE typically assumes institutions are exogenous or can be reformed easily and often focuses on static efficiency rather than power. Critics (including Acemoglu & Robinson implicitly) argue that traditional NIE insufficiently addresses *how* institutions arise or why elites choose some rules over others. For example, NIE might say “poor countries have weak institutions, so we need legal reforms,” but it does not explain why powerful politicians allowed corruption in the first place. Khan’s settlement theory explicitly “pushes development thinking beyond an institutionalist approach”[54] by insisting institutions must be embedded in real power relations. In other words, NIE’s assumption of a neutral “rule of law” state is often not valid in practice.

A number of scholars have offered Marxist or political critiques of NIE. One early critique (dubbed “Anti-Williamson”) argued that NIE starts from an idealized market and then adds transaction costs, whereas Marx would start from class and power. Another critique is that NIE is too focused on formal “market” institutions and neglects informal rules. For instance, in a society with strong clan or patronage ties, formal markets play second fiddle to personal networks – but NIE models often ignore this. The advanced introduction to NIE by Menard and Shirley (2022) acknowledges these limitations: it notes that although NIE is broader than neoclassical economics by including “institutional factors,” it historically developed as a micro-theory and often treats institutional change as an afterthought[55].

In summary, NIE's core insights (importance of institutions, transaction costs) are valuable, but its **assumptions** have been critiqued. In development debates, NIE-inspired approaches (e.g. World Bank governance reform agendas) often focus on anti-corruption, judicial reform, and privatization, assuming that building formal institutions is the key. Critics respond that without considering the **political settlement** or social order, these reforms can fail or even entrench existing power (e.g. privatization may just give public assets to connected oligarchs). Thus NIE typically aligns with WNF on *what* matters (rule of law, property rights) but WNF and others argue that NIE's *why and how* explanations are incomplete.

How Each Theory Explains Poverty, Inequality, State Failure, and Development

We have outlined the core claims of each theory; here we briefly compare their explanations of the key outcomes:

- **Acemoglu & Robinson (Inclusive vs Extractive).** They argue poverty and inequality persist when a country is locked in an *extractive equilibrium*: a small elite controls institutions to maximize its own wealth, stifling growth. Economic crises or stagnation occur because innovation is squelched by rent-seekers. State failure (e.g. breakdown of government) can happen if extractive pressures become too great (crowding out any legitimacy). In contrast, successful development arises when political institutions become inclusive, distributing power widely so that citizens have incentives to invest and innovate[56][57].
- **Khan's Political Settlement.** For Khan, poverty persists when the existing settlement does not reward broad-based growth. If the ruling coalition mainly benefits from resource rents, it will under-invest in public goods or support only extractive enterprises. Inequality remains high because the distribution of benefits (wealth, jobs, licenses) mirrors the narrow power-holders. State failure (e.g. frequent coups) can result when a settlement is so exclusionary that significant groups refuse to accept it. Conversely, development succeeds when an alliance of elites (and sometimes emerging capitalists) sees mutual gains in economic expansion, so they "share the pie" (through taxation, education, infrastructure) to enlarge it. In effect, growth-enhancing institutions emerge only when the settlement aligns incentives accordingly[58][59].
- **NWW's Violence and Orders.** Under limited-access orders, poverty is endemic because most people are excluded from political-economic organizations. The formal economy may grow slowly but unpredictably (with frequent crises). Inequality is inherent: only coalition members capture rents. State failure is less common (the dominant coalition keeps internal peace), but if disrupted, it can be violent (civil war). In open-access orders, poverty rates are lower and growth more stable. Wide organizational participation and rule of law mean more equal economic opportunities. State failure is rare, since power is contested peacefully through institutions. Thus, NWW sees the path out of

poverty as dismantling elite monopolies – essentially moving to an open-access framework.

- **Structuralist/Dependency.** Poverty is not accidental but built into the global structure. Core nations and local elites sustain underdevelopment by exporting raw materials and importing manufactured goods, keeping countries poor. Inequality comes from a class structure: the bourgeoisie and landlords ally (often with foreign capital) to keep labor cheap and maintain their profits. State failure may follow from this: for example, a country stuck exporting volatile commodities might face fiscal crises or social unrest (e.g. coups in import-dependent states). Development success, in this view, requires breaking dependency – e.g. through delinking from world markets, industrial policy, or revolution. Unlike institutional theories, structuralism emphasizes changing the *economic* structure (industrialization, land reform) to overcome poverty.
- **Marxist.** Similar to structuralism, Marxists say poverty and inequality persist because of class exploitation. The state often intervenes to protect capital (for instance through subsidies or repression of workers). State failure can occur if the ruling class loses legitimacy (revolution or collapse), but Marxists predict that ultimately capitalism self-destructs. Development success (i.e. closure of the gap between North and South) is seen as possible only through socialist revolution or very radical reform. Marxism emphasizes that surface institutions (even if inclusive) cannot override the fundamental conflict between labor and capital – a market economy always produces inequality.
- **NIE.** Poverty persists when institutions are weak or missing: for instance, if property rights are insecure, no one invests, so the economy stagnates. Inequality may arise through monopolies and corruption (an institutional problem). State failure can result when governments cannot enforce contracts or secure borders (high transaction costs). Development success follows from strengthening institutions: clear legal frameworks, open markets, efficient bureaucracy. NIE typically sees policy-oriented reforms (legal reforms, anti-corruption measures, infrastructure) as pathways out of poverty.

Convergences, Divergences, and Practical Utility

Across these theories we see both common ground and stark differences:

- **Convergence:** All emphasize institutions or structures beyond mere factor endowments. Acemoglu/Robinson, NWW, NIE, and Khan all assert that formal/informal rules shape incentives. Khan and Marxists stress power distribution; WNF, NWW, and NIE stress institutional rules; structuralists focus on economic structures of markets and trade. There is a shared belief that accidents of history (colonization, social orders, class formations) have long-term effects. All recognize that elite coalitions often benefit from the status quo – be they elites in extractive

political institutions, patrons in a political settlement, or capitalists in a dependency chain – and that these elites must be brought into any successful reform (albeit each theory frames it differently).

- **Divergence:** The major differences lie in **what is seen as primary and most changeable**. WNF and NIE tend to focus on formal rules and legal changes (rule of law, constraints on power) as the key policy levers (though WNF is more sweeping). Khan and NWW focus on the deeper question: who holds power? They imply that without shifting underlying power, changing formal rules alone is futile. Structuralists and Marxists, in turn, emphasize *economic* categories and class, suggesting that political and institutional fixes can only go so far without altering the economic base (e.g. terms of trade or ownership of production). In ideological tone, Marxism is revolutionary, while NIE is liberal-market. WNF has a normative anti-elite undertone but remains within a democratic pluralist paradigm; political settlement is pragmatic, sometimes endorsing authoritarian deals if they deliver development (i.e. “strongman” leaders). NWW has an implicit teleology (open access is the endpoint) that not all theories share (Marxist theory anticipates a move to socialism, not liberal democracy, for example).
- **Practical utility:** Each offers policy implications. WNF suggests focusing on broadening political participation and enforcing property rights, but acknowledges this is hard. Its popular framing has influenced democracy and governance agendas. Khan’s approach advises “first build the settlement, then build institutions” – in practice, this has translated to cautious reform strategies that engage elites (e.g. compromises in patronage states). NWW would imply that countries should work on consolidating a monopoly on violence (security sector reform) and gradually broadening access. Structuralists would promote industrial policy, diversifying exports, and challenging unfair trade deals. Marxist insights encourage policies addressing class (redistribution, labor rights, or even revolution). NIE leads to relatively technocratic reforms: simplifying contracts, reducing red tape, strengthening courts and anti-corruption agencies.

In application, there is **complementarity**. For instance, an aid practitioner might use a blend: rely on WNF/NIE to push for anti-corruption laws, but heed Khan’s advice to ensure powerful groups are on side; they might use NWW’s analysis to realize that peace and security (monopoly of violence) are prerequisites for market reforms. Conversely, ignoring these lessons can lead to failure: e.g. imposing property rights reforms (NIE) without addressing who controls those rights (Khan) or who can legally enforce them (NWW).

Convergence example: Both WNF and NWW hold that more open, competitive access to organizations (business, media, politics) correlates with prosperity. Both see that monopolies in politics or economy generate stagnation. **Divergence example:** Khan would critique WNF for undervaluing the role of informal patronage; WNF in turn might see Khan as giving too much legitimacy to unaccountable power brokers. Structuralists would argue that both WNF and Khan underplay the global context – an

African country might have inclusive institutions and still struggle if its economy depends on a single commodity. NIE and WNF share a basic belief that institutions are key, yet NIE's narrower focus on efficiency contrasts with WNF's emphasis on power and revolution.

Ultimately, no single theory tells the whole story. Inclusive political institutions (WNF/NIE) matter greatly, but to create them one must navigate existing power (Khan), ensure violence is controllable (NWW), and consider global economic constraints (structuralism/Marxism). For example, the East Asian "miracle" economies illustrate this synthesis: countries like South Korea transitioned through authoritarian but development-focused regimes (a particular settlement) that delivered industrial growth (structuralist/dependency factor) and eventually broadened participation (WNF) – all under a context of Cold War geopolitics (Marxist/structuralist insight).

Conclusion

This comparative analysis shows that *Why Nations Fail* has significantly influenced how we think about development by centering institutions and politics. Its core thesis – that inclusive political and economic institutions drive growth, whereas extractive ones trap countries in poverty – aligns in many ways with other institutionalist theories (NIE, NWW) but differs in emphasis from approaches that stress elite bargaining (Khan) or global economic structure (structuralist, Marxist). Each framework highlights different facets: WNF brings a sweeping historical narrative; settlement theory delves into elite power; violence-order theory connects security to development; structuralists foreground international economics; Marxists underline class exploitation; NIE specifies transaction-cost mechanisms.

These theories converge on the idea that **power and institutions** are central to development, yet diverge on which levers to prioritize. A sophisticated understanding of poverty, inequality, and state failure likely requires integrating insights from multiple traditions. For example, we might ask: in a given country, what is the political settlement (Khan) that sustains the current institutions (WNF/NIE), and how does the broader world-system (structuralism) shape the options available? By critically examining strengths and weaknesses of each perspective, policymakers and scholars can better appreciate why some reforms succeed and others fail. In practice, a blended approach – strengthening the rule of law while engaging existing power-holders, investing in state capacity while reforming economic structures – may be needed to break cycles of extractive rule.

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