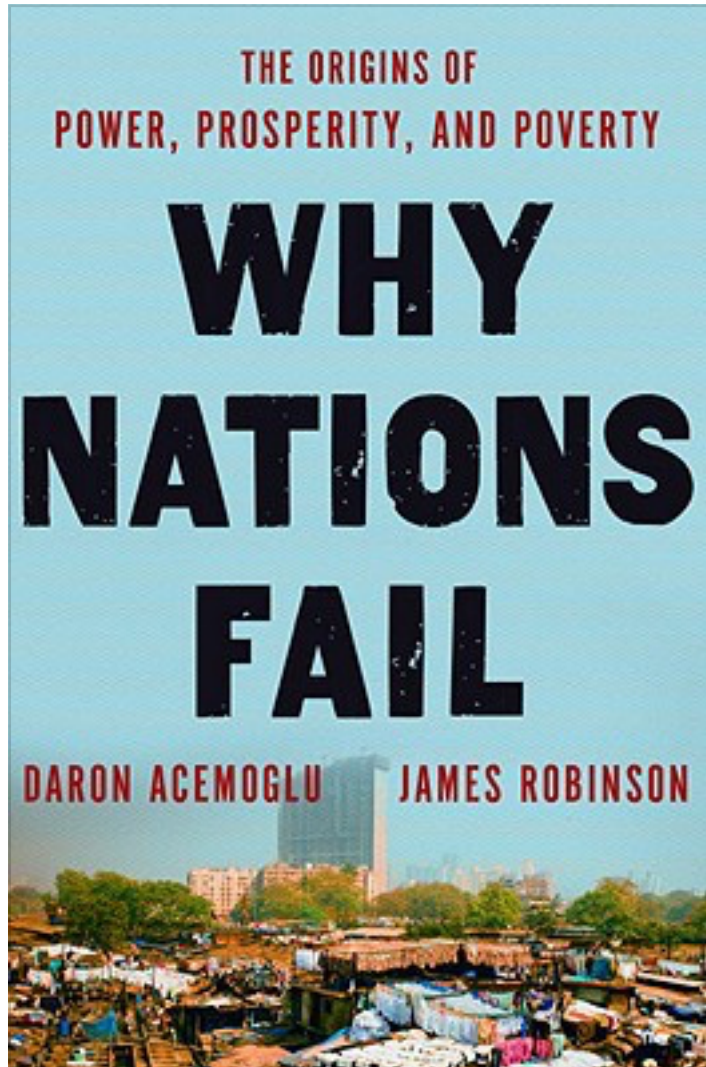


#92: Why Nations Fail

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Overview

Having recently read [Guns Germs and Steel](#), [Why Nations Fail](#) turned much of what I had learned on its head. Acemoglu and Robinson attempt to explain why there is systemic inequality in the world, in an effort to encourage better and more creative solutions to eradicating poverty. Their theory is simple: that economic institutions shape incentives for businesses, individuals, and politicians, and these institutions are created, preserved, or destroyed by political institutions. Economic and political institutions are often self-reinforcing—in virtuous cycles, political freedom yields more economic opportunity, which yields more freedoms. In the “vicious circle”, extractive political institutions ensure that wealth remains concentrated in the hands of a few oligarchs.

Book Notes

CHAPTER 1 - SO CLOSE AND YET SO DIFFERENT

- “Early Spanish and, as we will see, English colonists were not interested in tilling the soil themselves; they wanted others to do it for them, and they wanted riches, gold and silver, to plunder.” (pg. 11)
- “The full gamut of *encomienda*, *mita*, *repartimiento*, and *trajin* was designed to force indigenous people’s living standards down to a subsistence level and thus extract all income in excess of this for Spaniards. This was achieved by expropriating their land, forcing them to work, offering low wages for labor services, imposing high taxes, and charging high prices for goods that were not even voluntarily bought. Though these institutions generated a lot of wealth for the Spanish Crown and made the conquistadors and their descendants very rich, they also turned Latin America into the most unequal continent in the world and sapped much of its economic potential.” (pg. 19)
- “They chose North America not because it was attractive, but because it was all that was available. The ‘desirable’ parts of Americas, where the indigenous population to exploit was plentiful and where the gold and silver mines were located, had already been occupied. The English got the leftovers.” (pg. 19)
- “If the indigenous peoples could not be exploited, reasoned the Virginia Company, perhaps the colonists could. The new model of colonial development entailed the Virginia Company owning all the land.” (pg. 25)
 - “The only option for an economically viable colony was to create institutions that gave the colonists incentives to invest and to work hard.” (pg. 26)
- “Between 1824 and 1867 there were fifty-two presidents in Mexico.” (pg. 31)
- “The board distribution of political rights in the United States, especially when compared to Mexico, guaranteed equal access to finance and loans. This in turn ensured that those with ideas and inventions could benefit from them.” (pg. 36)
- “Understanding why these differences exist and what causes them is our focus in this book. Developing such understanding is not just an end in itself, but also a first step toward generating better ideas about how to improve the lives of billions who still live in poverty.” (pg. 41)
- “Economic and political [institutions] shape the incentives of businesses, individuals, and politicians” (pg. 42)
- “This book will show that while economic institutions are critical for determining whether a country is poor or prosperous, it is political and political institutions that determine what economic institutions a country has.” (pg. 43)
- “Our theory for world inequality shows how political and economic institutions interact in

causing poverty or prosperity, and how different parts of the world ended up with such different sets of institutions." (pg. 44)

CHAPTER 2 - THEORIES THAT DON'T WORK

- "The focus of our book is on explaining world inequality and also some of the easily visible broad patterns that nest within it." (pg. 45)
- "The great inequality of the modern world that emerged in the nineteenth century was caused by the uneven dissemination of industrial technologies and manufacturing production. It was not caused by divergence in agricultural performance." (pg. 51)
- Ignorance Hypothesis - "world inequality exists because we or our rulers do not know how to make poor countries rich." (pg. 63)
- "As we will show, poor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose." (pg. 68)
- Politics: "how decision actually get made, who gets to make them, and why those people to do what they do." (pg. 68)
- "Economics has gained the title of Queen of the Social Sciences by choosing solved political problems as its domain."
- "We will argue that achieving prosperity depends on solving some basic political problems. It is precisely because economics has assumed that political problems are solved that it has not been able to come up with a convincing explanation for world inequality. Explaining world inequality still needs economics to understand how different types of policies and social arrangements affect economic incentives and behavior. But it also needs politics." (pg. 68)

CHAPTER 3 - THE MAKING OF PROSPERITY AND POVERTY

- "To be inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it must also permit the entry of new businesses and allow people to choose their careers." (pg. 75)
- Extractive economic institutions - "designed to extract incomes and wealth from one subset of society to benefit a different subset." (pg. 76)
- "The most famous and widely accepted definition of the state": "monopoly of legitimate violence" in society (pg. 80)
- Inclusive political institutions sufficiently centralized and pluralistic (pg. 81)
- "The central thesis of this book is that economic growth and prosperity are associated with inclusive economic and political institutions, while extractive institutions typically lead to

stagnation and poverty. But this implies neither that extractive institutions can never generate growth nor that all extractive institutions are created equal." (pg. 91)

CHAPTER 4 - SMALL DIFFERENCES AND CRITICAL JUNCTURES: THE WEIGH OF HISTORY

- Critical Juncture - "a major event or confluence of factors disrupting the existing economic or political balance in society. A critical juncture is a double-edged sword that can cause a sharp turn in the trajectory of a nation." (pg. 101)
- "It is not a coincidence that the Industrial Revolution started in England a few decades following the Glorious Revolution." (pg. 103)
- "Once a critical juncture happens, the small differences that matter are the initial institutional differences that put in motion very different responses." (pg. 107)
- Spanish Armada defeat of 1588 (research this) (pg. 111)
- "The substantial profits to be had from slaving led not only to its intensification and even more insecure property rights for the people but also to intense warfare and the destruction of many existing institutions; within a few centuries, any process of state centralization was totally reversed, and many of the African states had largely collapsed." (pg. 116)
- Seretse Khama - "an extraordinary man, uninterested in personal wealth and dedicated to building his country." (pg. 117)

CHAPTER 5 - "I'VE SEEN THE FUTURE, AND IT WORKS": GROWTH UNDER EXTRACTIVE INSTITUTIONS

- "Extractive institutions cannot generate sustained technological change for two reasons: the lack of economic incentives and resistance by the elites." (pg. 128)
- The first domesticated cobs of corn were barely a few centimeters long—by selecting larger and larger ears over many years, they created modern maize (pg. 137)
- "The growth generated by extractive institutions is very different in nature from growth created under inclusive institutions, however. Most important, it is not sustainable. By their very nature, extractive institutions do not foster creative destruction and generate at best only a limited amount of technological progress. The growth they engender thus lasts for only so long." (pg. 150)

CHAPTER 6 - DRIFTING APART

- On the decline of Venice...
 - "Instead of pioneering trade routes and economic institutions, Venetians make pizza

and ice cream and blow colored glass for hordes of foreigners." (pg. 156)

- "The fact that inclusive institutions can go into reverse shows that there is no simple cumulative process of institutional improvement." (pg. 157)
- "Small institutional differences that play a crucial role during critical junctures are by their nature ephemeral." (pg. 157)
- "Growth was based on relatively high agricultural productivity, significant tribute from the provinces, and long-distance trade, but it was not underpinned by technological progress or creative destruction." (pg. 170)
- Great story from Pliny the Elder, about a man who invented unbreakable glass (pg. 171)
- "Economies based on the repression of labor and systems such as slavery and serfdom are notoriously non-innovative." (pg. 172)

CHAPTER 7 - THE TURNING POINT

- "The fear of creative destruction is the main reason why there was no sustained increase in living standards between the Neolithic and Industrial revolutions. Technological innovation makes human societies prosperous, but also involves the replacement of the old with the new, and the destruction of the economic privileges and political power of certain people." (pg. 183)
- The Industrial Revolution, "was about a fundamental reorganization of economic institutions in favor of innovators and entrepreneurs, based on the emergence of more secure and efficient property rights." (pg. 197)
- "New people with new ideas were crucial to this transformation. Consider innovation in transportation..canals...roads...railways." (pg. 205)
 - "He had no previous experience with transportation problems, which also was true of other great canal engineers such as Thomas Telford, who started life as a stonemason, or John Smeaton, an instrument maker and engineer." (pg. 205)
- Why England? (pg. 208)
 - "The political conflict between absolutism and its opponents."
 - "Drift in English institutions and the way they interacted at critical junctures."
 - "Massive expansion of trade into the Atlantic."
 - "The emergence and empowerment of diverse interests."
- "Still none of this made a truly pluralistic regime inevitable, and its emergence was in part a consequence of the contingent path of history." (pg. 211)

CHAPTER 8 - NOT ON OUR TURF: BARRIERS TO DEVELOPMENT

- "Until well into the second half of the nineteenth century, book production in the Ottoman Empire was still primarily undertaken by scribes hand-copying existing books." (pg. 214)

- "Books spread ideas and make the population harder to control. Some of these ideas may be valuable new ways to increase economic growth, but others may be subversive and challenge the existing political and social status quo. Books also undermine the power of those who control oral knowledge, since they make that knowledge readily available to anyone who can master literacy." (pg. 215)
- On being a serf in 19th century Russia...
 - "Serfs had to work for nothing three days of the week on the lands of their lords. They could not move, they lacked freedom of occupation, and they could be sold at will by their lord to another lord." (pg. 227)

CHAPTER 9 - REVERSING DEVELOPMENT

- The Dutch spice trade in Indonesia...
 - "The Dutch now stipulated that each household was tied to the soil and should cultivate a certain number of clove trees. Households were also obligated to deliver forced labor to the Dutch." (pg. 248)
- "The abolition of the slave trade, rather than making slavery in Africa wither away, simply led to a redeployment of the slaves, who were now used within Africa rather than in the Americas." (pg. 257)
- "As a result slavery, rather than contracting, appears to have expanded in Africa throughout the nineteenth century." (pg. 257)
- "The Colour Bar" - "No African was allowed to own property or start a business in the European part of the economy...Africans were banned from occupying any skilled job in the mining sector." (pg. 268)
- "Technological change is only one of the engines of prosperity, but it is perhaps the most critical one." (pg. 271)
- "In several instances the extractive institutions that underpinned the poverty of these nations were imposed, or at the very least further strengthened, by the very same process that fueled European growth: European commercial and colonial expansion." (pg. 271)
- "Economic development may sometimes feed on, and even create, the underdevelopment in some other part of the domestic or the world economy." (pg. 273)

CHAPTER 10 - THE DIFFUSION OF PROSPERITY

- Prior to the French Revolution, there were three segments (pg. 283)
 - The clergy (the first estate)
 - The aristocrats (the second estate)
 - Everyone else (the third estate)

- “The French Revolution thus prepared not only France but much for the rest of Europe for inclusive institutions and the conic growth that these would spur.” (pg. 291)
- Japan: “In 1869 feudalism was abolished, and the three hundred fiefs were surrendered to the government and turned into prefectures.” (pg. 296)
- “Instead of reforming institutions, the Chinese tried to match the British militarily by importing modern weapons. The Japanese built their own armaments industry.” (pg. 298)
- “Whether a country did embark on industrialization was largely a function of its institutions.” (pg. 299)
- “With very few exceptions, the rich countries of today are those that embarked on the process of industrialization and technological change starting in the nineteenth century, and the poor ones are those that did not.” (pg. 301)

CHAPTER 11 - THE VIRTUOUS CIRCLE

- “If monopoly persists, monopoly will always sit at the helm of government. I do not expect to see monopoly restrain itself. If there are men in this country big enough to own the government of the United States, they are going to own it.” - Woodrow Wilson, in The New Freedom (pg. 323)
- “The presence of markets is not by itself a guarantee of inclusive institutions.” (pg. 323)

CHAPTER 12 - THE VICIOUS CIRCLE

- “Like many of Africa’s post independence leaders, when the choice was between consolidating power and encouraging economic growth, Stevens chose consolidating his power, and he never looked back.” (pg. 337)
- “In Guatemala, as in much of Central America, in a typical pattern of the vicious circle, extractive political institutions supported extractive economic institutions, which in turn provided the basis for extractive political institutions and the continuation of the power of the same elite.” (pg. 351)
- “The extractive institutions in the southern United States, based on the power of the landed elite, plantation agriculture, and low-wage, low-education labor, persisted well into the twentieth century.” (pg. 357)
- “The vicious circle is based on extractive political institutions, because economic wealth and power buy political power.” (pg. 357)
- “History repeats itself—the first time as tragedy, the second time as farce.” - Karl Marx (pg. 360)
- The Iron Law of Oligarchy - “new leaders overthrowing old ones with promises of radical change bring other but more of the same.” (pg. 361)
- “History is not destiny, and vicious circles are not unbreakable....but they are resilient. They

create a powerful process of negative feedback, with extractive political institutions forging extractive economic institutions, which in turn create the basis for the persistence of extractive political institutions.” (pg. 365)

- “A revolution by a broad coalition make the emergence of pluralistic political institutions much more likely.” (pg. 366)

CHAPTER 13 - WHY NATIONS FAIL TODAY

- “Nations fail today because extractive economic institutions do not create the incentives needed for people to save, invest, and innovate. Extractive political institutions support these economic institutions by cementing the power of those who benefit from the extraction. Extractive economic and political institutions, though their details vary under different circumstances, are always at the root of this failure.” (pg. 372)

CHAPTER 14 - BREAKING THE MOLD

- “Today, Botswana has the highest per capita income in sub-Saharan Africa, and is at the same level as successful Eastern European countries such as Estonia and Hungary, and the most successful Latin American nations, such as Costa Rica.” (pg. 409)
- “In 1940 southern states had only about 50 percent of the level of per capita income of the United States. This started to change in the late 1940s and '50s. By 1990 the gap had basically vanished.” (pg. 418)

CHAPTER 15 - UNDERSTANDING PROSPERITY AND POVERTY

- “A successful theory, then, does not faithfully reproduce details, but provides a useful and empirically well-grounded explanation for a range of processes while also clarifying the main forces at work.” (pg. 429)
- Their theory operates at two levels....
 1. “The distinction between extractive and inclusive economic and political institutions”
 2. “Our explanation for why inclusive institutions emerged in some parts of the world and not in others.”
- “Our theory does not imply historical determinism—or any other kind of determinism... there was no historical necessity that Peru end up so much poorer than Western Europe or the United States.” (pg. 432)
- “Naturally, the predictive power of a theory where both small differences and contingency play key roles will be limited.” (pg. 434)
- “Any approach based on historical determinism—based on geography, culture, or even other historical factors—is inadequate.” (pg. 435)

- “Nevertheless, our theory is still useful for policy analysis, as it enables us to recognize bad policy advice, based on either incorrect hypotheses or inadequate understanding of how institutions can change. In this, as in most things, avoiding the worst mistakes is as important as—and more realistic than—attempting to develop simple solutions.” (pg. 437)
- Authoritarian regimes... (pg. 445)
 - “Growth under authoritarian, extractive political institutions in China, though likely to continue for a while yet, will not translate into sustained growth.”
 - “We should not count on authoritarian growth leading to democracy or inclusive political institutions.”
 - “Authoritarian growth is another desirable nor viable in the long run, and thus should not receive the endorsement of the international community as a template for nations in Latin America, Asia, and sub-Saharan Africa.” (pg. 447)
- The ignorance hypothesis - “if ignorance got us here, enlightening and informing rulers and policy makers can get us out, and we should be able to ‘engineer’ prosperity around the world by providing the right advice and by convincing politicians of what is good economics.” (pg. 446)
 - This is not the case.