

Book Review
By
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Daron Acemoglu & James A. Robinson, *Why Nations Fail: The origins of Power, Prosperity and Poverty* (Crown Publisher: United States of America, 2012), 529

Why Nations Fail: The Origins of Power, Prosperity and Poverty is an in-depth look at the growing income and wealth disparities between rich and poor countries. The central theme of this book is to explain the concept of inclusive and extractive political and economic systems, which according to the authors are responsible for the disparity of wealth among the countries. Authors have made a comparative analysis of the countries like US, Britain and Germany with the poor countries, such as those in Sub-Saharan Africa, Central America and South Asia. The authors categorize the two sets of countries, the rich and the poor, according to the socio-political systems prevailing in each state. Developed countries have an inclusive system and most of the developing countries are practicing extractive political and economic systems.

The whole debate in the book revolves around the framework of inclusive political and economic systems and its impact on an economic and political progress of the country whose institutions are practicing these systems. The authors have explained these concepts with the help of analogies and tested their theory on the basis of historical experiences of various states and their current status in the world.

The book has fifteen chapters. In each chapter the authors explain, by discussing examples of different countries, that they are poor not because of their history, geography or culture, but because of lack of political and economic vision of leaders and functioning of their government institutions. The authors categorise the two sets of countries, the rich and the poor, according to the socio-political systems prevailing in each state. Rich countries have an inclusive system and the poor countries follow an extractive system. A state's politics and economic system determine how its institutions create incentives for better economic growth. The authors have discussed the case of Nogales which is an area divided between Mexico and the USA and compared the Mexican part with Arizona in some detail.

They point out that both these areas have similar climate and landscape yet the people living on the American side of the fence have a distinctively better standard of living as compared to those living on the Mexican side of the border. If people living on both sides of the border have the same culture, origin and geography then why those residing in one part are rich and in the other poor. This is the question the authors have tried to answer in their well researched and voluminous study on reasons behind failure of states to prosper.

After raising some very profound questions in the first chapter the authors give answers in the subsequent parts of the book by discussing examples of different countries in different historical eras.

Chapter number eleven titled *Virtuous Circle* can be considered the most important chapter of the book as the authors' attempt to answer most of the questions raised earlier in the book. They conclude that key to prosperity of nations lay in adherences to the rule of law, which should treat all citizens equally without any discrimination of color, creed or race. The authors call this a virtuous circle. They explain the virtuous circle concept in detail with the example of Glorious Revolution of 1688 and how Black Act promulgated in 1723 paved the way for emergence of a pluralistic society that empowered common people in Britain and led to Industrial Revolution.

Rich countries promote pluralistic societies and the rule of law as noted earlier. In comparison to rich countries the poor countries have an extractive system which exploits the weak and the poor segments of the society and protects the politically and economically privileged classes. Instead of applying the rule of law equally to all citizens it is selectively used to extract more privileges for the powerful elites of the country. The authors have called this a vicious circle. It is much like the *Vicious Circle* of poverty the economists have been talking about for years.

In the chapter *Why Nations Fail Today* the authors further elaborate the extractive system by discussing the examples of some African, Asian and Latin American states. They note that countries with different geographical features, temperatures, latitudes and ruled by different colonial powers have remained poor because institutions in these countries continue to function as extractive political and economic systems. According to the authors democracy is the best political system in practice in the world today. They however differentiate

between countries following a democratic system with an inclusive political system and those with an extractive political system even though the government in those countries may be democratic in form.

Countries like the US, Britain and Germany practice democracy with inclusive institutional setup. Whereas country like North Korea practices an extractive model based on the communist foundation of their state's governing system. This system has deprived people of their rights by allowing them minimum participation in political decision making of the country. Authors also discuss the cases of Middle Eastern and North African countries in recent past which have been shaken by the 'Arab Spring.'

The authors believe that breaking the vicious circle is not easy but also not impossible. In their opinion revolutions and civil wars unfolding in the Middle East and Africa and might be able to break the vicious circle of poverty if they mould their politico-economic structure on the lines of inclusive political and economic systems.

The analysis in the book has its limitations. Beyond their inclusive vs. extractive view of political and economic institutions the authors have not taken into account all other factors like history, geopolitics, social structure of society and leadership that impact the political character of a country. They never explain how a country can move to acquire more "inclusive" institutions. The theory which they have applied to draw comparison between inclusive and extractive concepts to explain all economic and political limitations of different continents, regions, and regimes is not sufficient to analyze the factors that determine the success or failure of a country.

The authors believe that political "inclusiveness" must come first, even before growth is achieved. Yet most examples of economic growth in the last 50 years—the Asian miracles of Hong Kong, South Korea, Taiwan, China and Singapore took place when their political system tended to be non-democratic.

The book is worth reading as it is a good contribution to the existing literature on historical evidences of economic development and growth in wealth in different part of the world. The book is the result of in depth study of fifteen years research of Acemoglu and Robinson. It is also a master piece of great primary research of

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data collected by authors through extensive traveling. They collected extraordinary historical evidence from ancient empires to modern state systems to build a new theory of political economy with relevance to the current political and economic problems.

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