Why Nations Fail: The Origins of Power, Prosperity, and Poverty Study Guide

Why Nations Fail: The Origins of Power, Prosperity, and Poverty by Daron Acemoğlu

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Plot Summary

Why Nations Fail: The Origins of Power, Prosperity and Poverty, by economists Daron Acemoglu and James Robinson, is an attempt to answer one of economics' oldest and most important questions: why are some nations rich and others poor? After setting aside a number of common theories that answer the question with theories about geography, genetics and culture, the authors argue that the best explanation of the distribution of wealth in the world is institutional.

Specifically, the authors argue that rich countries are rich by virtue of having "inclusive institutions" or economic and political institutions that include the large majority of the population in the political and economic community. Inclusive institutions are democratic, in that they allow mass publics to vote and protect free speech such that political institutions respond to the interests of all persons. Inclusive institutions also set out clear property rights that are reliably enforced by adequate legal systems. They also tend to invest in technologies that benefit all persons and they treat persons equally under the law. Inclusive economies include England, the United States and, relatively recently, South Korea.

Poor countries are poor because they have "extractive institutions" or economic and political institutions that restrict economic gains to an elite political class and ensure that wealth is redistributed "upward," impoverishing the poor. Extractive institutions are anti-democratic and do not define and enforce property rights or protect the rule of law. Examples of extractive institutions include the economies of Mexico, Somalia and North Korea. The authors emphasize that while extractive economies can grow, their growth tends to be unsustainable and skewed towards the upper classes.

The authors theorize that the reason that countries have inclusive rather than extractive institutions is due to their institutional history. Due to institutional "drift," countries can gradually move in extractive or inclusive directions and back again. On top of that, inclusive and extractive institutions are both self-reinforcing. The authors call a self-reinforcing set of inclusive institutions a "virtuous circle" and self-reinforcing sets of extractive institutions as caught in "vicious circles." So while nations can, over their histories, develop in one direction or another, they tend to get caught in a generally inclusive or extractive pattern. Due to the powerful forces of institutional drift, external interventions into extractive economies have generally proved to be failures. Foreign aid and humanitarian intervention provide temporary solutions at best. The only way for poor countries to develop is for them to throw off their extractive institutions and move in an inclusive direction. They must make use of "critical junctures" in institutional history that allow for a nation to take new political directions.

Why Nations Fail is not a work of pure economic theory, however, since the lion's share of the book is occupied with illustrating the foregoing claims in great detail. The authors treat us to sharp contrasts, such as the relative economic statuses of Nogales, Arizona and Nogales, Mexico or the staggering contrast between geographically and culturally similar North and South Korea. The authors also take the reader through economic history and try to show how England developed inclusive institutions from the 16th century on.

Preface and Chapter 1, So Close and Yet So Different

Preface and Chapter 1, So Close and Yet So Different Summary and Analysis

Why Nations Fail concerns radical differences in living standards across the world, especially between developed nations like the United States and poor nations like most of those in sub-Saharan Africa or even Egypt. While the peoples of poor nations, again like Egypt, emphasize corruption, repression and lack of investment in social services as explanations, economists point to other factors. Some focus on geographical differences, others on cultural differences. A still different approach is a failure of political leaders to apply effective political policies.

In this book, authors Daron Acemoglu and James Robinson, will side with the people. The reason nations like Egypt are poor is that they have corrupt elite classes who impoverish their nations. Countries like the U.S. and the U.K. are rich because the people have successfully overthrown their elites, distributed political rights broadly and made government accountable to the citizens such that most people have new economic opportunities. Why Nations Fail shows how these patterns of institutional change reproduce themselves, which should help us understand how to make countries rich in the future.

Chapter 1 begins with a sharp contrast between Nogales, Arizona and Nogales, Sonora. These two cities are identical in almost every respect. They have similar cultures, food, religious practices and people. But what differentiates them is the border that separates a relatively effective set of political institutions in the U.S. from a relatively ineffective set of political institutions in Mexico. This explains the great disparity in wealth between them. And this institutional difference is the result of history. The difference between Latin American and the U.S. is the way in which these countries were first colonized. In Latin America, Spanish conquistadors came to coerce local populations into providing them with great wealth, leaving them to reproduce with natives and create a new elite class, which follows the capture of local leaders.

The conquistadors gradually set up a highly repressive political system to systematically extract resources from the natives. They would divide peoples into distinct groups and areas known as encomiendas, and the results of these divisions have continued to this day. The institutions produced great wealth for the Spanish crown, but kept the economic potential of the area bottled-up in inequality.

In contrast, England was a relatively weak country when it began to colonize North America in the late 16th century. There were fewer natives, and the populations were not willing to more or less capitulate to English powers. While some settlers tried the Spanish model, they failed. But others who focused instead on giving the colonists incentives to be productive were successful. The people could not be forced into a caste or aristocratic social order, since they had a great many options for economic development. If they felt oppressed, they would simply go elsewhere. As a result, by the 1720s, all thirteen colonies had a governor and an assembly of those who owned property. They were not democracies, but political rights were much more distributed than in Latin America.

The institutional differences continued well into the 18th and 19th centuries. Latin American countries simply replaced Spanish elite classes with their own, and their constitutions following secession retained elite power. In contrast, the U.S. constitution distributed political rights across many more people and more regions, even though women and slaves could not vote. While the Industrial Revolution made the U.S. rich in the late 19th century, Mexico actually became poorer due to the repression and exploitation of the people.

New banking and patenting institutions spread across both nations, but in the U.S. these institutions were accessible to the vast majority of men, whereas in Mexico they were concentrated and restricted. Profit motives did not distinguish the two countries; the difference was that Americans had to compete with one another. The opening of global trade in the late 19th century led to further, path-dependent divergence, with Latin American nations consolidating the elite's control of natural resources that they used to enrich themselves. As a result of this repression, eventually the people of Latin America started to rise up and resist, but they expropriated elites in often violent ways which created great political instability. The paths to wealth continued to diverge, where monopoly power is easily challenged in the U.S., but is much harder to challenge in Mexico.

Today, all are aware of this inequality between nations. The average American is seven times richer than the average Mexican and more than ten times as rich as Peruvians. This is the result of the great institutional differences between Latin America and the U.S. The two groups face very different incentives, where Latin American institutions enrich the richest and American institutions do better at spreading wealth around. The distinctive difference between the two is their political institutions, which in turn shape their economic institutions. Importantly, even if some policies and institutions would help the poor, collective action problems make such reforms difficult, given the power held by Latin American elites.

Chapters 2-3, Theories That Don't Work, The Making of Prosperity and Poverty

Chapters 2-3, Theories That Don't Work, The Making of Prosperity and Poverty Summary and Analysis

Chapter 2 begins by emphasizing the vast disparities in wealth among the nations of the world. Britain, its satellite nations like the U.S. and Canada and Australia, along with Western Europe, are all rich, along with several Asian nations. The poorest nations are in sub-Saharan Africa. And there is a striking distinction between wealth levels in North and South America. The point of Chapter 2 is to demonstrate that most popular explanations of these disparities are false.

The first theory that the authors target is the "geography hypothesis" which holds, depending on the version, that differences in wealth levels can be attributed to geographical differences between nations. A common view, advocated by Montesquieu, all the way up to economist Jeffrey Sachs today, is that weather plays an important factor. In hot, tropical nations, people are said to be lazier due to less risk of cold and the heat involved in working hard. Cold is supposed to produce ingenuity and heat stagnation and despotism. But the authors point out that this hypothesis is belied by the rise of a number of tropical economies and the distribution of wealth in the Americans centuries ago. A similar hypothesis is advanced by Jared Diamond, who argues that geographical variations lead to animal and vegetable variation, that in turn leads to different levels of productivity and, so, growth. But the authors maintain that animal and vegetable distribution does not correlate well with wealth levels in different nations. Further, it is belied by the phenomenon of the two Nogales's, with identical geography but different political institutions.

The next hypothesis that comes in for scrutiny is the "culture hypothesis" a version of which Max Weber once defended but that also has defenders up to the present day. Some say that it is the "Protestant work ethic" that generates high wealth levels. But while this claim might explain the origin of the first rich nations, it cannot explain regional variation in many cases. It cannot explain how largely Catholic France easily mimicked the progress of Protestant nations, nor can it explain how China, with a radically different culture from the West, has been able to grow as fast as it has in recent decades.

The third hypothesis to be rejected is the "ignorance" hypothesis that holds that some nations are poor because their elite classes and rulers do not understand how to make good policies. But the authors counter this claim by showing that poor institutions lead some countries to decline despite having access to economic knowledge and effective policy measures. In sum, then, we can understand world inequality only by understanding why some countries' institutions are organized in inefficient and socially undesirable ways. To achieve prosperity, we must solve some basic political problems.

In Chapter 3, the authors begin by drawing a contrast between North and South Korea. Prior to 1945, there was no difference between the two populations, since they were united in one country. Both populations have the same geography, and the same culture and level of economic knowledge. The authors argue that only political institutions can explain why, today, the average North Korean makes a tenth of what the average South Korean makes, or why the average North Korean lives ten fewer years than the average South Korean.

The authors continue by distinguishing between "inclusive" and "extractive" institutions, the former that include most people in offering economic opportunities, and the latter which use institutions to enrich an elite at the expense of others. Secure private property rights are here essential, as is the rule of law and a relatively egalitarian distribution of political rights, such as voting rights. Inclusive institutions also include public access to education and technology.

The difference between inclusive and extractive institutions is that the former create better incentives than the latter, since in the former the average person can learn how to become a productive member of society and is given the means to do so, accomplished largely through adequate political institutions. Political institutions must also be both centralized and pluralistic - economies need stable rules that hold across the country and the opportunity for local variation.

Why, then, if good, inclusive institutions so obviously produce growth and bad, extractive institutions do not, don't poor countries simply choose to do better? In other words, why don't elites and political leaders act not only in the interests of their fellow citizens but in their own long-term self-interest in economic growth? The authors contend that elites with special privileges worry about instability and the short-term losses that would inevitably follow from reform. The authors use the case of the Congo to illustrate. Its wealth has varied with the quality of its political institutions, having become poorer over the last few centuries. The authors are careful to hedge their claims, since extractive economies can produce growth, but their growth is slower and less reliable than growth in inclusive societies.

Chapters 4-5, Small Differences and Critical Junctures: The Weight of History,

Chapters 4-5, Small Differences and Critical Junctures: The Weight of History, Summary and Analysis

Chapter 4 begins by recounting that the Black Death killed around half of Europe's population in the latter half of the 14th century. This decimated the working class, much of which had previously been bound under feudalism. The pre-plague economy had been highly extractive, with feudal lords redistributing wealth from peasants and serfs to themselves. But after the plague, the ratio of workers to landlords significantly increased, such that workers had much greater bargaining power. Now they had the opportunity to voluntarily leave serfdom and seek better patrons and even become landowners themselves. This process proceeded apace in Western Europe and England, where wages for workers increasing and the feudal order was never fully reestablished. However, in Eastern Europe, which had a relatively more extractive economy, landlords quickly claimed all the new land. By the beginning of the 16th century, the differences between the two halves of Europe were clear. The west was experiencing the gains of an increasingly market-based economy, whereas the east was in a period of relative stagnation.

England was the first nation to establish broadly inclusive institutions, not intentionally, however. Instead, two major 17th century events laid the groundwork: the English Civil War between 1642 and 1651 and the Glorious Revolution of 1688. The Glorious Revolution limited the power of the king and gave parliament the power to shape economic institutions. It also accelerated political centralization while allowing for pluralism. Serfdom and slavery were largely absent from England in the seventeenth century. And monopolies were often broken up after the Glorious Revolution. Incentives changed, which helped create the Industrial Revolution. The authors attribute this largely to a stable, reliable centralized state and the formation of a broad coalition that restrained the monarchy and the executive.

The authors call "critical junctures" important historical events that produced sharp divergence in institutions' outcomes. The relatively more equal power structure between Elizabeth I and British parliament allowed the parliament to leverage their power and decrease hers, but similar problems did not arise for the relatively more powerful French and Spanish monarchs, allowing them to capture more economic gains. Matters were even worse in Eastern Europe, especially in Russia. A theme of this chapter, then, is that many institutional developments are path-dependent, and they accumulate over time, leaving Western Europe largely devoid of serfdom in 1800, while Eastern Europe still had it. Contingencies in history can make huge differences, even events as brief as the victory of the English over the Spanish Armada.

However, the advantages set in motion by England reverberated around the world, despite having different effects depending especially on how colonization proceeded. By the nineteenth century, absolute monarchs in African, Eastern Europe, and Asia blocked the growth present in Western European countries and North America. And yet even these institutions could be rocked by simple changes, such as Matthew Perry's visit to Japan. The authors end the chapter by noting that they will explain the development of inclusive political institutions, especially in England, and how extractive institutions were imposed on other parts of the world.

In Chapter 5, the authors argue that extractive institutions do not bar economic growth, but rather slow it and focus the gains on elite classes. The growth is often not sustainable and bases growth on already existing technologies. The USSR is a good example of this. While the USSR's communist institutions merely replaced one form of centralized, political tyranny with another that was much more violent and deadly, Soviet Russia still grew despite mass starvation. This was true in particular due to the fact that Soviet Russia forced workers to work in heavy industry, inefficiently but substantially improving output. They also capitalized on the economic gains from finally eliminating feudalism. This growth fooled a great many Western intellectuals.

The problem with such growth was that it was lopsided and unstable. By 1970, the gains from forced labor and ending feudalism bottomed-out, stopping growth in the economy. Technological change could not be generated from within and elites would resist whatever changes arose. Apparently Stalin understood this incentive structure, but after he gave up recreating human nature, he allowed different wage rates for different jobs. But the allocation of these new incentives created problems of their own. Prices were simply unconnected with citizens' actual demand. Sustained economic growth requires responsiveness to consumer demand and letting consumers innovate.

The authors continue to illustrate these points with a series of examples, first with the differences between the Bushong and Lele people that lived on either side of the river Kasai in the Congo, where King Shyaam promoted growth. Similar patterns seem prevalent in the archaeological evidence from the time when agriculture arose, since it arose sooner in some areas than others. The authors think that the arrival of political elites led hunter-gatherers to become sedentary, which then led gradually to agriculture, as partly evidenced by the innovations of the Natufians. A third example is the rise of Mayan cities and the failure to unite into an empire. The authors argue that extractive institutions arise historically because of a powerful dynamic: they both produce limited prosperity and give it all to a small elite. To occur, political centralization must first be in place, and then the elite captures the state and creates and extractive system. But these economies undermine growth and creative destruction and innovation.

Chapters 6-7, Drifting Apart, The Turning Point

Chapters 6-7, Drifting Apart, The Turning Point Summary and Analysis

Chapter 6 begins by analyzing the history of Venice, which at one point in the 14th century was the richest city in the world. It became rich due to its gradually evolving inclusive institutions, such as political councils made up of new, young merchants who could challenge the political power of Venetian elites. As a result, the city grew in size and wealth. Of particular note was the creation of new private contract laws, banks and the joint stock company. However, due to events in the late 13th and 14th century, Venice's institutional progress was reversed, with elites regaining power and slowing the course of Venetian growth, such that between 1650 and 1800 Venice shrank while Europe boomed.

The point of Chapter 6 is to emphasize that geography and culture aren't destiny and that cities like Venice, once on the rise to power, can change directions through a series of critical junctures that completely alter its economic success and move it from inclusive to extractive or vice versa. The case of Rome may be the most famous. It arose through early institutional innovations and had a relatively inclusive set of institutions early on, but that gradually transformed into extractive institutions over time, especially in its move from republic to empire. And the development of the West varied with respect to how institutions responded to the collapse of the Roman Empire. A number of critical junctures had a major impact.

The authors then begin to tell the story of the rise of the Roman republic and its decline into empire. The republic began with an overthrow of monarch Tarquin the Proud, and gradually developed a series of inclusive institutions. But as Rome expanded, wealth was captured by an increasingly small number of rich families, which created an extractive power structure that would eventually overwhelm the empire, ending with the rise of Julius Caesar in 49 B.C. Growth was no longer stable. Barbarians began to play a larger role in the Roman Empire in the 4th century A.D., as Roman citizens joined the army less and less. This led to barbarians sacking Rome and the ultimate collapse of the Empire, but the collapse only followed in the wake of declines in the rule of law, concentration of power in imperial hands, and so on. None of these developments were predetermined by broader factors, merely the series of critical junctures from extractive to inclusive and back again.

Following the empire came the rise of the feudal system in Europe, which was famously extractive, creating conditions of mass oppression and slow growth for Europe throughout the Middle Ages. Roman England collapsed in a spectacular way, and would not recover institutions of similar strength for centuries. The general point is simply this:

gains and losses are temporary, contingent and path-dependent, even though they can have long-lasting effects.

In 1589, William Lee invented a stocking frame, which could knit textiles at a much faster rate than was available. Both Elizabeth I and James I denied him a patent due to worries that it would put others out of work. Creative destruction was blocked. Chapter 7 tells the story of how such blockages stopped happening. Societies and their elites naturally hate creative destruction because of how disruptive it is. But when extractive institutions break down, creative destruction can escape. Fortunately for England, their institutional history led to the limitation of monarchical and aristocratic power over time, from the Magna Carta on. The Tudors helped to centralize the legal apparatus and Cromwell introduced state bureaucracy, making it separate from the king's private household. But monopolies were a problem in the early Industrial Revolution, because they were new extractive institutions that had to be restrained.

The struggle between extractive monarchical institutions and inclusive democratic ones would see a tipping point during the Glorious Revolution, after which Parliament and King William produced a new constitution. The 1689 Declaration of Rights was a critical institutional advance, creating new constitutional principles. The British people had increasing access to parliamentary power as well, which led them to undo critical restraints on pluralistic economic practices. In the 18th century, while only 2% of the population could vote, this was enough to change things and start the Industrial Revolution. Parliament petitions could help as well, since competitors could protest monopoly power. Government became more professional over time, and less subject to arbitrary whims of the ruler.

And by the 18th century, the Industrial Revolution took off, changing every aspect of the English economy, with improvements in transportation, metallurgy and steam power. Property rights became more efficient and the reorganization of land titles proceeded apace. But these powerful new industries sought domestic protection and sometimes got it. In 1760, the authors argue these improvements started to have a major effect, producing a great increase in the number of patented inventions. Creative destruction was changing the English economy, and eventually started redistributing political power as the middle class grew in size. As a result, it gained increasing political influence, and gave rise to the protest against the Corn Laws.

What was special about England? Its uniquely inclusive economic institutions based on the foundation laid by inclusive political institutions that followed the Glorious Revolution. The development of inclusive institutions involved a series of critical junctures that worked together in a positive way. And the process reinforced itself as a new merchant and commercial class was created.

Chapters 8-9, Not on Our Turf: Barriers to Development, Reversing Development

Chapters 8-9, Not on Our Turf: Barriers to Development, Reversing Development Summary and Analysis

In Europe, the printing press changed everything. By 1800, 60% of European men and 40% of European women were literate. But the Ottoman Empire banned the use of the printing press for centuries and when they finally allowed it assigned a panel of religious experts to ensure that the books printed met with the moral and religious standards of the political elite. The consequence: by 1800, only 2% of the Ottoman population was literate. And all because extractive institutions made it possible for elites to dominate and control the populace. The Ottoman Empire was an extractive institution and held back Arab growth until its collapse after World War I. While the Ottomans and other absolutist regimes held back growth, however, some societies that lacked centralized states remained very powerful, since there was no state to produce order and create rules and property rights. States can be too elite and too weak. Both provide barriers to development.

So the authors identify two, opposing, barriers to development and in Chapter 8, they show how many nations missed the critical junctures that led to the Industrial Revolution, with the Ottoman Empire and Somalia representing opposing extremes. But an important contrast arises in the development of Spain and England. In the 16th century, Spain was much richer than England, but by the 19th century, the two positions had reversed, in large part due to the discovery of precious metals in the New World allowing the Spanish crown to centralize its power and impose extractive institutions on the populace. Similar stagnation occurred in Spanish colonies, again in contrast with English colonies.

The Hapsburg or Austro-Hungarian Empire, prior to World War I, was the third largest country in Europe and had a seventh of its population. But merchants in the empire had a much lower social status than in England and serfdom prevailed in many of its eastern lands. The late 18th and early 19th century rulers opposed industry and promoted absolutism. The core of Hapsburg institutions was feudalism and absolute monarchy.

Opposition to innovation was common among the ruling class, and led to the opposition of industry which would lead to factories which in turn would concentrate the power in the cities and could support democratic revolts. There was also strong opposition to the construction of railways. Russia would adopt similar restrictions. Absolutism allowed rulers to create barriers to entry and so continue extracting profits.

In Asia, much of the barriers to development arose in the form of shipping restrictions. The Chinese once led the world in inventions during the Song dynasty, from 960 to 1279. But by 1500 China began to stagnate. The people had no representatives in the bureaucracy and merchants often had an unstable place in the social order. The dynasties gradually centralized power over time and continued to extract wealth from the people. But this was no worse than restrictions on international trade. The authors then tell a related story about the history of Ethiopia and Somalia.

After the Industrial Revolution broke out in England, countries faced a choice of whether to mimic England's institutions or not. Those that did grew, and those that did not stagnated or grew more slowly due to extractive institutions.

As Europe discovered the East Indies, Europeans gradually decided to try and monopolize the spice trade, which led to the creation of the Dutch East India Company. In doing so, the Dutch created an extractive institution in the area, and used violence to protect their monopoly. And given how weak and technologically primitive societies were in the area, many thought it better to become autarkies, with no international trade at all. Populations and cities declined. Dutch aggression arguably held back their development. So in some cases extractive institutions can actually reverse development. This is the theme of Chapter 9, which argues that absolutism can lead to economic regression.

The authors begin the main part of the chapter by pointing out that slavery was a near universal institution in the Western Hemisphere in the 18th century, with the booming slave trade. The conflict involved in the slave trade, the authors claim, led to the reversal of development in Africa. Slaves were a terrible product to export for an enormous number of reasons. Many polities became more absolutist and focused on enslaving their populations and selling them to Europeans. Second, the war that came from attempts to enslave undermined legitimate state authority in sub-Saharan Africa.

Eventually figures like William Wilberforce in England began to fight the slave trade. Finally, in 1807, the abolitionists in England persuaded the British Parliament to ban the slave trade. The U.S. followed with a similar measure the next year. But the impact of slavery on African societies and institutions continued, and the slave trade in Africa seemed to expand rather than contract. Colonial control of Africa in the 19th century did not help.

As a result, when these countries try to develop today, they often have a "dual economy" with a developed or more developed, urban sector that is richer and a much less wealthy rural sector, which still contains rural, agriculture and "backward" populations. The result of this split in South Africa was the Apartheid Regime. But there are many other examples. African growth would break out whenever institutions became more inclusive, but in the main extractive institutions held it back, as the colonial European powers reinforced and created new extractive institutions.

The inequality of wealth between nations exists today due to the fact that some nations were in an institutional position to take advantage of the Industrial Revolution and new technologies while others were not. This is due to the presence of extractive institutions in poor countries, due either to too much centralization or too little.

Chapters 10-11, The Diffusion of Prosperity, The Virtuous Circle

Chapters 10-11, The Diffusion of Prosperity, The Virtuous Circle Summary and Analysis

In Chapter 10, the authors begin by describing the early history of the British colonization of Australia, especially New South Wales, which began as a penal colony. While British institutions were relatively inclusive, these institutions did not assign convicts rights. So they were shipped off to penal colonies where they had few rights. However, in New South Wales, there was a high demand for labor and the convicts were some of the only people around who had both the know-how and the drive to do the work. As a result, over time they were given more and more property rights and so became rich. Further, they demanded political rights so their economic rights wouldn't be removed. As a result, convicts had laid the groundwork for inclusive institutions in Australia that would eventually spread to the population as a whole and make it prosperous. They also had no history of serfdom or absolutism to deal with.

The next case of breaking down extractive barriers is illustrated by the French Revolution. While the French Revolution was bloody and produced instability, it took a major step forward in abolishing the extractive institutions present during the three centuries prior to 1789, the year of the revolution. By producing equality for the law and abolishing feudalism, it laid the groundwork for the Third Republic, which began in 1870, and brought parliamentary democracy to France, much as had been introduced in England in the 17th century. These reforms would spread to other countries through Napoleon's conquest of much of Europe and the propagation of the Napoleonic Code. The same period of time, between 1799 and 1816, saw the emancipation of French Jewry. So despite being a dictator and absolutist himself, Napoleon broke down extractive institutions across Europe, and while some bounced back they were never completely successful.

Japan found itself in a similar feudal situation, extending under the Tokugawa Shogunate until the late 19th century. But in 1868, Shogun Yoshinobu agreed to resign and a month later Emperor Komei and his son Meiji came to power. This period came to be called the Meiji Restoration. In 1869, feudalism was ended and taxation was centralized. A modern state replaced the old feudal one. And social classes were given legal equality. The state then began to promote infrastructure and created railways and steamship lines. Japan saw the rise of manufacturing as well. It had started down the path to inclusive institutions, institutions that would make them rich. One reason for this change, however, was that Japanese institutions, by holding back economic growth, made Japan militarily vulnerable to the British. A similar story occurred with China though it never developed inclusive institutions, setting the two countries on very different growth paths.

The point of Chapter 10, then, is to illustrate that the path to prosperity for different nations, such as Australia, France and Japan, was determined largely by their institutions and whether critical junctures led them to develop inclusive institutions or not. Fortunately, states with inclusive institutions became powerful and economically rich, presenting challenges to absolutist, extractive regimes.

In Chapter 11, the authors begin by pointing out that much of England's move towards increasingly inclusive institutions was due to the fact that many factions with competing interests were represented in parliament, keeping any one group from holding too much power at one time. As a result, when some groups tried to gain power, other groups would fight back. One implication of these political struggles was the development of the idea of the rule of law, where no one group was entitled to special legal privileges. When intellectuals had undermined the theory of divine right monarchy, it was even harder to justify legal privileges, even for the king. This change of view led to a struggle against the Stuart monarchs. A virtuous circle arose where the rule of law was reinforced by political struggle which helped the common people to gain more egalitarian legal privileges.

Chapter 11 asks how inclusive institutions persist over time. There seems to be some sort of positive feedback mechanism on which they are based. The authors claim that virtuous circles arise from the fact that inclusive institutions are rooted in constraints on power and the distribution of political power in society protected by the rule of law. This would in turn create demand for more pluralism and political participation. Further, inclusive political institutions and inclusive economic institutions tend to support one another. And this pluralism allows an independent media to flourish. But the virtuous circle is by no means inevitable.

The rest of Chapter 11 describes how the virtuous circle led to the expansion of the voting franchise in England. British elites gradually retreated because they faced scary alternatives, because they could be overthrown entirely. The rule of law was a good bet. Repression would become increasingly difficult. And minority groups began to form political groups and coalitions to increase the reach of democracy, such as the Chartists. Educational rights were expanded as well. It is important that the authors stress the importance of gradual reform, which proves more durable than revolutionary change. England and France are contrasting examples.

The next struggle against extractive institutions came from challenges to the big trusts or corporate powers. Many big monopolists in the U.S., including J.P. Morgan and John D. Rockefeller had enormous economic power but the democratic political system in the U.S. allows a great many people to resist their monopolistic practices, such as the Populist movement, which created regulations on monopoly power. The progressive movement followed suit, and created anti-trust legislation that tended to keep markets competitive. Free media also developed. Inclusive institutions in the United States were powerful enough to restrain imperial executives like FDR who, while massively popular, could not successfully pack the Supreme Court with additional justices that favored his own views. The American story contrasts with the story of democracy in Argentina, which collapsed under Peron and led to economic regression.

So virtuous circles arise from several mechanisms, pluralistic institutions that resist usurpation, factions in government, the rule of law and greater political participation. Inclusive economic institutions support them, as do free media.

Chapters 12-13, The Vicious Circle, Why Nations Fail Today

Chapters 12-13, The Vicious Circle, Why Nations Fail Today Summary and Analysis

In Chapter 12, the authors shift to the idea of a vicious circle, where some institutions and social changes tend to convert societies from less extractive to more extractive institutions over time. The chapter opens with the authors arguing that Sierra Leone suffered a major vicious cycle, via the breakdown of land ownership, undermined food production, as well as with other sub-Saharan African nations. Marketing boards in these countries were unkind to rural interests because they had no political power. Oddly, the British helped push extractive institutions in Sierra Leone, but they allowed inclusive institutions to flourish in Australia. This is partly due to the presence of mineral resources, which often involves a "resource curse" where powerful elites can effectively extract wealth by exploiting these resources. As a result, they have no incentive and no need to include more people in political decision-making. The incentives against commercial agriculture combined with the slave trade devastated Sierra Leone. And independent Sierra Leone continued this trend.

But Sierra Leone is only one case of the vicious circle, where extractive institutions consolidate resources in the hands of an aristocracy. And they have no checks against abuses of power. American political institutions stopped FDR from packing the Supreme Court, but Sierra Leone has no such institutions. And by encouraging political and economic inequality, extractive institutions make it more important for elites to hold onto their gains, since they could be much, much poorer if they relinquished power. And so even when the colonial powers left, the local powers simply took over the institutions apparatus, keeping these nations undeveloped. So revolutionary movements in Africa and in similar situations in South America, changed very little. To show this, the authors review not merely the history of the British in Africa but the history of the conquistadors and encomiendas set up by the Spanish in South America.

A similar situation held for the American South in the United States, due to slavery. Because of their extractive institutions, the South grew more slowly than the North. It had little industry and poor infrastructure. The South failed to innovate and there was little reason to think innovation was coming. Due to Jim Crow laws, these extractive institutions were not entirely eliminated, further holding the South back. Antebellum planter elites stayed in power. Southern politicians sought to keep extractive institutions in place, at least until the 1960s. It too shows how hard it can be to break the vicious circle. The authors close the chapter by recording a similar situation in Ethiopia.

From this the authors generalize to the iron law of oligarchy, which holds that new leaders who overthrow old ones by promising radical change are simply more of the same. Though, not all radical changes are doomed to fail. Vicious cycles often break with powerful, creative merchants and businessmen, broad political coalitions that include many people and a parliamentary historical tradition. Rich nations are rich because they have these inclusive institutions, producing virtuous circles, of which England is the foremost example. Vicious circles go the other way, as in many South American and African nations.

In Chapter 13, the authors open with the story of Robert Mugabe, the de facto dictator of Zimbabwe who took over the extractive institutional apparatus from previous leaders who in turn took it over from white imperialists like Cecil Rhodes. Mugabe demonstrates a nation that failed not merely in the past but that continues to fail today. The point of Chapter 13 is to try to explain in a more general way why nations fail today. And nations fail today, the authors argue, because they have extractive economic institutions that destroy the incentives needed for economic growth and development. Failed nations today include Angola, Cameroon, Chad, the Congo, Liberia, Nepal, Sierra Leone, Sudan and Zimbabwe, who have also suffered civil wars, mass displacements, famines and epidemics by virtue of their poor development and extractive institutions. So many are poorer than they were in the 1960s.

Next the authors illustrate these failures with disturbing examples, such as children's' armies. And while matters are less dire in most South American nations, countries like Colombia have serious and similar challenges. Argentina has also seen massive regression due to various economic crises. At the time of World War I, Argentina was one of the richest countries in the world, but it has steadily declined even though it had extractive institutions mostly the entire time. North Korea is a far worse case of regression due to their communist extractive institutions, and Uzbekistan is a related though better case. Egypt also comes in for scrutiny.

The authors conclude the chapter by arguing again that nations fail economically due to having extractive institutions that keep poor countries poor, as is illustrated by the previous examples. To grow, these nations must develop inclusive institutions and move decisively away from their extractive pasts. Breaking the vicious circle, however, is not easy. But it can be done.

Chapters 14-15, Breaking the Mold, Understanding Prosperity and Poverty

Chapters 14-15, Breaking the Mold, Understanding Prosperity and Poverty Summary and Analysis

In Chapter 14, the authors tell the stories of nations and regions that were able to break out of their vicious cycles of extractive institutions and used some critical junctures to their advantage. Botswana has an interesting and important story, since it not only gained its own political independence but the independence was orderly and led to the formation of the Botswana Democratic Party. It kept the discovery of new minerals from leading to extraction by distributing subsoil mineral rights through Seretse Khama's government, which was considerably less bad than it might have been. It grew because it seized the critical juncture of post-colonial independence and created inclusive institutions.

Starting in the 1950s, Southern institutions in the U.S. began to move decisively away from extractive institutions that had characterized the south for centuries before. Their growth picked up because they made use of the critical junctures brought about through increasingly less racist institutions imposed which gave blacks new political power, largely through the Civil Rights movement.

China has a similar, but more much enormous and significant set of changes. After the fall of Mao Zedong, arguably history's greatest mass murderer and communist, China began to move away from extractive institutions and develop via Deng Xiaoping. He was nowhere near as ideological as Zedong and allowed some economic reforms to take place. The critical juncture was Mao's death. Xiaoping's administration believed that they could produce broad-based economic growth without endangering their political power.

Botswana, the American South and China show that extractive institutions are not inevitable, but neither are they easy to abolish.

In the final chapter, the authors emphasize the staggering differences in wealth between the richest and the poorest nations, not to mention the stark contrasts between the two Nogales's and North and South Korea. The present distribution of wealth, however, was by no means inevitable. For the authors, the best explanation of the present distribution is due to a series of critical junctures that led different countries, groups and peoples to develop either inclusive or extractive institutions. Inclusive institutions create and enforce property rights, maintain a level economic playing field and invest in new technologies and skills. Extractive institutions ensure that only elite classes share wealth. And so extractive and inclusive political institutions produce extractive and inclusive economic institutions respectively. The synergies provided by both sets of institutions are often reinforced over time by "virtuous" and "vicious" cycles. These cycles produce gradual institutional drift, with some key departure points.

The authors acknowledge, however, that the predictive power of their theory is limited, given how complex institutional history can be. But they do hypothesize that vicious and virtuous circles can be identified in history and in present institutions. The theory can explain why Somalia is poor and England is rich. The theory predicts that wealth gains by extractive institutions, such as those in China, will not be as sustainable as the growth in countries with more inclusive institutions.

But "authoritarian growth" has its own charms, since it seems that a "strong man" or strong elite can force a society forward that might otherwise be crippled by democracy. But this appearance is only short-term. In the long-term democracy is the better path to wealth. Sometimes an authoritarian regime will be sold as a temporary solution, but the authors think that vicious cycles will make the dissolution of such regimes very difficult.

There are no easy solutions here. Prosperity cannot be engineered, either by national governments or international institutions, nor can even "micro" level interventions be fixed due to broader institutional environments. It is due to bad institutions that foreign aid is so often a failure. It is better for local groups to lead the fight for more inclusive institutions. Brazil's development is instructive here.

Characters

Extractors

While Why Nations Fail has no specific main character, since it is a work of development economics, it certainly has a main character class, namely those who govern, implement and preserve extractive institutions, people we might call "extractors." Extractors are sectors of the population, almost exclusively members of social and political elites, who bend political and economic institutions to redistribute economic gains from the poor and middle-class to themselves. Thus, an extractor is someone who extracts wealth from the labor and efforts of others, especially the majority of the population which, under extractive institutions, are politically powerless.

Extractors come in two main varieties - foreign and homegrown. Foreign extractors have historically been imperial powers, such as the British and Spanish Empires. The latter produced the conquistadors, the ultimate unapologetic extractors who bent native South American political institutions to their benefit. The rules of British colonies were more careful to protect themselves with a political ideology, but in countries like the Congo and India, they too set up institutions that tended to benefit the most well off at the expense of everyone else. Home-grown extractors are typically local dictators who take over extractive institutions when imperial powers are driven out. As has been the case with a number of recent and present-day African dictators, many simply take over the power structures created by imperialist powers and use them to their own advantage.

Inclusive Reformers

For authors Acemoglu and Robinson, the key to restraining and abolishing extractive institutions is the development of homegrown reformers. These reformers must push their society towards the development of inclusive rather than extractive institutions. Thus, their aim is to increase the sensitivity of political institutions to the interests of the large majority of citizens. Thus, inclusive reformers can push for a range of reforms, including more stable definitions of property rights, better enforcement of property rights, clear legislative and judicial procedures that apply to all persons. They can also push for an expansion of the voting franchise, say to include non-property holders or women, and for restrictions on monarchical power.

Thus, inclusive reformers can vary dramatically across time and culture. What unites them is their common cause in making governments more sensitive, more reliant upon the approval and satisfying the interests of the public at large. The authors bring to our attention a number of important inclusive reformers in history. Among the most important were English reformers, who created some of the earliest modern inclusive institutions. These include those who brought about the Glorious Revolution and those who gradually fought to expand the voting franchise. Notably downplayed by the authors are political revolutionaries, since the authors think that inclusive reformers rather than revolutionaries tend to produce stable, long-lasting regime change. Thus, there is a contrast drawn between, say, English democratic reformers and French democratic revolutionaries.

The Spanish Conquistadors

The Spanish Conquistadors were a handful of powerful Spanish mercenary soldiers who conquered much of South America for the Spanish crown in the 15th and 16th centuries. These individuals are held up as prime examples of extractors.

North and South Koreans

The authors contrast North and South Koreans to advance their main line of arguments. Both groups of Koreans have the same culture, geography and genetics, so the differences in their relative standards of living are likely attributable to their varying institutional structures.

Competitor Development Theorists

The authors single out advocates of alternative theories of economic development, such as Jared Diamond who advances a geography hypothesis, in order to criticize them.

The Congo

The Congo is an African nation where British imperialists established extractive institutions and where local leaders merely took over the extractive institutions once the British withdrew.

English Parliament

The authors see the English Parliament as perhaps the first truly inclusive political institution in the world.

Absolutist Monarchs

Absolutist monarchs were paradigmatic extractors. Countries grew to the extent that they could remove power from absolute monarchs and distribute it widely.

Ottoman Elites

Elites in the Ottoman Empire fiercely opposed a number of technological advancements that would have helped their economy grow.

Political Revolutionaries

The authors somewhat frown even on democratic revolutionaries, because they believe that enduring moves towards inclusive institutions must come about through reform. Revolutionary change is frequently unstable.

Roman Governments

The governments of the Roman Empire became increasingly extractive over the centuries, from the Republic through the Empire. The authors attribute the collapse of the Empire to its extractive status.

Objects/Places

Inclusive Institutions

Inclusive institutions are political and economic institutions that are responsive to the interests of the public as a whole. These include democratic governments and market economies.

Extractive Institutions

Extractive institutions are political and economic institutions that are responsive only to the interests of a social and political elite and that exploit and oppress the people as a whole. These include absolute monarchies, modern Latin American and African dictatorships and authoritarian governments like China.

Critical Junctures

Critical junctures describe periods in history where a country is able to choose to move in a more inclusive or extractive direction.

Institutional Drift

Institutional drift is the process by which institutions evolve, often guided by critical junctures. Institutional drift tends to move in an extractive or inclusive direction.

Virtuous Cycles

Virtuous cycles are cycles of inclusive institutions leading to increasingly inclusive institutions. Virtuous cycles are hard to produce and hard to stop.

Vicious Cycles

Vicious cycles are cycles of extractive institutions leading to increasingly extractive institutions. Vicious cycles are hard to stop, but they're easier to produce as they're the dominant historical pattern.

Property Rights

Property rights are legal rights to own, use and transfer property, say in land or products, that help market economies to be responsive to the interests of their people.

Voting Rights

Rights to vote can be given to small and large sectors of the population. The authors believe that the extension of voting rights to the public makes political institutions more responsive.

England

England is the authors' most favored nation, as the originator of modern inclusive institutions, such as markets and democracy.

The Two Nogales's

The authors contrast Nogales, Arizona and Nogales, Mexico in order to accent their thesis that institutional differences cause wealth differences.

Venice

Venice is the Italian city that developed a number of inclusive economic institutions in the 13th and 14th centuries but which could not maintain the virtuous cycle of extending them further.

The American South

The American South was once the home of highly extractive institutions but has become considerably less extractive over time.

The Glorious Revolution

The Glorious Revolution is the British Revolution of 1688 that the authors identify as a critical juncture in the move towards more inclusive institutions.

The Black Death

The bubonic plague, called the Black Death, decimated the European populace but helped to undermine feudalism in Western Europe due to increased wages and mobility of agricultural workers.

Serfdom

Serfdom is the practice of feudal lords ruling vast agricultural plots tended to by workers, known as serfs, whose freedoms were sharply limited.

Democracy

The authors argue that democracy is a critical component of an inclusive institutional structure.

Themes

Figuring Out Why Economies Develop

The oldest question of economics is Adam Smith's question: why are some countries rich and others poor? Many economists and other intellectuals have tried to provide an answer to this question and authors Daron Acemoglu and James Robinson wish to add their own theory to the pile. Why Nations Fail gives an institutionalist answer to the question of the wealth of nations. In other words, it argues that wealth differences are due to institutional differences, differences in the enforced legal and often informal rules that govern private property and the implementation of legislation. Nations succeed economically when they have "inclusive" institutions and they tend to fail when they have "extractive" institutions.

The distinction is explored elsewhere in the guide. But its importance here is to emphasize that the main theme of Why Nations Fail is that we can figure out why economies develop, namely by tracing out their institutional history, identifying critical junctures in which political and economic institutions evolved in one direction rather than another, and then trying to explain present distributions of wealth in light of those institutional differences.

The authors do not merely present their own theory, however. They also tackle a number of other theories, offering refutations of accounts of economic development that focus on genetics, geography, culture or religion. The overwhelmingly dominant factor in explaining why some nations succeed and why some fail is institutional.

Inclusive and Extractive Institutions

The authors aim to explain why some nations succeed and some nations fail, and in doing so offer what we might call an institutionalist theory of economic development and regression. The main feature of their theory is the distinction between inclusive and extractive institutions. The distinction, roughly, is between political institutions that are responsive to the interests of a few versus institutions that are responsive to the interests of all persons. Inclusive institutions, the latter group, respond to the interests of citizens via a variety of mechanisms - their participation in the marketplace and the exercise of their right to vote. Inclusive institutions tend to be rich, as a result, because inclusive institutions give wealth creators the right incentives to succeed and to pass those gains on to others.

Extractive institutions, by contrast, tend to enrich a tiny elite at the expense of everyone else. Absolute monarchy is a clear example, where a king or queen and his/her family is able to extract a massive amount of wealth from the people as a whole, say through feudal relationships. Extractive institutions can grow, but they tend to grow more slowly than inclusive institutions, and their gains in growth are relatively unstable. That is, they're not built in a broad commitment to making all better off. Extractive institutions are also more prone to violence and stymie innovation.

Thus, the theory, in its basics, is that extractive institutions are bad and inclusive institutions are good.

Market Democracy

Acemoglu and Robinson's advice in Why Nations Fail is bound to please the elite classes at which their book is aimed. In essence, nations fail when they fail to be somewhat capitalist democracies. Without both the market and the democratic state, economies will stagnate or regress. And if they grow, the growth will be slower and less sustainable and, most importantly, inequitable. The attraction of the market and the vote is that they possess a kind of wide responsiveness, where both mechanisms broadly give all persons input into major social decisions. It is on these consequence-based or welfarist grounds that the authors endorse what we might call market democratic institutions.

As a result, Why Nations Fail is profitably read as a strident defense of markets and democratic governance from a broadly utilitarian and egalitarian perspective - utilitarian in the sense that both institutions make people better off and egalitarian in the sense that it ensures that all persons gain and blocks the few from gaining at the expense of the many. A major, enduring theme of the book is therefore that markets and democracy are the paths to growth in virtue of the fact that they are "inclusive" as opposed to "extractive" social mechanisms. Extractive institutions are absolute monarchies, weak failed states like Somalia, feudal social orders and empire colonies, all the sorts of regimes that market democrats criticize on any number of other moral and economic grounds.

Style

Perspective

Authors Daron Acemoglu and James Robinson are economists, so the most important feature of their perspective is that they share the methods and questions of the economics profession as a whole. First, they are interested in determining why some nations are rich and why others are poor, one of economics' most important and earliest questions. Second, they are inclined to give largely economic explanations of these differences, in that they do not appeal to culture or sociological factors but rather facts about how institutions affect economic growth. For example, the authors focus largely on how political institutions affect economic incentives, as when extractive institutions lead to perverse incentives for economic growth.

Another important feature of the authors' perspective is that they pursue a particular kind of approach, namely an institutionalist explanation of economic development. In this sense, the authors deny that geography and culture are very important in explaining economic development. Instead, the nature of a nation's political institutions affects how they grow, innovate and develop. So, in this vein, the authors deny Jared Diamond's famous claim that geographical differences translate into economic differences.

Finally, the authors advance a view about the particular institutions they endorse, specifically market democratic institutions, where the use of market mechanisms and democratic voting procedures generate the most "inclusive" political and economic institutions. They are sharply critical of "extractive" institutions that distribute disproportionate wealth to elite classes and retard or destabilize economic growth.

Tone

The tone of Why Nations Fail has a number of noteworthy features. First, the book is a work of serious, academic non-fiction. Consequently, it has what for many readers will be a rather dry tone where the authors carefully outline their economic theory and illustrate it, in detail, with various examples. However, while some portions of the book are dry, the authors are unusually effective at illustrating their points in narrative form. For instance, most of the chapters open with some exciting historical drama that the authors later use to make the theoretical point of the chapter. Similarly, once the authors have made their point, they typically continue to illustrate it with vivid examples and illustrations.

As for their general attitude, the authors mix a somewhat critical tone with hopefulness, with the critical tone coming at the beginning of the book and the hopeful tone towards the end. The authors are at their most critical when discussing opposing theories. They tend to hold other authors responsible for making what they deem to be errors. However, as the authors progress beyond a discussion of their rivals' views, they begin to paint a picture of how economic development, while often challenging, is within the grasp of most nations if reform movements can successfully transform extractive institutions into inclusive institutions. And since they believe that inclusive institutions (like extractive institutions) are self-reinforcing, they are optimistic that nations can maintain inclusive institutions once they have brought them about.

Structure

Why Nations Fail is a fairly lengthy book, at over 500 pages and 400 pages of core text. It has fifteen chapters all built around demonstrating the main thesis of the book, namely that nations fail or succeed based on their institutional structure. The book's introduction sets up the argument of the book by explaining the potential significance of the recent "Arab Spring" partly initiated by the ouster of Egyptian President Hosni Mubarak. The authors use the case to illustrate the potential differences in institutional structures that have followed such important historical events. In Chapter 1, the authors contrast Nogales, Arizona and Nogales, Mexico in order to bring out the idea that the reason the two cities' wealth levels were so different was not due to geography, culture or genetics but rather to the relative institutional structures of Mexico and the United States.

The authors then proceed to unpack their thesis and the main concepts the comprise it. First the authors draw the contrast between inclusive and extractive institutions. A number of chapters paint pictures of extractive and inclusive institutions in a number of historical contexts and in different locations around the world. The authors also explain their view on how inclusive institutions evolved, first in England. Among the other concepts deployed are the idea of a critical juncture and the ideas of vicious and virtuous cycles that reinforce the development of extractive and inclusive institutions respectively. Early in the book the authors explain why they think other theories are wrong, while towards the end of the book the authors try to explain how their theory can help nations and policy-makers and how nations can develop in a permanent, sustainable fashion.

Quotes

"This book is about the huge differences in incomes and standards of living that separate the rich countries of the world, such as the United States, Great Britain, and Germany, from the poor, such as those in sub-Saharan Africa, Central America, and South Asia." (Preface, pg. 1)

"Countries such as Great Britain and the United States became rich because their citizens overthrew the elites who controlled power and created a society where political rights were much more broadly distributed, where the government was accountable and responsive to citizens, and where the great mass of people could take advantage of economic opportunities." (Preface, pgs. 3-4)

"Why are the institutions of the United States so much more conducive to economic success than those of Mexico or, for that matter, the rest of Latin America? The answer to this question lies in the way the different societies formed during the early colonial period." (Chapter 1, pg. 9)

"The reason that Nogales, Arizona, is much richer than Nogales, Sonora, is simple; it is because of the very different institutions on the two sides of the border, which create very different incentives for the inhabitants." (Chapter 1, pg. 42)

"Most hypotheses that social scientists have proposed for the origins of poverty and prosperity just don't work and fail to convincingly explain the lay of the land." (Chapter 2, pg. 48)

"The economic disaster of North Korea, which led to the starvation of millions, when placed against the South Korean economic success, is striking: neither culture nor geography nor ignorance can explain the divergent paths of North and South Korea. We have to look at institutions for an answer." (Chapter 3, pg. 73)

"Nations fail when they have extractive economic institutions, supported by extractive political institutions that impede and even block economic growth." (Chapter 3, pg. 83)

"Understanding how history and critical junctures shape the path of economic and political institutions enables us to have a more complete theory of the origins of differences in poverty and prosperity." (Chapter 4, pg. 101)

"Institutional differences play the critical role in explaining economic growth throughout the ages." (Chapter 5, pg. 124)

"I've seen the future, and it works." (Chapter 5, pg. 125)

"Moves toward inclusive institutions ... can be reversed." (Chapter 6, pg. 157)

"'Thou aimest high, Master Lee. Consider thou what the invention could do to my poor subjects. It would assuredly bring to them ruin by depriving them of employment, thus making them beggars.'" (Chapter 7, pgs. 182-3)

"The Industrial Revolution was manifested in every aspect of the English economy." (Chapter 7, pg. 197)

"Absolutism and a lack of, or weak, political centralization are two different barriers to the spread of industry." (Chapter 8, pg. 216)

"This expansion sowed the seeds of underdevelopment in many diverse corners of the world by imposing, or further strengthening existing, extractive institutions." (Chapter 9, pg. 250)

"Whether a country did embark on industrialization was largely a function of its institutions." (Chapter 10, pg. 299)

"The notion of the rule of law not only kept absolutism at bay but also created a type of virtuous circle: if the laws applied equally to everybody, then no individual or group ... could rise above the law, and common people accused of encroaching on private property still had the right to a fair trial." (Chapter 11, pg. 308)

"Extractive institutions were re-created in a pattern predicted by the vicious circle—only they became more vicious as time went by." (Chapter 12, pg. 343)

"The essence of the iron law of oligarchy, this particular facet of the vicious circle, is that new leaders overthrowing old ones with promises of radical change bring nothing but more of the same." (Chapter 12, pg. 361)

"Rich nations are rich largely because they managed to develop inclusive institutions at some point during the past three hundred years." (Chapter 12, pg. 364)

"Nations fail today because their extractive economic institutions do not create the incentives needed for people to save, invest, and innovate." (Chapter 13, pg. 372)

"Despite the vicious circle, extractive institutions can be replaced by inclusive ones. But it is neither automatic nor easy." (Chapter 14, pg. 427)

"You can't engineer prosperity." (Chapter 15, pg. 446)

Topics for Discussion

Explain the main thesis of Why Nations Fail. How do the authors defend it?

Discuss two theories of economic development the authors reject and explain why they reject them. Do the authors provide adequate criticism?

What are inclusive institutions? What are extractive institutions? What is the difference?

Pick three nations and historical periods that the authors identify as inclusive. Explain why they identify them as such.

Pick three nations and historical periods that the authors identify as extractive. Explain why they identify them as such.

What is a critical juncture? How does it fit into the authors' views?

What are vicious cycles and what are virtuous cycles? How do they play into the thesis of the book?

Evaluate, in detail, the main thesis of Why Nations Fail.