Resenha

Why Nations Fail: The Origins of Power, Prosperity and Poverty[1]

Danilo Freire*

From Adam Smith to the modern *randomistas*, economists have repeatedly asked themselves the same troubling question: what are the main drivers of sustained growth? Trying to provide an adequate answer to this problem, researchers have recently devoted their attentions to micro-level analyses, arguing that small, punctual measures lead to significant results in economic development. Policies such as providing de-worming treatments or offering nutritional supplements for school pupils, they claim, are very effective in reducing poverty and thus should be treated as a priority by those willing to promote economic growth around the globe. However interesting the micro--level studies may be, they seem to miss the elephant in the room: small policy reforms can only be implemented in a relatively stable social structure, otherwise it is very unlikely that they will be carried out correctly, if at all. Therefore, macro elements still matter.

Daron Acemoglu and James Robinson bring the big picture back into focus. In *Why Nations Fail*, an ambitious and thought-provoking book, the authors assert that good institutions are the key for economic growth. According to Messrs Acemoglu and Robinson, it is politics –not geography, culture or ignorance – the factor that better explains the current disparities in the wealth of nations. Pluralistic political institutions create a level playing field where most citizens can, amongst other things, enjoy secure property rights, have access to an independent judicial system and develop their personal skills freely. These in turn foster technological innovation and economic activity, the critical engines of steady economic progress. In short, political freedom paves the way for prosperity. Exclusive institutions, in contrast, have disastrous effects on growth. In those environments, not only citizens do not have incentives to invest or innovate since most of their output will likely be expropriated by the governing elite, but also the powerful are not willing to accept creative destruction due to the challenges it may pose to their privileged economic or political status. As a result, although the elite may enjoy very high standards of living, the nation itself will at best stagnate or, at worst, fail.

One of the most interesting examples mentioned in the book is that of the twin cities of Nogales, Mexico and Nogales, United States. Both share the same geography, climate, culture and ethnicity, but the average income in Mexican Nogales is less than one-third of that in its American counterpart. The inclusive political and economical institutions north of the fence, the authors say, is what accounts for that difference. Whereas political inclusiveness has brought economic success to the United States, Mexico's colonial legacy and its authoritarian politics have made life much harder for those on the southern side of the border. Had Mexican institution been more pluralistic, the economy would have performed markedly better in its Nogales.

---

1 ACEMOGLU, Daron; ROBINSON, James. *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown, 2012, 544 pages. ISBN-13: 978-0307719218.

* Master in Political Science at the University of São Paulo – USP <danilofreire@gmail.com>.

In spite of the resilience of both inclusive and extractive institutions, Messrs Acemoglu and Robinson emphasise that their argument is not deterministic. The authors mention that there is no common path whereby open political institutions emerge, as they also stress the importance of historical contingency in shaping the political landscapes. Take the case of the Glorious Revolution of 1688, a crucial event for the development of modern economic institutions in Britain. The revolution only broke out after a series of fortuitous and rather unpredicted events, such as the unlikely victory of Britain against the Spanish Armada in 1588, the increasing relevance of Atlantic trade and the rise of a merchant class opposed to the Crown. These accidents proved to be ultimately decisive for the future rise of the Industrial Revolution, but their consequences could certainly not be foreseen at the time. Botswana is also an example of a country where critical junctures have acted in favour of economic development. After achieving independence from Great Britain in 1966, Botswana was lucky enough to have leaders committed to building inclusive institutions and investing the revenue from the country's natural resources in projects that would improve the welfare of the whole nation. A bad choice of leaders, on the other hand, could have created a very different economic outcome.

Nevertheless, whilst most cases discussed in the book are indeed compelling, some historical evidence provided by the authors are not very convincing. In the sixth chapter of *Why Nations Fail*, for example, Messrs Acemoglu and Robinson affirm that the sole reason behind Venice's economic decline was the fact that the city institutions had become gradually less inclusive. This explanation, however, is far from complete. One should also acknowledge that the discovery of the Americas by Christopher Columbus and the opening of new maritime routes to India by the Portuguese fleets also had a significant impact on Venice's trade, and the city-state would have lost much of its primacy in commerce regardless of its domestic institutions. Such counterfactual is never discussed in the book. Moreover, in his review, Francis Fukuyama (2012) also correctly notes that the author's treatment of the Roman history is quite controversial. While Messrs Acemoglu and Robinson claim that the transition from the inclusive Republic to the extractive Empire was the main cause of the Roman demise, they fail to mention that the Western Roman Empire was still able to accumulate power for more than two centuries after its foundation and that its Eastern half, based in Constantinople, lasted for more than a thousand years before its eventual fall in 1453. It is therefore problematic to argue that the collapse of the Roman Empire is intrinsically linked to the decline of the republican institutions.

Another weakness of Messrs Acemoglu and Robinson approach is the relative vagueness of the inclusive/extractive dichotomy used in the book. Since the categories adopted by the authors are somewhat broad, it is quite difficult not only to understand through what causal mechanisms political institutions influence the economy but also if certain political elements are more important than others when it comes to creating free economic institutions. Are property rights more important for economic growth than, say, free and fair elections? And if so, why? The readers, specifically those interested in public policies, would certainly have benefited from a more exhaustive and rigorous discussion of such topics.

These flaws, however, hardly detract from the overall superb quality of the book. Messrs Acemoglu and Robinson offer a clear and elegant explanation for one of the most pressing issues of our time, how to promote sustained economic growth. And as pointed out by William Easterly (2012), the authors' resolute defense of political inclusiveness and markets is also noteworthy. While many have been arguing that there is a trade-off between freedom and prosperity, *Why Nations Fail* is a timely reminder of the strengths of capitalist democracy.

References

ACEMOGLU, Daron; ROBINSON, James. *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown, 2012, 544 p.

EASTERLY, William. Book Review: Why Nations Fail. In: WALL STREET JOURNAL, 24/03/2012. Available at: <http://online.wsj.com/article/SB10001424052702304724404577293714016708378.html>. Access: 10/09/2012.

FUKUYAMA, Francis. Acemoglu and Robinson on Why Nations Fail. In: THE AMERICAN INTEREST, 26/03/2012. Available at: <http://blogs.the-american-interest.com/fukuyama/2012/03/26/acemoglu-and-robinson-on-why-nations-fail/>. Access: 10/09/2012.

Received September 14th, 2012

Accepted October 09th, 2012