

BOOK REVIEWS

ACEMOGLU, DARON and JAMES A. ROBINSON. *Why Nations Fail. The Origins of Power, Prosperity, and Poverty*. Profile Books, London 2012. xi, 529 pp. Maps. £25.00. doi:10.1017/S0020859013000023

Why do nations fail? Or, to put it differently, why do other nations succeed economically? This is the burning question underlying the central thesis of this finely written book, with historical case studies from all over the world. Daron Acemoglu and James Robinson have reformulated the results of their previous studies over the past decade in this impressive volume, which intends to serve both an academic and a more general audience. Their central argument, in a nutshell, is that a nation's inclusive political institutions entail inclusive economic institutions, and that such institutions lead to sustainable economic growth.

Inclusive institutions – institutions that safeguard not solely the interests of the ruling elite, but which are open to larger groups in society – create incentives for people to save, invest, and innovate. Extractive institutions, on the contrary – institutions that harm the interests of the majority of society because they aim to enrich only the ruling classes – do not. For instance, if property rights are not sufficiently protected for most of the population, why should anyone want to invest money or save, except for the elites who know that their interests are secured by force or power?

Temporary economic growth, according to Acemoglu and Robinson, is possible under extractive institutions, but it has clear limits. An obvious example is the period of expansion under Soviet rule, which ultimately could not be sustained because of its extractive features. Sustained economic growth in countries with extractive institutions is never possible, because elites limit access to economic institutions for a large part of the population. Sustained growth requires innovation, and elites generally oppose this, as it may threaten their economic and political prerogatives. Moreover, conflicts will inevitably arise between different competing elite groups that will destroy economic growth. In this way, as they state on p. 399: “the reason why these extractive institutions persist is always related to the vicious circle, and the implications of these institutions in terms of impoverishing their citizens are similar – even if their intensity differs”. By “vicious circle” they mean that extractive institutions have a tendency to persist and reinvigorate themselves. Apart from the vicious circle, there are also countries experiencing virtuous circles, where the historical presence of more inclusive political institutions leads to positive feedback on the region's economic institutions, which in turn entails economic growth and simultaneously reinforces the development of inclusive institutions.

But how do countries escape a vicious circle, or, conversely, how do they transition from sustained economic growth into an economic system with extractive political as well as economic institutions? To explain this, Acemoglu and Robinson speak of “critical junctures” in history, such as Britain's Glorious Revolution of 1688. Such critical junctures were crucial in reversing the course of history, and setting a country on course for more (or less) inclusive institutions. Another necessary precondition for success, they argue, is sufficient political centralization. That, for instance, was lacking in large parts of Africa, again due to historical contingency, but also due to extractive institutions that hampered state centralization.

Acemoglu and Robinson offer many well-chosen examples, from ancient to quite recent times and drawn from virtually all parts of the world, to underpin their argument.

For example, they take the city of Nogales, Arizona (US) and Nogales, Sonora (Mexico), through which the US–Mexican border runs. Though both towns have similar geographical characteristics, the accompanying inclusive and extractive institutions of the US and Mexico respectively have led to a striking economic divergence. Other comparisons include North and South Korea and western and eastern Europe during the rise of the second serfdom.

Of course, institutions matter, and it is very likely that extractive institutions in many cases do hamper economic development in the end. But is it all about institutions? There are many reasons for evaluating critically Acemoglu and Robinson's book. First of all, their evidence is quite anecdotal. Their earlier empirical work was based on quantitative models of extraction (including colonial extraction), but in this book the evidence is merely qualitative, not especially systematic, and sometimes they resort to pure rhetoric. They pay a lot of attention to contingency and path dependence, but to what extent can critical junctures such as the Glorious Revolution be seen as a juncture or rather as a conjuncture of previous events? Acemoglu and Robinson's theory consists of a very well-articulated mono-causal explanation (inclusive institutions), but, when it comes to explaining the origins of such institutions, they simply refer to the contingent path of history. Moreover, they never try to quantify precisely the impact of the openness of institutions. How can one measure exactly the economic effects of extractive institutions? At what point is the degree of inclusiveness of institutions sufficient to speak of economically favourable preconditions?

As mentioned earlier, Acemoglu and Robinson give many very appealing examples. However, one could think of any number of counter-examples to show that inclusive institutions do not always benefit society at large. If, for instance, we look at income distribution within countries, we will find a large degree of inequality in today's United States, which has a long historical tradition of what Acemoglu and Robinson call "inclusive institutions". Another counter-example is South Africa, which is the richest country in Africa but where large townships are built with one water tap for every 1,000 inhabitants, whereas on the other side of the road there are immense houses with swimming pools, protected gates, and signs warning of an "armed response". In other words, we should look at how inclusive institutions work, not only with respect to economic growth but also with respect to income inequality. Income inequality cannot merely be viewed as the outcome of more extractive (or less inclusive) institutions; it is very real in countries with relatively more inclusive institutions as well.

A serious criticism is that Acemoglu and Robinson focus almost entirely on the nation as a unit of analysis, or sometimes on parts of nations (the north and south US, for example), but it is not clear how the theory works for supra-regional entities. What about the institutions of the EU, for instance, in relation to the financial and economic instabilities of recent years in some of its parts? And, perhaps more importantly, what about the connections between different parts of the world? For instance, how does the theory work within empires and between empires? Kenneth Pomeranz has pointed to the importance of coal and colonies (geography and geopolitics) in explaining economic divergence in the world over the past two centuries. However, Pomeranz's name is not among the long list of authors cited, while it would be interesting to compare his explanation with that provided by the theory of our authors to see to what extent they do and do not work together. One burning question, obviously, is what it means when empires had recourse to "extractive institutions" in the colonies and drew a lot of their wealth from this, whereas at home they tended to increase the inclusiveness of their own institutions? Are both developments interconnected, and if so how? In other words we

need to know more about the mechanisms underlying political and economic institutions in order to know whether this explanation holds.

Finally, Acemoglu and Robinson do not explain why inclusive institutions decisive for economic growth were able to come into being only in the past 300 years of human history. Why was a critical juncture such as the Glorious Revolution more decisive for this than, say, the fall of the Roman Empire? This suggests that there is more going on here than simply the development of inclusive institutions. In my view, the authors would have done better to keep to the compelling story of colonial extraction of their previous work instead of pretending to provide an all-encompassing theory that allegedly accounts for all economic growth throughout history, as it is clearly not a “one-size-fits-all” explanation.

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Natural Experiments of History. Ed. by Jared Diamond [and] James A. Robinson. Harvard University Press, Cambridge [etc.] 2010. 278 pp. Maps. £22.95; \$29.95; € 27.00. doi:10.1017/S0020859013000035

The controlled and replicated laboratory experiment is widely conceived as the hallmark of modern scientific method. The laboratory environment allows the experimenter to explore causal relationships by manipulating the variables of interest, while keeping all others constant. Whereas social scientists can only assume *ceteris paribus* conditions in order to make their theories flow, natural scientists can *impose* such conditions on their subject. *Natural Experiments* opens with the observation that “the cruel reality is that manipulative experiments are impossible in many fields widely admitted to be sciences”. Whether one studies historical geology, evolutionary biology, or social history, the past cannot be directly observed, let alone manipulated. The key message of *Natural Experiments* is that the comparative historical method offers a valuable alternative to the laboratory experiment, one that should not be looked down upon as “unscientific”, but rather as a creative framework for exploring causes and consequences in history on the basis of falsifiable hypotheses. The comparative method offers an escape from the verdict of historians arguing that any attempt to establish causality in history is doomed to fail because of the impermeable complexity of historical processes. Indeed, this book is methodologically well positioned. It takes a stance against both the scholarly arrogance of many a natural scientist, as well as the uncompromising nihilism of the postmodern turn in the humanities.

The editors, Jared Diamond and James Robinson, need no introduction. Both scholars are driven by the big question of the historical roots of global inequality, Diamond with one foot in natural sciences, Robinson with one in social sciences. The editors have assembled seven chapters covering a spectrum of comparative approaches, ranging from non-quantitative narratives with a small number of units to rigorous statistical analyses based on large quantitative datasets. Readers familiar with the work of scholars such as