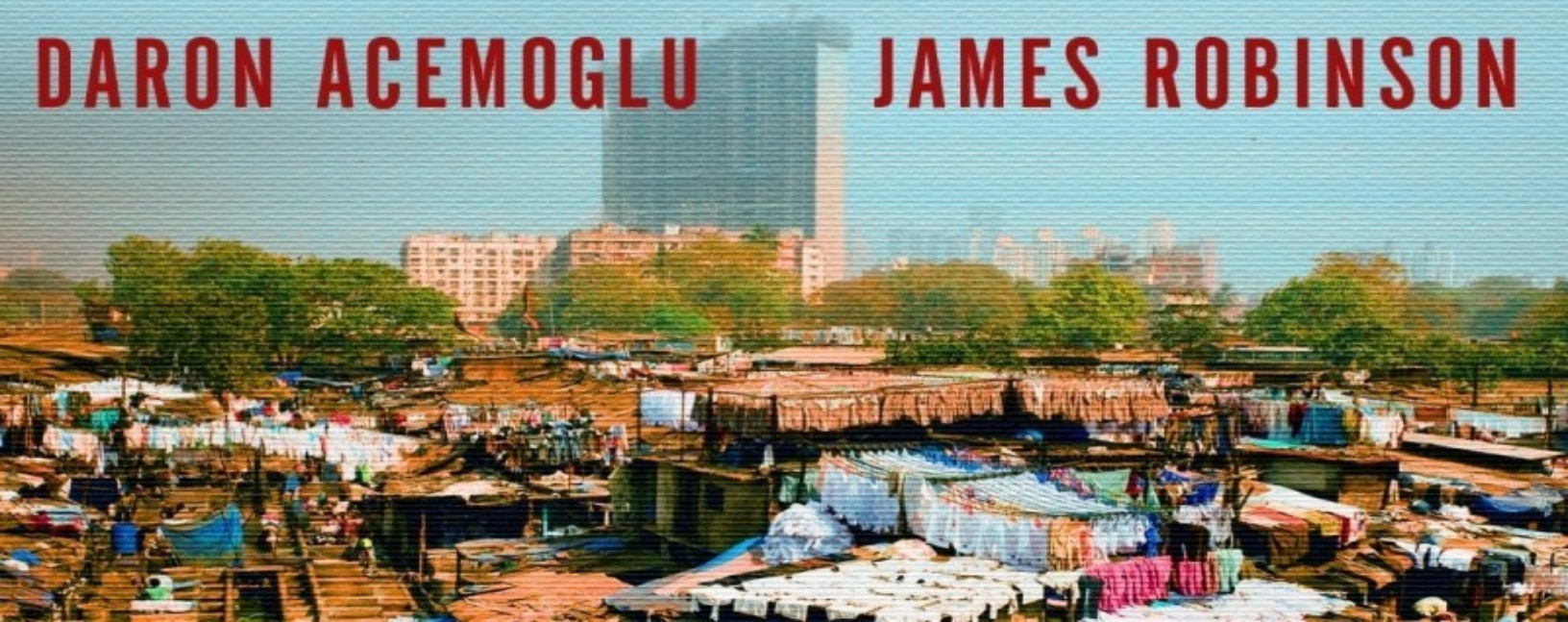


THE ORIGINS OF
POWER, PROSPERITY, AND POVERTY

WHY NATIONS FAIL

DARON ACEMOGLU

JAMES ROBINSON



PRAISE FOR *Why Nations Fail*

“Acemoglu and Robinson have made an important contribution to the debate as to why similar-looking nations differ so greatly in their economic and political development. Through a broad multiplicity of historical examples, they show how institutional developments, sometimes based on very accidental circumstances, have had enormous consequences. The openness of a society, its willingness to permit creative destruction, and the rule of law appear to be decisive for economic development.”

—Kenneth J. Arrow, Nobel laureate in economics, 1972

“The authors convincingly show that countries escape poverty only when they have appropriate economic institutions, especially private property and competition. More originally, they argue countries are more likely to develop the right institutions when they have an open pluralistic political system with competition for political office, a widespread electorate, and openness to new political leaders. This intimate connection between political and economic institutions is the heart of their major contribution, and has resulted in a study of great vitality on one of the crucial questions in economics and political economy.”

—Gary S. Becker, Nobel laureate in economics, 1992

“This important and insightful book, packed with historical examples, makes the case that inclusive political institutions in support of inclusive economic institutions is key to sustained prosperity. The book reviews how some good regimes got launched and then had a virtuous spiral, while bad

regimes remain in a vicious spiral. This is important analysis not to be missed.”

—Peter Diamond, Nobel laureate in economics, 2010

“For those who think that a nation’s economic fate is determined by geography or culture, Daron Acemoglu and Jim Robinson have bad news. It’s manmade institutions, not the lay of the land or the faith of our forefathers, that determine whether a country is rich or poor. Synthesizing brilliantly the work of theorists from Adam Smith to Douglass North with more recent empirical research by economic historians, Acemoglu and Robinson have produced a compelling and highly readable book.”

—Niall Ferguson, author of *The Ascent of Money*

“Acemoglu and Robinson—two of the world’s leading experts on development—reveal why it is not geography, disease, or culture that explain why some nations are rich and some poor, but rather a matter of institutions and politics. This highly accessible book provides welcome insight to specialists and general readers alike.”

—Francis Fukuyama, author of *The End of History and the Last Man*
and *The Origins of Political Order*

“A brilliant and uplifting book—yet also a deeply disturbing wake-up call. Acemoglu and Robinson lay out a convincing theory of almost everything to do with economic development. Countries rise when they put in place the right pro-growth political institutions and they fail—often spectacularly—when those institutions ossify or fail to adapt. Powerful people always and everywhere seek to grab complete control over government, undermining broader social progress for their own greed. Keep those people in check with effective democracy or watch your nation fail.”

—**Simon Johnson, coauthor of *13 Bankers* and professor at MIT Sloan**

“Two of the world’s best and most erudite economists turn to the hardest issue of all: why are some nations poor and others rich? Written with a deep knowledge of economics and political history, this is perhaps the most powerful statement made to date that ‘institutions matter.’ A provocative, instructive, yet thoroughly enthralling book.”

—**Joel Mokyr, Robert H. Strotz Professor of Arts and Sciences and Professor of Economics and History, Northwestern University**

“In this delightfully readable romp through four hundred years of history, two of the giants of contemporary social science bring us an inspiring and important message: it is freedom that makes the world rich. Let tyrants everywhere tremble!”

—**Ian Morris, Stanford University, author of *Why the West Rules—
for Now***

“Imagine sitting around a table listening to Jared Diamond, Joseph Schumpeter, and James Madison reflect on more than two thousand years of political and economic history. Imagine that they weave their ideas into a coherent theoretical framework based on limiting extraction, promoting creative destruction, and creating strong political institutions that share power, and you begin to see the contribution of this brilliant and engagingly written book.”

—**Scott E. Page, University of Michigan and Santa Fe Institute**

“In this stunningly wide-ranging book, Acemoglu and Robinson ask a simple but vital question, why do some nations become rich and others remain poor? Their answer is also simple—because some polities develop more

inclusive political institutions. What is remarkable about the book is the crispness and clarity of the writing, the elegance of the argument, and the remarkable richness of historical detail. This book is a must-read at a moment when governments across the Western world must come up with the political will to deal with a debt crisis of unusual proportions.”

—Steven Pincus, Bradford Durfee Professor of History and International and Area Studies, Yale University

“It’s the politics, stupid! That is Acemoglu and Robinson’s simple yet compelling explanation for why so many countries fail to develop. From the absolutism of the Stuarts to the antebellum South, from Sierra Leone to Colombia, this magisterial work shows how powerful elites rig the rules to benefit themselves at the expense of the many. Charting a careful course between the pessimists and optimists, the authors demonstrate history and geography need not be destiny. But they also document how sensible economic ideas and policies often achieve little in the absence of fundamental political change.”

—Dani Rodrik, Kennedy School of Government, Harvard University

“This is not only a fascinating and interesting book: it is a really important one. The highly original research that Professors Acemoglu and Robinson have done, and continue to do, on how economic forces, politics, and policy choices evolve together and constrain each other, and how institutions affect that evolution, is essential to understanding the successes and failures of societies and nations. And here, in this book, these insights come in a highly accessible, indeed riveting form. Those who pick this book up and start reading will have trouble putting it down.”

—Michael Spence, Nobel laureate in economics, 2001

“This fascinating and readable book centers on the complex joint evolution of political and economic institutions, in good directions and bad. It strikes a delicate balance between the logic of political and economic behavior and the shifts in direction created by contingent historical events, large and small, at ‘critical junctures.’ Acemoglu and Robinson provide an enormous range of historical examples to show how such shifts can tilt toward favorable institutions, progressive innovation, and economic success or toward repressive institutions and eventual decay or stagnation. Somehow they can generate both excitement and reflection.”

—Robert Solow, Nobel laureate in economics, 1987

Why Nations Fail

THE ORIGINS OF POWER,
PROSPERITY, AND POVERTY

Daron Acemoglu and
James A. Robinson



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For Arda and Asu—DA

Para María Angélica, mi vida y mi alma—JR

CONTENTS

Cover

Title Page

Copyright

Dedication

PREFACE

Why Egyptians filled Tahrir Square to bring down Hosni Mubarak and what it means for our understanding of the causes of prosperity and poverty

1.

SO CLOSE AND YET SO DIFFERENT

Nogales, Arizona, and Nogales, Sonora, have the same people, culture, and geography. Why is one rich and one poor?

2.

THEORIES THAT DON'T WORK

Poor countries are poor not because of their geographies or cultures, or because their leaders do not know which policies will enrich their citizens

3.

THE MAKING OF PROSPERITY AND POVERTY

How prosperity and poverty are determined by the incentives created by institutions, and how politics determines what institutions a nation has

4.

SMALL DIFFERENCES AND CRITICAL JUNCTURES: THE WEIGHT OF HISTORY

How institutions change through political conflict and how the past shapes the present

5.

“I’VE SEEN THE FUTURE, AND IT WORKS”: GROWTH UNDER EXTRACTIVE INSTITUTIONS

What Stalin, King Shyaam, the Neolithic Revolution, and the Maya city-states all had in common and how this explains why China’s current economic growth cannot last

6.

DRIFTING APART

How institutions evolve over time, often slowly drifting apart

7.

THE TURNING POINT

How a political revolution in 1688 changed institutions in England and led to the Industrial Revolution

8.

NOT ON OUR TURF: BARRIERS TO DEVELOPMENT

Why the politically powerful in many nations opposed the Industrial Revolution

Photo Inserts

9.

REVERSING DEVELOPMENT

How European colonialism impoverished large parts of the world

10.

THE DIFFUSION OF PROSPERITY

How some parts of the world took different paths to prosperity from that of Britain

11.

THE VIRTUOUS CIRCLE

How institutions that encourage prosperity create positive feedback loops that prevent the efforts by elites to undermine them

12.

THE VICIOUS CIRCLE

How institutions that create poverty generate negative feedback loops and endure

13.

WHY NATIONS FAIL TODAY

Institutions, institutions, institutions

14.

BREAKING THE MOLD

How a few countries changed their economic trajectory by changing their institutions

15.

UNDERSTANDING PROSPERITY AND POVERTY

How the world could have been different and how understanding this can explain why most attempts to combat poverty have failed

ACKNOWLEDGMENTS

BIBLIOGRAPHICAL ESSAY AND SOURCES

REFERENCES

PREFACE

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.

As we write this preface, North Africa and the Middle East have been shaken by the “Arab Spring” started by the so-called Jasmine Revolution, which was initially ignited by public outrage over the self-immolation of a street vendor, Mohamed Bouazizi, on December 17, 2010. By January 14, 2011, President Zine El Abidine Ben Ali, who had ruled Tunisia since 1987, had stepped down, but far from abating, the revolutionary fervor against the rule of privileged elites in Tunisia was getting stronger and had already spread to the rest of the Middle East. Hosni Mubarak, who had ruled Egypt with a tight grip for almost thirty years, was ousted on February 11, 2011. The fates of the regimes in Bahrain, Libya, Syria, and Yemen are unknown as we complete this preface.

The roots of discontent in these countries lie in their poverty. The average Egyptian has an income level of around 12 percent of the average citizen of the United States and can expect to live ten fewer years; 20 percent of the population is in dire poverty. Though these differences are significant, they are actually quite small compared with those between the United States and the poorest countries in the world, such as North Korea, Sierra Leone, and Zimbabwe, where well over half the population lives in poverty.

Why is Egypt so much poorer than the United States? What are the constraints that keep Egyptians from becoming more prosperous? Is the poverty of Egypt immutable, or can it be eradicated? A natural way to start thinking about this is to look at what the Egyptians themselves are saying

about the problems they face and why they rose up against the Mubarak regime. Noha Hamed, twenty-four, a worker at an advertising agency in Cairo, made her views clear as she demonstrated in Tahrir Square: “We are suffering from corruption, oppression and bad education. We are living amid a corrupt system which has to change.” Another in the square, Mosaab El Shami, twenty, a pharmacy student, concurred: “I hope that by the end of this year we will have an elected government and that universal freedoms are applied and that we put an end to the corruption that has taken over this country.” The protestors in Tahrir Square spoke with one voice about the corruption of the government, its inability to deliver public services, and the lack of equality of opportunity in their country. They particularly complained about repression and the absence of political rights. As Mohamed ElBaradei, former director of the International Atomic Energy Agency, wrote on Twitter on January 13, 2011, “Tunisia: repression + absence of social justice + denial of channels for peaceful change = a ticking bomb.” Egyptians and Tunisians both saw their economic problems as being fundamentally caused by their lack of political rights. When the protestors started to formulate their demands more systematically, the first twelve immediate demands posted by Wael Khalil, the software engineer and blogger who emerged as one of the leaders of the Egyptian protest movement, were all focused on political change. Issues such as raising the minimum wage appeared only among the transitional demands that were to be implemented later.

To Egyptians, the things that have held them back include an ineffective and corrupt state and a society where they cannot use their talent, ambition, ingenuity, and what education they can get. But they also recognize that the roots of these problems are political. All the economic impediments they face stem from the way political power in Egypt is exercised and monopolized by a narrow elite. This, they understand, is the first thing that has to change.

Yet, in believing this, the protestors of Tahrir Square have sharply diverged from the conventional wisdom on this topic. When they reason

about why a country such as Egypt is poor, most academics and commentators emphasize completely different factors. Some stress that Egypt's poverty is determined primarily by its geography, by the fact that the country is mostly a desert and lacks adequate rainfall, and that its soils and climate do not allow productive agriculture. Others instead point to cultural attributes of Egyptians that are supposedly inimical to economic development and prosperity. Egyptians, they argue, lack the same sort of work ethic and cultural traits that have allowed others to prosper, and instead have accepted Islamic beliefs that are inconsistent with economic success. A third approach, the one dominant among economists and policy pundits, is based on the notion that the rulers of Egypt simply don't know what is needed to make their country prosperous, and have followed incorrect policies and strategies in the past. If these rulers would only get the right advice from the right advisers, the thinking goes, prosperity would follow. To these academics and pundits, the fact that Egypt has been ruled by narrow elites feathering their nests at the expense of society seems irrelevant to understanding the country's economic problems.

In this book we'll argue that the Egyptians in Tahrir Square, not most academics and commentators, have the right idea. In fact, Egypt is poor precisely because it has been ruled by a narrow elite that have organized society for their own benefit at the expense of the vast mass of people. Political power has been narrowly concentrated, and has been used to create great wealth for those who possess it, such as the \$70 billion fortune apparently accumulated by ex-president Mubarak. The losers have been the Egyptian people, as they only too well understand.

We'll show that this interpretation of Egyptian poverty, the people's interpretation, turns out to provide a general explanation for why poor countries are poor. Whether it is North Korea, Sierra Leone, or Zimbabwe, we'll show that poor countries are poor for the same reason that Egypt is poor. 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. We'll show that to understand why there is such inequality in the world today we have to delve into the past and study the historical dynamics of societies. We'll see that the reason that Britain is richer than Egypt is because in 1688, Britain (or England, to be exact) had a revolution that transformed the politics and thus the economics of the nation. People fought for and won more political rights, and they used them to expand their economic opportunities. The result was a fundamentally different political and economic trajectory, culminating in the Industrial Revolution.

The Industrial Revolution and the technologies it unleashed didn't spread to Egypt, as that country was under the control of the Ottoman Empire, which treated Egypt in rather the same way as the Mubarak family later did. Ottoman rule in Egypt was overthrown by Napoleon Bonaparte in 1798, but the country then fell under the control of British colonialism, which had as little interest as the Ottomans in promoting Egypt's prosperity. Though the Egyptians shook off the Ottoman and British empires and, in 1952, overthrew their monarchy, these were not revolutions like that of 1688 in England, and rather than fundamentally transforming politics in Egypt, they brought to power another elite as disinterested in achieving prosperity for ordinary Egyptians as the Ottoman and British had been. In consequence, the basic structure of society did not change, and Egypt stayed poor.

In this book we'll study how these patterns reproduce themselves over time and why sometimes they are altered, as they were in England in 1688 and in France with the revolution of 1789. This will help us to understand if the situation in Egypt has changed today and whether the revolution that overthrew Mubarak will lead to a new set of institutions capable of bringing prosperity to ordinary Egyptians. Egypt has had revolutions in the past that did not change things, because those who mounted the revolutions simply took over the reins from those they'd deposed and re-created a similar

system. It is indeed difficult for ordinary citizens to acquire real political power and change the way their society works. But it is possible, and we'll see how this happened in England, France, and the United States, and also in Japan, Botswana, and Brazil. Fundamentally it is a political transformation of this sort that is required for a poor society to become rich. There is evidence that this may be happening in Egypt. Reda Metwaly, another protestor in Tahrir Square, argued, "Now you see Muslims and Christians together, now you see old and young together, all wanting the same thing." We'll see that such a broad movement in society was a key part of what happened in these other political transformations. If we understand when and why such transitions occur, we will be in a better position to evaluate when we expect such movements to fail as they have often done in the past and when we may hope that they will succeed and improve the lives of millions.

1.

SO CLOSE AND YET SO DIFFERENT

THE ECONOMICS OF THE RIO GRANDE

THE CITY OF NOGALES is cut in half by a fence. If you stand by it and look north, you'll see Nogales, Arizona, located in Santa Cruz County. The income of the average household there is about \$30,000 a year. Most teenagers are in school, and the majority of the adults are high school graduates. Despite all the arguments people make about how deficient the U.S. health care system is, the population is relatively healthy, with high life expectancy by global standards. Many of the residents are above age sixty-five and have access to Medicare. It's just one of the many services the government provides that most take for granted, such as electricity, telephones, a sewage system, public health, a road network linking them to other cities in the area and to the rest of the United States, and, last but not least, law and order. The people of Nogales, Arizona, can go about their daily activities without fear for life or safety and not constantly afraid of theft, expropriation, or other things that might jeopardize their investments in their businesses and houses. Equally important, the residents of Nogales, Arizona, take it for granted that, with all its inefficiency and occasional corruption, the government is their agent. They can vote to replace their mayor, congressmen, and senators; they vote in the presidential elections that determine who will lead their country. Democracy is second nature to them.

Life south of the fence, just a few feet away, is rather different. While the residents of Nogales, Sonora, live in a relatively prosperous part of Mexico, the income of the average household there is about one-third that in