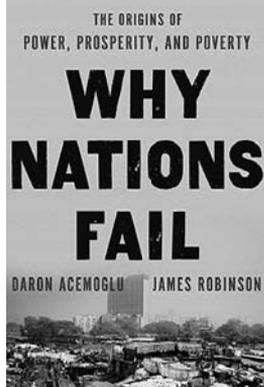


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WHY NATIONS FAIL: THE ORIGINS OF POWER, PROSPERITY, AND POVERTY by Daron Acemoglu and James Robinson
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BOOK REVIEW

Why Nations Fail – A South African Review

Western development theory is pushing ahead on two fronts, one very narrow, the other extremely broad. The former is exemplified by Abhijit Banerjee and Esther Duflo's book Poor Economics, which reports experiments in making aid work. How do you get poor farmers to use fertilisers? Just subsidising them doesn't seem to do it. But allowing farmers to buy vouchers straight after harvest, when they're flush, does. How do we know? Not because of statistical studies, not from game theory, not from anecdotes, but from experiments: Randomised Control Trials, or RCTs. This approach to development is pleasingly scientific, because RCTs are the gold standard of empirical verification, but also quite unsatisfying.

For all the usefulness of micro-interventions, the difference between Sweden and Burundi doesn't come down to higher rates of fertiliser usage. Because of this, scholars have also attacked the much broader front of long-run development, forsaking the impossible rigours of experimentation for old-fashioned analytical narrative history. One of the most prominent new contributions to this cause is Daron Acemoglu and James Robinson's *Why Nations Fail*, which aims to explain differences in development from the Neolithic Revolution to the present day, and quite a lot in between.

Acemoglu and Robinson (hereafter A&R) offer a simple hypothesis: nations succeed when they have inclusive institutions, and they fail when institutions are extractive. Politics is prior to economics, because power-holders operate political institutions which determine economic institutions. Culture and geography are unimportant: anyone can do well, anywhere, provided they live in a society set up to reward work and innovation. A few natural experiments show there's truth in this. What, apart from institutions, explains the divergence of North and South Korea, or East and West Germany?

Their argument entails two other factors. First, there must be centralisation, meaning the establishment of institutions across a large polity. The story of African development is not, therefore, just about persistent extractive institutions inherited from colonialism, but also about the absence of large-scale governmental institutions of any sort before colonisation. This helps explain why Africa is so much poorer than Latin America, despite shared experiences of extractive colonialism. The second factor is the Industrial Revolution, a colossal exogenous shock which transformed the value of inclusive institutions. Once, the wealthiest territories in the Americas were the Caribbean slave colonies, and without the industrial revolution this pattern would likely have persisted. Instead, Central America is now the *poorest* part of the Western Hemisphere. Inclusive institutions were necessary because where extractive ones prevailed elites suppressed creative destruction for fear of losing their political grip. This, for instance, is why Tsarist Russia had so few railroads, even though

industrialising Western Europe had plainly demonstrated their utility. In sum, national success comes from developing inclusive political institutions and using them to harness the industrial revolution; failing means sticking with extractive institutions and quashing innovation.

The burning question is how one gets inclusive institutions, and this A&R say is mostly contingent, with a variety of historical accidents conspiring to re-direct societies onto new paths. Once shifted, however, there is strong path dependence, through virtuous circles (for societies with inclusive institutions) and vicious ones (for the extractively inclined). In the virtuous circle, power is shared amongst plural interests, so no-one can re-write the rules in their own favour. There are stronger incentives to support generally fair rules because they protect you from other powerful actors, instead of merely obstructing your predatory temptations. Additionally,

inclusive institutions permit newcomers to get rich, creating additional supporters for those rules. In the vicious circle, however, pre-existing extractive institutions offer tempting opportunities and also the resources to keep them. This is why unaccountable colonial administrations transmuted seamlessly into unaccountable independent governments – the same effect George Orwell diagnosed in *Animal Farm*: “The creatures outside looked from pig to man, and from man to pig, and from pig to man again; but already it was impossible to say which was which.”

The implication was that South Africa was much richer than most other African states because it had good (inclusive) institutions built by settlers who had to live under them, not just because it had extremely lucrative extractive ones.

Why South Africa Could Fail (or Succeed)

By trying to explain so much with so little, A&R open themselves up to criticism – and because their book has received so much attention, reviewers have provided it. Instead of duplicating those efforts, I will complete this review by applying their institutional argument to the difficult and interesting case of South Africa.

A&R discuss South Africa quite extensively, starting with a photograph of the border between the old Transkei and Natal. On one side are orderly fields, embodying prosperity; on the other the land is barren and the poverty tangible. The difference is attributed to institutions. The prosperous land was part of white South Africa and its owners benefitted from inclusive institutions, whereas the poor area was part of a Bantustan whose residents suffered under extractive institutions. SA therefore developed a dual economy, with strong linkages between its inclusive and extractive sections – but it was not, importantly, purely an extractive economy like Haiti. In fact, the relative inclusiveness of South Africa was an important aspect of A&R's famous earlier work with Simon Johnson, *The Colonial Origins of Comparative Development* which showed that global settler mortality rates a hundred years ago were closely correlated with institutional quality and wealth today. Their finding was meant to solve the endogeneity problem, proving good institutions caused growth instead of vice versa. The implication was that South Africa was much richer than most other African states because it had good (inclusive) institutions built by settlers who had to live under them, not just because it had extremely lucrative extractive ones.

The point is that this is a country with the inclusive gene and the extractive one, and the critical question is which will dominate. A&R's vicious and virtuous cycles explain how either might prevail. Inclusive institutions are protected by extensive checks and balances, supported by plural interests unwilling to sanction

expropriation for fear of being expropriated. But for those secure in their power, there is an abiding temptation to sacrifice the majority and live off extraction, a scenario effectively described by Moeletsi Mbeki in his 2009 book *Architects of Poverty*. A&R therefore provide a strong endorsement of the usual South African liberal agenda: stand up for property rights, free speech and checks and balances; treat the government as a lurking threat to development.

We may, however, take issue with A&R's theory of national success. Really, their argument advances us barely a step beyond Adam Smith's famous admonition, that "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things." The natural course of things, however, can be a very frustrating period for the countries with appropriately liberal institutions and disappointing growth.

Meanwhile, it's striking that the countries which have achieved the most in terms of adopting the industrial revolution and catching up with the West are all in East Asia (Japan, South Korea, Taiwan, Singapore, with China *en route*). What made them so special? It's almost certainly not inclusiveness – South Korea, for instance, only democratised in the late 1980s, and before that experienced highly repressive Japanese colonialism followed by decades of home-grown authoritarianism. State *effectiveness* is a much more plausible explanation for South Korea's success, and for East Asian exceptionalism more generally. This isn't a defence of extraction but an argument that national success isn't all about inclusion. And it is relevant to SA: mediocre growth with persistent inequality in South Africa would very likely be reversed if our state were more effective. Inclusion is necessary but not sufficient.

Finally, A&R omit any discussion of countries with inclusive institutions which failed, such as Brazil before the coup of 1964, Chile before 1973, Argentina (at many points) or Venezuela before Chávez. These countries have been notoriously prone to populism, macroeconomic crisis and regime instability, defects to which inclusivity surely contributed. A&R might respond that they actually slipped into the vicious circle that replicates extractive institutions, but that's a dubious tactic leading to question-begging.

Their definition of 'extractive' institutions is very broad, incorporating cases as different as Mugabe's Zimbabwe, Mubarak's Egypt, and contemporary China; at one point they even argue that parts of the Indian bureaucracy exemplify the persistence of extractive institutions. The danger is that any case of failure can be defined as extractive. Rather, their thesis requires that inclusion itself not be a source of failure, and by ignoring that problem A&R commit selection bias, a consequence of adopting an anecdotal approach in place of a structured, focussed comparison.

This really matters for South Africans: as the reader has no doubt noticed, my cases of 'inclusive failure' are all Latin American, a region full of highly unequal middle income states, like South Africa. The lesson is that creating inclusive institutions is also dangerous, and we need to study threats arising not just from resurgent extractive systems but also from the new ones.

In conclusion, the inclusive/exclusive distinction matters enormously for understanding South Africa before 1994. But now it can only provide one leg of our research agenda, which should also rest on state quality and the dangers inherent in inclusion.