

## **“WHY NATIONS FAIL” OR AMERICAN SCHOLARSHIP AND EASTERN-EUROPEAN ECONOMIC AND POLITICAL INSIGHTS**

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“Why Nations Fail. The Origins of Power, Prosperity and Poverty” by Acemoglu and Robinson was published in 2012 and took the world by storm as the two U.S. professors launched a new theory on the origin of economic disparities, past and present. The 500 page volume builds on 15 years of comprehensive research that explores the rise and fall of states and empires, from the Neolithic Revolution to the current developments in China, with due attention to all the outburst of economic and institutional creativity, be it manifested in the Maya civilization or the Industrial Revolution.

Acemoglu and Robinson are both leading academics at elite U.S. universities: the former is professor of economics at MIT and the latter teaches government at Harvard. As they join forces, they are able to compellingly argue that power, prosperity and poverty are not the inevitable result of climate, geography, culture, or disease. Drawing on a staggering range of examples, from all times and all places, they state a new theory and then persuasively illustrate it: according to them, prosperity and poverty are both due to the institutions that the respective communities have built. Their basic tenet is that in order to invest and prosper, people need to know that, by working hard, they can make money and keep it as their property rights are secured. This actually means developing sound institutions that allow and encourage innovation, economic expansion, high living standards, and peace.

Two thousand years of political and economic history are distilled into the blue print of economic development and failure as you, the avid reader, learn how economic forces, politics, and political choices impact one another, evolve together, and constrain one another. You also learn how man-made institutions affect this evolution, as a result of which some nations become rich while others remain poor, in the grips of anarchy, and devastated by endemic, endless wars.

The fresh approach promoted in the volume stems from the intimate connection the authors identify between political and economic institutions, making the case that sustained prosperity relies on inclusive political institutions that support inclusive economic institutions. Historical examples convincingly show that countries escape poverty only when they have appropriate economic institutions. What is original about the book is that it argues and actually demonstrates that countries are more likely to develop the right

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institutions when they have an open pluralistic political system with wide access to leading positions, with competition for political office and a widespread electorate.

Given their ample research evidence, the authors are able to convincingly dismiss earlier theories that poor countries are poor and usually stay poor “because of their geographies or culture, or because their leaders do not know which policies will enrich their citizens.” (p. IX). They demonstrate “how prosperity and poverty are determined by the incentives created by institutions and how politics determines what institutions a nation has” (p. IX).

The historical perspective that lies at the core of this fascinating volume highlights the virtuous circle – “how institutions that encourage prosperity create positive feedback loops that prevent the efforts by elites to undermine them” (p. X) – and its very opposite, the vicious circle – “how institutions that create poverty generate negative feedback loops and endure” (p. XI), demonstrating that “history and geography need not be destiny” (*ibidem*).

“Brilliant.” “Insightful.” “Great vitality.” “Compelling.” “Erudite.” “Stunningly wide ranging.” “History packed.” “Delightfully readable.” “Highly accessible.” “Fascinating.” The comments come from 5 Nobel laureates in economics and leading academics teaching at U.S. elite institutions and you’ll find them all true, despite the contradictions that the Romanian academic tradition may point out about them, such as “erudite” and still “highly accessible” and “delightfully readable”. They all point to the quality of U.S. research and academic writing in which erudition and depth are rendered accessible, manageable and highly enjoyable to the lay reader through the clarity of style, the colorful prose and the vivid examples brought to make the authors’ point. Two samples on the virtuous circles and the vicious ones may just water your mouth, dry at first sight but certainly crystal clear as they are:

*Inclusive economic and political institutions do not emerge by themselves. They are often the outcome of significant conflict between elites resisting economic growth and political change and those wishing to limit the economic and political power of existing elites. Inclusive institutions emerge during critical junctures, such as during the Glorious Revolution in England or the foundation of the Jamestown colony in North America (nota bene: you don’t need to strain to remember what this is all about as both historic events were extensively explained in the earlier pages), when a series of factors weaken the hold of the elites in power, make their opponents stronger, and create incentives for the formation of a pluralistic society. The outcome of political conflict is never certain and even if in hindsight we see many historical events as inevitable, the path of history is contingent. Nevertheless, once in place, inclusive economic and political institutions tend to create a virtuous circle, a process of positive feedback, making it more likely that these institutions will persist and even expand. (p. 332)*

*There are natural reasons for the vicious circle. Extractive political institutions lead to extractive economic institutions, which enrich a few at the expense of many. Those who benefit from extractive institutions thus have the resources to build their (private) armies and mercenaries, to buy their judges, and to rig their elections in order to remain in power. They also have every interest in defending the system. Therefore, extractive economic institutions create the platform for extractive political institutions to persist. Power is*

*valuable in regimes with extractive political institutions, because power is unchecked and brings economic riches.*

*Extractive political institutions also provide no checks against abuses of power. Whether power corrupts is debatable, but lord Acton was certainly right when he argued that absolute power corrupts absolutely. We saw in the previous chapter that even when Franklin Delano Roosevelt wished to use his presidential powers in a way that he thought would be beneficial for the society, unencumbered by constraints imposed by the Supreme Court, the inclusive U.S. political institutions prevented him from setting aside the constraints on his power. Under extractive political institutions, there is little check against the exercise of power, however distorted and sociopathic it may become. ...*

*Yet another mechanism for the vicious circle is that extractive institutions, by creating unconstrained power and great income inequality, increase the potential stakes of the political game. Because whoever controls the state becomes the beneficiary of this excessive power and the wealth that it generates, extractive institutions create incentives for infighting in order to control power and its benefits, a dynamic that we saw played out in Maya city-states and in Ancient Rome... (pp 343-4)*

The first part of the title has surely been made explicit by now. Where is still the Eastern-European connection and the insights mentioned in the title? Everywhere throughout the book at an implicit level and explicitly in Chapter 4 "Small Differences and Critical Junctures: The Weight of History. How Institutions Change through Political Conflict and How the Past Shapes the Present". The chapter analyses the commonalities of Western and Eastern Europe by 1346 at the time of the Black Death and the diverging path that the plague inaugurated. Then small differences started to cumulate,

*creating a process of institutional drift. ... The differences created by institutional drift become especially consequential, because they influence how society reacts to changes in economic or political circumstances during critical junctures. ... The Black Death and the expansion of world trade after 1600 were both major critical junctures for European powers and interacted with different initial institutions to create a major divergence. Because in 1346 in Western Europe peasants had more power and autonomy than they did in Eastern Europe, the Black Death led to the dissolution of feudalism in the West and the Second Serfdom in the East. (pp. 108-10).*

The book is so rich and explicit that Eastern European insights are available in a number of contexts. A range of them document the situation existing in the Habsburg Empire, the Russian and the Ottoman one, all relevant to Romania's slow-paced development. The three empires were all absolutist monarchies, with no checks on the ruler's power and an aristocracy with no appetite for change, that consequently discouraged industrialization to maintain its political and economic power. Sadly, all three empires illustrate the vicious circle of extractive institutions and economies, with an impact on Romania's economic and institutional development. "With a few exceptions, the rich countries of today are those that embarked on the process of industrialization and technological change starting in the nineteenth century, and the poor ones are those that did not." (p. 301)