Does wealth entirely depend on inclusive institutions and pluralist politics? A review of Daron Acemoglu and James A. Robinson, Why nations fail*

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Introduction

The authors of the book reviewed here need no introducing. They are amongst the most-frequently cited scholars in the social sciences. They wrote many highly influential articles, as a rule together with Simon Johnson, and already published a book together in 2006. Their book needs no further praise; it opens with jacket quotes of praise by no fewer than five Nobel-prize winners in economics, and by amongst others Jared Dia- mond, Niall Ferguson, Francis Fukuyama, Joel Mokyr, Dani Rodrik and Ian Morris. It would not make much sense to add my humble eulogy to such distinguished recommendation. I will therefore mainly confine myself to critical comments. Not because one can only criticize the book, although I am less impressed than the 'reviewers' I just referred to, but because amidst all that praise some critical counterpoise from an economic histo- rian can do no harm.

Let me first briefly summarize its content. Acemoglu and Robinson set the stage in their Preface, discussing why Egyptians filled Tahrir Square. They think that is because those Egyptians were fed up with bad government and knew why their country is poor: "…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 the people." (3)

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That prompts our authors to suggest that you need broad political transformation for a poor society to become rich. The actual book then opens with a description of Nogales, Arizona, a small town in the United States, and Nogales, Sonora, a small town in Mexico. These towns have the same people, culture, and geog- raphy. Why is Nogales in the USA rich and its Mexican counterpart poor? The authors devote their second chapter to theories that according to them *cannot* explain this and the third one to their theory that in their view *does*, stating the claim that prosperity and poverty are determined by the incentives created by institutions. The next chapter deals with 'the weight of history', illustrating how institutions change through political conflict and how the past shapes the present. The authors here empha- size the importance of small differences and critical junctures and discuss the long-lasting different effects of the Black Death in Western and East- by, amongst others, analysing the rise and decline of the Soviet economy. Rise and decline basically also are the subjects of chapter six that focus- es on how Venice and the Roman Empire lost their economic dynamism. Chapter seven with the telling title 'The turning point. How a political revolution in 1688 changed institutions in England and led the way to the Industrial Revolution.' deals with the Glorious Revolution in Britain. Like many institutionalist colleagues e.g. Douglass North, Acemoglu and Rob- inson claim that this revolution created an institutional set up in which ruling elites, in case they would have wanted to, could no longer system- atically oppose development. The next chapter deals with elites who continued to do so and asks why the politically powerful in many nations opposed industrialization. Chapters nine and ten show how European colonialism impoverished large parts of the world and how some parts of the world took different paths to prosperity from that of Britain.

In their explanations Acemoglu and Robinson attach a central importance to historical junctures and path dependencies. Those path dependencies can lead to virtuous and vicious circles. These are the subjects of chap- ters eleven and twelve that discuss how institutions that create prosper- ity generate what they call 'positive feedback' loops and how institutions that create poverty generate what they call 'negative feedback' loops. Chapter thirteen deals with the contemporary situation asking why nations fail today and answers that question by referring to bad institu- tions. The authors devote chapter fourteen to discussing how a few

1 See for example: Daron Acemoglu, Simon Johnson and James A. Robinson, 'The colonial origins of comparative development: an empirical investigation', *American Economic Review*, 91 (2001) 1369-1401; iidem, 'The reversal of fortune: geography and institutions in the making of the modern world income distribution', *Quarterly Journal of Economics*, 117 (2002) 1231- 1294; iidem, 'The rise of Europe: Atlantic trade, institutional change and economic growth', *American Economic Review*, 95, 3 (2005) 546-579, and iidem, 'Institutions as a fundamental cause of long-run growth', in P. Aghion and S. Durlauf, eds., *Handbook of economic growth* (Amsterdam /London 2005) Volume 1A, pages 385-472. Their previous book is called *Economic origins of dictatorship and democracy* (Cambridge 2006).

countries changed their economic trajectory by changing their institu- tions. They refer to, amongst others, Botswana in the twentieth century, the Southern States of the USA after the Civil War and post-Mao China. In the final chapter they summarize and further explain why most attempts to combat poverty up until now have failed.

The message

This clearly is a book with a message. It starts from the thesis that poli- tics is at the basis of economic development and growth because politics determines what institutions a nation has. (See the title of chapter 3) It is about "the politics of po- verty and progress." (44. See also 69) Politics can only function adequately when there is a centralized state with a monopoly of legitimate violence. Without such a monopoly and the degree of centralization it entails, "the state cannot play its role of enforc- er of law and order, let alone provide public services and encourage and regulate economic activity." (80) Whether a centralized state will develop economically depends on the nature of its institutions. In case they are inclusive it will, in case they are extractive it will not, at least not for long. The authors distin- guish between economic institutions and (supportive) political institutions. On pages 429-430, they provide the following descriptions. Inclusive economic institutions are institutions that "enforce property rights, create a level playing field, and encourage investments in new technologies and skills." Inclusive political institutions are ins- titu- tions that "distribute political power widely in a pluralistic manner and are able to achieve some amount of political centralization so as to establish law and order, the foundation of secure property rights and an inclusive market economy." Extractive economic institutions are "structured to extract resources from the many by the few and … fail to protect prop- erty rights or provide incentives for economic activity." Extractive politi- cal institutions "concentrate power in the hands of a few who will then have incentives to maintain and develop extractive economic institutions for their benefit."

Sustained growth requires innovation, which involves risky changes for the es- tablished elites, economically as well as politically. Those elites as a rule therefore object to innovation. Their behaviour in turn frequently creates political instability and struggles - often also inside the elites - for the spoils of rent seeking. Extractive institutions are about the slicing of pies, not their baking. They therefore have a ten- dency to re-enforce them- selves in a vicious circle. The 'right' institutions instead tend to create virtuous circles. They provide an increasing number of citizens with incen- tives and possibilities to use them and guarantee them they can enjoy the results of their efforts. In that way a society taps its potential with increasing effi- ciency. Societies with extractive political institutions *can* have economic growth,

2 See further for several other always slightly varying descriptions in the Index under 'extractive institutions' and under 'inclusive institutions'.

for example, by reallocating inputs to sectors with higher productivity, increasing inputs and putting severe pressure on the labour force, or allowing some niches for inclusive institutions. Sev- eral Caribbean islands, notorious for their slave labour and plantations, were amongst the richest places in the world in the last decades of the eighteenth century. The Soviet Union did grow, and now, for example, does China. But in the Caribbean and the Soviet Union growth stopped and according to our authors it will stop in China. In absence of struc- tural innovations and room for initiative and participation decreasing returns in time are unavoidable.

If inclusive institutions are essential for growth, the question raises itself whether and how one can build them. Acemoglu and Robinson point out that '…there is no recipe for building such (i.e. inclusive PV) institutions" (460) and that "You can't en- gineer prosperity." (446) You can introduce certain institutions but it is not easy to make them actually work and they

will usually *not* work unless something is done about the root causes of previous malfunctioning. Much depends on historical contingency, the coming together of specific factors in a specific critical juncture as the authors illustrate in their story about the Black Death that triggered a process of peasant liberation in Western Europe whereas in Central and Eastern Europe it triggered the so-called Second Serfdom. Small initial differences here led to completely different outcomes and path-dependen- cies. It is not easy to escape from history and path-dependency but, so they emphasize, the past is not destiny. (chapter 14)

Some general comments

The title of the book is not very fortunate. It is not about nations that fail. The expres- sion 'failing nations' conjures up associations with 'failed states', that is states lac- king sovereign government that centralizes power and rule. Actually, however, many if not most of the 'failing' states our authors refer to, in that respect function quite well: their rulers often are (more than) powerful enough and *wilfully* keep their subjects in the situation they are in as our authors themselves repeatedly emphasi- ze (See e.g. 3, 66, 68, 83). The suggestion in the title that the book would be about 'the origins of power' also is somewhat misleading. The book asks why countries are rich or poor, and claims that power-relations are fundamental in answering that question. It ranges from the Neolithic Revolution to the contemporary world and for example discusses the Roman and the Mayan Empires, the histories of Venice, Spanish Latin America, early modern Britain, the United States and the Soviet Union, but also contemporary China and Botswana. The authors time and again exemplify, illustrate and 'prove' their theses via case studies and vignettes from all over the

3 Actually the authors focus on the functioning of *states* and the policies of their governments not on *nations*.

globe and from all periods of history. That unfortunately makes the text, that as such is very well written, very repetitive. Its sys- tem of referencing makes it hard if not downright impossible to trace the sources for specific information. The reader sorely misses graphs and tables.

Nothing is easier, and less fair, when confronted with such an encom- passing and erudite text, than to point at omissions in the bibliography. One can never satisfy all specialists. But I nevertheless before beginning my actual review want to point at some omissions because they are really consequential. When it comes to the history of the Ottoman and Mughal Empires, and of Ming and Qing China, the authors have over-looked - or chosen not to take on board– fundamental revisions in schol- arship. There, for example, is no reference at all to the major revisions su- ggested by scholars like Kenneth Pomeranz, Roy Bin Wong or Andre Gunder Frank with regard to the history of China in the early modern era. The amount of literature on which the comments on China are based overall is very small. Their image of Latin America's history also is very traditional. Here too new insights are not discussed. As proclaimed 'insti- tutionalists', Acemoglu and Robinson surprisingly enough all but com- pletely ignore work by other institutionalists. The most striking example is *Violence and social orders* by Douglass North, Joseph Wallis and Barry Weingast, a book from 2009 dealing with a quite similar topic. It is in their list of references but never discussed.The extensive literature about the role of the state in economic development that defends other positions than the authors is not confronted.

Levels of analysis: what about proximate causes?

The question at hand in the book can be tackled at differing levels. Its authors only discuss 'ultimate causes' while ignoring 'proximate causes'. The factors of produc- tion, i.e. land, labour and capital, their specific allo- cation, and technology, the direct originators of growth, are *never* dis- cussed as variables in their own right. They play no role in the book. Only geography, culture, knowledge of which policies will enrich a country and institutions are considered as possible explanations for levels of wealth. The authors 'conclude' that institutions are decisive. Even though they never actually say so their book reads as if with the right institutions development and growth are assured. Can one really push the claim that institutions 'rule' that far?

4 Douglass C. North, John Joseph Wallis, and Barry R. Weingast, *Violence and social orders. A conceptual framework for interpreting recorded human history* (Cambridge 2009).

5 Colin White, *Understanding global economic development. A global transition from poverty to prosperity?* (Cheltenham and Northampton 2009) under 'Causation', 'proximate' and 'ulti- mate'.

6 See for this expression Dani Rodrik, Arvind Subramanian, Francesco Trebbi, 'Institutions rule: the primacy of institutions over geography and integration in economic development', *Journal of Economic Growth* 9, 2 (2004) 131–165.

Let us begin with proximate causes. The relevance of my previous com- ment becomes apparent when we compare *Why nations fail* with Jeffrey Williamson's, *Trade and poverty. When the Third World fell behind*, that came out about a year ago. It too is about the (origins of the) gap between rich and poor countries. His approach, though, is completely different and he focuses on an entirely different set of factors. His expla- nation of why the Third World fell behind after industrialisation in the West had taken off, roughly dealing with the period from the end of the eighteenth century to the Second World War, is squarely in the tradition of classical economics and built around the general theorem of comparative advantage and its elaboration in the Heckscher-Ohlin model for international trade. Industrialization in Western countries from the beginning of the nineteenth century onwards, with all its accompanying effects (in particular increasing population and, in time, increasing purchasing pow- er), coupled with cheaper transport and lower tariffs, led to a global trade boom. A worldwide division of labour emerged with countries specializing according to their comparative advantage. All countries involved profited from it, some, however, the industrializing ones, much more than the non-industrializing ones. When it comes to the non-Western countries that had not (yet) begun to industrialize he distinguishes between coun- tries where labour was relatively abundant and resources relatively scarce and countries where the situation was the other way around. For those countries where resources were scarce and labour abundant, like Japan and China, it *ceteris paribus* was logical to try a labour-intensive industri- alization, which worked out in Japan but for specific reasons did not in China. For countries lacking a developed industrial sector but rich in natural resources it was only logical to focus on exporting primary prod- ucts to the industrializing countries, especially since at least till the 1870s their terms of trade improved. Just as it was only 'logical' that they would undergo severe de-industrialization as new investments became concentrated in the profitable export sectors and the existing manufactur- ing sector was wiped out by Western industry. Those who owned the natural resources collected high rents and felt no necessity to invest in industry. And just as important: it would have been very hard to do so profitably.

Even though specializing according to comparative advantage was the logical thing to do, the consequent de-industrialization only threw further obstacles in the way of any effort to catch up with countries that already were industrialising. Such countries tended to have higher growth rates than non-industrializing ones. Industry and modern services, especially as urban activities, overall have higher

7 Jeffrey G. Williamson, *Trade and poverty. When the Third World fell behind* (Cambridge Mass. and London 2011).

8 Apart from his emphasis on the fact that certain economic activities in certain conditions – he refers in particular to industrial activities and modern services in urban settings – have increas- ing returns.

9 See for this model http://en.wikipedia.org/wiki/Heckscher–Ohlin_model

returns to scale than traditional sec- tors and as a rule *in*creasing rather than *de*-creasing returns. Industry was the carrier of substantial growth: countries without it found it harder to develop and increasingly fell behind. In the period 1870-1940, when overall the terms of trade for primary products no longer 'improved' as compared to those of industrial products but on the other hand the wage gap between core and periphery had further widened, the conditions for industrialization in the resource-rich periphery in principle became more favourable. We indeed see some examples of industrial 'lift-off'. But now the extreme volatility of the prices of primary products made many peripheral economies very vulnerable and the gap between rich and poor overall grew rather than diminished. Resource-scarce and labour-abun- dant Japan experienced its take-off in this period. For various specific reasons China did not.

Williamson's argumentation of course is more complex than my ultra-brief synthesis. But my aim is not to discuss its complexity or validity but to show how he sets out to explain the gap between rich and poor - and to my view largely manages to do so - almost entirely in terms of *proximate* causes. He is wary of exaggerating the importance of institutions. Let me give two quotes: "…the choice of which commodity to produce and export was not a choice at all, but rather was an outcome determined by geography, factor endowments and international demand not institutional quality." He regards price-volatility as a major problem for countries exporting primary products. That makes the following comment all the more telling: "But within the periphery we see virtually no systematic relationship between institutional quality and subsequent volatility." Maybe Williamson has a tendency to turn endowment and comparative advantage into fate. There are several examples of countries that caught up notwithstanding their 'unfavourable' factor endowments and com- parative advantages - for example Canada and the USA, that both could have been 'cursed' by their resources - and in those cases institutions and politics played a crucial role. But he raises a question that is fundamental for my review of *Why nations fail*: Would the countries of what was becoming the Third World have been much better of with the 'right' institutions or is their predicament (also) a matter basic economic mecha- nisms? Acemoglu and Robinson do not ask that question. As I said, they *never* discuss proximate causes. Nor do they problematize whether con- sidering their geography, factor endowments and international demand later Third World countries ever had any realistic chance to build good institutions and what that would mean for their thesis of institutional primacy.

10 See e.g. Williamson, *Trade and poverty*, 213-214.
11 Williamson, *Trade and poverty*, 190.
12 Williamson, *Trade and poverty*, 191.

Rejected ultimate causes

Acemoglu and Robinson do consider other possible ultimate causes than institutions but reject them. They, to my view correctly, are sceptical about geographical approaches *à la* Jared Diamond and more recently Ian Morris, who nevertheless both praise their book. They are, however, somewhat rash in denying geography any major role in explaining the wealth and especially the poverty of nations, apart from facilitating or eliciting the emergence of certain extractive institutions. For different views I can only refer to publications by Jeffrey Sachs, Paul Krugman, Clint Ballinger and obviously Diamond and Morris. In their denial of any major importance to culture for economic development the authors also are rather outspoken. Several renowned 'institutionalist' colleagues would not agree. I only refer to Avner Greif and Douglass North. Schol-ars like Joel Mokyr and Deirdre McCloskey are convinced 'culture' played a major role in the emergence of modern economic growth in the West. David Landes is famous, or notorious, for his claim, that in economic development "… culture makes all the difference".Even Eric Jones, who is not fond of cultural explanations, admits that: "… culture, in the form of preferences and behavioural routines can hold implications for the economy" and "may act as a brake or filter." All these scholars of course can be wrong, but their arguments had deserved more attention than the seven pages that Acemoglu and Robinson devote to the rejection of the "culture hypothesis". Their rejection of what they call "the ignorance hypothesis" is less problematic. Ignorance of their rulers indeed is not the reason that poor countries are poor. It rather is lack of concern. If the corollary of their

13 See their praise for it on page II and the back-flap of the book. In a more extensive review, however, Diamond has criticized the book. See http://www.nybooks.com/articles/archives/2012/jun/07/what-makes-countries-rich-or-poor. Acemoglu and Robinson do not refer to Morris but to my view quite effectively refute Diamond's claims as far as they would be extended to "modern world inequality." (48-56) For Morris' approach, see his *Why the West rules - for now. The patterns of history, and what they reveal about the future* (London 2010) and my review in *Journal of Global History* 7, 1 (2012) 143-147.

14 For the work of Sachs and Krugman I refer to their websites. For an important article by Ballinger see Clint Ballinger, Why geographic factors are necessary in development studies http://philosophyofscience.webstarts.com/working_papers.html

15 See e.g. Avner Greif, *Institutions and the path to the modern economy: Lessons from medieval trade* (Cambridge 2006) passim, quite explicit on pages 39 and 45; Douglass C. North, *Understanding the process of economic change* (Princeton and Oxford 2005) VIII, and chapters 3 and 4, and North, Wallis and Weingast, *Violence and social orders,* 27-29.

16 Deirdre McCloskey, *Bourgeois dignity. Why economics can't explain the modern world* (Chi- cago and London 2010) chapters 1 to 3, and Joel Mokyr, *The enlightened economy. An eco- nomic history of Britain 1700-1850* (New Haven and London 2009) chapters 1 to 5.

view would be that it is common knowledge what causes economies to grow, that would be a quite surprising assumption. It clearly is not. Economists fiercely and fundamentally disagree amongst each other on the causes of the wealth and poverty of nations.

Vagueness and rosy views: the example of Britain

Whether nations 'fail', or not, depends on whether their political and economic institutions are inclusive or extractive. That is the main and as such quite plausibly sounding message of the authors. Considering their fundamental role in the authors' thesis, it is striking how vaguely these terms are defined and how little operationalization is provided. The authors never refer to any concrete, measurable indicators for the pres- ence of the type of institutions they refer to. Let us to figure out what they apparently have in mind and what that means for their thesis, look at their most prominent case study and the example they discuss most extensively: Britain after the Glorious Revolution. This clearly is their fin- est case. According to the authors "Prior to seventeenth-century Eng- land, extractive institutions were the norm throughout history." (184) That apparently changed with the Glorious Revolution that is described as 'the turning point' (the title of chapter 7) and as crucial in the global history of development. Acemoglu and Robinson postulate a direct connection between it and the Industrial Revolution. (197. See also the title of chapter 7) One might expect the authors to then be very concrete in indicating what exact institutional changes during this critical juncture increased Britain's prosperity and enhanced its chances to industrialize. They are not. Several of the more concrete claims they do make, are dubious. Did the Glorious Revolution and its outcome actually mean, that "Parliament itself controlled spending"? (192) Did the Bank of England really function as "a source of funds for industry"? (195) Is it true that the Glorious Revolution "undermined state sanctioned monopolies"? (208) Unsurprisingly, as institutionalists they repeatedly assert that the Revolution led to an improvement in the security and efficiency of prop- erty rights. (197) The suggestion that before the Glorious Revolution property had always been insecure and badly defined is very farfetched. I can only quote Deirdre McCloskey: "Numerous societies - in fact all of them, or else they are not societies but wars of all against all - have produced rules of property. Julian Hoppit even claims, that in many respects property rights were less well protected after the Glorious Revolution!

17 David Landes, *The wealth and poverty of nations. Why some are so rich and some so poor* (New York 1998) 516.
18 E.L. Jones, *Cultures merging. A historical and economic critique of culture* (Princeton and Oxford 2006) 259 and 270.
19 McCloskey, *Bourgeois dignity*, 316.
20 See his 'Compulsion, compensation and property rights in Britain, 1660-1833', *Past and Present* number 210 (2011) 93-128.

Not many economic historians, moreover, are convinced of the existence in Britain of tight connections between institutional change and industri- alization. Robert Allen, Gregory Clark, Nick Crafts, Ronald Findlay and Kevin O'Rourke clearly are not. I would side with them. There are many examples in history where protecting exis- ting property rights actually had *negative* effects for economic development. Acemoglu and Robinson never discuss that real possibility. When it comes to inte- llectual property rights, their positive impact on economic development is not as obvious as they suggest.

Let us turn to the way in which they operationalize their central con- cepts for the British case. At the time of its Glorious Revolution Britain was a centralized state. It quickly became the best-organised and most efficient state in the world in terms of mobi- lizing money, resources and people. When it comes to the question how inclusive and pluralist Brit-ain actually was after the Glorious Revolution it is hard, whatever pre- cise definition one would want to start from, not to think that Acemo-glu and Robin- son are 'over-optimistic'. They themselves mention that in eighteenth-century Britain only two per cent of the population had the vote (192), but nevertheless write that the Glorious Revolution "opened up the political system to a broad cross section of the population" (102) and was "the foundation for creating a pluralistic society." (102) On page 192, it even reads that "The English people (sic! PV) now had access to Parliament." I would not consider the fact that ordinary people could write petitions to influence Parliament a compensation for the lack of a real vote. (192-194) Their plura- list interpretation of the Glorious Revolution as carried by a broad coalition of "Atlantic traders, industrial- ists, commercially minded gentry" also is rather 'optimist'. (410) The so-called moneyed interests amongst the Whigs always were a small minority in Parliament. Wealthy landowners continued to be by far the biggest group there over the entire eighteenth century. The importance our authors attach to Atlantic trade at the time of the Glorious Revolution is exaggerated. The really important thing about the political development in Britain is not the emergence of broad and pluralistic institu- tions but the fact that Britain over time became a society with the rule of law. The authors

[21] See Robert C. Allen, *Global economic history. A very short introduction* (Oxford 2011) 16 and 29; Gregory Clark, *A farewell to alms. A brief economic history of the world* (Princeton and Oxford 2007) 10: "…institutions play at best a minor direct role in the story of the Industrial Revolution … The institutions necessary for growth existed long before growth itself began." Nick Crafts wrote: "…there was no obvious improvement in institutions at the time of the Industrial Revolution." I found this quote in McCloskey, *Bourgeois dignity,* 343. She refers to a manuscript by Crafts that I could not actually consult myself. Finally there are the comments by Ronald Findlay and Kevin H. O'Rourke, *Power and plenty. Trade, war, and the world econo- my in the second millennium* (Princeton and Oxford 2007) 349.

[22] See Joel Mokyr, 'Intellectual property rights, the industrial revolution and the beginnings of modern economic growth', http://acadia.law.northwestern.edu/searlecenter/papers/Mokyr_ industrial.pdf

are fully aware of that fact but do not analyse it in depth. (See chapter 11) Here they could have learned from North, Wallis and Weingast who in their *Violence and social orders* focus on how exactly an 'open access society' could emerge and under what 'door- step-conditions'.

Economic inclusiveness can indeed, as the authors suggest, be related to the (non-)existence of monopolies. In Britain over the entire eighteenth century their importance decreased but they certainly did not disappear. Just think of the East India Company or the Hudson Bay Company. Many regulations and much 'exclusion' persisted. Inclusion in economic terms to my view would also mean the existence of a certain equality of income and wealth. In that respect it is striking and not exactly in accordance with the impression Acemoglu and Robinson give, that the distribution of incomes and wealth was extremely *unequal* in Britain, *more* unequal than in many countries with the 'wrong' institutions. Britain's tax system after the Glorious Revolution also does not strike me as particularly inclu- sive. Parliament decided on taxation: the bulk of tax income came from excises and customs and hit the ordinary people without the vote harder than the wealthy voters. Taxes became the highest in Europe and were regressive. Taxes on land were low and income tax did not exist until the 1840s, except for the war-period of 1799 to 1816. A substantial amount

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23 See for example John Brewer, *The sinews of power. War, money and the English state, 1688-1783* (London 1988); Michael Mann, *The sources of social power. Volume II. The rise of classes and nation states, 1760-1914* (Cambridge 1993) and the many publications on the Brit- ish state by Patrick O'Brien. See his website at the London School of Economics.

24 See in the Index under 'Glorious Revolution', and inclusive institutions, and 'Glorious Revolution', and pluralism.

25 See Phyllis Deane and W.A. Cole, *British economic growth 1688-1959. Trends and structure* (second edition: Cambridge 1967. Originally 1962) 87. In Acemoglu, Johnson, and Robinson,'The rise of Europe', it reads on page 546: "In fact between 1500 and 1800, Western Europe experienced a historically unprecedented period of sustained growth…" This 'fact' is then con- nected to 'Atlantic trade'. Not many economic historians would endorse these claims.

26 See for brief descriptions of these terms North, Wallis and Weingast, *Violence and social orders,* 114, chapter 5 under 'Content' and further in the Index.

27 See note 32.

28 See under http://gpih.ucdavis.edu/Distribution.htm. I consulted the site on 15-4-2012. For extreme inequality in terms of wealth I only refer to landed property. In many 'extractive' coun- tries at the time that was more equally distributed than in post-Glorious Revolution Britain.

29 See for example M.J. Daunton, *Trusting Leviathan: the politics of taxation in Britain, 1799-1914* (Cambridge 2001); Philip Harling and Peter Mandler, 'From "fiscal-military" state to lais- sez-faire state, 1760-1850', *Journal of British Studies* 32, 1 (1993) 44-70, and Robert M. Kozub, 'Evolution of taxation in England, 1700-1850: a period of war and industrialization', *The Journal of European Economic History* 32, 2 (2003) 363-387.

of tax income - some thirty to forty per cent of government expenditure during the eighteenth century and more than fifty per cent after the Napoleonic Wars - was used to pay debt charges and pocketed by a wealthy minority of Britons who had lent money to the government.

Real wages for skilled and unskilled labour in Britain were (amongst) the highest in the world in the eighteenth century but I would not describe labour conditions as inclusive. British labour was subjected to a harsh regime of discipline and it did not have many rights. This certainly also applies to the army and navy, where thou- sands of people were simply pressed to serve and support their country all over the globe. What does this all mean for Britain's assumed pluralism and inclusiveness? Do these few comments not already suffice to show that one cannot deal with the topics the book discusses without clear definitions and indicators and without *systematic* comparisons? I will return briefly to those compari- sons later on.

The reference to what happened outside the borders of Britain brings us to an even more problematic side of Britain's supposedly inclusive institu- tions: what about the *exclusion* inherent to British mercantilism, and what about the British Empire? Acemoglu and Robinson are surprisingly laconic about Britain's often extremely ex- clusive behaviour 'abroad'. This is their comment on the effects of the Navigation Acts: "This advantage for Eng- lish traders and manufacturers naturally increased their profits and may have further encouraged innovation in these new and highly innovative activities." (202) They know quite well that the aim of those acts was "to facilitate England's monopolization of international trade" (202) and see no problem in referring to "aggressive protection of traders and manufacturers" as one of the factors leading to Britain's industrialization. (202) Trade, power and war were closely related; not just for Britain but for many countries in the world. I guess I do not have to explain how excluded non-British inhabitants of the British Empire were. Britain at least up until the 1820s, was a fiscal-military and 'imperialist' state with a government that in several respects still was economically intervention- ist

30 James Macdonald, *A free nation deep in debt. The financial roots of democracy* (Princeton and Oxford 2006) passim.

31 Findlay and O'Rourke, *Power and plenty*.

32 The amount of literature is huge. For information on Britain's fiscal-military state I refer to note 22. For British mercantilism and the role of the state in Britain's economy I refer to chapters 7 and 8 of Roderick Floud and Paul Johnson, eds., *The Cambridge Economic History of Modern Britain. Volume I, Industrialisation, 1700-1860* (Cambridge 2004); David Ormrod, *The rise of commercial empires. England and the Netherlands in the age of mercantilism, 1650-1770* (Cam- bridge 2003) and William Ashworth, *Customs and excise. Trade, production and consumption in England, 1640-1845* (Oxford 2003). For a recent debate on British mercantilism see *The William and Mary Quarterly* 69, 1 (2012) 3-70. For 'regulation' see Perry Gauci, ed., *Regulating the British economy, 1660-1850* (Farnham UK and Burlington USA 2011).

and pro-active, not a state that just provided incentives for a large number of its subjects.

Discussing countries in isolation and superficially comparing them

As a global historian, I am interested in connections and comparisons. In that respect *Why nations fail* is disappointing, especially considering the excellent - in particular comparative - work of its authors in the past. The scant attention for international political economy in *Why nations fail* is quite problematic. You do not have to swallow world-systems theory or dependency theory, to admit that the existence of 'wrong institutions' in many parts of the world – even long after official colonialism had ended - was *not* (exclusively) a domestic problem but one of global political economy in which states with inclusive institutions at home often supported extractive institutions abroad. The implications of this fact are never explicitly discussed. The authors e.g. simply refer to the bad institu- tions of Guatemala in the nineteenth and twentieth centuries without any reference to the interference by the United States in the internal affaires of that country (345-351) Admittedly, international dimensions are prom- inent in their book when it comes to the *colonial origins* of poverty but then seriously neglected when it comes to developments in independent countries after de-colonization or in countries that even though they for- mally had always been independent never had real sovereignty. As it is, the importance of *formal* independence as well as *formal* dependence tends to be exaggerated. In the case of formal colonialism that clearly shows in this quote: "If the political and economic institutions of Latin America over the past five hundred years were shaped by Spanish colo- nialism, those of the Middle East were shaped by Ottoman colonialism." (120) Even if we would not nit-pick about countries like Brazil or Iran, this is an oversimplification, as if colonized regions had no agency whatsoever themselves and as if there were no other interfering actors or rele-vant factors apart from the colonizers.

Whether a country's institutions are inclusive or not, in the end is a mat- ter of degree and of comparison. When I confine myself to *the early modern era* and to *economic extraction* (the field of my expertise), I must say the comparisons in the book are rather superficial and tend to be biased in favour of the West. Africa gets rather short thrift:

> *"Africa was the part of the world with the institutions least able to take advantage of the opportunities made available by the Industrial Revolution. For*

[33] For the importance of agency of the colonised, in this case in Africa, see e.g. Gareth Austin, 'The 'reversal of fortune' thesis and the compression of history: perspectives from African and comparative economic history', *Journal of International Development* 20 (2008) 996-1027.

[34] See for some data my 'Governing growth: a comparative analysis of the role of the state in the rise of the West', *Journal of World History* 13, 1 (2002) 67-138.

at least the last one thousand years, outside of small pockets and during limited periods of time, Africa has lagged behind the rest of the world in terms of technology, political development and prosperity." (115)

It would have been interesting to read more about why this has been the case. When it comes to the Ottoman Empire, one finds the standard 'cli- chés' that it would have been highly extractive, 'conservative' and 'abso-lutist'. (See the Index) No reference is made to publications by Timur Kuran, a scholar who tries to find out why development in the Middle East stagnated and focuses on institutional factors, in particular law. India, early modern as well as modern, is hardly mentioned at all. Here too recent literature presenting new perspectives is not used. Imperial China is systematically described in terms of oriental despotism: com- ments are almost all about its 'absolutism' and extractive institutions. Its regime is characterised as suspicious of change and contacts with other societies. The authors claim that under the Ming and Qing dynasties the control of the state on economic activity tightened and overseas trade was banned and suggest that the state monopolised overseas trade. (231-234) Government supposedly killed all initiatives. That is hard to believe considering its weakness that in the nineteenth century often became so serious that it was unable to rule large parts of the country. The authors here really should have caught up with the literature. Most experts in the field now agree that taxation was lower in China than in Britain and that China's domestic economy was as free as that of Britain and knew *less* inequality of income and wealth. Property rights in China in all probability were better protected than has often been asserted. Of course, each of these claims can be challenged, but it certainly is far less clear that Hanoverian Britain had the 'right' institutions and Qing China the 'wrong' ones than Acemoglu and Robinson claim.

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35 For the actually quite low level of extraction see Sevket Pamuk, 'Ottoman state finances in comparative European perspective, 1500-1914', *The Journal of Economic History* 70 (2010) 593-627 (with Kivanç Karaman).

36 See e.g. Timur Kuran, *The long divergence. How Islamic law held back the Middle East* (Princeton and Oxford 2011).

37 See, e.g., for the early modern period Prasannan Parthasarathi, *Why Europe grew rich and Asia did not* (Cambridge 2011).

38 For example Timothy Brook, *The troubled empire: China in the Yuan and Ming Dynasties* (Cambridge Mass. and London 2010) and William Rowe, *China's last empire. The great Qing* (Cambridge Mass. and London 2009).

39 See my Public finance in China and Britain in the long eighteenth century, http://www2.lse. ac.uk/economicHistory/workingPapers/2012/WP167. pdf and Kent Deng, *China's political economy in modern times. Changes and economic consequences, 1800-2000* (London and New York 2011) chapters 2 and 3. For information concerning inequality see notes 28, 40 and 49.

Latin America seems like the ideal case for them to prove their thesis. They present it as the perfect institutional counterpoint of Canada and the USA. (If for the sake of convenience we leave aside its Southern States) Their image of it fits perfectly in the tradition of the Black Legend. That legend, however, is now challenged. Jeffrey Williamson, for example, qualifies the thesis that Latin America would always have been charac- terised by extreme inequality of income and wealth. Income inequality as measured by the Gini-coefficient, till the 1870s, was not higher than in pre-industrial Northwest Europe but rather lower, although Williamson thinks that its extraction rate (how much of the available surplus was actually extracted by the elite) was higher. He assumes that ordinary incomes in Latin America were quite low. In a couple of recent studies, that view is no longer endorsed. Let me quote two of them:

> *"We show that nominal wages and prices (in Spanish Latin America, PV) were on average much higher than in Western Europe or in Asia … Labour scarcity … resulted in real wages much above subsistence and in some cases (Mexico, Bolivia, Argentina) comparable to levels in North-western Europe. … Perhaps due to a different pattern of depopulation, the real wages of other regions (Peru, Colombia and Chile) were much lower, and only increased above subsistence during the first half of the 18th century."*

This is from the abstract of another revisionist article:

> *"… living standards of the Spanish Americans compare favourably with those of other regions of the world, including Europe. … Our findings suggest that the Great Divergence in living standards between Spanish America and the developed Western countries might have taken place mainly after the Independence."*

If these revisionist claims are correct and the economies of colonial Span- ish Latin America were *not* (substantially) more unequal and poorer than other economies

40 Jeffrey G. Williamson, 'Five centuries of Latin American income inequality', *Revista de His- toria Económica /Journal of Iberian and Latin American Economic History* 28, 2 (2010) 227-252.

41 Leticia Arroyo Abad, Elwyn Davies, and Jan Luiten van Zanden, 'Between conquest and independence: Real wages and demographic change in Spanish Latin America, 1530-1820', *Explorations in Economic History* 49, 2 (2012) 149-166.

42 Rafael Dobado-Gonzáles and Héctor García-Montero, 'Neither so low nor so short: Wages and heights in Bourbon Spanish America from an international comparative perspective', EHES Working papers in economic history number 14, 2012. http://ehes.org/EHES_No14.pdf, con- sulted 15-5-2012. For quite similar views see their 'Colonial origins of inequality in Hispanic America? Some reflections based on new empirical evidence', *Revista de Historia Económica* 28, 02 (2010) 253-277.

in the America's or Western Europe, that has major consequences for Acemoglu's and Robinson's thesis that different colo-nial regimes and their institutional legacies were at the root of different economic development. When it came to those bad institutions that according to many scholars, including Acemoglu and Robinson, had caused the (assumed) poverty and inequality in (Spanish) Latin America reference was mostly made to coerced labour and the drain of resources to Spain. Several authors now claim that the emphasis on coerced labour and domestic extractive institutions has been unjustified as their impor-tance became quite small over time. Regina Grafe and Alejandra Irigoin focus on the drain to Spain and want to revise "the traditional view of Spain as a predatory colonial state that extracted revenue from natural resources and populations in the Americas while offering little in return." In their view "much of colonial revenue was immediately fed back into the local economy, while minimizing enforcements costs." Again, one need not necessarily believe all the revisionists. But one cannot simply ignore them either.

How tight is the relationship between prosperity and inclusive institutions?

Acemoglu and Robinson claim that centralized states with inclusive insti- tutions are richer than those with non-inclusive ones. They assume that the causality is from inclusiveness to wealth and not the other way around. Even if we would accept the general gist of their thesis, which I do, there - apart from the comments already made - are several reasons to in any case qualify it. I will do so by simply asking questions that I consider pertinent. What, for example, about Mancur Olson's thesis on institutional sclerosis, that suggests, that societies with greater numbers of interest groups grow slower, accumulate less capital, and experience reduced productivity growth relative to others. What about Robert Bar-ro's thesis on economic growth and democracy, that claims: "There is a suggestion of a nonlinear relationship in which more democracy enhances growth at low levels of political freedom but depresses growth when a moderate level has already been attained." The number of people who have something to lose by innovation

43 See e.g. Dobado-Gonzáles and García-Montero, 'Neither so low nor so short, 1-4.

44 The quote is from the abstract of Regina Grafe and Alejandra Irigoin, 'A stakeholder empire: the political economy of Spanish imperial rule in America', *Economic History Review* 65, 2 (2012) 609-651. In this respect it is interesting to compare several colonial drains as Williamson does in his *Trade and poverty*, 163-165. The drain from Spanish Latin America to Spain *rela- tively speaking* indeed was fairly small.

45 See for that thesis e.g. his *The rise and decline of nations*.

46 Robert J. Barrow, 'Democracy and growth', *Journal of Economic Growth* 1 (1996) 1-27. Abstract. I do not want to suggest the debate has been settled. See e.g. Dani Rodrik, *The glo- balization paradox. Why global markets, states, and democracy can't coexist* (Oxford 2011) chapter 11, note 3, pages 311-312.

or globalization and oppose them in current democratic welfare states is huge. Most of them are *not* members of the elite, which often is in favour of innovation and globalization. What about negative effects of at least some sorts and amounts of (ethnic) pluralism?

According to Acemoglu and Robinson, extractive institutions will not be able to sustain growth in the long run. Claims about the long run always are problematic. Olson and Barrow as a rule refer to highly developed societies and so did I in referring to welfare states, but what about societies that have not yet taken-off? Acemoglu and Robinson focus on the role of elites in obstruct- ing fundamental innovation and that role often indeed has been decisive. But my guess would be that industrialization as it occurred in countries that are industrialized now, would have been rejected in many of them if it had been made subject of a broad democratic referendum. It is no acci- dent that countries during their take-off almost without exception were quite authoritarian and often even became *increasingly* authoritarian. They in any case were not exactly democratic. In most developed economies industrialization came from above. There are also good reasons to be less confident when it comes to the connection between economic inclusiveness and economic growth. Simon Kuznets claimed that in the beginning of modern economic growth economic inequality *in*creased to then later on decrease. The existence of his curve as a general phenom-enon is hotly debated. doubt.

For industrialising Britain, its existence is not in According to Acemoglu and Robin- son, extractive institutions will not be able to sustain growth in the long run. Claims about the long run always are problematic. For the Roman Empire it is generally ac- cepted that its economic heydays were during the reigns of Trajan A.D. 98-117 and Hadrian A.D. 117-138. According to Acemoglu and Robinson: "It was this transition from Republic to Principate and later naked empire that laid the seeds of the decline of Rome" (164. See also 168 and 179). That transition was in 27 B.C. The seeds took quite some time to grow. Did the Soviet Union really decline and fall

47 For an overview of a huge amount of literature see Alberto Alesina with Eliana La Ferrara,'Ethnic diversity and economic performance', *Journal of Economic Literature* 43 (2005) 762-800.

48 See for the correlation between democracy and taking-off Ha-joon Chang, *Kicking away the ladder. Development strategy in historical perspective* (London 2002) 71-76.

49 See for some comments on the Kuznets-curve Branko Milanovic, *The haves and the have- nots. A brief and idiosyncratic history of global inequality* (New York 2011) under 'Kuznets, Simon' and 'Kuznets, hypothesis'.

50 See e.g. Jeffrey G. Williamson, *Did British capitalism breed inequality?* (London 2006, originally 1985) 3, where he writes about: "… inequality rising sharply up to somewhere in the middle of the nineteenth century and falling modestly thereafter."

because of elites obstructing eco- nomic innovation? China, so the authors claim, will in the end get in trouble. It is now some thirty-five years since Deng Xiaoping started his reforms. It still has over eight per cent annual growth (13-4-2012). Already in 1994, Paul Krugman predicted the end of the East Asian Mir- acle. In his view it primarily was a matter of increasing inputs, "perspira- tion, not inspiration", and would therefore, *ceteris paribus*, just peter out. But why would there be *ceteris paribus*? What about the possibility that this is the way to accumulate the money needed to upgrade the economy? Might we not be dealing with a 'necessary' or at least 'normal' transitional phase in the process of catching up?

The role of the state

The state is the institution of institutions. Economic development has become un- thinkable without its serious involvement. Institutionalists like Acemoglu and Robin- son cannot ignore it. They time and again repeat it has to be centralized and inclusive. But they never in any detail discuss its functions and activities apart from the fact that it has to be sovereign, provide law, order and public services, and encourage and regulate eco- nomic activity. (80-81) When they refer to governmental institutions and state policies it is always in terms like 'facilitating', 'creating a level play- ing field' and 'shaping the right incentives'. That is a vague, incomplete and in several instances simply incorrect, description of what govern- ments in rich countries are doing and have been doing. Average govern- ment spending in Austria, Bel- gium, Britain, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland and the United States, all amongst the wealthiest countries in the world, from the 1980s onwards was never less than forty-three per cent of GDP. Is that all spent on 'facilitating', 'creating a level playing field' and 'shaping the right incentives'? Again, it is always easy to point at omissions, but how can you write a 529 pages book on the role of institutions in economic development, point at the fundamental importance of the state, and then have no entry in your Index – to only give some examples in alphabetical order – for 'developmental state', 'fiscal-mili- tary state', 'mercantilism', 'MITI', 'New Deal', 'state capitalism' or 'welfare state'? All policies and ideas that are not in line with the institutionalist mainstream are simply ignored. Even Dani Rodrik, who grounds his work in neo-classical eco-nomic analysis, in a recent book came up with a much broader range of government tasks.

Conclusion

With authors like these one can only have the highest expectations. Whatever the many qualities of the book, it does not live up to those expectations. It is not "brilliant

51 Paul Krugman, 'The myth of Asia's miracle', *Foreign Affairs* 73 (1994) 62-78, page 66.

52 *The Economist, Taming Leviathan. A special report on the future of the state* March 19th 2011.

in its simplicity and power" as Stevin Levitt puts it on the flap of the version I have. It has too many flaws to receive the highest praise. For that I would characterise it as too mono- causal, too repetitive, too categorical in its claims, too vague in its central concepts and its comparisons, too weak on international political econo- my, too focused on proving its thesis and too negligent when it comes to testing it. I fully understand that in a book like this it is inevitable to sim- plify and it would be unfair to come up with the classic knockdown argu- ment of the historian that in reality things are more complicated. As a historian I can only applaud that two distinguished so- cial scientists point at the importance of history and integrate it into their analysis. I am very much in favour of books with a message and do not in principle object to efforts to give all-encompassing, almost mono-causal explanations. Far from, I consider it one of the main challenges of science to explain as much as possible by as little as possible. But in this text the authors too often cross the line between simplification as explanation and simplifica- tion as distortion.

Working Papers in Technology Governance and Economic Dynamics

The Other Canon Foundation, Norway, and the Technology Governance program at Tallinn University of Technology (TUT), Estonia, have launched a new working papers series, entitled "Working Papers in Technology Governance and Economic Dynamics". In the context denoted by the title series, it will publish original research papers, both practical and theo- retical, both narrative and analytical, in the area

53 For heterodox ideas and descriptions of what states actually should do and did to promote growth see e.g. Ha-joon Chang, *Kicking away the ladder;* Erik Reinert, *How rich countries got rich... and why poor countries stay poor* (New York 2007) and Linda Weiss and John A. Hob- son, *States and economic development. A comparative historical analysis* (Cambridge 1995). More in particular for the developmental state see Chalmers Johnson, *Japan. Who governs? The rise of the developmental state* (New York and London 1995); Robert Wade, *Governing the market. Economic theory and the role of government in East Asian industrialisation. With a new introduction by the author* (Princeton and Oxford 2004, originally 1990) and Meredith Woo- Cumings, ed., *The developmental state* (Ithaca and London 1999). For the rise of 'state capital- ism' see e.g. Ian Bremmer, *The end of the free market. Who wins the war between states and corporations?* (New York 2010) and *The Economist, Special Report. State capitalism. The visible hand*, January 21st 2012. The literature about mercantilism and the welfare state fills an entire library. I can only advise the reader, for a first exploration, to look under the concepts on Ama- zon.com

54 Rodrik, *One economics, many recipes*, chapter five. He refers to property rights, regulatory institutions (that redress or prevent market failures), institutions for macroeconomic stabilisation (that implement Keynesian anti-cyclical policies), institutions for social insurance, and institu- tions for conflict management. For his reference to neo-classical economics see page 3.

denoted by such con- cepts as uneven economic growth, techno-economic paradigms, the his- tory and theory of economic policy, innovation strategies, and the public management of innovation, but also generally in the wider fields of indus- trial policy, development, technology, institutions, finance, public policy, and economic and financial history and theory.

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