Why Nations Fail

INTRODUCTION

BRIEF BIOGRAPHY OF DARON ACEMOGLU AND JAMES A. ROBINSON

Daron Acemoglu was born and raised in an Armenian family in Istanbul. He went on to study economics in England, receiving his PhD from the London School of Economics at the unusually young age of 25. He became an Assistant Professor of Economics at the Massachusetts Institute of Technology in 1993 and was granted the distinguished title of Institute Professor in 2019. He is affiliated with the National Bureau of Economic Research and has rejected offers for high-level economic policy jobs in the Turkish government. He also frequently comments on economic issues in the American, Turkish, and Armenian media; his policy analysis is notable for integrating both conservative and socialist economic principles. In general, his research focuses on poverty alleviation and technological change. His most influential work is the collaborative research he has conducted with James A. Robinson, an expert on institutions, democracy, and economic growth in sub-Saharan Africa and Latin America. Robinson earned his PhD in Economics at Yale University in 1993. He went on to teach in Harvard University's Department of Government in 2004. In 2015, he moved to the University of Chicago, where he directs the Pearson Institute for the Study and Resolution of Global Conflicts. He has done field research in multiple countries, including Haiti, Sierra Leone, the Democratic Republic of the Congo, Chile, and South Africa. He also contributed to the World Bank's 2017 World Development Report on Governance, advised the Swedish government on development policy between 2007 and 2010, and teaches summer courses every year at the University of the Andes in Bogotá, Colombia.

HISTORICAL CONTEXT

In *Why Nations Fail*, Daron Acemoglu and James Robinson suggest that a few historical events—or "critical junctures"—played outsized roles in shaping the long-term trajectory of global economic development. The most important of these events was the Industrial Revolution, which started in 18th century England and quickly spread around the world (although, the authors argue, only to countries that already had inclusive economic institutions). This period of rapid innovation and industrialization created a stark division between rich and poor countries—one that persists today. However, the authors emphasize that understanding *why* the Industrial Revolution took off where and when it did requires looking even deeper into history. For instance, England managed to innovate during the Industrial Revolution because the Glorious Revolution built its inclusive political and economic institutions a century earlier. In turn, the Glorious Revolution was also possible because of older historical events and institutional traditions, stretching all the way back to the Roman occupation of England between 43 and 410 AD. This principle applies all over the world: earlier historical events set the stage for institutional changes later on. To that end, European colonization and the slave trade were particularly impactful around the world: they help explain why inclusive and extractive institutions formed in different nations, and these institutions later determined how these nations responded to the Industrial Revolution.

RELATED LITERARY WORKS

Acemoglu and Robinson have collaborated on several books, but their most influential academic work is actually a paper entitled "The Colonial Origins of Comparative Development," which they co-wrote with the economist Simon Johnson. This paper attempts to explain why European colonialism led to harmful, extractive institutions in some regions and effective, inclusive ones in others. The authors also cite hundreds of scholarly works in *Why Nations Fail*. Their arguments are influenced by Douglass North's work, including *Structure and Change in Economic History* (1982), as well as books like Joel Mokyr's *The Lever of Riches: Technological Creativity and Economic Progress* (1990) and Mansur C. Olson's *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (1984). They take issue with other studies of global inequality, like the geographical theories in Jared Diamond's *Guns, Germs and Steel: The Fates of Human Societies* (1997). Immanuel Wallerstein's landmark four-volume work *The Modern World System* (1974-2011) also played a major role in shaping the field—like *Why Nations Fail*, it looks to history for answers about why the world is structured the way it is today. Finally, numerous other scholars have provided different explanations for global inequality since *Why Nations Fail* was published in 2012. Thomas Piketty, for instance, is widely recognized for *Capital in the Twenty-First Century* (2017), and Nobel Prize laureates Abhijit Banerjee and Esther Duflo propose evidence-based policy solutions for poverty in *Good Economics for Hard Times: Better Answers to Our Biggest Problems* (2019).

KEY FACTS

- **Full Title:** Why Nations Fail: The Origins of Power, Prosperity, and Poverty
- **When Written:** 1997–2012

- **Where Written:** Cambridge, Massachusetts
- **When Published:** March 2012
- **Literary Period:** Contemporary
- **Genre:** Development Economics, Political Economy, Economic History, Comparative Politics
- **Setting:** Various societies around the world from roughly 10,000 BC to 2011
- **Antagonist:** Extractive political and economic institutions
- **Point of View:** First Person

EXTRA CREDIT

Reviews and Rebuttals. *Why Nations Fail* received a wide range of reviews in the academic and popular media—including many from the scholars whose research Acemoglu and Robinson criticize in the book. Jared Diamond argued that Acemoglu and Robinson were partially right, but he thought they were wrong to dismiss geography's role in inequality. Jeffrey Sachs and Bill Gates were extremely critical of the book.

PLOT SUMMARY

In *Why Nations Fail*, economists Daron Acemoglu and James A. Robinson argue that institutional differences are responsible for the profound inequalities between nations today. While most social scientists blame this inequality on geography, culture, or incompetent leadership, Acemoglu and Robinson think the problem is political. They argue that most of the world's countries are poor because their political and economic institutions are extractive, which means they're designed to benefit the small elite that holds power. In contrast, rich countries have achieved sustainable economic growth by building inclusive political and economic institutions. Such institutions secure political representation and economic freedom for a wide range of the population. In turn, this drives innovation and investment, leading to sustainable economic growth. Based on their analysis, Acemoglu and Robinson argue that replacing extractive institutions with inclusive ones is the key to achieving economic progress in the developing world—and overcoming global inequality.

In the first chapter, Acemoglu and Robinson focus on **Nogales**, a city that exemplifies modern inequality because it's split by the U.S.-Mexico border. While both halves of Nogales share the same culture, history, and geography, people on the U.S. side have a much higher standard of living and more economic opportunities than those on the Mexican side.

Political history accounts for this disparity. Colonial Latin America ran on the encomienda system, a system of indigenous slave labor that was massively profitable for Spanish settlers but destructive to local communities. In contrast, the earliest English settlers in Virginia had to farm their own land to survive. To build a viable colony, then, the government had to give English settlers political power and rights. Although it also came to depend on slavery and was by no means democratic, Acemoglu and Robinson argue that the colonial U.S. was actually a remarkably inclusive society for its time. This foundation allowed the U.S. to build stable and democratic institutions, which eventually helped the country harness the Industrial Revolution and grow rapidly from the 19th century onwards. In contrast, Mexico's economy is still highly extractive and centered around the elite, which has prevented innovation and economic growth.

Acemoglu and Robinson go on to point out that geography and cultural customs can't explain global inequality. And while other social scientists blame poverty on leaders' ignorant policy decisions, the authors note that leaders aren't ignorant: politicians know when they'll benefit from policies that harm people. Institutions are the real problem, along with the incentives they create.

The authors point out that political institutions create economic ones, so true economic change starts with *political* change. This means that a country has to adopt inclusive practices in order to achieve meaningful economic growth. Extractive institutions *can* experience a certain amount of financial success, but this success is severely limited and unsustainable, as made evident by the decline of the Soviet Union.

Next, the authors ask where inclusive and extractive institutions come from. While most societies throughout history have had extractive institutions, some have formed inclusive institutions during periods of transition (or critical junctures). During these critical junctures, societies that are similar to one another sometimes go down radically different paths. For instance, in medieval Europe, feudal landlords had slightly more power over their serfs in Eastern Europe than they did in Western Europe. But after the Black Death, this difference was amplified: serfs won reforms in the West and thus weakened the feudal system. In the East, though, landlords grew stronger and serfs became even weaker, ultimately *reinforcing* the feudal system. The same principle applies to inclusive institutions: for example, England's monarchy was weaker than France and Spain's in the 1600s, so it put private merchants in charge of overseas commerce instead of giving a monopoly to the Crown. The merchants were therefore able to gain political power and eventually build inclusive institutions during the Glorious Revolution.

Acemoglu and Robinson go on to examine economic growth under extractive conditions. Extractive practices often redirect resources to activities that are productive in the short term, but this stifles innovation and doesn't lead to sustainable long-term growth. In the following chapter, the authors look at how Venice and ancient Rome rose and fell over the course of centuries. Both prospered after building inclusive political and economic systems, then started to decline when once aristocrats seized power and built extractive institutions for their own personal benefit.

In Chapter Seven, Acemoglu and Robinson examine the most important turning points in modern economic history: the Glorious Revolution and the Industrial Revolution in England. In 1688, the Glorious Revolution gave Parliament more power than the Crown for the first time. Although not yet democratic, England did become pluralistic—several different groups came together to make decisions in Parliament. All of them cared about making the political system fair and protecting their property and inventions. These reforms facilitated the Industrial Revolution, which made England the first place in the world to experience high, sustained levels of economic growth.

But many countries never saw the Industrial Revolution's benefits because they had extractive institutions, and the elites who ran them opposed innovation and stifled economic growth. For instance, the Ottoman Empire banned the printing press, and Russia and Austria-Hungary banned railroads and factories. Even technologically advanced China refused to trade with the outside world for hundreds of years. In all these cases, elites already controlled government and industry. Therefore, they saw economic change—or creative destruction—as a threat, not an opportunity. But these absolutist monarchies weren't the only countries with extractive institutions. Starting in the 1400s, European colonialism set up similar institutions across the world. The Dutch destroyed prosperous city-states in present-day Indonesia, the slave trade created widespread conflict and destruction in Africa, and white settlers deliberately created unequal dual economies in places like South Africa.

Nevertheless, some countries built inclusive institutions and started industrializing in the 1800s. Australia's colonial economy couldn't function unless settlers received political and economic rights, so England rapidly built inclusive institutions there. The French Revolution baked inclusive principles into the French constitution, and Napoleon's invasions spread these principles throughout Europe in the early 1800s. Meanwhile, Japan's 1868 Meiji Restoration gave merchants and entrepreneurs many new economic rights, which allowed the country to industrialize.

In the next two chapters, the authors explain how different kinds of institutions reinforce themselves. First, inclusive institutions perpetuate themselves through a virtuous circle. They check government power, which stops abuses of power, and they gradually bring wider groups into political and economic life. This is why, after the Glorious Revolution, Britain slowly but surely enfranchised the rest of its population. It's also why the U.S. managed to break up corporate monopolies and stop presidential overreach in the 20th century. In contrast, however, extractive institutions become *more* extractive over time, following a vicious circle. In some countries, like Sierra Leone and Ethiopia, one group of revolutionaries overthrows the government but then rules in exactly the same way. In others, like Guatemala, the same elite manages to hold power for centuries despite profound social changes. In both cases, elites use their political power to protect the economic system that works in their favor.

Acemoglu and Robinson profile a series of countries that struggle under extractive institutions, including Zimbabwe, Sierra Leone, Colombia, Argentina, North Korea, Uzbekistan, and Egypt. All of them have been caught in the vicious circle for well over a century. Very few societies have managed to "break the mold," but the authors mention three that have succeeded: Botswana, the Southern U.S., and China. Botswana built on its democratic precolonial traditions to create a vibrant, inclusive democracy after independence. The civil rights movement ended segregation and created true democracy in the Southern U.S. And China kicked off an extraordinary period of growth by reforming its economic policies in the 1980s.

In the book's final chapter, though, Acemoglu and Robinson warn that China's growth is unsustainable because it's based on the reallocation of resources and labor, not genuine innovation. In conclusion, the authors emphasize that history is impossible to predict with certainty. At the same time, they also reiterate their thesis that the surest path to economic growth is radical institutional reform. And the best way to do this, they argue, is by empowering broad coalitions that can steer their countries to serve diverse interests—not just those of the elite.

CHARACTERS

MAJOR CHARACTERS

Porfirio Díaz – Porfirio Díaz was Mexico's authoritarian president for most of the period from 1876 to 1911. While he brought political stability to the nation after a tumultuous half-century, he also undermined property rights by seizing land and granting his allies monopolies over key industries. Therefore, Acemoglu and Robinson conclude that Díaz built highly extractive political and economic institutions, greatly contributing to Mexico's high contemporary levels of poverty and inequality.

Bill Gates – Bill Gates is the billionaire founder of Microsoft. To show that inclusive institutions promote innovation and extractive ones merely redirect wealth to the elite, Acemoglu and Robinson contrast Gates's wealth (the result of innovation) with Carlos Slim's, since they view Slim's financial success as the result of dubious deals and political favors.

Sir Arthur Lewis – Sir Arthur Lewis was an influential economist from Saint Lucia. He proposed the dual economy paradigm in his landmark 1955 work *The Theory of Economic Growth*. Acemoglu and Robinson reference Lewis's idea about less-developed countries having two distinct economies, applying it to the Apartheid system in South Africa and arguing that extractive government policies are what led to this dual economy.

Joseph Mobutu – Joseph Mobutu was the Congo's authoritarian president from 1965 to 1997. After the Congo's independence from Belgian rule, Mobutu continued Belgium's extractive practices and amassed a private fortune of several billion dollars while the majority of his people lived in abject poverty. Acemoglu and Robinson view Mobutu's regime as a classic example of how extractive institutions enrich the elite while neglecting and impoverishing the masses.

Robert Mugabe – Robert Mugabe was the authoritarian leader of Zimbabwe from 1980 to 2017. His regime was extremely corrupt: he rigged elections, seized property, and even rigged the national lottery to ensure he would win. Acemoglu and Robinson view his rise to power as a classic example of how revolutionaries often adopt the same oppressive tactics as the officials they overthrow (a phenomenon known as the iron law of oligarchy).

Napoleon Bonaparte – Napoleon Bonaparte was France's leader and foremost military general from 1799 to 1815. In the aftermath of the French Revolution, he led a series of key campaigns against foreign invaders. After taking power, he extended the French Empire and its egalitarian, democratic values throughout Europe. Acemoglu and Robinson credit Napoleon with ending feudalism and creating the inclusive institutions that brought long-term economic prosperity to Western Europe.

Shyaam – Shyaam was the king of the Kuba Kingdom in the Congo during the 17th century. While he built highly extractive institutions, Acemoglu and Robinson credit these institutions with creating state centralization and generating modest economic growth. As a result, the Bushong people, who now live in the Kuba Kingdom's former territory, have a much more politically and technologically advanced society compared to similar groups in the region.

Carlos Slim – Carlos Slim is a Mexican billionaire. When Acemoglu and Robinson published *Why Nations Fail* in 2012, Slim was the wealthiest man in the world. However, the authors note that Slim built his wealth by manipulating extractive institutions to his advantage—most importantly, he convinced his allies in the government to privatize Mexico's telecommunications monopoly and sell it to him. The authors go on to argue that Slim stifles innovation and creative destruction by dodging antimonopoly laws through a legal loophole. In their first chapter, they contrast Slim's path to riches with Bill Gates's in order to show how entrepreneurs have very different incentives under extractive and inclusive institutions.

Siaka Stevens – Siaka Stevens was the leader of Sierra Leone from 1967 until 1985. He ran the nation as a one-party dictatorship and kept many colonial British extractive institutions in place in order to enrich himself and his allies. His rule exemplifies the iron law of oligarchy, or the idea that new rulers often continue the same oppressive practices as their predecessors. His actions also set the stage for the country's civil war in the 1990s.

The Whig Party – The Whigs were a liberal British political party that largely drove the Glorious Revolution and dominated Parliament from 1715 to 1760. Acemoglu and Robinson note that the Whigs' political incentives and interests changed after they took power—in many cases, they switched from demanding more pluralistic institutions to protecting their own privileges. However, because the Glorious Revolution put important checks on parliamentary power, the Whigs didn't manage to take full control of the government. This is an example of how inclusive institutions often protect themselves and become more inclusive over time (a phenomenon known as the virtuous circle).

Kwame Nkrumah – Kwame Nkrumah was the first leader of independent Ghana. While many social scientists view his unsuccessful economic policies as ignorant and misguided, Acemoglu and Robinson point out that they were actually necessary in order for him to maintain political support and avoid being overthrown. This shows how extractive institutions create incentives for bad policy.

William III – William III, better known as William of Orange, was one of the leaders of the Glorious Revolution and then the King of England, Scotland, and Ireland from 1689 to 1702. He ruled alongside his wife, Mary II. They ceded most important political powers to Parliament. Acemoglu and Robinson argue that this created England's inclusive institutions, which allowed its economy to grow rapidly during the Industrial Revolution.

Mao Zedong – Mao Zedong was the chairman of the Chinese Communist Party and the leader of the People's Republic of China from 1949 to 1976. He built highly extractive economic institutions that spurred extremely fast economic growth but also led to millions of deaths and stifled innovation. Deng Xiaoping rolled back much of his legacy in the 1970s and 1980s.

Deng Xiaoping – Deng Xiaoping was the leader of the People's Republic of China after Mao Zedong's death He led the Republic from 1978 to 1989 and imposed broad economic reforms that allowed greater private investment and international trade in China. Acemoglu and Robinson argue that, while China's economy has remained generally extractive, Xiaoping made it inclusive enough to spur a new wave of growth.

Franklin D. Roosevelt – Franklin D. Roosevelt was the President of the United States from 1933 to 1945. When the Supreme Court rejected many of his New Deal economic policies, Roosevelt tried to expand the Court and pack it with loyal judges—but his congressional allies refused to support him. Acemoglu and Robinson view this as an example of how inclusive institutions protect their inclusiveness and fight off absolutism in a virtuous circle.

MINOR CHARACTERS

Daron Acemoglu and James A. Robinson – Daron Acemoglu and James A. Robinson are the authors of *Why Nations Fail*. They are economists who study the relationship between institutions, poverty, and economic growth around the world.

Jared Diamond – Jared Diamond is a biophysicist, ornithologist, and popular science writer best known for the book *Guns, Germs and Steel: The Fates of Human Societies* (1997), in which he argues that geographical factors have caused international inequality and European global domination.

Tiberius Gracchus – Tiberius Gracchus was a Roman official who represented the plebeians—or common citizens—in 133 BC. After he advocated for land reform, wealthy Roman aristocrats assassinated him. Acemoglu and Robinson use Gracchus's assassination as an example of how elites go to extreme lengths to protect extractive institutions.

Carlos Menem – Carlos Menem was Argentina's president from 1989 to 1999. Acemoglu and Robinson argue that Menem abused his powers and reinforced the long tradition of extractive institutions that contributed to Argentina's century-long economic decline.

Joseph Stalin – Joseph Stalin was the Soviet Union's authoritarian leader from 1927 to 1953. Acemoglu and Robinson use his regime's economic policies as a classic example of how extractive institutions can generate limited economic growth—but not innovation or sustained prosperity.

John Smith – John Smith was an English mercenary and statesman who led the Jamestown colony in Virginia from 1607 to 1609. He helped the settlers survive by forcing them to work and trading with Native Americans.

Charles I – Charles I was the King of England, Scotland, and Ireland from 1625 to 1649. His attempts to grab absolute power alienated Parliament, leading to the English Civil War and, eventually, the Glorious Revolution.

Henry and Susannah Cable – Henry and Susannah Cable were married English convicts who were exiled to Australia in 1787. Through Australia's inclusive economic institutions, they managed to sue their ship's captain for a stolen parcel and eventually build a successful business.

TERMS

Absolutism – Absolutist political systems concentrate power instead of distributing it broadly to different people, groups, and institutions throughout society. The opposite of absolutism is pluralism.

Apartheid – Apartheid was the highly unequal, extractive system of racial segregation in South Africa and Namibia from 1948 to 1994. The word can also be used to refer more generally to separation or segregation.

The Arab Spring – The Arab Spring was a widespread series of anti-government protests across North Africa and the Middle East from late 2010 to 2012. These protests were ongoing when **Acemoglu and Robinson** published *Why Nations Fail*.

Creative Destruction – Creative destruction is the process by which new technologies outcompete existing ones, making them obsolete. A classic example of creative destruction is automation making many weaving jobs obsolete during the Industrial Revolution. Economists generally view creative destruction as the engine of economic growth under capitalism. **Acemoglu and Robinson** emphasize that, under extractive institutions, elites tend to stop creative destruction because it threatens their power. This prevents economic growth.

Critical Juncture – Critical junctures are highly disruptive historical events that transform societies politically, socially, and economically. Classic examples are the Black Death and the Industrial Revolution. **Acemoglu and Robinson** argue that institutions often change radically in response to critical junctures, becoming far more inclusive or extractive depending on who controls them.

Dual Economy – A dual economy is a system in which part of an economy is formal, modern, and urban, while the rest is informal, traditional, and rural. The pioneering economist **Sir Arthur Lewis** suggested that economic development requires moving people from the traditional sector to the modern one. However, **Acemoglu and Robinson** argue that in many cases, like in Apartheid-era South Africa, the dual economy is an extractive economic institution created by government policy. It allows a small group of elites in the modern sector to exploit the traditional sector for cheap labor.

Encomienda – Spanish settlers in colonial Latin America received grants called *encomiendas*, which usually consisted of a parcel of land and a population of enslaved indigenous people. The highly extractive *encomienda* labor system enriched this white settler elite and contributed to Latin America's high levels of inequality.

Extractive Political and Economic Institutions – Extractive political and economic institutions are designed to benefit the elite class that holds power in society. These institutions do not benefit the majority of citizens (who are better served by inclusive institutions). Specifically, extractive *political* institutions give the elite a monopoly on power by excluding the majority of society from government. In turn, the elite class uses these political institutions to create and sustain extractive *economic* institutions that enrich its members. These extractive economic institutions are harmful to the majority of society:

they impoverish it, restrict its economic rights, and limit its opportunities.

Feudalism – Feudalism was the economic and social system of medieval Europe. In this system, kings granted land to lords, who provided military defense to the king and employed serfs (or peasants) to work their land.

First, Second, and Third Estates – In medieval Europe (and especially in France), society was officially divided into three groups. The clergy was called the First Estate, the nobility was called the Second Estate, and the rest of society (mostly landless peasants) was called the Third Estate. The French Revolution overturned this system.

The French Revolution – During the French Revolution, which spanned from 1789 to 1799, common people overthrew the French monarchy and established an egalitarian republic (although only after a significant period of absolutist turmoil and violence).

The Glorious Revolution – The Glorious Revolution was a brief conflict between the British monarchy and Parliament in 1688. Parliament was victorious—it replaced King James II and, more importantly, took over all real authority from the monarchy. Acemoglu and Robinson view the Glorious Revolution as the turning point that built inclusive institutions in Britain and enabled the Industrial Revolution to take off there.

Historical Contingency – Historical contingency is the concept that history could have been otherwise. Events aren't predetermined, but rather result from a combination of earlier events, circumstances, human decisions, and chance.

Inclusive Political and Economic Institutions – Inclusive political and economic institutions are designed to benefit the majority of society (and not just the elite, which benefits most from extractive institutions). The authors argue that *political* systems need to broadly distribute power in order to be inclusive. Such inclusive political systems tend to naturally support inclusive *economic* institutions, which protect the majority of society's rights to own private property and freely pursue new opportunities on a level playing field.

The Industrial Revolution – The Industrial Revolution was the period of rapid innovation and technological change that began in England in the late 18th century and quickly spread to other inclusive nations like the United States. It transformed manufacturing processes, significantly increasing economic productivity and improving standards of living. Acemoglu and Robinson argue that modern global inequality truly began with the Industrial Revolution, as countries with inclusive institutions rapidly embraced new innovations while those with extractive institutions resisted them.

The Iron Law of Oligarchy – The iron law of oligarchy suggests that new governments tend to reproduce old leadership structures, even after taking away power from their predecessors. Therefore, revolutionaries who overthrow absolutist, extractive regimes often create similar regimes in their place.

The Meiji Restoration – The Meiji Restoration was a political revolution that transformed Japan in 1868. Regional leaders overthrew the traditional Tokugawa government and replaced it with more pluralistic, inclusive institutions. Acemoglu and Robinson argue that this ultimately enabled Japan to industrialize and modernize in the 20th century.

The Neolithic Revolution – The Neolithic Revolution was humankind's transition from a nomadic hunting-gathering lifestyle to a settled lifestyle based on agriculture—a transition that began around the year 9600 BC in the Middle East.

Pluralism – Pluralist political systems are those that distribute power broadly and represent the interests of diverse groups of people. Pluralism is necessary when it comes to establishing inclusive institutions.

Rule of Law – Rule of law is the political concept that the law applies equally to everyone, including elites and government officials. The rule of law is an important check on abuses of power, and it promotes inclusive institutions.

State Centralization – Centralization refers to how much power a nation's central government has over its territory and people. Under decentralized states, the government may not be strong enough to perform basic functions and may not even fully control certain regions of the country. Acemoglu and Robinson argue that centralization is key to building inclusive institutions.

Tswana – The Tswana are the main ethnic group in Botswana and the northwest province of South Africa.

Vicious Circle – The vicious circle is the cycle by which extractive institutions reinforce themselves over time—or even get worse—because they give elites the wealth and power they need to build even more extractive institutions. It's the opposite of the virtuous circle.

Virtuous Circle – The virtuous circle is the cycle by which inclusive institutions become *more* inclusive over time. Inclusive institutions gradually extend power to the masses, and the masses use this power to demand and achieve more power, which makes institutions even more inclusive. The virtuous circle is the opposite of the vicious circle.

THEMES

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GLOBAL INEQUALITY AND ECONOMIC GROWTH

In *Why Nations Fail*, economists Daron Acemoglu and James A. Robinson try to explain the wide gulf between rich and poor countries in the modern world. While other social scientists blame this inequality on geography, culture, or poor leadership, Acemoglu and Robinson attribute it to institutional differences. Specifically, they argue that rich countries have inclusive political and economic institutions, while poor countries have extractive ones. Inclusive institutions represent, benefit, and offer economic opportunities to the majority of society. In contrast, extractive institutions enrich and empower a small elite at the expense of the masses. In both cases, the authors argue, a country's *political* institutions create its *economic* ones, and those economic institutions determine whether the country achieves sustainable, long-term economic growth. Unfortunately, extractive institutions are more common than inclusive ones, and Acemoglu and Robinson argue that this is why most countries remain poor. By analyzing centuries of history across dozens of countries, they conclude that there's only one adequate explanation for global inequality: inclusive institutions make nations succeed and extractive ones make them fail.

Acemoglu and Robinson wrote *Why Nations Fail* to address global inequality, which has become more glaring than ever before. This inequality is clearest in terms of wealth and income. For instance, US workers earn about seven times as much as Mexican workers and 40 times as much as their counterparts in Ethiopia and Sierra Leone. But inequality is also stark in areas like education, healthcare, infrastructure, and rule of law (the fairness of the legal system). The authors believe that understanding the differences between rich and poor countries is critical to harnessing poor countries' untapped economic potential and building a more equal world. The first step is understanding why inequality came about so recently: until the 18th century, people across the world enjoyed a similar standard of living, but since the Industrial Revolution, different nations have sharply diverged. To truly understand contemporary inequality, then, the authors must explain what changed after the Industrial Revolution.

After the Industrial Revolution, a country's innovation and growth depended on its economic institutions. A few countries—those that prospered after industrialization—built *inclusive* economic institutions, which strongly protect private property rights and allow all citizens to freely participate in the economy. Such institutions encourage education, reward innovation, and incentivize investment. All of this drives economic growth. In contrast, *extractive* economic institutions are designed to enrich elites, not lift up the majority. Extractive institutions reward elites for stealing from the public, so they don't create innovation, growth, or prosperity for most people. For instance, in the 15th century Congo, the king collected arbitrary taxes and took everything farmers produced—so they had no incentive to farm more efficiently or try out new technologies. Similarly, under extractive institutions, elites repress innovations that threaten their power. For example, Ottoman leaders banned the printing press because they worried that a literate public would overthrow them. Thus, extractive institutions stifle innovation and productivity, leading nations to stagnate economically rather than growing. Acemoglu and Robinson admit that extractive institutions *can* produce growth, like government investment did in China and the Soviet Union. But these governments really just reallocated resources from unproductive sectors (like agriculture) to more productive ones (like industry). Such policies can't generate *sustained* growth, the authors argue, because they just implement existing technology without creating anything new.

The distinction between inclusive and extractive institutions explains why certain countries grew and industrialized rapidly in the 18th century, while many did not. Acemoglu and Robinson argue that, after the Industrial Revolution, the US, Canada, Australia, Japan, and most of Western Europe had (or quickly developed) relatively inclusive institutions, at least by the standards of the time. As a result, entrepreneurs in these countries could easily patent and profit from new innovations, which drove overall economic growth. In contrast, in countries without inclusive institutions, elites opposed, sabotaged, or even outlawed new industrial technologies. This prevented economic growth. For instance, the Holy Roman Emperor banned railways and factories, which kept his territory largely feudalistic. Thus, countries with inclusive institutions grew rapidly and those without them stagnated. This is why the distinction between inclusive and extractive economic institutions explains modern inequality.

However, *political* institutions are also crucial because they determine if economic institutions succeed. Inclusive political institutions create inclusive economic institutions because they are pluralistic, which means that they allow many different groups to share power. They're also centralized, which means that the central government can implement the law throughout the nation. In this situation, every group wants to protect its own wealth and property, and no single group is powerful enough to take away others' wealth and property. Therefore, under inclusive political institutions, different groups generally agree to recognize each other's property rights and treat each other as equals. In other words, inclusive political institutions create strong property rights and a level economic playing field, which are the key ingredients of inclusive economic institutions. But the opposite is true for extractive political institutions, in which a small elite monopolizes power. In these systems, the elite can use its power to oppress and extract wealth from the rest of the population. For instance, in Uzbekistan, the authoritarian president forced schoolchildren to farm cotton, bought it from them at a fraction of the market price, and pocketed the difference. This extractive economic system wouldn't stand without the extractive political system of one-party rule supporting it. This shows how extractive political institutions create extractive economic institutions. It also explains why most nations don't build inclusive economic institutions: the only people with the power to do so are the elite, but they profit too much from extractive institutions to want to change them.

Based on their wide array of historical evidence, which ranges from the US to Uzbekistan and 9600 BC to the present, Acemoglu and Robinson conclude that inclusive economic and political institutions are the key to sustainable economic prosperity, while extractive ones prevent it. They hope that this understanding can help governments, entrepreneurs, and political activists better evaluate institutions and pursue long-term growth.

HISTORY AND INSTITUTIONAL CHANGE

Acemoglu and Robinson argue that the difference between inclusive and extractive institutions explains modern global inequality. But truly addressing this inequality also requires understanding what *creates* inclusive and extractive institutions in the first place. To better understand this, the authors develop a theory of how institutions transform. They argue that institutions tend to change during periods of historical crisis and instability—which they call critical junctures. Nations respond to these crises differently, and their different responses then transform their institutions. For instance, one nation might respond to war by becoming a dictatorship, while another might respond by creating a democracy. Crucially, these different responses depend on how a nation's institutions are already structured *before* the crisis. For instance, the country that became a democracy was likely to already have a more egalitarian government than the one that became a dictatorship. However, Acemoglu and Robinson emphasize that both of these factors—the small differences between countries *before* a crisis and the way they change *during* a crisis—are difficult to predict. They depend on many historical factors, including randomness and human decisions, so they always could have been otherwise. (As the authors put it, small institutional differences and institutional change are both historically contingent.) Thus, the authors conclude that countries have different kinds of institutions because, in the past, they have responded to historical crises in different ways. During these crises, the small, contingent differences between nations have led them to respond in widely divergent ways, which has fundamentally transformed their institutions in the long term.

Acemoglu and Robinson argue that different societies inevitably develop small institutional differences over time. These differences emerge because all societies have various interest groups that compete for wealth and power. Whichever group gets the upper hand tends to structure institutions in its favor. For instance, because England's monarchy wasn't as wealthy or powerful as Spain or France's in the 1500s, English institutions gave merchants and landowners slightly more power than French or Spanish ones. But this difference was minor and didn't significantly affect policy until it collided with a critical juncture. These small institutional differences are contingent, changeable, and reversible. For instance, while Spain's monarchy was very strong in the 1500s, it made many missteps over the next century, which led it to the brink of collapse. The monarchy responded to conflicts with the aristocracy by shutting down tax collection, which prevented it from governing effectively. By the 16th century, the Spanish monarchy was woefully dysfunctional, a fact that illustrates how institutional differences are often the result of unpredictable human and political factors.

Most of the time, these small institutional differences don't have lasting effects. But during critical junctures, these differences determine how nations respond to crises, which ultimately shapes their long-term economic pathways. In other words, small differences have a big impact when they determine how a society responds to major challenges. For example, in the Middle Ages, landlords in Western Europe generally owned less land than those in Eastern Europe, so they had less wealth and power. Then, the Black Death killed nearly half of Europe's population. In Western Europe, peasants tended to win higher wages and better working conditions because they were fighting weaker landlords. But in the East, landlords used their power to make conditions far worse for peasants. Thus, while the size of landholdings started out as a small difference between Eastern and Western European institutions, it ended up having serious consequences for the power struggle between workers and landowners. This shows how critical junctures magnify small differences. In many cases, this process is strong enough to send countries down divergent development paths. For instance, before the Industrial Revolution, merchants and businessmen had much more political power in Britain and the US than in China and Russia. Because of this small difference, the British and American governments embraced the Industrial Revolution's new technologies (which businessmen were eager to adopt). In turn, the US and Britain became even more politically and economically inclusive over time. In contrast, China and Russia's absolutist rulers sharply rejected new technology because they saw it as a threat to their power. Therefore, a small difference in the balance of power ultimately helped Britain and the US industrialize rapidly and form inclusive economic institutions, while China and Russia did not. This shows that small, historically contingent differences can actually lead nations to build inclusive or extractive institutions—and therefore prosper or stagnate over time.

Institutions are always in flux, but seldom in ways that seriously affect their long-term destiny. However, when they hit critical junctures like the Industrial Revolution, these differences suddenly matter. While Britain's time as a relative backwater in the Roman Empire scarcely affected its fate, its relatively egalitarian political system in the 18th century helped it become a global economic superpower. In contrast, China was the world's greatest power for many centuries, but it turned inward before the Industrial Revolution, which led it to economically stagnate until well into the 20th century. And yet, while some differences certainly matter more than others, it can be difficult to identify which ones will shape a nation's future—after all, critical junctures are inherently unpredictable.

CYCLES OF WEALTH AND POVERTY

Acemoglu and Robinson argue that, although nations aren't locked into specific destinies, changing the course of history is extremely difficult. Very few countries have gone from poor to rich—or rich to poor—over the last 150 years. This is because both inclusive and extractive institutions tend to get stronger over time. Inclusive institutions give more people economic opportunities and influence in politics, and those people usually use their newfound power and wealth to preserve and strengthen those institutions. The authors call this cycle the virtuous circle. In contrast, extractive institutions incentivize leaders to stay in power by any means necessary—even at the expense of the country's overall prosperity. Therefore, extractive institutions generally become more and more extractive over time. Acemoglu and Robinson call this the vicious circle. The authors argue that these circles explain why, broadly speaking, rich countries often get richer while poor countries get poorer over time.

In the virtuous circle, inclusive institutions usually preserve and reinforce themselves, facilitating further economic growth. As the authors put it, inclusive political institutions tend to "resist attempts to undermine their own continuation." First, inclusive institutions create rule of law, or ensure that the law applies equally to everyone. As a result, political leaders know that they will face consequences if they try to abuse their power, so they choose not to undermine the government. Second, under inclusive institutions, everyone involved in politics worries that they would probably lose their power if one faction seized total control of the government and created extractive institutions. Even if they disagree on everything else, then, lawmakers in inclusive societies band together to preserve inclusivity and pluralism. Most importantly, inclusive institutions convince elites to answer unrest with reform rather than repression. Acemoglu and Robinson argue that elites and the masses are constantly fighting for control in any society, and elites are always afraid of being overthrown in a revolution. Elites can fend off this revolution in two ways: either by violently repressing it or by giving in to some of the revolutionaries' demands. Inclusive institutions make the second option more desirable. They empower workers, which makes repression riskier for elites (who risk being overpowered). Under inclusive institutions, it's also more likely that elites are invested in competitive corporations instead of government monopolies, so they know that they'll harm their own financial interests if they destabilize the system. Inclusive institutions can therefore lead to gradual reform—for instance, when English workers repeatedly demanded more of a voice in Parliament, the aristocracy expanded voting rights over the course of more than a century. This shows how even highly aristocratic institutions can become totally equal and inclusive over time if they start out with some pluralist element. Ultimately, since Acemoglu and Robinson view inclusive institutions as the main driver of economic opportunity, they conclude that the virtuous circle leads to sustained growth and innovation. For example, they point out how, in the early 1900s, the US government broke up several giant corporate monopolies to keep markets fair and competitive. Through these policies, the government kept the US economy growing and innovating throughout the 20th century, effectively demonstrating that inclusive political institutions constantly adapt to strengthen inclusive economic ones.

But extractive institutions also get stronger through a vicious circle that can be very difficult to break. This vicious circle takes two main forms. In the first, an elite group simply rigs political institutions to stay in power while structuring the nation's entire economy for its own benefit. For instance, 400 years after colonization, the descendants of 22 Spanish settlers still control virtually all wealth and power in Guatemala. Similarly, in countries like Cuba, North Korea, and Uzbekistan, one-party governments use extreme repression to make sure that they will never lose power. In short, in this version of the vicious circle, extractive institutions give a single group the power and wealth it needs to make sure those institutions never become inclusive.

But in the other form of the vicious circle, which sociologists call the iron law of oligarchy, extractive institutions can persist even when regimes change. For instance, when European colonies in Africa became independent, their new governments often kept extractive colonial institutions in place. In Sierra Leone, the dictator Siaka Stevens kept the British colonial diamond monopoly and produce marketing board (which impoverished farmers through heavy taxes). Like Stevens, revolutionaries often become the new aristocracy because there is nothing to check their power. New leaders realize they can profit handsomely by redirecting existing extractive institutions to favor themselves. Therefore, even if they promise change to the public, they actually tend to preserve (or even worsen) these extractive institutions. Crucially, extractive institutions also drive conflict by making the rewards for holding power so high. In countries with extractive institutions, people in power can enrich themselves by stealing government resources—and this is also often the only available route to wealth. Therefore, extractive institutions give political rivals a strong incentive to overthrow the government and seize power. By incentivizing corrupt and repressive behavior, then, extractive institutions encourage leaders to become even more extractive. All of this slows innovation and economic growth.

And yet, Acemoglu and Robinson emphasize that it *is* possible to "break the mold" and escape the vicious circle. Botswana, China, and the US South all successfully did so in the 1960s without major revolutions. However, Botswana had a history of inclusive institutions, while China's institutions remained relatively extractive, and the Southern US only changed because the rest of the country forced it to. Only in Botswana did the state's institutions clearly embrace the virtuous circle. In a way, then, the authors are pessimistic about poor countries' chances of overcoming extractive institutions: they argue that the vicious circle is even stronger than it appears, and the only way to break it is for citizens to oust the elite and create new, inclusive institutions all at once.

DIVERSITY, PLURALISM, AND EMPOWERMENT

Acemoglu and Robinson admit that *Why Nations Fail* focuses more on explaining the past than predicting the future. They avoid proposing specific policies because no policy would work in every country. In different nations, the path to inclusive institutions can look wildly dissimilar—or even totally opposite. And even well-intentioned revolutions end up building extractive institutions at least as often as inclusive ones. But the authors do highlight a few key characteristics of the movements that succeed: they empower ordinary people and are pluralistic. This means they're led by broad coalitions who represent a relatively wide range of different people and interests. In contrast, when narrow factions overthrow governments, they tend to create extractive institutions and rule just for themselves. This is why, although Acemoglu and Robinson refuse to endorse specific policies, they still conclude that the first step toward building inclusive institutions is to actually start including more people in movements for reform.

Acemoglu and Robinson believe that political change only makes institutions more inclusive when that change is led by a pluralistic group of citizens and stakeholders—meaning a group with various competing interests. Three key examples of this are the Glorious Revolution in the 17th century, the American Revolution in the 18th century, and the Meiji Restoration in the 19th century. In all these cases, aristocrats and elite merchants overthrew monarchies. Crucially, while the revolutionaries mostly belonged to the same class, they had diverse economic and political commitments, so they had to create pluralistic systems capable of balancing all of their interests. Admittedly, many people in Britain, the US, and Japan were excluded from the political process immediately after these revolutions. But the systems these revolutions created were still pluralistic. By the late 20th century, all three countries became highly inclusive and democratic, which shows how even a very limited form of pluralism in the short term can create inclusivity in the long run.

Revolutions with greater popular support also created inclusive institutions for similar reasons: the people building the institutions were diverse, so they had to create a structure for balancing diverse interests. For instance, while the French Revolution initially led to brutal violence, it later created a democratic republic with radically egalitarian laws. Similarly, the Workers' Party helped topple Brazil's military dictatorship in the 1970s and reestablish democracy by organizing grassroots activists around the country. These examples show how countries can move toward inclusive institutions when they give an inclusive, pluralistic group the power to build those institutions. For Acemoglu and Robinson, revolutions tend to succeed when they involve a coalition rebelling against a system, while they usually *fail* when they involve just one faction rebelling against another. In other words, during revolutions like the Meiji Restoration and French Revolution, citizens banded together to demand a new form of *government*. But in most revolutions (like Sierra Leone's civil war, the overthrow of Ethiopia's emperor, or the Mexican Revolution), elites simply fight over *power*: one faction wants to seize control of extractive institutions from another.

Because of the similarities between successful revolutions, the authors argue that citizens who want to alleviate poverty should focus on building pluralistic movements for institutional reform. They emphasize that top-down approaches to improving governance don't work. They explicitly reject modernization theory, which is the idea that economic growth automatically creates democracy. (They think it's the other way around.) They also criticize technocratic solutions that try to fix poverty through policy fixes but don't examine the institutional problems that prevent policies from working as intended. Instead, Acemoglu and Robinson conclude, the only true route to reform is through institutional change. Their analysis shows that positive institutional change is unpredictable and requires different strategies in every country, depending on its circumstances, history, and existing institutions. But it also shows that broad coalitions are always key to creating this change. Activists and political leaders should reach out to different groups with different interests and develop common proposals for reform. While the authors don't offer a one-size-fits-all solution to extractive institutions, then, they emphasize that any effective remedy has to be pluralistic—it has to be diverse and must represent an array of interests. This is the only way to establish the kind of inclusive institutions that can grow into a vibrant democracy.

SYMBOLS

Symbols appear in **teal text** throughout the Summary and Analysis sections of this LitChart.

NOGALES

The divided city of Nogales represents the profound economic inequality between nations and the institutional factors driving this inequality. In the first chapter of *Why Nations Fail*, Acemoglu and Robinson compare how people live on either side of the border in Nogales, Arizona and Nogales, Sonora. People living on the US side earn about three times as much as those on the Mexican side for similar work. They're also more likely to be educated and healthy. And unlike their counterparts across the border, they can trust their government to represent them democratically and provide them with basic services like clean water, safe roads, and a fair legal system.

In other words, Nogales, Arizona has a far higher standard of living than Nogales, Sonora. However, they share the same history, culture, and geography, so none of these factors can explain the differences between them. This is why Acemoglu and Robinson highlight political and economic institutions and the incentives they create: the US's system of government gives its citizens political and economic opportunities that Mexico's simply does not.

In fact, Nogales is really just an accessible example of the far graver inequalities that plague the world in the 21st century. Acemoglu and Robinson use it to ease their readers into a difficult topic and provide clear, intuitive evidence that institutional practices—and not geography or culture—are the real cause of global inequality.

THE SIERRA LEONE RAILWAY

The Sierra Leone railway represents how the leaders of extractive institutions prefer to harm their people rather than give up power, as well as how the iron law of oligarchy locks developing countries into poverty for generations. When the British colonized Sierra Leone, they built a railway through the country's southern region in order to transport resources out of the area and send equipment into it in the case of rebellion. But when Sierra Leone gained independence, it became an important economic lifeline because it allowed the nation to export goods like chocolate and diamonds. However, Sierra Leone's leader, Siaka Stevens, went on to dismantle the railway because his opposition was strongest in the southern region of the country, and he thought he could improve his chances of staying in power if he weakened that region economically.

Thus, the railway served the British colonial government's extractive economic purposes during its rule, and then Stevens tore it down in order to advance his *own* extractive political goals. Although they made opposite decisions, the British and Stevens both governed with the same mindset: they wanted to increase their own power at any cost, no matter what it meant for the people of Sierra Leone. As a result, both the railway's construction and its destruction further impoverished the country. Independence didn't guarantee functional or well-intentioned government—instead, as the iron law of oligarchy suggests, the postcolonial government kept ruling for the sake of a small elite, exactly like the colonial one.

QUOTES

Note: all page numbers for the quotes below refer to the Currency edition of *Why Nations Fail* published in 2013.

Preface Quotes

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.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 3

Explanation and Analysis

Acemoglu and Robinson open *Why Nations Fail* by discussing the Arab Spring, the series of revolutionary popular protests that shook nations across North Africa and the Middle East from 2010 to 2012. The authors were writing this book at the time, so they hadn't yet seen these revolutions' final outcomes. However, the Arab Spring protests spoke to the same core issues that Acemoglu and Robinson address in *Why Nations Fail*: systemic poverty, its causes, and its solutions.

But the authors note that Arab Spring protestors in Egypt talked about their nation and its problems in one way, while policy experts and social scientists in the US and Europe interpreted them in an entirely different way. Protestors blamed their government for their country's poverty: they argued that corruption, repression, and elitism have prevented the vast majority of Egyptians from achieving a decent standard of living. Meanwhile, western academics tend to blame poverty on factors like geography, culture, and especially incompetent leadership—but not the institutions that those leaders oversee.

As Acemoglu and Robinson explain here, their book breaks with the academic consensus by taking the protestors' side. After all, well-informed people living in poor countries clearly understand what has gone wrong and how to fix it. Politicians rig poor countries' economies, which keeps them poor. This hasn't just happened in Egypt—it has been the norm in the majority of nations around the world. Fixing this problem requires deep political change. Specifically, it requires overhauling institutions to make them inclusive instead of extractive. But this can be much harder to achieve than most people would suspect. After all, many years after the Arab Spring protests, little has changed in Egypt or the more than dozen other countries where thousands of citizens organized to demand change.

Chapter 1 Quotes

❝ Throughout the Spanish colonial world in the Americas, similar institutions and social structures emerged. After an initial phase of looting, and gold and silver lust, the Spanish created a web of institutions designed to exploit the indigenous peoples. The full gamut of *encomienda*, *mita*, *repartimiento*, and *trajin* was designed to force indigenous people's living standards down to a subsistence level and thus extract all income in excess of this for Spaniards. This was achieved by expropriating their land, forcing them to work, offering low wages for labor services, imposing high taxes, and charging high prices for goods that were not even voluntarily bought. Though these institutions generated a lot of wealth for the Spanish Crown and made the conquistadors and their descendants very rich, they also turned Latin America into the most unequal continent in the world and sapped much of its economic potential.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 18-19

Explanation and Analysis

In their first chapter, Acemoglu and Robinson compare the US and Mexico in order to sketch a general outline of their argument about how institutions determine development. They argue that Britain and Spain created radically different institutions in their American colonies—an initial difference that is key to understanding the difference between the US and Mexico today. Of course, the initial circumstances of colonization didn't determine *everything*: the US and Latin America have gone through innumerable twists and turns in the last five centuries, and in a select few cases, their institutions have radically transformed. But for the most part, Britain's colonies in the present-day US built inclusive institutions out of necessity, while Spanish settlers throughout present-day Latin America got to live comfortably under extractive institutions.

The authors haven't yet introduced the terms *inclusive* and *extractive*, but they point out that Spanish colonists throughout the empire ended up building very similar institutions. They all knew that, by gaining power over indigenous people, they could create a system in which they reaped all the benefits, while those indigenous people did all the work. Of course, this is the kind of economy that every colonizer hoped for, since it maximized profits by limiting labor costs. The less the settlers compensated their workers, the more profit they kept for themselves. Just as troublingly, the more workers they could control, the more profit they could make. Therefore, settler elites built highly unequal, exploitative systems of forced labor throughout the Spanish empire.

❝ The differences among nations are similar to those between the two parts of Nogales, just on a larger scale. In rich countries, individuals are healthier, live longer, and are much better educated. They also have access to a range of amenities and options in life, from vacations to career paths, that people in poor countries can only dream of. People in rich countries also drive on roads without potholes, and enjoy toilets, electricity, and running water in their houses. They also typically have governments that do not arbitrarily arrest or harass them; on the contrary, the governments provide services, including education, health care, roads, and law and order. Notable, too, is the fact that the citizens vote in elections and have some voice in the political direction their countries take.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 40-41

Explanation and Analysis

Nogales, Arizona and Nogales, Sonora are really two halves of the same city, split by the US-Mexico border. Because of the border, each side has different political and economic institutions. And because of their different institutions, each side has a very different quality of life. While Nogales, Arizona isn't a particularly prosperous part of the US, its residents enjoy all of the comforts that Acemoglu and Robinson list here. And although Nogales, Sonora *is* one of the wealthiest places in Mexico, its residents still lack some of these same comforts.

The authors use Nogales as a tangible example that will help readers grasp the scale of inequality around the world today. But global inequality is much, much more severe than the difference between the two sides of Nogales. This also means that it's much, much more unjust; this inequality has grave consequences for many people around the world. It causes many to migrate and leaves many more—arguably the vast majority of the human population—without the vital opportunities necessary to improve or enrich their lives. In short, this difference in living standards is a serious problem in need of serious solutions. The authors hope they can provide some of these solutions in this book.

The reason that Nogales, Arizona, is much richer than Nogales, Sonora, is simple; it is because of the very different institutions on the two sides of the border, which create very different incentives for the inhabitants of Nogales, Arizona, versus Nogales, Sonora. The United States is also far richer today than either Mexico or Peru because of the way its institutions, both economic and political, shape the incentives of businesses, individuals, and politicians. Each society functions with a set of economic and political rules created and enforced by the state and the citizens collectively. Economic institutions shape economic incentives: the incentives to become educated, to save and invest, to innovate and adopt new technologies, and so on. It is the political process that determines what economic institutions people live under, and it is the political institutions that determine how this process works.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 42

Explanation and Analysis

The first and most important component of Acemoglu and Robinson's argument in *Why Nations Fail* is their theory of global inequality. They argue that institutional differences make rich countries rich and poor countries poor, and they use Nogales as an example. Nogales, Arizona isn't spectacularly rich, and by global standards, Nogales, Sonora isn't particularly poor. But the economic differences between them are still extreme, and according to the authors, institutions are responsible for these differences.

Specifically, Acemoglu and Robinson argue that institutions create economic disparities because they set people's economic *incentives*. In every society, people make major life decisions based on the risks and rewards involved in each course of action. For instance, earning a graduate degree may be more rewarding, more affordable, and more accessible in Nogales, Arizona than Nogales, Sonora. Therefore, people are more likely to do it, and Nogales, Arizona is likely to end up with more people with graduate degrees.

This is how a nation's institutions shape its economy: they determine whether economic activities like studying, working, investing, experimenting with new technologies, and buying a home are worth it or not. According to Acemoglu and Robinson, the US's *inclusive* economic institutions incentivize all of these activities, whereas Mexico's *extractive* economic institutions make them all much harder and sometimes even less rewarding.

Chapter 2 Quotes

Poor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose. To understand this, you have to go beyond economics and expert advice on the best thing to do and, instead, study how decisions actually get made, who gets to make them, and why those people decide to do what they do. This is the study of politics and political processes. Traditionally economics has ignored politics, but understanding politics is crucial for explaining world inequality.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 68

Explanation and Analysis

Many social scientists—especially economists—believe in the ignorance hypothesis. They assume that poor countries are poor because their leaders simply make bad policy choices out of ignorance or incompetence.

But Acemoglu and Robinson think that the ignorance hypothesis is absurd and inaccurate. If the key to generating economic prosperity were reading a few books and hiring a few economists, then many more poor countries would surely already be rich. But it's not. Leaders don't make harmful economic decisions because they're *ignorant*—in most cases, they either fully understand or don't care about their policies' consequences for the majority of their people. Instead, they make these decisions to personally reap the rewards. In short, when leaders get to choose between a policy that enriches the people and a policy that enriches them personally, they almost always make the self-interested choice. Moreover, they often *have* to make the self-interested choice because their allies demand it.

Acemoglu and Robinson's analysis of the ignorance hypothesis is significant because it indicates that countries are poor because of politics, not economics. Thus, when economists look for policy fixes to "engineer prosperity" and investors try to generate economic growth by pumping money into developing countries, they're taking the wrong approach. Even though poverty is an economic problem, its roots are political—and so its solutions have to be political. The authors consider it particularly important for economists to make this shift: they're the social scientists most frequently consulted by policymakers, but also the social scientists least equipped to analyze political problems and solutions.

Chapter 3 Quotes

By the late 1990s, in just about half a century, South Korean growth and North Korean stagnation led to a tenfold gap between the two halves of this once-united country—imagine what a difference a couple of centuries could make. The economic disaster of North Korea, which led to the starvation of millions, when placed against the South Korean economic success, is striking: neither culture nor geography nor ignorance can explain the divergent paths of North and South Korea. We have to look at institutions for an answer.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 73

Explanation and Analysis

North and South Korea are worlds apart economically, even more so than the two halves of Nogales. But they're also culturally and historically quite similar. After all, they share the same language and even some traditions, since they were a single, unified nation until the end of World War II.

Therefore, the vast economic gulf between North and South Korea is clearly a modern development. Since independence, North Korea has stagnated under its extractive, authoritarian government. Meanwhile, South Korea has built some of the world's most successful economic institutions and become as prosperous as Western Europe in just two generations. It has done so by creating fair markets, protecting property rights, and investing massively in education and technology. In short, nothing but institutions can explain the profound economic difference between North and South Korea. Acemoglu and Robinson consider this one of the strongest, clearest pieces of evidence for their institutional theory of inequality.

Inclusive economic institutions, such as those in South Korea or in the United States, are those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish. To be inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers.

The contrast of South and North Korea, and of the United States and Latin America, illustrates a general principle. Inclusive economic institutions foster economic activity, productivity growth, and economic prosperity.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 74-75

Explanation and Analysis

After they make their case for why institutions explain the inequality between nations—and why culture, geography, and ignorance do not—Acemoglu and Robinson introduce their theory's central concept: the distinction between inclusive and extractive institutions.

In this passage, the authors define inclusive economic institutions and briefly explain how they create prosperity. Economic institutions are inclusive if they meet all the criteria that Acemoglu and Robinson list here: they have to be fair, protect private property and competition, and give people a free choice about what to do with their lives. Together, these factors create an economy in which people can pursue their best ideas, and the best ideas get rewarded by society. In other words, inclusive institutions create an economy that favors and quickly adapts to innovation. Since innovations are really just new ideas and tools that increase productivity—or make it easier for people to get things they want—inclusive institutions tend to make the economy grow. This is Acemoglu and Robinson's basic theory for why inclusive institutions are far superior to extractive ones.

Politics is the process by which a society chooses the rules that will govern it. Politics surrounds institutions for the simple reason that while inclusive institutions may be good for the economic prosperity of a nation, some people or groups, such as the elite of the Communist Party of North Korea or the sugar planters of colonial Barbados, will be much better off by setting up institutions that are extractive. When there is conflict over institutions, what happens depends on which people or group wins out in the game of politics—who can get more support, obtain additional resources, and form more effective alliances. In short, who wins depends on the distribution of political power in society.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 79

Explanation and Analysis

Acemoglu and Robinson argue that economic institutions like markets, property rights, and universities determine whether a society prospers or stagnates. But these economic institutions don't fall from the sky—someone has to design, build, and maintain them. Or, rather, the political system does. Ultimately, Acemoglu and Robinson argue, economic institutions depend entirely on political ones. Therefore, to have effective economic institutions that promote growth and prosperity, a society first needs to build effective *political* institutions. In turn, to overcome poverty and economic stagnation, developing countries should start with *political* change.

Acemoglu and Robinson also think that, by understanding political systems as the root of economic systems, readers can more clearly see why so many countries still have extractive institutions. In theory, every country should choose to build inclusive institutions, which create overall economic growth and lift people out of poverty. But in practice, most poor countries don't do so because of politics. In a society with extractive economic institutions, almost everyone would benefit from switching to inclusive institutions. However, the only people who *wouldn't* benefit are the elite—who also have most of the power.

Even though inclusive institutions are better for most people, then, the political system is inherently tilted towards extractive institutions. Just as the colonial sugar planters in Barbados wouldn't give up their profits for the sake of humanity and democracy, Acemoglu and Robinson suggest, aristocrats and oligarchs won't simply give up their privileges in order to help the common people. The only solution is to change the system that benefits them.

Opposition to economic growth has its own, unfortunately coherent, logic. Economic growth and technological change are accompanied by what the great economist Joseph Schumpeter called creative destruction. They replace the old with the new. New sectors attract resources away from old ones. New firms take business away from established ones. New technologies make existing skills and machines obsolete. The process of economic growth and the inclusive institutions upon which it is based create losers as well as winners in the political arena and in the economic marketplace. Fear of creative destruction is often at the root of the opposition to inclusive economic and political institutions.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 84

Explanation and Analysis

If inclusive political and economic institutions consistently generate economic growth, Acemoglu and Robinson ask, why would political leaders choose to build extractive ones instead? They respond that elites oppose inclusive institutions because they fear that economic growth will harm them.

While inclusive institutions help the economy grow overall, they generally do so through creative destruction: new firms and technologies outcompete established ones and erode their power. But elites tend to be wealthy and powerful precisely because of their links to established firms and institutions. Thus, when building institutions, they have a choice between keeping power in a stagnant economy and losing it in a growing one. Unsurprisingly, the majority of politicians cling to their power, even if this hurts everyone else. Over time, then, the political establishment tends to preserve the status quo simply because it fears change. To build truly inclusive institutions, societies must find ways to overcome this fear of creative destruction—either by overruling self-interested politicians or giving them strong incentives to choose growth (like reelection).

Chapter 4 Quotes

❝ The Black Death is a vivid example of a critical juncture, a major event or confluence of factors disrupting the existing economic or political balance in society. A critical juncture is a double-edged sword that can cause a sharp turn in the trajectory of a nation. On the one hand it can open the way for breaking the cycle of extractive institutions and enable more inclusive ones to emerge, as in England. Or it can intensify the emergence of extractive institutions, as was the case with the Second Serfdom in Eastern Europe.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number:

Explanation and Analysis

Acemoglu and Robinson introduce the second part of their argument—their theory of how and why institutions change over time—by explaining how the Black Death had very different impacts in Eastern and Western Europe. This was largely a result of the different political and economic institutions on each part of the continent. By restricting the labor supply, the Black Death increased peasants' bargaining power in England and Western Europe, but in Eastern Europe, it gave landlords *more* power to exploit their workers. This illustrates the authors' core principle: institutions change when they respond differently to *critical junctures*.

Critical junctures are significant periods of historical crisis and transformation. Wars, pandemics, moments of political transition, and periods of technological change are all classic examples of critical junctures. And since social and economic realities are already in flux during these periods, so are institutions. But after the critical juncture ends, institutions generally cool down and settle into a changed form.

After all, social and political balances of power usually determine how institutions form to begin with. For instance, Acemoglu and Robinson argue that the constant conflict between elites and the masses determines whether a country forms inclusive or extractive institutions. Thus, when a critical juncture like the Black Death suddenly gives one of those groups far more power than it had before, those institutions can change.

❝ England was unique among nations when it made the breakthrough to sustained economic growth in the seventeenth century. Major economic changes were preceded by a political revolution that brought a distinct set of economic and political institutions, much more inclusive than those of any previous society. [...] The Glorious Revolution limited the power of the king and the executive, and relocated to Parliament the power to determine economic institutions. At the same time, it opened up the political system to a broad cross section of society, who were able to exert considerable influence over the way the state functioned. The Glorious Revolution was the foundation for creating a pluralistic society, and it built on and accelerated a process of political centralization. It created the world's first set of inclusive political institutions.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number:

Explanation and Analysis

Acemoglu and Robinson argue that the Industrial Revolution was the historical foundation for modern economic growth. They uphold that all sustained economic growth depends on inclusive economic institutions and, what's more, that political institutions are always the foundation for economic ones. Unsurprisingly, their account of how England achieved the Industrial Revolution is consistent with all three of these principles. They argue that the Glorious Revolution generated the Industrial Revolution by shifting the power to create economic institutions from England's monarchy to its pluralistic Parliament. In fact, they consider the Glorious Revolution to be the first time that any society anywhere in the world managed to build truly inclusive political institutions. This shift was the foundation not only for England's rapid growth, but also for sustained economic growth everywhere in the world (which largely depended on technologies developed during the Industrial Revolution). To that end, the authors suggest that developed countries would have never achieved such high standards of living if it hadn't been for the Glorious Revolution.

❝❝ The divergent paths of English, French, and Spanish societies in the seventeenth century illustrate the importance of the interplay of small institutional differences with critical junctures. During critical junctures, a major event or confluence of factors disrupts the existing balance of political or economic power in a nation. These can affect only a single country, such as the death of Chairman Mao Zedong in 1976, which at first created a critical juncture only for Communist China. Often, however, critical junctures affect a whole set of societies, in the way that, for example, colonization and then decolonization affected most of the globe.

Related Characters: Daron Acemoglu and James A. Robinson (speaker), Mao Zedong

Related Themes:

Page Number:

Explanation and Analysis

Acemoglu and Robinson's thesis about institutional change is that small differences between institutions lead those institutions to make different decisions during crucial moments in history (or "critical junctures"). These differing decisions then transform the institutions that made them. Often, when different nations respond to the same critical juncture in different ways, their institutions can diverge significantly.

As an example of this phenomenon, the authors point out how Spain, France, and England's institutions approached colonization and transatlantic trade very differently in the 17th century. In short, England's monarchy was weaker, so it gave control over colonization and trade to corporations and elite merchants. (In Spain and France, the monarchy directly monopolized colonization and trade.) This made English colonization and trade more efficient and profitable (and, in some ways, more brutal). It also distributed these profits a bit more widely than the Spanish and French trade systems, which funneled them all directly to the Crown. Over time, these differing approaches transformed all three empires.

But Acemoglu and Robinson emphasize that critical junctures aren't always such monumental, global events. They can also be specific to individual nations—for instance, Mao Zedong's death was an important critical juncture for China because it created a power vacuum in the Communist Party's leadership. In other words, whoever took power after Mao's death got to steer China's future.

Thus, while "the interplay of small institutional differences with critical junctures" affects the fate of institutions all over the world, it's impossible to predict when critical junctures will occur, how they will affect economic and social power balances, and how each country will respond to them.

❝❝ These differences are often small to start with, but they cumulate, creating a process of institutional drift. Just as two isolated populations of organisms will drift apart slowly in a process of genetic drift, because random genetic mutations cumulate, two otherwise similar societies will also slowly drift apart institutionally. Though, just like genetic drift, institutional drift has no predetermined path and does not even need to be cumulative; over centuries it can lead to perceptible, sometimes important differences. 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.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number:

Explanation and Analysis

Acemoglu and Robinson argue that institutions become increasingly dissimilar when small differences cause them to respond in their own ways to critical junctures (periods of significant social and economic change). This theory helps the authors explain why certain nations form inclusive or extractive institutions over time. But they still haven't explained where critical junctures and small institutional differences come from (an explanation that would strengthen their theory).

Critical junctures are difficult to predict or explain. They can take various forms—including wars, political transitions, pandemics, and more. They also depend on social and political contexts, individual decisions, and pure chance. Small institutional differences also depend on these three factors, but it's still possible to explain how they form over time. This is why Acemoglu and Robinson discuss institutional drift. Different contingent events lead institutional differences to build up over time—like mutations for an organism, or habits and preferences for a person. For instance, a society might become more powerful because it wins a key battle or controls a key resource. One nation might have more egalitarian institutions because it fended off foreign invaders, while another might have fended off foreign invaders because it was already more egalitarian. There is truly no formula.

This drift is contingent, which means it's not destined to go in any particular way, and it's reversible, which means it can change directions over time. For instance, Rome and Venice both drifted towards inclusive institutions and then towards extractive ones. But neither hit the critical juncture that they would have needed to form truly inclusive political and economic institutions in the long term. Thus, institutional differences are similar to a game of musical chairs. Institutions are always changing, like players wandering around the stage while the music is playing. But these institutional changes don't usually matter in the long run—except for when a critical juncture hits (or the music turns off). Suddenly, wherever a nation happens to be in that particular moment ends up playing a significant role in its long-term destiny.

Chapter 5 Quotes

Allowing people to make their own decisions via markets is the best way for a society to efficiently use its resources. When the state or a narrow elite controls all these resources instead, neither the right incentives will be created nor will there be an efficient allocation of the skills and talents of people. But in some instances the productivity of labor and capital may be so much higher in one sector or activity, such as heavy industry in the Soviet Union, that even a top-down process under extractive institutions that allocates resources toward that sector can generate growth.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

While Acemoglu and Robinson emphasize that inclusive economic institutions are always better for economic growth, they agree that extractive ones can also generate growth in the right circumstances. Therefore, for the economy—if not always for the people—extractive institutions are still better than no institutions at all.

Inclusive institutions, extractive institutions, and the complete *lack* of institutions create different kinds of incentives. These incentives lead people to make different economic decisions, and these decisions shape a country's overall economy. A straightforward example of how these incentives work goes like this: if the government exempts renewable energy companies from taxes, more people will probably invest in renewable energy. Similarly, if the government reduces the cost of attending college, more people will probably pursue higher education.

Thus, to generate economic growth, a nation has to give people the right incentives by establishing the right institutions. Like most economists, Acemoglu and Robinson strongly believe that free markets are the most efficient way to deploy society's resources and therefore the best way to generate growth. In a nutshell, if people can pursue their individual interests and reap the rewards of their own accomplishments, then the economy will grow on its own. Capital will flock to the best ideas and multiply them. Under such a system, no individual or agency decides how to allocate society's resources—rather, many actors decide for themselves.

In contrast, when centralized institutions decide how to allocate resources—like in the Soviet Union's planned economy—they generally do so in an inefficient way. They might invest in unprofitable, unimportant projects, or they might waste people's talents and skills (for instance, by forcing expert scientists to work on farms). Despite their inefficiency, though, centralized economies can often generate much faster growth than free markets—in the short term. As the authors explain here, this is because centralized institutions can move capital around more easily, and they can concentrate large amounts of capital in specific, highly productive industries (instead of distributing it more broadly throughout multiple different industries).

The classic example of this phenomenon is the Soviet Union. Under the Russian Empire, absolutist, extractive institutions kept most people working on farms, using very inefficient, old technology. Under a free market, people would have probably gradually transitioned from these farms to a variety of industrial occupations. But the Soviet government instead forced millions of people to leave their farms and go work in factories overnight. Moreover, it concentrated them in the industries with the very highest productivity and profit margins. Therefore, the Soviet Union generated explosive economic growth, but not the sustainable innovation that comes with free markets. As a result, its economy grew fast for a few decades and then plateaued.

Extractive institutions are so common in history because they have a powerful logic: they can generate some limited prosperity while at the same time distributing it into the hands of a small elite. For this growth to happen, there must be political centralization. Once this is in place, the state—or the elite controlling the state—typically has incentives to invest and generate wealth, encourage others to invest so that the state can extract resources from them, and even mimic some of the processes that would normally be set in motion by inclusive economic institutions and markets.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

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Explanation and Analysis

Acemoglu and Robinson emphasize that the vast majority of economic institutions throughout history have been extractive. From an abstract, theoretical point of view, this makes very little sense—why would society choose to invest its resources in such an inefficient way? But upon taking into account the political realities that actually drive policymakers' decisions, it becomes perfectly clear. Politicians have an incentive to build inefficient institutions because those institutions bring them large profits. Over time, they might try to make these institutions slightly more efficient—but only as long as they can keep reaping all the benefits.

This is why, when a small elite class takes control of a society's political institutions, it generally sets up extractive institutions. In one way or another, these institutions almost always revolve around unfree labor. For instance, most colonies and dictatorships have some form of slavery, whether in plantations, mines, or (occasionally) factories. Similarly, autocratic governments frequently set up monopolies—which aren't as profitable as free markets but allow one organization to capture all of the profit. The leaders of these systems and organizations then innovate and increase efficiency up to the point at which they start to lose control over them. Therefore, extractive institutions can generate some economic growth, but their profits are neither as sustainable nor as equitably distributed as the ones generated by inclusive institutions.

Chapter 6 Quotes

The Romans inherited some basic technologies, iron tools and weapons, literacy, plow agriculture, and building techniques. Early on in the Republic, they created others: cement masonry, pumps, and the water wheel. But thereafter, technology was stagnant throughout the period of the Roman Empire. [...] There could be some economic growth without innovation, relying on existing technology, but it was growth without creative destruction. And it did not last.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

While extractive institutions can generate some economic growth in the short term, Acemoglu and Robinson argue, they can't create true, sustainable economic growth in the long term because they don't drive innovation. Ancient Rome is a classic example of this principle. Despite its spectacular military success and somewhat democratic political institutions, Rome never truly generated technological change because its economic institutions weren't inclusive enough to incentivize innovation.

Thus, human technology advanced more in a few decades during the Industrial Revolution than during more than a thousand years of Roman rule throughout Europe, North Africa, and the Middle East. There was certainly economic growth in Roman territory—after all, the government integrated different regions, facilitating trade and building infrastructure. But it didn't increase people's productive capacity, so it couldn't create the kind of exponential growth that industrialization did.

To understand this difference, it can be helpful to think about the two ways a factory owner can increase production: they can hire more workers, or they can update to new technologies. If they hire more workers, they will increase production linearly—20 workers can produce twice as much as 10. But if they start using machines, they can produce significantly more than before with the same ten workers. Rome grew like the factory that hired new workers—it conquered and integrate more land using the same technologies. But during the Industrial Revolution, England grew like the factory that introduced machines: it harnessed the power of innovation to multiply its productive capacity and grow exponentially.

Venice's innovative contract system, or the Roman minimum wages that the authors mention here. But since none of them ever fully transitioned to inclusive economic institutions, none of them generated the kind of explosive economic growth that took hold in England after the Industrial Revolution. The technological and scientific innovations underlying this innovation not only drove up wages and living standards, but also enabled humans to live much longer, healthier lives.

Chapter 7 Quotes

❝❞ The life expectancy of a resident of the Natufian village of Abu Hureyra was probably not that much different from that of a citizen of Ancient Rome. The life expectancy of a typical Roman was fairly similar to that of an average inhabitant of England in the seventeenth century. In terms of incomes, in 301 AD the Roman emperor Diocletian issued the Edict on Maximum Prices, which set out a schedule of wages that various types of workers would be paid. We don't know exactly how well Diocletian's wages and prices were enforced, but when the economic historian Robert Allen used his edict to calculate the living standards of a typical unskilled worker, he found them to be almost exactly the same as those of an unskilled worker in seventeenth-century Italy.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

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Explanation and Analysis

Acemoglu and Robinson argue that, because there were no truly inclusive economic institutions anywhere in the word until 17th-century England, living standards didn't significantly change between the Neolithic Revolution and the Industrial Revolution. Robert Allen's work supports this thesis by showing that, for all intents and purposes, people earned about the same wages and enjoyed about the same standard of living between at least 301 and the 17th century.

Acemoglu and Robinson quite reasonably assume that wages and living standards didn't change too radically between the dawn of human civilization and 301, either. Of course, during this long period, extractive societies generated occasional spurts of economic growth. Some of these societies even built a few inclusive policies within their primarily extractive economic institutions—like

❝❞ The process of political centralization can actually lead to a form of absolutism, as the king and his associates can crush other powerful groups in society. This is indeed one of the reasons why there will be opposition against state centralization, as we saw in chapter 3. However, in opposition to this force, the centralization of state institutions can also mobilize demand for a nascent form of pluralism, as it did in Tudor England. When the barons and local elites recognize that political power will be increasingly more centralized and that this process is hard to stop, they will make demands to have a say in how this centralized power is used. […] The Tudor project not only initiated political centralization, one pillar of inclusive institutions, but also indirectly contributed to pluralism, the other pillar of inclusive institutions.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Page Number: 186-187

Explanation and Analysis

The Industrial Revolution took place in part because of numerous earlier events in English history. The Glorious Revolution, for instance, created inclusive political and economic institutions that lay the necessary groundwork for industrialization. Another important part of British history had to do with kings Henry VII and Henry VIII's efforts to centralize the state. Their intention was to amass more power for themselves and build the kind of absolutist institutions that Acemoglu and Robinson describe here. But these plans ended up backfiring and giving rise to pluralistic institutions instead. This happened because, as Henry VII and Henry VIII started expanding the state, Parliament, aristocrats, and merchants started demanding more power.

This period of English history shows that—as the authors point out—centralization is perfectly compatible with both absolutist *and* pluralistic institutions. After all, centralization really just makes the state stronger. Many readers might instinctively associate a highly centralized government with powerful absolutist rulers who concentrate all the power into their own hands. But actually, many absolutists prefer to rule less centralized states (because centralization can invite conflict and coups). Meanwhile, pluralistic institutions can also be highly centralized—for instance, in most modern democracies, a single body representing a diverse range of people makes important, binding decisions that then get implemented throughout the nation. In fact, this is the kind of system that's necessary for inclusive economic institutions to form. Finally, this analysis also shows that the two "pillar[s] of inclusive institutions"—centralization and pluralism—aren't inherently separate: centralization can make society more pluralistic (just as, under certain conditions, pluralism can make it more centralized).

By 1760 the combination of all these factors—improved and new property rights, improved infrastructure, a changed fiscal regime, greater access to finance, and aggressive protection of traders and manufacturers—was beginning to have an effect. After this date, there was a jump in the number of patented inventions, and the great flowering of technological change that was to be at the heart of the Industrial Revolution began to be evident. Innovations took place on many fronts, reflecting the improved institutional environment. One crucial area was power, most famously the transformations in the use of the steam engine that were a result of James Watt's ideas in the 1760s.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

Acemoglu and Robinson argue that the Industrial Revolution—and along with it, virtually all modern economic growth—was only possible because of the Glorious Revolution in 17th-century England. Specifically, the Glorious Revolution built inclusive political institutions in England, and over the following decades these political institutions built inclusive economic institutions, too. In turn, these economic institutions changed incentives for workers, traders, inventors, and aristocrats alike because they rewarded productivity and innovation, no matter who drove them.

Acemoglu and Robinson uphold that eventually, about a hundred years after the Industrial Revolution, England's inclusive economic institutions started to pay off. Most importantly, they began encouraging rapid scientific innovation, which eventually drove the Industrial Revolution. The patent system enabled scientists to share their ideas and inventions without worrying that others would steal them. Therefore, the whole scientific community could build on and combine these innovations, which improved them exponentially. The authors argue that it's no surprise that the Industrial Revolution rose out of this system—indeed, this is just further proof that economic institutions and the incentives they create are the key to nations' economic success and failure.

Chapter 8 Quotes

The Industrial Revolution created a critical juncture that affected almost every country. Some nations, such as England, not only allowed, but actively encouraged, commerce, industrialization, and entrepreneurship, and grew rapidly. Many, such as the Ottoman Empire, China, and other absolutist regimes, lagged behind as they blocked or at the very least did nothing to encourage the spread of industry. Political and economic institutions shaped the response to technological innovation, creating once again the familiar pattern of interaction between existing institutions and critical junctures leading to divergence in institutions and economic outcomes.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

According to Acemoglu and Robinson, institutions determine prosperity, and critical junctures—periods of dramatic historical change—shape institutions. Some critical junctures are confined to particular countries, while others, like the Industrial Revolution, affect practically the whole world.

In fact, Acemoglu and Robinson argue that the Industrial Revolution was the key turning point in modern economic history: it determined which countries became rich and which stayed poor. This was because nations responded to it in a wide variety of ways, depending on how their existing institutions were structured. A few nations—like France, Australia, and Japan—either already had or quickly built inclusive political and economic institutions. This allowed them to innovate, industrialize, and trade freely, just like

England. Over time, their economies grew as a result and their standards of living increased dramatically.

In contrast, most nations still had extractive economic institutions. Under these institutions, political and economic elites blocked industrialization because they feared creative destruction. Specifically, elites worried that industrialization would enrich other people, and that those other people would then take away their power. In other words, the majority of the world—including regimes as powerful as China and the Ottoman Empire—responded to industrialization by doing nothing at all. The authors view this key moment of divergence as the foundation for the wide gulf between rich and poor countries in the world today.

Chapter 9 Quotes

❝ In South Africa the dual economy was not an inevitable outcome of the process of development. It was created by the state. In South Africa there was to be no seamless movement of poor people from the backward to the modern sector as the economy developed. On the contrary, the success of the modern sector relied on the existence of the backward sector, which enabled white employers to make huge profits by paying very low wages to black unskilled workers. […] Black Africans were indeed "trapped" in the traditional economy, in the Homelands. But this was not the problem of development that growth would make good. The Homelands were what enabled the development of the white economy.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

Development economists often ask the question that motivates Acemoglu and Robinson's research: what will it take to bridge the gap between rich and poor nations? And like most other economists, these development economists assume that the answer is—unsurprisingly enough—*economic*. Specifically, they say that developing countries have a dual economy: part of the economy is modern, industrial, and productive, while most of it is traditional, agricultural, and inefficient. Next, they argue that the key to generating economic growth is moving people from the traditional sector to the modern one.

While this theory of development makes sense in theory, Acemoglu and Robinson argue that it often misses the mark in practice. South Africa clearly shows why this is the case. It *does* have a dual economy: a small, predominantly white minority enjoys living standards comparable to those of Western Europe or the United States, while the native majority works in unskilled, low-wage sectors and lacks many basic rights and services. But this isn't the result of a natural development process, in which everyone started in the traditional sector and some people simply managed to advance to the modern one. Rather, as Acemoglu and Robinson explain here, South Africa's dual economy is the of politics. Like all extractive institutions, this dual economy was deliberately created to redistribute wealth and resources from the majority to a tiny minority. As a result, the development economists' usual strategy for spurring growth couldn't work. During apartheid, Black South Africans simply couldn't move into the "modern" half of the economy, and even now, doing so is extremely difficult because the nation's economy is still built on their exploitation.

While few countries share South Africa's unique history, and not every poor country experiences the exact same challenges, South Africa does support the authors' thesis that politics are generally the root cause of poverty and inequality. Of course, this means that poverty and inequality call for political solutions—not just economic development.

❝ In several instances the extractive institutions that underpinned the poverty of these nations were imposed, or at the very least further strengthened, by the very same process that fueled European growth: European commercial and colonial expansion. In fact, the profitability of European colonial empires was often built on the destruction of independent polities and indigenous economies around the world, or on the creation of extractive institutions essentially from the ground up, as in the Caribbean islands, where, following the almost total collapse of the native populations, Europeans imported African slaves and set up plantation systems.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

In their chapter on European colonialism and the African slave trade, Acemoglu and Robinson identify one of the greatest paradoxes in the history of global inequality: the fact that European nations built inclusive institutions for themselves by building *extractive* ones overseas. For instance, the Glorious Revolution that built England's political institutions was led by a powerful aristocracy that largely made their fortunes through colonialism, exploitation, and slavery. Similarly, even once they built inclusive institutions at home, Western European countries like France, Spain, and the Netherlands continued their overseas policies of conquest, enslavement, and even genocide.

Acemoglu and Robinson clearly recognize this paradox, but they don't analyze its implications for their theory of inclusive and extractive institutions. While this is bound to disappoint some of their readers, many other scholars have researched this question in more detail. Some readers might see it as a mere coincidence that Europe built inclusive institutions at home while committing horrific crimes overseas, while others might conclude that Europe built these inclusive institutions *because* of the wealth it gained through these crimes. Either way, Acemoglu and Robinson's analysis shows that Western Europe (and later the United States) played a key role in spreading *both* inclusive and extractive institutions around the world. Any analysis that doesn't take these two sides together is missing half the picture.

Chapter 10 Quotes

In England there was a long history of absolutist rule that was deeply entrenched and required a revolution to remove it. In the United States and Australia, there was no such thing. Though Lord Baltimore in Maryland and John Macarthur in New South Wales might have aspired to such a role, they could not establish a strong enough grip on society for their plans to bear fruit. The inclusive institutions established in the United States and Australia meant that the Industrial Revolution spread quickly to these lands and they began to get rich. The path these countries took was followed by colonies such as Canada and New Zealand.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

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Explanation and Analysis

Acemoglu and Robinson repeatedly emphasize that the countries that are rich today are the ones that managed to build inclusive economic institutions before, during, or soon after the Industrial Revolution. However, they also emphasize that not all of these countries created these institutions in the same way. In the broadest terms, the nations that formed inclusive institutions before the 20th century fall into two categories. Some countries—like England, Japan, and most of Western Europe—overthrew extractive institutions through revolutions or wars. The others, which the authors discuss in this passage, were settler colonies that built inclusive institutions from scratch (but only for the colonizers, and not the natives). This didn't happen in every settler colony—for instance, it didn't happen in Latin America or southern Africa, where settler colonialism was based on extraction instead. Specifically, settler colonies built inclusive institutions only when these extractive and exploitative colonies failed. For instance, they failed in the US and Australia because there simply weren't enough native people for British colonists to enslave. As a result, the US and Australia built inclusive institutions from the start and easily took advantage of the Industrial Revolution.

The leaders of the French Revolution and, subsequently, Napoleon exported the revolution to these lands, destroying absolutism, ending feudal land relations, abolishing guilds, and imposing equality before the law—the all-important notion of rule of law, which we will discuss in greater detail in the next chapter. The French Revolution thus prepared not only France but much of the rest of Europe for inclusive institutions and the economic growth that these would spur.

Related Characters: Daron Acemoglu and James A. Robinson (speaker), Napoleon Bonaparte

Related Themes:

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Explanation and Analysis

The Glorious Revolution and the French Revolution built some of the world's first inclusive institutions. But similar revolutions didn't occur across the rest of Europe in the 18th and 19th centuries. Instead, most of Western Europe built inclusive institutions when the French army invaded them and abolished their feudal monarchies. Some of these territories eventually formed inclusive, republican governments.

This unconventional series of events exemplifies Acemoglu and Robinson's theory of institutional change. The French Revolution was possible because of certain key differences between the French monarchy and other similar monarchies throughout Europe. (Most importantly, the king had to call an assembly of the people if he wanted to raise taxes.) During a particular critical juncture—a fiscal crisis spurred by the Crown's irresponsible spending—these institutional quirks made it possible for the National Constituent Assembly to overthrow the monarch and, after a long period of instability, eventually build an inclusive republic. In turn, the French Revolution *itself* served as a contingent critical juncture for many other nations in Europe. Other nations viewed France's new democratic system as a threat and invaded to try and reinstate the monarchy. But this backfired: France fought them off, began invading the rest of Europe, and spread the Revolution throughout Europe.

Chapter 11 Quotes

❝❞ The rule of law is not imaginable under absolutist political institutions. It is a creation of pluralist political institutions and of the broad coalitions that support such pluralism. It's only when many individuals and groups have a say in decisions, and the political power to have a seat at the table, that the idea that they should all be treated fairly starts making sense. By the early eighteenth century, Britain was becoming sufficiently pluralistic, and the Whig elites would discover that, as enshrined in the notion of the rule of law, laws and institutions would constrain them, too.

Related Characters: Daron Acemoglu and James A. Robinson (speaker), The Whig Party

Related Themes:

Page Number: 306

Explanation and Analysis

Acemoglu and Robinson emphasize that the economic hierarchy of nations that formed after the Industrial Revolution has basically remained unchanged in the 21st century. In Chapter 11 and Chapter 12, they ask why rich countries have largely stayed rich and poor countries have largely stayed poor. The answer, they suggest, is that both inclusive and extractive institutions tend to reinforce themselves over time, which leads countries to stick with similar economic models and achieve relatively consistent levels of growth.

The authors argue that the rule of law—the principle that the law applies to everyone equally—is one of the most important reasons why rich countries stay rich. After they initially build pluralist institutions, these countries tend to create a fair legal system that follows the rule of law. In turn, such legal systems tend to protect political institutions against abuses of power, which keeps them pluralist.

In this passage, Acemoglu and Robinson explain exactly why pluralist institutions create the rule of law—and why other kinds of institutions are unlikely to ever do the same. When multiple groups with dissimilar interests share power in politics, it makes sense for them to agree to equal treatment before the law. This prevents winning factions from weaponizing the political system to make their temporary advantages permanent. For instance, if it's not subject to the law, the winning party in Parliament can simply use corruption and deceit to stay in power forever. But if the law *does* apply to the winning party, then the party has to hold fair elections in the future, which makes it possible for other factions to eventually take back power.

❝❞ The British example, an illustration of the virtuous circle of inclusive institutions, provides an example of a "gradual virtuous circle." The political changes were unmistakably toward more inclusive political institutions and were the result of demands from empowered masses. But they were also gradual. Every decade another step, sometimes smaller, sometimes larger, was taken toward democracy. There was conflict over each step, and the outcome of each was contingent. But the virtuous circle created forces that reduced the stakes involved in clinging to power. [...] There is great virtue in this sort of gradual change. It is less threatening to the elite than the wholesale overthrow of the system. Each step is small, and it makes sense to give in to a small demand rather than create a major showdown.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

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Explanation and Analysis

Acemoglu and Robinson argue that prosperous countries tend to stay wealthy because their inclusive institutions stay strong over time. Inclusive institutions make it harder for autocrats to seize power, and they empower the population as a whole by generating economic prosperity, both of which feed further pluralism and keep institutions inclusive over time.

In fact, Acemoglu and Robinson actually suggest that the virtuous circle makes pluralism and inclusive institutions *stronger* over time. English history provides a clear example of this. After the Glorious Revolution, only about two percent of the population could vote, and certain rural areas were heavily overrepresented in Parliament. But because the Glorious Revolution also led to inclusive economic institutions like free markets and property rights, they gave more people the resources they needed to challenge the system and demand power of their own. As these inclusive institutions marched forward, elites had less of an incentive to repress protests with violence. Therefore, after the Glorious Revolution, people would protest every few years, and elites would respond by ceding some power to them. England started taking baby steps toward full democracy: every decade or so, it would give slightly more power to the people and expand voting rights just a bit more. Two centuries later, everyone—including women—had voting rights and equal representation in Parliament.

In this passage, Acemoglu and Robinson argue that Britain's "gradual virtuous circle" is the smoothest and most reliable way to build inclusive institutions and traditions in a country. In fact, Britain's experience is important because it shows that revolutions don't need to establish democracy all at once (like they tried to do in the French Revolution). Instead of creating perfectly inclusive political institutions at the outset, nations simply need to create political institutions that are pluralist enough to create inclusive economic institutions over time. They can then let the virtuous circle do the rest of the work.

Chapter 12 Quotes

❝❞ Sierra Leone's development, or lack thereof, could be best understood as the outcome of the vicious circle. British colonial authorities built extractive institutions in the first place, and the postindependence African politicians were only too happy to take up the baton for themselves. The pattern was eerily similar all over sub-Saharan Africa. There were similar hopes for postindependence Ghana, Kenya, Zambia, and many other African countries. Yet in all these cases, extractive institutions were re-created in a pattern predicted by the vicious circle—only they became more vicious as time went by. In all these countries, for example, the British creation of marketing boards and indirect rule were sustained.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Related Symbols:

Page Number: 343

Explanation and Analysis

While countries with inclusive institutions tend to become more inclusive over time through the "virtuous circle," countries with extractive institutions often remain trapped in their exploitative systems because of the "vicious circle." For instance, Sierra Leone's British colonial government built a number of highly exploitative, extractive economic institutions. Rather than transitioning the country to inclusive institutions after independence, the new government kept the same colonial institutions in place and started profiting from them in precisely the same way that the British did.

According to Acemoglu and Robinson, this vicious circle is the primary reason that most countries in the world remain poor. Their extractive institutions have prevented them from achieving their economic potential or generating sustained growth. And because these extractive institutions give the same small elite both political and economic power, they're very difficult to change. However, the authors think that breaking the vicious circle is the only way to truly overcome underdevelopment in regions like sub-Saharan Africa.

❝❞ This form of the vicious circle, where extractive institutions persist because the elite controlling them and benefiting from them persists, is not its only form. [...] In a form that the sociologist Robert Michels would recognize as the iron law of oligarchy, the overthrow of a regime presiding over extractive institutions heralds the arrival of a new set of masters to exploit the same set of pernicious extractive institutions.

The logic of this type of vicious circle is also simple to understand in hindsight: extractive political institutions create few constraints on the exercise of power, so there are essentially no institutions to restrain the use and abuse of power by those overthrowing previous dictators and assuming control of the state; and extractive economic institutions imply that there are great profits and wealth to be made merely by controlling power, expropriating the assets of others, and setting up monopolies.

Related Characters: Daron Acemoglu and James A.

Robinson (speaker)

Related Themes:

Page Number: 365-366

Explanation and Analysis

A peculiar but surprisingly common form of the vicious circle takes place after revolutions in developing countries. More often than not, revolutionaries declare that they will avenge the people's suffering by overthrowing the government and building more inclusive, democratic institutions. But when they actually overthrow the government, they rule in exactly the same way as their predecessors. For instance, the Marxist-Leninist Derg rebels in Ethiopia overthrew the emperor and then ruled the country from the throne in his private palace.

Following Robert Michels, Acemoglu and Robinson call this pattern "the iron law of oligarchy." Revolutionaries who overthrow powerful, repressive leaders have every incentive to become just as powerful and repressive as their predecessors. They face the classic dilemma for elites who rule extractive institutions. On the one hand, if they keep those extractive institutions in place, they can get rich, exercise practically unlimited power, and avoid all consequences for their actions. On the other, if they build inclusive institutions instead, they will lose most of their power but probably help the economy grow. For most politicians, Acemoglu and Robinson argue, this isn't much of a dilemma: the self-interested option is hard to resist. Thus, revolutionaries tend to become dictators, and the reforms they promise usually never materialize.

Overcoming the iron law of oligarchy requires a different kind of revolution. When a small group of unified, highly motivated revolutionaries overthrows the government, they can easily rule however they wish. But when a much larger coalition of diverse groups leads a revolution, it tends to demand not merely power, but a whole new system of government.

Chapter 13 Quotes

Nations fail economically because of extractive institutions. These institutions keep poor countries poor and prevent them from embarking on a path to economic growth. […] The basis of these institutions is an elite who design economic institutions in order to enrich themselves and perpetuate their power at the expense of the vast majority of people in society. The different histories and social structures of the countries lead to the differences in the nature of the elites and in the details of the extractive institutions. But the reason why these extractive institutions persist is always related to the vicious circle, and the implications of these institutions in terms of impoverishing their citizens are similar—even if their intensity differs.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 398-399

Explanation and Analysis

In this chapter, Acemoglu and Robinson return to their book's overarching argument, as they've already covered all of its components in more depth. To show why their analysis is sound, they apply it to several countries that remain poor today. As they explain here, each country's specific situation is different, but each also follows the same general formula. By clearly identifying this pattern, the authors hope that it will become easier to identify a replicable solution to it.

Over the course of history, elites have built extractive institutions, and these extractive institutions have trapped the majority of people in poverty. The vicious circle has frozen these institutions in place over time, preventing people from achieving a higher standard of living. This is the pattern that Acemoglu and Robinson see throughout history. Time and again, elites' self-interest has won out over the common good. The only solution to this cycle is political change—specifically, reforming institutions in order to tilt the balance of power away from elites and toward the masses. And this kind of political change is usually only successful when it's led by broad, diverse coalitions.

Chapter 14 Quotes

❝❝ The changes in economic institutions in China were radical. China broke the mold, even if it did not transform its political institutions. As in Botswana and the U.S. South, the crucial changes came during a critical juncture—in the case of China, following Mao's death. They were also contingent, in fact highly contingent, as there was nothing inevitable about the Gang of Four losing the power struggle; and if they had not, China would not have experienced the sustained economic growth it has seen in the last thirty years. But the devastation and human suffering that the Great Leap Forward and the Cultural Revolution caused generated sufficient demand for change that Deng Xiaoping and his allies were able to win the political fight.

Related Characters: Daron Acemoglu and James A. Robinson (speaker), Mao Zedong , Deng Xiaoping

Related Themes:

Page Number: 426

Explanation and Analysis

To achieve sustainable economic growth in the 21st century, Acemoglu and Robinson argue, poor countries need to escape the vicious circle of extractive institutions. In this chapter, they offer a few examples of countries that have done just that. The largest and most powerful is China.

Until the 1970s, the Communist Party tightly controlled China's economy. This led to a period of explosive growth, then a period of total economic stagnation. But upon Mao Zedong's death, the nation entered an important critical juncture: whoever replaced him would have outsized power over China's future. Acemoglu and Robinson consider China extremely fortunate because Deng Xiaoping won the battle to replace Mao and then implemented a series of liberalization policies that made China's institutions significantly more inclusive, thus spurring another period of economic growth.

Although the authors believe that this growth won't continue in the long term, they view Deng's policies as a remarkable success. They also see them as an illustrative case study for other leaders who want to fight a similarly daunting establishment or achieve a similar level of growth in their own countries. However, the authors also emphasize how fragile Deng's victory was. Had conditions been only slightly different, he easily could have lost the bid to replace Mao, and China would have likely stagnated and fallen into conflict instead of undergoing sustained growth. The historical contingency of Deng's victory shows how important politicians' decisions can be. At the right critical juncture, minor power imbalances and unforeseen historical events can transform millions of lives and livelihoods.

Chapter 15 Quotes

❝❝ Any complex social phenomenon, such as the origins of the different economic and political trajectories of hundreds of polities around the world, likely has a multitude of causes, making most social scientists shun monocausal, simple, and broadly applicable theories and instead seek different explanations for seemingly similar outcomes emerging in different times and areas. Instead we've offered a simple theory and used it to explain the main contours of economic and political development around the world since the Neolithic Revolution. Our choice was motivated not by a naïve belief that such a theory could explain everything, but by the belief that a theory should enable us to focus on the parallels, sometimes at the expense of abstracting from many interesting details. A successful theory, then, does not faithfully reproduce details, but provides a useful and empirically well-grounded explanation for a range of processes while also clarifying the main forces at work.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 429

Explanation and Analysis

In their final chapter, Acemoglu and Robinson address what they rightly predicted would become a common criticism of their book. Most social scientists tend to emphasize that history is complex, every nation is unique, and multiple factors contribute to every outcome. But *Why Nations Fail* goes in the opposite direction: it attempts to explain a very wide range of examples through a single, relatively straightforward factor. This passage is Acemoglu and Robinson's rebuttal to the misconception that their theory is overly simplistic. In their response, they give readers important guidelines for interpreting their argument.

Acemoglu and Robinson agree that global inequality has "a multitude of causes," including—but probably not limited to—the political and economic institutions on which they focus. But the authors aren't trying to paint a richly detailed, exhaustively precise picture of how each country became rich or poor. Rather, they want to explain and clarify major trends in the past, because they hope this can help their readers confront important challenges in the future. Thus, they're looking for general patterns, and their analysis focuses on the clearest and most powerful pattern they find: the fact that institutions cause economic inequality. Of course, readers and other scholars can add plenty more detail to all of the authors' case studies. There will always be some exceptions, but the authors believe that these exceptions probably won't disprove the general rule.

❝❞ Growth under extractive institutions will not be sustained, for two key reasons. First, sustained economic growth requires innovation, and innovation cannot be decoupled from creative destruction, which replaces the old with the new in the economic realm and also destabilizes established power relations in politics. Because elites dominating extractive institutions fear creative destruction, they will resist it, and any growth that germinates under extractive institutions will be ultimately short lived. Second, the ability of those who dominate extractive institutions to benefit greatly at the expense of the rest of society implies that political power under extractive institutions is highly coveted, making many groups and individuals fight to obtain it. As a consequence, there will be powerful forces pushing societies under extractive institutions toward political instability.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 430

Explanation and Analysis

As they survey their research's implications, Acemoglu and Robinson address one of the most controversial topics in contemporary politics and social science: China. They ask the crucial question of whether China's rapid economic growth and broader economic model are sustainable. According to them, it isn't, so they don't think wealthy capitalist countries like the US have to worry that China will outcompete them in the long run.

Based on their analysis of growth under extractive institutions, the authors suggest that China's growth will fizzle out. This is because China's extractive institutions both stifle innovation and give elites the power to stop creative destruction. Therefore, they conclude that China can catch up to existing technology relatively fast, but not invent or implement new technologies in a sustainable way over time. That is, unless it's somewhat inclusive economic institutions transform its political institutions, making them inclusive, too. But the authors don't consider this likely.

At the same time, the authors also understand why the Chinese economic model seduces so many people. Elites love authoritarian growth because they get to keep all of the power and most of the profit from it. Policy analysts and citizens sometimes support a centrally planned economy because it can produce much higher levels of economic growth than inclusive capitalist markets. But this is deceptive: it only works in the short term.

❝❞ There is much uncertainty. Cuba, for example, might transition toward inclusive institutions and experience a major economic transformation, or it may linger on under extractive political and economic institutions. The same is true of North Korea and Burma (Myanmar) in Asia. Thus, while our theory provides the tools for thinking about how institutions change and the consequences of such changes, the nature of this change—the role of small differences and contingency—makes more precise predictions difficult.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 436

Explanation and Analysis

While Acemoglu and Robinson make several general predictions about how inequality and the world economy will evolve in the future, they also emphasize that it's impossible to know for sure. This is simply because the future—like the past—is contingent. There are many ways it can go, and its path often depends on small, unpredictable factors.

Contingency brings both good and bad news. The bad news is that it makes understanding and predicting the world harder, because the root cause of world-changing events can often be as simple as the weather, a careless misjudgment, or bad luck. But the good news is that contingency suggests that people can still shape the future. Cuba, North Korea, and Myanmar are not destined to stay autocratic and unfree, and the actions of their people can have a powerful influence over whether or not they do. People's decisions—even ordinary people's—can transform entire nations and forever shape the course of history. While this makes historians' job a bit harder, it also means that citizens, activists, and politicians hold the future in their hands.

The rise of Brazil since the 1970s was not engineered by economists of international institutions instructing Brazilian policymakers on how to design better policies or avoid market failures. It was not achieved with injections of foreign aid. It was not the natural outcome of modernization. Rather, it was the consequence of diverse groups of people courageously building inclusive institutions. Eventually these led to more inclusive economic institutions. But the Brazilian transformation, like that of England in the seventeenth century, began with the creation of inclusive political institutions.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 457

Explanation and Analysis

At the very end of *Why Nations Fail*, Acemoglu and Robinson cite the Brazilian Workers' Party as an example of how nations can successfully build inclusive institutions today. While Brazil's political system is far from perfect, the authors argue that the Workers' Party has made it much more functional, inclusive, and responsive to ordinary people's needs. (Of course, they wrote this book a few years before a major corruption scandal rocked the party and pushed Brazilian democracy to the brink of collapse.)

Acemoglu and Robinson use the Workers' Party to remind their readers about the key differences between their theory of politics and other social scientists' theories. While geographical and cultural explanations for poverty suggest that not much can be done to overcome it, the ignorance hypothesis and modernization theory both lead many social scientists to propose technocratic fixes for inequality. According to the ignorance hypothesis, leaders who don't understand economics impoverish their countries by choosing the wrong policies. Social scientists who follow the ignorance hypothesis therefore assume that better policy (or perhaps economics classes) will solve poverty. Meanwhile, modernization theory suggests that prosperity makes countries democratic (rather than vice-versa), so social scientists who follow it argue that countries should pursue growth by any means possible and simply wait for political institutions to change later. Finally, other well-meaning policymakers and social scientists think that poor countries haven't developed enough because their government budget simply isn't large enough. Thus, these thinkers propose foreign aid as a solution to poverty.

But Acemoglu and Robinson think that the Workers' Party shows why their theory of inequality (and proposals for overcoming it) are superior to all these others. While policy fixes, modernization, and foreign aid have consistently failed to turn poor countries around, there *is* one thing that has succeeded: institutional reform. Occasionally, this has come from the top down, like in China or the US South. But when elites fail—which happens most of the time—the responsibility for building better institutions falls on citizens themselves. This is why the Workers' Party succeeded in Brazil: it focused on transforming institutions from the bottom up.

What is common among the political revolutions that successfully paved the way for more inclusive institutions and the gradual institutional changes in North America, in England in the nineteenth century, and in Botswana after independence—which also led to significant strengthening of inclusive political institutions—is that they succeeded in empowering a fairly broad cross-section of society. Pluralism, the cornerstone of inclusive political institutions, requires political power to be widely held in society, and starting from extractive institutions that vest power in a narrow elite, this requires a process of empowerment. This, as we emphasized in chapter 7, is what sets apart the Glorious Revolution from the overthrow of one elite by another.

Related Characters: Daron Acemoglu and James A. Robinson (speaker)

Related Themes:

Page Number: 458

Explanation and Analysis

Acemoglu and Robinson don't recommend specific policy solutions for inequality because they believe that different countries need different things. The same policy could fuel prosperity in one country, trigger crisis in another, and make no difference at all in a third. Instead, each country needs its own solutions to its own problems. What these solutions *do* share is that they all depend on building inclusive political and economic institutions instead of extractive ones. And while countries have built inclusive institutions in a wide variety of ways throughout history, Acemoglu and Robinson argue that one strategy is more successful than the others—and also much less likely to backfire. This strategy is empowerment.

The authors argue that, rather than waiting for elites to see the light and build inclusive institutions overnight (or hoping that revolutionaries will actually fulfill their popular promises), citizens should look for ways to build political power for ordinary people. In particular, they should strive to create diverse coalitions. These coalitions can work toward the shared goal of building inclusive institutions—even if they don't agree on anything else. (In fact, the less they agree on, the more truly diverse they're likely to be.)

Empowerment works because it promotes both of the key elements of inclusive institutions: pluralism and centralization. In short, diverse coalitions are pluralist because they're diverse and centralized because they're coalitions. Rather than waiting for change to start from the top, by forming coalitions like the Workers' Party in Brazil, citizens can actually start building the inclusive institutions they need from the ground up.

SUMMARY AND ANALYSIS

The color-coded icons under each analysis entry make it easy to track where the themes occur most prominently throughout the work. Each icon corresponds to one of the themes explained in the Themes section of this LitChart.

PREFACE

Why Nations Fail is Daron Acemoglu and James A. Robinson's attempt to explain the profound disparities between rich and poor countries. While Acemoglu and Robinson were writing the book, the Arab Spring revolutions rocked the Middle East, fueled by widespread poverty and anger at the elite ruling class. In general, the Middle East is far poorer than developed countries. For instance, Egyptians make 12% as much as Americans and live ten years shorter—and many countries fare far worse.

Acemoglu and Robinson introduce their research through a timely example. The Arab Spring exemplifies the severe consequences of poverty and inequality around the globe. One of the key questions the authors address is in the book whether popular movements like the Arab Spring can truly fix systemic political and economic problems.

To understand why Egypt is so poor compared to nations like the United States, Acemoglu and Robinson look to Egyptians themselves. Egyptian protestors participating in the Arab Spring uniformly blame their nation's troubles on corruption and the repression of civil liberties. They demand political change because they understand that politics is the true source of their economic problems. However, most academics and commentators disagree with the protestors: they blame Egypt's poverty on geography, culture, or incompetent but well-meaning leadership.

Acemoglu and Robinson suggest that it's puzzling that Egyptian protestors and academics disagree about the causes behind Egypt's economic problems. After all, both groups are supposed to be experts on the issue. This book is dedicated to bridging this gap by finding a better explanation for inequality—an explanation that must be actionable. The geography and culture explanations are problematic because they suggest that there's nothing a nation can do to escape underdevelopment. But Acemoglu and Robinson want to show that there are *legitimate paths from poverty to prosperity.*

Acemoglu and Robinson believe that the protestors are right and the academics are wrong: Egypt is poor because a small elite dominates the country's political and economic system and runs it for its own advantage. Most poor countries are poor for similar reasons. In contrast, rich countries like Great Britain and the United States are rich because they have democratic governments that distribute power more evenly and guarantee political and economic rights to all.

The authors present their theory as unconventional within the context of academia. But by showing that protestors agree with them, they point out that this theory is also common knowledge on the ground in poor countries. Many people who live under elitist, unequal institutions—which the authors call "extractive"—clearly understand that the government doesn't serve them.

It generally takes a revolution to build a prosperous government. For instance, in 1688, the English people seized broader political and economic rights through the Glorious Revolution. In contrast, Egypt has been ruled by one repressive elite after another. Patterns of repression like this one tend to repeat themselves—except when revolutions interrupt them and create more egalitarian societies. By studying these patterns, the authors hope to show why some revolutions succeed in creating widespread prosperity and others fail. But it remains to be seen whether the Arab Spring will succeed, too.

Acemoglu and Robinson suggest that, in every society, elites and the common people are constantly struggling over power. In England, the people were successful in the Glorious Revolution and have maintained their upper hand ever since. But in Egypt, the elite has won time after time, maintaining its power for centuries. In other words, Egypt is caught in a cycle of underdevelopment because its political system is too elitist. But this seems to be the norm throughout history. Countries only achieve economic growth when the masses break this cycle of elite domination. Protestors might do this in the Arab Spring, but they also might not—the authors will go on to argue that the cycle is much stronger than it seems at first.

CHAPTER 1: SO CLOSE AND YET SO DIFFERENT

In this chapter's first section, "The Economics of the Rio Grande," Acemoglu and Robinson describe the city of **Nogales**, which is divided by the US-Mexico border. In Nogales, Arizona, most residents have at least a high school education, reasonable access to health care, and government services like roads and electricity. They don't have to worry about their safety and can vote out elected officials if those officials don't protect the public. But none of this is true across the border in Nogales, Sonora.

The two halves of Nogales embody the deep inequalities that plague the globe, and the US-Mexico border represents the stark divide between rich and poor in the world today. This inequality isn't just about income and wealth—rather, it encompasses all aspects of a society's standard of living. Of course, this passage raises the pressing questions that are at the heart of this book: why does this divide exist, and how can people overcome it?

The two halves of **Nogales** share the same geography, climate, history, and culture—the only difference is their economic and political institutions. On the US side, residents benefit from higher wages because of national investments in education and technology. They also benefit from a robust democratic system, which makes the government generally responsive to their needs. But on the Mexico side, institutions don't encourage investment or effective government. To understand why the US's institutions have generated more prosperity than Mexico's—and the rest of Latin America's—Acemoglu and Robinson turn to the colonial history of each region.

If geography, climate, history, or culture determined prosperity, then the two halves of Nogales would be equally rich. They aren't, which is good evidence against all four of these explanations. Instead, the authors return to their primary thesis: institutions *determine economic growth, and global inequality is the result of different countries' differing institutions. Acemoglu and Robinson point out that both political and economic institutions shape prosperity. For instance, the US's relatively strong democracy is an important* political *institution, and its strong technology sector is the result of its strong* economic *institutions, which encourage investment.*

The next heading is "The Founding of Buenos Aires." In 1514, the Spanish claimed the Río de la Plata estuary in South America, and in 1534, they founded the city of Buenos Aires on its banks. They tried and failed to enslave the local Charrúa and Querandí hunter-gatherers, so they sent an expedition up the Paraná River instead. There, the explorers encountered the Guaraní and enslaved them. The Spanish then brought their fellow colonists upriver from Buenos Aires and established their new city, Asunción. In other words, the Spanish colonists abandoned Buenos Aires because they wanted to plunder the Americas, not farm the land themselves.

The Spanish settlers' move from Buenos Aires to Asunción makes their motives clear: they were looking for indigenous people to enslave. They planned to become rich through exploitation, which would become the foundation of their society. It's important to remember that Acemoglu and Robinson are using this history to help explain why Mexico's institutions are less successful than the United States' today. In other words, these institutions were originally built to exploit the masses and enrich the few, so it's unsurprising that they're still more exploitative and unequal today.

In the next section, "From Cajamarca …," Acemoglu and Robinson explain how the Spanish conquered most of the Americas in the 1500s. Their ruthlessly effective strategy was to capture indigenous leaders, set themselves up as a new aristocracy, and start taxing and enslaving the indigenous population. For instance, at the Aztec capital of Tenochtitlán, Hernán Cortés captured the emperor Moctezuma, seized and melted down all of his gold, and granted encomiendas—parcels of land and groups of indigenous slaves—to Spanish settlers. The priest Bartolomé de las Casas famously spoke out against the encomienda system, writing about how Spanish settlers stole their slaves' meager resources and brutally tortured indigenous leaders.

Tenochtitlán is located in present-day Mexico City, which shows the clear connection between Mexico's colonial history and its current institutions. Much like the Egyptian elites criticized by Arab Spring protestors in the introduction, Spanish elites governed for themselves, not the people they ruled. Their institutions—like the extremely violent and exploitative encomienda system—were clearly intended to enrich this elite. In fact, they focused on extracting as much labor, land, and gold as they could from the common people. Unsurprisingly, this is the kind of political and economic system that Acemoglu and Robinson later associate with extractive institutions.

The Spanish conquest of Peru followed a similar pattern. Francisco Pizarro captured the Inca emperor Atahualpa, demanded he fill several rooms with gold, and then killed him after he succeeded. The Spanish went on to murder the Inca aristocracy in Cusco, then enslave the indigenous population and organize them into encomiendas. They also forced a seventh of the region's men to work in a large silver mine at Potosí. This labor system, which is called the *mita*, continued until 1825. Its legacy is still visible today—for instance, the province of Acomayo, which was forced into the *mita* system, is much poorer today than the neighboring province of Calca, which wasn't.

Acemoglu and Robinson are less interested in the details of Spanish plunder than the kind of society that emerges from such plundering. The encomienda *and* mita *systems didn't disappear over time: rather, they transformed into other systems that still exist in the present. The disparities between Acomayo and Calca show that the* mita *system impoverished the places that were forced to participate in it. This makes sense: a large portion of the region's workers were periodically forced into slavery-like conditions far from home. Not only did this reduce the workforce at home, but it also made it more difficult for people to plan their long-term economic future, since they could be drafted into the* mita *at any time. Furthermore, it decreased their motivation to innovate and build wealth, considering that, no matter how wealthy they became, they would still have to join the* mita *and would never have true economic rights on par with the Spanish.*

In Peru, the Spanish government also imposed other laws to extract as much wealth as possible from the local population: indigenous people had to pay a yearly tax in silver, sell everything at low prices fixed by the Spanish, and transport goods on their backs like pack animals. All over the Spanish Empire, between the encomienda system and these extractive laws, the Spanish enriched themselves but impoverished their territories—which now make up the most economically unequal region in the world.

These laws show that government creates a society's economic institutions, which then shapes that society's economy. Taxation in colonial Peru looked nothing like taxation in modern democracies. Today, most governments tax their populations in order to fund public services that benefit them. But in colonial Peru, taxation was merely a way for the government to capture a portion of all the wealth in society and redistribute it to elites. In fact, Acemoglu and Robinson will go on to argue that taxation still works like this in many parts of the world.

Acemoglu and Robinson start the next section, "… To Jamestown," by explaining that England was much less powerful than Spain in the 1500s. But after defeating the Spanish Armada in 1588, England sent an expedition to North America. (South America was more desirable, but it was already taken.) The English settlers who founded Jamestown in 1607 planned to capture a local leader and rule over indigenous people, just like the Spanish had done. But the surrounding indigenous groups were organized into the powerful Powhatan Confederacy, and the colonists ended up trading with them to survive the freezing winter.

Acemoglu and Robinson turn from Spanish colonialism in Latin America to English colonialism in North America. They want to show that the differences between the US and Mexico today actually trace all the way back to the early colonial period. Ironically, however, the relationship between Jamestown and the Spanish colonies was the opposite of that between the US and Mexico today: at the time, the Spanish colonies were much wealthier, but only because their methods were highly extractive.

The former mercenary and criminal John Smith, who led the Jamestown colony and coordinated its commerce with the natives, quickly realized that Spanish tactics wouldn't work in North America. Most importantly, there was no gold to mine. Smith and the English expedition's captain, Christopher Newport, next tried to make the native king Wahunsunacock pledge loyalty to the British Crown. They failed, and Wahunsunacock decided to stop trading with them. Smith forced the colonists to farm for themselves, because it was the only way to survive the winter.

The Jamestown colonists wanted *to build a highly exploitative, extractive society like the Spanish. But they couldn't, because of a combination of geographic, demographic, and political factors, so they struggled to survive. Whereas the Spanish enslaved indigenous people and ruled over them as an aristocracy, Smith negotiated and traded with them as equals. This illustrates how Acemoglu and Robinson explain historical change: societies act differently depending on the underlying challenges and conditions that they face. Then, these actions shape those societies' institutions, which reshape those societies in the long term.*

But the Virginia Company, the British corporation in charge of the Jamestown settlement, was dissatisfied with its profits. It reorganized the colony's government, which angered John Smith. He left, and most of the Jamestown colonists starved to death the following winter. The Virginia Company forced all new settlers to work in brutal conditions, much like the Spanish did to indigenous workers in their territories. But since North America's population density was very low, there was plenty of open land, and many settlers decided to just abandon the Virginia Company and go live on their own.

The Virginia Company ruled Jamestown as a government, so its decisions were effectively policies in the colony. While they were similar to Spanish labor policies in colonial Latin America, these policies had a completely different effect because of North America's geography and population. This shows how policies can only be understood in the specific context of the societies where they are implemented. The Virginia Company's policies, which Acemoglu and Robinson would call extractive, failed to increase production or yield profit.

England started to realize that, if it wanted to maintain control of its colony, it had to give the settlers land, political rights, and economic incentives to work. Other models simply weren't viable. For instance, the powerful noblemen Lord Baltimore and Sir Anthony Ashley-Cooper each tried to build their own private colonies with elitist, hierarchical systems of power and landownership. But this failed because their settlers just packed up and left.

In North America, extractive policies couldn't generate profit for shareholders because the settlers had better ways of making money than working for the Virginia Company. Meanwhile, the Virginia Company didn't have enough power to truly impose its policies on settlers. Extractive policies, then, can only create economic growth when a government can successfully force its population into cooperating with its oppressive practices.

Eventually, the Crown took control of Baltimore and Ashley-Cooper's colonies (Maryland and Carolina), allowing settlers in these colonies to more or less rule and represent themselves. By the early 1700s, then, male settlers in the 13 US colonies had far broader political rights than other nations around the world. This created the foundation for the US Declaration of Independence.

After extractive institutions failed to create economic growth in the colonies, England built a different kind of system. Instead of concentrating all power in the hands of the Virginia Company and trying to impose rules on settlers, it gave settlers the power to choose their own political and economic rules. Thus, it built what Acemoglu and Robinson would call inclusive institutions.

Under the heading "A Tale of Two Constitutions," Acemoglu and Robinson argue that the history they've presented so far explains why the US went on to create a relatively egalitarian constitution. Next, they explain why Mexico's constitution was not nearly as democratic.

As early as the 1600s, the British and Spanish governed their American colonies in opposite ways. The Spanish colonies were hierarchical and extractive, while the British colonies were more egalitarian and inclusive—not because they wanted to be, but rather because this was necessary for staying afloat. Acemoglu and Robinson will now use their analysis of extractive and inclusive practices to explain the different paths that the US and Mexico ended up taking.

Mexico's fight for independence began after Napoleon invaded Spain and dethroned its king in 1808. Next, Spanish military leaders passed a new constitution based on principles of equality and popular sovereignty. This frightened elites in Mexico, who were still profiting off of forced labor in the encomienda system. Although the Spanish monarchy was eventually restored, the military ended up forcing the king to accept an even *more* egalitarian constitution, and Mexican elites revolted. The military leader Augustín de Iturbide led the Mexican army to independence in 1821, then began to rule with an iron fist as its emperor.

Unlike many revolutions, the Mexican War of Independence was actually a conservative coup against egalitarianism. In other words, the Mexican elite seized power in order to hold onto its wealth and status. Whereas the elite had to give up some of its power very early on in the US, in Mexico, it never did. This shows how, according to the authors, elites will almost always try to hold onto their disproportionate power and wealth. Whether a country develops inclusive institutions over time depends on whether other factors stop the elite from hording power and wealth.

The authors next compare the effects of the US and Mexican constitutions. The US Constitution didn't establish a modern democracy—it disenfranchised women and Black people, and it protected slavery. But the US managed to legislate away all the conflicts between the North and South through agreements like the Three-Fifths Compromise. This is why the US's political institutions stayed intact until the Civil War. And even though the Civil War was bloody and tragic, it only lasted for five years.

The American Revolution was far more inclusive than the Mexican War of Independence because, instead of keeping a small elite in power, it gave political representation to a wider group. Of course, while Acemoglu and Robinson consider the American Revolution inclusive, they don't mean that it brought everyone*—or even anything close to a majority—into democracy. Rather, they consider the American Revolution inclusive because it extended power beyond a narrow elite and, crucially, brought multiple groups with competing interests into the government.*

In contrast, Mexico saw constant conflict and political instability for the first 50 years of its independence. For instance, the presidency changed hands so often that Antonio López de Santa Ana was president 11 different times from 1835 to 1855, and Mexico had 52 presidents from 1824 to 1865. Because of this instability, property rights were weak, and the government didn't actually control the whole national territory. This made it easier for the US to invade and annex Texas. Most of all, independent Mexico's economic system was designed to preserve exploitative, unequal monopolies from the colonial era—and not give real economic opportunities to the majority of the population.

Whereas institutions generally enabled compromise and fragile peace in the early US, in post-independence Mexico, there was no institutional framework for compromise or peace. Instead, elites constantly fought over power, which led to political instability, which led to economic instability. This shows how extractive institutions weaken the state and foster conflict.

Under the heading "Having an Idea, Starting a Firm, and Getting a Loan," Acemoglu and Robinson explain how, after the Industrial Revolution kicked off in England, Americans followed suit and started inventing new technologies. Because of the US's relatively free patent laws, people without an elite upbringing could easily get patents. But to really profit from their patents, inventors needed to start companies—and get loans. Fortunately, in the US in the 19th century, the banking sector was vibrant and competitive, so inventors could get loans at low interest rates.

The US's patent laws and banking sector illustrate the idea that inclusive economic institutions spur economic growth. Both patents and loans were available to a much wider slice of the population in the US than in other countries. As a result, entrepreneurs could bring more products and technologies to the market. Thus, the best products and most productive technologies could naturally win out and become widely adopted, which allowed the economy to grow rapidly.

But inventors didn't have the same access to capital in Mexico. Two banks dominated the market, and they only loaned to wealthy people and charged exorbitant interest rates. The problem was political: after the authoritarian president Porfirio Díaz took power in 1876, he freely ignored property rights and gave his friends monopolies over key industries—including banking. When politicians in the US tried to do the same thing in the 1700s, they promptly got voted out of office. The US's "broad distribution of political rights" was thus the real reason American inventors could get the money they needed to pursue their ideas.

Mexico's institutions show how monopolies, insecure property rights, and elite control over the government prevent economic growth. Without inclusive economic institutions, the market always rewards elites—no matter what. Thus, it's clear why elites fight against inclusive institutions, since protecting exploitative practices is a way of protecting their own wealth and power. The contrast between the US and Mexico shows that a "broad distribution of political rights" truly underpins these institutions and is the fundamental driver of economic growth. In simpler terms, politics determines economics, which in turn leads to poverty or prosperity.

In the section "Path-Dependent Change," Acemoglu and Robinson contrast how US and Latin American institutions responded to industrialization and globalization in the late 1800s. In each region, institutions kept doing what they were already doing, and this caused their fortunes to diverge even further: it created more growth in the US and more conflict and inequality in Latin America.

US institutions were already more inclusive and Latin American ones more extractive before the Industrial Revolution. But Acemoglu and Robinson argue that industrialization significantly widened these existing differences: inclusive institutions became more inclusive and extractive ones more extractive. Essentially, each kind of institution responded to historical change in a way that magnified its existing characteristics. This explains why inequality tends to grow over time.

For instance, US laws gave virtually all white settlers the right to seize and settle indigenous land on the frontier, while in Latin America, leaders like Porfirio Díaz gifted frontier land to their powerful friends. While political reforms benefited many people in the US, then, in Mexico they primarily benefitted a tiny elite. This led to further political unrest, like the Mexican Revolution that overthrew Díaz in 1910. The pattern was similar all over Latin America: military and authoritarian governments seized resources for themselves, which caused further backlash, instability, and conflict. To stay in power, these governments also silenced their opponents and committed human rights atrocities—including mass murder in countries like Chile, Guatemala, and Argentina.

The US's inclusiveness helped it maintain political stability and become even more inclusive over time. Because a wider segment of the population already had some political power, it was able to demand that new wealth and power also be distributed more widely. In contrast, in Mexico, extractive institutions gave leaders the incentive to govern even more unequally. Leaders like Díaz had to appease powerful elites in order to stay in office. And power was so financially rewarding that elites happily fought wars in order to seize it. This illustrates how inclusive and extractive institutions both respond to crises in ways that reinforce their inclusive or extractive character. In turn, both kinds of institutions tend to reinforce themselves in positive feedback cycles over time, unless something interrupts the cycle.

Under the heading "Making a Billion or Two," Acemoglu and Robinson contrast the two richest men in the world: the American Bill Gates and the Mexican Carlos Slim. Gates founded Microsoft, an innovative technology company. Despite Microsoft's influential position in American society, though, the US government still successfully sued the company when it abused its monopoly power. In contrast, Slim became rich by buying the national telecom monopoly when the government privatized it. In general, Mexican entrepreneurs have to deal with far more barriers to entry than American ones—including licensing, negotiations with politicians, and financing. All these barriers stifle competition and protect existing monopolies, like Slim's, which he has consistently protected in the courts through legal loopholes and political connections.

The contrast between Gates and Slim shows how institutions create different incentives in the US and Mexico. Because of its inclusive institutions, the US keeps barriers to entry low. Therefore, it rewards innovation, and the wealthiest Americans, like Gates, tend to be people who have founded large companies that transformed the economy. In contrast, Mexico keeps barriers to entry high because of its extractive institutions. This allows the government to reward whomever it chooses. Therefore, the wealthiest Mexicans, like Slim, tend to build fortunes through their close ties to the government.

In the section "Toward a Theory of World Inequality," Acemoglu and Robinson return to their book's thesis. The world is deeply unequal, like the two halves of **Nogales**. People in rich countries have far better educational, health, and economic opportunities than people in poor countries. They can count on their governments to invest in basic infrastructure, respect their rights, and respond to elections. But people in poor countries generally can't. This inequality has deep political and economic consequences for people all over the globe. This book is an attempt to understand this inequality so that it can be addressed.

Acemoglu and Robinson's long detour through colonial, revolutionary, and modern history has shown why the US has inclusive institutions and Mexico has extractive ones. It has also shown why the US became more inclusive over time, while Mexico has repeatedly reinforced and strengthened the same extractive institutions. These differences explain why the US economy is so much larger and so dynamic, as well as why the US government chooses to spend much of its resources on investments that benefit the majority of the population. All of this suggests that building inclusive political and economic institutions, like the US's, is the key to creating a prosperous economy. One of Acemoglu and Robinson's main goals is to explain what it takes to build these institutions.

The inequality between the two halves of **Nogales** is "just the tip of the iceberg." For one, Nogales is among the wealthiest places in Mexico. Moreover, its wealth comes almost entirely from Mexican factories run by US businesses. And the disparity between the US and Mexico is far smaller than the disparities between the richest countries and the poorest, where people make as little as one-fortieth of the income that people make in the US.

The inequality between the two halves of Nogales is extreme. But Acemoglu and Robinson zoom out to look at global inequality*—which is about ten times as severe as the inequalities between the two halves of Nogales. The problem this book addresses, then, is clearly quite serious.*

The difference between rich countries and poor countries—or places like **Nogales, Arizona and Nogales, Sonora**—comes down to institutions and the incentives they create. Different kinds of political and economic institutions incentivize individuals, politicians, and businesses to act in different ways. And while individual talent is important, innovators like Bill Gates can't succeed unless strong institutions support them—like universities, banks, labor markets, and a legal system that respects property rights. Economic institutions thus lead to prosperity, but political institutions are what *create* those economic institutions in the first place.

Acemoglu and Robinson succinctly present their book's central thesis: institutions make countries rich or poor, so institutional differences are responsible for global inequality. Specifically, institutions are important because they create the incentives *for different people in society. In turn, these incentives determine people's economic behavior. Therefore, institutions like the US's—which give economic opportunities to a wide range of people—incentivize innovation and growth by rewarding it. In contrast, institutions like Mexico's don't reward innovation, and this limits overall growth.*

Acemoglu and Robinson also argue that history profoundly shapes both political and economic institutions. They point out that, over time, societies tend to get stuck in certain patterns of political and economic organization. These patterns make overcoming global inequality very difficult. Powerful elites often resist changes that would threaten their status—and since they have power, they can sometimes block those changes, like Carlos Slim does in Mexico. Therefore, while it focuses on poverty and prosperity, this book is really as much about politics as it is about economics.

The first part of Acemoglu and Robinson's argument in this book is their theory of how institutions cause or prevent economic growth. The second part is their explanation for how institutions become inclusive or extractive in the first place. Their discussion of US and Mexican history in this chapter has already shown that countries tend to get stuck in cycles of wealth or poverty. Specifically, most countries are stuck in cycles of poverty*, and some countries manage to break this cycle by forming inclusive political institutions, which then transform the economy and society as a whole. Therefore, the key to economic growth is breaking the cycles of poverty created by extractive institutions. And this requires people to take power from the elite. In this way, Acemoglu and Robinson combine a traditionally Marxist interest in class struggle and conflict with the traditionally liberal capitalist belief that entrepreneurs, markets, and innovation are the key to prosperity.*

CHAPTER 2: THEORIES THAT DON'T WORK

In the section "The Lay of the Land," Acemoglu and Robinson describe the global income distribution. The world's richest countries are those that industrialized in the 1700s (like Britain, the US, and most of Western Europe) and Asian countries that grew quickly in the 20th century (Japan, Singapore, and South Korea). Meanwhile, most of the world's poorest countries are in sub-Saharan Africa.

Before they explain and propose solutions to global inequality, Acemoglu and Robinson ensure that readers clearly grasp the extent of that inequality. However, while the inequality within *individual nations is just as severe as the inequality* between *different nations, the authors only focus on the second. This inequality is historical and regional: the same countries have been rich and poor for centuries, and these countries are concentrated in certain regions.*

This pattern has barely changed over the last 150 years. Certain regional patterns have also remained the same, like the divide between wealthier and poorer nations in Latin America, or the fact that, other than oil wealth, Middle Eastern countries are mostly poor. These patterns are stubborn, but they're not unchangeable. They were totally different before the 18th century, for instance. And some countries—especially in Asia—continue to grow rapidly, while others (like Argentina and Russia) have experienced stark economic declines.

Acemoglu and Robinson suggest that inequality is extremely consistent compared to many political and economic trends, but only since the 1800s. This suggests that something in the 1800s helped freeze the global hierarchy of rich and poor countries, and it also suggests that there are certain stable features within countries that keep them rich or poor over time. This all supports Acemoglu and Robinson's thesis that political and economic institutions cause inequality, since these institutions are obvious candidates for what, exactly, has shaped each country and its wealth (or poverty). But there are also several other possible arguments for why certain nations have remained so rich while others are so poor—arguments the authors will examine in this chapter.

Acemoglu and Robinson ask what's responsible for this persistent divide, both globally and within regions like Latin America. They also ask why countries in Africa and the Middle East aren't growing nearly as fast as those in East Asia. But they reveal that social scientists don't have a good explanation: most of their hypotheses don't fully explain the evidence.

Acemoglu and Robinson show why their theory of institutions and economic growth is groundbreaking. It's the first hypothesis that can truly explain all the variation in growth, wealth, and development across the world. In short, the more extractive a country's institutions, the poorer it tends to be. According to Acemoglu and Robinson's thinking, this is why Africa, the Middle East, South Asia, and Latin America are poorer than most of Europe and North America.

In the next section, Acemoglu and Robinson explore "The Geography Hypothesis," which is popular because poor countries are concentrated in the tropics. Even in the 18th century, the French philosopher Montesquieu argued that hot weather makes people lazy and unintelligent. And today, the American economist Jeffrey Sachs blames poverty on tropical diseases and poorer soil quality.

The idea that geography determines the wealth or success of a given society has a long history. It is, after all, an intuitive explanation for inequality because rich and poor countries are geographically clustered together. Therefore, this hypothesis has almost always been present in Western culture, which is full of prejudices based on it—like the negative stereotype that people in the tropics are too lazy to work.

But the geography hypothesis is wrong. There's stark inequality between places that share the same geography, like the two halves of **Nogales**, or North and South Korea. Plus, for most of human history, the richest and most developed civilizations were in tropical areas like Mexico, Peru, India, and China. These regions were far more developed than comparable temperate areas, like present-day Canada, Argentina, or Australia. The situation only reversed because of European colonialism. Moreover, diseases and tropical soils don't cause poverty. Poverty actually helps disease spread (not the other way around), and land ownership structures explain global differences in agriculture far better than soil quality does.

The geography hypothesis is simply too broad and tries to explain too much. If geography were the sole or primary factor responsible for inequality, then North and South Korea would be equally rich, and Mexico and Peru would not have gone from rich to poor over time. While inequality is a stubborn global pattern, it has shifted in important ways over history. But geography hasn't changed significantly—at least between the formation of the first human societies and the modern era of climate change. Therefore, inequality must depend on a factor besides *geography—a factor that changed sometime during the period of European colonialism. Notably, Acemoglu and Robinson aren't saying that geography* never *affects different nations' fate, but rather that it isn't the main cause of inequality.*

The scholar Jared Diamond defends a different version of the geography hypothesis: he argues that people were more likely to take up agriculture and build complex societies in regions with more domesticable animals and plants. Similarly, Diamond argues that Spain's long history of farming helped the Spanish conquer the Americas. But his theories don't explain modern inequality, like the gap between Latin America and Spain today—which is much greater than it was in the 1500s. The real explanation for this gap is *technology*. Diamond does address technology, but only how it spread across continents in the ancient world. He can't explain why areas within the same region are unequal today. All in all, geography clearly doesn't explain inequality, either within or between regions.

Diamond's hypothesis might explain some early inequalities in the past, but it can't explain modern inequality. This is because agriculture and technology have long since spread around the globe, which has eliminated the geographical differences that Diamond blames for inequality. Acemoglu and Robinson particularly criticize Diamond's determinism—he presents all of history as the inevitable consequence of one specific factor at one specific moment in the past. While Acemoglu and Robinson also emphasize a specific factor (institutions), they emphasize that people can always change these institutions, which means the past doesn't completely determine the present.

In the next section, Acemoglu and Robinson address "The Culture Hypothesis," which attributes inequality to religious and cultural beliefs. For instance, plenty of people still wrongly believe that Europe is wealthy because of the "Protestant work ethic" and Africa is poor because Africans are lazy. But culture has nothing to do with global inequality. Social norms can affect institutions, but usually institutions *create* those norms. For example, differences in government explain all the cultural differences between the two halves of **Nogales** or Korea.

The culture hypothesis is just as intuitive to many people as the geography hypothesis, since it's also a common idea in popular discourse about inequality. In fact, Acemoglu and Robinson agree with the controversial idea that certain kinds of culture might be correlated with poverty or prosperity. But they say that the culture hypothesis has the causality backwards: culture doesn't create institutions as much as institutions create culture. Thus, the culture hypothesis is just a misreading of the truth: institutions determine prosperity.

Culture doesn't explain poverty in sub-Saharan Africa. Some early African civilizations refused to adopt advanced technologies, but only because institutions gave them no incentive to. For instance, farmers in the Kingdom of Kongo refused to adopt the wheel and plow because they had no real property rights. The king could take away their surplus harvest, and they could be captured into slavery at any time. Under these disempowering conditions, they had no incentive to adopt new technology. The king didn't make them adopt it either, since he was focused on the highly profitable slave trade—not agriculture.

Instead of examining the true historical dynamics that led different nations to diverge over time, the culture hypothesis simply assumes that the nations that prospered are inherently superior to those that didn't. For instance, instead of understanding why social and economic structures dissuaded people in the Kingdom of Kongo from adopting new farming technologies, proponents of the culture hypothesis would say that these people simply refused to farm because of some shortcoming in their culture. Thus, Acemoglu and Robinson consider the culture hypothesis a superficial and prejudicial explanation for inequality. Most importantly, like the geography hypothesis, it doesn't explain why some countries go from poor to rich (or vice versa).

Religion doesn't explain poverty or prosperity, either. Many social scientists argue that Protestant culture explains prosperity in Europe, but they're wrong. Catholic countries industrialized a bit later than Protestant countries, but they're just as rich today. Similarly, many social scientists blame the Middle East's poverty on Islam, but they're also wrong. Most Middle Eastern countries are poor because they lived under the Ottomans, then the English and French, and then authoritarian governments, all of which stunted them economically.

Acemoglu and Robinson admit that religion might affect people's economic decisions at certain moments in time. But they argue that it's woefully inadequate as an explanation for long-term international inequality in general. Needless to say, there are numerous examples of countries with the same religious profile but wildly different socioeconomic situations. (For instance, Mexico, Peru, Spain, and Ireland are all majority Catholic.)

Finally, different nations' cultures also don't explain poverty and prosperity. Some people attribute the US, Canada, and Australia's wealth to "English culture"—but English culture influenced countries across the income spectrum, ranging from the US to Sierra Leone. Others attribute Europe and North America's prosperity to "the superior European cultural legacy," but this is also wrong. For instance, the US and Canada have less ethnically European populations than Argentina and Uruguay but are far wealthier. Some people claim that China's culture explains its poverty (in the past) and rapid growth (in the present). But these shifts are the result of economic policy. They have nothing to do with culture. Ultimately, while there are certainly cultural differences between rich and poor nations, culture simply can't *explain* this difference.

When it comes to why certain nations *are rich and poor,* national *culture might be the most intuitive version of the culture hypothesis. But national culture is an extremely vague concept—especially in diverse nations—and can't predict poverty or prosperity in a consistent way. After all, if Chinese culture can explain* both *China's poverty in the past and its rapid growth in the present, then there's no way to identify whether a certain culture will promote or stifle growth. The version of the national culture hypothesis that focuses on "the superior European cultural legacy" is really a white supremacist idea, since it implies that white European lifestyles are somehow inherently "superior" to other cultures—an idea that is empirically false.*

Next, Acemoglu and Robinson look at the last common explanation for inequality: "The Ignorance Hypothesis." Many economists believe that poor countries' rulers just don't know how to govern well—or create the conditions that free markets need to function effectively. But this doesn't explain very much of global inequality. For instance, economists often blame Ghana's post-independence troubles on President Kwame Nkrumah's ignorant economic policies—like building a mango canning factory in a region where mangos don't grow. But Nkrumah didn't make such decisions out of *ignorance*: he did so in order to win political support from key constituencies and stay in power.

The ignorance hypothesis does *tie economic success to policies and political institutions. However, it's based on a misunderstanding about the challenges and incentives that political leaders face when they make decisions. Acemoglu and Robinson agree that Nkrumah's economic policy was ineffective, but they see it as self-interested, not ignorant. Because of the structure of Ghana's institutions, Nkrumah either had to pass these poor economic institutions or risk losing power. A less ignorant, more enlightened leader would not have been able to escape this situation. Thus, the fundamental problem was Ghana's institutions—not that Nkrumah was ignorant.*

Political leaders don't create highly unequal economic institutions that protect elite power out of *ignorance*. They do it because it benefits them and their allies. For example, Kwame Nkrumah's successor Kofi Busia imposed strict price controls on agriculture, which hurt farmers but benefitted urban elites. When the international community convinced him to reverse this policy, the military overthrew him and reinstated it. This coup shows that inegalitarian political incentives are what cause bad economic policy—not ignorance. When countries like China have broken out of poverty, it hasn't been because they suddenly elected "enlightened and informed" leaders, but because a different faction with different incentives took power.

Acemoglu and Robinson return to a fundamental principle of political science: when making decisions, leaders always consider both their self-interest and the interests of the people. Effective institutions bring these into alignment—for instance, in a functional democracy, leaders often want to do whatever's best for the people in order to win reelection. But ineffective institutions allow, incentivize, or even require leaders to put their self-interest first. The coup against Kofi Busia demonstrates that Ghana's political institutions punished leaders for putting the national interest above the elite's interest. In other words, these institutions pushed leaders towards an extractive, highly unequal economic model. An "enlightened and informed" president couldn't have fixed this—only policy change would.

Acemoglu and Robinson conclude that economists are right to blame poverty on bad policies. But leaders create bad policies because of politics, not because of ignorance or culture. Thus, to understand inequality, social scientists first have to understand politics.

By attributing bad policies to ignorance or culture, economists suggest that poor countries are poor because their leaders aren't rational enough. According to this line of thinking, if economists ran the world, everyone would be rich. But, the authors suggest, these economists forget that leaders face real-world political constraints. The problem isn't located inside leaders' heads. Instead, it's located out in the world; political constraints and incentives prevent leaders from making what economists would consider rational decisions.

CHAPTER 3: THE MAKING OF PROSPERITY AND POVERTY

In the section "The Economics of the 38th Parallel," Acemoglu and Robinson explain how the division of Korea in 1945 led to the Korean War in 1950. During the war, a pharmacist named Hwang Pyŏng-Wŏn stayed in the South, while his brother, a doctor, moved North. Fifty years later, when they met again, Hwang Pyŏng-Wŏn was much wealthier than his brother. He offered his brother some money and a coat, but his brother refused both—the North Korean government would confiscate them.

Hwang Pyŏng-Wŏn and his brother personify two important points about inequality. First, they represent the way that different institutions create wildly different incentives and living conditions for people. Even though they started out with the same family, culture, and education, the brothers ended up living radically different lives because they lived under different institutions. Hwang Pyŏng-Wŏn became rich because South Korea's institutions allowed him to, and his brother became poor because North Korea's government systematically punished and seized wealth. Second, they show why inequality is tragic and overcoming it is crucial. Politics cruelly separated the two brothers for half a century, and North Korea's oppressive regime prevented one of them from thriving or fulfilling his potential.

Today, South Korea's living standards are similar to Spain's, while North Korea's are close to sub-Saharan Africa's. But until World War Two, they were the same. After 1945, with support from the US, South Korea's authoritarian leaders built market economies and protected private property rights. In the Soviet-backed North, Kim Il-Sung instituted a strict centrally-planned economy, banned markets and private property, and heavily restricted civil liberties. This created an economic disaster: productivity and investment plummeted. But Kim never changed the system. In contrast, the South invested heavily in education, which helped it industrialize rapidly. Fifty years after the Korean War, the South is ten times as prosperous as the North. Culture, geography, and ignorance don't explain this gap: institutions do.

Much like the two halves of Nogales, North and South Korea are a kind of natural experiment that shows institutions' effect on economic development. This is because they essentially share the same culture, geography, and history (until 1945). Their postwar governments are the only meaningful difference that could cause them to diverge economically. While both of these governments started out authoritarian, they created opposite kinds of economic institutions for their people: the South Korean government encouraged private industry, while the North Korean government seized control over the entire economy and erased all economic freedoms. The disparity between them today shows how these different economic models played out over time.

Acemoglu and Robinson start the section "Extractive and Inclusive Economic Institutions" by comparing the way teenagers grow up in North and South Korea. In the North, their education is mostly propaganda and doesn't prepare them to work or start businesses. They are forced to join the army and have virtually no economic or civil rights. In the South, education is far better, and young people know that their standard of living will rise if they start successful businesses or work hard. Unlike in the North, they can borrow money and sell their goods or services on the market.

Acemoglu and Robinson finally introduce the concept of inclusive and extractive economic institutions, which is essential to their argument in the rest of the book. North Korea is a radical example of extractive institutions, while South Korea has relatively conventional inclusive institutions. As the authors point out here, each kind of institution creates radically different incentives for young people. Extractive institutions threaten young people into obedience, while inclusive institutions teach them to think critically and incentivize them to pursue their goals in the market.

South Korea's system, like the US's, is based on "inclusive economic institutions" that protect all citizens' right to freely and fairly participate in whatever economic activities they wish. Such institutions generally lead to economic growth and prosperity. In particular, inclusive economic institutions guarantee private property rights, without which people have no incentive to invest or innovate. But they also need to extend these rights and economic opportunities to the whole population. (For instance, colonial slave societies weren't truly inclusive, even though they had strong property rights.) The state is the only entity capable of guaranteeing economic rights and building the legal system, infrastructure, and public services necessary to support those rights.

Acemoglu and Robinson specify two key criteria that make economic institutions inclusive: they have to protect private property rights, and they have to treat all citizens equally. These criteria ensure that most people can pursue their ideas in the market, and in turn, that the best ideas will be rewarded and spread throughout society. In such a society, government policy ensures that entrepreneurship and innovation are the main forces driving the economy—rather than state planning or corporate monopolies. Of course, not all institutions are completely inclusive or extractive. For instance, for many centuries, the US and Great Britain were more inclusive than other countries around the world, even though they weren't fully inclusive because they only gave political rights to white men.

In contrast, societies like North Korea and colonial Latin America have extractive economic institutions. Instead of protecting the majority's economic rights, they focus on extracting wealth from that majority and shifting it to the elite.

Economic institutions are extractive if they don't meet one of the two criteria for inclusive institutions (strong property rights and equality). Under extractive economic institutions, government elites primarily use economic policy to capture and keep a portion of all economic activity in the country. In other words, the government collects taxes primarily in order to enrich elites and their allies.

In "Engines of Prosperity," Acemoglu and Robinson expand on the benefits of inclusive economic institutions. In inclusive markets, people can choose their own occupations and pursue their own ideas on a level economic playing field. Inclusive markets incentivize innovation, which creates the new technologies that have made life far easier and dramatically increased productivity over the last few centuries. They also promote education (which makes the workforce more productive and creative) by giving parents the means and incentive to send their children to school. In short, to drive economic growth, institutions have to build inclusive markets, invest in education, and reward innovation.

Acemoglu and Robinson argue that people make economic decisions in response to the incentives that the market gives them. But the authors also think there's essentially no market without the government. Therefore, they think government policies—or the economic institutions that a government sets up—determine whether a nation can grow sustainably or not. More specifically, they think individual economic freedom rewards—and thus incentivizes—innovation. In turn, entrepreneurship and innovation drive sustainable economic growth because they constantly increase productivity. According to Acemoglu and Robinson, this is why inclusive economic institutions create growth.

In the section "Extractive and Inclusive Political Institutions," Acemoglu and Robinson argue that politics—society's way of governing itself—determines whether a nation creates inclusive or extractive economic institutions. Absolutist political institutions, which concentrate unlimited power in the hands of a single ruler or a small elite, generally lead to extractive economic institutions. This is because absolutist systems give elites the power to set policies that benefit nobody but themselves.

The book now focuses not on economic *institutions, but on* political *ones. Both can be either extractive or inclusive. But the relationship between economic and political institutions is important. There are three factors that play into this relationship. First, economic institutions determine whether a society prospers. Second, political institutions determine whether a society builds the kind of economic institutions it* needs *to prosper. Third, numerous historical factors shape what kind of political institutions a society builds. (Many of the following chapters will focus on these factors.)*

In contrast, societies with pluralistic political institutions—which distribute power more broadly and put constraints on its exercise—tend to have inclusive economic institutions. However, the state also needs to be centralized and powerful enough to create these institutions. For example, in Somalia, power is distributed so widely that the state can't enforce the law or establish functional economic institutions. Thus, the authors define "inclusive political institutions" as ones that are both centralized *and* pluralistic, whereas "extractive political institutions" don't meet these conditions.

The authors believe that elites generally want to rule just for themselves, so will disenfranchise most people and set up extractive economic institutions whenever they're able. The more power elites have, the more likely they are to succeed. This is why absolutism generally leads to extractive political institutions and pluralism leads to inclusive ones. Crucially, while centralization is like absolutism in that both involve the concentration of power, the two concepts are very different. Centralization refers to whether the state has enough power and reach to implement its policies. Somalia isn't centralized because the central government can't actually enforce the law. However, absolutism refers to how power is distributed within *the state. If a few people have a lot of power, a state is absolutist, and if a lot of people each have a little power, a state is pluralistic. Therefore, a pluralistic* and *centralized state is one in which many different groups all share power, but together, they have enough power to enforce the laws—laws that* they *agree upon.*

Extractive political and extractive economic institutions feed off each other. For instance, political institutions that are extractive thrive on economic institutions that are *also* extractive. Similarly, those economic conditions generally can't survive without extractive political institutions upholding them. Because of this feedback loop, extractive political and economic institutions tend to support each other over time. Moreover, when newcomers disrupt the existing elite, they have incentives to recreate an extractive system (like Porfirio Díaz in Mexico).

The idea here is that political and economic institutions tend to track together: in most societies, both are either extractive or inclusive. Extractive economic institutions support extractive political institutions because they funnel wealth to elites, which gives the elites more power and lets them further dominate the political system. For example, in the first chapter, the authors explained how Mexico's extractive economic institutions allowed Carlos Slim to buy the government telecommunications monopoly and become a billionaire. Slim then used his billions to buy political favors and defeat legal challenges that could limit his wealth and power. Thus, extractive economic institutions gave Slim lots of money, which he used to make the political system highly extractive. The same is true in reverse: extractive political *institutions uphold extractive* economic *institutions. If the people in power aren't benefiting from the economic system, they will change it. However, if the majority of the population controls an* inclusive *political system, it will make economic institutions more inclusive, too. Simply put, both political and economic institutions impact each other, creating either inclusive or extractive cycles.*

A similar feedback loop applies to inclusive institutions. Inclusive political institutions put limits on elites' power, and this prevents them from restructuring the economy for their own benefit. Furthermore, fair economic conditions enable citizens to leverage their financial power to secure political rights. This is what the English settlers did in 17th-century Virginia, as they used their economic position to gain a political advantage. In general, inclusive and extractive institutions don't combine well: one tends to destabilize the other.

In inclusive economic institutions, many different groups have some political power, and all will use that power to protect their economic interests. Since no group can overwhelm all the others, everyone generally agrees to recognize and protect everyone else's property. This is why inclusive political institutions create inclusive economic institutions. They also protect them. Acemoglu and Robinson argue that leaders in inclusive systems still generally want *to rule for themselves, but inclusive political institutions simply make it impossible for them to do so because they're forced to share power. However, while Acemoglu and Robinson argue that political and economic institutions support each other, this doesn't mean establishing inclusiveness is quite so simple. In virtually all cases, a society has to establish strong inclusive political institutions before it can create inclusive economic ones.*

In the next section, entitled "Why Not Always Choose Prosperity?," Acemoglu and Robinson ask why some societies create inclusive institutions, while most create extractive ones. Wouldn't everyone want inclusive institutions? Not necessarily, they argue. For instance, after the Congo's independence in 1960, President Joseph Mobutu created extractive economic institutions to enrich himself because he knew he would surely lose power if he built inclusive ones.

Acemoglu and Robinson have shown that inclusive institutions are better for practically everyone in society, so it's clear that practically everyone would prefer them. The problem is that the only people who don't prefer inclusive institutions are elites. The authors argue that these elites generally cling to power and prioritize their own self-interest over the interests of the rest of society. Therefore, leaders like Mobutu keep extractive institutions running for as long as they possibly can, even if this traps millions of people in poverty. The fight for inclusive institutions is essentially a class struggle by the many against the few.

All economic growth creates winners and losers—and established elites often oppose it because they stand to lose from creative destruction (the process by which new firms and technologies replace old ones). For example, both landholding aristocrats and traditional artisans protested the Industrial Revolution. In Austria-Hungary and Russia, the aristocracy actually managed to stop it, but not in Britain, where industrialization took off and spurred massive economic growth. Thus, powerful elites tend to oppose economic progress and inclusive economic institutions—and sometimes they succeed in blocking them.

Creative destruction allows innovators of any background or social class to become wealthy and powerful. Therefore, it constantly threatens the elite personally, professionally, and financially. For instance, during the Industrial Revolution, factory owners could become rich, make existing businesses obsolete, and take status and power away from the old aristocracy. It's simply safer for the elite to stop economic change and keep things as they are, if they have the power to do so. This is why extractive institutions stifle innovation and tend to persist over time.

Elites also block inclusive political institutions. They generally oppose pluralism, which promises to decrease their power. Thus, they only create pluralistic institutions when the masses force them to. Elites also usually oppose centralization because it tends to cause conflict, which threatens their status—so nations can only centralize when one group is much more powerful than all the others.

Elites resist pluralism and centralization because both decrease their power. Acemoglu and Robinson believe that inclusive political institutions are usually a prerequisite for inclusive economic institutions. It follows, then, that in virtually all economically prosperous countries, the masses have forced the elite to give up some or all of its political power at some point in the past. This has allowed inclusive political institutions to form (and has led to inclusive economic ones further down the line).

In the section "The Long Agony of the Congo," Acemoglu and Robinson explain how extractive institutions have kept the Congo poor for centuries. In the Kingdom of Kongo in the 15th and 16th centuries, the elite grew rich through slavery and arbitrary taxes. Farmers wouldn't invest or innovate because, if they generated any surplus, they couldn't sell it—the king would just take it away. There were no property rights or free markets for trade, and people had no choice over their jobs. But this situation made the king and aristocracy extremely wealthy. It was possible because of the Kongo's absolutist political system, which the king defended with his personal army. He would have lost most of his wealth and power if he passed economic reforms to enrich the population.

The Congo's history shows why extractive institutions tend to persist over time and how they prevent economic growth. Because the king of Kongo grew rich by collecting taxes and stealing harvests from his people, he had a strong incentive to maintain extractive institutions. Meanwhile, these extractive institutions gave ordinary farmers no incentive to innovate—if they did, they were more likely to end up in trouble than get rewarded. Therefore, there was no innovation, dynamism, or change in the economy. In fact, this was what the king wanted, because change could have threatened his power.

When Belgian King Leopold II took over the Congo in the 1800s, he created an even more absolutist system with more extractive economic institutions. And after the Congo became independent in 1960, Mobutu repeated this pattern. While Mobutu extracted as much wealth as he could from the country, his state barely had centralized power over it, which led to further conflict. Today, the Democratic Republic of the Congo is still poor because of its failed economic institutions (and not its geography, culture, or leaders' ignorance). And its economic institutions continue to fail because its political elite prefers to keep extracting wealth from the people, rather than building inclusive institutions and a centralized state.

Belgian colonial rule and Mobutu's independent government were just as extractive as—if not worse than—the Kingdom of Kongo. But Acemoglu and Robinson suggest that this should be no surprise: when new rulers take over an extractive state (or build a new one in its place), there's nothing to constrain their power, so they can easily build another extractive state. Thus, the Congo has suffered from a cycle of poverty for at least seven centuries. It hasn't achieved meaningful economic growth because it hasn't managed to break this cycle.

Finally, in the chapter's last section, Acemoglu and Robinson note that "Growth Under Extractive Political Institutions" *is* sometimes possible. First, elites sometimes funnel their resources into highly productive activities—like plantation agriculture in colonial Caribbean slave societies, or industry in the Soviet Union from 1928 to the 1970s. Second, elites in extractive political institutions sometimes decide to create partially inclusive economic institutions—like South Korea's leaders did from the 1960s until democracy was established in 1992. China is growing fast under extractive institutions today, but the Communist Party seems hesitant to let inclusive institutions form.

Extractive institutions don't incentivize ordinary people to grow the economy, but they do incentivize elites to do it. This is because, the more the people produce, the more elites can take. Therefore, elites will sometimes reorganize the economy in ways that cause significant growth—and then capture all the fruits of that growth. This is what happened on Caribbean slave plantations and in the Soviet Union. Meanwhile, South Korea's path to growth is unusual: its authoritarian leaders chose to make economic institutions more inclusive, rather than reaping personal benefits from extractive institutions. This is unique among the authors' numerous case studies—usually, governments only make institutions more inclusive when they face significant pressure to do so and are left with no other options.

In all these cases, extractive political institutions have needed strong centralization in order to achieve economic growth. In general, they can't create long-term growth or creative destruction because they don't incentivize innovation. Moreover, extractive political institutions are generally unstable, because elite groups tend to fight over power, so the growth and centralization they achieve doesn't tend to last. Finally, whenever it benefits them, elites can simply make economic institutions more extractive. For all these reasons, sustainable economic prosperity requires inclusive political institutions.

The distinction between short-term and long-term growth is absolutely crucial to understanding Acemoglu and Robinson's argument. Whereas inclusive institutions create growth by driving innovation, extractive ones simply eliminate market inefficiencies faster than the market would on its own. Eliminating these inefficiencies can lead to growth, but it's not sustainable. For instance, extractive institutions usually don't develop new *technologies, so they can't even fully eliminate inefficient methods of production. The reason extractive systems tend not to develop new technology is that they don't give entrepreneurs the strong property rights or equal market necessary to innovate. Therefore, extractive political institutions can catch up, but they can never pull ahead. Their growth has an inherent limit.*

CHAPTER 4: SMALL DIFFERENCES AND CRITICAL JUNCTURES: THE WEIGHT OF HISTORY

In the section "The World the Plague Created," Acemoglu and Robinson detail how the Black Death spread across Europe in the 1300s, killing roughly half its population and fundamentally transforming its societies. Before the plague, Europe was organized into an extractive and feudal system, in which kings granted their land to lords, who forced peasants to work on it under harsh conditions. But the plague killed many people, creating a labor shortage in many countries. In England, the peasants who survived gained more bargaining power and started demanding higher wages. The English government tried to freeze wages and imprison workers who sought to switch from one lord's land to another's. In response, the peasants rebelled in 1381, and the government withdrew these policies. The labor market became more inclusive.

In the last chapter, Acemoglu and Robinson explained why institutions determine prosperity. In this one, they try to explain why different countries build different kinds of institutions in the first place. The Black Death exemplifies one of their key principles: institutions tend to change during crises, because institutions have to adapt and respond to them. Specifically, in England the Black Death tipped the scales in the ongoing conflict between the elites and the masses. By redistributing power, the Black Death made it possible for the people to create more inclusive institutions.

In Eastern Europe, land ownership was more concentrated, and lords had more power than in England. For this reason, landlords actually consolidated their power after the Black Death and imposed even more restrictive, extractive conditions on workers. For instance, they drove peasants' wages down substantially in the 1500s. Thus, while Eastern and Western Europe were similar before the plague, by 1600, they had seriously diverged: the West had developed inclusive economic institutions, while the East had developed extractive ones. The Black Death shows how critical junctures—significant, disruptive historical events—can drive rapid change towards either inclusiveness or extractiveness, depending on the context in which they occur.

The differences between England and Eastern Europe underline a second important principle about historical change: not every nation will respond to the same crisis (or critical juncture) in the same way. In fact, nations often diverge over time precisely because their institutions respond to the same critical junctures in different ways. While the Black Death tipped the balance of power toward the masses in England, it did the opposite in Eastern Europe. Notably, this happened because England was slightly more inclusive and less extractive than Eastern Europe before *the Black Death. In other words, the Black Death multiplied existing institutional differences, leading to a major divergence.*

Next, in the section "The Making of Inclusive Institutions," Acemoglu and Robinson explain how England started to grow rapidly in the 17th century because of its inclusive political institutions, which were a result of the English Civil War (1642-1651) and, in particular, the Glorious Revolution of 1688. The Glorious Revolution gave Parliament the power to set economic policy and allowed "a broad cross section of society" to participate in politics for the first time. Parliament's economic reforms created strong property rights and a uniform tax code, which incentivized innovation and created an even playing field. These incentives drove technological advances like the steam engine, which then spurred the Industrial Revolution. But they wouldn't have been possible without England's inclusive political institutions—especially its centralized state and strong anti-monarchy coalition.

Just like the Black Death, the Glorious Revolution was a critical juncture—a transformational historical moment that shifted the balance of power and allowed institutions to rapidly change. Acemoglu and Robinson suggest that it marked the beginning of modern inclusive institutions and economic growth not only for England, but for the world. It transferred power from the monarch to a broader, more diverse coalition. Of course, this coalition was essentially made up of aristocrats. But still, it was remarkable simply because it included multiple *groups who had different interests and incentives. To protect all their interests, these leaders created more inclusive economic institutions—like the property rights system, which spurred innovation. Thus, although it was a small start, the Glorious Revolution set the stage for greater democratization over time.*

In "Small Differences That Matter," Acemoglu and Robinson argue that political institutions determined which countries adopted the Industrial Revolution's technologies and thus achieved rapid economic growth. England, France, and Spain were similarly absolutist in 1588, but England's monarchy was uniquely reliant on taxation, which gave Parliament significant power over it. This meant that, unlike the French and Spanish monarchs, Queen Elizabeth I wasn't powerful enough to monopolize trade with her colonies—she needed to work with intermediary traders instead. These traders started demanding and winning political changes that comparable merchants in France and Spain weren't powerful enough to achieve.

As this section's heading suggests, the differences between England, Spain, and France's monarchies were relatively small before colonization and the Industrial Revolution. At another moment in history, the differences between these countries might not have mattered much. But because of the historical context surrounding these differences, each country's fate changed significantly. The English monarchy, for example, was slightly weaker than Spain and France in a very specific, important way: it had less control over international trade. This made it possible for merchants to weaken the monarchy even further. In the short term, this meant the merchants were able to pressure the monarchy to change commerce laws. And in the long term, the merchants were able to completely overthrow the monarchy in the Glorious Revolution.

Again, countries with even small institutional differences can move in opposite directions when they hit key critical junctures. Larger institutional differences, like Eastern Europe's much stronger and more consolidated feudal system (compared to Western Europe's), can create even wider divergences. Depending on a combination of factors like historical events, social norms, and randomness, these institutional differences tend to accumulate gradually over time, creating a process of "institutional drift" between different societies. This drift allows critical junctures to drive societies' futures in different directions.

"Institutional drift"—the differences between nations that accumulate over time—doesn't always lead to transformation. Rather, it only truly matters when those nations hit a critical juncture. But when they do, institutions transform. This is Acemoglu and Robinson's explanation for why different nations have diverged over time. In particular, it explains how nations can make the leap from extractive to inclusive institutions. Virtually all nations start with extractive institutions run by and for a small elite, but at critical junctures, the pluralistic and democratic elements in those countries can sometimes overthrow extractive institutions and replace them with inclusive ones.

In the section "The Contingent Path of History," Acemoglu and Robinson argue that, while existing institutions shape the way a society responds to critical junctures, these responses are never set in stone—they're always historically contingent, dependent on which coalition manages to take and exercise power in any given historical moment. For instance, the Glorious Revolution was in part contingent on Britain's powerful merchant class, whose wealth was contingent on the unexpected English defeat of the Spanish Armada in 1588.

Contingency really just means that things could have been otherwise—history didn't have *to go the way it did. Contingency is important because it's empowering: it suggests that people's actions and decisions often* do *change the course of history. By emphasizing the contingency of history, Acemoglu and Robinson emphasize that nations can overcome poverty if their people and leaders make the right choices and overthrow extractive institutions. In contrast to Acemoglu and Robinson's theory, which acknowledges contingency, the geography and culture hypotheses suggest that the root cause of poverty is some inherent factor that's outside of people's control. They thus imply that people don't have the power to reform and improve their own countries.*

But critical junctures don't always cause change—for instance, following their independence from colonial powers, the governments of many former colonies ruled just as abusively as their previous rulers. And sometimes, critical junctures make societies *more* unequal and extractive.

The idea of contingency suggests that, depending on the behavior of key actors, the same crisis in the same nation could make institutions either far more inclusive or far more extractive. Clearly, people shouldn't court crisis in the hopes of building more inclusive institutions, since inclusiveness depends on a lot more than simply experiencing a critical juncture.

In "Understanding the Lay of the Land," Acemoglu and Robinson apply their theory about institutional differences and critical junctures to explain how different parts of the world developed in divergent ways after the Industrial Revolution—and why many of the patterns in its development still persist. English settler colonies (like the US, Canada, and Australia) tended to develop pluralistic political institutions similar to England's and quickly join in the Industrial Revolution. In countries like France, the Industrial Revolution caused political revolutions, which ushered in more inclusive political and economic institutions. In contrast, Latin America's extractive colonial institutions have largely endured in its independent nations—although less so in the areas that were least integrated into the Spanish Empire (like Argentina and Chile).

Acemoglu and Robinson have finished presenting their theory about how institutions affect growth and history shapes institutions. Now, they try to show that this theory accurately explains global inequality. Of course, the rest of their book includes more detailed evidence to back up their assertions here. England's inclusive institutions fueled the Industrial Revolution, and other countries' institutions determined whether they benefited from it. The Industrial Revolution explains why the hierarchy of rich and poor countries changed so much prior to the mid-1800s but has basically stayed the same ever since.

Sub-Saharan Africa has had the most trouble building effective institutions. In general, it has struggled to form centralized states. Moreover, the profitable transatlantic slave trade encouraged African states like the Kingdom of Kongo to build extremely absolutist institutions, deny property rights, and wage a constant war on their people. This further fragmented the region. Then, European colonialism significantly worsened Africa's trend towards extractive institutions. When African countries gained independence starting in the 1960s, their new leaders generally kept running institutions the same way as the Europeans. But small institutional differences and contingent historical events have led to a few exceptions.

Acemoglu and Robinson attribute sub-Saharan Africa's poverty to a series of patterns that have kept its institutions highly extractive over time. The slave trade, colonialism, and modern dictatorships all stopped both centralization and pluralism—which are the two key factors for inclusive political institutions. But the authors point out that these different phases of sub-Saharan African history weren't completely random or separate: rather, they were possible mainly because institutions were already extractive. In other words, the slave trade made it easier for Europeans to colonize sub-Saharan Africa, and this colonialism made it easier for independent African leaders to maintain extractive institutions. Thus, sub-Saharan Africa hasn't just been unlucky: rather, it has been stuck in a cycle *of extractive institutions.*

For similar reasons, Asian countries struggled to build inclusive institutions in the 19th century. Absolutist Chinese monarchies halted commerce as soon as creative destruction threatened their power. In India, the caste system and English colonialism created strongly absolutist, extractive institutions. In the mid-1800s, the Opium Wars made China more absolutist, but due to institutional differences, US interventions in Japan actually helped the monarchy's opponents overthrow it. During this Meiji Restoration, Japan built more inclusive institutions and started growing rapidly—much like South Korea, Taiwan, and China have in the 20th century. But the opposite has also happened in places like Argentina and Russia, where extractive institutions have run out of steam and sent nations into economic decline.

China, India, and Japan's unique institutions have shaped their economic fates. China and India failed to take advantage of the Industrial Revolution because they already had such advanced, centralized societies—unlike in Europe, where monarchies had less power. Readers may disagree with Acemoglu and Robinson's portrayal of Western military interventions in Asia, but these interventions do show how critical junctures can lead to different responses (and outcomes) in different contexts. Specifically, China responded to the Opium Wars by becoming more extractive, while Japan responded to US intervention by becoming more inclusive. The Meiji Restoration follows the same pattern as the Glorious, French, and American Revolutions. A diverse coalition created a new, more inclusive political system, which gave entrepreneurs the economic rights and freedoms that they needed in order to take advantage of new industrial innovations and grow the economy.

The Ottoman Empire set up absolutist, highly extractive institutions throughout the Middle East. It wasn't as highly centralized as other empires and it struggled to collect taxes, but it still created highly unfavorable economic conditions. Peasants had virtually no property rights and state monopolies controlled most commerce. After World War One, European empires took over most of the Middle East and imposed extractive policies similar to those in Latin America and Africa. This history accounts for the Middle East's contemporary poverty (excepting the effect of oil).

Ottoman and European colonialism impoverished the Middle East by creating extractive institutions, like insecure property rights and unsurpassable barriers to entry in every major industry. This stifled innovation and kept Middle Eastern economies frozen in time. Like in Africa and Latin America, then, successive governments maintained the same extractive institutions over time, keeping the region in a cycle of poverty. It's no coincidence that these extractive institutions determine how oil wealth gets distributed—nearly all of it goes to the elite.

Acemoglu and Robinson reiterate that institutional differences are the only good explanation for global inequality. They explain that the rest of their book will expand on this theory, apply it to a variety of situations, and show how some countries have managed to build more inclusive institutions.

In the last two chapters, Acemoglu and Robinson have explained the two main components of their theory. First, institutions determine prosperity, with inclusive institutions causing growth and extractive ones causing stagnation. Second, countries form inclusive or extractive institutions depending on how their existing *institutions respond to critical junctures. The rest of the book expands on this fundamental thesis.*

CHAPTER 5: "I'VE SEEN THE FUTURE, AND IT WORKS": GROWTH UNDER EXTRACTIVE INSTITUTIONS

In this chapter's first section, "I've Seen the Future," Acemoglu and Robinson note that most societies have had extractive economic and political institutions but have still managed to achieve some economic growth. However, this growth is based on existing technologies, while growth in inclusive societies is based on technological change.

While Acemoglu and Robinson believe that extractive institutions limit economic growth, this doesn't mean that the economy can never *grow under them. However, growth under extractive institutions is always limited and unsustainable, because it's not based on innovation. Moreover, its benefits go only to elites, while under inclusive institutions, growth benefits a wider slice of the population.*

After World War One, the US sent the journalist Lincoln Steffens to interview Lenin and learn about the Soviet Union's economic plans. When he returned, he announced, "I've seen the future, and it works." And briefly, it did. But in 1928, Lenin's successor, Stalin, collectivized all farmland and hiked up taxes to fund the Soviet economy's industrialization. While this caused a severe famine and killed millions, the Soviet Union still grew quickly.

Acemoglu and Robinson suggest that Steffens was wowed by the Soviet Union's early years of incredibly rapid growth. Of course, the Soviet Union only created this growth because it rapidly transferred millions of people from inefficient agricultural jobs to more productive industrial ones. But it imposed this transition on the population so fast that it killed numerous people and devastated the agriculture industry. Acemoglu and Robinson imply that inclusive institutions would have made this transition more smoothly.

State-controlled economies never allocate resources as efficiently as free markets, but they can still grow if the state invests in the most productive industries. Just like Caribbean slave societies grew by investing in sugar, the Soviet Union grew by investing in industry, which helped it catch up to Western Europe technologically and grow rapidly from the 1920s to the 1960s. This spectacular growth even convinced many American politicians and economists that the Soviet economic model was superior. But then, it abruptly stopped in the 1960s.

Like most economists, Acemoglu and Robinson believe that free, open markets are the most efficient way to allocate limited resources because they allow everyone to pursue and fulfill their individual preferences. In contrast, while centrally-planned economies can excel in certain sectors, they can't meet the economy's overall needs. However, unlike many economists, the authors also emphasize that building effective markets doesn't mean keeping the government out of the economy—instead, governments actually have to create free markets through economic institutions that give people the means to innovate and invest.

Acemoglu and Robinson argue that extractive economic institutions can't generate long-term growth because they don't incentivize innovation and they give elites the power to stop creative destruction. This is why the Soviet economy just stopped growing after it finished reallocating untapped resources from agriculture to industry.

The authors reiterate that inclusive institutions create economies based on innovation, which grow because the people who participate in them have incentives to succeed. In other words, the engine of growth is within the economy itself, which is why this growth is sustainable. On the other hand, extractive institutions create economies based on coercion, which only grow because elites reshape them.

The Soviet economy failed to incentivize innovation. Citizens couldn't trust Stalin's constantly changing economic plans, and officials avoided making decisions because they knew Stalin could kill them if they made mistakes. The government tried to increase productivity by rewarding workers who met production targets with monthly bonuses. But actually, these bonuses ultimately punished both risk-taking and success. Similarly, Stalin let successful firms keep their profits, but this didn't incentivize innovation because the government set all prices. This gave companies an incentive to produce whatever the government priced highly, not whatever was most needed in the market.

The Soviet Union understood the importance of innovation and took many steps to spur it along—but these attempts failed. Because Stalin's whims controlled the economy, the authors suggest, citizens expected instability in the Soviet Union's economic future. As a result, they couldn't trust that their investments would be safe or that they'd be rewarded for their efforts or innovations. In fact, the authors argue that Stalin's policies actually punished *innovation and hampered creative destruction. This further supports the authors' belief that extractive institutions are inherently hostile to innovation and stifle long-term economic growth.*

Stalin also tried to spur innovation by compensating inventors for their creations, but these bonuses were either too small or tied to an invention's profitability instead of its true usefulness. Finally, Stalin tried to improve productivity by punishing ineffective workers with fines and hard labor, but this didn't turn them into innovators. Ultimately, the Soviet Union's extractive institutions—and not these failed policies—were responsible for its lack of innovation and sustainable growth.

The authors argue that only the free market can properly reward innovation—and not government compensation schemes, which can't even measure true innovation to begin with. Thus, they conclude that Stalin could never truly promote innovation unless he willingly gave up power over the economy. But, like most elites, he chose power for himself over prosperity for everyone else.

Next, in the section "On the Banks of the Kasai," Acemoglu and Robinson describe the differences between the Lele and Bushong people, who live on opposite banks of the Kasai River in the Congo. Although the two groups are extremely similar, the Bushong are far richer, more economically productive, and more technologically advanced than the Lele.

The Lele and Bushong provide a kind of natural experiment, much like North and South Korea or the two halves of Nogales. The only difference is that neither *of them have inclusive institutions. Still, they share practically the same culture and geography, but neither of these factors can explain why the Bushong have a more prosperous economy.*

The reason for this inequality is that, in the 1600s in present-day Bushong territory, the king Shyaam created the absolutist, extractive Kuba Kingdom. Shyaam imposed new farming techniques that doubled food production, and he forced men to spend fewer years fighting and more working in the fields. Thus, Shyaam centralized and organized society enough to create an economic surplus—which he then extracted and kept for himself. This shows how extractive institutions can create some prosperity, and how this can have long-term effects.

The Kuba Kingdom shows that extractive institutions still produce more growth than no institutions at all. While extractive institutions don't incentivize growth in general, they do give elites an incentive to increase growth—as long as that growth doesn't interfere with their power. After all, the more surplus there is, the more elites can extract and keep for themselves. Shyaam's policies exemplify this: he restructured society so that the people he ruled would make more of what he wanted. Even though his kingdom collapsed, it left a lasting legacy among the Bushong.

In the next section, Acemoglu and Robinson explain how "The Long Summer"—a period of rapid planetary warming around 9600 BC—drove the Neolithic Revolution, early humans' transition from nomadic hunting-gathering to sedentary farming and herding. This depended on domestication, a crucial innovation that allowed people to produce much more food. The Neolithic Revolution began with the Natufian people in the Hilly Flanks region of the Middle East, but archaeological evidence suggests that the Natufians became sedentary *before* they started domesticating animals and plants. Moreover, it shows that they formed a complex, unequal society before becoming sedentary.

The question Acemoglu and Robinson raise here—whether the Natufians settled down or started farming first—might seem like an esoteric archaeological debate. However, it has profound implications for the authors' theory. If the Natufians started farming before they settled in one place, this would suggest that their economic activities determined the social structure of their society. But because the evidence suggests that they became sedentary first, it seems that, in reality, their social organization—or their institutions*—caused their economic system to change—an idea that clearly supports the authors' thesis.*

Jared Diamond argues that people created permanent settlements and formed complex institutions in response to the "Long Summer," which made animals and plants more abundant and easier to domesticate. But the Natufian archaeological evidence suggests that Diamond actually has it backwards. While the Neolithic Revolution relied on the critical juncture of the Long Summer, Acemoglu and Robinson argue, societies' development depended on institutional differences—like the Natufians' centralized, hierarchical society. But Natufian society didn't create long-term prosperity, since its institutions were extractive instead of inclusive, meaning that they likely promoted infighting among elites.

Diamond's explanation fits with his belief in the geography hypothesis: he thinks the climate caused people to farm, which caused them to settle down. While Acemoglu and Robinson agree that the climate might have influenced the Natufians' path, they don't view it as the sole cause behind their decision to build a sedentary society. Based on the archaeological evidence, they instead portray the "Long Summer" as a critical juncture that made institutional transformation easier. They also use this evidence to draw conclusions about the institutions that structured Natufian society.

Under the heading "The Unstable Extraction," Acemoglu and Robinson cite Maya city-states to explain how extractive institutions ultimately limit growth by creating political instability. The greatest Maya city-states collapsed around the year 800. They weren't part of the same empire, but they shared many institutions, like a common writing system and calendar. Based on inscriptions and analysis of obsidian rock, archaeologists know that Maya city-states were highly centralized, extractive societies led by kings and aristocratic elites. This system led to rapid economic expansion, labor specialization, and trade between city-states.

According to the archaeological evidence, Maya city-states had all the classic features of extractive institutions: their leaders appear to have held unrestricted power and used that power to seek wealth and glory for themselves. Of course, this shows that the pattern the authors identify has determined nations' fate for thousands of years. The fact that all these city-states collapsed around the same time demonstrates how, even though each side hopes to win and gain more for itself during a war, in reality, political instability can actually bring down all *parties that participate in it.*

But after Maya city-states formed, their technology barely advanced. Instead of innovation, the Maya focused on war. More powerful city-states dominated smaller ones. Around 800, the city-states' political system started collapsing: kings and aristocracies were overthrown, probably because of inter-city war, elite infighting, and popular rebellions. The Maya show that extractive institutions are unsustainable because their elites fight to control the resources they extract from the masses.

In extractive societies, Acemoglu and Robinson repeatedly argue, power is the primary road to wealth and status, so leaders tend to be overly preoccupied with increasing and protecting their power. The archaeological record suggests that Maya leaders focused all their energy on war (and none of it on innovation), which is clearly consistent with the authors' theory.

Acemoglu and Robinson summarize their argument in the chapter's final section, "What Goes Wrong?" When elites set up extractive political and economic institutions, they invest and spur economic growth so that they can extract a surplus from the masses who create it. This process often creates powerful centralized institutions, like Shyaam's kingdom and the first settlements of the Neolithic Revolution. But extractive institutions don't incentivize innovation or progress, and their elites tend to fight over power. While extractive polices can spur spectacularly fast growth—as evidenced by the progress made by present-day China—they're unlikely to be sustainable in the long term.

The authors link together all of the conclusions that they have reached in this chapter so far. Extractive institutions can create a very specific, limited form of economic progress. In particular, they are very effective at uniting disorganized peoples and territories, then directing them toward the goals of a single ruler or small group of elites. This explains why all of the earliest complex societies were extractive and gave rulers nearly unfettered power. But it also explains why most of them were eventually overthrown by other extractive institutions.

CHAPTER 6: DRIFTING APART

In the section "How Venice Became a Museum," Acemoglu and Robinson explain how, starting around 800, Venice became "possibly the richest place in the world" by trading with growing European empires and building inclusive economic institutions. Its prosperity depended on legal innovations like the *commenda* system, in which wealthy investors funded young entrepreneurs' commercial voyages and then split the profits with them. These innovations permitted unprecedented upward mobility, which in turn allowed Venetians to build new political institutions—like the Great Council—that gradually transferred power from the doge (duke) to the citizens. In turn, these new political institutions created new courts, which created new kinds of contracts and ultimately pioneered modern banking.

Venice's rise shows how economic and political institutions build on each other in a positive feedback cycle. The city's inclusive laws helped its economy grow, and this growth gave non-elite Venetians the power to make their political system more inclusive, too. The city was then able to pass even more inclusive economic laws. In particular, the commenda *system was an inclusive economic institution because it gave young entrepreneurs the opportunity to build wealth and capital over time. Of course, like in virtually all other societies before the 20th century, Venice didn't include* everyone *in politics or the economy—but it was still relatively inclusive because it didn't reserve wealth and power for an exclusive group of elites.*

However, every wave of economic growth in Venice also caused creative destruction, which decreased the elite class's profit margins and threatened its political power. Elite families had an incentive to stop this economic growth, so in the late 1200s, they changed the selection procedures for the Great Council. The new rules essentially blocked outsiders from joining the Council and kept existing members and their descendants in their positions forever—thus turning them into an aristocracy. Next, the elite tried to monopolize Venice's economic institutions. It banned *commenda* contracts, nationalized commerce, and sent Venice into a long economic and demographic decline. The city therefore became more of a museum than a center of economic prosperity.

Venice's history shows that a nation's luck can abruptly turn. This is an important reminder about the "contingency" of history: people decide the fate of their own societies, not destiny. After all, Acemoglu and Robinson emphasize that elites and the masses are always fighting over power, which means that societies can always become either more inclusive or more extractive (depending on which side wins). In Venice, the elites got the upper hand. They rolled back all of the Great Council's reforms and ended Venice's inclusiveness.

Acemoglu and Robinson explain that this chapter focuses on how institutions evolved differently in different places. Institutions don't always evolve in the same direction—instead, institutional change is unpredictable and reversible. In Venice, elites overthrew inclusive institutions and established extractive ones. Similarly, during the Roman Empire and the Middle Ages, Britain was politically irrelevant and economically underdeveloped—later, though, it led the Industrial Revolution.

This chapter returns to key questions about how and why institutions transform. The short answer is that people *change them. It's especially likely that people will transform institutions during periods of great historical change. What's more, the state of institutions at these moments of change has a huge impact on their future as either inclusive or extractive societies. Venice, for instance, ended up becoming more of a museum than a powerful economic hub because its institutions had become extractive when the Industrial Revolution hit. In contrast, despite its long history as a backwater, England ended up driving the Industrial Revolution because it had the right kind of institutions at the right time.*

The Roman Empire greatly influenced Europe's political and economic development. Its institutions, like Venice's, started out highly inclusive but became more and more extractive over time, especially as the Roman Republic gave way to the Roman Empire. Moreover, the Roman Empire created critical junctures that set up the rest of Europe for important institutional changes. For instance, its decline enabled the formation of feudal systems with weak monarchies, which became more and more inclusive over time, especially due to the Black Death.

Venice and the Roman Empire rose as they became more inclusive and fell as they became more extractive. This shows that, even though inclusive institutions tend to reinforce themselves, elites often try to dismantle them and create extractive institutions instead. Thus, the authors imply that citizens in inclusive nations should never let down their guard by assuming their institutions are safe.

Acemoglu and Robinson begin the section "Roman Virtues …" by explaining how Roman aristocrats murdered one of their own, Tiberius Gracchus, in 133 BC Rome was a republic with a relatively inclusive political system. Citizens elected their magistrates, who faced significant checks and balances on their power. For instance, the plebeian citizens won the right to elect their own representatives—including Tiberius Gracchus. By studying shipwrecks, archaeologists have shown that Rome built a prosperous economy by both trading with and extracting taxes from its provinces. Similarly, ice core evidence shows that metal concentrations in the atmosphere peaked in the first century A.D. due to extensive Roman mining.

The murder of Tiberius Gracchus might initially seem unusual because, as the authors have repeatedly argued, extractive *institutions tend to cause political infighting—not inclusive ones. Rome's political institutions were relatively inclusive because, although they were by no means egalitarian, they were somewhat pluralistic. In other words, Roman institutions represented multiple groups, even if they didn't represent* everyone. *The archaeological evidence suggests that these institutions promoted economic growth, which supports the authors' overall thesis about institutions causing prosperity.*

Still, the Roman economy was highly unequal because it was based on extractive institutions like slavery and concentrated land ownership. Farmers who were conscripted into the army left behind empty land, which wealthy senators took over. When the farmers returned home landless, they started working in the city and rebelling against the aristocracy. They elected Tiberius Gracchus as the plebeians' representative to push for land redistribution. When he tried to run for a second term, landowners murdered him and many of his supporters.

Despite Rome's relatively inclusive political institutions, its economic institutions became more extractive over time, especially outside of the capital. As the authors argued in their second chapter, this kind of contradiction between inclusive and extractive institutions tends to cause unrest and transformation, until all the institutions become either inclusive or extractive. Rome went down the latter path. In fact, Gracchus's murder was part of the elite campaign to make political institutions more extractive and prop up the extractive economic institutions that preserved their privilege.

There were constant tensions between citizens and landowners from Tiberius Gracchus's death in 133 BC until Julius Caesar overthrew the Republic in 49 BC. In 28 BC, after a series of civil wars, Octavian (or Augustus Caesar) formally created the absolutist Roman Empire, which gradually destroyed the Republic's somewhat inclusive political institutions.

As in Venice, Roman elites won out over the masses and established increasingly extractive institutions—the Empire—to benefit themselves. Again, this shows that institutions don't always move in one direction. Rather, history is contingent. People's decisions, historical conditions, and sheer luck can lead to unpredictable outcomes.

Under the heading "… Roman Vices," Acemoglu and Robinson note that there were constantly civil wars and *coups d'état* in the Roman Empire from 180 to 476. Non-Roman "barbarians," including the Goths, Huns, and Vandals, increasingly became powerful threats to Roman power—and Roman elites even built alliances with them in order to gain greater power in Rome. One emperor after another was murdered.

Like the 50 years after the Mexican War of Independence, the last three centuries of the Roman Empire were very politically unstable. This is because extractive institutions strongly incentivize a nation's elites and enemies to seize power by any means necessary, creating a cycle that makes institutions even more extractive and unstable as time goes on.

The Goths, Huns, and Vandals weren't uniquely formidable enemies—instead, the Roman Empire was uniquely weak because of its extractive institutions. Early emperors restructured the army to prevent soldiers from demanding greater representation, revoked many of the Plebeian Assembly's powers, gave citizens free food and entertainment to distract them from politics, and granted elite professional soldiers more power. Emperors confiscated private property at will and increasingly amassed absolute power. Therefore, elites started fighting over the throne and murdering each other. Even the most capable emperors, like Hadrian and Marcus Aurelius, didn't try to reform Rome's political institutions.

The Roman Empire seriously undermined itself by building extractive institutions. The examples in this passage show that, when they faced challenges and crises, Roman emperors and their allies generally put short-term profit over long-term stability. Because they were mainly focused on their own short-term gains, then, they were relatively uninterested in the Empire's long-term survival.

Therefore, the Empire became gradually more unstable over time. Like Maya city-states, many Roman cities fell into violence and started dismantling stone monuments to build defensive walls. The law granted different classes of citizens different rights, and landlords gained more and more power over the peasants (or *coloni*) who worked the land. Shipwreck and ice core evidence show that Roman trade and mining plummeted during the Empire. Like the Soviet Union, then, the Roman Empire's economic growth was unsustainable because it was based on extractive institutions.

After elites captured total power over Rome's political institutions, they began reshaping those institutions in order to preserve and perpetuate that power. This allowed them to claim an ever-greater slice of the Empire's ever-shrinking economic pie. Moreover, by turning landlords and peasants into separate legal categories with unequal rights, the Roman Empire set up the foundation for the feudal system that followed its collapse.

Technology also didn't advance much during the Roman Empire because elites feared and sabotaged creative destruction. According to a famous anecdote, the emperor Tiberius killed a man who invented unbreakable glass instead of adopting or promoting the invention. In another, the emperor Vespasian refused to adopt an inventor's new device for transporting columns because this would mean putting thousands of column-carriers out of work—and sowing political discontent. Similarly, nobody had an incentive to innovate because citizens lived comfortably off of slave labor, while enslaved people and the *coloni* had no economic rights.

These anecdotes exemplify Acemoglu and Robinson's hypothesis about why there was no serious, sustained economic growth anywhere in the world between the Neolithic Revolution and the Industrial Revolution. The emperors knew that innovations would replace existing technologies, causing rapid economic growth but also disrupting the existing social and economic order. Emperors and their allies rejected these innovations because the status quo already benefited them, while they stood to lose if someone else's technology became essential to the functioning of society. Therefore, under strict extractive institutions, innovations could never get the traction they needed to spread, transform the economy, and start widespread growth.

Under the heading "No One Writes from Vindolanda," Acemoglu and Robinson quote the correspondence between the Roman officials Octavius and Candidus, who were stationed in England. Their letters show that Roman England had money, financial services, tax collection systems, roads, and a postal service. But after the Roman Empire withdrew from England in the fifth century, all these institutions disappeared. Building technology deteriorated, literacy went down, and England became poor again.

The Roman Empire's complex financial tools were really economic institutions. *They gave Romans—although just a small number of them—the tools that they needed in order to buy and sell goods in a marketplace with others. But the Empire's withdrawal shows how this kind of market relies on the state: it cannot exist unless the government creates institutions to protect it. Thus, when the Roman Empire retreated, England's economy didn't stagnate: it declined.*

From the beginning of recorded history, England lagged far behind the Middle East and Europe both technologically and economically. This lack of early success shows that England wasn't destined to lead the Industrial Revolution—rather, it led the Industrial Revolution because it just happened to have the right kind of institutions at the right time (or critical juncture).

Acemoglu and Robinson use England's historical lack of technological and economic sophistication to emphasize the contingency of history. Its dominance wasn't destined—rather, it was the result of other earlier historical events, plus a large dose of good luck. In fact, England's success is yet another example of a great historical reversal, like the one in the Americas: Latin America was far more prosperous in the ancient past, but the US and Canada are far more prosperous today. In short, most early states were highly extractive, and the most egalitarian places tended to be the least sophisticated, since power in these societies was less concentrated. Thus, these less developed places were the most open to pluralism and therefore the most likely to form inclusive institutions.

In the section "Diverging Paths," Acemoglu and Robinson explain how the critical juncture of the Western Roman Empire's collapse enabled European institutions to develop in similar ways. The dominant Roman state gave way to many weaker and decentralized feudal states that were run by local leaders and frequently invaded by outsiders. Feudal institutions were highly extractive. But they also enabled slavery to disappear: elites had no need for enslaved people when most people were already serfs (unfree rural laborers with no economic rights). Moreover, feudal states also allowed independent manufacturing and trade centers to rise. Because of these precedents, when feudalism collapsed in Europe, society became much more pluralistic and inclusive.

While the Roman Empire fell many centuries before the Black Death and the end of feudalism, it still had a transformative impact on European institutions because of the political system it left behind. Again, the Roman Empire eventually enabled growth through a series of historical reversals. When the centralized, powerful, extractive Roman Empire fell, the institutions it left behind were very decentralized and powerless, but still extractive. Because these institutions were relatively weak, people were eventually able to overthrow them in the 18th and 19th centuries. Acemoglu and Robinson therefore suggest that, if the Roman Empire had never collapsed, Western Europeans might not have built the institutions that enabled them to colonize the world and lead the Industrial Revolution.

A similar process occurred in northern Ethiopia after the Kingdom of Aksum's decline and fall. In the seventh century, Arab invaders took over Aksum colonies and trade routes, much like the Huns and Vandals did to Rome's. After the Kingdom fell, Ethiopia developed a feudal system extremely similar to Europe's, in which landowners provided military services to the new emperor in exchange for the right to tax farmers. However, while independent cities and transatlantic trade led to further institutional changes in Europe, they didn't in Ethiopia. Meanwhile, the rest of Africa remained predominantly absolutist, especially as the slave trade gave leaders more and more power. Similarly, from the initial human settlement of the Americas through European conquest, most centralized institutions there were also highly extractive.

Ethiopia is an important case study because it followed a very similar trajectory to Western Europe, despite the fact that Ethiopia is almost completely isolated from Western Europe. Therefore, any similarities between Ethiopia and Western Europe's trajectories must surely come from overlaps in their institutions, not historical links between the two regions. In both cases, major expansionist empires with highly centralized power structures collapsed, creating critical junctures that produced similar effects in both societies.

In "Consequences of Early Growth," Acemoglu and Robinson that, between the Neolithic Revolution of 9500 BC and the Industrial Revolution in the 18th century, there was sporadic economic growth in societies like Rome and Venice. Inclusive institutions briefly flourished in these societies, until the elite classes crushed them and built extractive ones in their place. Still, these societies left behind particular feudal structures that helped inclusive institutions form centuries later in places like Britain.

The authors conclude that pre-18th century institutions had an important influence on the Industrial Revolution, although they certainly didn't ensure *that it would happen. This is an important part of historical contingency: earlier events set the stage for later ones that actually determine the outcome of history. Older institutions made it possible for merchants to build inclusive institutions during the Industrial Revolution and launch economic growth in England and the US—but these people still had to actually* build *these institutions.*

CHAPTER 7: THE TURNING POINT

In "Trouble with Stockings," Acemoglu and Robinson explain how the English priest William Lee invented a knitting machine in 1589. But Queen Elizabeth I and King James I both denied him a patent because they worried that it would put knitters out of business. This illustrates how "the fear of creative destruction" froze human living standards for most of recorded history. Innovation threatens elites' power and workers' livelihoods, so both groups have continuously resisted it throughout history. (The elites have usually succeeded, while the workers have usually failed.) Thus, between the Neolithic Revolution and the Industrial Revolution, most institutions were extractive, and wages and life expectancy barely changed at all.

Two hundred years after Lee showed the queen and king his invention, similar textile machines drove the Industrial Revolution. Acemoglu and Robinson's point is clear: England couldn't industrialize in the 16th century because its political institutions weren't inclusive enough. In fact, similar processes prevented industrialization all over the world for many centuries. Had other countries developed institutions like England's, the authors imply, they would have been able to industrialize much earlier.

In the section "Ever-present Political Conflict," Acemoglu and Robinson note that early conflicts over resources and power pushed England toward pluralism. The Magna Carta, a famous agreement between the king and the aristocracy in 1215, established a council of barons to limit the king's power. In 1265, England built a Parliament of elites who represented a relatively broad set of interests and also fought to limit the monarchy's power.

Acemoglu and Robinson repeatedly emphasize that historical events always depend on earlier *events. Thus, while the Magna Carta and formation of Parliament couldn't create inclusive institutions on their own, they did make it easier for England to develop these institutions later on, since they put checks on the monarchy's power and made it possible for diverse groups to have a voice in the English government.*

But English elites also fought over the monarchy, which led to the War of Roses and Henry VII's ascension to the throne in 1485. Henry VII weakened the aristocracy and started centralizing state power in his own hands. Then, his son Henry VIII created a government bureaucracy and took all land and power away from the Church. State centralization can lead to absolutism if leaders manage to keep all the power, but it can also lead to pluralism if other parties insist on getting representation and power in the state. This is what happened in England: the aristocracy pushed for Parliament to have more control over the highly centralized state (and the Crown to have less). Around the same time, peasants revolted and made their own demands.

The War of the Roses actually began as elite infighting under extractive institutions: the aristocracy and monarchy both wanted more power for themselves. However, neither side won outright, so England had to form a kind of hybrid government that balanced power between the Crown and Parliament. In fact, precisely because it had to balance power in this way, the English government was already taking crucial first steps toward inclusiveness. The first step to building inclusive institutions, then, can simply be for multiple competing groups to win a meaningful voice in the government. Acemoglu and Robinson also return in this section to the crucial concept of centralization. Readers are likely to associate it with absolutism, probably because dictators often try to expand their power and impose it as widely as they can. However, the authors emphasize that centralization is really just the expansion of the state, so it isn't always associated with absolutism. In Henry VIII's case, centralization actually backfired: he wanted to increase his own power, but instead, he increased the state's overall power while decreasing his control over the state.

Although it was somewhat pluralistic, the English state was still highly extractive. For instance, nearly every industry was monopolized. Angry that they couldn't profit through competition, members of Parliament prevented King James I from establishing new monopolies for domestic production. James's son, King Charles I, circumvented this by establishing several monopolies on international trade. He also implemented several other absolutist policies.

Parliament's anti-monopoly rules were fundamentally selfish: they were designed to help the merchant elite increase its profits. Of course, Charles I also clearly wanted to increase his own power and profits. Thus, Parliament wasn't inching England toward inclusive institutions because it believed *in democracy or pluralism. Instead, it did so because it had to gradually take power away from the king in order to pursue its own interests. This naturally created a more balanced, less concentrated system of power. Parliament* also *could have tried to overthrow the king and set up an extractive dictatorship of its own—but it wasn't powerful or unified enough to do so.*

But when King Charles I wanted to invade Scotland, Parliament protested his policies by refusing to fund the war effort. In response, Charles I fought the English Civil War against Parliament. Charles I and the monopoly owners who supported him wanted to create an absolutist state, while the Parliamentarians and their supporters wanted more pluralistic institutions. The Parliamentarians won and their leader, Oliver Cromwell, took power as a dictator. After Cromwell's death in 1658, Charles I's son Charles II took the throne. But eventually (after several generations of Charles I's bloodline ruled) the Parliamentarians regained power in the Glorious Revolution of 1688, installing William III and Mary II on the throne as king and queen.

England's transformation from extractive to inclusive institutions was a long process that unfolded slowly over the course of many decades. Parliament used its limited power over revenue to sabotage the king's war effort. This shows how even slightly pluralistic institutions can stop absolutism by checking leaders' power. Meanwhile, the English Civil War wasn't merely a conflict between two different factions: it was also a fight between two different visions of government. Of course, the Parliamentarians didn't intend on extending power to commoners, women, or really anyone but themselves. However, their victory still created more pluralistic institutions because they at least divided power between multiple groups.

In the section "The Glorious Revolution," Acemoglu and Robinson explain how Parliament took power over the English state after 1688. William III agreed to the Declaration of Rights, which gave Parliament the power to replace the monarch, set all laws, approve all taxes, and call or disband the army. Informally, William ceded many more powers to Parliament. This ended absolutism in England. Because Parliament's interests were mainly commercial, it strongly protected property rights and dedicated more resources to the navy (which protected commercial ships).

The Glorious Revolution definitively tipped the balance of power away from the monarchy and toward Parliament. However, this didn't necessarily have to make England more pluralistic—instead, Parliament could have banded together to impose new extractive institutions on the country. One reason this didn't happen was that Parliament was made up of businessmen who engaged in international trade, competed with one another, and cared more about protecting their property and wealth than about taking power for themselves. In fact, the authors suggest that representative bodies like Parliament are generally more likely to create pluralistic institutions because they represent multiple groups whose interests don't align.

The Glorious Revolution also gave the public much more political sway. It could elect Parliament—although less than two percent of people could actually vote, and Parliament was strongly biased towards rural landowners. However, people of all trades and classes could also petition Parliament for change—and Parliament actually listened to them. For instance, in 1689, a judge gave Parliament the power to cancel the Royal African Company's slave trading monopoly. Parliament decided to do so after receiving hundreds of anti-monopoly petitions containing thousands of signatures. Parliament also made the Industrial Revolution possible by strengthening property rights, taxing land instead of manufacturing, and founding the Bank of England, which allowed practically anyone to receive a loan.

Acemoglu and Robinson again stress that political institutions don't have to include everyone *or be truly egalitarian in order to create economic prosperity. Instead, they just need to be inclusive enough that their members choose a competitive market over monopolies. The wealthy men who dominated the English Parliament stood to benefit more from competition than monopolies, so they chose to create inclusive economic institutions. In turn, Acemoglu and Robinson argue, such competitive markets make political institutions more egalitarian over time. Moreover, because Parliament was theoretically* supposed *to represent the people, petitions could have some effect on its decisions. Thus, the Glorious Revolution gave commoners a proverbial foot in the door of politics—they didn't have true representation, but their concerns were at least heard, and when they banded together they had a certain amount of political power.*

Finally, during the Glorious Revolution, Parliament continued to centralize and expand the state. Its budget became about ten percent of the nation's total income, which is larger than many state budgets today. It raised this revenue by hiring thousands of professional tax inspectors, which shows how it created a powerful, consistent, meritocratic bureaucracy to enforce its policies.

Again, just like pluralism, centralization and the expansion of the state were crucial to building inclusive institutions. This is because they allowed the state to actually enforce its decisions. Thus, while tax bureaucracy might seem like an irrelevant topic, it was actually an important political tool in 17th and 18th century England because it helped Parliament collect taxes as fairly as possible. In turn, Parliament was able to fund the country's pro-business activities and establish the rule of law (which is the idea that the law applies to everyone, thereby preventing elites from abusing their power).

In the section "The Industrial Revolution," Acemoglu and Robinson argue that the British state supported innovators and fostered the Industrial Revolution by protecting property rights. For example, Parliament helped reduce the cost of transporting goods by protecting private infrastructure investments. Before the Glorious Revolution, the Crown technically owned England's land, and laws prevented most of this land from being sold or used for commercial activity. But Parliament gradually changed this system after 1688.

Parliament didn't invest in transportation and privatize land because it wanted to help enrich the whole population—rather, it did so to increase profits for its members and their close allies. However, Parliament represented a wide range of businessmen—and not just a tiny group of oligarchs. Therefore, the best way to protect their profits was not by using the state's power to gift them land, resources, and labor (like in post-independence Mexico), but by protecting their equal rights to participate in a competitive market.

Parliament also reorganized the British economy by protecting domestic industries—especially textiles. For instance, English wool and silk manufacturers convinced Parliament to pass laws banning the use of less expensive, imported Asian fabrics, but cotton-linen blend manufacturers stopped the wool and silk manufacturers from banning linen. Thus, Parliament balanced different groups' interests and protected the domestic textile industry, which eventually drove the Industrial Revolution. By establishing a national monopoly for international commerce—only English ships could trade with English colonies—it also created enormous profits for English merchants.

While protectionist policies made the market less competitive internationally, they made it more competitive domestically. English textile manufacturers therefore had a strong incentive to grow, which is why they eagerly adopted industrial technologies. Translating this into the language of Acemoglu and Robinson's theory, inclusive economic institutions created an inclusive and competitive market. Private property rights let entrepreneurs reap the benefits of their investments, and a level legal and economic playing field allowed the best products and firms to succeed. In other words, the competitive market incentivized innovations.

All these legal factors promoted innovation during the 18th century, which culminated in the Industrial Revolution. For instance, James Watt significantly improved the steam engine by combining his own original ideas with earlier inventors' designs, like Dionysius Paupin's steamboat—which, fearing competition, the German boatmen's guild destroyed in 1705. In fact, society changed rapidly during the Industrial Revolution because many different innovations came together. For instance, a series of new machines, each of which built on the last and appeared within a decade of one another, made spinning cotton into yarn 300 times more efficient. This new loom technology revolutionized the English textile industry and made English exports soar.

The Industrial Revolution highlights how inclusive economic institutions spur innovation and growth by protecting intellectual property. While the German political system punished and stifled innovation, the English patent system encouraged and rewarded it. By protecting Watt's patent rights, England empowered him to spread his invention as widely as possible—and rewarded him for doing so. What's more, by protecting other inventors' patents, too, the English government made it possible for Watt to learn about their inventions and build on them. This same effect rapidly improved loom technology, too: inventors knew they would receive credit and profit for their individual contributions, so they could freely work together and build off of one another's ideas.

Innovation and prosperity were possible in England because of the country's institutions, which rewarded "new people with new ideas." For example, the most innovative canal, road, and railway builders were mostly skilled tradesmen, not trained transportation engineers. While wool businesses still had their workers spinning and weaving at home, new cotton entrepreneurs quickly outcompeted them by building factories.

Strong property rights and an equal economic playing field let virtually any English male take up trades like roadbuilding. These inclusive economic institutions rewarded whoever did the best job, not whoever had the most power or access. In fact, effective amateurs replacing lackluster professionals and wool factories replacing domestic weavers are both classic examples of creative destruction. In both cases, new technologies made old ones obsolete. While this disrupted old social arrangements and put many people out of work, it ultimately made the economy more efficient and productive.

Meanwhile, factory owners and workers alike started demanding greater political power. After military cavalry killed 11 protestors during the Peterloo Massacre, Parliament agreed to give manufacturing cities greater representation and passed laws amenable to the manufacturing industry. The government now enabled creative destruction rather than stopping it.

Again, while they didn't include everyone *(or even most of society), inclusive political institutions in England made it possible for more people to gain political rights over time. But this was primarily because of the* inclusive *economic institutions they created. The Industrial Revolution enriched new classes of people, allowing the basic conflict behind the Glorious Revolution to repeat itself: new aristocrats demanded and seized power for themselves, which made the* political *system a little bit more inclusive, too.*

In the chapter's final section, Acemoglu and Robinson ask, "Why in England?" They conclude that England fueled the Industrial Revolution because its political and economic institutions were more inclusive than anywhere else in the world. Specifically, the Glorious Revolution made its political system inclusive, and then the political system created inclusive economic institutions that incentivized innovation and blocked the formation of monopolies.

English history supports Acemoglu and Robinson's theory of economic change: political changes during critical junctures created inclusive political *institutions, which built inclusive* economic *institutions, which in turn spurred innovation and generated sustainable economic growth. If other nations had built the right institutions earlier in history, the authors suggest, they might have been able to industrialize in the same way.*

The Glorious Revolution was possible because of a longstanding conflict between absolutists and pluralists—who wanted to transform institutions, not just take them over. Due to small institutional differences in feudal landlords' power, Western European nations like Britain became more pluralistic in the aftermath of the Black Death (whereas Eastern European nations became more absolutist).

As in every society, in 17th century England, conflict over power was the engine behind political change. While Acemoglu and Robinson argue that different groups are always competing for power, including the masses and the elite, the masses didn't take power in the Glorious Revolution. Instead, a pluralistic group of elites did. However, this shift moved English institutions far enough toward inclusiveness that it built inclusive economic institutions in the short term and an egalitarian democracy in the long term.

Similarly, because of Britain's powerful Parliament, British businessmen traded freely across the Atlantic, created vibrant industries in British port cities, and used their wealth to fight absolutism. Crucially, since many different groups banded together to fight the monarchy, once they won, they created pluralist institutions that represented all of them. Without this broad coalition, England would have never become pluralistic. However, this outcome was never inevitable in England—rather, it was part of "the contingent path of history."

Like everything in history, the Glorious Revolution was contingent—it depended on human decisions, earlier historical events, and the small institutional differences they created. In other words, were it not for the Black Death, the Roman Empire, or even the defeat of the Spanish Armada, the Glorious Revolution might not have happened and the Industrial Revolution might not have kicked off in England.

CHAPTER 8: NOT ON OUR TURF: BARRIERS TO DEVELOPMENT

Under the heading "No Printing Allowed," Acemoglu and Robinson describe how Johannes Gutenberg's printing press changed the world in 1445, making books far cheaper and mass literacy possible for the first time. But while the printing press spread rapidly across Europe, the Ottoman Empire banned it for almost 300 years—and, even then, mandated that scholars check everything for accuracy. The process was incredibly slow, and even after 1850, most books in the Ottoman Empire were still copied by scribes. As a result, literacy was much lower in the Ottoman Empire than anywhere in Europe. But the Ottoman sultans wanted it this way: books threatened their power by spreading subversive ideas.

The Ottoman Empire's opposition to the printing press is a classic example of how absolutist governments and extractive institutions protect their power by setting up barriers to development. Mass literacy threatened Ottoman leaders' political, economic, and social dominance. However, their policy also had political, economic, and social costs, as it held people int he Ottoman Empire back while Europe became more literate, educated, and productive. This chapter is about how this same strategy, which is rooted in elites' fear of creative destruction, prevented many countries from developing after the Industrial Revolution.

During the critical juncture of the Industrial Revolution, many states encouraged innovation and commerce—but many others did not. Over time, these decisions led nations to different economic outcomes. Two kinds of societies resisted industrialization. First, absolutist regimes that depended on extractive economic institutions, like the Ottoman and Russian Empires, fought industrialization because they feared creative destruction. Second, societies without a centralized state couldn't create the basic institutions needed for industrialization to succeed.

In the chapter "Theories That Don't Work," the authors pointed out that different countries didn't start economically diverging until the mid-1800s. This was because of the Industrial Revolution: the few countries that industrialized started to grow, while the majority failed to industrialize and remained stagnant. Again, Acemoglu and Robinson reiterate that truly inclusive political institutions have to be both pluralist and centralized. The countries that failed to industrialize weren't inclusive because they lacked one or both of these factors.

Powerful people often resist centralization because they fear it will take away their power. It threatens leaders because it can create more inclusive institutions (like in the 1400s in Britain), but it also threatens less powerful elites because it can give leaders the chance to impose absolutism.

The reader might associate the idea of a centralized government with dictators and kings. But the authors point out that leaders often resist expanding their reach because they know they could create enemies and lose power in the process. For instance, if a leader tries to impose control on remote regions of their territory, local leaders in that region might rebel and overthrow them. Therefore, absolutist leaders in decentralized states often prefer to leave things as they are. They prefer to rule and profit from a smaller government, rather than lose power by fighting for a larger one.

In the section "A Small Difference That Mattered," Acemoglu and Robinson explain how Spain became more absolutist over time. Queen Isabella and King Ferdinand married and merged their kingdoms, and then their descendants married into the House of Habsburg. This left their heir, Holy Roman Emperor Charles V, with control over much of Europe and most of the Americas—where he got a cut of all the stolen loot and silver extracted from the mines.

Spain's monarchy was incredibly powerful and centralized, which allowed its kings and queens to rule with little opposition. Charles V's wealth shows how this greatly benefited them. Such unchecked power and wealth are clear evidence of why elites generally choose to establish extractive institutions—if they can get away with it.

However, the Spanish empire's increasingly absolutist and extractive institutions led to economic decline. Ferdinand, Isabella, and their descendants expelled Jewish and Arab people and confiscated their property. The Crown defaulted repeatedly on its debt, creating a series of calamities for Europe's banking sector. And it gave a specific merchant guild a monopoly on overseas commerce, so the Spanish economy didn't benefit from competitive markets or trade with other empires.

Spanish history shows that extractive institutions enrich elites in the short term but undermine the state itself in the long term. By curtailing their people's property rights and economic freedoms, Spanish monarchs made it very difficult for anyone else to build wealth or drive economic change. Rather than building inclusive economic institutions (like an accessible banking sector), they did the exact opposite, and this eventually made it harder for them to maintain their power and wealth as a nation.

Spain's institutions were more extractive than England's because they were more absolutist: the Spanish Cortes (or Parliament) was much weaker than England's and primarily represented elites in the cities. The Crown tried to overrule the Cortes, which rebelled until the Crown shut it down. But this left the Crown unable to collect taxes, which made centralization impossible. While the English were building "a modern, efficient tax bureaucracy" and rapidly industrializing, the Spanish created an increasingly corrupt, arbitrary state that oversaw rapid economic decline. In fact, poverty increased and wages fell in Spain during the 17th century. The contrast between Spain and England is another example of how small institutional differences can lead nations to diverge in critical junctures.

While England's weaker monarchy allowed the Glorious Revolution to reorganize its political institutions and generate long-term growth, Acemoglu and Robinson argue, Spain's stronger monarchy prevented it from doing either. Still, the initial difference between the Spanish and English systems was relatively small—both were monarchies whose advisory Parliament essentially just had power over revenue. But each monarchy's conflicts with its respective Parliament magnified these differences, leading Britain down the path to inclusive institutions and Spain to extractive ones. At the same time, though, the authors strongly imply that Spain—Europe's most powerful nation in the 16th century—likely would have led the Industrial Revolution if it had managed to create inclusive institutions like England.

In the section "Fear of Industry," Acemoglu and Robinson summarize their argument that societies like Spain, Russia, and Austria-Hungary couldn't take advantage of the Industrial Revolution because they didn't share England's inclusive institutions. The Austro-Hungarian Empire, which was run by the House of Habsburg, was extremely absolutist. It gave merchants virtually no economic power, and its society was still based on serfdom.

In England, monarchs and their elite friends certainly had a "fear of industry," but they simply weren't powerful enough to overrule the pro-industry Parliament. In contrast, in most other European societies of the time—including the three that the authors name here—the monarchy could easily punish innovation and ban industry. By doing so, they preserved the feudal systems that benefited them.

The Habsburg leaders all made the state much more centralized and absolutist. Without a parliament or constitution, they had absolute power over everything in their domain. They maintained total control over the economy by maintaining serfdom, imposing monopolies, and opposing all new technology. In particular, Francis I banned the construction of factories and steam-powered railways, which he thought would bring revolution and social unrest to Vienna. In short, he opposed innovation and focused on maintaining extractive institutions because he knew that creative destruction would challenge his power.

Because of the institutional differences between England and the Habsburg Empire at the critical juncture of the Industrial Revolution, the two societies ended up trending in opposite directions. While both became more centralized, the Habsburg Empire became more extractive and England became more inclusive. Francis I's policies protected his own power, but also prevented his territory from modernizing and his people from achieving a higher quality of life.

Meanwhile, Russia was just as absolutist as Austria-Hungary. It was also based on a brutal system of serfdom, in which landlords could buy, sell, and restrict the movement of their serfs. Tsar Nicholas I and his finance minister, Count Egor Kankrin, tried to stop industry by limiting the banking system to landowners, banning industrial exhibitions, and strictly limiting factory and railway construction. Thus, by 1870, there were very few railways in Russia and Austro-Hungary compared to the rest of Europe.

Russia's serfdom system was highly extractive because it gave most people virtually no political or economic rights, while enabling a minority of landlords and aristocrats to profit handsomely from that majority's labor. Thus, it's unsurprising that Tsar Nicholas and Count Kankrin did everything possible to preserve it. Of course, this helps explain why the Soviet Union was so concerned about modernizing and industrializing the economy.

In "No Shipping Allowed," Acemoglu and Robinson note that China and the Ottoman Empire also resisted industrialization because of their absolutist and extractive institutions. By the Song dynasty (960-1279), China was highly technologically advanced compared to Europe. It also ran as a complex, centralized—but absolutist and extractive—state. Merchants and the public had no political power, and the emperor fought against creative destruction and technological change.

China's trajectory shows how extractive institutions can create some growth and technological advancement, but not as much as inclusive ones—and certainly not over the long term. China's technological advancement didn't translate into widespread economic growth, Acemoglu and Robinson suggest, because people didn't have the freedom or incentives to spread their innovations and transform society. Therefore, while advanced technologies may have existed, they didn't necessarily spur economic growth or drive further innovation.

These tendencies only strengthened during the following dynasties, the Ming and Qing. The Ming emperors totally banned international trade between 1368 and 1567 (with one major exception from 1402 to 1422). Thus, just when Europe was starting to profit from transatlantic trade, China cut itself off from the world. Next, in the 1600s, the Qing dynasty started confiscating citizens' wealth and property. The emperor Kangxi even banned international trade and forced the whole coastal population to move inland. Thus, even when trade was briefly permitted, nobody would invest in it, because they could expect the emperor to abruptly cut it off again.

China happened to ban international trade precisely at the critical juncture when it was the primary source of growth and dynamism in the global economy. Furthermore, the authors suggest that each Chinese dynasty passed progressively stricter policies, which shows how extractive institutions tend to grow stronger and more extreme over time.

The Song, Ming, and Qing emperors simply cared more about political stability than technological innovation. As a result of their policies, while Europe industrialized in the 1800s, there was little innovation or economic growth in China until the 20th century.

Like many of the other absolutist states that the authors profile in this chapter, the Song, Ming, and Qing dynasties set up barriers to development. This protected their power, but also prevented economic growth.

In "The Absolutism of Prester John," Acemoglu and Robinson cite Abyssinia (or Ethiopia) as another example of long-lived absolutism. Because Ethiopia was Christian, many Europeans visited it in search of the Prester John—a mythical Christian king whose kingdom was separated from the rest of Christendom by Islam. These visitors left detailed records about Ethiopian institutions.

Europe and Ethiopia didn't just share Christianity: they also shared a similar institutional path. As the authors have previously noted, many parts of Ethiopia were semi-feudal for many centuries—just like European society. Ethiopia is a useful case study because, while it was highly isolated from European influence, there are important overlaps between its history and Europe's history—and, of course, important differences.

Ethiopia's king distributed and seized property at will, often shifting land through multiple hands per year, which gave farmers no incentive to care for it. Thus, Ethiopia was extremely absolutist and extractive—even more so than Eastern Europe. In the mid-1800s, Emperor Tewodros II tried to modernize and bureaucratize the government in an attempt to fight off colonizers. His successor, Menelik II, defeated the invading Italian army by calling together a feudal-style army. The last Ethiopian Emperor, Haile Selassie, kept the state absolutist, extractive, and feudalistic as before until he was overthrown in 1974. This long history is the reason Ethiopia remains one of the world's poorest countries today.

The king's behavior again demonstrates how extractive institutions and policies undermine economic growth. By refusing to recognize private property rights or let people keep the fruits of their labor, the king took away any incentive they may have had to innovate, work hard, or otherwise increase their productivity. Thus, while many other parts of Africa struggled to develop because the slave trade and European colonialism left them with no centralized states at all, Ethiopia struggle to develop because it remained too absolutist and extractive to ever build inclusive institutions.

Under the heading "The Children of Samaale," Acemoglu and Robinson argue that a lack of state centralization prevented inclusive institutions from forming in much of Africa. As a case study, they look at Somalia, which is dominated by six major clans and numerous family subgroups. These groups have historically fought over resources, land, and wealth. They technically have leaders, but in practice, all adult males make decisions collectively, according to a system of informal laws focused on "blood wealth," which is a form of monetary compensation for murder. This reflects the "almost constant state of warfare" between different clans in Somali society.

Despite their geographical proximity, Somalia and Ethiopia face opposite challenges to development. Inclusive institutions require both centralization and pluralism. Ethiopia is centralized but not pluralistic, while Somalia is pluralistic but not centralized. Acemoglu and Robinson argue that this explains why both are mired in conflict. Practically speaking, Somalia might as well have had six different governments that ruled six different states and didn't recognize one another's legitimacy. While they constantly fight for power, none is powerful enough to overwhelm all the others and build a single centralized state.

Because of its collective decision-making practices, Somalia was historically pluralistic, but its institutions weren't inclusive because there was no centralized state to impose order or guarantee property rights. As such, Somalia could not have possibly built an industrial economy in the wake of the Industrial Revolution. The country's politics also prevented it from adopting new technology. For instance, the Kingdom of Taqali in northwestern Somalia had writing technology but didn't use it for a century. Its citizens worried the state would use writing to seize resources and collect taxes, while Taqali's rulers preferred governing without writing because it allowed them to change rules at will. This shows how difficult it would have been to create centralized institutions in Somalia, and how this disincentivized Somali people from investing in technology.

Somalia was pluralistic because many different groups held power in the country, but it wasn't centralized because these groups didn't work together to make and enforce decisions. The Kingdom of Taqali's resistance to writing again shows why people—including both elites and commoners—often oppose centralization. Specifically, centralization increases the state's power, and the state can use this for good as well as for evil. This is why both the most prosperous countries (like Britain) and the most repressive ones (like North Korea) have highly centralized institutions. The elite fears it will lose power under centralization, and the people fear that the elite will further disempower them. But Taqali's refusal to use writing also disproves the assumption that countries simply need to create new technologies to develop. Rather, Acemoglu and Robinson emphasize that the state's willingness to accept, adopt, and spread technology is at least as important as the creation of that technology in the first place.

Acemoglu and Robinson summarize their argument in the section "Enduring Backwardness." Different societies respond to the critical juncture of the Industrial Revolution in different ways. Some societies give their citizens incentives to innovate, but most don't, whether because of extractive institutions, absolutist rulers who fear creative destruction, or a lack of political centralization. But societies with inclusive institutions, or where citizens challenge absolutism, manage to set off explosive economic growth. Again, then, small institutional differences lead to economic divergence during a critical juncture.

To close the chapter, Acemoglu and Robinson further refine their theory of global inequality by applying their two main ideas to the Industrial Revolution. These two ideas are the principle that institutions determine prosperity and the principle that institutions change because of small differences at critical junctures. As they note here, when applied to the Industrial Revolution, their theory explains why certain countries started to grow in the 1800s while others stagnated. As they have already pointed out, the modern economic divergence between nations began in the 1800s. Therefore, they believe that applying their theory to the Industrial Revolution explains contemporary inequality. However, they still have to explain why countries with extractive institutions haven't changed either during or since the Industrial Revolution—an idea they will tackle in the coming chapters.

CHAPTER 9: REVERSING DEVELOPMENT

Under the heading "Spice and Genocide," Acemoglu and Robinson describe the remote Moluccan islands in Indonesia, which were long key to global commerce because they were the only sources of nutmeg, mace, and cloves. The Portuguese sailed around Africa and captured the city of Melaka in an attempt to monopolize the spice trade. But they failed because several absolutist Southeast Asian city-states were already trading spices. Later, the Dutch invaded the region with the same goals as the Portuguese. They convinced the king of Ambon to give them a monopoly on his island's clove production.

The authors have already explained why the Industrial Revolution succeeded in England, and why it failed in absolutist monarchies throughout Europe and Asia. They now address why it also failed in most of the world. One factor explains this more than any other: European colonialism. The Portuguese and Dutch competition in Indonesia illustrates that Europeans' primary motivation during colonization was profit (and certainly not growth in the places they colonized). Colonizers pursued this profit by imposing extractive institutions on the rest of the world, so according to the authors' theory, colonized regions were unlikely to grow.

But in the Banda Islands, each village ruled itself, so the Dutch couldn't take control of the region's spices. Instead, they committed genocide, massacring everyone on the islands and then creating a system of plantation slavery in their place. Through their monopoly, the Dutch drove down spice supplies and drove up their prices. They repeated this over the entire region, crushing the prosperous states surrounding them. Many states even destroyed their spice trees instead of facing Dutch conquest.

These brutal colonial practices clearly show how extractive economic institutions like monopolies harm the majority (and the economy as a whole) in order to benefit the few. In addition to committing unconscionable violence, the Dutch also impoverished local native people by destroying their robust commercial economies.

Without this colonial violence, Acemoglu and Robinson suggest, Southeast Asian states might have become prosperous and inclusive. But it's impossible to know. This chapter is about how European colonialism "sowed the seeds of underdevelopment" around the world by imposing highly extractive institutions on native populations.

Dutch colonialism didn't just prevent local economies from growing and local people from thriving in Southeast Asia: it actually destroyed the relatively vibrant, centralized states that already existed. Simply put, it destroyed the region's capacity to grow in the future. At the same time, the authors agree that there's no way to know whether or not these states would have actually flourished, since history is contingent—it's impossible to make such a prediction, though it's still clear that colonialism took a devastating toll on Southeast Asia.

The section "The All-Too-Usual Institution" focuses on slavery. In the Middle Ages, Europe transitioned away from slavery to a system of feudal serfdom. But the slave trade remained alive and well within Africa and the Middle East. Then, in the 17th and 18th century, Europeans started taking millions of slaves from Africa to their American plantation colonies. Europeans paid for slaves with guns and ammunition, which accelerated war and conflict in Africa. Many African societies started focusing all their energy on capturing and trading slaves, and this eroded most existing institutions. For example, the Oyo and Asante Empires conquered most of coastal West Africa and sold their captives as slaves.

While both European and African states enthusiastically participated in the slave trade, its negative economic and political impacts were heavily concentrated in Africa (and the Americas). Of course, for Europeans, this was a plus. The primary reason for this concentration of harm was that the slave trade gave African states a strong incentive to fight more wars. In turn, this made peaceful states more likely to get attacked, which incentivized them to start arming themselves, fighting, and enslaving people, too. After all, this became the clearest path to wealth in much of coastal Africa. This is another clear example of how extractive economic institutions encourage elites to pursue harmful and politically destabilizing economic activities. Like the spice trade in Indonesia, the slave trade in Africa didn't just suppress growth, but actually undermined and destroyed existing states.

Slavery and warfare suppressed population growth in Africa. For instance, without warfare and the slave trade, West Africa's population would have at least doubled between 1800 and 1850—instead, it stayed the same. After the transatlantic slave trade ended, African societies and European merchants instead started trading commodities like ivory, rubber, and palm oil. While they could no longer sell enslaved people, African societies started using them to extract these commodities. For instance, the Asante and Dahomey empires built huge slave plantations. During the 19th century, widespread warfare continued and slavery actually expanded throughout Africa. Meanwhile, European colonizers continued using slave labor within Africa well into the 20th century.

Acemoglu and Robinson see a clear link between the extractive institution of the transatlantic slave trade and the other extractive institutions that formed later on in sub-Saharan Africa. Again, their research shows that societies based on violent, extractive institutions—like the Asante Empire—were far more likely to repurpose those extractive institutions after a crisis than to abandon them and replace them with inclusive ones. Therefore, after the end of the slave trade, it was much easier for West African elites to transition their countries' economies to plantation agriculture than to inclusive economic institutions. There is, then, a cycle of oppressive practices, as societies struggle to break out of their extractive political and economic models.

In the section "Making a Dual Economy," Acemoglu and Robinson explain that economists still usually follow Arthur Lewis's model to explain less-developed countries. Lewis argued that these countries have dual economies that are divided into a modern (industrial and urban) sector and a traditional (agricultural and rural) one. Economists define economic development as bringing people from the traditional sector into the modern one.

Acemoglu and Robinson will argue that Lewis correctly describes inequality in developing countries but misunderstands its source. Lewis assumes that the two sectors of the economy are independent, that workers in the modern sector started out in the traditional sector but moved up over time, and that people in both sectors benefit when workers move from the traditional one to the modern one. But the authors suggest that colonial history doesn't support these assumptions, as economic change is much harder to achieve than Lewis's model suggests.

South Africa is a clear example of the dual economy. For instance, the modern state of Natal is full of spectacular beachfront houses, while the more traditional neighboring state of Transkei is full of huts without gas or running water. Natal's property rights and legal institutions are stronger than Transkei's—but Transkei isn't underdeveloped simply because it's part of Africa. Rather, South Africa's white apartheid government deliberately underdeveloped and impoverished it to give white-run businesses a source of cheap labor.

Although South Africa's economy is rigidly divided, Acemoglu and Robinson argue that Lewis's theory of the dual economy misidentifies the cause of South Africa's inequality. The two sectors, the authors argue, aren't actually independent, and the traditional sector doesn't function the way South Africa's entire economy did before the modern sector was created. Instead, the modern and traditional sectors are two sides of the same extractive institution. The modern sector consists of the elites who benefit by extracting wealth from the masses in the traditional sector. As a result, these elites have strong incentives to prevent people from moving into the modern sector, and anyone who wants to do so will have to win a difficult political fight against elites. Thus, politics play an extremely important role when it comes to reducing inequality and spurring growth—an idea Lewis overlooks by focusing on economic concerns.

South Africa mostly avoided the slave trade and its harmful effects. After Europeans first settled South Africa in 1652, they barely interacted with the native Xhosa people until the 19th century. But then Europeans expanded inland to take advantage of South Africa's temperate climate and lack of tropical diseases. Along with a mining boom, these factors led to bloody conflicts between the English, Dutch, and Xhosa.

At first, South Africa resembled North America in an important way: Europeans settled and actually worked in the colony instead of just extracting wealth from local people. In theory, this could have promoted the formation of inclusive institutions. However, the settlers eventually changed course and started exploiting locals, too, so institutions quickly became extractive.

However, European colonialism also led to a brief economic boom in South Africa. Xhosa people started trading with Europeans, building better houses, and irrigating and cultivating their soil. Their institutions changed, too, as they bought and sold land. These private property rights gave non-elites the chance to build wealth and infuriated traditional chiefs, who tried to stop people from improving the land and banned all European technology.

Acemoglu and Robinson are not defending colonialism or arguing that it created truly inclusive economic institutions. However, they do highlight the benefits of some of its limited inclusive elements—the markets and property rights it temporarily extended to some people. But the local chiefs' response to European technology is another example of how absolutists fight to stop change that threatens them.

Europeans deliberately reversed South African growth in order to eliminate competition from African farmers and create a supply of cheap labor for the mines. In 1913, the colonial government's Natives Land Act explicitly divided South Africa in two, reserving 87 percent of the land for the white fifth of the population. This set the foundation for the apartheid system. In the mid-20th century, development economists viewed South Africa as a natural example of Arthur Lewis's dual economy. But actually, government policy created it.

The colonial government quickly dismantled the property rights and markets that it had briefly extended to native people. Through the Natives Land Act, it set up an explicitly extractive system for the exclusive benefit of the white elite. And through the apartheid system, it gradually strengthened extractive institutions over time. Thus, rather than talking about a modern class and a traditional class in South Africa, it would be more accurate to talk about an exploitative class and the people they exploit.

The South African government's policies inverted native Africans' economic incentives. It led farmers to give up the new technologies they had adopted, revoked private property rights, and gave traditional rulers much more power. Most importantly, it impoverished the people, driving their wages and living standards down. This is why South Africa remains one of the world's most unequal societies. South Africans weren't allowed to start businesses, take up skilled occupations, or receive a quality education.

This example again supports the authors' thesis that people work, innovate, and change in response to incentives. By revoking native people's economic rights and freedoms, the colonial government took away all incentives to be productive. This is another classic example of extractive institutions limiting growth and prosperity and maximizing exploitation.

In South Africa's dual economy, poor people couldn't move from the traditional sector into the modern one. Rather, white employers' profits in the modern sector depended on them underpaying native workers in the traditional sector. This wasn't a development problem: it was a policy one. South Africa's extractive economic institutions were based on extractive political institutions that reserved all political power and representation for white people. South Africa's dual economy didn't end through natural economic development, but rather through the political movement that ended apartheid.

The dual economy theory is entirely based on the assumption that people can *move between the traditional and modern sectors. In other words, the theory doesn't see the real-world institutional barriers that stop people from joining the modern sector. Therefore, while the dual economy theory proposed economic fixes, South Africa really needed political change. After all, as Acemoglu and Robinson have repeatedly argued throughout the entirety of this book, political institutions are more fundamental than economic ones, so changing economic institutions almost always requires first changing political ones.*

Acemoglu and Robinson summarize this chapter's argument under the heading "Development Reversed." At home, European industrialization, colonialism, and commerce brought prosperity. But abroad, it destroyed existing societies and created highly extractive institutions in their place, which prevented those societies from building inclusive institutions. The Dutch did this in Indonesia, and the British did this in India—after the Glorious Revolution ended its monopoly on the textile trade, the East India Company dismantled India's prosperous textile sector.

It might be helpful to think of colonialism as an extractive institution blown up to a massive, global scale: a small elite minority in Europe grew rich by extracting wealth and resources from a vulnerable minority in another part of the world. However, within *many European nations, institutions were inclusive enough that the riches extracted through colonialism actually helped spur broader economic growth.*

Of course, the slave trade had similar effects on Africa—it led African countries to reorganize their economies around enslaving and fight wars that destroyed their centralized institutions. European colonialism impoverished South Africa by creating a dual economy for the benefit of a small minority. All these examples show how economic development in some parts of the world often depends on underdevelopment in other parts.

Acemoglu and Robinson's critique of European colonialism gives important context to their praise for European inclusive institutions elsewhere in the book. As they have pointed out several times, no institution is ever completely *inclusive, so it's significant that European institutions only included Europeans by excluding and extracting wealth from people around the rest of the globe. Of course, they would likely emphasize that the world did not have to develop this way. The global economy would have grown faster, smoother, and more peacefully if Europeans had let inclusive institutions grow around the world instead of constantly imposing extractive ones.*

CHAPTER 10: THE DIFFUSION OF PROSPERITY

In "Honor Among Thieves," Acemoglu and Robinson explain that Great Britain dealt with its convicts by sending them to Australia. Henry and Susannah Cable, a married couple of convicts who met in jail, were set to be separated, but a wealthy philanthropist took up their case and ensured that they could go to Australia together with their son and a parcel of goods. But the parcel mysteriously disappeared on their way to Australia. Presumably, the ship's captain took it. Under British law, the Cables couldn't sue him because convicts had no legal property rights. In Australia, however, a judge still ruled in the Cables' favor.

In the previous chapter, the authors explained how European colonialism and the slave trade prevented most of the world from building inclusive institutions or taking advantage of the Industrial Revolution. In this chapter they show why, on the other hand, a select few nations did build inclusive institutions and industrialize. Some of these were even European colonies whose economies followed a very different path. For instance, the Cables' case shows that Australia's legal institutions gave convicts many more rights than Britain's. Australia's institutions became more inclusive because it was a society of convicts that faced a set of unique challenges.

Different laws applied in Australia, and different institutions formed. The soldiers guarding the penal colony hoped to profit off the convicts' labor, but they soon realized that convicts simply wouldn't work without an incentive. Therefore, they allowed convicts to work and sell goods after completing their official tasks. Convicts started trading with the soldiers, who set up a rum monopoly and a vast sheep and wool industry. But they weren't absolutists—rather, in order to profit, they had to pay the convicts for their labor and give them economic rights, including land once their sentences were up. In other words, the soldiers created inclusive institutions, which allowed convicts like Henry Cable, who was illiterate, to create businesses and build wealth.

Australia's early economy was similar to the colonial US's. Namely, there simply weren't enough other people around for elites to build extractive institutions and expect to profit. Instead, these elites quickly realized that inclusive institutions were their only shot at making money. Of course, these institutions weren't completely inclusive (for instance, there were still monopolies). Still, convicts in Australia ended up having roughly the same economic rights as free men in England. The Cables' prosperity shows that Australia's inclusive institutions gave all white men a fair shot at building wealth.

Soon, ex-convicts, free settlers, and their descendants started demanding political representation and protesting against the Australian elite (wealthy former soldiers). Britain created a council to rule alongside the governor, and in 1831 it started letting ex-convicts and free settlers sit on the council. In the 1850s, Australia let all white adult men vote, and it was the first place in the world to vote by secret ballot.

Just like in England after the Glorious Revolution, once common people got a foot in the door of the Australian government, they used their leverage to win even more power. Through this process, they managed to turn a limited slate of economic rights into a wide range of political ones. This clearly shows how inclusiveness begets inclusiveness over time.

There simply weren't enough people or resources in Australia to build an extractive colony, so an inclusive one was the only viable model. But other nations built inclusive institutions in other ways. For instance, Britain did so through the Glorious Revolution. Similarly, the French Revolution brought inclusive institutions to France, while its aftermath did so to the rest of Western Europe.

Just like there are multiple paths to economic stagnation through extractive institutions—including absolutism and state decentralization—there are also multiple paths to economic growth through inclusive ones. The authors have already covered the Glorious Revolution, so now they turn to the French Revolution, which took a very different form but ultimately produced a similar result.

In the section "Breaking the Barriers: The French Revolution," Acemoglu and Robinson explain that France was an absolutist monarchy from the 1400s to 1789. The clergy and nobility—or First and Second Estates—had special rights, were exempt from taxes, and held the most political power. Meanwhile, the masses—or the Third Estate—mostly lived in a feudal system of rural poverty. But the French Revolution abolished feudalism and revoked the elite's tax exemptions. It also mandated political and economic equality and removed the restrictions that let guilds monopolize certain trades. Eventually, France dismantled the monarchy and built the same kind of inclusive parliamentary system as England.

Under feudalism, France's extractive economic system was only possible because of its highly extractive political institutions. Although the French Revolution was largely motivated by economic dissatisfaction, its leaders knew that they had to reform the political system first. They were largely ordinary people, which made their priorities very unlike those of the disgruntled aristocrats who led the Glorious Revolution in England. Namely, they wanted more inclusive institutions. In fact, the French Revolution expanded citizens' rights much faster than the Glorious Revolution, which only extended rights to a small minority and only allowed Britain to become democratic and egalitarian over the course of centuries.

The French Revolution occurred because of several historically contingent factors. In the late 1600s, Louis XIV greatly consolidated power and built certain government controlled, extractive industries to enrich the monarchy, nobility, and clergy. But by 1789, the monarchy faced a deep fiscal crisis because it couldn't tax the nobility. To fix this crisis, it had to consult the Estates-General, a body of representatives from the First, Second, and Third Estates. But the Third Estate's representatives, supported by mass protests, forced the Crown to call a National Constituent Assembly instead. Shortly after, the people stormed the Bastille, a significant fortress and prison in the heart of Paris. The National Constituent Assembly then approved a new constitution that revoked most of the king's power.

France's monarchy fell for many of the same reasons as the England's a century earlier and Spain's a century later. Its overreach resembled the Spanish Crown's excesses under Ferdinand and Isabella, and angry elites rebelled in both England and Spain. However, none of this had to translate into political change. Crucially, in all three nations, the people's representatives had power over taxation. This institutional quirk was really a holdover from feudalism. But it gave the public in each nation the power to significantly weaken the monarchy and eventually build inclusive institutions at a particular critical juncture.

Eventually, France fell into war. Next, during the so-called Terror, the radical Jacobins executed their opponents, much of the aristocracy, and—most famously—both Louis XVI and Marie Antoinette. From 1799 to 1815, Napoleon Bonaparte took control of France and conquered much of Europe. But eventually, France developed the inclusive political institutions long promised by the Revolution. This soon spread to the rest of Europe.

Like the Glorious Revolution, the French Revolution was neither instantaneous nor free of conflict. But since the French Revolution represented a far more radical institutional change, it caused much more bloodshed and infighting among the small, ideological coalitions who led it. The authors emphasize that France wasn't destined to have the inclusive institutions that it did ultimately build—instead, this outcome was contingent on many factors (including which faction seized power and why). Therefore, while the authors admire the French Revolution's values, they also suggest that its method was less sure to lead to inclusive institutions than the Glorious Revolution's—even though it was more inclusive at the beginning.

In "Exporting the Revolution," Acemoglu and Robinson explain how, from the Middle Ages to the French Revolution, Jewish people faced draconian restrictions across Europe. For instance, in Frankfurt, they were confined to a ghetto and couldn't freely move, marry, or open businesses. But the French Revolution eliminated such restrictions in France, and Napoleon did the same in the lands he conquered—including Germany. This gave Jewish people citizenship and new rights. For instance, it allowed the Rothschild family to grow their business into Europe's largest bank.

Napoleon tore down the extractive institutions that limited Jewish people's political and economic freedoms. These institutions kept Jewish people poor by preventing them from using many of the economic institutions that were available to the rest of the population—like markets and the legal system. Napoleon replaced these institutions with more inclusive ones—which, predictably, led to innovation and growth in the Jewish community, including the Rothschilds' bank.

In fact, Napoleon eliminated medieval institutions—like serfdom and guilds—throughout all of the territories he conquered. By exporting the French Revolution, he made inclusive institutions and economic growth possible throughout much of Europe.

If Napoleon's invasions caused most of Western Europe to build inclusive institutions, then they also explain why most nations in that region industrialized, achieved sustainable economic growth, and are prosperous today.

In 1792, other European powers invaded France to stop the Revolution, but France managed to build a stronger army due to its policy of mass conscription. After successfully defending France, the army invaded other areas in the 1790s—including Belgium, the Netherlands, Switzerland, the western part of Germany, and most of Italy. In all these places, the French army abolished serfdom, ended the clergy and guilds' privileges, and established rule of law. After taking control of France, Napoleon advanced these same interests. After his defeat, some territories reversed his reforms, but many didn't. Thus, French rule actually ended feudalism and absolutism in many parts of Europe, which later allowed inclusive economic institutions and industrialization to flourish.

France's successful mass conscription policy shows that the French Revolution created more advanced, inclusive institutions than other parts of Europe. Just like England's inclusive economic institutions allowed it to take the upper hand in international commerce, then, France's inclusive political institutions gave it an advantage in war. While this provides historical precedent for the idea that nations can force inclusive institutions on other nations through war, the authors emphasize that this didn't happen in every case. Rather, the outcome of French invasions was always highly contingent: it depended on each region's specific history and context.

In the section "Seeking Modernity," Acemoglu and Robinson explain how, in 1868, regional leaders overthrew Japan's ruling Tokugawa family, which had run the country as an extractive, feudal society much like medieval Europe. These leaders claimed that their goal was to restore the emperor to power, but they really wanted to build new, inclusive institutions. They took power in the Meiji Restoration, then defeated the Tokugawa family in a civil war and transformed Japanese institutions.

In several important ways, the Meiji Restoration closely resembled other inclusive revolutions—especially the Glorious Revolution and American Revolution. While its leaders were aristocrats, their primary goal was not just seizing power, but transforming institutions. They had to fight off the incumbent elites in a civil war, but once they did, they had a chance to build the kind of inclusive institutions that spurred industrialization and economic growth throughout Europe.

The Meiji Restoration ended Japanese feudalism, created a modern tax bureaucracy, made all social classes legally equal, and lifted restrictions on trade, migration, and property ownership. The new regime also invested heavily in infrastructure and industry. These reforms allowed Japan to grow rapidly after the Industrial Revolution. Thus, until the mid-1800s, China and Japan were very similar: they were poor, absolutist, closed to the world, and vulnerable to Western military conquest. But Japan's shogun was overthrown much earlier than China's emperor, and as a result, the countries' fates diverged sharply after the Industrial Revolution.

Acemoglu and Robinson clearly believe that the Meiji Restoration built inclusive institutions that were key to Japan's economic success. Its modern tax bureaucracy allowed the state to become more centralized and rule more fairly. By giving all people the same legal rights, including to private property and trade, the Meiji Restoration met all the basic criteria for inclusive economic institutions. These reforms allowed innovators, investors, and entrepreneurs to freely experiment and direct their energy towards the most promising and productive economic activities. Ultimately, the difference between Japan and China is similar to the one between Western and Eastern Europe. It provides yet another example of how small institutional differences can lead nations in wildly different directions during a critical juncture.

In "Roots of World Inequality," Acemoglu and Robinson summarize their argument in the last three chapters. England led the Industrial Revolution because of its inclusive institutions. Then, industrialization quickly spread to countries with similar institutions—including the US and Australia, but not Europe's extractive colonies in Asia, Africa, and Latin America. In Eastern Europe and the Ottoman Empire, absolutists opposed industrialization because they knew that creative destruction would threaten their profits and political power.

So far, Acemoglu and Robinson have argued that a nation's growth depends on whether its institutions are inclusive or extractive. They've also explained how different nations form these institutions at critical junctures throughout history. Finally, they've argued that the way nations formed their institutions after the Industrial Revolution explains modern inequality in the world today. By outlining these events, Acemoglu and Robinson have shown how each region of the world went down its own institutional and economic path.

Meanwhile, France built inclusive institutions during the French Revolution and exported them through military conquest. This allowed much of Western Europe to industrialize very quickly. Absolutist China resisted industrialization, while Japan embraced it after the Meiji Restoration built inclusive institutions. Finally, while Ethiopia remained absolutist, the slave trade created extractive societies and destroyed centralized institutions throughout much of Africa. These patterns are the foundation for contemporary global inequalities. With few exceptions, the countries that started industrializing in the 19th century are rich today, while those that didn't are poor.

In very broad terms, Acemoglu and Robinson divide different nations' responses to the Industrial Revolution into four main categories. First, some nations (like France and Japan) built inclusive institutions through revolutions. Second, other nations (like the US and Australia) had no institutions on the eve of the Industrial Revolution, so they built inclusive ones from the ground up. Third, most monarchies and empires refused to build inclusive institutions because they were absolutist. And finally, some nations—especially in Africa—couldn't build inclusive institutions because they lacked state centralization. However, while the authors' analysis explains the lay of the land in the 1800s and early 1900s, one crucial question remains. Namely: why haven't more countries built inclusive institutions since the 1800s? This is the subject of the next two chapters.

CHAPTER 11: THE VIRTUOUS CIRCLE

Acemoglu and Robinson open the section "The Black Act" by explaining how, in England in the 1700s, bandits went "blacking"—they painted their faces black, destroyed property, and killed animals. After the Glorious Revolution, the Stuart monarchs tried and failed to take back power for a century. Meanwhile, the Whig Party led Parliament, but the Tory Party and new parliamentary rules limited its power. So did blacking, which gave angry citizens—or "Blacks"—a way to protest Whig abuses of power. For instance, the powerful earl William Cadogan expanded his estate by kicking his neighbors off their land and turning it into a deer park. In response, the Blacks raided his property and killed his deer.

Although it was covert and illegal, "blacking" was actually an important part of the English political system after the Glorious Revolution. It served as a check on power. After all, the English people had no guarantee that the Whigs wouldn't just set up extractive institutions and start ruling as an aristocracy. The only way to prevent this was by limiting their power. For instance, Cadogan's land grab was similar to the tactics that Roman senators used to amass more land (see Chapter Six). Even if the Blacks' raid didn't stop Cadogan, it signaled the public's opposition and prevented politicians like him from taking their extractive tactics even further.

In 1723, the Whigs made "blacking" punishable by death. When Prime Minister Walpole turned traditional common land into a private park, local citizens revolted. Walpole personally prosecuted one of them, John Huntridge, for aiding the Blacks—but a jury acquitted him. While many other suspected Blacks were hanged, Huntridge's acquittal shows that England's legal system had changed: the powerful couldn't use the courts as a weapon anymore. Instead, there was rule of law—meaning that the laws applied equally to everyone.

Once again, the future of a society's institutions depended on a conflict between elites and the masses. But in 18th-century Britain, the rule of law ensured that the legal system decided this conflict fairly. This would never have been possible under the previous system, in which the monarchy dominated the government. Thus, the rule of law is another example of how inclusive institutions tend to become more inclusive over time. In short, elites have a much harder time grabbing power in nations with fair legal institutions.

The Glorious Revolution built the rule of law in England. It meant the Whigs couldn't pass laws that violated citizens' fundamental rights. But historically, under absolutist governments, rule of law was unthinkable: the king and aristocracy would never follow the same rules as everyone else. Only pluralist institutions made this possible: when many different groups share power, they have good reason to treat each other equally. During the Glorious Revolution, pluralists actually used the rule of law as a key argument against absolutism. And once England created inclusive institutions, the rule of law reinforced itself in a virtuous circle.

In Chapter Seven, the authors explained that the aristocrats and merchants who led the Glorious Revolution built pluralist institutions because this was the only way for them to all protect their wealth and property. The authors now suggest that these pluralist institutions required the rule of law to function smoothly. If people's property rights weren't equal, for instance, then the faction that controlled Parliament could simply take property away from the minority (much like Cadogan and Walpole did to common people). This is why pluralism and the rule of law tend to work together.

This explains why inclusive institutions tend to survive over time: most groups can't participate in politics without pluralism and the rule of law, so few are willing to threaten them. Moreover, as institutions become more inclusive, societies tend to become more economically equal. This process gives formerly disenfranchised groups more power. Finally, pluralism also creates a freer media environment, which helps people stop abuses of power and protect inclusive institutions. However, inclusive institutions aren't invincible—absolutists can still challenge and overthrow them. Fortunately, most of these challengers have failed in countries like Britain and the US.

Pluralism reinforces the rule of law because the multiple groups who share power all want their rights protected (so they won't lose power). Conversely, the rule of law reinforces pluralism because it actually protects those rights against people who try to violate them. Both are key elements of the inclusive political institutions that also reinforce (and are reinforced by) inclusive economic institutions in the "virtuous circle."

In "The Slow March of Democracy," Acemoglu and Robinson note that British democracy still wasn't particularly inclusive in the 1700s—for instance, the vast majority of people still couldn't vote. But "the virtuous circle of inclusive institutions" made it more and more pluralistic over time. In the early 19th century, workers rioted against industrialization, and elites decided to partially extend them voting rights rather than risk a revolution.

"The virtuous circle" doesn't just preserve inclusive institutions: it actually makes them more *inclusive over the course of history. Once multiple groups share power, new groups can demand a place in the government and win their political rights much more easily. Even if the first inclusive political institutions in nations like England and the US didn't actually include* everyone, *they were still the first and most important steps toward a truly inclusive form of democracy. In other words, while the Glorious Revolution didn't create a democracy, England's eventual democracy would have been impossible without the revolution.*

Initially, Parliament only extended voting rights from two percent of the population to four percent. Still, it's significant that British elites answered workers' demands through reform—rather than through force, like they did throughout British colonies. Elites knew that choosing repression would mean abandoning the rule of law, pluralism, and inclusive economic institutions. They also knew that repression would probably fail, because inclusive institutions gave the people more resources and power than ever before. Instead, they allowed modest reform. Next, the Chartist movement started fighting for broader reforms, including universal suffrage and equal representation for all in Parliament. New legislation doubled the electorate twice more, in 1867 and 1884. By 1928, Britain enfranchised all adults, including women.

Acemoglu and Robinson emphasize that inclusive political and economic institutions also feed the virtuous circle by making violence riskier. Without violence, elites have to negotiate and compromise with the people instead of fighting them off. This small difference in political incentives actually transforms institutions through the process that Acemoglu and Robinson have called "institutional drift." Every time the elites concede some power to the people, it might feel like a small necessary evil that isn't likely to impact the country's immediate future. But as these reforms build up over the course of generations, they can seriously impact the nation's political course. Over time, for instance, these small steps toward inclusiveness made Britain into what it is today: a fully inclusive and egalitarian democracy.

Britain's economic institutions also became more inclusive during this period. For instance, Parliament repealed the Corn Laws, which had artificially increased prices and protected large landholders. The government created many public services for workers, like health insurance and a minimum wage. It even started providing free, universal education. These changes all show how "the virtuous circle of inclusive institutions" can gradually make societies more democratic over the course of decades. Plus, this kind of gradual progress is more acceptable to elites and less likely to throw society into chaos or violence (like the French Revolution did).

As the political system starts including more people, these people start to demand policy change, not just more power. This policy change makes economic institutions more inclusive, but it also reinforces inclusive political institutions, too. In Britain, new economic policies challenged elite power, and resources like education and health insurance gave ordinary citizens the knowledge and support they needed to participate in politics. This illustrates how inclusive political institutions can transform society. When societies initially form somewhat inclusive political institutions, they're usually already built on extractive ones. But through the virtuous circle, those inclusive institutions can gradually cause changes throughout the rest of society until, over the course of generations, it creates a truly inclusive society.

In the next section, "Busting Trusts," Acemoglu and Robinson return to the United States. On the one hand, American institutions became more inclusive during the 19th century. On the other, during the same period, men like Cornelius Vanderbilt, John D. Rockefeller, J.P. Morgan, and Andrew Carnegie—the so-called Robber Barons—also became fabulously wealthy by building vast, monopolistic business empires. In response, Populists, Progressives, and farmworker organizations lobbied for antitrust (anti-monopoly) legislation. President Theodore Roosevelt made trust-busting and corporate regulation his signature issues. Presidents Taft and Wilson continued his work, breaking up monopolies like Rockefeller's Standard Oil Company and creating agencies like the Federal Trade Commission to regulate monopolies.

While capitalism and entrepreneurship drove massive economic growth, they distributed the fruits of that growth very unevenly. Ultimately, such inequality ended up threatening the system itself. Just like under extractive institutions, elites set up monopolies and fear losing their wealth, power, and status to creative destruction. Thus, antitrust legislation keeps markets competitive and prevents capitalism from undermining itself. It's really a kind of inclusive economic institution. But it relies on inclusive political institutions to survive. Thus, the US only kept its economy growing because its elected leaders managed to go after the Robber Barons—and win fairly in a court of law.

Acemoglu and Robinson reiterate that markets aren't automatically inclusive—instead, they have to "create a level playing field and economic opportunities for the majority." While monopolies corrupt markets, making them extractive and preventing new, better technologies from successful, inclusive political institutions (like the US government) can regulate and stop them. Meanwhile, the early 20th-century US also shows how muckrakers, or investigative journalists who expose corruption, can shift public opinion and spur political change. But muckrakers can't succeed without inclusive political institutions supporting a free media system.

Many social scientists think of economic policy as the government regulating a free market that already exists. But Acemoglu and Robinson strongly believe that the government creates the market through policy. By opposing monopolies, it can make the market free, fair, and inclusive. But by defending them, it builds extractive, unequal markets that stifle innovation instead of promoting it. Furthermore, the media is also an important democratic institution (although not exactly an economic or political one). By giving citizens access to important information about their society, it ensures that they quickly identify and address abuses of power.

In the section "Packing the Court," Acemoglu and Robinson summarize the New Deal programs that Franklin D. Roosevelt passed in response to the Great Depression. But the Supreme Court challenged many of these programs, like the National Industrial Recovery Act, the Social Security Act, and the National Labor Relations Act. In response, Roosevelt proposed legislation to reform and reorganize the Supreme Court. But Congress refused to pass it.

Roosevelt's New Deal programs were important, inclusive economic policies, but he tried to achieve them by changing the structure of the Supreme Court. Because many people saw this as a bald abuse of power, Congress stopped his plan, most likely because the majority of US politicians shared Acemoglu and Robinson's belief that inclusive economic institutions can't survive under extractive political ones.

The story of Roosevelt's failed attempt to pack the Supreme Court shows how inclusive institutions "resist attempts to undermine their own continuation." While Roosevelt's allies in Congress would have benefited in the short term from packing the court, they understood that they would be undermining their government's institutions in the long term. Indeed, Acemoglu and Robinson note that Roosevelt might have tried to overrule Congress next.

When the authors say that inclusive institutions "resist attempts to undermine their own continuation," they really just mean that these institutions have an automatic defense system built in. Politicians quickly band together and defeat anyone who tries to make their institutions extractive. During Roosevelt's court-packing attempt, Acemoglu and Robinson believe that it was in most politicians' best interest to resist Roosevelt's plan, since they would likely lose power if he managed to gain more political influence in the Supreme Court. As a result, Acemoglu and Robinson argue, these politicians' personal interests were aligned with their country's best interests.

Presidents have done similar things in other countries, including Peru, Venezuela, and Argentina, where President Juan Perón simply replaced unfavorable Supreme Court justices with allies who let him do whatever he pleased. But this was only possible because of Argentina's extractive economic and political institutions. Later Argentine presidents started doing the same as Perón. In 1990, President Carlos Menem expanded the court and changed other laws—like term limits—to consolidate his power. Like many Latin American countries, Argentina has been stuck in a vicious circle, not a virtuous one. In contrast, the US's inclusive institutions have kept the Supreme Court independent.

In countries with extractive institutions, politicians' incentives aren't aligned with the interests of the people. Actually, it's just the opposite: they make money by extracting money and resources from the population, ultimately gaining power by disempowering the masses. Perón and Menem successfully rigged the political system because Argentine politicians had no inclusive system to defend. (On the contrary: they stood to benefit more from getting close to the president than from supporting democracy.) Thus, extractive institutions become more extractive in the vicious circle, just as inclusive ones become more inclusive in the virtuous circle.

Acemoglu and Robinson conclude this chapter with "Positive Feedback and Virtuous Circles." They argue that societies create inclusive institutions at critical junctures, when elites fail to protect their power. But after creating them, inclusive institutions tend to reinforce themselves through a virtuous circle, or positive feedback cycle. Such institutions make it difficult for leaders to concentrate power. Meanwhile, the rule of law prevents some groups from using the law as a weapon against others and gradually leads political systems to become more inclusive, too. Inclusive political institutions tend to create inclusive economic institutions, which spur economic growth and reduce the elite's need to stay in power. And finally, inclusive institutions allow free, independent media to protect democracy.

By analyzing how inclusive institutions spread, Acemoglu and Robinson add useful nuance to their theory of inequality. It's not enough to merely say that, after the Industrial Revolution, some countries formed inclusive institutions and some didn't. Rather, all countries started with extractive institutions, but pluralistic coalitions managed to overthrow the political elite and create somewhat inclusive institutions in a select few societies. Over time, the virtuous circle has made those institutions more and more inclusive—and the societies they support more and more prosperous.

CHAPTER 12: THE VICIOUS CIRCLE

In "You Can't Take the Train to Bo Anymore," Acemoglu and Robinson explain that, after the British took over Sierra Leone and started demanding taxes, local leaders rebelled, especially in the south. To help crush the rebellion, the British built a **railway** through the South. In the 1960s, Sierra Leone became an independent country with two main parties: the SLPP, which was strongest in the south, and the APC, which mostly represented the north. The old British railway helped the south export chocolate, coffee, and diamonds. But when APC leader Siaka Stevens won power, he dismantled the railway to punish the SLPP. He simply cared more about power than the economy.

The railway's construction and destruction both *show how extractive institutions pit the government against the people. First, the British built it to extract wealth from the country and violently suppress calls for political freedom. Then, Siaka Stevens dismantled it to protect his own power and wealth at the expense of his rivals and the public. While he shamelessly prioritized his own personal future over his country's collective future, this was no different from what the British did. That is the central question in this chapter: why do leaders like Stevens recreate the same extractive institutions that they overthrow? Why don't institutions change when power changes hands?*

In fact, when Stevens eliminated the SLPP and created an absolutist one-party dictatorship, he simply followed the British model of extractive institutions. For instance, the British heavily taxed farmers by forcing them to sell all their product through the Sierra Leone Produce Marketing Board. Stevens kept this system in place and paid farmers even less than the British—as little as ten percent of their harvests' true value. Similarly, the British let local leaders rule for life as "paramount chiefs," and this institution still exists today. Throughout Africa, policies like these have held back agricultural productivity. Farmers don't have an incentive to improve their crops or secure property rights to their land.

Siaka Stevens's government wasn't just as ineffective as the British colonial one: it also kept the exact same extractive institutions in place. However, Stevens's motives were relatively obvious: it was extraordinarily profitable and easy for him to keep using these same institutions. Thus, after winning their independence, the people of Sierra Leone had to live under virtually the same conditions as they lived under during the colonial period.

The British colonial mining policies in Sierra Leone and Australia exemplify the difference between extractive and inclusive institutions. In Sierra Leone, the British gave a single company a monopoly over diamond mining and helped it recruit a private army. After independence, Siaka Stevens transferred this monopoly to the government. Similarly, when gold was discovered in Australia, elites wanted to sell control to a monopoly. But instead, the public convinced the government to open mining up to everyone.

Sierra Leone's monopoly was extractive because it let the government direct all of the nation's diamond mining profits to a single beneficiary of its choosing. In contrast, Australia's open mining system was inclusive because it allowed almost anyone to join the mining industry. As a result, the profits from Australian mining were split relatively widely throughout the population. In contrast, Acemoglu and Robinson believe that Sierra Leone's pre-existing extractive institutions allowed it to regulate the diamond industry in an extractive way, too. Australia's existing inclusive institutions, on the other hand, set the stage for the government to make diamond mining a competitive industry.

The slave trade and British colonial policy are chiefly responsible for creating extractive institutions in Sierra Leone. Most importantly, the British used indirect rule—they governed by delegating most authority to loyal chiefs. Before British colonialism, chiefs needed public support to keep power. But under colonialism, chiefs ruled for life. This made them accountable to the British, not the people. Sierra Leone's independent government simply kept all the colonial era's extractive institutions in place. While Stevens did decide to tear down **the old British railroad**, he only did so because he knew his army wasn't strong enough to put down a rebellion (unlike Britain's). In fact, Stevens deliberately weakened the army so that it wouldn't overthrow him.

Stevens consistently put personal power above national prosperity. In the process, he weakened the government even further, continuing the pattern first set by the British. Acemoglu and Robinson again show how earlier institutional differences caused different nations to diverge at critical junctures. Namely, Sierra Leone's earlier institutions set the conditions for its later institutions to form.

Ultimately, as throughout Africa, the vicious circle of extractive institutions has impoverished Sierra Leone and prevented it from developing. Colonial elites built extractive economic institutions to enrich themselves, then used their wealth to build extractive political institutions rigged in their favor. Under such institutions, whoever runs the government can easily amass wealth because nothing stops them from abusing their power. Worse still, nothing stops challengers from overthrowing the government and seizing power. In fact, infighting is common in extractive institutions because the benefits of holding power are so great. Such elite infighting has led many African countries into civil wars after independence.

The vicious circle of extractive institutions is the opposite of the virtuous circle of inclusive institutions. This vicious circle doesn't just prevent countries like Sierra Leone from developing—it also actively impoverishes them over time. Extractive institutions generally don't put checks on elites' power, so they allow leaders to implement increasingly extreme policies that plunder the nation's wealth. Moreover, as the authors note here, extractive institutions undermine centralized government by creating conflicts among elites who all want to rule. Therefore, it's not unusual for poor countries with highly extractive institutions to actually become poorer and more desperate over time.

Under the heading "From Encomienda to Land Grab," Acemoglu and Robinson point out that, in 1993, Guatemala's president and key cabinet members were all directly descended from Spanish conquistadors. In fact, from 1531 to the present, 22 families have monopolized power in Guatemala. In many countries, including Guatemala, elites build extractive institutions that keep themselves in power and keep the country underdeveloped.

When Sierra Leone won its independence, power changed hands but institutions stayed the same. In Guatemala, though, power didn't even change hands: the same families stayed in power and kept profiting from the country's extractive institutions. In this way, Guatemala offers an even clearer example of how and why extractive institutions perpetuate themselves in a vicious circle. Namely, elites amass enough political, economic, and military power that they can consistently put down any challenges from the rest of the population.

In Guatemala, like in Mexico and Peru, the encomienda system enriched Spanish elites by imposing forced labor on the indigenous masses. Independence simply handed power from the Spanish Crown to local elites, whose merchant guild (the Consulado) resisted innovation and new infrastructure because it feared competition. When Guatemala's coffee industry started booming in the 1800s, elites dismantled the Consulado. They then privatized a million acres of fertile land, auctioned it off to themselves, and forced indigenous people to grow coffee on it through a forced labor system.

The encomienda system didn't truly disappear—it just transformed into a new labor system that recreated the same exploitation. Because the small circle of ruling elites monopolized the country's land, wealth, and political power, they controlled the economy just as tightly as Stalin did in the Soviet Union or the Holy Roman Emperor did in his territory throughout Europe. This allowed them to completely freeze all innovation and prevent all creative destruction, making it hard for anyone to challenge the existing power structures.

This forced labor system lasted until 1945, when the dictator Jorge Ubico resigned, leading the country into nine years of democracy and then a 30-year civil war. Ultimately, as Guatemala's elite kept using extractive Spanish colonial institutions for their own benefit, it kept the country's indigenous Maya majority poor, uneducated, and unrepresented in government.

Despite its recent changes, Guatemala is clearly still stuck in the vicious circle of extractive institutions. However, because Guatemala's extractive dictatorships and civil war were primarily funded by the US government, some readers might take issue with Acemoglu and Robinson's version of history, which doesn't acknowledge this destructive foreign intervention.

Next, in the section "From Slavery to Jim Crow," Acemoglu and Robinson point out that the US South was very similar to Guatemala until the Civil War. Its extractive institutions enriched a tiny planter elite while giving millions of enslaved people no rights at all. As a result, the South was far poorer, less industrialized, and far less innovative than the North. The Civil War forced the South to change, but instead of building inclusive institutions, it maintained its extractive ones through Jim Crow segregation. Planter elites remained wealthy and powerful. Most survived the war, as enslavers were exempt from military service. And although slavery was over, they continued to run plantations where Black laborers had few legal rights.

The racist policies of the Jim Crow era show how resilient the vicious circle can be: even the Civil War couldn't shake the planter elites' power. The sharecropping system was almost as cruel and extractive as slavery, and its purpose was the same: to produce cotton for the elites' benefit. Moreover, enslavers' exemption from military service shows how elites distorted the political system to their own benefit. While people in the US generally think of the country as uniquely democratic and inclusive, Acemoglu and Robinson emphasize that the South wasn't this way for most of its history. And yet, the authors also used American antitrust law as an example of the virtuous *circle in the last chapter. Clearly, then, the US managed to have both incredibly inclusive institutions (at the national level) and incredibly extractive ones (in several states throughout the South) at the same time. The authors repeatedly argue that inclusive and extractive institutions eventually clash until one of them changes; in Chapter 14, they will explain how this clash played out in the South.*

After Reconstruction ended in 1877, the Democrats established one-party rule throughout the South. They passed laws to prevent Black citizens from voting and segregated all public services, creating an apartheid system similar to South Africa's. They also stopped the federal government from passing development projects that could empower Black people. The South remained largely unindustrialized until after World War II, and its economy didn't start growing significantly until after the civil rights movement. Until that time, its vicious circle was similar to Guatemala's: the entrenched elite built extractive economic institutions for its own benefit, then created extractive political institutions to support those economic institutions.

From 1877 to the 1960s, the South followed the traditional pattern of extractive institutions. Jim Crow segregation was a highly extractive political institution designed to stop democracy and preserve the planter elite's monopoly on political power. Southern states then used this extractive political institution to support extractive economic institutions. Namely, they kept the region agricultural rather than allowing it to economically develop. This ensured that the old planter elite would keep capturing all the profits, while everyone else would remain poor—including both Black people and non-elite white people.

In "The Iron Law of Oligarchy," Acemoglu and Robinson explain how the Derg, a left-wing military group, overthrew Ethiopia's traditional, absolutist emperor in 1974. The Derg began arresting and executing government officials and nationalizing private property, which led to independence and separatist movements all around the country. But then Derg leader Mengistu Mariam started ruling from the emperor's old throne in the Grand Palace, holding the same official functions, and buying expensive clothes, liquor, and cars.

There may be no clearer symbol of the vicious circle than Mengistu Mariam abandoning his communist ideology, wasting the state budget on personal luxuries, and ruling from the throne of the emperor he deposed. Mariam became precisely the kind of ruler he had pledged to fight, which shows how easily extractive institutions can seduce political leaders by offering them unlimited wealth, unchecked power, and total impunity.

Just like in Sierra Leone, Guatemala, and the US South, the same vicious circle kept recreating extractive institutions in Ethiopia. Sociologists call this "the iron law of oligarchy." New leaders promise radical change, overthrow the government, and then rule exactly like their predecessors.

The iron law of oligarchy explains why revolutions tend to fail in nations with extractive institutions. If they win, revolutionaries get to choose between ruling as oligarchs or creating an inclusive democracy. These revolutionaries benefit tremendously from the former, but not very much at all from the latter. Therefore, it's little surprise that most revolutionaries choose more oligarchy.

Acemoglu and Robinson ask why radical change sometimes works—like in the Glorious Revolution and French Revolution. These revolutions were unique. During both, businessmen pushed for inclusive economic institutions while broad coalitions of different groups pushed for inclusive political institutions. Meanwhile, England and France's monarchies already shared power with independent parliaments. None of this was true in countries like Sierra Leone and Ethiopia, whose economies were more extractive and where no local institutions or independent businesspeople could check government power. Therefore, in these countries, the vicious circle continued.

Acemoglu and Robinson argue that the most important factor when it comes to whether a revolution succeeds or fails is the kind of coalition that leads it. When a small group of committed, ideological revolutionaries overthrow a government (like the Derg in Ethiopia), it's basically like one elite replacing another through a coup. It's similar to how Roman elites constantly murdered each other to gain power. A tiny minority of these usurpers might choose to build a democracy, but the vast majority won't change the system. However, in some revolutions, a coalition truly wants to change a system, not just replace a ruler. The authors suggest that, for this kind of revolution to succeed, its leadership has to be diverse. This is because diversity is the key to pluralism: if the people leading political change don't agree on everything or have competing economic interests, they are more likely to share power than band together and monopolize it. Thus, while it's impossible to know for sure whether any given revolution will reform a nation's institutions, a diverse coalition is a telltale sign that it's capable of doing so.

Acemoglu and Robinson summarize the last two chapters under the heading "Negative Feedback and Vicious Circles." Inclusive institutions tend to become more inclusive over time, in a virtuous circle. Pluralism checks abuses of power and creates inclusive economic institutions, which spread wealth and power more broadly. But extractive institutions also tend to become more extractive over time, in a vicious circle. Extractive political institutions create extractive economic institutions, which enrich elites and protect their power.

The vicious and virtuous circles explain why the international hierarchy of rich and poor countries has remained practically frozen in time since the mid-1800s. The same institutional factors that allow rapid economic growth in rich countries also protect those countries against absolutism. Meanwhile, the extractive institutions that prevent economic growth in poor countries also enrich and empower the elite. This helps them hold onto power by any means necessary and gives them no incentive to build inclusive institutions.

Guatemala is a good example of how the vicious circle can keep the same elite in power for centuries. And the US South shows how resilient this circle can be: after the Civil War ended slavery, the planter elite held onto power and rebuilt the same extractive economy that enriched them before. Elsewhere, the vicious circle continues even when the political elite changes because of the iron law of oligarchy. Extractive institutions don't check the new elite's power, but rather give them a huge financial incentive to abuse it. Some societies have broken the iron law. For instance, the Glorious Revolution and the Meiji Restoration were led by broad coalitions that wanted inclusive institutions. But revolutions in Ethiopia and Sierra Leone were led by narrow factions uninterested in pluralism.

Guatemala, the US South, and the iron law of oligarchy represent three different versions of the vicious circle. In Guatemala, the circle has been stable, creating a deeply extractive system that keeps enriching the same elite. In the US, the Southern elite survived a serious challenge to its power. And in countries like Sierra Leone and Ethiopia, the circle continues even as the system changes. However, Acemoglu and Robinson also emphasize that all nations start out in a version of the vicious circle, meaning that all prosperous countries have managed to break out of extractive practices at some point. Unfortunately, though, many countries still haven't managed to do this.

CHAPTER 13: WHY NATIONS FAIL TODAY

In the section "How to Win the Lottery in Zimbabwe," Acemoglu and Robinson recount how Zimbabwean President Robert Mugabe won his country's national lottery in 2000—while he was still president. This is evidence of how corrupt and extractive the country became under his rule. Wages and standard of living have plummeted in Zimbabwe since its independence.

Mugabe's corruption shows that Zimbabwe—like so many other countries—remains stuck in a vicious circle of extractive institutions. This cycle hasn't merely prevented Zimbabwe from growing: rather, it has actively made conditions worse. Acemoglu and Robinson have finished explaining their theory, and in this chapter, they examine the vicious circle's consequences for nations like Zimbabwe today.

Zimbabwe was a British colony until 1965. Then it was an independent white apartheid state, similar to South Africa, until native African revolutionaries overthrew the government in 1980. Their leader, Robert Mugabe, rewrote the constitution to create a one-party regime. He violently suppressed the opposition and redirected the old government's extractive economic policies to his own benefit. When economic crisis challenged his popularity in the 1990s, Mugabe tried to keep power by rigging elections and win favor by seizing white landowners' farms. But instead, this ruined the agriculture industry and created a hyperinflation crisis. Mugabe's rise to power is another example of the iron law of oligarchy. Acemoglu and Robinson reiterate that extractive political and economic institutions are always the real reason nations fail.

Zimbabwe's history closely resembles Sierra Leone's—and that of many other nations in sub-Saharan Africa. Mugabe's rule is a reminder that inequality and institutional failure remain urgent problems in the 21st century. Yet these are the same timeless problems that all poor nations have faced throughout history. Their root cause is the fact that extractive institutions block economic growth, and the only way to fight this is through political change. Independence, globalization, and modern technology haven't helped Zimbabwe break the vicious circle. Mugabe has left power and died since Acemoglu and Robinson published this book, but little has changed in Zimbabwe.

The next section is "A Children's Crusade?" Acemoglu and Robinson explain how a militia tried to overthrow Sierra Leone's government in 1991. After Siaka Stevens left office, his replacement let the government collapse. The national radio tower fell down, for instance, and government workers stopped receiving their salaries. The rebels claimed to want peace, stability, and an end to autocracy. But in reality, they started massacring civilians at random, recruiting child soldiers, and committing other atrocities. The government did the same. Like many failed states, Sierra Leone fell into a long civil war. This history clearly shows how extractive institutions create war and cause nations to fail. Extractive institutions have also led to conflict in numerous other African countries, including Angola, Mozambique, and Sudan, to name a few.

Stevens and his successor didn't even keep basic state functions going in Sierra Leone. The nation's collapsed radio tower and unpaid government workers are particularly dire symbols of how extractive institutions can further impoverish underdeveloped countries and eventually undermine the state itself. This is why Acemoglu and Robinson emphasize that many countries in sub-Saharan Africa are actually poorer today than they were decades or even centuries ago. The more wealth the government extracts and hoards, the less remains for the people. Meanwhile, both sides in the Sierra Leone Civil War clearly wanted power, not institutional change. It's unsurprising, then, that the iron law of autocracy held, effectively trapping Sierra Leone in extractive institutions.

In "Who Is the State?," Acemoglu and Robinson ask if any Latin American states have failed as badly as African ones. They point out that, despite being a democracy, Colombia has mainly extractive institutions and has long fought wars with armed paramilitary groups. One of these groups, the right-wing AUC, even works closely with politicians and fixes elections in rural areas by threatening voters. Paramilitaries occupy roughly a third of Colombian territory, have displaced millions of people, and control many local governments across the country.

Colombia shows that democracy isn't enough to make a nation's political institutions inclusive. While Colombians enjoy a far higher standard of living than Zimbabweans or Sierra Leoneans, they face similar political challenges—and therefore similar obstacles to economic development. Armed conflict stands in the way of solving these political challenges, so Acemoglu and Robinson are pessimistic about Colombians' ability to establish legitimately inclusive institutions.

While Colombia isn't a failed state, it does lack government centralization and public services, especially in rural areas. This continues in a kind of vicious circle because national politicians, like Álvaro Uribe (who was president from 2002 to 2010), win over rural voters by promising an end to paramilitary violence—while they win support from those rural areas' *politicians* by passing lenient laws against paramilitaries. Overall, Acemoglu and Robinson note that, while Colombia is becoming more inclusive, many aspects of the vicious circle still apply to it. Namely, its political institutions incentivize leaders to cooperate with paramilitaries that threaten the state, not create public services that support the population.

Across most of Acemoglu and Robinson's case studies, poor countries' political institutions are extractive because they're absolutist (rather than pluralistic). But this isn't Colombia's problem. Instead, Colombia lacks the other *key factor for inclusive institutions: state centralization. In most poor countries,* absolutism *feeds the vicious circle, as a small group of elites exercises total power and uses this power to prevent political and economic reform. But in Colombia,* decentralization *feeds the cycle. And winning power in this context would require compromising with paramilitaries, who usually override anyone who calls for inclusive institutions.*

In the section "El Corralito," Acemoglu and Robinson explain how President Carlos Menem pegged the Argentine peso's value to the US dollar in 1991, which led citizens to put all their savings in dollars. He then forcibly converted everyone's dollars and suddenly changed the exchange rate to reap the profits.

Menem effectively seized his citizens' savings. This policy is a classic example of how extractive political institutions create extractive economic institutions. It deeply distorts citizens' economic incentives because it gives them little reason to trust that their savings or investments will hold their value.

Argentina's famously complex economy has been declining for decades because of its extractive institutions. From the mid-19th century to 1914, it grew rapidly because of heavy but unsustainable investment in agriculture. But for the next several decades, the country faced political instability and several military dictatorships. Eventually, it fell into the hands of the corrupt Peronist Party, which focused on buying votes and repeatedly violated property rights. While Argentina might seem very different from other Latin American countries, in reality, its institutions are very similar: they are democratic, but not pluralistic or inclusive. Centuries of extractive institutions have encouraged voters to choose more extreme candidates (even if they're corrupt) and given such candidates an incentive to rule for their own benefit—as authoritarians.

Acemoglu and Robinson argue that Argentina is really just another poor country with extractive institutions. But this is easy to overlook because Argentina saw remarkable growth under extractive institutions in the late-19th and early-20th centuries (much like the Soviet Union did in the 1920s through the 1960s, or like China continues to do today). Thus, Argentina is an excellent case study for why growth under extractive institutions is temporary and unsustainable.

In the short section "The New Absolutism," Acemoglu and Robinson explain how, in 2009, the North Korean government reformed its currency and then strictly limited the amount of old currency that citizens could convert to the new one. Intended to destroy the black market and limit opposition to the regime, it also eliminated the majority of people's savings. Despite its communist politics, the North Korean regime loves to consume luxury goods. In fact, Acemoglu and Robinson argue, communist countries have not fulfilled Marx's vision of an equal, humane society at all. Instead, they have persecuted their opponents, murdered civilians, and turned themselves into the new elite. Extractive political and economic institutions keep them in power.

The North Korean government's currency scheme was remarkably similar to Carlos Menem's. Namely, both countries tried to control the economy by eliminating citizens' savings. This created distorted economic incentives that prevented both economies from growing (although, without the currency scheme, North Korea's economy still probably wouldn't have grown). The Kim family's taste for luxury goods, like the Derg's in Ethiopia, shows that they still put their personal profits above their communist ideology.

Next, in the section "King Cotton," Acemoglu and Robinson explain how, after Uzbekistan gained independence from the Soviet Union in 1991, its government started forcing farmers to grow cotton and sell it back to the government. Worse still, the government forced children to plant and harvest the cotton instead of going to school for much of the year. Uzbek President Islam Karimov and his government were this policy's main beneficiaries. After taking office, Karimov eliminated his opposition and focused on rigging future elections. While the majority of his country was extremely poor, Karimov became incredibly wealthy. Many other former USSR republics are just as extractive and repressive as Uzbekistan today.

Karimov essentially enslaved schoolchildren, so his policy is a particularly egregious example of how extractive political institutions create extractive economic ones that enrich elites. In fact, this policy is one of the most straightforward examples of extractive institutions in the entire book. The government directly redistributed wealth from impoverished peasants to the president. Clearly, this was part of a longer cycle that started with or before the Soviet Union. As in all other nations with extractive institutions, the only way to break the vicious circle in Uzbekistan is through political change.

In the section "Keeping the Playing Field at an Angle," Acemoglu and Robinson explain that Egypt gradually transformed from a socialist society to a capitalist one in the second half of the 20th century. But elites allied with the state controlled virtually all private businesses. Many wealthy business leaders took jobs in the government, and many others convinced the state to protect their companies with tariffs and give them huge loans. Much like the process that enriched Carlos Slim in Mexico, Egypt sold state-owned monopolies to private businessmen, who profited handsomely. Egypt's extractive political institutions have consistently driven its economic institutions toward extractive policies, too. This continued until the Arab Spring protests tumbled President Mubarak's regime in 2011.

Just like Colombia proves that democracy isn't enough to make political institutions inclusive, Egypt proves that capitalism isn't enough to make economic ones inclusive. Markets need to be truly fair and competitive in order to spur innovation. When Acemoglu and Robinson published this book, the Arab Spring protests had recently ousted President Mubarak in Egypt, and they were far from over throughout the Middle East and North Africa. Like many of the successful revolutions that have built inclusive institutions in the past, these protests were focused on institutional change and led by a very broad coalition of people from all walks of life. However, like just as many of the revolutions that Acemoglu and Robinson profile throughout this book, the Arab Spring ultimately failed to create inclusive institutions in Egypt. The iron law of oligarchy held, as another authoritarian government took power in 2014.

In "Why Nations Fail," Acemoglu and Robinson suggest that elites and extractive institutions look different in different countries. Sometimes the elite belongs to one party, like in Uzbekistan. But in other countries, like Colombia, the elite consists of many groups who fight violently over power. Sometimes citizens don't have property rights, like in North Korea. But often they do, like in Egypt, which switched sides from communism to capitalism during the Cold War. And some countries are simply less extractive than others. (For instance, Argentina's institutions are much less extractive than Sierra Leone's.) Even after periods of collapse and civil war, the iron law of oligarchy can still hold—for instance, Siaka Stevens's party won the election again in Sierra Leone in 2007.

While Acemoglu and Robinson have sharply distinguished between inclusive and extractive institutions throughout the entirety of their book, they've done so primarily in order to clearly present their theory. In real life, there isn't such a hard-and-fast distinction—rather, it's a spectrum. There are degrees of inclusiveness and extractiveness. After all, nations have to do many things right in order to build inclusive institutions and achieve sustainable economic growth, so there are many kinds of underdevelopment. For instance, Uzbekistan has a centralized state but lacks pluralism, while Colombia has a pluralistic democracy but lacks centralization. Ultimately, this all means that it's important to push countries toward inclusiveness, even if they stand little chance of forming totally inclusive institutions. Even small reforms can make an important difference.

Most importantly, every country with extractive institutions today has been stuck in the vicious circle since the 19th century. Fixing failed nations requires breaking the circle and creating inclusive institutions in place of extractive ones. This is extremely difficult, but it's possible. For instance, it happened during the Glorious Revolution.

In previous chapters, the authors argued that modern global economic inequality started after the Industrial Revolution, when small institutional differences led nations to diverge. In this chapter, they have explained why the countries with extractive institutions didn't just build inclusive ones and start growing: because of the vicious circle. To truly fix inequality, then, poor countries need to break the vicious circle. This is the subject of the next chapter.

CHAPTER 14: BREAKING THE MOLD

In this chapter, Acemoglu and Robinson's first section is "Three African Chiefs." In 1895, three Tswana chiefs from southern Africa visited England. The imperialist businessman Cecil Rhodes was trying to take over Tswana land. But on their trip, the Tswana chiefs successfully convinced the British government to do it first, so that Rhodes couldn't.

In the last two chapters, Acemoglu and Robinson have argued that many poor countries remain poor today because they are trapped in the vicious circle of extractive institutions. They have also emphasized that breaking out of this cycle is incredibly difficult, which helps explain why so few poor nations have managed to become rich. However, in this chapter, they look closely at these exceptions in order to emphasize that change is possible and show their readers what it takes. Their first example is Botswana.

Acemoglu and Robinson argue that the three Tswana chiefs managed to coordinate and petition the British government because Tswana states have a history of centralized and pluralistic institutions. For instance, in many Tswana states, a tribal assembly of adult men can disagree with the chief or even overrule him. Similarly, Tswana groups often choose chiefs based more on ability than heredity. Because of these institutions, the Tswana were used to resolving conflicts through democratic means and generally viewed their leaders as their legitimate representatives. Therefore, when the three chiefs went to London, they had their people's support.

The Tswana chiefs' visit to London was remarkable, and not just because they were asking to be colonized (which they viewed as the lesser of two evils). The authors have frequently emphasized that most of sub-Saharan Africa lacked centralized institutions on the eve of colonization, in large part because of conflict and the slave trade. But Botswana was clearly an exception. Traditional Tswana institutions are pluralistic because they let different groups voice their concerns in government and give ultimate power to the people as a whole, and not to the leader. But they're also centralized because they make effective decisions on a collective basis, then implement those decisions in a relatively fair way. Because they were both centralized and pluralistic, Tswana institutions were inclusive. This explains why Tswana leaders could go to London and legitimately negotiate with the British on behalf of their people. In contrast, people living under extractive institutions often consider their political leaders illegitimate because they recognize that these leaders neither want nor try to represent the people's best interests.

Still, Tswana chiefs tried to stay independent from the British, who built railroads through their land but otherwise didn't colonize it. This helped the Tswana avoid extractive institutions over time. Ultimately, the Tswana chiefs' lobbying efforts were successful in part because of their inclusive and centralized state institutions.

The Tswana people's organized political system enabled them to stave off the worst of colonialism and avoid the vicious circle of extractive institutions. Thus, Botswana's precolonial history strongly affected its colonial history, which then strongly affected its modern history after independence. Again, this shows that history is a contingent process based on differences that accumulate over time.

Upon its independence in 1966, Botswana was extremely poor. It had virtually no infrastructure or education system, and its neighbors were all white apartheid regimes. However, it grew extremely fast and is now sub-Saharan Africa's wealthiest country. It succeeded by building inclusive institutions. Politically, Botswana is a democracy with regular elections and no armed conflict. Economically, its laws protect property rights and encourage innovation and investment.

Upon independence, Botswana's institutions were unique, but its economy wasn't. It faced the same economic conditions as many other countries in Africa. But because of its inclusive institutions, it responded to these conditions very differently. This is similar to how North and South Korea were equally poor when they gained independence after the Korean War, but quickly diverged over the following decades due to their differing institutions. These examples again show how nations can diverge from one another by responding to critical junctures according to their own small institutional differences.

At the critical juncture of its independence, Botswana harnessed its history of centralization and pluralism. A broad coalition of chiefs and elites worked together to build the political system. The independence movement's leaders insisted on respecting elections and promoting democracy. After independence, these leaders carefully regulated the country's two main industries: meat and diamonds. In fact, they funded the state by nationalizing and carefully managing the diamond industry. Botswana's cultural policies have encouraged different groups to work together—for instance, even though it's a diverse country, the government defines everyone as ethnically Tswana. In short, Botswana chose to build inclusive political institutions upon independence, which allowed it to create inclusive economic institutions and achieve sustained economic growth.

Botswana's success again underlines Acemoglu and Robinson's central thesis: inclusive political institutions create inclusive economic institutions, which create widespread prosperity. Since Botswana's traditional institutions held together throughout the colonial period, traditional leaders—and not self-interested elites or armed revolutionaries—took control of the country upon independence. Indeed, the government they formed was inclusive because it was both pluralistic and centralized—it included representatives from various groups and provinces, but they all came together to form a unified state. In a way, then, Botswana followed the iron law of oligarchy in reverse: new leaders followed the same inclusive traditions as old ones.

The next section, "The End of the Southern Extraction," starts with Rosa Parks launching the Montgomery Boycott in 1955. Acemoglu and Robinson explain that the civil rights movement finally broke the US South's vicious circle of extractive institutions, which kept it much poorer than other parts of the country. The cycle broke because segregation's Black victims started organizing for political change, while key national institutions took their side. Moreover, when Black workers started migrating to industrialized northern cities, southern planter elites started to lose their power. But cotton-picking machines also made these elites less reliant on cheap labor.

Even after the Civil War, the US South had distinct, highly extractive institutions from the late 1870s until the 1960s. Like in all the other case studies from this book, in the US South, political change was the key to economic change. Of course, economic changes like industrialization helped contribute to this political change. But ultimately, the civil rights movement was truly responsible for overhauling the South's economic institutions and generating more growth there. This has important lessons for social change all around the world. Namely, while activist movements generally focus on justice and political inclusion, the authors' argument implies that policymakers and analysists should also take the economic benefits of this inclusion more seriously.

The federal government played a crucial role in the civil rights movement because it had the power to force change on southern states. The Supreme Court chipped away at segregation, and federal law enforcement implemented these rulings. But this was only possible because it had wide support: civil rights protests won over most northern Democrats, dividing the party and leaving southern Democrats with little option besides integration. Finally, new federal civil rights laws passed in 1957, 1964, and 1965 forced southern institutions to change. They protected voting rights, blocked employment discrimination, and gave Black citizens far better economic opportunities. By building these inclusive institutions, the South has nearly caught up to the North economically.

The authors emphasize that federal intervention was largely responsible for economic development in the South. In other words, powerful inclusive institutions at the national level forced Southern states to build inclusive political institutions at the state level. This provides an important lesson for other rich countries that want to improve state or regional economies through federal action. However, it doesn't necessarily help poor countries chart a path forward. Of course, international institutions or foreign governments can put similar kinds of pressure on poor countries in order to foster inclusive institutions in them. But Acemoglu and Robinson repeatedly express skepticism about this kind of intervention. They emphasize that change generally has to start with social movements within countries.

Acemoglu and Robinson look at "Rebirth in China." The Chinese Communist Party took power in 1949. It immediately built extractive institutions, including a one-party political system and a nationalized economic system without private property rights. During the Great Leap Forward, Chairman Mao tried to industrialize China all at once. Tens of millions of people died in a horrific famine. Next, his regime persecuted and killed its enemies during the Cultural Revolution.

Acemoglu and Robinson would likely consider modern China another example of the iron law of oligarchy. After the Qing dynasty and a period of considerable instability under the Republic of China, the Communist Party took power and kept institutions extractive. Like the early Soviet Union, the Chinese Communist Party did create some growth by reorganizing the economy. But this incurred a great human cost, and it was unsustainable in the long term.

After Mao's death, different factions within the Communist Party fought for control. These included the left-wing Gang of Four and moderates like the vice-premier Deng Xiaoping, who opposed the Cultural Revolution and hoped to spur economic growth through inclusive institutions and international commerce. First, the acting premier Hua Guofeng sided with Deng and arrested the Gang of Four. Next, Deng gradually directed the government towards economic modernization projects and away from the Cultural Revolution. Finally, Deng ousted Hua and replaced most of the Party leadership.

Mao's death was an important critical juncture for China: it gave other party leaders a chance to redirect the country's future. While Deng favored more inclusive economic institutions, he still rose to power through a coup against other elites, not a democratic process. In other words, he had to follow the norms of China's extractive political institutions in order to gain power and make China's economic institutions marginally more inclusive.

After securing political control, Deng's government passed economic reforms. It gave incentives for productivity in agriculture and industry, and it embraced foreign investment. While China's political institutions remained extractive, its economic ones became inclusive enough to generate explosive growth for several decades.

China avoided repeating the Soviet Union's mistakes. Deng recognized that economic growth requires incentivizing innovation and investment. In fact, by spurring growth, his policies also allowed the Communist Party to keep control over extractive political institutions. But the authors have also emphasized that inclusive and extractive institutions can't peacefully coexist. They strongly imply that the Chinese system is unsustainable—either the extractive political system will hamper its economic growth, or its inclusive economic institutions will eventually change its political institutions. They go on to explain their reasoning more in their next and final chapter.

Acemoglu and Robinson suggest that Botswana, the US South, and China (as well as the Glorious Revolution, French Revolution, and Meiji Restoration) prove "that history is not destiny." It's possible to escape the vicious circle of extractive institutions—it's just very difficult. Apart from luck, it requires a broad political coalition to push for reform during a critical juncture.

Acemoglu and Robinson's examples illustrate the wide variety of ways that nations can build inclusive institutions. Of course, most nations are still extractive—so in a way, every nation with inclusive institutions is an exception to the rule. England, France, and Japan built inclusive institutions through revolutions led by broad coalitions. Botswana escaped the vicious circle because it had a preexisting history of inclusive institutions, and southern US states did so because the federal government imposed inclusive institutions on them. Meanwhile, Deng Xiaoping improbably rose to power within China's extractive institutions, then reformed them to become more inclusive. But China still has an unstable mix of inclusive and extractive institutions. And in all these cases, inclusive institutions would have never formed if ordinary people hadn't called for them.

CHAPTER 15: UNDERSTANDING PROSPERITY AND POVERTY

In the section "Historical Origins," Acemoglu and Robinson reiterate that global living standards have become deeply unequal since the 1800s. This isn't because of geography, culture, or ethnicity. It also wasn't inevitable—this inequality could have been avoided.

Acemoglu and Robinson begin their concluding chapter with a summary of their book's overall argument. First, they identify the problem that their theory seeks to explain: the profound economic divergence between nations since the Industrial Revolution. They reiterate that other theories don't explain this inequality—only institutions can.

Acemoglu and Robinson explain that this book is their attempt to explain this divergence. Unlike most social scientists, they deliberately choose a simple explanation based on a single factor. While their theory isn't perfect, it does explain the inner workings of successful and failed states. It does this in two ways: first, through the concept of inclusive and extractive institutions, and second, by explaining *why* people created inclusive institutions in certain times and places. Inclusive economic institutions create economic prosperity by securing property rights, promoting innovation, and making the economy fairer. Inclusive political institutions reinforce these inclusive economic institutions through pluralism and state centralization.

Many readers, scholars, and commentators have criticized Why Nations Fail *for providing an overly simple account of inequality. But Acemoglu and Robinson agree that their theory is simple: they focus on institutions in order to make a clear, memorable, and actionable argument. While they believe that institutions can explain most inequality, they admit that they can't explain all of it. Many other factors can influence inequality, but they usually do so by affecting a nation's institutions. Meanwhile, a nation's circumstances are also less important than the way its institutions respond to those circumstances. Therefore, the authors conclude that inclusive institutions are by far the most important factor when it comes to cultivating prosperity.*

Extractive institutions can generate economic growth, Acemoglu and Robinson continue, but this growth isn't sustainable. First, real growth depends on innovation and creative destruction, which elites resist. Second, under extractive institutions, the powerful inevitably become wealthy, so the elite tends to fight for power. This creates political instability and undermines growth.

Extractive institutions are hostile to economic growth, even if they don't quite make it impossible. Therefore, the authors believe that inclusive institutions are still always preferable. In particular, they stress the distinction between short-term growth, which can be beneficial but deceptive, and long-term growth, which is truly necessary for prosperity. Short-term growth is possible under extractive institutions, but long-term growth requires inclusive economic institutions to remain fair and stable for decades or even centuries.

Extractive political and economic institutions reinforce each other in a vicious circle, while inclusive ones do the same in a virtuous circle. These circles are strong, but not unbreakable. For instance, a few societies have broken the vicious circle to establish inclusive institutions.

The vicious and virtuous circles explain why the global economic hierarchy has scarcely changed in the last 150 years. However, all nations started out with extractive institutions, so every rich country has beaten the odds and broken the vicious circle. But the authors suggest that this might have been far easier in the 1800s than it is today.

Institutions generally transform around disruptive historical events, or critical junctures. Different institutions respond to critical junctures in different ways—even, sometimes, by transforming themselves. And institutions become different in the first place due to "institutional drift"—or a long series of contingent, unpredictable changes that give certain groups more institutional power than others. Thus, institutions diverge slowly over time due to "institutional drift," and then rapidly during critical junctures. For instance, small differences between the English, Spanish, and French monarchies in the 16th century allowed England to gain much more from transatlantic trade.

The authors summarize their theory of institutional change. This theory is based on three main concepts: critical junctures, historical contingency, and small institutional differences. All three of these concepts have deep implications for citizens, scholars, and policymakers who want to change their societies. These changemakers should recognize how every society's institutions change slowly over time—after all, groups are always fighting for power, so the dynamics of their conflict constantly shift. Similarly, people interested in political change should also expect that, during periods of great turmoil, gradual institutional shifts can give way to abrupt and transformative ones.

History is key to institutional success or failure. But it's not predetermined. For instance, Peru wasn't destined to end up poorer than the US and Western Europe. Instead, it's poorer because European colonialism created inclusive institutions in the US and Western Europe, but extractive ones in Peru. But this could have been different. If North America were as developed and densely populated as Peru in the 15th century, European elites would have probably developed more extractive institutions there. If the Inca Empire successfully fought off the Spanish, it could have modernized much faster, like Japan. And the Inca could have colonized the world instead. Europeans only did so because of many contingent events, like the Black Death and the rise of feudalism.

Acemoglu and Robinson's most important advice for policymakers, activists, and everyday citizens is that historical processes are never predestined. Instead, they're always very fragile, or contingent. This means that circumstances, human decisions, and even blind luck can determine their outcomes. This should give changemakers a reason to never stop fighting for change. It should also encourage everyone to see the equality between different countries (and the people who live in them). There is nothing inherently special or superior about the US that made it rich. Rather, if a few key historical events had gone differently, the US could have just as easily been poor, absolutist, or colonized by an entirely different people.

Acemoglu and Robinson admit that, because their theory depends on historical contingency and small institutional differences, it can't predict the future. But no theory can: history is never predetermined. However, Acemoglu and Robinson's theory *can* broadly explain global inequality, so it can also generally indicate which societies will grow in the future.

Historical contingency means that future events are inherently unpredictable because they're random, highly contextual, or dependent on people's free decisions. This might make theorizing about the future difficult, but it also makes acting to change the future all the more important.

Acemoglu and Robinson argue that the US and Western Europe will stay much richer than the rest of the world, although some poor countries will surely become rich by "breaking the mold." Highly decentralized countries like Afghanistan, Haiti, and Somalia are unlikely to grow very much. But highly centralized poor countries like Rwanda, Ethiopia, Tanzania, Brazil, and Mexico will likely achieve some growth under extractive institutions. Still, this kind of growth isn't sustainable, which means that nations like China will probably "run out of steam." But much of the future is contingent. For example, Cuba, North Korea, and Myanmar could become more inclusive, or they could stay highly extractive and absolutist.

Acemoglu and Robinson's very general prediction is based on the vicious and virtuous circles. These cycles have prevented most countries' institutions from changing substantially over the last 150 years. Inclusive institutions generally foster the most growth, followed by extractive institutions in centralized states, followed by extractive institutions in weak and decentralized states. Still, the authors expect that plenty will change in the future and defy their predictions.

Acemoglu and Robinson warn that leaders shouldn't try to look for policy recommendations in their book. The same policy can have opposite effects in different countries, depending on their institutions. Moreover, there's no easy formula for turning extractive institutions into inclusive ones. Often, these attempts can fizzle out or backfire because of the vicious circle. However, this book *can* help leaders identify bad policies that won't work because they're based on a misunderstanding of how institutions function.

Acemoglu and Robinson recognize that political leaders frequently look to economists for policy advice, so these leaders probably hope there's an easy, universal way to build inclusive institutions anywhere in the world. But there isn't: the path to inclusive institutions depends entirely on a country's history, circumstances, and existing institutions..

In the next section, "The Irresistible Charm of Authoritarian Growth," Acemoglu and Robinson focus on one of these bad policy recommendations: Chinese-style growth under extractive institutions. They explain how the businessman Dai Guofang started a steel company, only to be arbitrarily arrested because the company would compete with state-owned businesses. Although the Chinese Communist Party has allowed the economy to expand, it still maintains rigid control over it and prefers to reserve all major projects for state-owned companies.

Authoritarian growth has an "irresistible charm" because it's fast and coordinated. But Dai Guofang's experience shows that extractive political institutions can never truly guarantee the inclusive economic institutions that are necessary for growth. Specifically, the authors argue that the Chinese Communist Party will always tilt the playing field and violate private property rights when its own interests are in play. Therefore, China's economic institutions are only ever conditionally *inclusive—the Party can shut people out of the system whenever it wishes.*

While Chinese economic institutions have become much more inclusive, they're still essentially extractive. There's little innovation: China's tech boom is based on copying existing technologies, not creating new ones. And property rights are still insecure: the Party can take away entrepreneurs' businesses at any time. But by aligning themselves with the Party, businesses receive significant advantages—like exemptions from regulation.

Dai Guofang's arrest shows that the Communist Party often punishes innovators instead of rewarding them. Thus, it's no surprise that Chinese firms often resist innovation. Like the Soviet Union, China's government distorts firms' incentives by tightly controlling the market. Even if the market is somewhat inclusive, then, doing the government's bidding is still far more profitable than innovating. This means that firms will flock to the government and support the status quo, rather than promoting the creative destruction that increases productivity.

As China's economy has grown, its political institutions have actually become *less* inclusive, pluralistic, and democratic. For instance, the government closely controls the Internet and represses dissent. China's growth likely won't continue unless its political institutions become inclusive.

The authors return to their key principle that inclusive and extractive institutions tend to destabilize one another. They hypothesize that either China's political institutions will become inclusive or its economic institutions will become extractive once again.

Many countries are trying to develop through Chinese-style authoritarian growth instead of opening up markets and trade. But Acemoglu and Robinson think leaders really choose this path to increase their own power. While it might lead to growth in the short term, authoritarian growth can't create sustainable growth in the long term. The authors predict that China's growth will end once it reaches middle-income living standards, especially if the Communist Party stays in power. It could also switch to more inclusive institutions and continue growing, but this seems unlikely.

The authors suggest that elites in many developing countries choose the Chinese model in an attempt to kill two birds with one stone. First, this model creates rapid growth in the short term, which wins leaders political points. Second, it lets leaders maintain power in extractive institutions, which is highly profitable for them. But while this is a great deal for self-interested leaders, it doesn't significantly benefit the population in the long term. China's living standards are certainly much higher than many other developing countries', but the authors believe that they would improve much more if China followed the capitalist model of Singapore, Taiwan, and South Korea.

Social scientists often argue that authoritarianism is a "passing stage" on the road to modernization. These modernization theorists think growth automatically creates democracy and inclusive institutions. But there are plenty of counterexamples to this pattern, including China and Iraq. In reality, Acemoglu and Robinson argue, modernization theory has it backwards: it claims that growth creates inclusive institutions when, in reality, inclusive institutions create growth. Growth doesn't make countries with extractive institutions more democratic. Plus, Germany, Japan, and Argentina have demonstrated that wealthy, developed countries with inclusive institutions can easily turn into extractive authoritarian regimes. The authors conclude that authoritarian growth is unsustainable and doesn't lead to democracy, so developing countries shouldn't pursue it.

Acemoglu and Robinson agree that growth can help inclusive institutions form in some situations—for instance, after the Industrial Revolution, urban factory workers organized to win greater political rights. However, they disagree with modernization theory's premise that economic institutions are generally the foundation for political ones. Instead, they stick to their thesis that political changes tend to happen first, while economic changes are usually the result of those political changes. This debate is crucial because it dictates how societies should pursue greater inclusiveness. If Acemoglu and Robinson are right, then the key to economic growth is political reform. If, on the other hand, the modernization theorists are right, then any sort of growth—including authoritarian growth—is automatically good because it will eventually lead to democracy.

Next, in "You Can't Engineer Prosperity," Acemoglu and Robinson critique the idea that smart policy changes can fix poverty without accompanying institutional changes. For instance, the International Monetary Fund (IMF) often pressures developing countries to adopt liberal economic policies. But institutions and leaders in those countries can subvert the policies' intent. For example, the IMF convinced Zimbabwe and Sierra Leone to make their central banks legally independent, but national leaders still controlled them.

Ultimately, attempts to engineer prosperity are really based on the misleading "ignorance" hypothesis (the idea that poor countries are poor because their leaders are ignorant or irrational). Acemoglu and Robinson aren't opposed to good economic policies. Rather, they're against policy change as a substitute for institutional change. *In other words, they think that institutions have to change* first *in order for policy changes like the IMF's to succeed later on. In Zimbabwe and Sierra Leone, the IMF tried to force inclusive economic policies on an extractive political system. Unsurprisingly, politicians simply distorted the IMF's policy to make it extractive. This reinforces the authors' principle that extractive political institutions almost always lead to extractive economic institutions—and building inclusive economic institutions almost always requires building inclusive political ones first.*

Other policies try to engineer prosperity by targeting "small market failures." But these failures aren't the real problem: they're just symptoms of deeper institutional failures. For instance, an Indian NGO tried to reduce absenteeism among government nurses by making them punch a time clock. But local health ministries simply found other ways to allow absenteeism. Ultimately, when institutions are the real problem, it's impossible to engineer prosperity through better policy.

Policies that address "small market failures" miss the forest for the trees. They are too limited in scale, and more importantly, they get cause and effect backwards. Such policies assume that eliminating market inefficiencies will increase productivity, when really, distorted incentives are the root cause of poor productivity. When markets incentivize unproductive behavior, they will be full of failures and inefficiencies; Acemoglu and Robinson think it's impossible to fix these inefficiencies without fixing the incentives first.

In the next section, Acemoglu and Robinson examine "The Failure of Foreign Aid." They look at how, after the US invasion of Afghanistan, NGOs and foreign governments pumped billions of aid dollars into the country. First, this money went to UN officials' plane tickets and translators. Next, NGOs absorbed much of the rest. One village was promised millions of dollars but merely received a few useless wooden beams. In fact, 80 to 90 percent of foreign aid money usually goes to overhead costs, corruption, and extractive governments. Western attempts to fight global poverty through foreign aid inevitably fail because institutions are the root cause of this poverty.

Like policy fixes intended to "engineer prosperity," foreign aid gets sucked into extractive institutions. As a result, it ends up enriching the privileged and wealthy—including Western NGOs and international institutions like the UN, which also function as extractive institutions in many of the places where they work. Unless foreign aid manages to bypass government institutions altogether, it's unlikely to make either politics or the economy more inclusive.

The US has tried to make foreign aid conditional on institutional reform in the receiving country, but Acemoglu and Robinson argue that no amount of aid money will make dictators like Siaka Stevens give up the extractive institutions that enrich them. Still, Acemoglu and Robinson don't argue that Western countries should eliminate foreign aid. Instead, they suggest that policymakers shouldn't expect foreign aid to spur growth and should direct it to programs that make institutions more inclusive.

Acemoglu and Robinson point out two important contradictions. The first is that aid money can almost never influence foreign politics—the people who lead extractive institutions care primarily about their own power and wealth. After all, if they wanted to put their country first, they would implement reforms with or without foreign aid. Second, because inequality is so extreme in the modern world, foreign aid can still be a worthwhile investment even if extractive institutions steal or destroy the vast majority of it. Thus, the authors conclude that foreign aid is nearly useless, but just useful enough to justify the cost.

Finally, under the heading "Empowerment," Acemoglu and Robinson describe how the metalworker and union activist Lula led a wave of strikes across Brazil in 1978. The next year, he helped found the Workers' Party, which represented a broad coalition of unions, intellectuals, and poor people. The Workers' Party grew and fought the military dictatorship by integrating with local activists. Eventually, in 2002, Lula won the presidency. The Workers' Party succeeded because it brought different groups together into a broad coalition. During its rule, it significantly reduced poverty and inequality.

In the final section of their final chapter, Acemoglu and Robinson focus on "empowerment" because it's the surest way for countries to break the vicious circle of extractive institutions and build inclusive ones instead. They view the Brazilian Workers' Party as exactly the kind of diverse, democratic coalition that empowers people by amplifying their voices and organizing their demands. Crucially, the Workers' Party coalition focused on both local and national issues. It empowered its members by dealing with their local political needs. But by bringing this grassroots base into national campaigns, it won power and reformed Brazil's political system. This kind of pluralistic coalition can peacefully force extractive governments (like Brazil's military dictatorship) to relinquish power and build inclusive institutions.

In the 1970s, Brazil overcame dictatorship and built inclusive institutions through broad coalitions like the Workers' Party—not through clever policies, foreign aid, or modernization. While revolutions built inclusive institutions in England, France, and Japan, they also created cruel, extractive ones in countries like Russia, Cuba, and China. The first three revolutions succeeded because broad, empowered coalitions led them. The last three failed because narrow elites led them. Similarly, in the 1970s, the Workers' Party didn't just take power across Brazil: it also transformed government by empowering ordinary citizens. But this didn't happen in other countries, like Venezuela, where democracy created a corrupt elite rather than a broad coalition.

Demanding democratic, inclusive political institutions is easy, but actually building them is very difficult. To do so, new leaders have to take power under extractive institutions, then give up most of their power by reforming those institutions. In the process, they have to avoid the temptations of their own authority in extractive institutions: limitless wealth, zero oversight, and utter impunity. Thus, it's no surprise that diverse coalitions are more likely to form inclusive institutions: when they seize power, they can't coordinate closely enough to abuse it. Brazil's Workers' Party succeeded because it built this kind of revolution from the bottom up. In contrast, the Russian, Cuban, and Chinese revolutionaries ended up keeping extractive institutions intact and ruling as new aristocracies instead—even though they called themselves communists and claimed to represent the common people.

In conclusion, Acemoglu and Robinson admit that there's no formula for empowering citizens or creating inclusive institutions. Centralization, existing pluralistic institutions, and community organizations can all help empower people. In particular, the media can help citizens coordinate and demand reform. For instance, pamphlets helped drive the Glorious Revolution and French Revolution, while social media and the Internet drive political change today. This is why authoritarians try to control the media—for example, Peruvian President Alberto Fujimori bribed TV stations and newspapers for positive coverage, and the Chinese Communist Party tightly controls the media today. Unfortunately, the media can only help create inclusive institutions when citizens are already pushing for them.

Pamphlets, newspapers, and social media all empower ordinary citizens by helping them communicate independently, beyond the government's control. In fact, this is another example of how economic change and technological innovation can feed political change as part of the virtuous circle. Moreover, media organizations can help build pluralistic and centralized institutions because they often serve as such institutions themselves. After all, the most effective media is pluralistic (because it represents multiple voices) and centralized (because it assembles these voices in a single, accessible place). However, Fujimori and the Chinese Communist Party show that states can also use the media's centralized power to crush pluralism. Therefore, the media is just one more of the numerous contextual, contingent factors that can support or squash inclusive institutions.

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