

## Book Review

Daron Acemoglu and James A. Robinson (2013). *Why Nations Fail: The Origins of Power, Prosperity and Poverty* published by Manipal Technologies limited in India; Pages 544 (including index and Bibliography); weight 474g; ISBN: 9781846684302, eISBN:978184765416; NRs. 1280/-

This is a rigorously researched and well-written book on current areas of academic and policy interest, offering a strong framework for understanding the critical role of institutions in economic development. The book makes an effort to answer, why some nations are prosperous while others remain poor. This book is divided into fifteen chapters preceded by a preface.

In the first chapter, *'So Close and yet so Different'*, the authors present a comparative analysis of Nogales, a city divided by the US-Mexico border, that lays a robust foundation for readers shaping the narrative of the book. This juxtaposition serves to provoke critical inquiry into the role of institutions in determining the social and economic functions of societies. The second chapter, *'Theories that don't work'*, scrutinizes three generally believed hypotheses, presenting compelling evidence to question them. The geographical hypothesis asserts that geography lays down the law for economic prosperity. The cultural hypothesis asserts a link between economic prosperity and the prevailing culture. Lastly, the ignorance hypothesis suggests that economic disparities stem from leaders' lack of knowledge about effective policies. In the third chapter, *'The Making of Prosperity and Poverty'*, the author delves into the roots of poverty and prosperity by examining the 'economics of the 38th parallel'. By the late 1990s, South Korea's remarkable growth and North Korea's stagnation had created a tenfold economic gap between the two halves of this once-unified country. The author introduces the 'Engines of Prosperity', emphasizing property rights and inclusive economic institutions, that lead to 'creative destruction'.

In the fourth chapter *'Small difference and critical junctures: The weight of history'*, the author examines historical events that represent critical junctures. The initial institutional differences triggered divergent responses in England, France, and Spain, resulting in fundamentally different development paths. The chapter highlights how the economic opportunities presented by Atlantic trade served as a critical juncture, leading European societies to the paths of political and economic change. In the fifth chapter, *'I've Seen the Future and it Works: Growth Under Extractive Institutions'*, the author critiques the charm of the Soviet Union's growth model, which delighted many Western observers until the 1980s. Extractive institutions are incapable of generating creative destruction due to the lack of economic incentives and resistance from elites. The author further examines the classical era of the Maya civilization's growth, which ultimately led to disparity and conflict among the elite. The conflict resulted in

inefficiencies and the potential reversal of political centralization, leading to the breakdown of law and order and descent into chaos, as seen in the collapse of the Maya city-states.

*'Drifting apart'* is the sixth chapter where the author explores the historical development of institutions in different parts of the world and tries to explain why they evolved in different ways. The author artistically visualizes Venice's transformation from an economic powerhouse to a museum, exemplifying that inclusive institutions can regress. Additionally, the author examines England's historical transition from the economic prosperity of Roman England to the economic collapse and institutional drift that marked the Dark Ages, plunging England into poverty and political chaos. The eventual rise of England's economy is attributed to a series of interactions between minor institutional differences and critical junctures, such as the Black Death and the discovery of the Americas, which significantly shaped political and economic institutions. In the seventh chapter *'The Turning Point'*, the author presents a comprehensive timeline of England's progression towards inclusive economic and centralized political institutions, beginning with the Magna Carta in 1215. Changes in the distribution of political power led to a further redistribution of income, facilitated by the inclusive nature of English institutions. The chapter concludes by addressing why England uniquely experienced the major institutional change.

*'Not on our turf: barriers to development'* is the eighth chapter, the author examines the divergent paths taken by nations during the critical juncture of the Industrial Revolution. The author also highlights how some missed the opportunity to benefit from industrialization due to entrenched absolutist political and extractive economic institutions. The resistance of the residents to the usage of plows in the Kingdom of Kongo represents the 'fear of industry' which highlights, that institutional and economic divergence impact the prosperity and poverty of nations. In the ninth chapter *'Reversing development'*, the author goes with the narrative of Southeast Asia, where Dutch colonial aggression disrupted potential paths of development. The continuation of extractive economic and political institutions rooted in the slave trade as in Liberia, hinders industrialization. The chapter also explores South Africa's transition from a dual economy, highlighting how the empowerment and mobilization of black South Africans ended the dual economy. The author exemplifies how extractive taxation mechanisms collapsed the Indian textile industry and a subsequent period of de-urbanization and increased poverty.

In the tenth chapter *'The diffusion of prosperity'*, the author presents the different paths countries have taken towards establishing inclusive institutions ensuring economic and political developments. Nations such as Australia, and the United States followed a unique trajectory compared to England. The author also examines the journey of two different sides of Europe toward inclusivity.


This divergence underscores the profound impact of institutional reform on economic progress. Taking the divergence path, those countries addressing industrialization and technological change and those that did not; the author considers this as the source of global inequality. *'The Virtuous Circle,'* is the eleventh chapter in which the author goes through the interconnectedness of political and economic institutions and how their inclusive nature mutually reinforces each other. Development of inclusive institutions is not an automatic process but the result of profound struggles between elites resisting change and those pushing for economic and political reforms; this experience is exemplified by the historical experiences of Britain and the United States representing step-by-step efforts in establishing inclusive institutions.

In the twelfth chapter *'The Vicious Circle,'* the author provides the analysis of how a vicious circle sustains itself taking into account the interplay between historical forces, political power, and economic development. Today, one cannot take a train to Bo, a reflective example of how rulers like Tsar Nicolas I sacrificed economic progress to maintain political power. The author presents two key effects: the transatlantic slave trade and colonial legislation designed to suppress African commercial agriculture. Presenting the examples the author questioned 'Why do those who rise to power promising radical change often recreate the same oppressive system? In the thirteenth chapter *'Why Nations Fail Today,'* the author explains the prolongation of national failures through the lens of extractive economic and political institutions. The frightful consequences are exemplified by countries, which have experienced civil wars, mass displacements, famines, and epidemics, leaving them poorer today than in the 1960s. This suggests that extraction-induced conflicts precipitate state failure which stems from decades of governance under extractive regimes. The author illustrates how the Karimov family's control over the cotton industry has perpetuated child labor and economic disparity, despite high literacy rates in Uzbekistan. Private monopolies and business personnel holding ministerial positions in Egypt exemplify how extractive institutions have deep-rooted economic inequality and power imbalances.

In the fourteenth chapter *'Breaking the Mold,'* the author explores various instances where nations broke free from the constraints of extractive institutions to pave the way for inclusive economic and political frameworks. The narrative begins with Botswana, highlighting how leaders like Seretse Khama and Quett Masire capitalized on the existing foundations of the Tswanas' tribal institutions to build a path toward inclusivity. The author details how Deng Xiaoping and the reformers, initiated significant economic reforms in China. In the Fifteenth Chapter, *'Understanding prosperity and poverty,'* the authors delve into the multifaceted reasons behind prosperity and poverty. They articulated their theory at two levels: the differentiation between extractive and inclusive economic and political institutions, and the historical reasons behind the emergence of

inclusive institutions in some regions and not others. The chapter critiques the allure of authoritarian growth, it cannot yield sustained progress without inclusive institutions and creative destruction, nor should it be viewed as a viable model for other nations, despite its appeal to elites. The author also presents the role of foreign aid in alleviating extreme poverty with its inefficiencies and limitations. This analysis emphasizes the role of inclusive institutions in the process of achieving prosperity.

The book ambitiously presents the institutionalist school of thought as a comprehensive framework to understand and potentially solve contemporary economic problems in globalized and volatile economic landscape, necessitating paradigm shifts from new classical schools of thought, with a recent resurgence in heterodox approaches. History, critical junctures, institutional drift and past economic trajectories are major factors taken into account in the book for analysis of the significance of institutions, but this book fails to explain the questions regarding the future i.e., what comes next after the establishment of inclusive institutions. Additionally, there exist various types of institutions such as formality, hierarchy, and areas but the book does not adequately differentiate between them. Also, it does not sufficiently consider the social beliefs, values, and habits that significantly influence economic systems. The critique lies in questioning the efficacy and sufficiency of institutionalism in universally addressing current economic challenges. The authors' arguments regarding the impact of climate, geography, and economic success are unconvincing, particularly to readers from developing and underdeveloped regions and climate-vulnerable areas. The geographical factors changed the production function resulting in rising production costs, hindering technological improvements, and slowing down export-led trade. This oversight helps explain why landlocked countries like Nepal and semi-landlocked Paraguay remain among the poorest in Asia and America, respectively, with low volumes of international trade. In this context, the authors ignore the critical role of climate change and geography in economic development. The institutionalist perspective alone may not fully capture and address the dynamic, interconnected factors pushing economic development in an increasingly intricate global economy. While the book's historical analysis is compelling and prompts further inquiry into how institutions can be reformed and adapted to meet modern societies' evolving demands, it is challenging to agree with all its conclusions. Despite this, the book's extensive evolutionary proof and emphasis on the importance of institutions will stimulate policy debate about inclusive institutions as determinants for economic development.

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