

The Political Economy of Economic and Productivity Growth: An Interview with Daron Acemoglu and James Robinson, Authors of *Why Nations Fail*

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ABSTRACT

In fast-growing developing countries, rapid productivity growth is largely driven by economic growth. Consequently, an understanding of the reasons for this strong productivity growth requires a broader perspective on the dynamics of the overall growth process. In early 2012 Daron Acemoglu, an economist at MIT and James A. Robinson, a political scientist and economist at Harvard University, published *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. With great historical detail, the book makes the case that it is man-made economic and political institutions that underlie economic success by creating incentives for wealth creation, rewarding innovation and allowing widespread participation in economic opportunities. This article is an edited transcript of an interview with the two authors on the major issues addressed in their book.

RÉSUMÉ

Dans les pays en développement rapide, la forte croissance de la productivité est largement due à la croissance économique. Il faut donc pour comprendre les raisons de cette forte croissance de la productivité une perspective élargie sur la dynamique du processus global de la croissance. Au début de 2012, Daron Acemoglu, économiste à l'Institut de technologie du Massachusetts (MIT), et James A. Robinson, politologue et économiste à l'Université Harvard, ont publié *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. À l'aide d'une analyse historique fouillée, ce livre montre que ce sont les institutions économiques et politiques de l'être humain qui sous-tendent la réussite économique, parce qu'elles incitent à créer de la richesse, qu'elles récompensent l'innovation et qu'elles permettent à un grand nombre de tirer parti des possibilités économiques. Cet article est une transcription révisée d'une entrevue avec les deux auteurs sur les enjeux principaux abordés dans leur livre.

IN FAST-GROWING DEVELOPING countries like India and China, rapid productivity growth is largely driven by economic growth, resulting in rapid increases in the average living standards of the population. Consequently, an understanding of the reasons for this strong productivity growth requires a broader perspective on the dynamics of the overall

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growth process. In March 2012 two academics, Daron Acemoglu, an economist at MIT and James A. Robinson, a political scientist and economist at Harvard University, published *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business).² With great historical detail, the book makes the case that it is man-made economic and political institutions that underlie economic success by creating incentives for wealth creation, rewarding innovation and allowing widespread participation in economic opportunities.

On June 29, 2012 in Montreal, Christopher Ragan from McGill University had the opportunity to meet with both Acemoglu and Robinson to discuss their thesis that it is institutions that largely determine economic growth. This article is an edited transcript of the interview.

Inspiration

Chris Ragan (CR): Your book *Why Nations Fail* is essentially attempting to answer Adam Smith's question regarding the wealth of nations. Why do some countries succeed and other countries fail? What inspired you intellectually to write this book?

Daron Acemoglu (DA): It's probably quite similar for both of us because we were both interested in economic development. We both came into economics trying to understand the wealth of nations. After thinking about this problem a little bit, working on it from different angles, we independently and then together came to the conclusion that institutions and the politics of institutions played a central role. We could not go very far without understanding why countries were adopting different policies and different institutions and that these institutions and policies were

endogenous. They were not God-given things falling from heaven. Our interest in history came out of that whole perspective.

James A. Robinson (JR): Yes, I think we both had this idea that the discussion in economics was completely lacking this historical angle and that it was terribly unsatisfactory. I remember, earlier this year, we were both at a conference and somebody was going on about Haiti and wondering why it was such a mess. How could you possibly think about such a question without recognizing the history of the country? You can't look only at the last 20 years of data and talk about that problem.

CR: You have to swim pretty hard against the current in the economics profession to be so inspired by the historical and political connections – and by the political economy. We all have our primary intellectual influences. Who were yours?

DA: I think the work of Douglass North and Joel Mokyr have been the biggest influences.

JR: And also work by Robert Bates on comparative political economies in Africa, in particular his book (*Markets and States in Tropical Africa*). I read that book when I was a graduate student at Yale. It just brought all of these things together in a very articulate way.

The Big Picture

CR: Let me turn now to some definitions and the big picture. For those people who don't yet know anything about your book, how do you describe the central message?

DA: The central message is that institutions shape the incentives that ultimately determine prosperity. But more importantly those institutions have to be understood within the political context because they are shaped by who has political power and how

² The authors of the book maintain a blog related to the book at <http://whynationsfail.com/>

political power is exercised in a nation. And that is essential for our understanding of institutions because they really determine the distribution of resources in a society as much as the growth potential.

CR: You make a key distinction between inclusive institutions and extractive ones. What do those terms mean? Can you give me an example of each to illustrate?

JR: That's the dichotomy we find useful. But in reality I suppose there are shades of gray. An example of an extractive institution is some form of labour coercion, like slavery. In the first chapter of the book we try to motivate the concepts through these examples rather than just going into definitions. We compare North America and South America to illustrate extractive and inclusive economic and political institutions. Colonial Latin America would be characterized as having various extractive systems such as labour coercion, forced purchases of goods, and mercantilistic restrictions on trade. These institutions are extracting value out of others and concentrating their value in the hands of a small, elite class.

The inclusive economic institutions are those that allow people to use their talent and skills in any way they want. Consider the evidence on patenting from the 19th century, and the backgrounds of the famous innovative inventors in the United States. If you look at their social backgrounds, you see people coming from all over the social spectrum. There is a huge talent in society but you have to have a set of institutions that can allow society to harness that talent.

CR: You argue that growth is still possible amidst extractive institutions but that it is not sustainable. Why is it possible but not sustainable?

DA: I think you can look at it two ways. One is that extractive institutions are bad for the

citizens. On the other hand, of course, you could say that they shouldn't be bad for growth because, after all, if I am doing the extraction I have an incentive to make this country as rich as possible. But our argument is that this generally does not work because it does not encourage creative destruction. If I am really doing the extraction, I am standing at the top of the institution and I am going to be afraid of new technologies that are going to displace me economically. Even more importantly, I am going to be afraid of technologies or institutional changes or organizational changes that will reduce my political power. So those are the main reasons why extractive economic institutions with the support of extractive political institutions are not conducive to sustained economic growth.

Some growth is what we call catch-up growth. Essentially you don't need innovation, or creative destruction. You take the existing technologies, either in your country or on the world technology frontier, and you apply them. The main example in the book is the Soviet Union, which was clearly another example of an extractive political institution under the control of the Communist party, with a lot of coercion and threats and executions. And in the economy there was no private property, but still the Soviet Union achieved very rapid growth rates for over 40 years. But of course the Soviet Union also illustrates why that sort of growth is not sustainable: we can threaten people to move from agriculture to industry but you can't threaten them to become creative.

CR: What do you mean by "political centralization", and why is this important?

JR: We emphasize that this distinction between extractive and inclusive economic

institutions is crucial for generating prosperity. But what lies behind this is the set of political institutions. In the chapter on the Americas we say that what is really crucial is how extractive political institutions appear in South America while you have these inclusive political institutions in North America. So what are inclusive political institutions? Well, we emphasize two things. One is this broad distribution of political rights and political powers in society. The second is that it must be in conjunction with an effective centralized state to channel the distributed political power in socially desirable directions.

DA: One of the most important aspects is that when you don't have political centralization, you essentially have no unified markets and no property rights beyond perhaps a very narrow sphere. And given the importance that we place on the incentives induced by property rights and the allocation of talent, that becomes a major impediment to growth. Effective enforcement of property rights needs to be based on centralized political power because otherwise it would not function.

CR: Your theory seems to pit the power elites against the people. Is there an overlap here with Marx?

DA: Yes, there is overlap with Marx but I think it is also very different. Both of us found Marx to be very restrictive in emphasizing, to us, the less interesting and less important part which is the effect of the means of production and economic structure on everything else. To us, what is much more important is who has political power, who forms a coalition with whom than what technology does and what the ownership structure is. They all emanate from who has political power and how that political power is manipulated. So that's why, in some

societies, class is totally irrelevant but who the politicians are is extremely relevant. But in other societies, class may become relevant because it is what coalitions form around. Part of the traditional elite may become politically very powerful and then ally with all of the key political players.

Multiple Determinants

CR: There is an ongoing debate about what really matters for development. Some people say it is geography, some people say it's culture, some people say it's access to resources. You say it's institutions. I think of this in terms of a well-specified regression equation. Does your argument in favour of institutions mean that you think the estimated regression coefficients on the other things are zero?

JR: Yes!

CR: Really?

DA: The partial R^2 is small – small for the other determinants and larger for institutions. And it's not just what we say in the book. We have written a lot of empirical papers, some with Simon Johnson, with regression equations of that form and tried to estimate them and that's the basic outcome.

But there is one thing that people get confused about and perhaps we can clarify it here. Many people wonder how we can say that geography does not matter because we have all these examples where geography influences institutions. The point is, first, that if the only effect of geography is working through institutions, then it really is the institutions that matter. And, second, whenever you look at the details, it becomes very clear that the impact of geography on institutions is very contingent. If history had been different, the effect would have been different. Sometimes diamonds are bad for institutions, sometimes they are good for

institutions. That is the contingent aspect that we are talking about.

CR: Does your thinking connect to the whole idea of the “resource curse”?

JR: We don’t think there is a resource curse. Whether or not resources are a curse is totally contingent on institutions.

CR: Who are your biggest intellectual opponents? Who are the people, academics or otherwise, who pick up your book and say that you’re wrong?

DA: Everybody!

CR: So who are they? What’s their argument?

JR: The dominant school in development economics today – they say this is fun but you can’t say anything at this level. It’s too grand.

DA: Too ambitious, too sweeping.

JR: The fact of the matter is that there are often big regularities at this level of analysis. If you are a social scientist and you see big regularities, you are supposed to try to explain them. Of course, the methodology is complicated and establishing causality is very difficult. But we have to try to tackle these things.

Transition and Evolution

CR: You talk a lot about feedback loops. Vicious cycles with extractive institutions and virtuous cycles with inclusive institutions. What are the dynamic forces creating these feedback loops?

JR: We make much out of this dichotomy between inclusive and extractive institutions, both economic and political. Once your society is set up like that, there is considerable feedback. So, for example, in an extractive society where political power is narrowly concentrated and economic institutions are designed to channel wealth and political power to some group of people, then that system has a tendency to persist

over time. You have a narrowly defined political elite and they construct a society to concentrate resources. That tends to perpetuate their power over time. So they are able to carry on with this extractive type of society. Similarly, inclusive institutions create a very different sort of feedback than when political power is broadly distributed, wealth is broadly distributed and that makes it more difficult for some narrow elite to mount a coup or otherwise establish an extractive kind of society.

CR: So suppose we begin in one of these vicious cycles. In order to make a transition to a more successful economy, you are going to need a shock to the system. Your theory uses the notion of a “critical juncture”. What’s your favourite example?

DA: Critical junctures are big shocks that disrupt the balance. In the book, we give a lot of different examples of critical junctures. The Black Death killed half of the population in many parts of Europe. It was a huge negative shock. Or it could be a positive shock like the opening of Atlantic trade. These events force a change or create an instability.

JR: As a result of that instability, sometimes change occurs and sometimes it doesn’t. The Black Death did not lead to the collapse of feudalism everywhere, but it created an imbalance that people reacted to one way or another.

CR: Does your theory inevitably lead to the conclusion that without a critical juncture the only way out of a vicious cycle is a revolution?

DA: I think the distinction between revolutions and non-revolutionary changes is more about the incentives of the elite. The way we think about it is that changes happen almost always with some sort of conflict, with some sort of demands from those who don’t have

political power – they demand to share political power or to increase their political power. But there are two broad responses of the elite. One is to give in, as happened in the United States and Britain. That leads to a process of gradual change and that can happen very slowly, without a critical juncture. The second response is the kind we saw in the Russian revolution or are seeing today in Libya or Syria. What we see is that the elites say “no, we are going to fight it out”. And in that case, either the elite wins or sometimes it will lead to a much more violent radical revolution which unfortunately also has in it the roots of its own demise.

CR: You talk in your book about Botswana’s success story after its independence in 1966. But it sounds like it relied on the dumb luck of having a wonderful leader at that time. Does it come down to the luck of the draw?

JR: I think it’s true that Botswana had great leadership after its independence – Seretse Khama and others. But it also had great leadership during the colonial period and even before the colonial period. Seretse Khama’s grandfather, King Khama the Great, implemented all sorts of reforms in the 19th century. He adopted Christianity, he tried to modernize institutions, he gave up all of his supernatural stuff, he secularized the state. It’s incredibly interesting what went on in the 19th century.

Official Foreign Aid

CR: Let me bring this to policy regarding foreign aid. What do your arguments imply for official foreign aid to developing countries? Is it useless unless the recipient countries have largely inclusive institutions in place?

DA: It depends on what you mean by useless. If you are one of those few remaining people

who believe that foreign aid is going to transform the world, then yes, our story is bad news. But I think the point of foreign aid is not to transform the world but instead to help the suffering of very unfortunate people.

JR: Much foreign aid might get wasted, but lots can be spent on fixing roads, or putting a roof on a school, or building wells.

DA: But it’s important to do no harm. If you give your foreign aid to the Egyptian military, for example, you are doing harm.

CR: Would it make sense for CIDA or other official development agencies to try to help the developing countries build the institutions they need? Is this possible?

DA: If you are going to use your aid in order to build some sort of more vibrant civil society organization, that might work. But the moment this starts working in Egypt, people will go to jail. So I don’t know...

JR: I think exactly how you do that in any specific country is very context specific. There’s no simple formula for building more inclusive institutions in a country.

CR: Do most official aid organizations think that it is formulaic or do they recognize that it’s context specific?

DA: I think they give lip service to the idea that it’s not formulaic but when it comes to implementation they apply their formulas.

CR: I like to think of a continuum in the modern thinking on development and foreign aid. At one end is Jeff Sachs who says that big aid is good and effective, and at the other end is Dambisa Moyo who appears to be against all of it. Somewhere in between are Bill Easterly and Paul Collier. Where are you guys on this continuum?

DA: I think we are close to Paul Collier. Aid does help in alleviating some poverty but it is not a silver bullet for economic development. Far from it.

JR: But we also don't agree with this view that foreign aid is the source of all problems for poor countries. Dambisa Moyo in *Dead Aid* argues that aid causes all of Africa's problems, but that's just ludicrous.

Life in the Developed Countries

CR: How about life in the developed countries?

Does your theory say much about what Canada or France or Australia can do to improve their lives today? Don't these countries already have most of the inclusive institutions that you think are valuable and necessary, or can we actually do better?

DA: There is considerable heterogeneity among the inclusive institutions that have developed over the last 200 years. Look at Sweden versus the United States. These different institutions do create different incentives and have different implications. We don't discuss this in the book because that's an entirely different topic. Part of the reason why we don't get into it is because these differences are reasonably small. In England versus Sweden, they have more or less the same income per capita, although very different inequality and poverty measures. This is definitely not to mean that the institutions in these countries are unimportant. They should be studied and I am sure that there are aspects of some national institutions that are very dysfunctional. This is true in the United States, and probably in Canada too. This is definitely true of the United Kingdom.

JR: Explaining the differences between rich countries requires a more specific theory than we have in the book. Ours is aimed at explaining the big differences between rich and poor countries.

CR: We all know that income inequality has been rising over the past three decades, in

the United States, Canada, and most of Western Europe. Is that increasing concentration of economic power going to threaten these inclusive institutions?

DA: Yes and we have written other pieces saying so. But it is not so much the economic inequality *per se*, it is the implication of the economic inequality for the growing political inequality. The real problem is that the very rich become politically more and more influential.

Predictions

CR: When you talk about China's development successes since 1970, you talk about the distinction between economic and political institutions. How do you describe its remarkable performance over the past four decades?

JR: I think it fits very well with our whole thesis. It is absolutely clear that the acceleration in Chinese growth coincides with reforms that move economic institutions in a more inclusive direction. It started with agriculture in 1978, and then incentives in the rural sector, and then it started moving into industry. What doesn't fit in the theory is that this move toward inclusive economic institutions takes place while the political system is still very extractive. China was an incredibly poor economy in 1978 with hideously misallocated resources. Like the Soviet Union was when Stalin took over. Stalin had a much more centralized, top-down way of doing this whereas the Chinese have been able to get the state out of it and they allowed the market to work better. But the idea that China's success is because of the Communist party is insane – it is in spite of it.

DA: Yes, many of the major Chinese reforms in the rural sector were not really so much

designed by the Communist party but permitted by the Communist party.

CR: So China has gone only half-way. Is this why you are pessimistic about the future – because they need to take the second step to go all the way?

DA: According to our theory, China will not catch up to the West. Its catch-up growth will come to an end unless they take that next step. China's next phase will have to be much more based on innovation-based creative-destruction growth and that's going to be difficult unless they have the politically inclusive institutions.

CR: How about Russia? What's your view of Russia 20 years after the fall of communism?

DA: Oligarchy. The KGB controls the state.

CR: And your thoughts for Russia's future?

DA: The KGB controls the state!

The Economics Profession

CR: Do economists need to pay more attention to politics and history?

DA: Yes, absolutely.

CR: Should we be going back to departments of political economy?

DA: No, but politics and history have to be part of the economics departments.

CR: So how are you going to make the profession pay more attention to history and politics?

DA: By making history more interesting. I think the profession does pay more attention to history right now than it used to. Look at the number of papers published in the *American Economic Review* or the *Quarterly Journal of Economics* or the *Journal of Political Economy* that actually use historical evidence.

JR: When people do get excited about this, the research is published in good journals. It just needs to be better institutionalized. Another problem is that there is this whole field of economic history that resists modernizing.

CR: How about graduate training? Do you have some complaints about our typical graduate programs in economics?

DA: At MIT there is a political economy field and general exam, and it's very popular. The bigger problem I have is that there is still the view that you should not do political economy because you won't be able to find a job.