

# Transcript of Development Drums Episode 40 – Why Nations Fail

Host: Owen Barder. Guests: Daron Acemoğlu and James Robinson

Listen to the podcast: <http://developmentdrums.org/795>



## Owen Barder

Thanks for downloading Development Drums. One of the most important books in development in recent years has been 'Why Nations Fail', in which Daron Acemoğlu and Jim Robinson ask why some nations have prospered and others have not. Their answer is that in some countries development is inhibited by extractive institutions. These institutions persist because leaders benefit from these arrangements even if the rest of the population does not. In their view, institutional change will only come about because of political change.

Their argument has profound implications for the way we think about development and especially about the role of outsiders such as aid agencies. I met up with them in Boston to discuss their ideas. First Daron and Jim, set out the ideas in their book and then we talked about what this means for development policy and aid agencies including the British Prime Minister's idea of the golden thread.

## Owen Barder

Daron Acemoğlu is the Killian Professor of Economics at MIT. And is among the world's most cited economists. Daron, welcome to Development Drums.

## Daron Acemoğlu

Thanks, Owen. Great to be here.

## Owen Barder

Jim Robinson is the David Florence Professor of Government at Harvard but don't let that political science title fool you. He is actually an economist. I think you call yourself a recovering...

## Daron Acemoğlu

A recovering economist.

## Owen Barder

A recovering economist. I would be interested to know what you're recovered – the way in which you're recovering. So welcome to Development Drums.

## James Robinson

Thank you. Delighted to be here.

## Owen Barder

So we're going to be talking about your book, 'Why Nations Fail' published last year to great acclaim and I think it's already clear that it's one of the most important books in development as well as in economics and thinking about growth overtaking certainly among the people I talk to Paul Collier's book, The Bottom Billion. So we're going to start with the big picture. We're going to get out the main themes and then we're going to drill down into those different parts of it.

So for listeners who haven't read the book, and I hope they will go out and buy it after this discussion. But perhaps you can start by explaining the main thesis of the book and perhaps, I'm sure you get asked this a lot, but let's start with the title, 'Why Nations Fail'. Seemed to me to be a misleading title. It's really about why some nations succeed and some don't. Is that what was it about?

**Daron Acemoğlu**

No, I actually don't think it's misleading. In the following sense, I mean of course failure and success are two sides of the same coin but we wanted to also emphasize that sometimes success is not an exceptional thing. People have everywhere of every culture, of every ethnicity, in every geographic environment have what it takes to be successful, to be creative, to be innovative, but they often are unable to do so because they live under an institutional structure – what we call extractive institutions which don't provide opportunities or incentives for them to do so.

They don't have secured property rights, they live in a world dominated by a tilted playing field which was a great majority of them in a position that then which they cannot compete and as a result of this societies fail. So first failure is what needs to be explained.

**James Robinson**

And I think from that perspective our view is rather different from most people in development economics. Most people in development economics sort of think it's completely mysterious what creates success and we just don't know and we need to do research and get better economists and our view is it's sort of obvious actually, what it takes to move GDP per capita in Sierra Leone from \$500 to 20,000. That's not the mystery at all. The problem is creating the circumstances that allows that to happen.

**Owen Barder**

So as you say the, in some ways blindingly obvious, point and one that fits with a lot of people's common sense is that institutions matter and we'll discuss in more detail what that means. That does fit with most people's intuition but these things are rather important. What is perhaps less intuitive is the second part of your story which is why it is that those institutions persist because you might expect if you are a kind of – the naïve view is that these ought to be swept away for the better good. So what's the intuition there of why they persists?

**Daron Acemoğlu**

I mean I think that is exactly it, in some sense we spend a lot of time in the book talking about institutions matter but that's not the surprising thing, and a lot of people at some level or another agree with that but when people talk about for example policies mattering or for institutions mattering or laws mattering, they often have this sort, "Oh some societies have made mistakes," they are not smart enough. Mobutu wasn't as smart as Lee Kuan Yew and that's why he couldn't do exactly the same sort of wonderful things that Lee Kuan Yew did.

But our perspective is different. Extractive institutions, as we have defined, as I just mentioned, are there for a purpose. They are not there by mistake, they are to serve to the interest of a small fraction of the society, for lack of better term let's call them 'the elite,' who have political power often derive economic power from their political power and reforming institutions to deliver better incentives and opportunities to deliver better growth is not always in the interest of this elite.

**James Robinson**

I think in terms of persistence, you know, the idea is that once a society gets set up in a particular way, like once colonial Latin America got set up with this very hierarchical political system where there was a legal system, where there was no consensus of equality before the law, where assets were unequally, very unequally distributed, where some people were subjected to coerced labor then that naturally tends to persist over time because people with power, new opportunities come along but they're able to structure those new economic opportunities to suit them. And so you know that power, the power that creates those structures, and there those structures kind of maintain the power, or perpetuate the power into the future, so we try to give like lots of examples of that.

In the first chapter, you know if you go back in history in the Americas and you come all the way up to today, you see how those structures reproduce themselves even if the world changes. Slavery was abolished in the US in 1865 but the slave system – the repression of black people in the US south carried on with different instruments.

**Owen Barder**

Okay, so we'll come in the next section to talking in detail about notion of persistence. The third leg of the story is this notion of critical junctures: these accidents perhaps of history. What's the story with these critical junctures.

**James Robinson**

Well the idea is that there's some moments where shocks or crises or circumstances make the structure of power sort of more fluid in society in some sense and that creates an opportunity for the underlying power structures to be reorganized or re-jigged or whatever.

**Owen Barder**

What Tony Blair called shaking the kaleidoscope.

**James Robinson**

And there's a possibility for the society to move off on to a different path of institutions although that doesn't necessarily happen because even when there is a critical juncture there is still forces which lead to the recreation of extractive institutions perhaps in a new guise or with a new face on top.

**Daron Acemoğlu**

And I think what is important to emphasize here is, I mean this is of course very central part of the theory, it's a very difficult part of the theory modeling understanding change is much harder. But it's also important that though critical junctures and accidents play a central role in our thinking, our thinking is not one in which institutions develop by accident. It is that critical junctures create a fluid environment for change but it is still the existing institutional power and economic relations that shape how that change happens so that's why many of the examples of critical junctures that we emphasize are those where a number of countries, a number of societies are hit with a similar critical juncture but they diverge in their institutional path because they start with different initial conditions.

**Owen Barder**

*You're listening to Development Drums number 40 with me, Owen Barder, from the Center for Global Development. My guests today are Daron Acemoğlu, and Jim Robinson, the authors of 'Why Nations Fail'. If you enjoy Development Drums you might also want to try out the podcasts from 'The Guardian' and from 'The Overseas Development Institute' and you should certainly consider subscribing to 'The Global Prosperity Wonkcast' which is much shorter podcast hosted by my colleague, Lawrence MacDonald. You can subscribe to all these free on iTunes or on Stitcher and I'll put links to them in the notes for this episode on the 'Development Drums' website.*

Coming up we're going to dig deeper into the three ideas that we've been talking about. Daron and Jim will talk about their view that it's institutions which explain why not some nations fail and others succeed and why this explanation is better than alternatives such as geography or culture. After that we'll look at the idea that institutions which block development tend to persist because of politics. And at the end of the podcast, we'll talk about how change happens.

So let's start with the first part and let's start as I think you do in the book with the question of what the alternative explanations are that you reject. And you divide them roughly into three. The first alternative explanation that we hear about is geography and disease. What's the story there and why isn't it right?

**Daron Acemoğlu**

I mean I think that's one of the oldest ones and it's got a superficial appeal because everybody thinks in terms of whether you're trained as an econometrician or not, then to think of endogeneity and some things that response to something else and of course geography, by being, by its nature, it's sort of superficially appeals like in exogenous factor but of course that's misleading in the sense that first of all you know geographic factors are correlated with lots of other things.

**Owen Barder**

So let's just explain for people who perhaps aren't familiar with the terms an exogenous and endogenous. The point here is like, Jeff Sachs has often said malaria is a big reason why some sub-Saharan African countries and tropical countries are poor. So this is an externally visited upon that group of people and there is nothing they can do about it.

**Daron Acemoğlu**

Outside their control.

**Owen Barder**

It's outside their control.

**Daron Acemoğlu**

They haven't chosen it.

**Owen Barder**

And when you look at the world and you plot poor countries there does seem to be a tropical band of countries that are poor compared to the non-tropical countries. So it does look like a plausible explanation for why some countries are poor and some are not. But you are saying that that isn't the reason, right?

**Daron Acemoğlu**

It isn't a reasonable explanation and the reason why for that is that for instance if you take the tropical aspect of it, there is a very good reason why tropical countries are poor. It's because many of them were, almost all of them were former European colonies and the way that the tropical countries were colonized was very different from those over the temperate areas.

Europeans often went and settled in the temperate areas and institutions developed there in a very different way because there was no local population to be subjugated and exploited. Whereas in the tropical areas when the Europeans arrived, A, they found larger populations and B, it wasn't the climate that was conducive for them or a disease environment conducive for them to settle, so a very different path of colonization ensued. And it is this path of colonization that has a first order impact on development, not just the colony, not just malaria. And in fact malaria itself isn't as exogenous as one might think. There were many areas in which malaria was endemic and it got eradicated including some parts of the US south.

**James Robinson**

There is many ways to think about that, you know there is much more if you look at for example the detailed micro empirical world, looking at the impact of malaria on people – absenteeism in work, or all sorts of things like that. The type of estimates you get about the impact on people's productivity looking at wages and things like that is absolutely nowhere close to explaining these types of differences that Sachs tried to claim could explain the difference between malaria prone countries and non-malaria prone countries. So there is many ways of sort of seeing that this doesn't add-up to a convincing explanation.

**Daron Acemoğlu**

And you have many examples historically of societies springing up very successfully in areas that were tropical, that were land locked, that were endemic disease ridden. So it's just geography doesn't seem to be a huge factor. You see sure of course there are some areas where agricultural productivity is low but that's not generally an exogenous factor. Most places where agricultural productivity is low it's because they haven't made the investments in the physical capital and see the other things that will increase agricultural productivity. It's often because they don't have secured property rights and it's often because they have a history of warfare or other things that's...

**Owen Barder**

So you're reaching for the institutional explanations, and we'll come to those but let's just, I mean there are people who say things like you know the kinds of plants in tropical areas don't store energy in the way that plants in temperate areas do because they don't need to so there is less nutrition in the plants and all that. You're dismissing all that.

**James Robinson**

So at best that could only be an explanation for some pre-modern variation in prosperity, right, I mean how could that be relevant to explaining differences in prosperity today, you can import food. Most differences in the world are not created by agriculture productivity, they are created by industrial.

**Daron Acemoglu**

It's actually the opposite in the sense that the areas which are said to have low agricultural productivity today specialize in agriculture and the reason why Africa is poor is not because it has too little agriculture. It has too much agriculture and not enough industry but even more strikingly there if in fact agriculture was so difficult in these tropical areas why was it that before the Europeans arrived it was precisely those areas that were big population centers.

We didn't see the big populations in, for example in Latin America, we didn't see them in what is today Argentina or Chile. What we saw them in what is today Peru, Bolivia and Guatemala, Mexico. And those are exactly the areas where the environment was at least sufficiently good enough for enough food to be grown for those huge populations and of course those huge populations and as I hinted at were quite important in shaping the path of colonization and institutional development in those places.

**Owen Barder**

So a second story that you also dismiss is, goes under the broad heading of culture. And you know we English like to think that the industrial revolution happened in England because we are an open trading nation and you know we believe in like...

**James Robinson**

Yes, but that is nothing to do with culture, is that?

**Owen Barder**

Isn't it?

**James Robinson**

No, I think open and trading because Britain developed good institutions. Good institutions were the foundation of the mercantile society, political institutions that didn't allow the crown to monopolize trade in the way it did in Spain, which allowed a mercantile class to emerge in Liverpool, and Bristol and Portsmouth and so.

**Owen Barder**

But didn't we do that because of some fundamental English cultural values

**James Robinson**

No.

**Owen Barder**

Okay. So what is – okay, this is the point about culture right, because you've had Max Weber and all his stuff about the protestant work ethic, explaining why temperate environments did well and what's the culture story that you reject?

**Daron Acemoglu**

I mean again the cultures story just like the geographic story has many lives so it can come back in very different forms. So I think one of them that you have sort of articulated is exactly the sort of national culture. English have a different culture than the Dutch and then the Spanish and then the French and it generally does not receive much support from history or other sources of evidence. The English weren't you know hugely open and trading when the crown dominated everything and there was you know internal monopolies left, right and center, people couldn't trade, it's only after the...

**Owen Barder**

The Calico laws for example.

**Daron Acemoğlu**

Right, the Calico laws and all of the Stuart restrictions on trade. It's only after parliament became strong, representing many of the people who wanted freer trade and that political power translated into changes in economic institutions that trading started.

**James Robinson**

And then the absence of an English culture, it's very clear in the colonial world, you know in the United States it's very common to think that it was some wonderful British cultural legacy that made the US what it was, but Zimbabwe was created by British people too and that looks just like a Latin American country. It's just you couldn't create Zimbabwe or Peru in the United States.

**Daron Acemoğlu**

And more importantly perhaps or equally importantly in the book we go through pains to explain that actually whatever talk of culture you might want to have, the English had exactly the same intentions, the exactly the same plans as the Spanish in trying to colonize their various different parts including the United States. What is today the United States but they were unsuccessful, they couldn't because of the open frontier because of the low population density, they just couldn't do it the way that the Spaniards could do in Mexico valley for example.

That explains the different path not the fact that the English came with a different culture and you know were sipping their tea while the Spaniards weren't.

**Owen Barder**

I thought one of the most compelling stories for why it's not culture and indeed not a geographic and disease was your comparison, is it called Los Nogales.

**Daron Acemoğlu**

Nogales, yes.

**Owen Barder**

Nogales, a town.

**James Robinson**

Walnut, it means walnut in Spanish.

**Owen Barder**

Does it mean walnut? Okay. And it's a town divided by the US-Mexican border, and you say that it is hard to imagine that these people would have different cultures on different sides of border or.

**James Robinson**

Yes.

**Daron Acemoğlu**

It's a unified sort of area.

**James Robinson**

It's a very Hispanicized town, Nogales on the US border.

**Owen Barder**

And yet they have very different levels of income. That can only be because they have different institutional frameworks

**James Robinson**

Yes.

**Owen Barder**

Rather than because of anything to do with the cultural or the geography there. Yes, and the same is true of North and South Korea.

**James Robinson**

Absolutely, yes, North and South Korea it's very hard to understand how, the only possible explanation for that massive difference in living standards is the different ways its institutions got constructed.

**Daron Acemoğlu**

And you see that exactly we don't have fantastic national income accounts but you see that on the existing evidence that north and south of the country were very, very comparable. If anything north might have been a little more industrialized in the 1940s and then you have this huge change in institutions and then you see the divergence creeping it.

**Owen Barder**

So the third explanation you reject which resonates a lot with the development folks listening to this podcast is your what you call the ignorance hypothesis. Tell us about the ignorance hypothesis.

**Daron Acemoğlu**

Yes, the ignorance hypothesis or a different word for it, which doesn't capture everything but perhaps resonate well with this audience is enlightened leadership hypothesis. It's that some leaders because of their clever advisors or because they are themselves clever have the solution and do the right things and some other ones don't. So what I was talking earlier on about Mugabe or Mobutu versus Lee Kuan Yew, it's not the societies that shape those incentives, it's just that you know Mobutu wasn't as smart as Lee Kuan Yew. Of course at that level it's seems a little ludicrous but day in and day out as economists we think this way because we are trained in our graduate school about you know identify market failures, develop clever solutions to it, only if you could be even cleverer then we will do better and that...

**James Robinson**

That's what I'm recovering from.

**Daron Acemoğlu**

That's why – what he is recovering from and moreover as soon as you start working on these topics you get sucked into the whole development community which says how can we improve life in Pakistan, how can we improve life in Burkina Faso, let's come out with clever solutions. And that all conditions us thinking about there is some big dollar bills on the street for us to pick up and if we could pick up enough of them that's going to be development and we think that's a fundamentally incorrect way of thinking about the problem.

**Owen Barder**

And why is it fundamentally incorrect?

**Daron Acemoğlu**

Because it ignores the fact that many of the inefficiencies there, aren't there by mistake but they have evolved overtime historically because they serve the interest of a certain segment of society and therefore they are going to have much more resilience than just random mistakes out there.

**James Robinson**

In Tunisia for example before the Arab spring, just after the Arab spring they passed a law and they expropriated the assets of a 114 people, President Ben Ali and his wife and their cronies. What were they doing, they were systematically predated on the economy, shaking down every business for 5% and 10% then 20%. They understood perfectly well this was a disaster for people's incentives and investments.

President Ben Ali subverted the whole government contracting process and every government contract had to come through his office, he had to sign off on it.

He understood this undermined the capacity of the state, it undermines the effectiveness of the state, but they didn't care. They were extracting vast fortune out of the system, this is not about not knowing what a sensible thing to do is

**Owen Barder**

And yet you are here dismissing a big part of the development corporation industry which is flying economists like us around the world to go and do regressions and give PowerPoints, explaining to people that if they would liberalize their telecoms or some other thing, they would bring about.

**James Robinson**

Don't you think that most people understand this in the development industry nowadays though. I was at the World Bank giving a talk about the book on Tuesday, you talk to people at the World Bank, these people face all these problems all the time, they have to deal with it. They have to deal like with the fallout from these problems.

**Daron Acemoglu**

Right, what they may not have, I think they understand it instinctively, what they may not have is a framework for thinking about it more systematically and in the absence of that framework, which we won't be naïve enough to say that this book is that framework, but we're trying to take steps towards that framework. In the absence of that framework what they have is still the framework, they are making mistakes that supply principles of economics.

If only they had taken first year undergraduate economics they wouldn't make these mistakes. And that I think is leaving them powerless.

**James Robinson**

There are many things the World Bank does, for example like community driven development. That's in some sense a response to political failures and the origins are community driven development are actually in Indonesia, where there was an enormous criticism that the World Bank has spent too much time cozying up to elites and the dictatorship and stuff and what about the people. But that's really an attempt to redirect resources down, to essentially solve political problems. They are not allowed to talk about that and that's – but a vast amount of resources goes into things like that nowadays, you know DFID same thing.

**Owen Barder**

*You are listening to Development Drums with me Owen Barder. And I am with Daron Acemoglu and Jim Robinson, the authors of Why Nations Fail. The full transcripts of Development Drums are available on the website [developmentdrums.org](http://developmentdrums.org). I want to give a shout out to the firm which does these for us called Pods in Print. They do a great job of transcribing the discussion quickly and accurately and I've used them for many years. They've always provided a really good high quality service. You can find them at [podsinprint.com](http://podsinprint.com).*

**Owen Barder**

Let's move to what it is that we are saying, these three explanations that you are saying are not right the geography and disease, the culture and the ignorance hypothesis. What you're saying is, it's institutions and we'll come in the next section to why institutions are as they are but what – for me I thought that you didn't do enough to articulate what exactly it was about institutions and your basic difference is between extractive institutions and...

**James Robinson**

Inclusive.

**Owen Barder**

Inclusive institutions. What's your definition of extractive institutions and inclusive institutions?



**James Robinson**

One of the problems is there is many different ways in which you can extract. We have this chapter called Why Nations Fail Today, where we look at a lot of different countries, Zimbabwe, Syria and Columbia, Egypt, Uzbekistan, North Korea and we say the details of these things are very different in North Korea, Uzbekistan, Columbia, but they all have this property which is they impede the economic opportunities and incentives for the vast mass of people in society, okay.

They do that – why did they do, why did they block people’s opportunities, why do they not create incentives for people? Because that allows the people with political power to perpetuate that power and also to extract income and wealth out of people, systems of labor coercion are disastrous for the society but they are very good for the people who are exercising the coercion. That’s part of – it’s not like one particular thing, like the form of the constitution. If you have this clause in a constitution, you’re going to be extractive and if you don’t then you’re going to be inclusive. Constitutions might be important but there is many ways in which you can extract, but that also means by implications that inclusive societies may also there is many ways in which you can fundamentally create broad based economic opportunities in society and give people incentives. There is many specific ways in which you can do that.

**Owen Barder**

It seems to be partly about economic opportunity and partly about political responsiveness. It seems to be some mixture of those.

**Daron Acemoğlu**

Right, I would, again simplifying it and we’re trying to have a conceptual framework that has wide applicability but obviously leaving out some details, the way we think about it is that economic opportunity and economic incentives are crucial. But they can only be truly realized if there is political responsiveness and if there is political – something approaching political equality, because in a system where political power is monopolized by a narrow group and economic opportunity and incentives are widely available, there is going to be some tension. Because I hold political power, at some point I’m going to be tempted to start using a political power to further my economic incentives and at that point that widespread broadly distributed economic opportunity is no longer going to be satisfactory. That’s why we think of this off-diagonal elements where you have inclusive economic or something approaching inclusive economic institutions but something very close to extractive political institutions as inherently unstable.

**Owen Barder**

Right, okay and we’ll come to that in a second, but just so that I understand is this one of those either or things. That you’re either basically...

**Daron Acemoğlu**

No, there is of course shades of grey everywhere. And then look at the United States, it’s not a perfectly inclusive society either politically or economically but we provide these two polar cases to clarify the commonalities, the key things.

**Owen Barder**

Well you might imagine that it could tend towards being bipolar, that if you are at the extractive end it will tend to get worse because you will have elites that gather power and if you’re at the inclusive end that will tend to get better. But it would be quite hard to stay in the middle.

**Daron Acemoğlu**

That’s right. There is some of that and that’s at the heart of our persistence explanation why once you start having strong extractive elements they recreate themselves. But in practice, because there are as Jim said, there are more ways than one of skinning a cat: some extractive elements are going to be more pronounced in some society and in some other parts maybe a little more inclusive and so there will be shades of grey also.

**Owen Barder**

My colleague at the Center for Global Development, Arvind Subramanian, wrote a review of the book which said, a brave effort to explain most countries in the world and by and large this fit between some measure of political inclusivity and economic growth holds true. But he identified on his diagram two big outliers, one was China, which seems to be growing faster than its political inclusivity would suggest it should be. And the other was India, which seems to have had less economic success than you might imagine given it is the world's biggest democracy.

And what Arwin said was, perhaps it's enough that it fits most countries but if it doesn't fit a third humanity this feels like it's not a complete explanation for what's going on. Let's focus on China.

**Daron Acemoglu**

Right, we spend a lot of time on China in the book actually and we think that actually China illustrates a lot of what we are about. Because first of all if you look at Chinese recent history, it's quite clear that this very successful dynamic economy is a recent phenomenon. It did not exist while Mao was in the midst of the Great Leap Forward and the Cultural Revolution. And the first fundamental thing is that there is a wholesale change in economic institutions and economic incentives that started with Deng Xiaoping and perhaps a little before, but after Mao's death and that is at the root of the mega growth in China.

The second thing is that there is another important factor here which we haven't discussed so far, which again features quite heavily in the book is we talk about extractive growth. It's not that extractive societies cannot grow; it is certainly not that they don't want to grow. Which dictator wouldn't want to become even more wealthy and of course the path to that is to generate growth in a bigger pie in the society. It is that often dictators will be afraid of allowing the society to become more economically dynamic because this would destabilize their political power. But then every now and then for a variety of factors that we discuss, but it's related to stability and the ability of the leaders to legitimize themselves through this channel, if societies are able to keep their extractive nature but encourage economic growth that can lead to a very rapid process of economic – extractive economic growth as for instance in the book we illustrated with the Soviet Union between the 1920s and late...

**James Robinson**

Yes, or Argentina before the First World War would be a good example too.

**Owen Barder**

In both the Argentina case and the Soviet Union case what you are saying is that you can get in the Soviet Union case three decades of rapid growth or apparent growth depending on how you read the numbers. But rapid growth, right, they got a man into space and all that.

**James Robinson**

And a dog.

**Owen Barder**

And a dog. But the sense, well I guess your argument is that that's a non-sustainable position if it is not founded on...

**Daron Acemoglu**

Well I mean...

**Owen Barder**

More inclusive institutions.

**Daron Acemoglu**

It's very, very interesting beyond being non sustainable. It is very, very interesting because it illustrates some important economic dynamics and there is a lot of examples of extractive growth around that us. But from the point of view of China being a counterexample to the arguments in the book, it very clearly puts the tables the other way around. First, we see the importance of institutional change, second we see

something exactly along the lines of this extractive economic growth and third, we see, and this is where the future of course is unknown, but we see that China is still a poor with country less than one-sixth of the GDP per capita of the United State. The question is where is it going to go? Is it this extractive growth, this authoritarian party structure together with a somewhat inclusive, somewhat extractive economic system is going to be able to survive or is it going to run out of steam exactly as in the Soviet Union or Argentina.

**James Robinson**

Yes, is it going to go into reverse or is it going to go the South Korean way where there was a actually a spurt of extractive growth in the '60s and '70s under General Park which then was sustainable because in the 1980s and 1990s the political system changed.

**Owen Barder**

So it's a prediction of your theory that China, either it will have to have a political change that follows this period of economic growth, or the growth will come to a shuddering halt.

**Daron Acemoglu**

In 20 years time it can be falsified.

**Owen Barder**

Right, if it continues like this then your theory is falsified, right. But what's interesting about that story is that the economic growth seems to proceed rather than follow from the change in political structure. The institutions seem to follow your economic – I am unclear...

**James Robinson**

It's absolutely clear that the economic growth in China is as they are almost saying was unleashed by economic institutions being made more inclusive. But the important point is that that's only compatible with this very extractive political system for a transitory period.

**Owen Barder**

Okay.

**James Robinson**

That's not a model for enduring economic success.

**Daron Acemoglu**

And also I think if we have given this impression in the book it certainly wasn't our intention. We certainly don't want to claim any, politics is supreme and there is no effect on economics on politics. Quite the contrary, economics and politics quite interact in very complex ways and when we try to emphasize for example in the context of the rise of Europe, how opening of the Atlantic trade changed the political equilibrium. There is an interaction between a critical juncture that's mostly non-economic, in the sense that it came from discoveries around the world, but it does interact with economics on the ground and politics on the ground to generate for a political change.

But we think it's very important to emphasize politics for contrast with existing explanations, be they from the economics side which sort of ignores politics or from the Marxist or Marxian style which has a supremacy of technology, economics, class structure and so on and so forth. At the expense of understanding where political power lies and what are the dynamics of political power.

**Owen Barder**

That actually segues nicely into the next section, which is about why these institutions exist and persist, but before we get to that, I just want to ask a question on behalf of a listener who emailed in, Will Lobo from Paris, who says, given the discussion around mismeasurement of GDP and criticisms of commentary techniques for doing these cross country growth regressions and so on, are the empirical estimates about what causes growth, should we just reject all that stuff or could we do those things better and where are you on these cross country growth regressions, the growth empirics literature?

**Daron Acemođlu**

I mean, we are not big fans of the cross country growth regressions when you – if you take that to mean you take growth on the left hand side and you throw the kitchen sink on the right, but of course if you want to ask questions about cross country comparative development, you have to look at cross country data and you want to use that, you want to use all the statistical tools available. The way that we've tried to do in our work is use long frames so that we can look at historically meaningful sequences and also try to be very exclusive about sources of variation, sort of use historical sources of instrumental variables or zero in on interesting historical episodes in which some explanatory factors can be sort of isolated as important.

**James Robinson**

Yes, I mean, it's very easy to criticize cross country growth regressions, but as it turns out, there is very large kind of empirical regularities at that level. So what are we supposed to do, say, oh look, there's regularities, but we can't study them in an absolutely pristine methodological way, so as social scientists, we're just going to ignore them.

**Daron Acemođlu**

So you are not a fully recovered economist. You are not fully recovered from being an economist.

**James Robinson**

No, I mean, it's just, you know, sometimes – it's a dirty business, but you know you have to do what you can do and you know so...

**Owen Barder**

So let's move to this second part about why bad institutions exist, which I found the most exciting part of the book. I think the statement that institutions are rather important feels to me – lots of us know that and it was helpful to have it set out. It was actually really helpful to have all the examples; the book is full of this very rich stories of the ways that institutions have affected growth and you know, great material for dinner parties if nothing else, but

**James Robinson**

I think cocktail parties, as Jared Diamond said.

**Daron Acemođlu**

The book goes better with wine.

**Owen Barder**

The problem that I think is really quite striking is your statement that these are deliberate, not accidental, the leaders choose to have these institutions because they benefit them even though they don't benefit the country, they benefit them and the elite. So are you – so what you're doing is, it does feel like you are putting a political frame on the economics, that you are saying we've talked about institutions for most of the '90s and we've sent people of to do institutional reform and that hasn't worked and you are coming along and saying well, no, it's the politics, stupid.

**Daron Acemođlu**

Yes.

**Owen Barder**

That drive the institutions. So it does feel like you're putting a political lens on why institutional change.

**James Robinson**

If you think about the Washington – the so called Washington consensus, which many people would say had failed, that was sort of composed and implemented without any kind of systemic thought about the politics that led to all those problems in Latin America.

**Owen Barder**

Right. I'm actually going to ask you at the end about what you think about David Cameron's Golden Thread, which might be a similar idea, so let's come to that, but there was this book, Africa Works, in the 1990s, Chabal and Daloz, which kind of said, didn't it, that we outsiders are wrong to think that African societies aren't working; they are working just fine, at least to the extent that they do...

**Daron Acemoglu**

Yes, I mean, in some sense we are – we build on the shoulders of many giants, but that line of argument in some sense is perhaps even more relevantly was first put forward by Bates who said when you – as an outsider when you look at, you see all these irrationalities, but actually they are not irrationalities, they are economically harmful to the countries, but they are very rational because they are responses of self-interested economic groups or self-interested political leaders to the opportunities and the pressures on them.

**James Robinson**

Yes, I mean, there is more or less radical versions of that idea, I mean, there is Yan Vancino who is a very distinguished historian of Africa. He'd tell you – and this may be more in the spirit of the book we've mentioned – now he'd say that Africa is not a failure, Africa is an incredible success, why is that? Because Africans have managed to avoid living under these tyrannical things called states. States tax you, they force you into the army, they take your lands, they regulate you, they take your freedom away, and one of the things which is remarkable about Africa, pre-colonial Africa, even post-colonial Africa, is the extent to which states do not control people's lives.

And you know, we tend to think, we all live in powerful states regulating – we're all socialized into thinking this is a good thing and I think from an economic perspective it is a good thing because you get public goods and you get stuff like that, but there is a very different perception, you could think about this in a very different way, you know this would be very consistent with say James Scott.

**Daron Acemoglu**

And it's also short run versus long run distinction. I think you know once state become dominant, that has different long run implications, but in the process they really do repress people, kill them, put them in the army to kill other people and that's what history books are full of.

**Owen Barder**

So the typical economist's reaction to this, we all are taught under first year economics to separate the size of the cake from the distribution of the cake. You know, you ought to be able to grow the cake over here and then when you're done doing that, you elect a government to figure out the redistribution of it.

**Daron Acemoglu**

That's the part that he is recovering from.

**James Robinson**

That's another thing I'm recovering from.

**Owen Barder**

Now I mean, it's got a certain – in the context of your work, the question is why don't these elites grow the cake so that they can – of course they're going to try and maximize their share of it, but why don't they want bigger cake?

**James Robinson**

Well, think of it like this, why is it that in North Vietnam, they haven't launched onto the Chinese, Vietnamese road?

**Owen Barder**

Why is it?

**James Robinson**

Because this is a personalistic dictatorship and they just don't think they'll be able to.

**Daron Acemoğlu**

North Korea you meant?

**James Robinson**

North Korea, sorry, North Korea. They don't think they will be able to stay in the driving seat if they start allowing this deregulation of the economy. Their hold on power, although from the outside it may look like they just control everything, in fact the reality is they are so anxious that their hold on power is wafer thin that they can't risk moving down the Deng Xiaoping path.

**Owen Barder**

So in effect, I'm just trying to think this through – in effect, what you are saying is that political control depends in part on the structure of the economy. If you have economic pluralism, then it's very hard to retain political control, but without economic pluralism, you don't grow the cake first.

**Daron Acemoğlu**

Well, there are very many reasons for that. There are a few reasons for that. First of all, economic pluralism in and of itself makes things harder. Secondly, as monarchs throughout the ages understood – we talk about Francis I and Nikolai I in Austria, Hungary and Russia in the book – you know, once you do that, you are going to have greater mobilization in the society; you allow railway, you allow industry, you're going to have a great mobilization in the society and those – that mobilization, especially from the workers, is going to bring a lot of instability.

But another aspect, though the mobilization is equally threatening, is that you're going to have a new power group that's not totally beholden to you. You know, at the end, that's what brought down many of the regimes – absolute regimes.

**James Robinson**

I heard a great story in Tunisia, I was just in Tunisia last week talking about the book. I heard a great story that someone told me at the University in Tunis that President Bourguiba went to Morocco in the 1960s when he was President and he met with the King Mohammed V and he started telling Mohammed V, we are doing this, you have this universal education in Tunisia, it's really great and Mohammed V started saying you know, these are educating – educating these people, this is dangerous, you know, these people are going to start complaining, they are going to see what's going on in the world and they may kick you out of power. And Bourguiba said, yes, you're right, that's a risk, but you know, I'd rather be kicked out of power by someone educated.

This is Development Drums with Owen Barder and my guests are Jim Robinson and Daron Acemoğlu, talking about their book Why Nations Fail. We've looked at the importance of institutions in determining whether and when development happens and why extractive institutions tend to persist. In the next section, we look at how change happens and what outsiders can do to bring it about, including the importance or otherwise a foreign aid. We start by looking at what Jim and Daron call critical junctures.

Well, I thought your story of the Black Death in England was absolutely – actually across Europe, was a fascinating example of this kind of somewhat random external event that changed the path. Is that a good way of explaining your notion of critical junctures?

**James Robinson**

Yes, I mean, it is, there was also a process of conflict, so it's not – yes, there were the small differences that Daron was talking about earlier on, the Black Death comes, the Black Death leads to a huge kind of shock to sort of labor relations, you know, in the country.

**Owen Barder**

So we should explain the Black Death was a plague?

**James Robinson**

It was a plague that wiped out about 40% of the population of wherever it hit basically and you know, so labor became incredibly scarce. So what happens in Western Europe is workers start renegotiating the labor contracts and in particular, they start renegotiating away lots of feudal restrictions on labor mobility and all sorts of things.

**Owen Barder**

Right, because the landlords need workers and then their workers die, and so suddenly they are in a less strong market position.

**James Robinson**

Eastern Europe, you have the opposite, which is you have a sort of intensification of serfdom, so now there is opposite motivations there. Daron wrote a very nice theoretical paper about this. There is opposite motivation, you know, sort of like the power of the workers goes up, but on the other hand, from the point of the view of the lords, there is even more incentive to kind of repress this scarce asset of workers.

So there is different forces going in different directions, and these small institutional differences mean one force dominates in the east and the other one dominates in the west, but not without a struggle; there was a huge peasants revolt, you know, because even in England, the king tried to put a stop to this and it took a massive uprising basically, before they backed off and said okay, we're going to have to put up with this. So it's also – it was very conflictual.

**Owen Barder**

So what was the institutional difference that led to in England for example, an increase in the power of the peasants as a consequence of the Black Death, and then in Eastern Europe, the serfdom, right?

**James Robinson**

So one thing that was very different was distribution of land ownership. So for example, what you had in Eastern Europe was you had much larger consolidated territorial estates than you had in Western Europe. So there is real evidence that led to very different patterns of competition. Like so in England, for example, the Norman Conquest, what William the Conqueror did was he split up the land in between all his lords and elites.

So and yes, it was because he was partly interested in controlling them and making sure that they didn't get too powerful. So what you had was small manors right next to each other, competing for the workers, whereas in Eastern Europe, you had this vast estates where that couldn't kick in, so that's one small difference that was important in the way this worked out.

**Daron Acemoğlu**

And perhaps cities also. I mean, cities were already vibrant, another attraction for labor.

**Owen Barder**

Right, yes. An alternative – an outside option?

**Daron Acemoğlu**

An outside option. And much weaker in Eastern Europe.

**James Robinson**

Yes, exactly.

**Owen Barder**

So this story is in a sense some small bits of randomness together with strong path dependency, and not a tendency then to converge on an optimum, right? That's –

**Daron Acemođlu**

Absolutely, those are the components of the story.

**Owen Barder**

Jim, you're looking...

**James Robinson**

Yes, but it's also about the dynamics of these conflicts because, you know, these can lead to these divergences, but they don't necessarily lead to them depending on who is in conflict with whom, so you can get a situation where even maybe at a critical juncture, you can get this elite – you can get conflicts which lead to elite circulation rather than – so what's sort of important, perhaps not said so explicitly in this discussion of the Black Death, is the nature of who it was that was complaining and contesting, and you know, what they were trying to change, so they were trying to change these feudal regulations, which are very widespread in the economy and you know, so that was a sort of like a public benefit for everybody.

But often these contests involve people with much narrow interests, which if they're successful, leads not to a more inclusive society, but a different sort of extractive society.

**Daron Acemođlu**

Yes, we're seeing that in the Arab Spring right now. I mean, Arab Spring is clearly a critical juncture for all of the Middle East and North Africa, and you're seeing real institutional changes into Tunisia, you're seeing at least attempts at elite circulation in Egypt, and you are seeing some regimes sort of remain more or less as they are in Saudi Arabia, Kuwait and Bahrain, and you are seeing intensification of repression in Syria. So a whole sort of different response is – some of it is random. I mean, I think Libya and Syria taking different paths, well, nobody could have guessed it. Of course, it's dependent on what the West did to some degree.

**James Robinson**

Yes, but a lot of it is also reflecting important – different institutional differences like the military, how the military are organized, whether the military live and die with the regime.

**Daron Acemođlu**

Right, so I think Tunisia versus Egypt versus Syria, you could probably have guessed from if you were given the inputs, but then some of it like Libya versus Syria, I think there are a lot of other factors.

**Owen Barder**

This makes me wonder whether you thought about expressing any of these ideas in the framework of complex adaptive systems because a lot of what you're talking about echoes the dynamics of a complex adaptive system. The path dependence, the butterfly effect, the notion that small changes in institutions can lead to very big outcomes.

**Daron Acemođlu**

Absolutely, so I think these are all complex dynamical systems. The question is what sort of cuts do you take that are useful and our training perhaps has conditioned us to think that the way to approach this is still abstract, write down theoretic models to isolate certain effects, then look at history and look at data and then in our sort of more broader audience rendition of this, sort of try to blend all of this together using historical evidence.

A different approach would be, you know, complex adaptive systems, agent based modeling and so on and so forth. Our training doesn't make us think that's the best way of going, but of course, there are many ways of making – trying to make progress here.

**Owen Barder**

Yes, and you would get very similar dynamics in convexities, situations where what appears to be an equilibrium persists for a long time and then there is a small shock and it jumps across the valley to some other temporary – I mean, there is a very strikingly similar set of dynamics. Let's look at the role of



outsiders because that's an issue that a lot of people working in development will be interested in is, well, if your story is right, if institutions are a feature of politics, if it's the small – and on the one hand it feels like a very optimistic thing, right? These very small institutional changes can make a big difference, then we can come along and do a bit of tweaking, make some small institutional changes and that will bring about...

**James Robinson**

Well, small institutional changes interacted with a critical juncture, which is perhaps hardest bring about from outside.

**Daron Acemoğlu**

Harder and probably undesirable. Critical junctures often are terrible events, you know, Black Death.

**James Robinson**

Revolution.

**Daron Acemoğlu**

Revolutions, wars.

**Owen Barder**

Yes, but you gave the example of community driven development programs.

**James Robinson**

Yes.

**Owen Barder**

Those are in some sense an attempt to change the balance.

**James Robinson**

I think they are, yes. I mean, I think they're conceived in a very sort of cookie cutter, non-political way. You know, I always liked the analogy to the Sex Pistols song, Anarchy in the UK, where Johnny Rotten had the famous line 'I don't know what I want, but I know how to get it.' I always think kind of community driven development is a bit like that, but I do think there is a sort of impulse there, you know the development community actually has a lot to be – there is a lot to be proud of, like this whole notion of empowerment, for example, that wasn't some academic economist who came up with that, that was development practitioners.

We need to empower people and that's very much in the spirit of our approach. You know, if you are an extractive society, you need to try to spread the power more broadly in society. That means you empowering people who don't have power makes a lot of sense.

**Daron Acemoğlu**

But I think the more important sort of thing to say at first, you know, because I think you cannot say it enough is that there isn't – because politics is complex and it really depends on the context, there isn't sort of a simple formula or sort of a silver bullet solution that's going to work and you can say, okay, here is our solution, we're going to go and form these community organizations, it's going to work everywhere, it's going to suddenly turn North Korea into Great Britain. That's not going to work.

It's a very difficult process. It's going to fight back. It's going to have a backlash, it's going to have lots of false starts and there are certain things that you may not want to do, you know – we think politics is central, but we don't advocate that IMF should go and try to engage in regime change in Syria or you know. Ultimately, outsiders can of course help.

**Owen Barder**

But tell me if this is what you're saying is that by doing things like supporting civil society organizations or a free press or community driven development programs or those kinds of things, that we create the conditions in which it's more likely that when there is a critical juncture, perhaps not caused by us or

generated by us, that it's more likely that the bits of the kaleidoscope will align themselves in a way that we like.

**Daron Acemoğlu**

Well, I think your first approximation, that's true, but again the details matter. So one thing you can say, you know what you should do is go and build social capital because the political sciences have claimed that's very important. But we and other people have research that shows, well, that doesn't work that way, because you can sometimes create social capital, but in an environment where social capital is just one way for the elites to control society.

So you really need to understand and you really need to be sort of to – and you may or may not want to do this, but you have to be ready for making mistakes on the ground so that's – and that means that, you know, the stakes have to be sort of evaluated because...

**Owen Barder**

But then it's hard to know whether you're making mistakes or not, right? I think it's quite interesting for example that in the Arab Spring, there was very little role played by NGOs, some of which have been supported internationally and so on, and it just felt like that work that had been done supporting civil society...

**James Robinson**

Well, the Muslim Brotherhood was an NGO, wasn't it?

**Owen Barder**

Not one that was supported, as I recall, by the West.

**Daron Acemoğlu**

Saudi Arabia, kind of outsiders.

**James Robinson**

The laying the ground work thing didn't seem to make any difference to the fact of that change nor indeed to its trajectory once the change began to happen.

**Daron Acemoğlu**

That's true.

**James Robinson**

It feels like we were just...

**Daron Acemoğlu**

That's right. And even the most innocent thing, again the Arab Spring sort of illustrates, can backfire. You know, in this case it wasn't a big deal at the end, although it was a big deal for some people, you know, just the US started supporting pro-democracy groups after the Arab Spring and then at some point the Egyptian military supported government said oh no, these guys are now foreign agents and put a whole load of them in jail.

So you know you're going to be – you cannot avoid those sorts of things and you have to engage in some sort of cost benefit analysis. Is it part of our sort of – is it part of our mandate to go and do things like this?

**Owen Barder**

Yes. I'm not clear what it is that you think we should be doing and how would you know if it was working if what you're trying to do is lay the conditions for some unknown future critical juncture to make it a bit more likely that it will go the right way, how would you know if you were doing that?

**Daron Acemoğlu**

I think it will really have to depend on the context, but you know, for instance, here is one obvious set of things to do. When – international aid community is going to exist because, A, it is doing something useful, even if it's – a lot of it is wasteful, B, because it's also responding to some demand at home for doing some, but you know, you can use those funds, not to give to government, not to give to government agencies, but to bring a wide cross section of society to the table. So that won't always work, sometimes it will lead to additional in-fighting.

**Owen Barder**

Yes.

**Daron Acemoğlu**

But it's a better formula than saying whoever is in power, we're going to hand the power, the money to them.

**Owen Barder**

Is it implicit in what you are saying that some of the current aid modalities, particularly government to government aid, tend to reinforce the elites?

**James Robinson**

Absolutely, yes. I mean, I'd say our view was that you know, at the end of the day, that's probably – if you asked where do all these development problems come from in Africa, are they created by the perverse incentives generated by the aid industry? Our answer to that would be no: they are much more deeply rooted in the history of these societies and you know, so sure you can find examples where aid kept in power, you know, Mobutu for another five years and he wouldn't otherwise have been there but what did you get instead, you know?

**Owen Barder**

Would you say that about Paul Kagame today? I mean, for example.

**Daron Acemoğlu**

No.

**James Robinson**

He is in power because of his army.

**Daron Acemoğlu**

I mean, he is being coddled by the West, despite a lot of things, but he has got popular support, I mean, to some degree.

**Owen Barder**

Just to make sure I understand, are you saying that aid makes it worse or it doesn't make it worse or..?

**Daron Acemoğlu**

Minor. Aid is small. Its impact on...

**Owen Barder**

But in some countries it's quite a large...

**Daron Acemoğlu**

Right, but it's small, meaning its impact on the social process is on the whole is small. Aid neither can save the countries, nor does it condemn them to poverty.

**James Robinson**

Yes.

**Daron Acemoğlu**

I think one thing that would be good for the international development debate is to keep on talking about aid. Of course, it's important, but not put it as the most important factor; either as a potential for development miracles or as a potential detractor for development, it's not as important as we think.

**Owen Barder**

You are listening to Development Drums Number 40, and we are talking about Why Nations Fail. We've talked so far about the importance of inclusive rather than extractive institutions. Why extractive institutions persist and how change happens. Coming up in the last section of the podcast, Jim Robinson and Daron Acemoğlu who talk about what outsiders can do to help get the politics right and they have some complimentary things to say about David Cameron's idea of a Golden Thread.

Before that, let me remind listeners that if you want to suggest topics or guests for future episodes of Development Drums, you can do so on our Facebook page.

David Cameron, the British Prime Minister, has this narrative he – narrative about.

**James Robinson**

We wrote some blogs about this actually.

**Owen Barder**

Oh did you?

**James Robinson**

On the – specifically about the Golden Thread.

**Owen Barder**

I shall – I shall link to them.

**Daron Acemoğlu**

Such a great term.

**Owen Barder**

So, it's a very good term but just for listeners who haven't read them, I will link to them in the thing. I mean he has his list of ideas which vary from one speech to another but there are some kind of common themes, it's to do with the rule of law, fighting corruption, openness, transparency, accountability, trade, and so on. Those are all good things and I think they are consistent with your idea of inclusive institutions.

**James Robinson**

Yeah, he is sort of confusing outcomes with kind of more fundamental causes I would say.

**Daron Acemoğlu**

A little bit of that, right.

**James Robinson**

Yeah.

**Daron Acemoğlu**

But yeah, I mean a lot of things that are talking about the right things and I think one of the issues that sort of is – receives some emphasis from David Cameron, which is refreshing is institutions.

**James Robinson**

Yeah.

**Daron Acemoğlu**

So it's not just about, oh we're going to cut down – we're going to cut inflation and government budget deficit but we really need to get the institutional setting right. On the other hand, the one thing that doesn't get much emphasis is the politics. So – getting institutions right is not an engineering problem, it's a political problem.

**James Robinson**

Right.

**Owen Barder**

So what – if you were David Cameron and you're – he is, this year, the Chair of the G8, he is the chair of the open government partnership and he is on this high level panel setting the new set of MDGs, so this is a big development year for him. He has got this Golden Thread idea. The institutional stuff that he is talking about seems broadly consistent with what you are saying.

**Daron Acemoğlu**

Yes.

**Owen Barder**

But as you are saying, you have got to get the – he has got to get the politics. What is it that he and the other G8 leaders could do that would help get the politics right for the institutional change that he and you are talking about? If you were David Cameron.

**James Robinson**

I mean there is a – there are sort of fundamental impediments to getting the politics right in the aid industry. So for example, you know, because there is the fiction that we are equal partners with the government of poor countries. You know, despite the fact that if you look at sub-Saharan Africa, sub-Saharan Africa is full of like completely you know unrepresentative autocratic governments who you couldn't possibly be in an equal partnership with if you wanted to do anything for the country. So –

**Daron Acemoğlu**

Right. I mean just like – look at in 2008, 2009 what was going on in all of these things. You know, the West was just coddling Ben Ali and Mubarak because they were their partners. I think the first thing to do, and that's about politics, is also to recognize the political repression and the political dominance of narrow groups and families in these countries and that's very uncomfortable.

**James Robinson**

Yeah.

**Daron Acemoğlu**

And it's very hard for the G8 to do it.

**James Robinson**

Yeah.

**Daron Acemoğlu**

They keep – they are all in the same social network.

**Owen Barder**

But by recognize it, do you mean say something about it.

**Daron Acemoğlu**

Of course, right, say something about it.

**Owen Barder**

But do you mean we should be stopping aid to those countries, do you mean we should be putting visa bans.

**James Robinson**

Well you are – they are –

**Owen Barder**

Well, take a country like, I don't know, Zambia today, which is –

**Daron Acemoglu**

You should certainly stop giving aid to the – into the hands of the crooks.

**Owen Barder**

So – but take an example of Paul Kagame we were ...

**Daron Acemoglu**

Right. Yeah

**Owen Barder**

... talking about him just now, I mean he in control mainly because of the army but he certainly represents, you know, a small elite and there is a large degree of – a closure of political space.

**Daron Acemoglu**

I mean Paul Kagame is involved in a lot of human rights violations.

**Owen Barder**

Should we stop giving aid to Rwanda?

**Daron Acemoglu**

I would say you should certainly be very careful or not give aid to – in giving aid – or not give aid to Paul Kagame and then –

**James Robinson**

I mean the ironic thing though about that, you know, is that for reasons which have nothing to do with benevolence or you know enshrined in public finance or development economics, Kagame actually wants to do things that are probably in social welfare to the benefit of society.

**Owen Barder**

Right.

**James Robinson**

Why is that, because he understands that his regime is not sustainable in the long run unless he can change the society. Where has all this education, getting rid of French, bringing in English, this isn't the type – you go to Rwanda, it's fascinating, you know, the way they use the genocide as a way of trying to sort of say we need a new society in this country and of course – you know, which he wants to run.

**Owen Barder**

Right.

**Daron Acemoglu**

Right.

**James Robinson**

But he knows he can't run the old society.

**Daron Acemoglu**

But I think there is a big difference between – I am not saying you should cut aid to Rwanda, far from it there is a lot of social transformation for reasons that Jim has suggested and others, but you know why

should that aid be channeled through the government of an authoritarian, repressive government that is potentially, probably – most probably involved in huge human rights violations especially in the Congo.

**Owen Barder**

Well so, let me make a suggestion for why that might be a good thing to do so you can tell me why it's not right, which is – I mean part of the thinking of providing aid through the governments is to try to build a stronger social contract between citizens and the state. To have states that are providing social services, that – so if donors provide these things through NGOs or themselves, through their own projects, then you fundamentally change the nature of the social contract between citizens and the state.

The idea of doing it through the state is that it helps states and citizens to have a functioning relationship between them. Now it doesn't give you the whole relationship because there is no tax as part of that relationship and that might be distorting. But part of the thinking is you – that's – because you have a functional relationship, you – that's precisely why you want to be strengthening institutions and government rather than strengthening things outside the government, is that nonsense in your –?

**Daron Acemoglu**

No, I don't think it's nonsense. I think there is some truth to that but it's a tradeoff. You know it's certainly true that sometimes going around the state may further weaken the state and that might not be good in societies where the state is weak but just – you know I think part of the problem in all of these societies with very weak institutions is that the – when you talk of the state it's really the government and a very narrow group. And if there was really an independent bureaucracy, give the money – somehow channel it through the independent bureaucracy and that would strengthen one dimension of that state-society relationship.

But if you give the money, again let's talk about Mubarak, if you give the family – the money to Mubarak that is creating a slush fund for him, which you know he may not steal if it's really well monitored but he will use it for purposes that will strengthen his political....

**James Robinson**

Yes, I think the problem is that – I think your – the idea is not a bad one but how is it that you actually strengthen state institutions, you know. I mean, I think the – Mali is a very interesting case, if you look at what's going on in Mali at the moment, which is Mali was a big kind of democratic success story after the 1990s but, you know – but there was no – I mean there is no state. There is no state which is capable of raising resources and providing order or – you know, and the same is true everywhere.

**Owen Barder**

But in – so in retrospect, shouldn't we have done more to put money through the Malian state to build a Malian state.

**James Robinson**

Well some people would say yes. You know like Paul Farmer would say – if you – Paul Farmer would say look at Haiti after the earthquake, everyone is so worried that the Haitian state are so corrupt and incompetent that 95% of the money goes to NGOs and the government doesn't get a penny.

**Owen Barder**

Right.

**James Robinson**

And how could you make the state better, if it doesn't have anything.

**Owen Barder**

Anything. Right.

**James Robinson**

So, so –

**Daron Acemođlu**

No, I – certainly I think we should be open to all, that’s why I said, you know I don’t – we don’t – I think it really depends on the context. If there are ways of organizing it such that it is monitored, not just by the ruling family and the elite...

**James Robinson**

Yeah.

**Daron Acemođlu**

... perhaps it has got a broader sort of monitoring structure – governance structure. It brings in diverse political and social groups to the table but it still gets channeled through ...

**James Robinson**

Yeah.

**Daron Acemođlu**

... state bureaucracy that might work better. But I think...

**James Robinson**

So – so the thing is...

**Daron Acemođlu**

... those are issues that we really need to think about...

**James Robinson**

Yeah. Yeah.

**Daron Acemođlu**

... bringing both politics and economics on the table.

**James Robinson**

Yes, to try – the thing is to try to think of strategies for building institutions. You know, understanding – not hiding our head in the sand but understanding these political incentives that mess up creating better institutions.

**Owen Barder**

So last question. On – on this – you know, you’re advising David Cameron, you like his Golden Thread, broadly, but you know they are try to write a communiqué for the G8.

**James Robinson**

Yes.

**Owen Barder**

The things you would have in it for – I mean should they just, you know, basically – you know, they are doing what they can, find their way are there big things that we in the rest of the world could be doing that would change – that would help change the politics in a way that would help change the institutions for the better?

**Daron Acemođlu**

I think – I think just the first thing is there aren’t big things that we can do. There – we cannot impose institutional change from the outside. I think that’s a – that’s an incorrect perspective that is probably not very helpful. Of course there are things we can do at the margins: save lives, improve living standards, improve political relations and so on and so forth but I think this sort of perspective where we think we can engineer prosperity from the outside is not very helpful.



**James Robinson**

Look at – you know, you can – you can topple Gaddafi, you know, or you can kick – or in Mali you can kick the Islamicists out of Gao and Timbuktu but that’s not the same as building the institutions. There is no state in Libya, now you have to build the state, you know, and the – and same in Mali. And so, that’s not the same as toppling a dictator, you can do that or bomb a few Islamicists but that’s not – you need to build the institutions.

**Owen Barder**

Daron Acemoğlu and Jim Robinson, thanks both for coming on Development Drums.

**Daron Acemoğlu**

Thanks, Owen.

**Owen Barder**

*You’ve been listening to Development Drums with Jim Robinson and Daron Acemoğlu talking about their book Why Nations Fail. You can find links to all the issues we talked about on [developmentdrums.org](http://developmentdrums.org), where you can also download or listen to past episodes of Development Drums and where you can read the transcripts. You will find Development Drums on iTunes, Facebook, and Stitcher and on the Center for Global Development website.*

*My name is Owen Barder. Thank you for listening.*