Government, Geography, and Growth

The True Drivers of Economic Development

By Jeffrey D. Sachs

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According to the economist Daron Acemoglu and the political scientist James Robinson, economic development hinges on a single factor: a country’s political institutions. More specifically, as they explain in their new book, *Why Nations Fail*, it depends on the existence of “inclusive” political institutions, defined as pluralistic systems that protect individual rights. These, in turn, give rise to inclusive economic institutions, which secure private property and encourage entrepreneurship. The long-term result is higher incomes and improved human welfare.

What Acemoglu and Robinson call “extractive” political institutions, in contrast, place power in the hands of a few and beget extractive economic institutions, which feature unfair regulations and high barriers to entry into markets. Designed to enrich a small elite, these institutions inhibit economic progress for everyone else. The broad hypothesis of *Why Nations Fail* is that governments that protect property rights and represent their people preside over economic development, whereas those that do not suffer from economies that stagnate or decline. Although “most social scientists shun monocausal, simple, and broadly applicable theories,” Acemoglu and Robinson write, they themselves have chosen just such a “simple theory and used it to explain the main contours of economic and political development around the world since the Neolithic Revolution.”

Their causal logic runs something like this: economic development depends on new inventions (such as the steam engine, which helped kick-start the Industrial Revolution), and inventions need to be researched, developed, and widely distributed. Those activities happen only when inventors can expect to reap the economic benefits of their work. The profit motive also drives diffusion, as companies compete to spread the benefit of an invention to a wider population. The biggest obstacle to this process is vested interests, such as despotic rulers, who fear that a prosperous middle class could undermine their power, or owners of existing technologies, who want to stay in business. Often, these two groups belong to the same clique...
The African Crisis: Drought and Debt

Henry F. Jackson

The foreign debt of African nations has increased so rapidly in recent years that threats of bankruptcy hover across the continent, raising the prospect that Africa's most serious crisis will be triggered not by drought, but by debt. The debt problem is not only slowing economic growth and increasing poverty; it is fomenting political upheaval by forcing these nations to neglect social and economic development in order to make debt payments. People in many countries are denied the most basic public services as their governments devote dwindling export earnings, their main source of income, to economic and political survival.

Read

Africa: A Continent Adrift

John A. Marcum

Charts the development of US foreign policy efforts under Reagan in (1) the Angolan conflict (2) South Africa. Since 1981, the US assistant secretary of state for African affairs, Chester A Crocker, has pursued two main objectives in Africa (1) the reduction of Soviet/Cuban influence and cross-border conflict (2) the introduction of more liberal policies in South Africa. Read

Africa Beset

Jennifer Seymour Whitaker

For much of Africa this year, immediate threats to survival dominated national agendas. In the extreme north and south, Libya and South Africa attacked the territory of weaker neighbors. Less noticed but far more widely devastating, a harsh drought destroyed crops across the continent, confronting more than 20 million people with the prospect of starvation. Declining rates of per capita food production over the last decade, coupled with escalating debt and falling returns on exports, left many African states at the margins of existence—at least according to Western calculations. And at year's end, a military coup abruptly ended four years of American-style democratic government in Africa's largest nation, Nigeria, renewing fears about political upheaval throughout the continent. Read

16 comments

Javed Mir • 7 months ago

Only the political institutions do not cause economic development. It is in fact the convergence of the three Gs (government, geography and growth) which lead to the prosperity of the nations. Countries having moderate weather score better than those which have harsher weather; likewise countries with larger natural resources record higher GDP than those lacking in resources; similarly countries having political stability (good governance) better exploit the natural and human resources for economic development.

Endrity • 4 months ago

Javed Mir • 4 months ago

You mean countries with harsh weather like Sweden, Iceland, Canada or on the other side of the spectrum Australia, versus countries with moderate to beautiful weather like Mexico, Turkey and so on?

FEDERICO BORDONARO • 7 months ago

This is an excellent review. Sachs effectively identifies Acemoglu's and Robinson's main lacuna, i.e., the fact that they offer a mono-causal explanation and then fail to provide enough evidence. Even more importantly, I believe, Sachs convincingly argues about the importance of place and demonstrates, among other things, how the authors treat geography as mere topography, while ignoring political-economic geography (as they do when they analyze Nogales...).

Lord_Salisbury • 6 months ago

To those interested in the fascinating debate between geographic determinism (Jared Diamond, Ian Morris) and institutionalism (Acemoglu/Robinson, Niall Ferguson) I strongly encourage the reading of this article: http://www.passimblog.com/auge... (first part) and http://www.passimblog.com/auge... (second part). The setback is that it's written in Spanish. The first part is a introduction to the process of Rise and Fall of the Empires, analyzing ideas
from Montesquieu, Max Weber, Jeffrey Sachs, Hernando de Soto, Charles Kindleberger, Arnold Toynbee, Ibn Khaldun or Paul Kennedy, among others. The second part is a comprehensive analysis and comparison between Jared Diamond’s "Guns, Germs and Steel", Ian Morris’ "Why the West Rules", Niall Ferguson’s "Civilization" and Daron Acemoglu and James Robinson’s "Why Nations Fail". Hope you enjoy them.

spellar • 6 months ago
This is an interesting article, Economics and geography are the two things that jumped of the page to me, as the first thing that came to mind was oil purchases from the troubled Mid East.

Obama increased oil purchases from the Saudis by more than 20% in the last year while shelving the keystone oil project from Canada, while Obama also spent $90 Billion on failed companies such as Solyndra.

California is now under the worse sustained gas prices in USA history, all this and no talk from the powers that be about the developing new refineries.
The supply of crude is not the issue they say, but rather it is the lack of the ability of refining the oil.

Well I believe we have just seen the warning shot across the brow of common sense. Oil is not going away in the next hundred years, but the trouble of the Mid East is with us today with no end in sight, and in fact all experts say it is going to get a lot worse.

No economy can grow under high fuel prices, unless that economy makes an income off the oil export sales.

So all the above is fact and yet Obama energy security is adrift on the tide of foreign shores halfway around the world, when North America is the new land of oil as the tar sands of Canada is said to be new Saudi Arabia.

enjoy the stupidity at the pumps, or vote for success and job development with the risk & trouble of Mid East oil routes left behind in the blindness of a sand storm.

Joe Hook • 4 months ago
http://whynationsfail.com/blog...

It's easy to argue when you ignore what your opponent says.

Arthur • 5 months ago
I think you are confusing levels with rate of change.

Their theory do not predict that countries with better institutions will have a higher rate of growth, but that they will have a higher GDP per capita.

The countries that will see the highest rate of growth are the countries that go through changes in institutions, not the ones with good institutions.

So most of your examples are not valid. Bolivia is richer than Vietnam, so they are right.

And China had this high rate of growth because of their high rate of change in political institutions.

Endrity • 4 months ago
Exactly! A fine economist should not make the mistake of confusing levels with rates. Countries that experienced rapid changes are always the ones that were able to put political power under control.

Jonathan yakubu • 2 months ago
Most of the country are lake to get theme on geographical; lake northerner country, and just about economic noun in this some countries are change so a lot of the country are lake economies. why is that economies is the power of development of powerfully.
Twenty-two of the world’s largest cities are built on estuaries. This is another example of how favorable geography gives centralized powers the capital to promote growth and yield economic development.

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Endrity • 4 months ago
Yes, but this does not explain why the cities built in estuaries in China are poorer than cities built in estuaries in Western Europe and the US.

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Patrick Schaer • 6 months ago
They are plainly wrong as the example of China clearly demonstrates. It’s not inclusive political institutions but a certain standard regarding “Rule of Law” based on property rights. I imagine that this will be one of the reasons why China’s development will flatten sometime. Rule of law is not developed enough to ensure continuous innovation.

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Endrity • 4 months ago
I think “Rule of Law” is another word for what they are trying to explain. You certainly will not have rule of law in a country with politicians so powerful that they can regularly manipulate the system for their own benefit and get away with it. And the only certain way to do that is to limit their power, which is the whole point of the democratic process.

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developmentforward • 3 months ago
One key to helping the region is to provide the opportunity that is lacking, but which so many in the West are born with. Business development and entrepreneurship are essential to raising living standards. This is where the “fix” begins.

http://www.globalgiving.org/pr...

Association of African Entrepreneurs is doing just that, but needs action from those who can help.

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Clint Ballinger • 5 months ago
Sachs has long been doing groundbreaking work (no pun intended :) on the importance of geography for economic development. Acemoglu, Johnson and Robinson have made some excellent contributions as well, although there is a “fatal flaw” in some of their work as I argue in various places here http://philosophyofscience.web.... There is another good review of Why Nations Fail by the excellent historian Peer Vries here http://technologygovernance.eu.... (disclaimer - I was happy to see he mentions my work in it.)

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KYLE WEISSER • 5 months ago
Excellent review...thanks. I read the book and was a bit disappointed. One thought and maybe this is too simplistic. The authors frequently discuss extractive/authoritarian institutions (mainly cases where the elites took property/money and only allowed a few to divulge in the treasures). But where was the comparison to our current democracies that appear to be a blend of inclusive/extractive (Entitlements) but now “share” with millions.