

Inclusive Institutions and Bourgeois Dignity

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Why *Nations Fail* is the latest addition to the constellation of great books on the question of the origins of economic prosperity. Most of the recent additions to this stellar group have had their origins in economic history, from the likes of David Landes (1998), Ken Pomeranz (2001), Greg Clark (2007), and Deirdre McCloskey (2010). But other social scientists have joined the debate, most notably, Jared Diamond (2005). While the focus of the previous studies has often been explaining the past—the overarching question always being why the West achieved prosperity since 1800 while the rest languished, most of them also had an eye on the present and future. Daron Acemoglu and James Robinson reverse this. From the start their focus is on the question of what divides places like Nogales, Sonora, in Mexico from Nogales, Arizona in the United States, and whether there is hope for prosperity and alleviation of the poverty in Africa. Their examination of history is always undertaken, then, from a social scientific framework; history is the source of their empirical data rather than the object of their study.

The social scientific framework Acemoglu and Robinson hold is an amalgam of the new institutionalism (see especially, North and Weingast 1989; North, Wallis, and Weingast 2009) and constitutional political economy (see especially, Acemoglu and Robinson 2005). In short: institutions matter more than anything else. What we learn from history confirms what we know from our social science: it all boils down to institutions. The answer to the implicit question of their title is that nations fail when they adopt institutions designed to extract any value created in society for the exclusive benefit of an elite (call these “extractive” institutions). Nations that succeed in adopting inclusive institutions—those that manage to include most of society in the benefits of economic and political activity—do not fail. Culture and geography make marginal contributions, at best. It is not oil or love (or even an entrepreneurial “spirit”) we need, it is inclusive institutions.

Institutions do matter. Indeed, they matter a lot. As the authors say, extractive political and economic institutions cannot sustain economic growth over time because “power is unchecked and brings economic

riches” (Acemoglu and Robinson 2012, p. 343) to only a few in the vast majority of human societies. I share Acemoglu and Robinson’s social scientific framework, and find *Why Nations Fail* a compelling and richly textured account of why we need to take institutions seriously. I also agree with most of their conclusions about the relevance of their framework to thinking about political economy today. Despite the promises of political candidates everywhere, we cannot easily engineer prosperity. Indeed, prosperity is not something that can be engineered. The conditions for its occurrence (or non-occurrence) are so deeply laid within our laws and basic institutions that short-term actions are likely to have little effect (although if they have any real effect in the short-term, it is likely to be negative rather than positive). And I agree that at the core of those conditions lies the expansion of the opportunity for ordinary people to earn their own success, although I prefer McCloskey’s term “bourgeois dignity” to Acemoglu and Robinson’s “empowerment” motif (2012, pp. 455-62).

And yet, despite my agreement on so much of what Acemoglu and Robinson do in *Why Nations Fail*, their argument is not entirely convincing. Unlike our authors, I am not an *institutional fundamentalist*. This review covers three central problems with their argument. I begin with a methodological problem, which leads to a historical (and even an anthropological/theological) problem, and then concludes with a problem about the authors’ concerns about inclusivity.

1. Contingency and prosperity

Early in the book, Acemoglu and Robinson explain the core question:

Political and economic institutions, which are ultimately the choice of society, can be inclusive and encourage economic growth. Or they can be extractive and become impediments to economic growth. Nations fail when they have extractive economic institutions, supported by extractive political institutions that impede and even block economic growth. But this means that the choice of institutions—that is, the politics of institutions—is central to our quest for understanding the reasons for the success and failure of nations. We have to understand why the politics of some societies lead to inclusive institutions that foster economic growth, while the politics of the vast majority of societies throughout history has led, and still leads today, to extractive institutions that hamper

economic growth (2012, p. 83).

Their theory of the politics of institutional choice, then, is key to their social scientific argument. On one side, we have the authors' explanation of the choice in favor of extractive institutions. At the core of this explanation is the standard economic assumption that people act in their self-interest. When a group has a position of privilege, they will use the tools at their disposal to maintain and expand that position and its benefits. The benefit of their position is unchecked power, which the elite use to extract rents from the populace. Power begets power, and unchecked, as Lord Acton told us, tends to corrupt.

Given the strength of their argument regarding the choice for extractive institutions, why would any society adopt inclusive institutions? In economic terms, what would disrupt the stable equilibrium created by extractive institutions?

The fact that the stable equilibrium of extraction has been disrupted at least once is a major argument of this book, as it is of McCloskey's *Bourgeois Dignity*. Acemoglu and Robinson do not argue that capitalism is, deep down, actually extractive; that economic growth is illusive; and that the capitalist transformation of human history in the last 200 years is a cruel irony. The economic and political transformation of the last 200 years is, for our authors, real and potentially expanding. Disruption of an extractive stable equilibrium occurred, and could spread and continue. Why?

The answer the authors give us is remarkably weak. The choice of inclusive institutions occurred once (in 1688-89 during the Glorious Revolution in Great Britain; see North and Weingast 1989) under contingent conditions that could as easily have returned to the previous stable equilibrium as bring about its disruption. Disruption could occur again, creating new critical junctures for other nations. But the reasons for these disruptions are highly contingent on the circumstances of a society at that particular point in time. In other words, something happens at those critical moments that work against the elite's unquenchable quest for power. And then the inclusive institutions survive because the rule of law and the benefits of market economies enable a virtuous circle in which democracy spreads, and inclusive institutions survive. Challenges to that virtuous circle certainly come (elites always have an interest in converting it to the vicious circle of privilege and power), and it is "not preordained that these challenges should be defeated." Rather, people realized the contingency of inclusive institutions, and continued to protect them (Acemoglu and Robinson 2012, pp. 309-10).

Between the inexorable surge toward power and the contingency of prosperity, how can prosperity win? How could it even get started, given the pursuit of power?

And yet it did happen at least once, as our authors and the ones I cited at the beginning of the review agree. (Whether they are right is a different question; see Clark (2000) for a very different reading of English history). Was the English response to the Glorious Revolution just a coincidence? And if so, what does it do to Acemoglu and Robinson's claim to be doing social science if it the institutions that provide prosperity are simply the products of contingent events? Historians deal in the contingencies of history; social scientists avoid them. Acemoglu and Robinson explicitly tell us they are social scientists, not historians (2012, pp. 434-37). Yet their theory provides asymmetric explanations of institutional choice: one side is rock-solid; the other not. Either they have missed something, or their theory provides at best simply advice regarding what to look for in societies today.

2. What's missing: ideas and beliefs

The strength of the authors' argument as to why nations fail lies in its reliance on the economic profession's assumption regarding human self-interest. Whatever the status of our benevolence toward others—and there certainly is some benevolence—our economic existence depends, as Adam Smith suggested, upon appeal to the advantages that our actions provide to others. Self-interest drives members of the elite to create institutions that extract value created by others and appropriate it for themselves. This is not hard to believe: wickedness in the Old Testament is often described as the product of power and results in the appropriation by a few of benefits that should be open to all. But because that assumption is so commonplace in economics, our authors leap to the conclusion that institutions are all that matters, while in fact there is an intervening necessary step.

It was easy to miss their leap over the necessary step because we accept so readily the notion that elites will defend extractive institutions. But even Acemoglu and Robinson say that it is the elite's fear of losing their advantages that lead them to defend and extend extractive institutions. That is, they believe that their advantages are vulnerable, and know that others would jump at the chance to replace them if the opportunity presented itself. "The fear of creative destruction is the main reason there was no sustained increase in living standards between the Neolithic and Industrial revolutions" (Acemoglu and Robinson 2012, p. 183). These

ideas and beliefs are so clear to us in the first case that we ignore them. But in the second case, they take on central importance, because it is ideas that disrupt the stability of extractive institutions.

Two kinds of ideas matter. The one that economists are usually comfortable talking about are innovative ideas. Indeed, Acemoglu and Robinson (2012, pp. 182-84) have a great story about the invention of the knitting machine by William Lee, and they place the story about Lee's idea at the beginning of their discussion of the economic effect of inclusive institutions. But aside from this story, innovation plays little role in their account of prosperity and the alleviation of poverty. While I agree that the institutions of a free society (my preferred expression for what our authors call "inclusive" institutions) are the underpinning of prosperity, productive innovation has to happen in order for prosperity to emerge.

For productive innovation to occur (rather than innovative effort devoted to unproductive rent-seeking), another type of idea is also needed. People need to believe that their innovative ideas do provide value for others. To be more precise, *ordinary people* need to think that they can find new ways to use things to create value for others. Institutions provide the means by which innovations can create value for others and provide a return for the innovator, but if you do not believe you can create value, why would you innovate? Something is different about a world in which you believe you can contribute value, and one in which you believe you cannot. If only institutions structure those beliefs, then why would ordinary people "suddenly" (around 1688, for example) believe that they could?

McCloskey provides the first step in answering that question. What is missing from *Why Nations Fail* is bourgeois dignity—the sum of the beliefs that all people should be free, that the actions of ordinary people had dignity, and that their actions could positively affect the world around them. Shortly before the Glorious Revolution of which Acemoglu and Robinson make so much, Richard Rumbold was executed for participation in the efforts to unseat James II. Upon the gallows, Rumbold is reported to have said: "I am sure that there was no man born marked by God above another; for none comes into this world with a saddle on his back, neither any booted and spurred to ride him" (quoted in McCloskey 2010, p. 401). Despite the weight of institutional history, a change in ideas eventually led to a change in institutions.

3. So what about the Glorious Revolution?

In order to take my argument about ideas further, we return to the Glorious

Revolution. One of the things that amazed me about Acemoglu and Robinson's discussion of the Glorious Revolution was the total absence of reference to religion. J. C. D. Clark (2000) warns us that you cannot explain the Glorious Revolution or its results without understanding its religious context. We know that Revolution pitted those defending a Catholic king against Protestants looking to ensure England did not return to Catholic rule. But Clark reminds us that 17th century Britain was not modern in any of the senses that we use the term today; it remained a society with a strong connection between religion, politics, society, and even economy. The inclusive institutions that emerged from the Glorious Revolution must have had a religious basis. And indeed, they did: while the emerging understanding of liberty and what our authors call inclusivity (see the next section) came to have secular uses, their roots lie in the view of human beings shared by Protestants and Catholics alike.

So why did inclusive institutions arise in 1688-89 and stick? Because people understood what the institutions supported, and what opportunities they presented for the prospects of human flourishing. They understood those things because of their Christian understanding of human beings. Acemoglu and Robinson's institutional fundamentalism leads them skip the step that links their understanding of human nature with their institutional explanation of the social outcomes of human action. Institutions matter, yes. And ideas matter because they shape how we devise and defend institutions.

4. Subsidiarity versus inclusivity?

One issue remains, and it is a product of my argument in the previous section. In *Why Nations Fail*, Acemoglu and Robinson consistently use the term "inclusive institutions" to refer to the set of institutions that create the conditions for prosperity:

Central to our theory is the link between inclusive economic and political institutions and prosperity. Inclusive economic institutions that enforce property rights, create a level playing field, and encourage investments in new technologies and skills are more conducive to economic growth than extractive economic institutions that are structured to extract resources from the many by the few and that fail to protect property rights or provide incentives for economic activity. Inclusive economic institutions are in turn supported by, and support, inclusive political

institutions, that is, those that distribute political power widely in a pluralistic manner and are able to achieve some amount of political centralization so as to establish law and order, the foundation of secure property rights, and an inclusive market economy (429-30).

The expression “inclusive institutions” gives me pause. Why not simply say “limited government” or “the institutions of a free society”? Was it simply a bow to political correctness to use “inclusive”? Was it a nod to the inclusion of democracy as a key component of the institutions that promote prosperity? Though I tend to share their aversion to using the term “capitalism” in a discussion ranging over thousands of years, why not say “democratic capitalism”?

Throughout the book Acemoglu and Robinson identify political centralization as a key component in the capacity of a nation to sustain inclusive institutions, both economic and political. Political centralization can, of course, help break down the concentrations of power that have sustained local extractive institutions. But centralization can also enable even greater extraction. The tension between centralization and localization goes back at least as far as Montesquieu, who argued in favor of small republics precisely because of their capacity to be inclusive. But Acemoglu and Robinson favor political centralization in nations whose size exceeds Montesquieu’s expectations. Their argument, found more fully in their earlier book (Acemoglu and Robinson 2005), is that democratic empowerment occurs best in a centralized nation, where appropriate protections for the expansive use of power can be curtailed, although the road to such curtailment has usually necessitated a slow march (Acemoglu and Robinson 2012, pp. pp. 210-18, and 455-57).

My own thinking on these issues has been informed by the insights of three very different traditions. First, I encountered the concept of “sphere sovereignty” from Reformed scholars writing on social and economic thought in the tradition of Abraham Kuyper. Later, I recognized a similar theme in the Catholic social encyclicals, captured in the term “subsidiarity.” And more recently, the same theme cropped up in the Tocqueville-inspired work of Vincent and Elinor Ostrom, whose “polycentric governance” holds many echoes of the Christian tradition (Ostrom 2005). In all of these traditions, political centralization is regarded as insufficient to create the conditions for economic prosperity and to prevent the intrusion of political interests intent on extraction. Rather, the conditions for economic prosperity and political stability come through movements in three directions. First, toward dignifying the actions and knowledge of individuals in their local

situations, and recognizing the value they create for themselves and others around them in their solutions to common-pool resource problems. Secondly, toward recognition of the role of intermediary institutions such as churches and other organizations that span many communities. And thirdly, toward limiting government actions at any level to those things that intermediate institutions and lower levels of government cannot do.

In the traditions of subsidiarity, inclusion does not come not through democratization of the selection of central government officials. Rather, it comes from allowing (and expecting) everyone to create institutions that will address their concerns. In other words, we are back to the ideas of bourgeois dignity. Christianity has shown that it provided the ideational context for bourgeois dignity in its initial expression in the early modern era. We are currently in a period of time in which we may see the emergence of other traditions that support bourgeois dignity as well. The future may depend upon it.

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