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Institutions, Economic Disparities, and Christian Beliefs: A Symposium on *Why Nations Fail*

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Editor's Note: *Associate Editor Edd S. Noell arranged this symposium to mark and reflect on the 2012 publication of* Why Nations Fail: The Origins of Power, Prosperity, and Poverty *by Daron Acemoglu and James A. Robinson (New York: Crown Publishers. ISBN 978-0-307-71921-8, $30.00). Here three economists and a political scientist offer a range of thoughtful perspectives addressing the arguments and evidence provided by Acemoglu and Robinson on the challenging question of the sources of economic disparities between nations.*

Why Nations Fail Succeeds (Mostly)

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Another volley has been fired in the ongoing battle to explain why some parts of the world are amazingly rich and other parts overwhelmingly poor. Surely this is one of the most important issues facing economists and there is no shortage of books that offer an explanation.[1]

Given the large extant literature on the issue one can ask if one more book adds anything to our understanding of how and where growth occurs. The answer is yes; *Why Nations Fail* makes an important contribution through the generality of its explanation and the rich number of natural experiments, historical examples, and examination of changes in institutions over time. By just having two overall categories, inclusive institutions and extractive institutions, and then dividing these into two sub-categories, political and economic, Acemoglu and Robinson generate a relatively simple theory that fits well with their historical examples. Their thesis is that the rich countries have inclusive political and economic institutions and the poor are stuck with extractive ones.

The basic argument that institutions matter is straightforward and

easy to follow. Because of the style of the narrative, however, one has to search for more precise content of what the authors mean by their categories of inclusive and extractive. The extractive institutions are the most straightforward, although quite varied in detail. Throughout history people have used concentrated power to exploit other people. Acemoglu and Robinson provide numerous examples of concentrated economic power connected with political power. This power allows a limited group to amass wealth and prestige, while at the same time stifling innovation and maintaining poverty in the rest of society.

The exact content of inclusive institutions is not so clearly spelled out, but evidently the authors mean democratic elections, rule of law, security of property rights, and a constitutionally limited government. It is clear that there is a strong relationship between the economically inclusive institutions and economic growth. The authors also present powerful arguments that well-defined and enforced property rights and rule of law are closely related to politically inclusive systems of governance.

Acemoglu and Robinson argue that their theory operates at two levels. "The first is the distinction between extractive and inclusive economic and political institutions. The second is our explanation for why inclusive institutions emerged in some parts of the world and not in others" (429). The first level of their theory, the influence of institutions on economic outcomes, is well supported by their detailed examination of the historical record. They provide a wide range of times and places to apply their theory, including the Neolithic Revolution, Venice's rise and fall as a center of productive economic activity, the Mayan cities of Latin America and the civil rights movement in the United States.

It is the second level of their theory, the explanation of the emergence of inclusive institutions, that is the weakest part of their book. They provide interesting details of the interplay of different forces at work when inclusive institutions evolve, and they describe change points as "critical junctures," where the movement could either be towards more inclusive or more extractive institutions. The important forces at work in these critical junctures are interests, power, and material incentives. Thus their theory allows little room for social norms or belief structures. The omission of such norms is problematic because a crucial part of an inclusive political and economic order is equality before the law, often expressed as the moral equality of all members of a society. Moral equality, however, is a fundamentally normative concept. When such equality is a central component of the belief structure of a society it is much easier to move to and maintain inclusive institutions. Hence any discussion of a move from

extractive to inclusive institutions is incomplete if it ignores ideology.

For an example of Acemoglu and Robinson's reliance on material explanations one has only to turn to their explanation of England's leadership in creating the conditions for sustained economic growth. They emphasize the Glorious Revolution of 1688 and the conditions leading up to it, and they provide a plausible history of the efforts to limit the power of the king and to establish more Parliamentary control over political and economic decisions. But the entire period from the signing of the Magna Carta in 1215 through and beyond the Glorious Revolution was a time of great intellectual ferment. Issues such as the divine sanction of the monarchy, the normative standing of competing power blocks, and rights of citizens were debated. But Acemoglu and Robinson make no mention of this ferment and treat almost all of the competing interests as economic in nature. They do discuss the 1689 Declaration of Rights, but see this Declaration and other rights claims as simply statements of the material interests of the parties involved.

Efforts to change institutions is expressed in terms of political and economic conflict, and it is simply the desire of those in power to maintain their position that often keeps extractive institutions in place. Sometimes power shifts and more inclusive institutions evolve. England is a major change point because the monarchy lost power through a series of accidental changes in power relationships:

> There was a broadening set of groups with the ability to make demands on the monarchy and the political elites. The Peasants' Revolt of 1381 was pivotal, after which the English elite were rocked by a long sequence of popular insurrections. Political power was being redistributed not simply from the king to the lords, but also from the elite to the people. These changes, together with the increasing constraints on the king's power, made the emergence of a broad coalition opposed to absolutism possible and thus laid the foundations for pluralistic political institutions (187).

All of this is an accurate description of the political machinations of the period, but, according to Acemoglu and Robinson this is entirely driven by the shifts in power relationships, with ideas about rights having little or no influence.

Two of the volumes referenced earlier offer a sharp contrast to the form of the arguments in *Why Nations Fail*. Deirdre McCloskey's *Bourgeois Dignity* has the subtitle *Why Economics Can't Explain the Modern World*,

which is a direct challenge to Acemoglu and Robinson. She finds arguments based entirely on material interests wanting and thinks instead that "talk and ethics and ideas caused the innovation" which was the driving force of the Industrial Revolution (6). And because there were substantial changes in "talk and ethics and ideas" in England and the Netherlands, that was where economic takeoff occurred. She finds the Bourgeois Revaluation, the idea that wealth production is worthy of respect, to be a crucial element in the shift to sustained economic growth. One does not have to agree fully with McCloskey's view as to what changed in moral sensibilities to find her criticism of completely economic explanations telling.

North, Wallis, and Weingast, in *Violence and Social Orders,* use a framework that is close to Acemoglu and Robinson. They also, however, have a much broader perspective than Acemoglu and Robinson on the background conditions necessary for an open access order, which is their term for inclusive institutions. The first characteristic they list for such an order is a "widely held set of beliefs about the inclusion of and equality for all citizens" (114), because such a set of beliefs is crucial for any long term maintenance of rule of law for all citizens.[2]

The question is, where does the concept of "equality for all citizens" come from and how does that concept change over time? Certainly the idea of all people bearing the image of God, the *Imago Dei* is influential. According to philosopher J.P. Moreland:

> The best, perhaps only way to justify the belief that all humans have equal, direct moral standing, equal and unique, high, intrinsic value simply as such is in light of the metaphysical grounding of the Judeo-Christian doctrine of the image of God (2009, 159).

Michael Novak makes a similar argument:

> Whence, then, came the truth that "all men are created equal?" Its roots lie in Judaism, carried around the world by Christians…To the extent that the Enlightenment depends upon the principle of "created equal," it depends upon Jewish metaphysics and Christian faith (2002, 81).

The Jewish and Christian belief structures embodied the concept of the *Imago Dei* from the very beginnings of those religions, but it was not until the second millennium that the concept had a substantial impact on social, political, and economic orderings. The Scholastics, in particular Thomas Aquinas (1226-1274), articulated a natural law doctrine that had a significant influence on conceptions of appropriate human orderings (Chafuen 1986, Grabill 2008). One can also see evidence of the doctrine

of equal rights in the writings and sermons of various Catholic priests. In 1511 in Santo Domingo a Dominican friar, Antonio de Montesino, told the Spanish colonizers,

> All of you are in mortal sin and in it you are living and are dying . . . With what right and with what justice do you hold these Indians in such cruel and horrible servitude? These Indians are they not men? Do they not have rational souls? Are you not obligated to love them as you love yourselves? (quoted in Wilson, 2011).

The repeated articulations of the equality of all men by various Spanish Catholic spokespersons did not have an immediate impact on the institutional structure of Spain or upon its colonies. It was, however, an important part of the general move to a more robust understanding of equality before the law.

An even clearer expression of human equality came with the Reformation and the writings of Martin Luther, John Calvin, and Theodore Beza, to name a few. John Witte Jr., a legal historian, details the gradual development of the doctrine of subjective rights through Reformation thinkers in *God's Joust, God's Justice: Law and Religion in the Western Tradition* (2006) and *The Reformation of Rights: Law, Religion, and Human Rights in Early Modern Calvinism* (2007).

> And so over time, early modern Calvinists worked with others slowly to develop a human rights culture and a set of constitutional structures dedicated to the rule of law and to the protection of the essential rights and liberties of all peaceable believers. Calvinists took the lead in producing a number of landmark constitutional documents that gradually expanded the Western regime of human rights in the early modern period (2007, 2-3).

The concept of natural rights spread to the Netherlands through the influence of Johannes Althusuis, among others, and was strongly articulated in England by John Milton. John Locke codified much of the thinking of natural rights advocates in his *Two Treatises of Government*, published in 1689.

Acemoglu and Robinson never explicitly acknowledge the importance of the revolutionary impact of the *Imago Dei* on English political thought and action, but many of their historical accounts reflect the change in the understanding of human rights. They note that after the Glorious Revolution, "[a]nybody could petition Parliament, and petition they did"

(93). But such petitions represent a fundamental belief that one has the right to petition and there is some chance the petitions will be recognized. Acemoglu and Robinson, however, treat the rise in attempts to claim certain rights and privileges as simply an expression of shifts in political power, rather than because of any changes in the conceptual understanding of the basic rights of English citizens.

They also use Australia, with the recognition of rights of convicts there, as a case study in the change from extractive to inclusive institutions. Again, such an expansion of convict rights is seen entirely as driven by economic forces, with no role for arguments based upon ideological changes. Certainly granting basic rights to convicts was in part driven by a desire to increase productivity in the Australian colony, but the nascent recognition of the fundamental humanity of those convicts surely had a role in the institutional change. One can get a feel for the paucity of the authors' understanding of rights language from the fact that a search of the entire text yields not a single use of either *natural law* or *natural rights*.

The fact that England and the Netherlands were the first to advance the concept of equality before the law did not mean that the concept was immediately and consistently applied. In England Protestants and Catholics were quite willing the use the coercive power of the state to persecute each other. The British colonies in America were initially organized as hierarchical orders. The violation of the rights of indigenous peoples was a common occurrence in many Dutch and English colonies. But the idea of the common humanity of all was a growing influence and had an important role to play in the move to more inclusive political and economic institutions in the home countries and also in some of their colonies.[3]

There is a natural rejoinder to the argument that habits of the mind were a substantial contributor to the initial economic growth in England, the Netherlands, and in certain English colonies. What about Japan and other non-western societies? If Judeo-Christian thinking were important to the first cases of economic takeoff, how did growth happen in several other countries that had little or no understanding of the *Imago Dei*? In fact, Acemoglu and Robinson dismiss religion and religious concepts as contributors to the growth of inclusive institutions because "there is little relationship between religion and economic success" (60).

There are several possible explanations for the positive institutional changes in countries whose intellectual histories seem to have little in common with the West. The development of the concept of the dignity and worth of all individuals was long and arduous in England and the Netherlands, and religious understandings of the human person and the

human condition were a vital part of that process. Once the concept was codified and accepted in Western Europe, North America and Australia, other non-western countries could see the benefits from granting equal status to all citizens. Consequently the move to limit the power of elites and to grant equality before the law to the masses might not have needed the long incubation period that was necessary for the first movers.

Evidence for the rather rapid movement to a worldwide system of equal rights can be seen in the history of slavery. According to Thomas Sowell,

> While slavery was common to all civilizations, as well as to people considered uncivilized, only one civilization developed a moral revulsion against it, very late in its history—Western civilization. Today it seems obvious that, as Abraham Lincoln said, "If slavery is not wrong, nothing is wrong." But the hard fact is that, for thousands of years, slavery was simply not an issue, even among the great religious thinkers or moral philosophers of civilizations around the world (2005, 116).

A major impetus in ending slavery was the moral argument made by people who had internalized the concept of the *Imago Dei* (Sowell 2005; Powell 2008, 67-91). Britain was the leader in the abolitionist crusade and some other countries followed suit fairly rapidly. The overall banishment of slavery took over a hundred years, and was fraught with conflict. When one considers the broad sweep of history, however, the intellectual climate changed rather rapidly once the case had been made for the immoral nature of slavery. An institution that had existed for thousands of years with almost no influential opponents became illegal in almost all countries of the world. Even though people are still enslaved in some parts of the world today, it is almost impossible to find anyone who mounts an intellectual defense of slavery.

In the same way that the West provided the moral groundings for the demise of slavery, it could be that the evolution of equality before the law became enough of an acceptable norm that it was much easier to adopt inclusive institutions in non-Western settings. North, Wallis, and Weingast make that argument. "Time also plays an important role in the process of institutional change," they write. "The first societies to move to the doorstep conditions and then to the transition proper changed forever the conditions facing other societies" (2009, 188).

Further evidence of the general acceptance of basic human rights can be found in the Universal Declaration of Human Rights, adopted by the United Nations in 1948, which opens with a "recognition of the inherent

dignity and of the equal and inalienable rights of all members of the human family" (Universal Declaration of Human Rights 1948). Of course this recognition has been widely ignored in many countries, but the fact that it was even adopted is important evidence that arguments for human equality have more power than in the past.

The evolution of the concept of the dignity of persons leads to another explanation of institutional change that moves towards inclusion: the importance of certain leaders in times of change. Acemoglu and Robinson rely on this to a certain degree in explaining how Botswana and Japan, among other countries, were able to make the transition from extractive to inclusive institutions. In some cases political power was vested in people who had a broad concept of who should count in the social calculus. It could be that these individuals were strictly motivated by their particular material concerns, but surely the concept of universal human dignity had some influence on their thinking.

The above explanations of the move to inclusive institutions in non-Western nations need much more work to be completely convincing. Nevertheless, the interplay of ideology, interests, and power offer a more powerful explanation of the institutional changes Acemoglu and Robinson describe than their sparse theory of power and material interests.

In summary, *Why Nations Fail* is a thoughtful work that provides much evidence for the argument that institutional differences are the most powerful explanation for poverty and prosperity through time. The fact that Acemoglu and Robinson have not offered a satisfactory theory of why and where institutional change takes place does not detract from the power of their theory in explaining income differences. Anyone who is interested in understanding these differences around the world should peruse this volume. It follows that there are several reasons why Christian economists should be particularly interested in this book.

First, reading *Why Nations Fail* gives an expanded understanding of the terrible impact of original sin. Our sinful nature harms us in many ways, and one of them is through the exploitation that occurs under particular institutional structures. Acemoglu and Robinson document the enormity of human suffering that has occurred because of extractive institutions. Most people are aware of the loss of life in Mao's Cultural Revolution and the Great Leap Forward or Stalin's purges. Other cases are less well known, like the Taiping Rebellion in southern China (1850-1864) in which 20 million died, or the cruelty of the colonization systems in Latin America and Africa.

Second, Christian economists should take most seriously explanations

about how economic growth occurs and poverty is reduced. We are commanded to care for the poor, and the dramatic reductions in human suffering that have come through inclusive political and economic institutions should be celebrated. Growth in per capita income, reduction of child mortality, and technological advances that reduce human suffering are all redemptive actions that ameliorate some of the effects of the Fall.

Finally, institutions that recognize the dignity and worth of all humans reflect God's concern for justice. The inclusive institutions lauded by Acemoglu and Robinson are not all that is needed for a just society, but they surely are an important component of such a world.

Why Nations Fail should be a part of every Christian economist's library. There will be much more written to add to or dispute the arguments of the book, but this work deals directly with issues at the heart of our concerns and we have to take them seriously.

Endnotes

1 Other substantial works on the topic include Olson (1984); Rosenberg and Birdzell (1986); Landes (1998); Clark (2007); North, Wallis, and Weingast (2009); and McCloskey (2010). Books which focus on particular regions or time periods are De Soto (1989) and (2000); Mokyr (2009), and Engerman and Sokoloff (2012).

2 For an extensive defense of the importance of moral beliefs see John Danford (2000, 10). "Such societies (*those which respect the freedom of the individual*) have existed for a very brief span, considered against the background of human history in general, and their existence may depend, more than most people think, on the ideas men and women hold dear" (emphasis added).

3 Canada, Australia, and the United States are the most prominent cases of inclusive orders. In contrast, the Dutch and English influence in South Africa led to the extractive order of apartheid and India, as an English colony, did not develop inclusive institutions under the English reign.

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