Why Nations Succeed or Fail: Insights from the 2024 Economics Nobel

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Why In News : The 2024 Nobel Prize in Economics was awarded to U.S. economists **Daron Acemoglu, Simon Johnson, and James A. Robinson "for studies on how institutions are formed and their impact on prosperity."** The prize committee praised their work for deepening our understanding of why some nations succeed while others fail.

Background:

- The question of why some countries are wealthy while others remain poor has long been a subject of debate among economists. This year's Nobel laureates have made significant contributions to this discussion.
- The Nobel committee highlighted that the **richest 20% of countries today are 30 times wealthier, on average, than the poorest 20%.** Numerous theories have been proposed to explain this stark disparity in living standards between rich and poor countries. Some attribute it to colonialism, suggesting that it laid the foundation for Western prosperity. Others point to differences in natural resources or even intelligence and historical accidents as explanations for varying levels of national wealth.
- However, the 2024 Nobel laureates argue that the key factor lies in the quality of a nation's economic and political institutions. This thesis is extensively explored in the **2012 book *Why Nations Fail: The Origins of Power, Prosperity, and Poverty***, written by **Acemoglu and Robinson**, and the 2004 paper ***Institutions as a Fundamental Cause of Long-Run Growth***, co-authored by all three prize winners.

Why are institutions so crucial?

- Institutions are essentially the **"rules of the game"** that shape the incentives individuals face in their interactions. For instance, institutions that protect private property from unjust seizure by the state encourage citizens to work harder and invest in their future, leading to economic growth. Conversely, institutions that permit expropriation create negative incentives, hindering economic development.
- Acemoglu and Johnson distinguish between two types of institutions: **"inclusive"** and **"extractive."** Inclusive institutions safeguard private property and support democracy, whereas extractive institutions undermine property rights and limit political freedom. The laureates have demonstrated that inclusive institutions promote sustained economic growth and improved living standards, while extractive institutions result in economic decline and poverty.
- Their research includes examining the institutions set up by colonial powers. In colonies where settlers did not plan to stay due to factors like high mortality rates, they often

established extractive institutions. A case in point is British colonial rule in India. However, in colonies where settlers intended to live long-term, such as in the United States, they implemented inclusive institutions that promoted long-term investment and growth.

- It is also worth noting that institutions encompass cultural factors, which influence the formal "rules of the game" dictated by political and economic institutions.

Why aren't inclusive institutions more widespread?

- According to the laureates, rulers in many countries benefit personally from extractive institutions that allow them to exploit resources without accountability. As long as these rulers can maintain power and avoid widespread revolt, they have little incentive to introduce inclusive institutions that would benefit the broader population in the long term.

Significance of this year's Nobel Prize

- The Nobel Prize in Economics is often awarded for groundbreaking academic research that addresses important real-world issues. In the past two years, the prize was awarded for studies on topics like the **gender pay gap** and the **fragility of banking systems**—important issues, but not necessarily the foundational questions that economics was originally intended to explore. This year's prize refocuses attention on a fundamental issue: the role of institutions in shaping the "**rules of the game**" that govern economic activity and, ultimately, a country's prosperity.