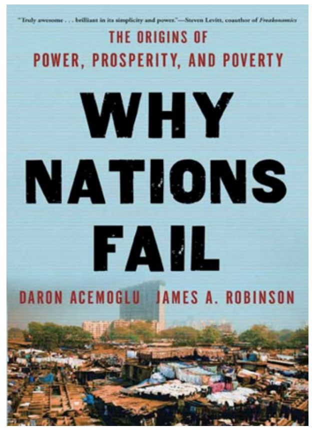
Why Nations Fail: The Origins of Power, Prosperity, and Poverty - Daron Acemoğlu, James A. Robinson (2012)



Chapter 2. THEORIES THAT DON’T WORK

THE LAY OF THE LAND

THE FOCUS OF our book is on explaining world inequality and also some of the easily visible broad patterns that nest within it. The first country to experience sustained economic growth was England—or Great Britain, usually just Britain, as the union of England, Wales, and Scotland after 1707 is known. Growth emerged slowly in the second half of the eighteenth century as the Industrial Revolution, based on major technological breakthroughs and their application in industry, took root. Industrialization in England was soon followed by industrialization in most of Western Europe and the United States. English prosperity also spread rapidly to Britain’s “settler colonies” of Canada, Australia, and New Zealand. A list of the thirty richest countries today would include them, plus Japan, Singapore, and South Korea. The prosperity of these latter three is in turn part of a broader pattern in which many East Asian nations, including Taiwan and subsequently China, have experienced recent rapid growth.

The bottom of the world income distribution paints as sharp and as distinctive a picture as the top. If you instead make a list of the poorest thirty countries in the world today, you will find almost all of them in sub-Saharan Africa. They are joined by countries such as Afghanistan, Haiti, and Nepal, which, though not in Africa, all share something critical with African nations, as we’ll explain. If you went back fifty years, the countries in the top and bottom thirty wouldn’t be greatly different. Singapore and South

Korea would not be among the richest countries, and there would be several different countries in the bottom thirty, but the overall picture that emerged would be remarkably consistent with what we see today. Go back one hundred years, or a hundred and fifty, and you'd find nearly the same countries in the same groups.

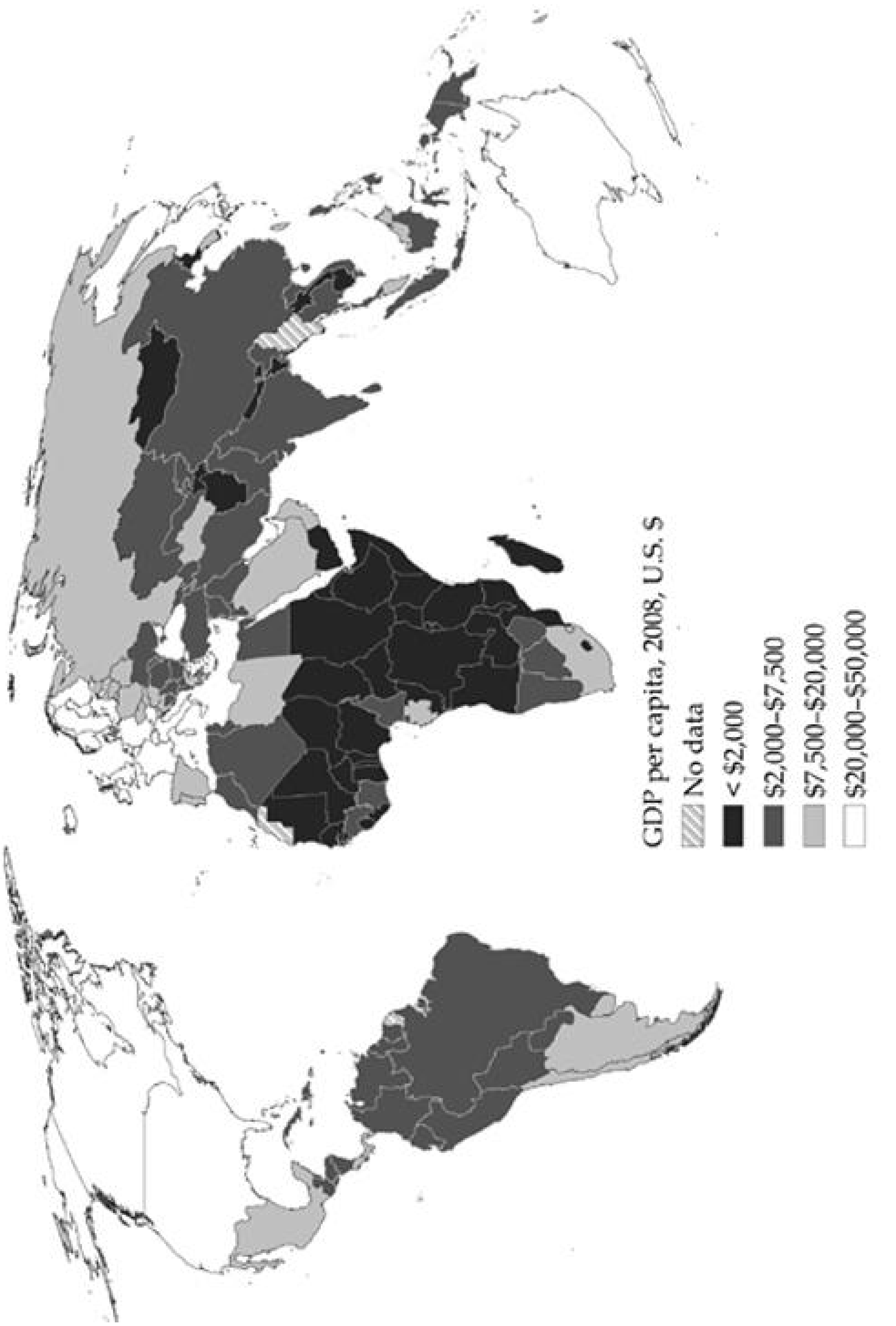
Map 3 shows the lay of the land in 2008. The countries shaded in the darkest color are the poorest in the world, those where average per-capita incomes (called by economists GDP, gross domestic product) are less than $2,000 annually. Most of Africa is in this color, as are Afghanistan, Haiti, and parts of Southeast Asia (for example, Cambodia and Laos). North Korea is also among this group of countries. The countries in white are the richest, those with annual income per-capita of $20,000 or more. Here we find the usual suspects: North America, western Europe, Australasia, and Japan.

Another interesting pattern can be discerned in the Americas. Make a list of the nations in the Americas from richest to poorest. You will find that at the top are the United States and Canada, followed by Chile, Argentina, Brazil, Mexico, and Uruguay, and maybe also Venezuela, depending on the price of oil. After that you have Colombia, the Dominican Republic, Ecuador, and Peru. At the bottom there is another distinct, much poorer group, comprising Bolivia, Guatemala, and Paraguay. Go back fifty years, and you'll find an identical ranking. One hundred years: same thing. One hundred and fifty years: again the same. So it is not just that the United States and Canada are richer than Latin America; there is also a definite and persistent divide between the rich and poor nations within Latin America.

A final interesting pattern is in the Middle East. There we find oil-rich nations such as Saudi Arabia and Kuwait, which have income levels close to those of our top thirty. Yet if the oil price fell, they would quickly fall back down the table. Middle Eastern countries with little or no oil, such as Egypt, Jordan, and Syria, all cluster around a level of income similar to that of Guatemala or Peru. Without oil, Middle Eastern countries are also all poor, though, like those in Central America and the Andes, not so poor as those in sub-Saharan Africa.

While there is a lot of persistence in the patterns of prosperity we see around us today, these patterns are not unchanging or immutable. First, as we have already emphasized, most of current world inequality emerged since the late eighteenth century, following on the tails of the Industrial Revolution. Not only were gaps in prosperity much smaller as late as the middle of the eighteenth century, but the rankings which have been so stable since then are not the same when we go further back in history. In the

Americas, for example, the ranking we see for the last hundred and fifty years was completely different five hundred years ago. Second, many nations have experienced several decades of rapid growth, such as much of East Asia since the Second World War and, more recently, China. Many of these subsequently saw that growth go into reverse. Argentina, for example, grew rapidly for five decades up until 1920, becoming one of the richest countries in the world, but then started a long slide. The Soviet Union is an even more noteworthy example, growing rapidly between 1930 and 1970, but subsequently experiencing a rapid collapse.



Map 3: Prosperity around the world in 2008

What explains these major differences in poverty and prosperity and the patterns of growth? Why did Western European nations and their colonial offshoots filled with European settlers start growing in the nineteenth century, scarcely looking back? What explains the persistent ranking of inequality within the Americas? Why have sub-Saharan African and Middle Eastern nations failed to achieve the type of economic growth seen in Western Europe, while much of East Asia has experienced breakneck rates of economic growth?

One might think that the fact that world inequality is so huge and consequential and has such sharply drawn patterns would mean that it would have a well-accepted explanation. Not so. Most hypotheses that social scientists have proposed for the origins of poverty and prosperity just don’t work and fail to convincingly explain the lay of the land.

THE GEOGRAPHY HYPOTHESIS

One widely accepted theory of the causes of world inequality is the geography hypothesis, which claims that the great divide between rich and poor countries is created by geographical differences. Many poor countries, such as those of Africa, Central America, and South Asia, are between the tropics of Cancer and Capricorn. Rich nations, in contrast, tend to be in temperate latitudes. This geographic concentration of poverty and prosperity gives a superficial appeal to the geography hypothesis, which is the starting point of the theories and views of many social scientists and pundits alike. But this doesn’t make it any less wrong.

As early as the late eighteenth century, the great French political philosopher Montesquieu noted the geographic concentration of prosperity and poverty, and proposed an explanation for it. He argued that people in tropical climates tended to be lazy and to lack inquisitiveness. As a consequence, they didn’t work hard and were not innovative, and this was the reason why they were poor. Montesquieu also speculated that lazy people tended to be ruled by despots, suggesting that a tropical location could explain not just poverty but also some of the political phenomena associated with economic failure, such as dictatorship.

The theory that hot countries are intrinsically poor, though contradicted by the recent rapid economic advance of countries such as Singapore, Malaysia, and Botswana, is still forcefully advocated by some, such as the economist Jeffrey Sachs. The modern version of this view emphasizes not the direct effects of climate on work effort or thought processes, but two additional arguments: first, that tropical diseases, particularly malaria, have very adverse consequences for health and therefore labor productivity; and second, that tropical soils do not allow for productive agriculture. The conclusion, though, is the same: temperate climates have a relative advantage over tropical and semitropical areas.

World inequality, however, cannot be explained by climate or diseases, or any version of the geography hypothesis. Just think of Nogales. What separates the two parts is not climate, geography, or disease environment, but the U.S.-Mexico border.

If the geography hypothesis cannot explain differences between the north and south of Nogales, or North and South Korea, or those between East and West Germany before the fall of the Berlin Wall, could it still be a useful theory for explaining differences between North and South America? Between Europe and Africa? Simply, no.

History illustrates that there is no simple or enduring connection between climate or geography and economic success. For instance, it is not true that the tropics have always been poorer than temperate latitudes. As we saw in the last chapter, at the time of the conquest of the Americas by Columbus, the areas south of the Tropic of Cancer and north of the Tropic of Capricorn, which today include Mexico, Central America, Peru, and Bolivia, held the great Aztec and Inca civilizations. These empires were politically centralized and complex, built roads, and provided famine relief. The Aztecs had both money and writing, and the Incas, even though they lacked both these two key technologies, recorded vast amounts of information on knotted ropes called quipus. In sharp contrast, at the time of the Aztecs and Incas, the north and south of the area inhabited by the Aztecs and Incas, which today includes the United States, Canada, Argentina, and Chile, were mostly inhabited by Stone Age civilizations lacking these technologies. The tropics in the Americas were thus much richer than the temperate zones, suggesting that the “obvious fact” of tropical poverty is neither obvious nor a fact. Instead, the greater riches in the United States and Canada represent a stark reversal of fortune relative to what was there when the Europeans arrived.

This reversal clearly had nothing to do with geography and, as we have already seen, something to do with the way these areas were colonized. This reversal was not confined to the Americas. People in South Asia, especially the Indian subcontinent, and in China were more prosperous than those in many other parts of Asia and certainly more than the peoples inhabiting Australia and New Zealand. This, too, was reversed, with South Korea, Singapore, and Japan emerging as the richest nations in Asia, and Australia and New Zealand surpassing almost all of Asia in terms of prosperity. Even within sub-Saharan Africa there was a similar reversal. More recently, before the start of intense European contact with Africa, the southern Africa region was the most sparsely settled and the farthest from having developed states with any kind of control over their territories. Yet South Africa is now one of the most prosperous nations in sub-Saharan Africa. Further back in history we again see much prosperity in the tropics; some of the great premodern civilizations, such as Angkor in modern Cambodia, Vijayanagara in southern India, and Aksum in Ethiopia, flourished in the tropics, as did the great Indus

Valley civilizations of Mohenjo Daro and Harappa in modern Pakistan. History thus leaves little doubt that there is no simple connection between a tropical location and economic success.

Tropical diseases obviously cause much suffering and high rates of infant mortality in Africa, but they are not the reason Africa is poor. Disease is largely a consequence of poverty and of governments being unable or unwilling to undertake the public health measures necessary to eradicate them. England in the nineteenth century was also a very unhealthy place, but the government gradually invested in clean water, in the proper treatment of sewage and effluent, and, eventually, in an effective health service. Improved health and life expectancy were not the cause of England's economic success but one of the fruits of its previous political and economic changes. The same is true for Nogales, Arizona.

The other part of the geography hypothesis is that the tropics are poor because tropical agriculture is intrinsically unproductive. Tropical soils are thin and unable to maintain nutrients, the argument goes, and emphasizes how quickly these soils are eroded by torrential rains. There certainly is some merit in this argument, but as we'll show, the prime determinant of why agricultural productivity—agricultural output per acre—is so low in many poor countries, particularly in sub-Saharan Africa, has little to do with soil quality. Rather, it is a consequence of the ownership structure of the land and the incentives that are created for farmers by the governments and institutions under which they live. We will also show that world inequality cannot be explained by differences in agricultural productivity. The great inequality of the modern world that emerged in the nineteenth century was caused by the uneven dissemination of industrial technologies and manufacturing production. It was not caused by divergence in agricultural performance.

Another influential version of the geography hypothesis is advanced by the ecologist and evolutionary biologist Jared Diamond. He argues that the origins of intercontinental inequality at the start of the modern period, five hundred years ago, rested in different historical endowments of plant and animal species, which subsequently influenced agricultural productivity. In some places, such as the Fertile Crescent in the modern Middle East, there were a large number of species that could be domesticated by humans. Elsewhere, such as the Americas, there were not. Having many species capable of being domesticated made it very attractive for societies to make the transition from a hunter-gatherer to a farming lifestyle. As a consequence, farming developed earlier in the Fertile Crescent than in the Americas. Population density grew, allowing specialization of labor, trade, urbanization, and political development. Crucially, in places where farming dominated, technological innovation took place much more rapidly than in other parts of the world. Thus, according to Diamond, the differential availability of animal and plant species created differential intensities of farming, which led to different paths of technological change and prosperity across different continents.

Though Diamond's thesis is a powerful approach to the puzzle on which he focuses, it cannot be extended to explain modern world inequality. For example, Diamond argues that the Spanish were able to dominate the civilizations of the Americas because of their longer history of farming and consequent superior technology. But we now need to explain why the Mexicans and Peruvians inhabiting the former lands of the Aztecs and Incas are poor. While having access to wheat, barley, and horses might have made the Spanish richer than the Incas, the gap in incomes between the two was not very large. The average income of a Spaniard was probably less than double that of a citizen of the Inca Empire. Diamond's thesis implies that once the Incas had been exposed to all the species and resulting technologies that they had not been able to develop themselves, they ought quickly to have attained the living standards of the Spanish. Yet nothing of the sort happened. On the contrary, in the nineteenth and twentieth centuries, a much larger gap in incomes between Spain and Peru emerged. Today the average Spaniard is more than six times richer than the average Peruvian. This gap in incomes is closely connected to the uneven dissemination of modern industrial technologies, but this has little to do either with the potential for animal and plant domestication or with intrinsic agricultural productivity differences between Spain and Peru.

While Spain, albeit with a lag, adopted the technologies of steam power, railroads, electricity, mechanization, and factory production, Peru did not, or at best did so very slowly and imperfectly. This technological gap persists today and reproduces itself on a bigger scale as new technologies, in particular those related to information technology, fuel further growth in many developed and some rapidly developing nations. Diamond's thesis does not tell us why these crucial technologies are not diffusing and equalizing incomes across the world and does not explain why the northern half of Nogales is so much richer than its twin just to the south of the fence, even though both were part of the same civilization five hundred years ago.

The story of Nogales highlights another major problem in adapting Diamond's thesis: as we have already seen, whatever the drawbacks of the Inca and Aztec empires were in 1532, Peru and Mexico were undoubtedly more prosperous than those parts of the Americas that went on to become the United States and Canada. North America became more prosperous precisely because it enthusiastically adopted the technologies and advances of the Industrial Revolution. The population became educated and railways spread out across the Great Plains in stark contrast to what happened in South

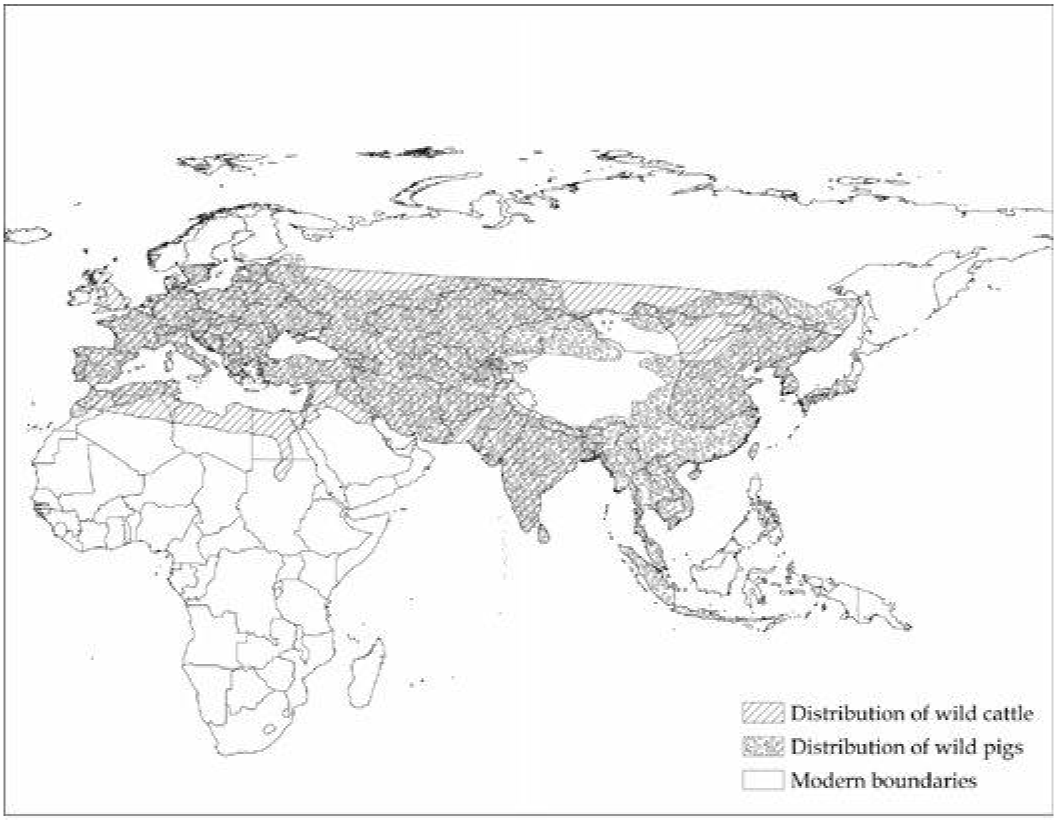
America. This cannot be explained by pointing to differential geographic endowments of North and South America, which, if anything, favored South America.

Inequality in the modern world largely results from the uneven dissemination and adoption of technologies, and Diamond's thesis does include important arguments about this. For instance, he argues, following the historian William McNeill, that the east–west orientation of Eurasia enabled crops, animals, and innovations to spread from the Fertile Crescent into Western Europe, while the north–south orientation of the Americas accounts for why writing systems, which were created in Mexico, did not spread to the Andes or North America. Yet the orientation of continents cannot provide an explanation for today's world inequality. Consider Africa. Though the Sahara Desert did present a significant barrier to the movement of goods and ideas from the north to sub-Saharan Africa, this was not insurmountable. The Portuguese, and then other Europeans, sailed around the coast and eliminated differences in knowledge at a time when gaps in incomes were very small compared with what they are today. Since then, Africa has not caught up with Europe; on the contrary, there is now a much larger income gap between most African and European countries.

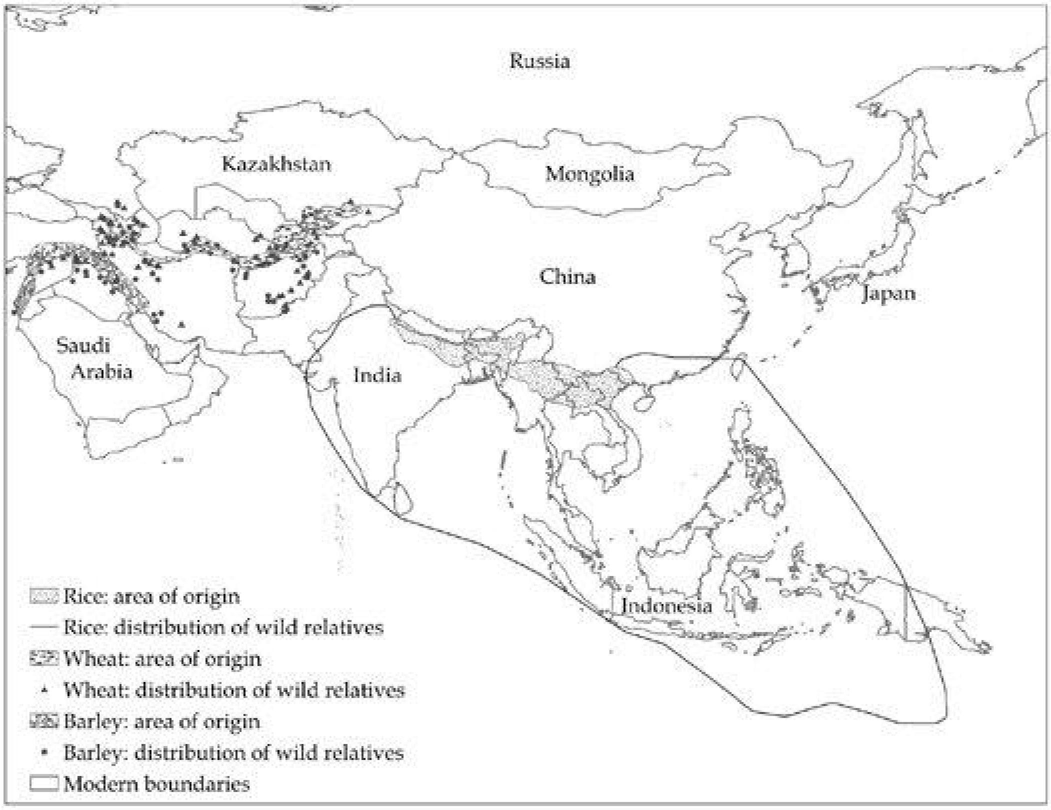
It should also be clear that Diamond's argument, which is about continental inequality, is not well equipped to explain variation within continents—an essential part of modern world inequality. For example, while the orientation of the Eurasian landmass might explain how England managed to benefit from the innovations of the Middle East without having to reinvent them, it doesn't explain why the Industrial Revolution happened in England rather than, say, Moldova. In addition, as Diamond himself points out, China and India benefited greatly from very rich suites of animals and plants, and from the orientation of Eurasia. But most of the poor people of the world today are in those two countries.

In fact, the best way to see the scope of Diamond's thesis is in terms of his own explanatory variables. Map 4 shows data on the distribution of *Sus scrofa*, the ancestor of the modern pig, and the aurochs, ancestor of the modern cow. Both species were widely distributed throughout Eurasia and even North Africa. Map 5 (this page) shows the distribution of some of the wild ancestors of modern domesticated crops, such as *Oryza sativa*, the ancestor of Asian cultivated rice, and the ancestors of modern wheat and barley. It demonstrates that the wild ancestor of rice was distributed widely across south and southeast Asia, while the ancestors of barley and wheat were distributed along a long arc from the Levant, reaching through Iran and into Afghanistan and the cluster of "stans" (Turkmenistan, Tajikistan, and Krgyzistan). These ancestral species are present in much of Eurasia. But their wide distribution suggests that inequality within Eurasia cannot be explained by a theory based on the incidence of the species.

The geography hypothesis is not only unhelpful for explaining the origins of prosperity throughout history, and mostly incorrect in its emphasis, but also unable to account for the lay of the land we started this chapter with. One might argue that any persistent pattern, such as the hierarchy of incomes within the Americas or the sharp and long-ranging differences between Europe and the Middle East, can be explained by unchanging geography. But this is not so. We have already seen that the patterns within the Americas are highly unlikely to have been driven by geographical factors. Before 1492 it was the civilizations in the central valley of Mexico, Central America, and the Andes that had superior technology and living standards to North America or places such as Argentina and Chile. While the geography stayed the same, the institutions imposed by European colonists created a “reversal of fortune.” Geography is also unlikely to explain the poverty of the Middle East for similar reasons. After all, the Middle East led the world in the Neolithic Revolution, and the first towns developed in modern Iraq. Iron was first smelted in Turkey, and as late as the Middle Ages the Middle East was technologically dynamic. It was not the geography of the Middle East that made the Neolithic Revolution flourish in that part of the world, as we will see in chapter 5, and it was, again, not geography that made the Middle East poor. Instead, it was the expansion and consolidation of the Ottoman Empire, and it is the institutional legacy of this empire that keeps the Middle East poor today.



Map 4: The historical distribution of wild cattle and pigs



Map 5: The historical distribution of wild rice, wheat, and barley

Finally, geographic factors are unhelpful for explaining not only the differences we see across various parts of the world today but also why many nations such as Japan or China stagnate for long periods and then start a rapid growth process. We need another, better theory.

THE CULTURE HYPOTHESIS

The second widely accepted theory, the culture hypothesis, relates prosperity to culture. The culture hypothesis, just like the geography hypothesis, has a distinguished lineage, going back at least to the great German sociologist Max Weber, who argued that the Protestant Reformation and the Protestant ethic it spurred played a key role in facilitating the rise of modern industrial society in Western Europe. The culture hypothesis no longer relies solely on religion, but stresses other types of beliefs, values, and ethics as well.

Though it is not politically correct to articulate in public, many people still maintain that Africans are poor because they lack a good work ethic, still believe in witchcraft and magic, or resist new Western technologies. Many also believe that Latin America will never be rich because its people are intrinsically profligate and impecunious, and because they suffer from some "Iberian" or *"mañana"* culture. Of course, many once believed that the Chinese culture and Confucian values were inimical to economic growth, though now the importance of the Chinese work ethic as the engine of growth in China, Hong Kong, and Singapore is trumpeted.

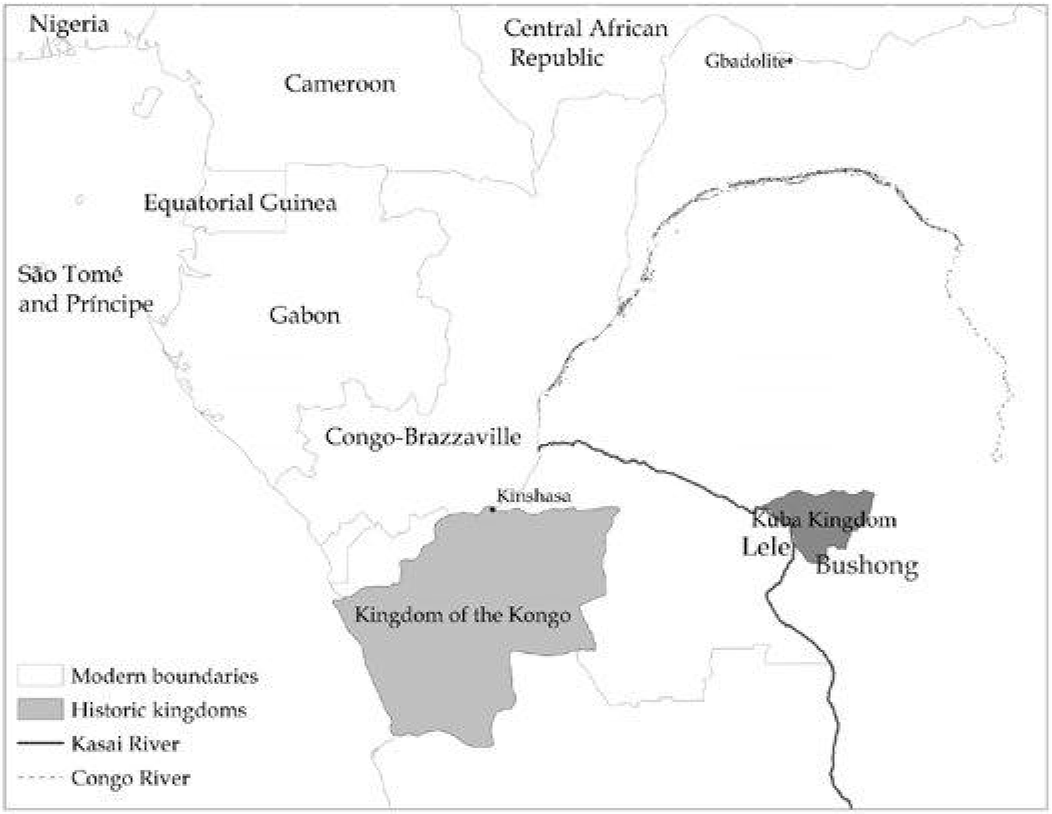
Is the culture hypothesis useful for understanding world inequality? Yes and no. Yes, in the sense that social norms, which are related to culture, matter and can be hard to change, and they also sometimes support institutional differences, this book's explanation for world inequality. But mostly no, because those aspects of culture often emphasized—religion, national ethics, African or Latin values—are just not important for understanding how we got here and why the inequalities in the world persist. Other aspects, such as the extent to which people trust each other or are able to cooperate, are important but they are mostly an outcome of institutions, not an independent cause.

Let us go back to Nogales. As we noted earlier, many aspects of culture are the same north and south of the fence. Nevertheless, there may be some marked differences in practices, norms, and values, though these are not causes but outcomes of the two places' divergent development paths. For example, in surveys Mexicans typically say they trust other people less than the citizens of the United States say they trust others. But it is not a surprise that Mexicans lack trust when their government cannot eliminate drug cartels or provide a functioning unbiased legal system. The same is true with North and South Korea, as we discuss in the next chapter. The South is one of the richest countries in the world, while the North grapples with periodic famine and abject poverty. While "culture" is very different between the South and the North today, it played no role in causing the diverging economic fortunes of these two half nations. The Korean peninsula has a long period of common history. Before the Korean War and the division at the 38th parallel, it had an unprecedented homogeneity in terms of language, ethnicity, and culture. Just as in Nogales, what matters is the border. To the north is a different regime, imposing different institutions, creating different incentives. Any difference in culture between south and north of the border cutting through the two parts of Nogales or the two parts of Korea is thus not a cause of the differences in prosperity but, rather, a consequence.

What about Africa and African culture? Historically, sub-Saharan Africa was poorer than most other parts of the world, and its ancient civilizations did not develop the wheel, writing (with the exception of Ethiopia and Somalia), or the plow. Though these technologies were not widely used until the advent of formal European colonization in the late nineteenth and early twentieth century, African societies knew about them much earlier. Europeans began sailing around the west coast in the late fifteenth century, and Asians were continually sailing to East Africa from much earlier times.

We can understand why these technologies were not adopted from the history of the Kingdom of Kongo at the mouth of the Congo River, which has given its name to the modern Democratic Republic of Congo. Map 6 shows where the Kongo was along with another important central African state, the Kuba Kingdom, which we discuss later in the book.

Kongo came into intense contact with the Portuguese after it was first visited by the mariner Diogo Cão in 1483. At the time, Kongo was a highly centralized polity by African standards, whose capital, Mbanza, had a population of sixty thousand, which made it about the same size as the Portuguese capital of Lisbon and larger than London, which had a population of about fifty thousand in 1500. The king of Kongo, Nzinga a Nkuwu, converted to Catholicism and changed his name to João I. Later Mbanza's name was changed to São Salvador. Thanks to the Portuguese, the Kongolese learned about the wheel and the plow, and the Portuguese even encouraged their adoption with agricultural missions in 1491 and 1512. But all these initiatives failed. Still, the Kongolese were far from averse to modern technologies in general. They were very quick to adopt one venerable Western innovation: the gun. They used this new and powerful tool to respond to market incentives: to capture and export slaves. There is no sign here that African values or culture prevented the adoption of new technologies and practices. As their contacts with Europeans deepened, the Kongolese adopted other Western practices: literacy, dress styles, and house designs. In the nineteenth century, many African societies also took advantage of the rising economic opportunities created by the Industrial Revolution by changing their production patterns. In West Africa there was rapid economic development based on the export of palm oil and ground nuts; throughout southern Africa, Africans developed exports to the rapidly expanding industrial and mining areas of the Rand in South Africa. Yet these promising economic experiments were obliterated not by African culture or the inability of ordinary Africans to act in their own self-interest, but first by European colonialism and then by postindependence African governments.



Map 6: Kingdom of the Kongo, Kuba Kingdom, the Bushong, and the Lele

The real reason that the Kongolese did not adopt superior technology was because they lacked any incentives to do so. They faced a high risk of all their output being expropriated and taxed by the all-powerful king, whether or not he had converted to Catholicism. In fact, it wasn't only their property that was insecure. Their continued existence was held by a thread. Many of them were captured and sold as slaves—hardly the environment to encourage investment to increase long-term productivity. Neither did the king have incentives to adopt the plow on a large scale or to make increasing agricultural productivity his main priority; exporting slaves was so much more profitable.

It might be true today that Africans trust each other less than people in other parts of the world. But this is an outcome of a long history of institutions which have undermined human and property rights in Africa. The potential to be captured and sold as a slave no doubt influenced the extent to which Africans trusted others historically.

What about Max Weber's Protestant ethic? Though it may be true that predominantly Protestant countries, such as the Netherlands and England, were the first economic successes of the modern era, there is little relationship between religion and economic success. France, a predominantly Catholic country, quickly mimicked the economic performance of the Dutch and English in the nineteenth century, and Italy is as prosperous as any of these nations today. Looking farther east, you'll see that none of the economic successes of East Asia have anything to do with any form of Christian religion, so there is not much support for a special relationship between Protestantism and economic success there, either.

Let's turn to a favorite area for the enthusiasts of the culture hypothesis: the Middle East. Middle Eastern countries are primarily Islamic, and the non–oil producers among them are very poor, as we have already noted. Oil producers are richer, but this windfall of wealth has done little to create diversified modern economies in Saudi Arabia or Kuwait. Don't these facts show convincingly that religion matters? Though plausible, this argument is not right, either. Yes, countries such as Syria and Egypt are poor, and their populations are primarily Muslim. But these countries also systemically differ in other ways that are far more important for prosperity. For one, they were all provinces of the Ottoman Empire, which heavily, and adversely, shaped the way they developed. After Ottoman rule collapsed, the Middle East was absorbed into the English and French colonial empires, which, again, stunted their possibilities. After independence, they followed much of the former colonial world by developing hierarchical, authoritarian political regimes with few of the political and economic institutions that, we will argue, are crucial for generating economic success. This development path was forged largely by the history of Ottoman and European rule. The relationship between the Islamic religion and poverty in the Middle East is largely spurious.

The role of these historical events, rather than cultural factors, in shaping the Middle East's economic trajectory is also seen in the fact that the parts of the Middle East that temporarily broke away from the hold of the Ottoman Empire and the European powers, such as Egypt between 1805 and 1848 under Muhammad Ali, could embark on a path of rapid economic change. Muhammad Ali usurped power following the withdrawal of the French forces that had occupied Egypt under Napoleon Bonaparte. Exploiting the weakness of the Ottoman hold over the Egyptian territory at the time, he was able to found his own dynasty, which would, in one form or another, rule until the Egyptian Revolution under Nasser in 1952. Muhammad Ali's reforms, though coercive, did bring growth to Egypt as the state bureaucracy, the army, and the tax system were modernized and there was growth in agriculture and industry. Nevertheless, this process of modernization and growth came to an end after Ali's death, as Egypt fell under European influence.

But perhaps this is the wrong way to think about culture. Maybe the cultural factors that matter are not tied to religion but rather to particular "national cultures." Perhaps it is the influence of English culture that is important and explains why countries such as the United States, Canada, and Australia are so prosperous? Though this idea sounds initially appealing, it doesn't work, either. Yes, Canada and the United States were English colonies, but so were Sierra Leone and Nigeria. The variation in prosperity within former English colonies is as great as that in the entire world. The English legacy is not the reason for the success of North America.

There is yet one more version of the culture hypothesis: perhaps it is not English versus non-English that matters but, rather, European versus non-European. Could it be that Europeans are superior somehow because of their work ethic, outlook on life, Judeo-Christian values, or Roman heritage? It is true that Western Europe and North America, filled primarily by people of European descent, are the most prosperous parts of the world. Perhaps it is the superior European cultural legacy that is at the root of prosperity—and the last refuge of the culture hypothesis. Alas, this version of the culture hypothesis has as little explanatory potential as the others. A greater proportion of the population of Argentina and Uruguay, compared with the population of Canada and the United States, is of European descent, but Argentina's and Uruguay's economic performance leaves much to be desired. Japan and Singapore never had more than a sprinkling of inhabitants of European descent, yet they are as prosperous as many parts of Western Europe.

China, despite many imperfections in its economic and political system, has been the most rapidly growing nation of the past three decades. Chinese poverty until Mao Zedong's death had nothing to do with Chinese culture; it was due to the disastrous way Mao organized the economy and conducted politics. In the 1950s, he promoted the Great Leap Forward, a drastic industrialization policy that led to mass starvation and famine. In the 1960s, he propagated the Cultural Revolution, which led to the mass persecution of intellectuals and educated people—anyone whose party loyalty might be doubted. This again led to terror and a huge waste of the society's talent and resources. In the same way, current Chinese growth has nothing to do with Chinese values or changes in Chinese culture; it results from a process of economic transformation unleashed by the reforms implemented by Deng Xiaoping and his allies, who, after Mao Zedong's death, gradually abandoned socialist economic policies and institutions, first in agriculture and then in industry.

Just like the geography hypothesis, the culture hypothesis is also unhelpful for explaining other aspects of the lay of the land around us today. There are of course differences in beliefs, cultural attitudes, and values between the United States and Latin America, but just like those that exist between Nogales, Arizona, and Nogales, Sonora, or those between South and North Korea, these differences are a consequence of the two places' different institutions and institutional histories. Cultural factors that emphasize how "Hispanic" or "Latin" culture molded the Spanish Empire can't explain the differences within Latin America—for example, why Argentina and Chile are more prosperous than Peru and Bolivia. Other types of cultural arguments—for instance, those that stress contemporary indigenous culture—fare equally badly. Argentina and Chile have few indigenous people compared with Peru and Bolivia. Though this is true, indigenous culture as an explanation does not work, either. Colombia, Ecuador, and Peru have similar income levels, but Colombia has very few indigenous people today, while Ecuador and Peru have many. Finally, cultural attitudes, which are in general slow to change, are unlikely to account by themselves for the growth miracles in East Asia and China. Though institutions are persistent, too, in certain circumstances they do change rapidly, as we'll see.

THE IGNORANCE HYPOTHESIS

The final popular theory for why some nations are poor and some are rich is the ignorance hypothesis, which asserts that world inequality exists because we or our rulers do not know how to make poor countries rich. This idea is the one held by most economists, who take their cue from the famous definition proposed by the English economist Lionel Robbins in 1935 that "economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses."

It is then a small step to conclude that the science of economics should focus on the best use of scarce means to satisfy social ends. Indeed, the most famous theoretical result in economics, the so-called First Welfare Theorem, identifies the circumstances under which the allocation of resources in a "market economy" is socially desirable from an economic point of view. A market economy is an abstraction that is meant to capture a situation in which all individuals and firms can freely produce, buy, and sell any products or services that they wish. When these circumstances are not present there is a "market failure." Such failures provide the basis for a theory of world inequality, since the more that market failures go unaddressed, the poorer a country is likely to be. The ignorance hypothesis maintains that poor countries are poor because they have a lot of market failures and because economists and policymakers do not know how to get rid of them and have heeded the wrong advice in the past. Rich countries are rich because they have figured out better policies and have successfully eliminated these failures.

Could the ignorance hypothesis explain world inequality? Could it be that African countries are poorer than the rest of the world because their leaders tend to have the same mistaken views of how to run their countries, leading to the poverty there, while

Western European leaders are better informed or better advised, which explains their relative success? While there are famous examples of leaders adopting disastrous policies because they were mistaken about those policies' consequences, ignorance can explain at best a small part of world inequality.

On the face of it, the sustained economic decline that soon set in in Ghana after independence from Britain was caused by ignorance. The British economist Tony Killick, then working as an adviser for the government of Kwame Nkrumah, recorded many of the problems in great detail. Nkrumah's policies focused on developing state industry, which turned out to be very inefficient. Killick recalled:

The footwear factory … that would have linked the meat factory in the North through transportation of the hides to the South (for a distance of over 500 miles) to a tannery (now abandoned); the leather was to have been backhauled to the footwear factory in Kumasi, in the center of the country and about 200 miles north of the tannery. Since the major footwear market is in the Accra metropolitan area, the shoes would then have to be transported an additional 200 miles back to the South.

Killick somewhat understatedly remarks that this was an enterprise "whose viability was undermined by poor siting." The footwear factory was one of many such projects, joined by the mango canning plant situated in a part of Ghana which did not grow mangos and whose output was to be more than the entire world demand for the product. This endless stream of economically irrational developments was not caused by the fact that Nkrumah or his advisers were badly informed or ignorant of the right economic policies. They had people like Killick and had even been advised by Nobel laureate Sir Arthur Lewis, who knew the policies were not good. What drove the form the economic policies took was the fact that Nkrumah needed to use them to buy political support and sustain his undemocratic regime.

Neither Ghana's disappointing performance after independence nor the countless other cases of apparent economic mismanagement can simply be blamed on ignorance. After all, if ignorance were the problem, well-meaning leaders would quickly learn what types of policies increased their citizens' incomes and welfare, and would gravitate toward those policies.

Consider the divergent paths of the United States and Mexico. Blaming this disparity on the ignorance of the leaders of the two nations is, at best, highly implausible. It wasn't differences in knowledge or intentions between John Smith and Cortés that laid the seeds of divergence during the colonial period, and it wasn't differences in knowledge between later U.S. presidents, such as Teddy Roosevelt or Woodrow

Wilson, and Porfirio Díaz that made Mexico choose economic institutions that enriched elites at the expense of the rest of society at the end of the nineteenth and beginning of the twentieth centuries while Roosevelt and Wilson did the opposite. Rather, it was the differences in the institutional constraints the countries' presidents and elites were facing. Similarly, leaders of African nations that have languished over the last half century under insecure property rights and economic institutions, impoverishing much of their populations, did not allow this to happen because they thought it was good economics; they did so because they could get away with it and enrich themselves at the expense of the rest, or because they thought it was good politics, a way of keeping themselves in power by buying the support of crucial groups or elites.

The experience of Ghana's prime minister in 1971, Kofi Busia, illustrates how misleading the ignorance hypothesis can be. Busia faced a dangerous economic crisis. After coming to power in 1969, he, like Nkrumah before him, pursued unsustainable expansionary economic policies and maintained various price controls through marketing boards and an overvalued exchange rate. Though Busia had been an opponent of Nkrumah, and led a democratic government, he faced many of the same political constraints. As with Nkrumah, his economic policies were adopted not because he was "ignorant" and believed that these policies were good economics or an ideal way to develop the country. The policies were chosen because they were good politics, enabling Busia to transfer resources to politically powerful groups, for example in urban areas, who needed to be kept contented. Price controls squeezed agriculture, delivering cheap food to the urban constituencies and generating revenues to finance government spending. But these controls were unsustainable. Ghana was soon suffering from a series of balance-of-payment crises and foreign exchange shortages. Faced with these dilemmas, on December 27, 1971, Busia signed an agreement with the International Monetary Fund that included a massive devaluation of the currency.

The IMF, the World Bank, and the entire international community put pressure on Busia to implement the reforms contained in the agreement. Though the international institutions were blissfully unaware, Busia knew he was taking a huge political gamble. The immediate consequence of the currency's devaluation was rioting and discontent in Accra, Ghana's capital, that mounted uncontrollably until Busia was overthrown by the military, led by Lieutenant Colonel Acheampong, who immediately reversed the devaluation.

The ignorance hypothesis differs from the geography and culture hypotheses in that it comes readily with a suggestion about how to "solve" the problem of poverty: if ignorance got us here, enlightened and informed rulers and policymakers can get us out and we should be able to "engineer" prosperity around the world by providing the right advice and by convincing politicians of what is good economics. Yet Busia's experience underscores the fact that the main obstacle to the adoption of policies that would reduce market failures and encourage economic growth is not the ignorance of politicians but the incentives and constraints they face from the political and economic institutions in their societies.

Although the ignorance hypothesis still rules supreme among most economists and in Western policymaking circles—which, almost to the exclusion of anything else, focus on how to engineer prosperity—it is just another hypothesis that doesn't work. It explains neither the origins of prosperity around the world nor the lay of the land around us—for example, why some nations, such as Mexico and Peru, but not the United States or England, adopted institutions and policies that would impoverish the majority of their citizens, or why almost all sub-Saharan Africa and most of Central America are so much poorer than Western Europe or East Asia.

When nations break out of institutional patterns condemning them to poverty and manage to embark on a path to economic growth, this is not because their ignorant leaders suddenly have become better informed or less self-interested or because they've received advice from better economists. China, for example, is one of the countries that made the switch from economic policies that caused poverty and the starvation of millions to those encouraging economic growth. But, as we will discuss in greater detail later, this did not happen because the Chinese Communist Party finally understood that the collective ownership of agricultural land and industry created terrible economic incentives. Instead, Deng Xiaoping and his allies, who were no less self-interested than their rivals but who had different interests and political objectives, defeated their powerful opponents in the Communist Party and masterminded a political revolution of sorts, radically changing the leadership and direction of the party. Their economic reforms, which created market incentives in agriculture and then subsequently in industry, followed from this political revolution. It was politics that determined the switch from communism and toward market incentives in China, not better advice or a better understanding of how the economy worked.

WE WILL ARGUE that to understand world inequality we have to understand why some societies are organized in very inefficient and socially undesirable ways. Nations sometimes do manage to adopt efficient institutions and achieve prosperity, but alas, these are the rare cases. Most economists and policymakers have focused on "getting it right," while what is really needed is an explanation for why poor nations "get it wrong." Getting it wrong is mostly not about ignorance or culture. As we will show, poor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose. To understand this, you have to go beyond economics and expert advice on the best thing to do and, instead, study how decisions actually get made, who gets to make them, and why those people decide to do what they do. This is the study of politics and political processes. Traditionally economics has ignored politics, but understanding politics is crucial for explaining world inequality. As the economist Abba Lerner noted in the 1970s, “Economics has gained the title Queen of the Social Sciences by choosing solved political problems as its domain.”

We will argue that achieving prosperity depends on solving some basic political problems. It is precisely because economics has assumed that political problems are solved that it has not been able to come up with a convincing explanation for world inequality. Explaining world inequality still needs economics to understand how different types of policies and social arrangements affect economic incentives and behavior. But it also needs politics.