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Why nations fail: the origins of power, prosperity and poverty
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Action for Economic Reforms
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‘modern Weberian bureaucracy’, but a complex network of social relationships, where it is ‘extraordinarily difficult to disentangle’ a narrow political understanding of ‘deals made’ and ‘debts repaid’ from ‘relationships that are either “affective”... or “professional”’ (141). The dimensional complexities of high-level appointments with subtle competitiveness, formalised symbolic merits and programmatic policies, in which ‘patronage’ is a key, ‘help to explain the emergence of democracy or democratic-like patterns of behaviour’ in the Philippines (142–143).

The limitation of the book with its social constructivist approach of contextualisation is a surprising and probably unintended implication of the importance of ‘conserving’ and ‘glorifying’ the ‘tradition of patronage’, particularly if it might hinder the more programmatic utilitarian ‘greater good for a greater number’ initiatives. However, contextualisation using multidisciplinary perspectives is still central for developing a theoretical base for a ‘Philippine school’ of political thought as opposed to the ‘Westernised’ rationality for understanding the country’s political history and socio-political reality. Considering the author’s background in Development and Human Geography, the qualitative discursive approach of analysing the interviews used in the book is atypical compared to previous studies on the topic. In the past, ‘patronage’ was studied using more ‘institutional’ approaches underlying its ‘unacceptability’ for the modern democratic system. This book, which provides an alternative perspective, is recommended to individuals interested in Philippine politics and governance, as well as anyone interested in the notions of ‘patronage’ and issues associated with ‘high-level appointments’.

References

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Why Nations Fail is an accessible book. Its 463 pages are balanced by flowing storytelling and clear argumentation. The political scientist and economist combination of Daron Acemoglu and James Robinson (2013) avoids the denseness that usually characterizes grand treatises despite the richness of details presented in the book. In 15 chapters, they manage two things: one, to downplay previous theories of development, and two, to highlight what they claim to be the real determinant of poverty and prosperity of nations.

The book’s main thesis is that “while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that
determine what economic institutions a country has” (43). Institutions are the critical ingredients to growth, and trump previous claims of geography, culture and policy knowledge as determining a country’s development. Inclusive economic institutions ensure private property, a level playing field, public services and freedom of entry into economic activities. Inclusive political institutions are sufficiently centralized and pluralistic, ensure the rule of law, and distribute political power widely.

Acemoglu and Robinson deploy sweeping historical analysis to root out the institutional patterns that defined the contingent paths followed by different countries. Institutional differences among countries caused them to drift apart and eventually take on a position of either prosperity or poverty. Those that embraced the lessons of the Industrial Revolution – based on free and expanding markets – enjoyed prosperity, but not others that rejected its lessons. The creation of a broad and strong coalition of new actors (outside of the aristocracy and the feudal lords) gave rise to a pluralistic system and defeated absolutism in England. But in other continents that feared what Joseph Schumpeter called creative destruction, the spread of the lessons of the Industrial Revolution was stymied and backwardness endured. Colonialism is also seen as a culprit in Africa and Asia where it imposed or further strengthened extractive institutions, entrenched backward actors and dispossessed agents of change like farmers.

The book’s empirical cases highlight the types of institutions that sealed countries’ past. Inclusive institutions like democracy, anti-trust laws and courts that defended constitutions produced positive feedback; while extractive institutions like the encomienda system and land grabbing, slavery and the oligarchy set many countries back and produced negative feedback. The same patterns obtain in the present day. The successful institutional changes – e.g., the end of segregation in the United States in 1955, China’s rebirth after Mao Zedong, and Botswana’s breaking the mold post-independence – to create inclusive institutions either deepened growth or paved the way for it.

The message is straightforward: institutions are central to growth. There are three guidelines on how to check whether a society will grow or not: one, institutions are persistent and produce virtuous or vicious circles; two, political centralization is a key ingredient; and three, growth under extractive institutions is possible. Acemoglu and Robinson maintain that their theory has wide predictive value. They close with a caution against authoritarianism saying that growth under extractive political institutions will neither be sustainable nor necessarily lead to democracy in the long run. They play skeptic to the possibility of engineering prosperity through policy management ala the International Monetary Fund (IMF), and rebuke foreign aid and conditionalities as a failure. Only the creation of inclusive institutions will ensure that the basis for prosperity is laid. Acemoglu and Robinson stress the need for pluralism as a “cornerstone” that “requires political power to be widely held in society” which “requires a process of empowerment” (458). They end by saying that there is no recipe for building inclusive institutions, but acknowledge the role of the media and new communication technologies.

*Why Nations Fail* is an ambitious book. It is successful in that it is detailed, engaging and devoid of jargon. It also has a clear central message the defense of which was sufficiently built up.

The cautionary tale about extractive institutions resonates sharply among observers of Philippine society. It hews closely to popular notions of elite capture of both political and economic institutions that locks the country into widespread poverty and under-development. The country has been experiencing steadily improving growth performance for several years now. Yet, how can joblessness, inequity and poverty continue to persist and even intensify, if not for the extractive institutions which exist in the country? If the
lessons of history (Russia and the Congo) and the book’s prediction (China) are to be believed, the growth the country enjoys now will eventually unravel unless widespread institutional reforms are undertaken. The reforms necessarily have to be intensive, and not confined to addressing what the authors call micro-market failures through say, education reforms. Changing institutions is difficult and this difficulty is contingent on what societies choose at various junctures of history. But, following Acemoglu and Robinson, not only is this imperative, history tells us that it is also possible.

However, while the “inclusive institutions” argument is a popular one embraced in many quarters, the end goal – the purpose for which the institutions are built – merits deeper reflection. It is difficult to imagine that the basis for growth can only be the protection of private property, economic freedoms and the rule of law. Or that power, prosperity and poverty can be reduced to just economic growth. Some of the ingredients of inclusive institutions, e.g. distribution of power and empowerment, may in fact be the ends these very institutions should aspire to. Chan (2002) had earlier talked of a comprehensive “inclusionary institutionalism” that ties together different dimensions of economic and political freedoms. Even Acemoglu and Robinson’s criticism of the tendency for a “one size fits all” policy advice by the IMF fails in comparison to Reinert’s (2008) elaboration of the other canon, or an alternative take on economic dynamics and how economic prosperity is to be had. The reading of South Korea’s success, explained by the authors as hinged on Park Chun Hee’s stress on economic freedom (something Chan also agreed to in her book), is incomplete as it overlooks one aspect of the institutions the authors argued for. Acemoglu and Robinson basically said that South Korea was a success because economic actors were allowed to do what they wanted. But even the World Bank (1993) acknowledged that the South Korean state was directing the economy, that is, economic actors were only allowed to function as long as what they did went towards the direction set out by the state. This can be seen as an affirmation of the distinct East Asian model, where democratization flourished and emerged from the economic progress made possible under less politically open systems. Or, it can be read as a red flag, a caveat to the authors’ prediction of China’s growth’s eventual contradictions, with almost total disregard for a possible alternative future – that of democratization breaking out, instead of merely the inevitable unsustainability of growth.

Acemoglu and Robinson imply that the actual economic policy is not as important as the institutions within which they will be implemented. Yet, every example presented in the book is of the liberal kind, and the protestation about IMF imposition only replicates the debate about sequencing, timing and preconditions. This makes their thesis dangerous, as it tends to ascribe ultimate blame on institutional arrangements, political economy and polity, and falls completely silent on the underlying assumptions about the economic framework.

In sum, the quest for good institutions will always be good. Equally desirable, however, is an expansion of purpose beyond just the defense of a free market.

References

It is said that disasters, depending on the scale and magnitude, have the propensity for policy change. In the case of the Philippines, Typhoon Ondoy (international name Ketsana) served as the policy window or the tipping point for the paradigm shift from reactive to proactive disaster risk reduction in the Philippines. Said typhoon, which flooded the Philippines’ National Capital Region, facilitated the swift ratification of two landmark policies, namely: (1) Republic Act (R.A.) 9729 or the Climate Change Act; and (2) R.A. 10,121 otherwise known as the Philippine Disaster Risk Reduction and Management Law. R.A. 9729 is significant in that the Philippines is one of the few countries that ratified a national policy on climate change. Concurrently, R.A. 10,121 replaced the three-decades old Presidential Decree 1566 that created the National Disaster Coordinating Council signed by then President Ferdinand Marcos in 1978.

The book written by French scholar (but Filipino by heart) JC Gaillard examines important themes in understanding the very concept of disasters taking into consideration the experience of the Philippines, namely, the root cause of defenselessness of the country to natural hazards (vulnerability), but with emphasis on people and marginalized communities, although at high risk, having inherent strengths and resources (capacities), which in turn, enable them to cope and bounce back from the stresses and shocks brought about by disasters (resilience). Gaillard argues that in the Philippine context, the hazard paradigm or disasters as a consequence of natural or extreme events is the dominant perspective, which influences disaster risk reduction policies and programs. He further notes that it is predominantly viewed that people have very low understanding of the risk they are facing, which translate to poor behavior and response to disasters (31). As a result of this prevalent ethos, the primary approach in addressing the risk of the Philippines and the vulnerability of the Filipino people has been very technocratic, capitalizing on command-and-control mechanisms (33). Gaillard argues that this tradition is a product of the ‘neoliberal activity’ superimposed by developed countries (34) being recipients of Western expertise, resources, and technology in risk reduction (33).

The book is divided into three main sections organized into the themes of vulnerability, capacities, and resiliency. In the first section, Gaillard examines the root causes why many communities in the country are susceptible and high-risk to disasters. Using the cases of the 2004 Northern Luzon and the 1991 Mt. Pinatubo eruption disasters, he challenges the readers to veer away from the hazard paradigm, which puts the blame to natural events as the culprit for the vulnerability of the Filipinos. This paradigm, according to Gaillard, has been used as an alibi for the key stakeholders to escape from