



Why Nations Fail by Daron Acemoglu and James Robinson

Presented By

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During the 36th ICPAK Annual Seminar

Sequence of Presentation



- Introduction of the Book
- Analysis
- Relevance of Book to Kenya
- Conclusion

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Analysis of the Book



So Close and yet So Different

- Comparison of two sides of Nogales city
 - ❖ American side of Nogales
 - ❖ Mexican side of Nogales
- Reasons for Difference
 - ❖ Difference in political and economic institutions
 - ❖ Historical development of institutions

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Analysis of the Book



Theories that don't work

- The geography hypothesis
 - ❖ People in tropical areas tend to be lazy

The culture hypothesis

- ❖ Religion, beliefs, values and ethics determine the fate of the nation

The ignorance hypothesis

- ❖ Rulers do not know how to make poor countries rich

All three hypothesis are flawed

Analysis of the Book



Making of Prosperity and Poverty

- North Korea vs South Korea
- Inclusive Political Institutions
 - ❖ Centralised and pluralistic
- Extractive political institutions
 - ❖ Narrow, absolutist and unconstrained

Inclusive political institutions give birth to inclusive economic institutions

Extractive political institutions give birth to extractive economic institutions

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Small Differences and Critical Junctures

- History and critical junctures shape the path of political and economic theory
- Why some nations make the transition to inclusive economic and political institutions
- While other do not

Growth under Extractive Institutions

- ❖ Growth can take place under extractive institutions
- ❖ Sustainable growth needs technological changes
- ❖ Growth under extractive institutions will not be sustainable

Analysis of the Book



Drifting Apart

- Inclusive institutions can be reversed
- Example of Venice
 - Political and Economic Institutions can be overthrown
 - Prosperity is reversed
 - Today it is rich because people want to spend their money, admiring past glory

The Turning Point

- ❖ Fear of creative destruction is a hindrance in development
- ❖ New technology renders old practices obsolete
- ❖ Resistance is shown by the victims of creative destruction
 - Industrial revolution in England

Analysis of the Book



Barriers to Development

- Opposition to new technology is a barrier to development
- Example
 - Ottomans opposed the printing press
 - Absolutist regimes blocked the spread of industry
 - Consequeneces they lagged behind

Reversing Development

- ❖ European colonialism impoverished large parts of the world
 - Colonies did not benefit from industrialization
 - Rather strengthened already extractive institutions

Analysis of the Book



The Virtuous Cycle

- Dictatorship is not welcomed in inclusive political institutions
- Inclusive political institutions support and are supported by inclusive economic institutions
 - Removes extractive economic relations
 - Slavery and selfdom
 - Reduces importance of monopolies
 - Create a dynamic economy
- Reduce the economic benefits that one can secure by using political power
- Allow a free media flourish

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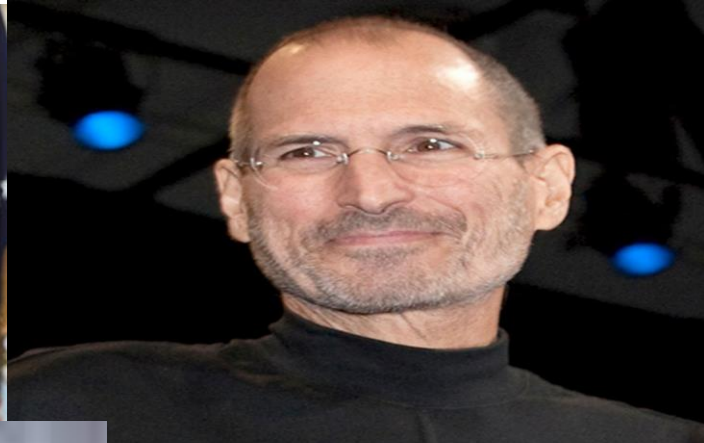
Analysis of the Book



The Vicious Cycle

- Extractive political institutions lead to extractive economic institutions
 - Enrich a few at the expense of many
 - Create the platform for extractive political institutions
 - Provide for no checks against abuses of power
 - Creation of unconstrained power and great income
 - Inequality increases the potential stakes of the political game

LEADERSHIP



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Why Nations Fail

- Institutions, Institutions, Institutions
- Extractive economic institutions do not create incentives
- Extractive political institutions support extractive economic institutions
- Extractive economic and political institutions are root of failure

Analysis of the Book



- **Extractive economic institutions** –Lack of law and order. Insecure property rights, entry barriers and regulations preventing functions of markets creating a non level playing field.
- **Extractive political institutions**- in the limiting of political institutions, concentrating power in the hands of a few without constraints, checks and balances or “rule of law”
- **Inclusive economic institutions-Secure** property rights, law and order, market and state support (public services and regulation) for markets, open to relatively free entry of new business, uphold contracts, access to education and opportunity for the great majority of citizens
- **Inclusive political institutions-Political** institutions allowing broad participation-pluralism-placing constraints and checks to politicians, rule of law
 - But some degree of political centralization of the state to be able to effectively enforce law and order

Relevance to Kenya



- Extractive political institutions
- Monopoly of civil and economic elite in politics
- Elections strengthen position of narrow elite
- Feudal lords use political institutions for their own benefit
- Foreign aid induced development benefit the rich
 - Causes dependance on other countries

Relevance to Kenya



Finish this sentence.

Kenya is.....

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Leadership



Thank You

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