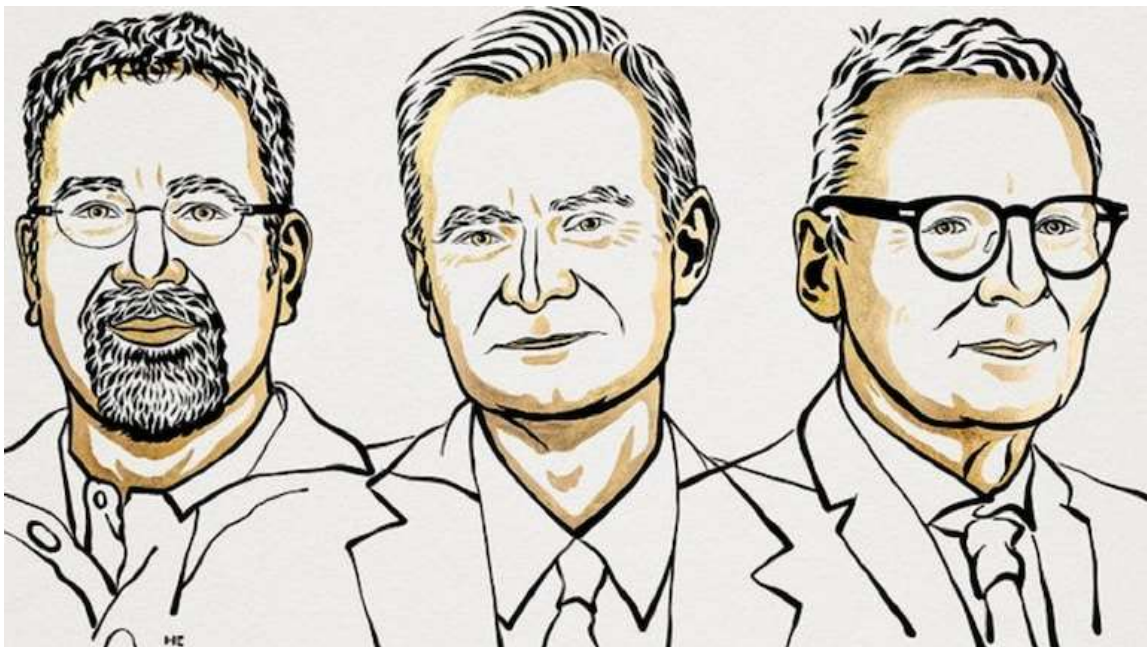


# Economics Nobel winners sought to answer the question why some nations lag others

*The novelty in their work is the way they put 500 years of statistical evidence to show that the quality of institutions determines success. Democracies have a better chance of getting rich. China, however, remains an enigma which doesn't fit this explanation*



(left to right) Daron Acemoglu, Simon Johnson and James A. Robinson, the winners of 2024 Nobel prize in Economics, have provided a broad empirical relationship between political systems and economic growth

The Nobel Prize in Economic Sciences for 2024 to Daron Acemoglu, Simon Johnson and James Robinson is for their ground-breaking research in explaining the differences in prosperity between nations, and for their substantial research of over 500 years of statistical analysis into how institutions affect prosperity and inequality.

The Nobel laureates have pioneered theoretical and empirical approaches that have helped to better explain “why nations fail?” in terms of widening inequalities and wealth disparities between nations, primarily due to the failure of institutions. They have made enormous contributions to understanding the role of institutions in global prosperity inequality. Their work is crucial for future

macroeconomic policies amidst geopolitical uncertainties and poly-crisis that grips the world now.

Integrating the “rule of law” analysis, they have worked on the impact of institutions on nations’ prosperity.

### **Institutions trump culture and geography**

In a 2002 article titled “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution” published in Quarterly Journal of Economics, they revealed through empirical evidence that institutions dominate culture and geography in determining the differences in income across countries.

In another article published in the American Economic Review , in the 2001, they showed with empirical evidence that “countries with better institutions, more secure property rights, and less distortionary policies will invest more in physical and human capital, and will use these factors more efficiently to achieve a greater level of income” and showed how mortality among European settlers in the colonies influenced the formation of institutions and the future development of these territories.

Their book “Why Nations Fail?” focuses on the determinants on how some countries have attained high levels of prosperity, while others have consistently failed. Countries that belong to the former category have done it through for “scientific and technological progress”, and through “pluralistic political institutions” that allow wide sections of society to participate in governing the country. On the contrary, “extractive institutions”, which benefit a “small elite”, hinder economic growth.

### **Does their work explain everything?**

The former Chief Economic Advisor of India, Arvind Subramanian, however is of the opinion that their work fails to explain the recent economic development in China and India, in the sense why an authoritarian regime of China has achieved rapid economic growth, while India the largest democracy has lagged behind in economic growth. However, the works of trio has provided a broad empirical relationship between political systems and economic growth.

Their Nobel winning research helps us to understand the “big why” about why nations fail. They emphasised the fact that economies with poor rule of law and institutions that exploit the population do not prosper. Their Nobel winning research, analysing last 500 years, provided empirical evidence that institutions that provide individual rights, especially democracies, are bound to prosper.

Their research highlighted that authoritarian governments though effective at exploiting existing resources, such as raw materials or workers in the short run, “fail to innovate”, which is a strength of democracies. “This sort of authoritarian growth is unstable and doesn’t lead to innovation,” Acemoglu said. Democracies are better at delivering prosperity over the long term, he added.

### **AI’s impact will depend on choices societies make**

Daron Acemoglu and Simon Johnson recently collaborated on a book titled “Power and Progress: Our Thousand-Year Struggle over Technology and Prosperity” (released on May 2023) analysing the transformation of work by digital technology and AI. They said in affirmative that cutting edge technological advances and Artificial Intelligence (AI) were better at creating jobs and enhancing the well-being of the people. However, they cautioned that depending on the economic, social, and political choices we make, it could better or worsen the people’s life.

Acemoglu pointed out recently in his interview that we do not have all the answers to solve this widening global inequalities. However, asking the questions is the right first step. These are “urgent existential questions towards the future of inequality, work and democracy”, Daron said. He added that AI can do only 5 percent of human jobs, and he emphasised that “I’m not an AI pessimist,” in his Bloomberg interview. “A lot of money is going to get wasted,” says Daron Acemoglu. “You’re not going to get an economic revolution out of that 5 percent, and the future of AI depends on the choices we make as individuals, regulators and society”, he added.

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