

DATE: \_\_\_/\_\_\_/\_\_\_

## Why Nations fail ?

### Outline :

#### I Introduction :

#### II Historical Context :

Nations failed / declined due to institutional weakness, political instability and economic inequality.

Case in point : Collapse of Soviet Union.

#### III Role of Institutions in deciding the fate of a Nation :

A Inclusive institutions Vs Extractive institutions

B Case in point : North Korea Vs South Korea.

C Importance of Inclusive institutions

D Impact of Extractive institutions

#### IV Role of Rule of Law :

A Importance of strong and independent judiciary. e.g Singapore's robust legal system.

B Impact of corruption in undermining the rule of law. e.g Nigeria

#### V Political Instability and Governance

A Impact of political instability and conflict

B Importance of Democratic governance

C Role of effective governance.

#### VI Economic Inequality

A Importance of Economic Growth.

B Role of education and health care in reducing inequality.

DATE: \_\_\_/\_\_\_/\_\_\_

## VII Role of Geography and Natural Resources

A Role of geography in shaping economic development.

B Resource curse ; Lack of resources.

## VIII International Factors

A Role of trade and investment

B Role of International aid in development and sustainability

C Role of International organizations/ institutions.

## XI Role of Culture and Society

A Cultural Norms and values

B Education and religion in shaping values.

## X Conclusion

The annals of history are filled with instances of nations that have risen and fallen throughout the history. The question of "Why some Nations fail while others prosper" have baffled scholars for ages.

Daron Acemoglu very rightly answered this question in his book "Why Nations fail?". He writes and I quote,

"Nations fail because of bad policies, not bad luck."

His book challenges the conventional wisdom about the factors that determine a nation's prosperity, thus asserting that it is actually the quality of institutions that decides a Nation's path may it be towards success or failure. While there may be a lot of reasons for a nation's failure - it all adds up to one point and that is role of institutions.

Nations fail when their institutions are weak, their political system is not stable, their economic system is inequitable and they lack resources and it all leads off to the vicious circles of poverty, violence, social unrest and underdevelopment.

The collapse of Soviet Union in 1991 serves as a strong reminder of the consequences of institutional failure. The Soviet Union, a once mighty superpower, fell a victim to political ~~stagnation~~

repression, economic stagnation and social unrest. One of the main reasons of its collapse was its over reliance on centrally planned economy which was unresponsive to consumer needs. Furthermore the Soviet Union's political system was characterized by authoritarianism and lack of political pluralism. The Soviet Union's failure also highlights the importance of institutions in fostering economic growth and social development. The country's extractive institutions, concentrated power and wealth in the hands of elite thus stifling innovation and hindered overall progress. This case study underscores the importance of strong institutions, political freedom and economic opportunity for long-term success of nation.

The main argument presented in the book "Why nations fail?" is that political institutions shape economic institutions, and that these institutions can either be 'inclusive' or 'extractive'. Nations fail when the institutions are extractive rather than inclusive. Extractive institutes are institutions which are set up to provide benefit to a select elite group. This is in contrast to inclusive institutions which provide

benefit to all or most of the population. Nations fail when they do not have inclusive economic and political institutions. Countries operating under extractive policies, their political system is dominated by a narrow elite, whose members use their political power to shelter a favoured set of firms thus generating economic rents that benefit themselves only. A specific example is the difference between North and South Korea. By virtue of their different institutions such as rule of law, and private property rights, South Korea is much more successful than North Korea, whose leaders have set up extractive institutions that enrich themselves at the expense of the population.

The foundation of a prosperous nation rest upon the rule of law and secure property rights. A cornerstone of rule of law is an independent judiciary. This means a system of courts free from political or economic influence where judges can interpret law without being partial. A strong judicial system plays a vital role in protecting property rights. For instance, Singapore's legal system

DATE: \_\_\_/\_\_\_/\_\_\_

continued to be recognised internationally in 2022 as among the best in the world. This has made Singapore a major financial and trade hub.

Another factor that leads to the failure of Nations is corruption, which is the abuse of public office for private gain. ~~An example~~, Nigeria is a cautionary example. Despite its vast oil reserves, rampant corruption has hindered its economic development.

The political systems play a crucial role in shaping a nation's development trajectory. Strong governance, often intertwined with democratic principles, fosters economic growth and weak governance can lead to a nation's downfall. Democratic governance with its emphasis on fair elections promotes a system of accountability as elected officials are answerable to the public. For instance, India the world's largest democracy serves as a prime example. Despite its challenges, India's democratic system has fostered a vibrant society and a growing middle class. Weak democratic system ~~causes~~ causes political instability which is characterized by changes in government and creates an environment of uncertainty. Businesses

DATE: \_/ \_/ \_

are hesitant to invest and skilled workers may migrate due to lack of growth.

For instance, in Afghanistan years of war and political instability have hindered the country's overall growth and discouraged the much needed financial foreign investment.

Economic inequality and social injustice are deeply intertwined issues that have far-reaching consequences for a nation. When wealth and opportunity are concentrated in few hands, it can lead to the failure of nations.

Inclusive economic growth is essential for reducing inequality and promoting social justice. Education and Healthcare are crucial for reducing inequality and promoting social mobility.

For instance, The United States, despite being one of the wealthiest nations in the world has experienced increasing levels of income inequality in recent decades. This inequality has led to variety of problems including political polarization, declining social mobility and increased crime rates. To address these challenges, the US need to invest in education, healthcare and social safety nets as well as implement policies that promote

economic growth.

Geography can also play a role in nation's development. Factors such as climate and topography etc can influence country's economic opportunities and challenges. A favorable climate can support agriculture and other economic activities. Mountainous terrain can limit transport and communication. Another factor can be the "resource curse". This phenomenon occurs when countries with abundant natural resources such as oil, gas or minerals experience slow growth. For instance Nigeria, a nation rich in oil reserves and abundant natural resources but the country has struggled with poverty, inequality and political instability.

International trade and investment can be powerful drivers of growth and development. By participating in global economy, nations can access new markets, attract foreign investments etc.

China's economic rise in recent decades is largely attributed to its integration into global economy. By adopting market-oriented reforms and opening up to foreign trade and



DATE: \_\_\_/\_\_\_/\_\_\_

investment, China has experienced rapid growth and poverty reduction.

International aid and development assistance can play a crucial role in supporting the economic and social development of nations. The Marshall Plan implemented after WWII provided significant financial aid to European countries. This aid helped to rebuild the European economies and prevented long-term failure. International institutes and organizations like IMF and world bank can also play a supporting role in the rise of nations.

Cultural Norms and values also play a significant role in shaping economic behaviour, social attitude and a Nation's development trajectory. For instance, East Asian countries like South Korea and Japan have strong work ethics, focus on education and culture of innovation. These cultural factors have contributed to rapid growth and development. On the other hand, countries with weak cultural norms such as those in Sub-Saharan Africa may struggle with corruptions, nepotism and lack of trust thus hindering their development.

Education is a powerful tool for promoting economic growth. By investing in education, countries can develop a skilled workforce, foster innovation and improve healthcare. A well educated force can contribute to nation's competitiveness and productivity. Countries with strong education systems, such as Singapore and Finland have been able to achieve high levels of economic growth and development.

The question of why Nations fail? is a complex one, with no single and definitive answer. The reasons behind a nation's failure are multifaceted and often intertwined. While geographic, ~~weather and factors~~ cultural and historical factors play a role; the quality of institutions is paramount. Nations with strong, inclusive institutes that promote economic opportunity, political participation and social justice tend to thrive. Consequently those with weak, extractive institutes often struggle with poverty, inequality and political instability.

To build a prosperous nation, it is crucial to foster a culture of accountability, transparency and the rule of law. By investing in education, healthcare, infrastructure nations can create the foundation for

DATE: \_\_\_/\_\_\_/\_\_\_

sustainable economic growth. Moreover, effective governance, political stability and social cohesion are essential for long-term development. From the countless examples of Nations that have risen and fallen throughout history, the choices made by leaders and citizens can have a profound impact on nation's destiny. As ~~Mark Twain~~ Gordon Minkley very rightly said,

"Every good citizen adds to the strength of a nation."