

## World Knowledge Forum 2012

### Daron Acemoglu: Why These Countries Will Succeed Wednesday, October 10, 2012

On the second day of the 13<sup>th</sup> World Knowledge Forum, Dr. Daron Acemoglu, the Charles P. Kindleberger Professor of Applied Economics at Massachusetts Institute of Technology and coauthor of the recent book *Why Nations Fail*, discussed various perspectives on economic growth. His speech, entitled "Why These Countries Will Succeed," highlighted several countries that he feels will be successful economically in the coming decades.

Prof. Acemoglu highlighted several key points throughout his speech. He stated that his book, which is shaping up to be one of the most important economic works of 2012, was motivated by a simple but important question: "What explains the enormous differences in income per capita that exist around the world today?"

Prof. Acemoglu acknowledged three theories that the popular media uses to explain economic disparities and suggested that many of those popular theories are "actually insufficient, or in some cases inadequate, for explaining the task at hand."

The three theories that he feels are overemphasized are geographic location, cultural differences, and enlightened leadership. "All of these theories, though important, really miss the most fundamental determinant of long-run economic success or failure," Prof. Acemoglu said.

Prof. Acemoglu believes that economic growth hinges largely on institutions, noting that "these institutions are central because they determine political and social incentives." He elaborated by describing two distinct types of institutions: inclusive and extractive institutions.

Inclusive institutions secure property rights and maintain a judicial environment where law and order is enforced. Most importantly, inclusive institutions contain a "level playing field" for all citizens where innovation can cause "creative destruction."

On the other hand, extractive institutions, which Prof. Acemoglu believes much of today's society is composed of, are the opposite in the sense that labor is coerced, people cannot freely choose occupations, and judicial systems are biased. "This is not a mistake; it is designed by the elite of society to look after their own interests," he suggested.

"Making predictions of future dynamics is a perilous affair; you're bound to get it wrong," Dr. Acemoglu admitted before revealing his own predictions to the audience.

Drawing from his definitions of economic growth, Prof. Acemoglu listed elite-dominated societies that he feels will grow in the coming decades. These countries include Burma, Cuba, Ethiopia, Uganda, Rwanda, and North Korea. "The logic here is clear," he said, before pointing to the politically centralized control of the economies that will lead to extractive growth.

By contrast, the professor shared his belief that China and Russia will stop growing. Although many people predict their continued economic success, Prof. Acemoglu suggested that "when it comes time to switch from this catch-up based growth to innovation-based growth, their [extractive institutions] will fail miserably."

Prof. Acemoglu also briefly touched on the fate of the current world economic leader. He claimed that the United States is currently in the middle of a "perfect institutional storm" caused by economic inequality, the increasing importance of money in politics, growing barriers to innovation, and a political system that has become less open to dissent.

Nevertheless, he feels that U.S. society has the ability to withstand its current challenges as a result of its still-flexible economic and political institutions. Moreover, given the nation's long history of change and adaptation, Prof. Acemoglu believes that the United States "will continue to be the technological leader of the world for several more decades."

Prof. Acemoglu finished by listing several inclusive institutions that he believes will see success in the upcoming decades as well. He suggested that Bolivia, Brazil, Poland, Mexico, Tunisia, Turkey, and South Africa are less obvious cases that have what it takes to make the transition to sustainable, innovation-based growth.

"These countries are not economic powerhouses right now," Prof. Acemoglu noted. "They haven't achieved anything approaching the Vietnamese or Chinese growth rates, but what they have achieved or are in the process of achieving is fairly major political and social transformation that starts laying the groundwork for a more inclusive set of economic and political institutions."