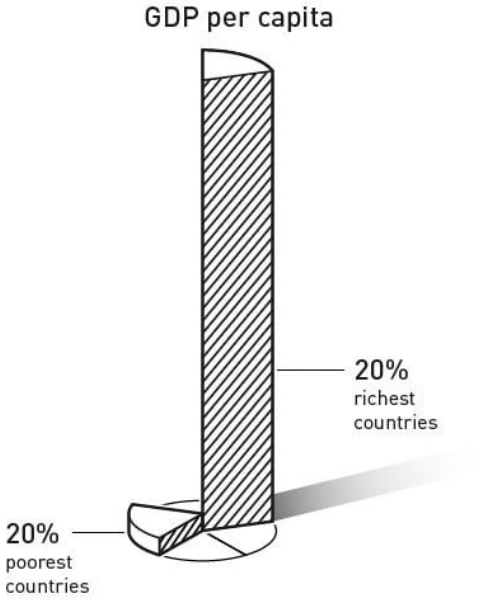
2024 Economics Nobel prize

Why in News?

The 2024 Economics Nobel prize was awarded to U.S. economists Daron Acemoglu, Simon Johnson and James A. Robinson “for studies of how institutions are formed and affect prosperity.”

Why some countries are rich while others are poor?

- **Global Economic Disparity** - The richest 20% of countries in the world today are 30 times richer in terms of average income than the poorest 20%.

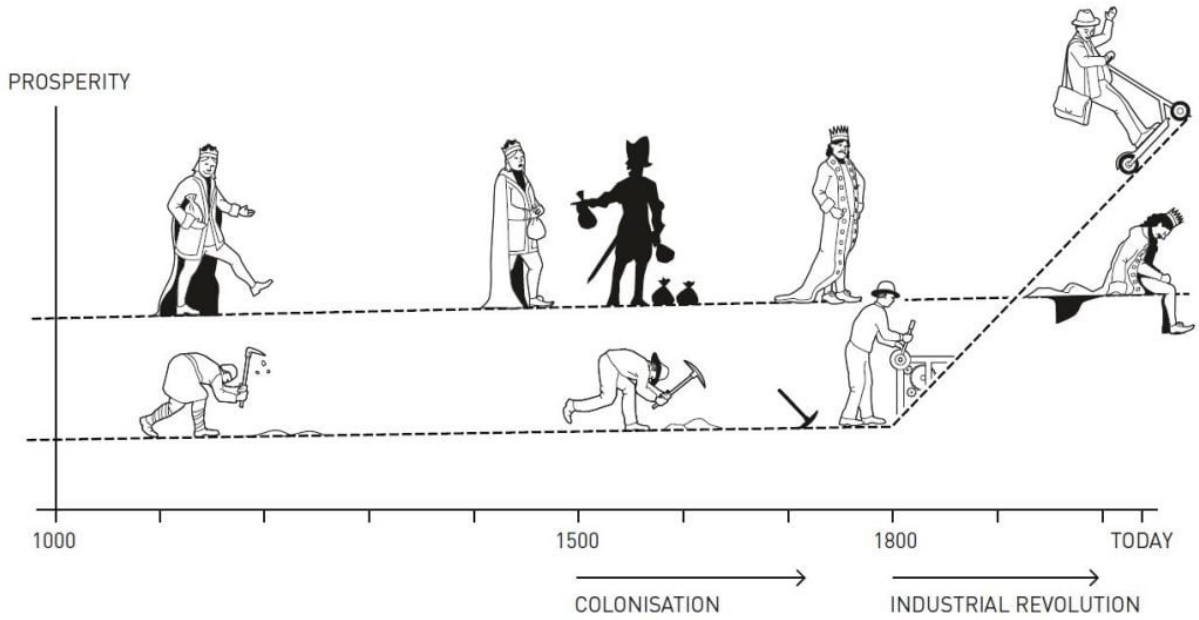


- **Great Divergence** - Industrial revolution led to the vast difference in living standards between the East and the West.
- **Causes of Economic Disparities**
  - Western colonialism
  - Disparities in natural resource endowment
  - Climate / Geography
  - Intelligence
  - Historical accidents
  - Institutional Difference - Differences in the quality of economic and political institutions
  - Rule of Law
- **Institutional Difference** - Differences in the quality of economic and political institutions.
- Societies with a poor rule of law and institutions that capitalise on its population with an exploitative intent neither generate growth nor change for the better.

The book "Why Nations Fail: The Origins of Power, Prosperity, and Poverty" written by Daron Acemoglu and James A. Robinson.

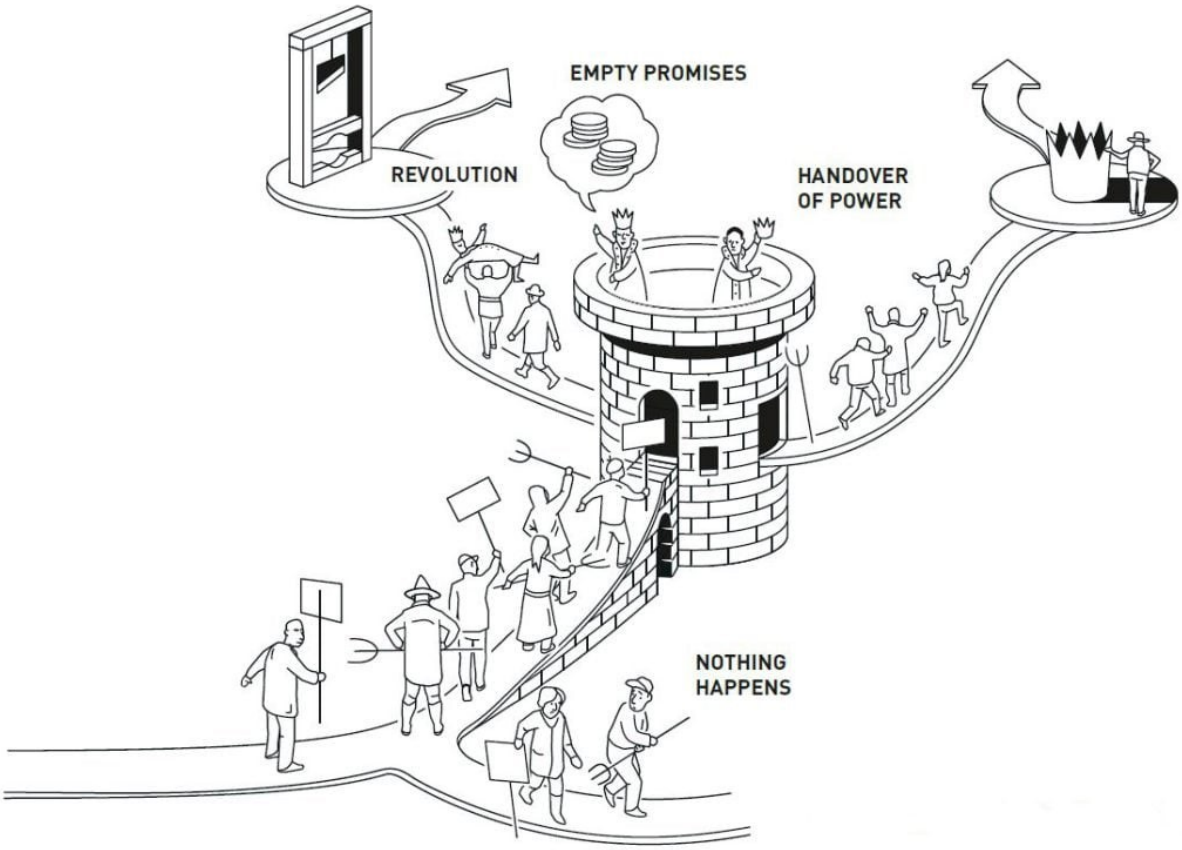
What are Inclusive and Extractive institutions?

Characteristics	Inclusive Institutions	Extractive Institutions
They are the Economic and Political institutions of a country.		
Property Rights	They secure private property rights and democracy.	They insecure private property rights.
	They prevent the State from seizing the property of honest citizens.	They legalize expropriation of properties from citizens.
Citizens	They incentivize citizens to work hard without the fear of expropriation.	They affect individual incentives negatively.
	They encourage citizens to grow and develop.	They capitalise on its population with an exploitative intent.
Economic Growth	They lead to general economic prosperity.	They cause economic stagnation.
	They promote long-run economic growth and higher living standards.	They cause economic degradation and poverty.
Political Freedom	Enables political freedom.	Lack of political freedom
Rule of law	Better	Poor
Benefits	Long-term benefits for everyone.	Short-term gains for the people in power.
Colonial History	When Europeans colonised large parts of the globe, the institutions in those societies changed.	
	These are set up by colonists to settle for the long-run.	These are setup by colonists when they did not want to settle in a certain country.
	They were introduced in countries that were poor and sparsely populated when they were colonised.	They were introduced in countries that were rich and densely populated when they were colonised.
	Example: USA Here British set up inclusive institutions that promoted long-term economic prosperity and encouraged investment.	Example : India Here British set up institutions to plunder the maximum resources within a short span of time.
Incidence of disease	The places where diseases were most dangerous for Europeans now have dysfunctional economic systems and the most poverty, as well as the greatest corruption and weakest rule of law.	



How Democracy evolves out of extractive institutions?

- **Personal Gain** - When the rulers of a country are able to safely extract sufficient resources for their personal gains , extractive institutions are created.
- **Lack of Compulsion** - They have little reason to bring in political and economic reforms (or inclusive institutions) that can benefit the wider population over the long run.
- **Commitment Problem** - The ruling elites do not believe the population will compensate them for the loss of economic benefits with the new system.
- In such cases, extractive institutions may prevail for a really long time as long as the masses do not revolt against the status quo.
- **Conflict** - Difference over how resources are allocated and who holds decision-making power in a society (the elite or the masses) arises.
- **Revolt** – When people uprise against extractive institutions, some rulers may decide to yield to popular demand and set up inclusive institutions to aid economic growth.
- **Democracy** – At the end of revolution, power is transferred to people, resulting in democracy.



References

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