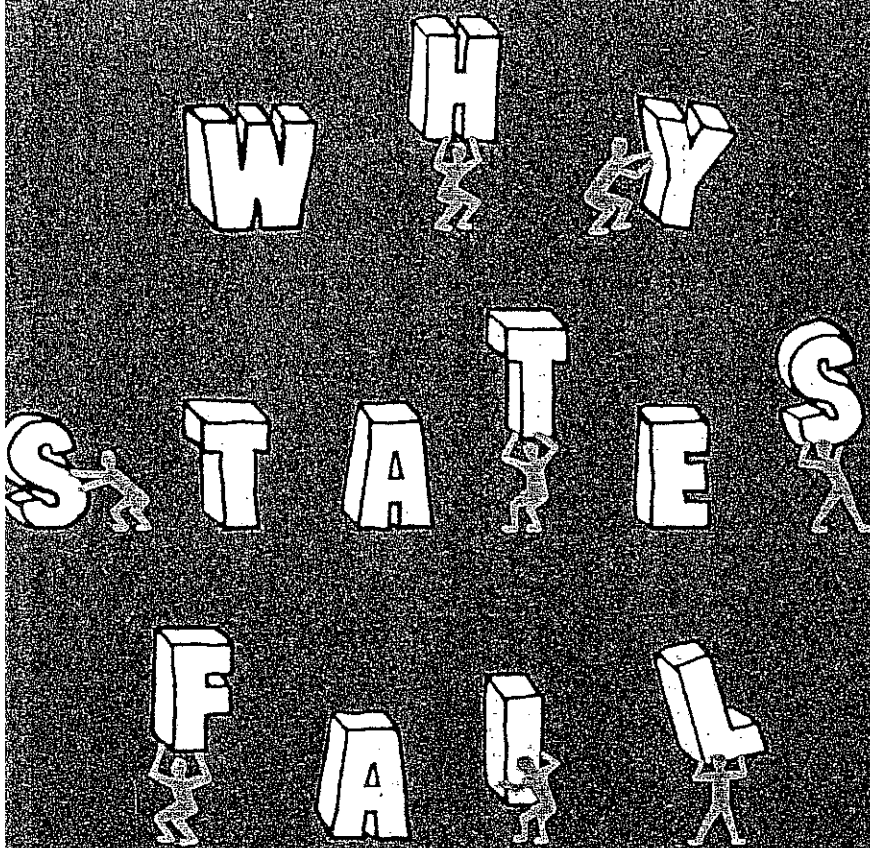




10 Reasons Countries Fall Apart

By Daron Acemoglu and James A. Robinson

SOME COUNTRIES FAIL SPECTACULARLY, with a total collapse of all state institutions, as in Afghanistan after the Soviet withdrawal and the hanging of President Mohāmmad Najibullah from a lamppost, or during the decade-long civil war in Sierra Leone, where the government ceased to exist altogether.

Most countries that fall apart, however, do so not with a bang but with a whimper. They fail not in an explosion of war and violence but by being utterly unable to take advantage of their society's huge potential for growth, condemning their citizens to a lifetime of poverty. This type of slow, grinding failure leaves many countries in sub-Saharan Africa, Asia, and Latin America with living standards far, far below those in the West.

What's tragic is that this failure is by design. These states collapse because they are ruled by what we call "extractive" economic institutions, which destroy incentives, discourage innovation, and sap the talent of their citizens by creating a tilted playing field and robbing them of opportunities. These institutions are not in place by mistake but on purpose. They're there for the benefit of elites who gain much from the extraction—whether in the form of valuable minerals, forced labor, or protected monopolies—at the expense of society. Of course, such elites benefit from rigged political institutions too, wielding their power to tilt the system for their benefit.

But states built on exploitation inevitably fail, taking an entire corrupt system down with them and often leading to immense suffering. Each year the Failed States Index charts the tragic stats of state failure. Here's our guide to 10 ways it happens.

LACK OF PROPERTY RIGHTS NORTH KOREA

1 North Korea's economic institutions make it almost impossible for people to own property; the state owns everything, including nearly all land and capital. Agriculture is organized via collective farms. People work for the ruling Korean Workers' Party, not themselves, which destroys their incentive to succeed.

North Korea could be much wealthier. In 1998, a U.N. mission found that many of the country's tractors, trucks, and other farm machinery were simply unused or not maintained. Beginning in the 1980s, farmers were allowed to have their own small plots of land and sell what they grew. But even this hasn't created much incentive, given the country's endemic lack of property rights. In 2009, the government introduced a revalued currency and allowed people to convert only 100,000 to 150,000 won of the old currency into the new one (equivalent to about \$35 to \$40 at the black-market exchange rate). People who had worked and saved up stocks of the old currency found it to be worthless.

Not only has North Korea failed to grow economically—while South Korea has grown rapidly—but its people have literally failed to flourish. Trapped in this debilitating cycle, North Koreans are not only much poorer than South Koreans but also as much as 3 inches shorter on average than the neighbors from whom they have been cut off for the last six decades.

FORCED LABOR UZBEKISTAN

2 Coercion is a surefire way to fail. Yet, until recently, at least in the scope of human history, most economies were based on the coercion of workers—think slavery, serfdom, and other forms of forced labor. In fact, the list of strategies for getting people to do what they don't want to do is as long as the list of societies that relied on them. Forced labor is also responsible for the lack of innovation and technological progress in most of these societies, ranging from ancient Rome to the U.S. South.

Modern Uzbekistan is a perfect example of what that tragic past looked like. Cotton is among Uzbekistan's biggest exports. In September, as the cotton bolls ripen, the schools empty of children, who are forced to pick the crop. Instead of educators, teachers become labor recruiters. Children

are given daily quotas from between 20 to 60 kilograms, depending on their age. The main beneficiaries of this system are President Islam Karimov and his cronies, who control the production and sale of the cotton. The losers are not only the 2.7 million children coerced to work under harsh conditions in the cotton fields instead of going to school, but also Uzbek society at large, which has failed to break out of poverty. Its per capita income today is not far from its low level when the Soviet Union collapsed—except for the income of Karimov's family, which, with its dominance of domestic oil and gas exploration and the lucrative production of tea, is doing quite well.

A TILTED PLAYING FIELD SOUTH AFRICA

3 In 1904 in South Africa, the mining industry created a caste system for jobs. From then on, only Europeans could be blacksmiths, brickmakers, boilermakers—basically any skilled job or profession. This "color bar," as South Africans called it, was extended to the entire economy in 1926 and lasted until the 1980s, robbing black South Africans of any opportunity to use their skills and talents. They were condemned to work as unskilled laborers in the mines and in agriculture—and at very low wages, too, making it extremely profitable for the elite who owned the mines and farms. Unsurprisingly, South Africa under apartheid failed to improve the living standards of 80 percent of its population for almost a century. For 15 years before the collapse of apartheid, the South African economy contracted. Since 1994 and the advent of a democratic state, it has grown consistently.



THE BIG MEN GET GREEDY EGYPT

4 When elites control an economy, they often use their power to create monopolies and block the entry of new people and firms. This was exactly how Egypt worked for three decades under Hosni Mubarak. The government and military owned vast swaths of the economy—by some estimates, as much as 40 percent. Even when they did "liberalize," they privatized large parts of the economy right into the hands of Mubarak's friends and those of his son Gamal. Big businessmen close to the regime, such as Ahmed Ezz (iron and steel), the Sawiris family (multimedia, beverages, and telecommunications), and Mohamed Nasseir (beverages and telecommunications) received not only protection from the state but also government contracts and large bank loans without needing to put up collateral.

Together, these big businessmen were known as the "whales." Their stranglehold on the economy created fabulous profits for regime insiders, but blocked opportunities for the vast mass of Egyptians to move out of poverty. Meanwhile, the Mubarak family accumulated a vast fortune estimated as high as \$70 billion.

ELITES BLOCK NEW TECHNOLOGIES AUSTRIA AND RUSSIA

5 New technologies are extremely disruptive. They sweep aside old business models and make existing skills and organizations obsolete. They redistribute not just income and wealth but also political power. This gives elites a big incentive to try to stop the march of progress. Good for them, but not for society.

Consider what happened in the 19th century, as railways were spreading across Britain and the United States, and rulers in parts of Eastern Europe actively blocked them because they feared the potentially destabilizing effects. When a proposal to build a railway was put before Francis I, emperor of Austria, he was still haunted by the specter of the 1789 French Revolution and replied, "No, no, I will have nothing to do with it, lest the revolution might come into the country." The same thing happened in Russia until the 1860s. With new technologies blocked, the tsarist regime was safe, at least for a while. As Britain and the United States grew rapidly, however,

Austria and Russia failed to do so. The track tells the tale: In the 1840s, tiny Britain was undergoing a railway mania in which more than 6,000 miles of track were built, while only one railway ran in vast continental Russia. Even this line was not built for the benefit of the Russian people; it ran 17 miles from St. Petersburg to the tsar's imperial residences at Tsarskoe Selo and Pavlovsk.

NO LAW AND ORDER SOMALIA



6 One must-have for successful economies is an effective centralized state. Without this, there is no hope of providing order, an effective system of laws, mechanisms for resolving disputes, or basic public goods.

Yet large parts of the world today are still dominated by stateless societies. Although countries like Somalia or the new country of South Sudan do have internationally recognized governments, they exercise little power outside their capitals, and maybe not even there. Both countries have been built atop societies that historically never created a centralized state but were divided into clans where decisions were made by consensus among adult males. No clan was ever able to dominate or create a set of nationally respected laws or rules. There were no political positions, no administrators, no taxes, no government expenditures, no police, no lawyers—in other words, no government.

This situation persisted during the colonial period in Somalia, when the British were unable even to collect poll taxes, the usual fiscal basis for their African colonies. Since independence in 1960, attempts have been made to create an effective central state, for example, during the dictatorship of Mohamed Siad Barre, but after more than five decades it's fair and even obvious to say they have failed. Call it Somalia's law: Without a central state, there can be no law and order; without law and order, there can be no real economy; and without a real economy, a country is doomed to fail.

MARGARET BOURKE-WHITE/TIME-LIFE PICTURES/GETTY IMAGES; BADRI MEDIA VIA EPA

A WEAK CENTRAL GOVERNMENT COLOMBIA

7 Colombia isn't Somalia. All the same, its central government is unable or unwilling to exert control over probably half the country, which is dominated by left-wing guerrillas, most famously the FARC, and, increasingly, right-wing paramilitaries. The drug lords may be on the run, but the state's absence from much of the country leads not only to lack of public services such as roads and health care, but also to lack of well-defined, institutionalized property rights.

Thousands of rural Colombians have only informal titles or titles lacking any legal validity. Although this does not stop people from buying and selling land, it undermines their incentives to invest—and the uncertainty often leads to violence. During the 1990s and early 2000s, for example, an estimated 5 million hectares of land were expropriated in Colombia, typically at gunpoint, according to the country's National Commission on Reparation and Reconciliation. The situation got so bad that in 1997, the central government allowed local authorities to ban land transactions in rural areas. The result? Many parts of Colombia essentially fail to take part in modern economic activities, instead languishing in poverty, not to mention proving to be fertile havens for armed insurgents and paramilitary forces of both the left and right.

BAD PUBLIC SERVICES PERU

8 Calca and nearby Acomayo are two Peruvian provinces. Both are high in the mountains, and both are inhabited by the Quechua-speaking descendants of the Incas. Both grow the same crops, yet Acomayo is much poorer, with its inhabitants consuming about one-third less than those in Calca. The people know this. In Acomayo, they ask intrepid foreigners, "Don't you know that the people here are poorer than the people over there in Calca? Why would you ever want to come here?"

Indeed, it is much harder to get to Acomayo from the regional capital of Cusco, the ancient center of the Inca Empire, than it is to get to Calca. The road to Calca is paved, while the one to Acomayo is in

terrible disrepair. To get beyond Acomayo you need a horse or a mule—not due to any differences in topography, but because there are no paved roads. In Calca, they sell their corn and beans on the market for money, while in Acomayo they grow the same crops for their own subsistence. Acomayo's people are one-third poorer than Calca's as a result. Infrastructure matters.

POLITICAL EXPLOITATION BOLIVIA

9 Bolivia has a long history of extractive institutions dating back to Spanish times—a history that has brewed resentment over the years. In 1952, Bolivians rose up en masse against the traditional elite of land and mine



owners. The leaders of this revolution were mostly urbanites excluded from power and patronage under the previous regime. Once they seized power, the revolutionaries expropriated most of the land and the mines and created a political party, the Revolutionary

Nationalist Movement (MNR). Inequality fell sharply at first as a result of these land seizures, as well as the MNR's educational reforms. But the MNR set up a one-party state and gradually rescinded the political rights it had extended in 1952. By the late 1960s, inequality was actually *higher* than it had been before the revolution.

For the great mass of rural Bolivians, one elite had simply replaced another in what German sociologist Robert Michels called the "iron law of oligarchy." Rural people still had insecure property rights and still had to sell their votes for access to land, credit, or work. The main difference was that instead of providing these services to the traditional landowners, they now provided them to the MNR.

FIGHTING OVER THE SPOILS SIERRA LEONE

10 Intense extraction breeds instability and failure because, consistent with the iron law of oligarchy, it creates incentives for others to depose the existing elites and take over.

This is exactly what happened in Sierra Leone. Siaka Stevens and his All People's Congress (APC) party ran the country from 1967 until 1985 as their personal fiefdom. Little changed when Stevens stepped aside, passing the baton to his protégé, Joseph Momoh, who just continued the plunder.

The trouble is that this sort of extraction creates deep-seated grievances and invites contests for power from would-be strongmen hoping to get their hands on the loot. In March 1991, Foday Sankoh's Revolutionary United Front, with the support and most likely the command of Liberian dictator Charles Taylor, crossed into Sierra Leone and plunged the country into a vicious, decade-long civil war. Sankoh and Taylor were interested in only one thing: power, which they could use, among other things, to steal diamonds, and they could do so because of the regime that Stevens and his APC had created. The country soon descended into chaos, with the civil war taking the lives of about 1 percent of the population and maiming countless others. Sierra Leone's state and institutions totally collapsed. Government revenues went from 15 percent of national income to practically zero by 1991. The state, in other words, didn't so much fail as disappear entirely.

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