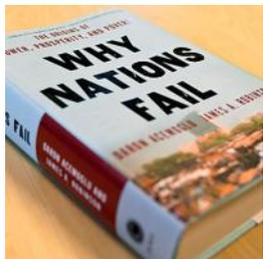


## [New at AdamSmith.org: Why Nations Fail, reviewed](#) [1]

Written by [Vuk Vukovic](#) [2] | Tuesday 10 July 2012



What makes countries end up in persistent and permanent poverty? Why is Mexico much poorer than the United States? Why is Latin America so fundamentally different to North America? How is it possible that an average American is 40 times richer than an average Sierra Leonean? Is it climate, geography, culture, or could it be the ignorance of domestic leaders? Acemoglu and Robinson suggest it's none of these? rather, the real reason behind the poverty trap and significant between-nation differences lies in the role of political and economic institutions.

Politics and the formation of political institutions take centre stage in their book, which formulates the thesis that only within an inclusive political system is it possible for nations to achieve prosperity. The opposite scenario will occur under extractive political institutions where wealth will be accumulated within a narrow ruling elite which will aim to preserve its power thus sentencing a nation to persistent poverty.

In the very beginning of the book the authors hint to the reader how it will be organized? through a series of historical case studies upon which they illustrate their theory of institutional change and the consequential success or failure of nations. It starts with the example of Nogales, a city on the US-Mexican border, which is split in half by a fence. One city, in the same geographical position, characterized by the same cultural upbringings, same population, same diseases, but one part three times richer, much healthier, safer, and with higher living standards. The crucial difference is the very border separating the two parts of the city depicting the different institutional settings within them.

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