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WHICH INSTITUTIONS ARE REALLY NEEDED TO ACHIEVE WEALTH? A CLARIFICATION OF ACEMOGLU AND ROBINSON'S CONCEPT

Abstract

The aim of the paper is to provide hints on how to read Acemoglu and Robinson's institutional hypothesis. First, we recall the meaning of their inclusive and extractive institutions. Then, we classify and compare the concept to certain approaches present in development economics. Additionally, we outline the perspective of historical research of institutions, raising the approach of historical natural experiments and comparative methods. We claim in the paper that to understand Acemoglu and Robinson's institutional hypothesis and their strong rejection of other hypotheses on economic development one has to turn back to the basic notion of institutions. We argue that the authors of *Why Nations Fail* are focused on considering formal institutions only, which impoverishes the research perspective presented in that book.

Key words: Acemoglu and Robinson, *Why Nations Fail*, institutional hypothesis of economics, institutional perspective of history, inclusive and extractive institutions, formal and informal institutions.

INTRODUCTION

Daron Acemoglu and James A. Robinson's theory of economic development presented in their famous *Why Nations Fail: The Origins of Power, Prosperity and Poverty* first published in 2012,¹ outlined in many earlier publications² and the newest work *The Narrow Corridor*,³ is commonly situated among the new institutional answers to questions regarding the roots of wealth and poverty of nations. Such an assessment has been reflected in many reviews of their most famous book.⁴

Acemoglu (MIT professor, and laureate of the J.B. Clark medal) and Robinson (Harvard University professor) reduce the importance of environmental, cultural, or perceptual impediments (classified as the 'ignorance hypothesis') to economic development, highlighting the role of institutions. They disclose their restrictions against those hypotheses in the second chapter (titled *Theories That Don't Work*) of their main book, concluding that economic success is not just a result of geographical location, terrain, access to water, natural resources, culture, religion, or luck, but is an outcome of political

¹ Daron Acemoglu, James A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (New York: Crown, 2012), 530.

² We recall only the most important works: Daron Acemoglu, Simon Johnson, James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review* 91, no. 5, (2001) 1369–1401; eadem, *Institutions as the Fundamental Cause of Long-Run Growth*, in: *Handbook of Economic Growth*, ed. P. Aghion, S. Durlauf, vol. 1A (Amsterdam: North-Holland, 2005), 385–472; Daron Acemoglu, James A. Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge: Cambridge University Press, 2006); eadem, "The Role of Institutions in Growth and Development", *The World Bank Commission on Growth and Development Working Paper* 10, Washington DC 2008; Daron Acemoglu, *Introduction to Modern Economic Growth* (Princeton: Princeton University Press, 2009).

³ Daron Acemoglu, James A. Robinson, *The Narrow Corridor: States, Societies, and the Fate of Liberty* (London: Penguin Books, 2019), 576.

⁴ There are at least a few deep and analytical reviews of *Why Nations Fail*. There could be found both in academic journals and in popular magazines e.g.: Peer Vries, "Does wealth entirely depend on inclusive institutions and pluralist politics? A review of Daron Acemoglu and James A. Robinson, Why nations fail", *TSEG/Low Countries Journal of Social and Economic History* 9, no. 3 (2012): 74–93; W. Bentley MacLeod, "On Economics: A Review of Why Nations Fail by D. Acemoglu and J. Robinson and Pillars of Prosperity by T. Besley and T. Persson", *Journal of Economic Literature*, 51, no. 1 (2013): 116–143; Michele Boldrin, David K. Levine, Salvatore Modica, "A Review of Acemoglu and Robinson's Why Nations Fail", *CiteSeerX*, <http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.348.3831>; Thomas E. Currie, "Inequality and Institutions: A Review Essay on Why Nations Fail by Daron Acemoglu and James A. Robinson", *Cliodynamics* 4, no. 1 (2013): 153–161; Paul Collier, "Why Nations Fail by Daron Acemoglu and James Robinson – review", *The Observer* 11 March 2012; Joanna Dzionek-Kozłowska, Rafał Matera, "New Institutional Economics' Perspective on Wealth and Poverty of Nations. Concise Review and General Remarks on Acemoglu and Robinson's Concept", *Scientific Annals of the 'Alexandru Ioan Cuza' 62*, no. 3 (2015): 11–18; Rafał Matera, "Studia nad bogactwem i ubóstwem narodów na przełomie mileniów – wkład Darona Acemoglu i Jamesa A. Robinsona", *Ruch Prawniczy, Ekonomiczny i Socjologiczny* 76, no. 1 (2014): 269–282.

decisions affecting the activation of inclusive economic institutions.⁵ According to Acemoglu, differentiating their approach from the other theories of economic development: “[t]hough this sort of institutional perspective has a long pedigree, it is actually interesting that most of what’s written in both the popular media and academia emphasize other factors, such as the geography or cultural perspectives, or things such as enlightened leadership (how clever leaders and good economic advisers are crucial for economic success)”.⁶

This article aims to demonstrate how to read Acemoglu and Robinson’s institutional hypothesis. We claim that a rejection of the other hypotheses should be understood only by a stronger and clearer explanation of the real meaning of the notion of institution. We argue that the authors of *Why Nations Fail* are focused on considering formal institutions only, which significantly impoverishes their research perspective in that book.

Acemoglu and Robinson’s *Why Nations Fail* is brimming with compelling illustrations, yet the accuracy and coherence of their generalisations is not the volume’s strongest point. This might be partially explained by the fact the book was intended for a wide circle of readers, thus scientific precision is at times sacrificed for straightforwardness. We also realise that the presentation of the theoretical layer in their *Why Nations Fail* is noticeably simplified in comparison to the more formalised articles they published in scientific periodicals and monographs.

Despite these ambiguities, we would like to clearly state that it is not our intention to deny the value of Acemoglu and Robinson’s contribution to economic development theory. Although their explanation of the causes of wealth and poverty of nations, like many others before, strongly accentuates the beneficial impact of the free market and democracy, emphasising the *rule-of-law* and the necessity of political centralisation, the new notions they introduce to express those ideas, i.e. the inclusive and extractive institutions, allow us to pay attention to the significance of citizens’ participation in political and economic arenas, which seems to be truly vital to the effectiveness of both economic and political activities. The general tone of the concept of the authors of *Why Nations Fail* is all the more easily acceptable since the elements they stressed are commonly regarded as crucial for grounding the economic development on robust foundations (see for instance: Smith; Marshall; Hayek; Sen; Lal; North⁷). Nevertheless, what needs to be highly praised is not only their

⁵ A concise recapitulation of theories of economic development is presented in: Joanna Dzionek-Kozłowska, Rafał Matera, „O poszukiwaniu przyczyn bogactwa i nędzy narodów w teorii Daron Acemoglu i Jamesa A. Robinsona”, *Gospodarka Narodowa* 5, no. 285 (2016): 6–15.

⁶ See: “The World in Crisis: Interview with Daron Acemoglu”, <http://laeradelaburbuja.tumblr.com/post/26159609485/the-world-in-crisis-interview-with-daron-acemoglu> (access: January 2020).

⁷ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1904); Alfred Marshall, *Principles of Economics* (London: Macmillan, 1920); Friedrich August von Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948); Amartya K. Sen, *Poverty and Famines. An Essay on Entitlement*

awareness, but also a kind of bravery which seems to necessary to admit that “[t]he honest answer of course is that there is no recipe for building such [a system of inclusive] institutions”.⁸ In other words, contrary to the beliefs of many experts and economic advisers, it is simply not possible to ‘engineer prosperity’. And that is why Acemoglu and Robinson issue a stern warning on the economic and humanitarian assistance and foreign aid organised via international organisations. They point out that it is impossible to initiate economic development by external help without deep changes in the underdeveloped countries’ institutional order and a reduction in the scandalous wastage of the resources engaged, which is striking in comparison to the level of destitution of those to whom it should be directed.⁹ We are not going to question the validity of those points. While recognising the accurate elements of their concept, we would like to highlight some important, unsolved issues contained within it which may significantly challenge the practical implications of Acemoglu and Robinson’s theory.

INCLUSIVE AND EXTRACTIVE INSTITUTIONS

Acemoglu and Robinson claim that “[c]ountries differ in their economic success because of their different institutions, the rules influencing how the economy works, and the incentives that motivate people”.¹⁰ To talk about the pro- and anti-development types of the institutional framework they introduce two notions, i.e. inclusive and extractive institutions. The authors define the terms: “[w]e call such institutions, which have opposite properties to those we call inclusive, extractive economic institutions – extractive because such institutions are designed to extract incomes and wealth from one subset of society to benefit a different subset”.¹¹

Although neither notion is defined precisely, it may be understood that inclusive institutions are those which allow for greater participation both on the economic and political dimension of social life. Inclusive political institutions “make power broadly distributed in society and constrain its arbitrary exercise”.

and Deprivation (Oxford: Oxford University Press, 1982); idem, *Development as Freedom* (New York: Knopf, 1999); Deepak Lal, *Reviving the Invisible Hand. The Case for Classical Liberalism in the Twenty-First Century* (New Jersey: Princeton University Press, 2006); Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990); idem, *Understanding the Process of Economic Change* (New Jersey: Princeton University Press, 2005).

⁸ Acemoglu, Robinson. *Why Nations Fail*, 460.

⁹ Ibid. 450–456. On this point see also: William Easterly, *The Tyranny of Experts. Economists, Dictators and the Forgotten Rights of the Poor* (New York: Basic Books, 2015); Jeffrey Sachs, *The End of Poverty. The Economic Possibilities for Our Time* (New York: Penguin Group, 2005); Joseph E. Stiglitz, *The Price of Inequality: How Today’s Divided Society Endangers Our Future* (New York: W.W. Norton Company, 2012).

¹⁰ Acemoglu, Robinson. *Why Nations Fail*, 73.

¹¹ Ibid. 76.

The inclusive economic institutions are “those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish”.¹² In contrast, extractive institutions may be seen as barriers to entry that eliminate some groups from the economic and/or political arenas.

The main message concerning the effect of the inclusive and extractive institutions presented in *Why Nations Fail* sounds obvious: “[t]he central thesis of this book is that economic growth and prosperity are associated with inclusive economic and political institutions, while extractive institutions typically lead to stagnation and poverty”.¹³

Acemoglu and Robinson are in the group of theorists of liberalism and democracy claiming the institutional order “must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of the new businesses and allow people to choose their careers”.¹⁴ Such an approach was even more strongly emphasised in their latest book *Narrow Corridor*.

It is worth stressing that Acemoglu and Robinson applied their idea to a vast historical and geographical research horizon, referring to specific examples of economic and political institutions from different periods (starting from Ancient times) and countries (mostly Anglo-Saxon, the UK and the USA, but also Latin-American, such as Argentina, Brazil, Mexico, and Peru, not to mention China, Russia, including the Soviet period, and numerous African countries). Despite their broad approach, Acemoglu and Robinson’s work lacks information about institutional experiences from Central-Eastern Europe, namely such countries as Poland (mentioned only twice in the whole book, moreover, in passing¹⁵), the Baltic States, Czechia or Hungary.

¹² Ibid. 74–75.

¹³ Ibid. 91.

¹⁴ Ibid. 74–75.

¹⁵ See and compare the Polish edition: Acemoglu, Robinson, *Dlaczego narody przegrywają? Źródła władzy, pomysłowości i ubóstwa* (Poznań: Zysk i S-ka, 2014), 119, 126–127. The Polish examples, however, are some simplifications concerning the Authors’ discussion of the specificities of socio-economic transformations in Eastern Europe in the 15th and 16th centuries. This is an additional argument for a detailed analysis of institutional changes in Poland. The first attempt to introduce such an institutional picture of Poland was made by Marcin Piatkowski, *Europe’s Growth Champion. Insights from the Economic Rise of Poland* (Oxford: Oxford University Press, 2018). It is also worth studying the analyses of Polish inclusive institutions during the Second Polish Republic: Damian Bębnowski, Rafał Matera, “Wybrane instytucje włączające w Drugiej Rzeczypospolitej do 1926 roku”, *Przegląd Zachodni* 3, no. 368 (2018): 39–55,

CLASSIFYING THE CONCEPT: PERSPECTIVES OF ECONOMICS AND HISTORY

The opinion forwarded by Claude Ménard and Mary Shirley¹⁶ that Acemoglu and Robinson are not perceived and do not regard themselves as representatives of new institutional economics seems to be rather unusual. On the contrary, they are usually regarded as the new institutionalists (Chang; Castellano and Garcia-Quero; Caballero and Soto-Oñate; Tamanaha; Greif and Mokyr¹⁷), or, less frequently, as institutionalists (Maseland; Hodgson and Stoelhorst¹⁸), neo-institutionalists (McCloskey¹⁹), or even as *new new* institutionalists (Spiegler and Milberg²⁰). Leaving aside the discussion of the validity of these subdivisions and being aware of all the pitfalls of categorising schools of economic thought, we may simply observe that Acemoglu and Robinson's concept is placed under the umbrella of institutionalism perceived as a broad intellectual movement.²¹

It seems Acemoglu and Robinson try to point to the close correspondence of their work with institutional economics at the very least, since describing the core of their book they presented it as being "about the effects of institutions on the success and failure of nations – thus the economics of poverty and prosperity".²² The institutions are important for both economic development

¹⁶ Claude Ménard, Mary Shirley, "The Future of New Institutional Economics: from Early Intuitions to a New Paradigm?", *Journal of Institutional Economics* 10, no. 4 (2014): 558.

¹⁷ Ha-Joon Chang, "Institutions and Economic Development: Theory, Policy and History", *Journal of Institutional Economics* 7, no. 4 (2011): 473–498; López Castellano, Fernando Garcia-Quero, "Institutional Approaches to Economic Development: The Current Status of the Debate", *Journal of Economic Issues*, 46, no. 4 (2012) 921–940; Gonzalo Caballero, David Soto-Oñate, "The Diversity and Rapprochement of Theories of Institutional Change: Original Institutionalism and New Institutional Economics", *Journal of Economic Issues* 49, no. 4 (2015): 949–958; Brian Z. Tamanaha, "The Knowledge and Policy Limits of New Institutional Economics on Development", *Journal of Economic Issues* 49, no. 1 (2015): 89–109; Avner Greif, Joel Mokyr, "Institutions and Economic History: A Critique of Professor McCloskey", *Journal of Institutional Economics* 12, no. 1 (2016): 29–41.

¹⁸ Robbert Maseland, "How to Make Institutional Economics Better", *Journal of Institutional Economics* 7, no. 4 (2011): 555–559; Geoffrey M. Hodgson, Jan Willem Stoelhorst, "Introduction to the Special Issue on the Future of Institutional and Evolutionary Economics", *Journal of Institutional Economics* 10, no. 4 (2014): 513–540.

¹⁹ Deirdre N. McCloskey, *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*, (Chicago: University of Chicago Press, 2016); eadem, "Max U versus Humanomics: A Critique of Neoinstitutionalism", *Journal of Institutional Economics* 12, no. 1 (2016): 1–27.

²⁰ Peter Spiegler, William Milberg, "The Taming of Institutions in Economics: the Rise and Methodology of the «New New Institutionalism»", *Journal of Institutional Economics* 5, no. 3 (2009): 289–313.

²¹ Malcolm Rutherford, "Towards a History of American Institutional Economics", *Journal of Economic Issues* 43, no. 2 (2009): 309–318.

²² Acemoglu, Robinson. *Why Nations Fail*, 44.

and growth and, as such, are the key factor in explaining differences in economic performance over the centuries.

However, for those who are acquainted with the analysis of institutional economics, and institutional theories of economic development in particular, Acemoglu and Robinson's 'institutions matter' declaration may indeed seem a bit confusing. The source of this bafflement is in their rejection of the 'culture hypothesis' of economic development and, as its result, the arising ambiguities as to the meaning attached to the very word institution, which, as has already been indicated, unquestionably works as a key notion in their analysis.

At this point, it is worth recalling that the representatives of the old institutional economics, with Thorstein Veblen at the forefront, studied the role of habits, customs, values, and beliefs in shaping the actions of economic agents.²³ Culture and culture-related factors were considered significant forces affecting the evolving patterns of economic life and economic development.²⁴ This tradition has recently been revived by the institutional political economy movement advanced by, among others, Ha-Joon Chang, Peter Evans, Geoffrey Hodgson, and Malcolm Rutherford.²⁵

The significant step forward in considering values and beliefs as indispensable components of economic development's analysis was made by North's *Understanding the Process of Economic Change* published in 2005. The author indicated that "[i]deas too far from the norms embodied in our culture cannot easily be incorporated into our culture".²⁶ Thus, by shaping the informal institutions, culture may be a factor responsible for slowing the pace of changes, both advantageous and harmful ones. Therefore, in the cases of underdeveloped societies, culture might be a source of difficulties in entering the path of successful reforms.²⁷

On the one hand, the authors of *Why Nations Fail* seem to be fully aware of the way the notion of institution is understood by institutionalists. In their papers, they not only refer to North's canonical definition that "[i]nstitutions are the rules of the game in a society or, more formally, all the humanly devised constraints that shape human interaction",²⁸ but even cite it and give the impression they treat it as a starting point for their own considerations.²⁹ However, on the other hand, they unequivocally distance themselves from the group of theories 'that don't work', in which set they include the culture

²³ Thorstein Veblen, "The Preconceptions of Economic Science", *Quarterly Journal of Economics* 14, no. 2 (1900): 240–269; idem, *The Theory of the Leisure Class. An Economic Study in the Evolution of Institutions* (New York: Macmillan, 1899).

²⁴ Malcolm Rutherford, "Institutional Economics: The Term and Its Meanings", *Research in the History of Economic Thought and Methodology*, 22–A (2004): 179–184; idem, *Towards a History*; Caballero, Soto-Oñate, "The Diversity and Rapprochement, 949–958.

²⁵ See: Castellano, Garcia-Quero, "Institutional Approaches", 921–940.

²⁶ North, *Understanding*, 27.

²⁷ Ibidem. See also: North, *Institutions*.

²⁸ North, *Institutions*, 3.

²⁹ Acemoglu, Johnson, Robinson, *Institutions as the Fundamental*, 388; Acemoglu, *Introduction*, 119.

hypothesis. The problem is that a great many of the “humanly devised constraints that shape human interaction” evidently arise from cultural (religious, ethical, worldview) norms. Moreover, as aptly highlighted by North, in addition to the formal rules, an equally (or even more) important role in economic development is played by informal institutions, defined by him explicitly as cultural constraints “embodied in customs, traditions, and codes of conduct”, which come “from socially transmitted information and are a part of the heritage that we call culture”.³⁰

Therefore, some serious doubts about Acemoglu and Robinson’s understanding of North’s concept arise. Those doubts are even strengthened if one considers their statement from the article published in collaboration with Simon Johnson, where they claim that “[i]n terms of the different fundamental theories that we discussed, there is overwhelming support for the emphasis of North and Thomas on institutions, as opposed to alternative candidate explanations which emphasize geography or culture” (the underlining is ours).³¹ Instead, the close correspondence between institutions and culture is commonly acknowledged by the representatives of the New Institutional Economics (e.g.: Greif; Hodgson; Pejovich; Tabellini³²). It means the vast majority of the most characteristic examples of the institutional accounts of economic development, with North’s stance at the forefront, ought to be included under the label of ‘culture hypothesis’.

The obvious conclusion is that Acemoglu and Robinson’s understanding of the term institution must be in some sense narrower than that of the new institutional economists. Yet, does this mean Acemoglu and Robinson restrict their understanding of the term to formal institutions only, and consider those formal constraints as independent from cultural influences? The affirmative answer seems logical because it mitigates the incoherence caused by the rejection of the culture hypothesis and the placement of such a strong emphasis on the role of institutions.

In contrast to North’s analysis, the categories formal/informal institutions are neither used by Acemoglu and Robinson as the notions of their theoretical framework, nor explicitly defined. Therefore, no direct declaration of their taking into account only the role of formal rules can be found in the pages of their publications.

Therefore, their rebuff of the ‘culture hypothesis’ should not be perceived as an ultimate one. Such an assessment seems to be true the more they explicitly argue that culture has some role to play, since “social norms, which are related

³⁰ North, *Institutions*, 6, 37; Geoffrey M. Hodgson, “What Are Institutions?”, *Journal of Economic Issues* 40, no. 1 (2006): 8–13.

³¹ Acemoglu, Johnson, Robinson, *Institutions as the Fundamental*, 421.

³² Avner Greif, “Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies”, *Journal of Political Economy* 102, no. 5 (1994): 912–950; Hodgson, “What Are Institutions?”, 1–25; Svetozar Pejovich, “Understanding the Transaction Costs of Transition: It’s the Culture, Stupid”, *Review of Austrian Economics* 16, no. 4 (2003): 347–361; Guido Tabellini, “Institutions and Culture. Presidential Lecture”, *Journal of the European Economic Association* 6 (2–3), (2008): 255–294.

to culture, matter and can be hard to change, and they also sometimes support institutional differences”.³³ Thus, they do not perceive those ‘institutional differences’ as being fully autonomous, alienated from culture. Still, it is noticeable that they regard the social norms related to culture as supporting institutional differences, and not as the essence of those differences. However, in the very same paragraph, one may find a clarification that “those aspects of culture often emphasized – religion, national ethics, African or Latin values – are just not important for understanding how we got here and why the inequalities in the world persist”.³⁴ Moreover, besides the theoretical framework, in the great (and slightly overwhelming) abundance of examples discussed in this volume, they are not reluctant to mention some traditions or praxis which regulate economic and political interactions on a customary basis without being a part of legal systems.

Economic perspective is only one side of the concept in *Why Nations Fail*. On the other hand, we have to look at wider historical research. Economic history especially provides a basis for an analysis of Acemoglu and Robinson’s proposal. Most historians (also specialising in Ancient Times and the Middle Ages) admit that institutions should be recognised as a crucial variable to explain the economic performance of different civilisations, societies or states. Sheilagh Ogilvie, while researching merchant guilds in the long term, wonders why such institutions were created, why they survived so long, and why they fell. She also tries to assess the efficiency of a given institution in solving economic problems.³⁵

In modern history, most of the economic historians agree with the thesis that the state is the central player to create institutional change³⁶, but they also try to indicate certain older institutions from the past of societies, which were created to foster economic growth. However, most of the specialists concentrate on the capitalist world (and the early capitalist world) and they look to institutional factors for the rise of the West.³⁷

A great example of the analysis of an institution in the older historical period was released by Tracy Dennison and Sheilagh Ogilvie, who tried to examine the links between demography, institutions, and economic growth in early modern Europe.³⁸ Although they focused only on European marriage patterns, they did not escape from a few generalisations warning that “[o]bserving an institution in a successful economy does not necessarily imply a causal relationship: the institution may be present because of the economy’s success, or the successful

³³ Acemoglu, Robinson. *Why Nations Fail*, 57.

³⁴ Ibid.

³⁵ Sheilagh Ogilvie, *Institutions and the European Trade. Merchant Guilds, 1000–1800* (New York: Cambridge University Press, 2011), 2.

³⁶ Sevket Pamuk, “Economic History, Institutions, and Institutional Change”, *International Journal of Middle East Studies* 44, no. 3 (2012): 532.

³⁷ Douglass C. North, Robert Paul Thomas, *The Rise of the Western World. A New Economic History*, (New York: Cambridge University Press, 1973).

³⁸ Tracy K. Dennison, Sheilagh Ogilvie, “Institutions, Demography, and Economic Growth”, *The Journal of Economic History* 76, no. 1 (2016): 205.

economy may perform well for other underlying reasons, despite, rather contribute to success in successful economies, and which do not, requires careful empirical investigation”.³⁹ In the conclusions, they added that the family system could not be the decisive institution responsible for European economic growth.⁴⁰

Dennison and Ogilvie, in answering criticism of their findings by Carmichael, de Pleijt, van Zanden and De Moor⁴¹, confirmed that they did not “[...] dispute that institutions affect economic performance, but point out theoretical and empirical reasons for focussing on the wider framework of European growth” and they repeated that: “[t]he relationship between institutions, demography, and economic decisions can certainly cast light on long-term economic growth”.⁴² The same light was released by Acemoglu and Robinson, but in their book, it is difficult to find similar attempts to measure and the check the quality of the institutions in different historical periods which were presented by Dennison and Ogilvie.

Understanding the concept of the authors of *Why Nations Fail* would be easier when we recall that they use historical natural experiments in their research as a methodological instrument. We may follow this methodology in the book *Natural Experiments of History*, edited by Jared Diamond and James A. Robinson. This methodology includes “[...] observing, describing and explaining the real world, and of setting the individual explanations within a larger framework”.⁴³ This natural experiment is often called the comparative method, which uses quantitative statistical analyses especially. These historical natural experiments can relate economics and economic history, and they allow specialists from different fields to pose big questions on big topics. “Perhaps in no field has the examination of historical quasi-experimental variation been more influential than in economic growth and development: historical natural experiments have allowed scholars to identify plausibly fundamental factors – for example, political institutions and culture – using the causal, experimental language central to empirical work in (micro)economic development”.⁴⁴ *Why Nations Fail* is a great example of such a historical natural experiment.

These natural experiments, such as the influence of ‘unnatural’ borders and the implementation of different sets of formal institutions into a single social

³⁹ Ibid. 206.

⁴⁰ The institution of European marriage pattern in early modern period was also analysed in Polish economic history: Piotr Guzowski, “The Origins of the European Marriage Pattern in Early Modern Period from the Perspective of Polish History”, *Acta Poloniae Historica* 108 (2013): 5–44.

⁴¹ Sarah G. Carmichael, Alexandra de Pleijt, Jan Luiten van Zanden, Tine De Moor, “The European Marriage Pattern and Its Measurement”, *The Journal of Economic History* 76, no. 1 (2016): 196–204.

⁴² Dennison, Ogilvie, “Institutions, Demography, and Economic Growth”, 215.

⁴³ *Natural Experiments of History*, ed. Jared Diamond, James A. Robinson (Cambridge: Harvard University Press, 2010), 1 (prologue).

⁴⁴ Davide Cantoni, Noam Yuchtman, “Historical Natural Experiments: Bridging Economics and Economic History”, *NBER Working Papers* 26754 (2020).

system divided by such a border (e.g. the cases of Korea, Germany or European colonisation especially in Africa), become the basis for Acemoglu and Robinson's conclusions. According to them, the division of Korea allows culture to be treated as an exogenous parameter of comparative analysis. What makes Korea different is the institutions. The problem is that we have different kind of institutions and their roots may come from cultural factors as well. Despite these doubts, classifying the authors of *Why Nations Fail* as part of the institutional historical approach would not be the wrong direction.

HOW INSTITUTIONAL IS ACEMOGLU AND ROBINSON'S 'INSTITUTION HYPOTHESIS'?

Acemoglu and Robinson's theory of economic development, their way of understanding the notion of institution and strong rejection of the 'culture hypothesis' – it all constitutes an approach to institutional economics that is significantly different to the new institutional economics represented by Douglass C. North and Avner Greif. The approach of Acemoglu and Robinson appears extremely close to the position adopted by Alberto Alesina and Paola Guillianio,⁴⁵ who openly declare that they limit their understanding of the notion of *institution* to formal institutions only and they use the term *culture* to refer to informal institutions. This standpoint is obviously inconsistent with the institutional economics way of defining these notions, and, as such, could be criticised as leading to a spoiling of the economic vocabulary and impeding economic discourse. Yet, leaving aside the question of validity of assigning a new meaning to old terms, it should be admitted that Alesina and Guillianio's open declaration makes it possible to avoid the more serious confusion triggered by using the old term in a new (or modified) sense without announcing it to the readers.

A question may be raised: What are the motives behind accepting such a problem-bearing approach? It seems that, besides the conviction that the significance of culture is so small that this area may be omitted without any loss to the theory, there are at least three feasible additional reasons behind the rejection of the 'culture hypothesis'. To begin with, the cultural factors are difficult to express quantitatively, and so they are difficult to deal with by using more formalised methods of economic analysis, which are nowadays placed at the very centre of the dominant paradigm of the economic sciences.⁴⁶

The essence of the problem is rightly highlighted by North, who argues that "it is much easier to describe and be precise about the formal rules that societies

⁴⁵ Alberto Alesina, Paola Guillianio, "Culture and Institutions", *Journal of Economic Literature*, 53, no. 4 (2015): 898–944.

⁴⁶ Mark Blaug, "The Formalist Revolution of the 1950s", *Journal of the History of Economic Thought* 25, no. 2 (2003): 145–156; Deirdre N. McCloskey, *The Secret Sins of Economics* (Chicago: Prickly Paradigm Press, 2002).

devise than to describe and be precise about the informal ways by which human beings have structured human interaction”.⁴⁷ Indeed, he is simply saying that “it is extremely difficult to develop unambiguous tests of their significance”.⁴⁸ What may be quite surprising is that, to some extent, such an approach has also been confirmed by Acemoglu, who stated that one of the most problematic aspects of theories based on culture-related factors is the difficulty of measuring culture.⁴⁹ Moreover, for many scholars, the problem in itself seems to be the broadness and ambiguity of the term ‘culture’, which hinders both scientific discourse and empirical research.⁵⁰

The next and probably the most important issue is related to the behavioural assumptions and the image of the human being adopted by Acemoglu and Robinson. Yet, it should be noted immediately that there are neither direct characteristics of the model of a human being, nor a clear description of the behavioural assumptions they work on. Nonetheless, it is not difficult to find certain clues indicating that they actually perceive humans as rational and purposeful. Such a supposition stems, firstly, from their treatment of political institutions as the outcomes of collective choices, which are the outcomes of various groups’ deliberate actions undertaken because of their interests. And secondly, such an opinion may be inferred from their criticism of, as they term it, the ‘ignorance hypothesis’. This hypothesis of economic underperformance consists of explaining the causes of poverty by referring to the ignorance of the authorities of underdeveloped countries regarding how to improve their economic achievements. Acemoglu and Robinson strongly reject this kind of explanation, claiming that the rulers of poor countries in most cases know very well what should be done to ameliorate the economic situation and foster economic growth, yet they just do not want to do it because of their sound fears that they would lose their privileged position in society. In other words, Acemoglu and Robinson claim that it is not a question of the authorities’ ignorance or irrationality, but simply their unwillingness to initiate the reforms that might shake the status quo. Therefore, from this reasoning, the conclusion may be drawn that the image of the human being they tacitly take is closer to the mainstream economics model of *homo oeconomicus* than to any other species.⁵¹ Indeed, one of the most important fruits of taking such a model is the serious difficulty faced when taking into account the culture-related side, which in turn makes it difficult to consider informal institutions.⁵²

⁴⁷ North, *Institutions*, 36.

⁴⁸ Ibid. See also: Spiegler, Milberg, “The Taming of Institutions”; Chang, “Institutions and Economic Development”.

⁴⁹ Acemoglu, *Introduction*, 122.

⁵⁰ Luigi Guiso, Paola Sapienza, Luigi Zingales, “Does Culture Affect Economic Outcomes?”, *Journal of Economic Perspectives* 20, no. 2 (2006): 23–24.

⁵¹ See: Joanna Dzionek-Kozłowska, *Model homo oeconomicus. Geneza, ewolucja, wpływ na rzeczywistość gospodarczą* (Łódź: Wydawnictwo Uniwersytetu Łódzkiego, 2018).

⁵² Joanna Dzionek-Kozłowska, “The early stages in the evolution of Economic Man. Millian and marginal approaches”, *Annales. Ethics in Economic Life* 20, no. 6 (2017): 31–55.

The last question worth considering refers to the purely rhetorical level, which concerns not the content of Acemoglu and Robinson's theory, but its form. The open rejection of the 'culture', 'geography', 'luck', and 'ignorance' hypotheses let Acemoglu and Robinson clearly distinguish their theory from other explanations. This way of presenting new economic concepts as something brand new, groundbreaking or even revolutionary, has a long and still lively tradition, with eminent representatives such as William Stanley Jevons or John Maynard Keynes. The former strongly contrasted his theory of value with the classical one,⁵³ while the latter went even further and constructed an effigy of the classical theory of unemployment that he then successfully defeated, even though this theory, in such a form, had never existed.⁵⁴

In Acemoglu and Robinson's case, it sounds much better to contrast the 'institutional hypothesis' with the 'culture hypothesis' than to contrast something like an 'institutions-limited-to-formal-ones hypothesis' with a 'broadly-perceived-institutions hypothesis'. The second opposition sounds much worse, especially when the supported side would be the one with the word 'limited' against the one containing the term 'broadly'.⁵⁵

Yet, we would like to highlight that, besides many theoretical doubts regarding Acemoglu and Robinson's concept, we do agree with their message that the decisions of authorities have a huge impact on the inclusion of new social groups in both political and economic activities. These, in turn, exert a strong influence on the economic development of societies. However, their omission of the influence of the culture-related factors of economic development is unwarranted by their theory. On the contrary, the arguments they provide to reject the 'culture hypothesis' call for the significance of cultural factors on economic prosperity to be thought over. Following Avner Greif and Joel Mokyr we should repeat: "we cannot understand institutions without culture".⁵⁶ Studying the recent article of James A. Robinson with Sara Lowes, Nathan Nunn and Jonathan Weigel on the Kingdom of Kuba, we can confirm that such a relationship was also indicated by the mentioned authors. They managed to test the long-term impact of institutions on cultural norms in the Spanish world.⁵⁷

One of the logical consequences of Acemoglu and Robinson's strong declaration against the cultural hypothesis is the need to explain how political

⁵³ William Stanley Jevons, *The Theory of Political Economy* (London: Palgrave MacMillan, 1888).

⁵⁴ John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Palgrave MacMillan, 1936). See also: Brian Snowdon, Howard Vane, *Modern Macroeconomics. Its Origins, Development and Current State* (Cheltenham: MPG Books, 2005), 36–37.

⁵⁵ On the importance of rhetorical devices in economics, see more in: Deirdre N. McCloskey, *The Rhetoric of Economics* (Wisconsin: University of Wisconsin Press, 1998).

⁵⁶ Greif, Mokyr, "Institutions and Economic History", 31.

⁵⁷ Sara Lowes, Nathan Nunn, James A. Robinson, Jonathan Weigel, "The Evolution of Culture and Institutions: Evidence from the Kuba Kingdom", *Econometrica* 85, no. 4 (2017).

institutions emerge that would be independent of cultural influences. In order to somehow meet this requirement, they propose the position that both political and economic institutions are created by collective choices made by members of society. And according to Acemoglu and Robinson, regardless of the type of institutions, the impulse to change them always leads to a conflict of interest. This may be in the political sphere, but in many cases, the ultimate cause is economic gain. The importance of economic incentives stems from the fact that every change in political institutions leads to a greater or lesser reallocation of gains, “thus every change in institutions and politics creates winners and losers relative to the status quo”.⁵⁸ How the conflict will be resolved, which institution will emerge as a result and for whom the modified institutional order will prove beneficial depends on the distribution of political power (*de iure* and *de facto*) among the groups or individuals involved in the conflict.

Three remarks need to be made here. Firstly, such a differentiation of institutions and culture can be regarded as another sign that Acemoglu limits himself to considering formal institutions exclusively. Secondly, in the context of *Why Nations Fail*, it is difficult to assess these statements as other than astonishing. The book contains many examples wherein the rules of the game, both political and economic, were evidently imposed by small elites. In all these cases, it would be extremely difficult to acknowledge the established institutional orders as ‘collectively chosen’. Using the notions proposed by Acemoglu and Robinson: if the *de facto* political power of the vast majority of a given country’s citizens is close to zero, which is the case in both totalitarian and consolidated authoritarian regimes, these citizens’ influence on ‘the institutions under which they live’ is close to zero, too. And thirdly, the thesis on culture, values, beliefs and moral rules as being beyond the control of people is indefensible or at least goes too far. In totalitarian states, the same narrow elites which decide on the shape of political and economic institutions can, and frequently do, wield influence or even put under total control the realm of culture, just like the other spheres of social life. By “totalitarian countries” we mean countries where societies practically live in constant oppression and no group, apart from the ruling elite, is allowed as beneficiaries of the system. This was slightly different from authoritarian countries or countries with authoritarian characteristics (in Latin America or Central and Eastern Europe), as well as in pre-capitalist reality.⁵⁹

⁵⁸ Acemoglu, *Introduction*, 783.

⁵⁹ The example of feudalism in Central and Eastern Europe shows that this system, which in earlier literature used to be portrayed as the oppression of strata subjugated by a few elites, is increasingly often described by researchers as the result of negotiations and mutual benefits between the nobility and peasants. See more: Markus Cerman, *Villagers and Lords in Eastern Europe, 1300–1800* (New York: Red Globe Press, 2012); Douglass C. North, Robert Paul Thomas, “The Rise and Fall of the Manorial System: A Theoretical Model”, *Journal of Economic History* 31 (1971): 777–803; Mikołaj Malinowski, “Serfs and the City: Market Conditions, Surplus Extraction Institutions, and Urban Growth in Early Modern Poland”, *European Review of Economic History* 20, no. 2 (2016): 123–146; Piotr

CONCLUSIONS

Acemoglu and Robinson's opposition to mainstream hypotheses, and especially to the culture hypothesis, and their contrasting it with the institutions hypothesis, seems to be one of the most problematic aspects of their concept. Such a stance may be accepted from the marketing of ideas point of view; yet this differentiation triggers some principal problems with understanding the basic notion of institution, and strongly suggests they are focused on considering formal institutions only, which would significantly impoverish their research perspective. In addition, such an approach (1) does not allow one to deal with the influences of culture (political culture included) on the evolution of economic and political institutions, and (2) seems to lie behind their decision to explain institutional changes in terms of conflicts of interests and collective choices.

We do not deny that in some cases this approach could be quite useful, first and foremost to speak about consolidated democracies. And this is especially problematic since almost all efforts to solve the mystery of economic development seem to be undertaken to help those societies which are both underdeveloped and non-democratic. Yet even if we agree for a while with the supposition that these countries' political and economic institutions are the subject of collective choices, it should be highlighted those choices are made by the members of a narrow elite. Next, it should also be accepted that culture-related institutions are subject to the same kind of choices made by the same narrow elite. Thus, there is no reason to treat political and economic aspects of social life otherwise than those from the realm of culture.

Furthermore, leaving out the culture dimension constricts the possibility to refer to the influences of culture-related factors in explaining the sources of changes in political institutions. Therefore, Acemoglu and Robinson try to explain the roots of those changes by external 'shocks', which is hardly convincing and may only be accepted as a highly simplifying assumption. In spite of this attempt to see political institutions as independent from other variables of their model, it turns out they take into account the mutual causation between the distribution of political power and political institutions. Similarly, the simple broadening of their line of reasoning leads to the conclusion that the supremacy of political institutions over economic ones is rather ostensible since those types of institutions are indeed interrelated.

Finally, to come back to the title question of the article: which institutions are really needed to achieve wealth? The answer of Acemoglu and Robinson would be: formal and inclusive, stable with democratic foundations. In our view, in order to achieve prosperity and power, countries and their societies should build institutions of *sensu largo*: formal and informal. But, indeed the common denominator of both approaches is the word: inclusive.

Guzowski, "Village Court Records and Peasant Credit in Fifteenth and Sixteenth Century Poland", *Continuity and Change* 29, no. 1 (2014): 115–142.

SUMMARY

Acemoglu and Robinson's theory of economic development, spotlighted in their famous work, *Why Nations Fail* (2012), has since drawn much attention by scholars in many disciplines. In the present paper, we offer a new approach to reading Acemoglu and Robinson's institutional hypothesis and demonstrate that a denunciation of the other hypotheses should only be understood by a careful clarification of the notion of "institution". Through the unveiling of the economic and historical perspective of the concept from *Why Nations Fail*, we argue that the term "institution", as used by Acemoglu and Robinson, is much narrower than the new institutional economists' viewpoint. We also point to the need for more detailed natural experiments and regional comparative studies to re-evaluate the initial notion. Additionally, we stress that any disapproval of the cultural hypothesis must be fulfilled by the explanation of the crucial problem: political institutions emerge independently from cultural influences. We hold that such an endeavour would greatly strengthen the concept.

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