Acemoglu, Daron. 2003. "Root Causes." *Finance & Development* 40(002).

Key Points

- Asks what sort of explanations we can attribute divisions in economic development among nations.
- Proximate Causes:
    - Lesser developed markets
    - Less adequately educated populations
    - Outdated Technology/Infrastructure
- Fundamental causes: Geographical and Institutional Hypotheses.
    - Region, Climate, Ecological factors
    - Composition of institutions may either enhance or inhibit economic growth
        - 3 Characteristics to good institutions

Summary

In this article, Acemoglu looks at observations of economic disparity among nations and asks why such persistent divisions exist between countries that are economically rich and poor. Thinking of Africa specifically, the article claims that Sub-Saharan Africa's average income roughly 1/20th the amount of the Americas despite an abundance of resources and value rich commodities. Intuitively, we would hope that such resources to translate into economic growth. Sadly, this is not the case. Acemoglu looks at what they call proximate causes of poverty first. These are explanations such as lesser developed markets, lesser educated populations, as well as the use of outdated technology and infrastructure. While these causes can attribute to some of the disparity, it opens deeper questions as to why developing countries developed these areas. What is preventing these nations from changing and developing in these areas of deficiencies? Acemoglu shifts to what they consider fundamental causes. This is to say that perhaps there are geographical and institutional factors that hinder growth and prevent from developing similarly to supposed "rich" nations. The Geographic hypothesis suggest that perhaps there are factors of region, climate, and ecology that shape societies, operating under the assumption that nature is the primary force that drives poverty. For example, it would be difficult to develop international trade routes without access to waterways, which would prevent the use of a port for shipping. Further, the geographical hypothesis observes that many of the world's poorest locations can be found in the equatorial region. This would suggest that perhaps climate, the prevalence of harsh ecological environments may serve as factors.

The next fundamental cause that Acemoglu looks at is the composition and prevalence of good institutions. The institutional hypothesis suggests human influences are causes for whether a country is enabled or hindered in their economic development. In essence, we can look at the composition of institutions as mechanisms through which a nation can modernize and maximize their nation's output. Acemoglu lists 3 key characteristics to good institutions. First, an indicator of good institutions is that they have an enforcement of property rights so that people have the incentive to participate in economic activity because they are not afraid that their acquired assets and resources will be seized. Second, a society places constraints on the actions of elites and there exist a more even playing field in economic activity. This is to say that anyone can achieve some success in participation in the economy. Third and somewhat similar is presence of equal opportunities for broader segments of the population to make and engage in economic investment. This is to say that economic participation is not relegated to economic elites.

Both hypotheses have aspects to them that make them appealing explanations. However, Acemoglu doesn't exactly agree with them as they seem them as potentially problematic. Acemoglu, referring to the geographical hypothesis states that despite there being a correlation between poverty and geography, it does not adequately establish geography as a primary cause for poverty. I am inclined to agree with Acemoglu's assessment of this hypotheses. While we could say that perhaps there's aspects such as limited port access or the presence of bad neighbors as seen in Collier's *Bottom Billion*, I would argue that it's too simplistic an explanation for such a complex problem. Additionally, there are similar problems that arise from the institutional hypothesis as well. Mainly, neither the geographical nor the institutional hypothesis consider the impact a history of colonization and exploitation in the world market would have on a nation's development. Acemoglu states that if geographical factors are to be the causes of weaker economic development, then nations that were wealthy before the arrival of European nations would have remained rich. Also, if we consider the institutional hypothesis and European nations exported their supposed "good" institutions then we could expect those colonized nations to experience stronger economic growth. However, neither is the case. Neither of these explanations account for the extractive relationship of colonizers and those that they have colonized where there is an inherent incentive of colonial powers to not allow their subjects to rise to level of competition, but rather continue to benefit from their diminished capabilities.