

Daron Acemoglu on the Struggle Between State and Society (Ep. 81)

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What determines the economic, social, and political trajectories of nations? Why were settlers in colonies like Jamestown and Australia able to escape the extractive systems desired by their British masters, while colonial subjects in Barbados and Jamaica were not? In his latest book, Daron Acemoglu elevates the power of institutions over theories centering on human capital, culture, or geography. Institutions help strike the balance of power in the constant struggle between state and society, creating a ‘narrow corridor’ through which liberty and prosperity is achieved.

Daron joined Tyler for a conversation about drivers of economic growth, the economic causes and effects of democratization, how Germanic tribes introduced “bottom-up politics” to the Roman empire, the institutional reasons that China’s state capacity and control has increased with its wealth, his predictions for the future of liberty in his birth country of Turkey, the biggest challenges currently facing the Middle East, what we can learn from the example of Lagos, why publishing in the “top five” is overrated, tips on motivating graduate students, and more.

TYLER COWEN: Hello. Today I'm here with Daron Acemoglu, who, of course, is professor of economics at MIT. By some measures, Daron is *the* number-one most widely cited economist in the whole world, and he has a new book out with James A. Robinson called *The Narrow Corridor: States, Societies, and the Fate of Liberty*. Welcome, Daron.

DARON ACEMOGLU: Thanks, Tyler. This is really a perfectly wonderful pleasure to be here.

COWEN: I have so many questions about economic growth. First, how much of the data on per capita income is explained just simply by one variable: distance from the equator? And how good a theory of the wealth of nations is that?

ACEMOGLU: I think it's not a particularly good theory. If you look at the map of the world and color different countries according to their income per capita, you'll see that a lot of low-income-per-capita countries are around the equator, and some of the richest countries are pretty far from the equator, in the temperate areas. So many people have jumped to conclusion that there must be a causal link.

But actually, I think geographic factors are not a great explanatory framework for understanding prosperity and poverty.

COWEN: But why does it have such a high R-squared? By one measure, the most antipodal 21 percent of the population produces 69 percent of the GDP, which is striking, right? Is that just an accident?

ACEMOGLU: Yeah, it's a bit of an accident. Essentially, if you think of which are the countries around the equator that have such low income per capita, they are all former European colonies that have been colonized in a particular way.

So, for a variety of reasons — and geography might've played a role, though I'm not completely sure — European powers pulled ahead of the rest, and then they went ahead and colonized much of the rest of the world. Today, for about 120 countries, their current institutions are heavily shaped by their colonial experience, and the colonial episode has been very unequal for different countries.

If you take places such as the United States or Australia — they ended up with pretty good institutions, actually better institutions in many ways than their mother country back at home, because the settlers who got to live in these places pushed for better institutions, fought for better institutions. Australia was one of the more democratic places in the 19th century. The US, of course, introduced the smallholder society, much better than Britain.

But in most of the tropical areas, the conditions that Europeans encountered led them to adopt a very different colonization strategy, essentially for two separate but related reasons.

First, many of the more civilized and densely populated areas were in the tropics or near the tropics: the Inca Empire, Aztec Empire, the Indian subcontinent with the Mughal Empire colonized by the British, the North African civilizations. And all of those created a much better opportunity for Europeans to set up what James and I called extractive institutions, to essentially control labor and use labor.

Moreover, the settlement pattern that was at the root of the better institutional development of places such as the US, Canada, Australia really was made impossible in most of these places because, associated with both climatic conditions and the dense population, they had vectors of diseases that were very, very different than the ones the Europeans were used to, so the mortality rates that Europeans faced were very different.

The combination of these two factors meant that the colonization experience was very different and the colonial institutions were very different in these places. And to a first approximation, all of that big gap between places such as US, Argentina, Chile, and places like Peru, Bolivia, India, Pakistan, can be explained by these different colonization strategies and their institutional implications.

On institutions and human capital

COWEN: As you know, there's a famous paper by Comin, Easterly, and Gong showing there's a reasonably high correlation between per capita income in AD 1500 and the current day, especially once you account for the movement of settlers. Is that because the quality of institutions is so stable over time, over more than 500 years? Isn't that better explained by having the quality of human capital be more stable over time? That seems more plausible.

ACEMOGLU: Well, I think it's a complex picture, actually. One of the papers that I wrote with James Robinson and Simon Johnson, which we entitled "Reversal of Fortune," is exactly on that point. The raw fact is that, if you look at which are the places that are more prosperous in 1500, those turn out to be *relatively* less prosperous today. It's not to say that they became less rich today. Every place in the world became much richer because of industrialization, because of much better technologies, trade and all of that.

But relatively speaking, it was places that were empty, without any urbanization, without much established road networks or agricultural surplus, such as Chile, Argentina, US, Canada — relative to the places that I mentioned a moment ago: Bolivia, Peru, Ecuador, Mexico, India, Pakistan — that actually became richer. So, that reversal of fortune is a prima facie evidence against a purely geographic explanation.

Now, what *else* could explain it? Well, essentially there are two broad categories. The details, of course, within those categories matter, but there are two broad categories. One is that it's the institutions, as I've tried to explain. And second, it's culture. Perhaps Europeans brought their culture into some places or messed up the culture in some other places.

And the human capital is somewhere in between because human capital is an institutional feature, meaning that it really depends on the educational investments, but it also, of course, has a cultural element.

So a lot of the qualitative and the quantitative research that we have done puts much more emphasis and finds more support for the institutional interpretation. For example, if you take human capital, it wasn't that Europeans brought human capital to the places such as the US or Argentina or Chile. Actually, the Europeans who were more educated were the ones who went to places such as the Inca Empire or the Aztec Empire.

COWEN: But they brought ideas. The Declaration of Independence was brought over by English and other European settlers. And that was a powerful intellectual validation.

ACEMOGLU: Absolutely. It was that idea —

COWEN: Native Americans were not producing the same, so —

ACEMOGLU: No, that's why I'm saying that the *whole* European colonization episode has to be taken in its entirety. But it isn't also a straight line to say that Europeans brought ideas and that's what really changed the trajectory in a good way.

Europeans settled in some numbers in Barbados. In 1680, about 10,000 people in Barbados had European ancestry and probably about 2,000, 3,000 were British. But these people, who benefited mightily from the plantation complex and from about 40,000 people being chattel slaves, did not have any idea of introducing a Declaration of Independence. They actually established a very draconian regime. Executions were commonplace. All the power was concentrated in the hands of about 150 families that were to be plantation owners.

And the way that the independence declaration evolved and other things evolved in the US was actually in *reaction* to British power. The important story, which, of course, everybody knows, is that Declaration of Independence was in order for the Americans to reject the European imposition to some degree.

But actually, the story goes much further back if you take the first semi-successful colony in Jamestown. What makes Jamestown unique is not that . . . or actually, very common in some sense, but a first in history. It actually broke completely new ground institutionally to introduce the headright system, smallholder property, to introduce the general assembly.

And none of this was because the Virginia Company, who colonized and owned the place, wanted to. They wanted to set up a system very similar to the one in Barbados or Jamaica. It was against the wishes of their British masters because the settlers said, "No, we're not going to go along with that." And they had enough political power to do it.

Therefore, the story is more complicated. It's not that the European ideas directly came. It's the European ideas interacting with the local conditions, and often the success came from local conditions making European strategies of dominance unsuccessful.

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COWEN: If we think about the USSR, which has *terrible* institutions for more than 70 years, an awful form of communism — it falls; there's a bit of a collapse. Today, they seem to have a higher per capita income than you would expect *a priori*, if you, just as an economist, write about communism. Isn't that mostly just because of what is now Russian, or Soviet, human capital?

ACEMOGLU: That's an interesting question. I think the Russian story is complicated, and I think part of Russian income per capita today is because of natural resources. It's always a problem for us to know exactly how natural resources should be handled because you can do a lot of things wrong and still get quite a lot of income per capita via natural resources.

COWEN: But if Russians come here, they almost immediately move into North American per capita income levels as immigrants, right? They're not bringing any resources. They're bringing their human capital. If people from Gabon come here, it takes them quite a while to get to the —

ACEMOGLU: No, absolutely, absolutely. There's no doubt that Russians are bringing more human capital. If you look at the Russian educational system, especially during the Soviet time, there was a lot of emphasis on math and physics and some foundational areas.

And there's a lot of selection among the Russians who come here. There are a lot of criminal Russian elements who come to Europe, and they do very well, but for different reasons than the mathematical or the physical-sciences human capital that they're bringing.

But I would say, what the Russian scientists are bringing . . . and that's very well documented. For example, in the case of after the collapse of the Soviet Union, Russian mathematicians came here, and they took jobs from American mathematicians because they were actually better.

Well, that's both human capital and institutions, meaning that the reason why that's actually persisting is not simply that the current generation of Russians have *parents* who are very high human capital. That matters, of course. That matters for the values. But really, Russian educational institutions have persisted. Take away those, they collapse, and nothing remains.

And you've seen that happen in some of the Russian republics, for example. They had

pretty good educational institutions at the time, but then in the context of the civil wars that ensued, for example, some of those educational institutions have collapsed, and rebuilding them has been much harder.

COWEN: I'm sure you know the Mankiw, Weil, and Romer paper. They have a Solow model, but they put human capital in, and human capital has a very high degree of explanatory power. Presumably, you disagree with them, like in the context of their work — a Solow model, a growth model. What *exactly* do you specify differently than Mankiw, Weil, and Romer?

ACEMOGLU: Well, I think Mankiw, Romer, and Weil is a very important paper for its time, but it also has a lot of problems. The most major problem of Mankiw, Romer, and Weil is that it's a regression framework of cross-country differences or changes that really has no way of dealing with omitted variable bias. And when we have seen that in the context of Mankiw, Romer, and Weil, if we go a little bit into the details, is that if you compute the implied rate of returns to human capital, they are about four or five times as large as what you would get from Mincer regression.

So the Mincer regression says if you get one more year of schooling, you're going to increase your earnings by about 6 percent in the US, perhaps as high as 8 or 9 percent in some developing countries. Let's say 10 percent. Let's be generous.

That means that if you are going to increase your rate of schooling by 3 or 4 percent, and if there are no major human capital externalities — and we can come back to that — then that's going to increase your GDP per capita by 25, 30 percent. That's a very small number relative to the gaps that we actually observe. So if you look at what —

COWEN: The cross-human externalities are incredible, right?

ACEMOGLU: Of course, I'll come to human externalities.

COWEN: If you take Bill Gates and put him out in the jungle, he can't do much. But if he works with other programmers — yeah.

ACEMOGLU: We'll come back to that. That's why I said let's come back to the human capital externalities. But let's understand — where Mankiw, Romer, and Weil either go wrong or right, depending on your views on human capital externalities, is that their implied returns that three or four years would be associated by three- or fourfold increases in income per capita.

And later literature that followed — some of it very good, some of it not so good because there are other methodological issues, but they all uniformly find much more limited returns to human capital. And that's not my work. Here, I'm actually building on other people's work, such as Pete Klenow, Andres Rodriguez-Clare, or others who have really made this point very effectively.

So the only nuance here is exactly what you've pointed out: some sort of human capital externalities. Could it be that the return for a society from education is much, much larger than what we mentioned with Mincer regression, when we look at an individual's *own* earnings increasing? And that would be the realm of human capital externalities, and those could come in one or two forms.

They could come either through some sort of local externalities, meaning that I get more education and I make people *around* me richer. Or they could come through some sort of R&D externalities, that I become more educated, and as a result of that, I invent something and make *everybody* in the world more productive.

Now, the first one, the local human capital externalities — that's something I actually investigated, for example, with my work with Joshua Angrist, and we don't find much evidence for it.

And it's not so surprising at some level. There could be some small externalities, but are you going to become suddenly much more productive because a bunch of McDonald's workers suddenly increase their education level by two years? Sure, perhaps when you go to McDonald's, you'll get better service. There might be some other small externalities, but it's not going to be a transformative event to increase your rate of return by three- or fourfold.

Now, the R&D externalities are different.

COWEN: Wait, you moved from Turkey to MIT, right? That made you *much* more productive.

ACEMOGLU: Exactly. I'm moving into an area with better technology and better institutions.

COWEN: But *mainly* better people to work with?

ACEMOGLU: *Some* better people to work with, but the better —

COWEN: For people at the top, the externalities probably are very, very high. So Mark Zuckerberg in Peoria is maybe doing quite well, but he's not building Facebook.

ACEMOGLU: Absolutely. I think *teams* really matter. If you're going to build a new product, you really want the very best engineers. But I'm not sure whether I would call that actually an externality. If that happens in the context of a firm, the firm internalizes it. That's why firms pay really amazingly high wages to teaching human capital — people who make the people around them more productive. And if that's being reflected to wages, that's already in the Mincer returns.

So I think it's really hard to cook up stories for human capital externalities that's going to get you anywhere close to Mankiw, Romer, and Weil's type of numbers or implications.

COWEN: But say the Nordhaus paper, which suggests most innovators get only about 2

percent of the returns of their creation — doesn't that mean the Mincer wage equation doesn't pick up many of the benefits of cooperation?

ACEMOGLU: Right. For the very, very top innovators, there is clearly some externalities. I think the Nordhaus numbers are probably extreme because there's also a lot of business stealing that's going on at the top, meaning that when people *innovate*, they actually take other people's markets.

Google got an amazing value. It's one of the most valuable companies that human history has ever seen. But some of it came because it actually took the market of other search engines, such as Yahoo or AltaVista.

It also created value for its customers, and it's also been pretty good at capturing that value. But the important thing, again, is those are very exceptional one or two innovations. When you say the average level of schooling increases from 10 to 11, we're not really capturing that. Some of the people who innovate and capture such values are not the most educated ones, and they're not educated in the US.

One of the great things about US is, actually, we *attract* those talents, again because of the business environment, because of the institutional environment, as well as the teams that they can form when they come to the US.

On democratization and progress

COWEN: There's another paper I'm sure you know, by Casey Mulligan and coauthors, and he even argues maybe having democracy doesn't matter that much. It affects your political institutions, but if you adjust for demographics, that doesn't predict your educational spending. If you look at either Chile pre- or post-Pinochet, Spain pre- or post-Franco, other than how politics works, most of the budget doesn't change much. What do you think of that argument?

ACEMOGLU: I think that that's really off the mark. The early work on democracy — such an important topic, and people were really excited about understanding what democracy does. So they rushed in with the tools that we had available at the time in the 1990s or early 2000s.

But you have to be careful. Of course, if you judge whether democracy is successful or not by comparing China to Switzerland, you're going to get not very meaningful answers. That's like a chief case of comparing apples and oranges. I have written a couple of papers on this, and the econometrics here really matters for a variety of reasons. You don't want to compare apples and oranges.

You also want to be careful because it turns out that there's one surefire predictor of when a country democratizes — it's economic crisis. Dictatorships don't go often because they decide, well, citizens should rule themselves. They collapse, and they collapse more likely in the midst of severe economic recessions.

So you really have to take care of these things. And when you do that, you find two things that are both amazingly robust. One is that democracies grow faster. So when a country democratizes, for another three or four years, it takes time for it to get out of the crisis. Then it starts a much faster growth process. It's not going to make Nigeria turn into Switzerland, but a country that democratizes adds about 20 to 25 percent more to its GDP per capita.

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And then the second thing, again, completely the opposite of what you said from Mulligan's research — one of the most important mechanisms for that seems to be that when you democratize, you tax more, so the taxation, the budgets go up. *And* you spend more, especially on education and health, so the health of the population improves. Child mortality is one of the things that improves very fast. Primary and secondary enrollment improves a little bit more slowly, but it improves very steadily.

COWEN: Now, in your new book, *The Narrow Corridor* with James A. Robinson, there's a theory about states and societies reinforcing each other in a Red Queen kind of manner and giving you ongoing synergistic gains over time. What's the underlying factor that determines why some societies succeed in that and others don't?

ACEMOGLU: Yeah, so I feel —

COWEN: Does the theory collapse into some other theory, is another way of putting my question.

ACEMOGLU: I'm sure every theory at some level collapses into another theory, but you know —

COWEN: But geography theories don't, right? Disease burden theories typically don't.

ACEMOGLU: Right, they don't. Just let me build on the democracy question. I think what's really interesting about democracy and this evidence that I talked about — it's really about society, regular citizens having their voices heard in the political sphere. That's what democracy is wonderful for.

But at the end of the day, that translating into better public services like education, healthcare — that's really what this book is about. That's what *The Narrow Corridor* is about. It's how do you make states and societies work together? If you look at most of human history, it doesn't work. Either you have stateless societies, no centralized law, no third-party enforcement — so, lawlessness and lots of other costs — or you have despotic states that don't listen to society and impose their will, often very repressively and otherwise, on societies.

But the original part of the book is to say, actually, squeezed in between these two things, there is this Red Queen dynamics, the corridor where states and societies sort of support each other, and that supporting process is a contentious process. It's not that they are happily cooperating. They are trying to race with each other. Each is trying to have the upper hand. But as long as that competition doesn't become destructive, it can actually add to the capacity of both of them.

So in that sense, it is an institutional theory. It is also about norms and cultures because you really need to write norms and cultures for society to participate in politics, and the right sort of understanding of what that participation is about.

But at some level, I also don't see it that easily being reduced to other stories because it is exactly about this cooperation-and-competition dimension of state and society empowering both, which, at least to our understanding, was not an idea that has received much attention, but when you start thinking about it, it really opens up new horizons about your interpretation of the world.

On European exceptionalism

COWEN: Just empirically, what do you think is the best underlying preexisting predictor of getting into that positive synergistic dynamic?

ACEMOGLU: We spend quite a lot of time in the book going through several examples of countries that have been able to do that, and there are two prerequisites. It is that you need to have both an already mobilized society with the norms and traditions of participating in politics, and you need to —

COWEN: That's human capital somewhat, right?

ACEMOGLU: Well, let me say the other element. Then I'll come back to the human capital. That's a good question, but I'm going to disagree.

Then you also need some sort of institutional elements that survive or that are present, about how state institutions are run, how bureaucracy is organized, how administration is organized. Let me take a specific example, and then we can talk about human capital in that context.

You cannot talk about liberty without at least addressing, to some degree, why Europe is exceptional. Why is it that certain representative institutions develop most strongly in Europe and certain aspects of liberty — they did not *only* develop in Europe; the demand certainly was there throughout the world — but they took strongest root in Europe. So what was special about it? Culture, Greco-Roman heritage, geography?

We say *none* of this. It's actually the meeting of bottom-up political participation and the institutions of the Roman Empire, even after the Western Roman Empire had collapsed. So where does the bottom-up element come from?

Well, it comes from the Germanic tribes who were raiding and sometimes fighting with, sometimes fighting against the Romans. But after the Western Roman Empire collapsed, especially the Franks, sorry, amalgamation of several other Germanic tribes really took root throughout that area. The Franks did not have much human capital. They did not have any educational institutions. They didn't know how to read and write. They learned that from the church after they sort of adopted Christianity. But what they had were these traditions of organizing their politics.

This is recognized by Julius Caesar and Tacitus during the times of the Roman empires and the early chroniclers of the Merovingians and the Carolingians. They had this view that the chiefs had to serve the people. So the chiefs were often temporarily appointed during wartime, and out of war, they held back. They had all these assemblies.

Some historians call them the assembly politics of the German tribe. Everything had to be done through assemblies, and those traditions were the ones that they tried to fuse, and quite successfully in the hands of Clovis and Charlemagne, for example, together with the much more top-down Roman Empire's institutions.

So it's the human capital came out of that process, especially with the church's doctrines and teachings as one of the key repositories of human capital around the Middle Ages, sort of playing out. But when you look at the Merovingians — they did not have high human capital. They certainly had much less human capital than the Romans before the Roman Empire had collapsed.

COWEN: But I think you're thinking about human capital in terms of some kind of education. If you think of it in terms of norms, customs, and also ideas — they had Christianity. You get the conciliar movement quite early in western Christianity. You get underlying democratic forces. In the Bible itself, there's an emphasis on the individual, on the nobility of an individual who is not powerful in terms of military force but rather —

ACEMOGLU: Okay, so those are good questions.

COWEN: Why isn't that the kind of Solow residual of Europe?

ACEMOGLU: Those are good questions. I agree some and I disagree some. First of all, as I said early on, norms are critical. And I said, what are the Germanic people, what are the Franks bringing? Yes, it's the norms. There they have some institutions — so the assemblies have become institutionalized — but it's mostly norms, as I said.

But the ideas that they are bringing aren't associated with any sort of religious ideology or anything like that. They're just much more practical, and the role of the church is actually quite much more complex than what might first meet the eye.

First of all, the Merovingians weren't, or the Franks weren't, initially Christian. They became Christian as a state-building effort. Clovis decided to convert to Christianity, but it wasn't a personal conversion. He converted together with all of his warriors, and he wanted to have the additional political hierarchy created thanks to the church. And we

know that when the church institutions and the Roman institutions meet with other sort of conditions, they did not lead to anything like the corridor that we see starting during the Merovingian and the Carolingian times.

The place where the church was extremely strong and Roman institutions were extremely strong was Byzantium. The Eastern Roman Empire survived, and it was actually much better organized in many ways than the Western Roman Empire. Christianity played a very, very important role. Their bureaucratic traditions persisted, but no liberty emerged in the Byzantium Empire because you had the *one* blade, which was the state institutions, but the other blade, the bottom-up politics, was completely missing.

COWEN: If you think about the longer-term history of Islam, which is in many parts of the world, there are some recent examples of electoral democracies in Muslim countries, but there are actually remarkably few compared to the history of Christianity. Doesn't that suggest the power of Christianity, as an idea on political institutions, is remarkably strong?

ACEMOGLU: Well, I think Islam is not exceptional. There are many other religious traditions —

COWEN: But *Christianity* is exceptional in my account, not Islam.

ACEMOGLU: Okay, let's talk about that. We can come back to Islam because we do actually spend quite a bit of time both about the origins of Islam as a state-building religion and also how it has been used and abused during recent times.

But about Christianity, I would say the Byzantium example says there's nothing exceptional about Christianity in the hands of the Byzantium emperors. Christianity was as repressive and as a top-down state religion as any. Examples of that abound from Portugal to Spain, both in their own countries when the monarchs became strong enough, or the way that they impose this in their colonies. Christianity turned out to be extremely consistent with top-down politics imposition, stamping out all sorts of rights and bottom-up elements.

COWEN: Sure, but once you get the printing press and literacy, individualism then blossoms, right? And demands for some kind of popular accountability.

ACEMOGLU: It does, but I will say that the roots of that are not in Christianity. The roots of that are *exactly* in the mixture of Christianity with the bottom-up politics of the Frank institutions.

You see that, for example, again, in the case of the Anglo-Saxon England. In the case of Anglo-Saxon England, Christianity plays a much secondary role relative to the assembly politics in the way that the Saxons brought to the British Isles. You see those assemblies playing a role at every stage, constraining kings and completely changing the political traditions, even after the Norman Conquest.

Christianity comes in and out of the picture, but it's completely secondary. Now once, of course, those political traditions become well rooted *and* the country is Christian, those two start merging, and some of the exporting of these ideas beyond the boundaries of the Germanic tribes themselves or Britain sometimes have a religious element. But I don't think I would interpret that as saying that there is something inherently different about Christianity.

COWEN: Is there something inherently different in East Asia and the Confucian tradition? You take South Korea, the Park administration in the 1960s — it's *remarkably* corrupt. No rule of law. Yet South Korea now is a completely developed nation, more or less on a par with France.

ACEMOGLU: Yes, it's democratized.

COWEN: But isn't that endogenous to there being some cultural element in East Asia, which is common to Taiwan, Singapore — mainland China, we will see. But is that the case —

ACEMOGLU: Yes, but I think what's very important — and we spent quite a bit of time in the book on this in the context of Chinese history — is not necessarily the notions of liberty or bottom-up politics.

What's really very exceptional about East Asia are the traditions of state capacity that go back to the Qin dynasty in China. And Confucius's teaching, as has been adopted by the successive Chinese dynasties, is an important part of it. It spreads from China to Korea to Vietnam. You have this more meritocratic organization of the bureaucracy, for example. And you have strong states, but at least with some capacity, not just tinpot dictators.

But what you want to think about there, again, is not a simply cultural thing. It does certainly survive in the forms of culture. It does certainly survive in the form of norms.

But its institutional underpinnings are very important as well: the exact way in which the state is organized, the exact way in which the bureaucracy is organized, and the relationship between state and society. The fact that society hasn't had much of a voice really helps some of those traditions evolve. If you go back in time long enough — for example, the Ottoman Spring period — China looks very different.

So it was a political change that happened, especially during the big wars of the Warring period, that really changed those traditions, those institutions. So again, my interpretation would be that it's very much along the lines of what I'm talking about, which is the interplay of norms and institutions together shaping these things. And there isn't a special Chinese genetic or some such human capital or idea that's surviving. It's those norms and institutions that are recreating themselves in different guises.

On Chinese exceptionalism

COWEN: And Why Nations Fail — you're quite bearish on China. Do you still agree with

that assessment?

ACEMOGLU: Yeah, I would say that China is an experiment that we have never seen in the world. In many ways, if you look at the growth of China in the 1980s, it's very fast, but it's not unusual. There are many other countries that grow in more or less the same way, which is that you get rid of the most inefficient parts of your system, the completely regulated agricultural prices that were leading to famines when the country actually had hyper agricultural productivity in the '90s. You see the state-owned enterprises rationalizing and some private businesses entering into industry.

All of those are very similar to what happened with the Prussian growth, for example, in 19th century, with the Russian growth, but it all even has some elements of commonality with the Soviet growth during the 1930s, '40s, and '50s.

But what we are seeing right now is — against the predictions of many pundits, but very much consistent with the framework that we're presenting in *The Narrow Corridor* — the imbalance between state and society meant that growth went hand in hand with the state's control over society *not* weakening and, in many ways during Xi Jinping, getting stronger.

But what makes China exceptional is that — like no other despotic, extractive society in history — it has a complete obsession with innovation and technology. When you look at other despotic states, they understand they have to use technology. They understand they have to build some edge in some things such as war making, but they are not pouring resources. They're not trying to reorganize society in a new way in order to bring forth innovation *while* still keeping that despotic control.

China is the first society that's really systematically trying to do that. China wants to keep the despotic control of the Chinese Communist Party while at the same time be a leader in digital technology, leader in Telecom, leader in AI, and it's pouring a lot of resources. It's providing incentives, and the question is whether this is going to succeed. My view is, it is not a complete failure, but it's not going to be a huge success.

You see the problems in it already, and we can go into some of the details. I don't want to keep going on and on. But there are tensions. You really need — you called it individualism. I'm happy to call it that. I would have called it something differently. But you need that individualism spark. You need that experimentation for the most radical type of innovations to take place, and China is missing that. It's going to try to pour more and more resources to make up for it, but I'm not sure whether it's going to work.

COWEN: How predictive do you think your theories are? Say you looked at Africa, knowing all of what's in your books and your articles, and you play a Philip Tetlock forecasting tournament. Which countries in Africa will do quite well over the next 30 years? Are you better at that than other people are?

ACEMOGLU: I don't think I would be that good at it because I think one of the things that you see when you start thinking about the complex of institutions and norms — details

matter, leadership matters, collapses matter. You see *some* elements that can be the basis of some broad tendencies. We said this in *Why Nations Fail* seven years ago, and we're saying it again.

I don't think China is going to seamlessly democratize and enter the corridor and start having very strong civil-society institutions. You're not going to be able to build very strong state capacity institutions in places that have a tradition of completely distrusting the state.

You also are going to have a very different growth experience in places where you have a tradition of state capacity. So Vietnam is going to be very different than Burma, for example, because at least in parts of Vietnam, you have this tradition and institutions of states organizing production, organizing irrigation.

And in Africa, Rwanda and Burundi, with a tradition of much stronger state institutions, are going to be very different. Ethiopia has some of that also, and those countries can pursue a very different growth strategy than, say, Nigeria.

Nigeria is an amalgamation of many, many, many different ethnicities, tribes, and nationalities. It had none of it. Well, Yoruba perhaps a little bit has some of these traditions of older empires. But the country is not going to have a top-down growth strategy like the one that Rwanda and Ethiopia have.

But these are just very general tendencies. Nigeria can collapse into civil war again, and it's very difficult to predict those things. You can predict the fault lines. You can predict some of the comparative advantages. You can predict what is going to be very difficult. But making very specific predictions is going to be very hard.

COWEN: If you *had* to name two or three nonobvious nations to be bullish on, are there any picks you would make?

ACEMOGLU: That's a great question. Well, I don't know what nonobvious means —

COWEN: Denmark. Denmark will do fine, we can agree.

ACEMOGLU: In Latin America, I would pick Uruguay and Chile. I think those are two societies that have made the investments for both getting the bottom-up politics working and the top-down state institutions.

They both have very deep conflicts. Chile is a very highly unequal country. Economic inequality, I think, actually *understates* social inequality. And you are seeing that with protests. We're seeing that with distributional conflicts. But despite that, I think this combination makes Chile unique in many ways. And Uruguay, I think, has attempted to do the same thing.

I think Ethiopia is a great example to watch. It's been crushed under brutal dictatorships for so long, but it has some of the elements of state institutions that are much stronger than the rest of Africa. And again, what you're seeing with Abiy Ahmed now is this attempt to bring out the bottom-up element. I think that's very important.

You can go a little bit more micro. In the book, we talk about Lagos. Lagos is a super interesting case because it was the favorite example for everybody who wanted to talk of chaos and anarchy. It was a lawless city falling into pieces. Gangs were roaming the streets. But then what you actually witnessed in Lagos is exactly the type of thing that our framework suggests is a way out.

Some politicians who understood that the only way out of the morass was, you're going to promise to offer better state services, better tax collection, better refuse collection, better schooling, while at the same time encourage society to monitor them better. So the dual action of increase the state's capacity while society's controls get tightened as well.

On things under- and overrated

COWEN: Now in these conversations, we usually have a segment, underrated versus overrated. I'll toss something out. You give your opinion. You're free to pass. Orhan Pamuk.

ACEMOGLU: I think he is just right. He's an amazing writer and a brilliant voice for Turkey.

COWEN: Turkish pizza — overrated or underrated?

ACEMOGLU: Oh, I love it. I love it. I'm not sure whether I would say *underrated*, but yes, I love it, so perhaps underrated.

COWEN: Randomized control trials as a method for development economics.

ACEMOGLU: The way I would put it is that every tool is useful. You should not overuse and overemphasize any tool. If you think that randomized controlled trials are useless, that's absolutely wrong. But if you think that they're going to answer the majority of the questions in development economics, that's even more wrong.

COWEN: Cross-country growth regressions — underrated or overrated?

ACEMOGLU: Same thing. I think they were hugely overrated. They have so many problems. But if I say they are overrated, I wouldn't mean to say that you should not look at cross-country data. If your questions are about which countries develop and national development paths, which are just overwhelmingly important for lifting millions and billions of people out of poverty, you have to look at cross-country comparisons.

COWEN: Publishing in a top-five journal. There's a current obsession with this —

ACEMOGLU: Overrated.

COWEN: — getting stronger. Why overrated? What's your take?

ACEMOGLU: Well, I think economists have to appeal to a broader audience, and our science has to be solid. Publishing in the top five journals is a good discipline because it makes sure that we don't slack off, we don't do shoddy research and get the credit for it. But if it becomes an obsession, it is at the cost of communicating with the rest of the world. And that's not healthy either.

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Since at the moment, all of the incentives in academia and economics depend on publishing in the top five journals, I would say somewhat overrated because we should also value people who are able to reach a broader audience, think outside the box.

Sometimes fads really determine who can get published and what can get published in the top five journals. So if you have some big ideas and you're looking at the data of the world in a different way, but your identification isn't solid, you're never going to get into a top-five journal. But we shouldn't be discouraging that type of research.

COWEN: The Turkish movie director [Nuri Bilge Ceylan](#) — overrated or underrated?

ACEMOGLU: Ah, so, he's okay.

COWEN: He's okay. What's your favorite Pamuk novel?

ACEMOGLU: I probably would say *White Castle*.

COWEN: For me, I think it would be *Snow*.

On political liberty in Turkey

Now, the future of political liberty in Turkey. Are you optimistic? And what's the path back?

ACEMOGLU: Well, I don't think it's easy to be optimistic. I tried to be optimistic, but Turkey is going through a really, really bad time.

The new presidency with executive powers and no checks and balances is terrible. Turkey has become much, much more polarized over the last 15 years. All of the independent agencies, judiciary institutions have completely collapsed. There is not even

a modicum of judicial independence in Turkey. If you can look at the military period and you can say the courts were not independent of the military at the time, that's true, but the extent to which that could happen is not comparable to today.

But on the other hand, when the West, especially the Europeans, look at Turkey, they misinterpret it. They misinterpreted it in the 2000s, thinking, well, Erdogan was a force for democracy. By the time he became the darling of some European media outlets, he was already undermining all Turkish institutions.

But they are also misjudging the situation in Turkey, thinking that he's an absolute dictator. What really distinguishes Erdogan is his weakness as well as his strength. And he really depends on some sort of public opinion and enough support from the public to be able to do it. Many of the worst economic policies in Turkey are attempts to get that, and some of the very bad foreign policies are attempts to get that support.

So what we have seen in the latest municipal elections this summer was exactly that. Erdogan did not have the power to stop a huge electoral backlash that happened against him. So that says that the way out is possible for Turkey, but it's going to be a very slow way out. And the fact that the opposition itself is problematic, divided, doesn't have a clear ideology of building Turkish democracy — I think all of these make the endgame really, really hard and treacherous in Turkey.

COWEN: The PKK — are they terrorists? And should America be supporting them?

ACEMOGLU: Well, PKK *are*, of course, terrorists. There is no doubt about that. The YPG's relationship with the PKK — that's much more complex, but it is an arms-length relationship, and they are not independent of the PKK. But the situation, of course, in Syria is much more complicated. First of all, the US, for a variety of reasons, made the choice of working with YPG, and going back on it is costly as a signal to US's allies. And the alternative is that creating a vacuum there is not going to help anybody.

I think the biggest threats that we are facing right now are Islamic State terrorists getting free or getting a toehold in that area, or the Syrian and the Russian army now completely controlling that strip, or at least much of that strip. I think none of those are good for the future of the Middle East, and they're not really good for the security of the West, especially there, again, if the Islamic State comes back. So I think the current situation before the Turkish offensive had a lot of problems, but where we are heading right now is even worse.

COWEN: Is women's autonomy a variable in your theory? And how should we think about the apparent inability of many countries in or near the Middle East to mobilize the productive opportunities for women?

ACEMOGLU: I think it's a *huge* problem. If you have a country like Saudi Arabia, where women are essentially not part of the labor force for all practical purposes, you are just running your race with one of your arms and one of your legs tied behind you, so it's a huge problem. But —

COWEN: Does that co-move with the Red Queen dynamic in your new book?

ACEMOGLU: Absolutely.

COWEN: Or it's a separate institution?

ACEMOGLU: No, it is. It's part of the process of liberty building. This is one of the things you can ask me. You're going to say, "Britain was getting free or was already free in the 19th century when it was reforming its democratic institutions." But what about women? Women didn't have the right to vote. They had no rights. Their assets could be taken away from them. Their children could be taken away from them. How is that a free society?

This is one of the things that we try to grapple with in the book. Freedom, liberty is a process. It's all of these various social hierarchies and restrictions on what people can do in their economic and social lives being broken down one by one, and women's freedom is a very important element of it. And along the lines of what we are emphasizing, it's not something that was given as a gift by men. It's not something that naturally came just in and of itself. It was a process of political change.

This is one of the things that we try to grapple with in the book. Freedom, liberty is a process. It's all of these various social hierarchies and restrictions on what people can do in their economic and social lives being broken down one by one, and women's freedom is a very important element of it. And along the lines of what we are emphasizing, it's not something that was given as a gift by men. It's not something that naturally came just in and of itself. It was a process of political change.

People protested. They wanted more rights, they wanted more voice, and it was, even more importantly, a process of cultural norm change. Even after women got the vote in the US and Britain, for example, you wouldn't say that women were free. There were so many norms that discriminated against them in the workplace, in the family, and what they could do in social life. And all of these had to change slowly, but it's this process of political and social change together, and economic change follows from that.

COWEN: In *The Narrow Corridor*, you're very critical of the Indian caste system. But if I just do simple comparative analysis, India is wealthier than either Pakistan or Bangladesh, which are largely Muslim, don't have a formal caste system. So, can the Indian caste system be such a major factor holding India back?

ACEMOGLU: That's a good question. But we have to remember . . . I don't know enough about Bangladesh to be able to comment on Bangladesh, but in the case of Pakistan, there are two observations that are relevant.

One is that Pakistan, of course, ended up with the most feudal parts of the Indian subcontinent, in some sense. And the way that its political system evolved wasn't adaptation to those feudal political, social relations. The strengthening of the army, the

alliance between dictatorial power of army generals and politicians, together with the feudal landowners, I think, was not something that was invented out of raw cloth.

But even more importantly, the Muslims in the Indian history should not be thought of as a separate category. They are part of the caste system. The caste system, by creating social hierarchies, in the same way that it affects the untouchables, the Dalits, it also affects the Muslims. So they're part of that social hierarchy, and the evolution of their norms, their economic opportunities were very much shaped by that whole heritage.

COWEN: Your comparison of the histories of Guatemala and Costa Rica — your book assigns a very large role to the differential histories of coffee plantations in both countries. But if we look also at the distribution of income within countries — who's wealthy in Guatemala, who's poor — as a gross generalization, the fairer-skinned people are wealthy. The indigenous are poorer, they've been oppressed, they have much worse schools. They may not have schools at all.

Why isn't the difference between Guatemala and Costa Rica mostly a matter of ethnicity and not so much a matter of the differential history of coffee plantations? Isn't that the more economical theory that also explains distribution of income within each country?

ACEMOGLU: I don't think so because the reason for that is . . . I would say that the account that we provide is fairly economical. In the middle of the 19th century, Costa Rica and Guatemala are not that different. They were recently part of the same empire, and all of the economic powerhouse, economic heartland of the kingdom of Guatemala is in Guatemala. That's where all the big landowners are. That's where all the big trade associations are.

Costa Rica is a marginal land. So it is *that* political background that really shapes how they react to the new opportunities being made available by the transport revolution and coffee economy. So they go in the smallholder direction, whereas Guatemala doubled down on repression. Who are the people who are being repressed? Well, the people who are being repressed are the ethnically indigenous inhabitants of Guatemala.

It's a very, very naked, savage form of repression. No education, no economic opportunities, and it actually goes on well into the late 20th century. The military dictatorship in Guatemala and the civil war — they were all along the lines of indigenous versus nonindigenous people, and the elites that were created by unequal land distribution versus not. So it is that history that you have to take into account when you say that people with indigenous inheritance and origin are actually poorer.

And the reason why I'm saying the ethnicity-based explanation is not an obvious one — when you look at other areas where economic history has been different, then the role of indigenous heritage is very different. So again, back to Chile. Of course, the people with indigenous background in Chile have had a worse time than the elites who live in Santiago, but the income gaps are much, much smaller because the economy went in a different direction.

The extent of repression — especially after democratization and people got the vote, and with the secret ballot — significantly decreased, and states started providing services in terms of education and healthcare to these people, and those gaps really significantly narrowed. So I don't think you can just —

COWEN: But the Mapuche in Chile — they're *very* poor, right? They live in some of the worst parts of the country. They have the worst schools.

ACEMOGLU: Yes. Again, that's part of the history. But if you look at the income gaps, they're much, much less than the ones in Guatemala — again, as a result of the much, much lower levels of repression that they've suffered as a result of the history.

On the Daron Acemoglu production function

COWEN: Our final segment — we call this the Daron Acemoglu production function. So how do you work? How do you and Jim Robinson collaborate? What's your mix of talking, writing? Do you go for three-hour walks like Kahneman and Tversky did? How does it work?

ACEMOGLU: Well, Jim and I have been working for, now, 22 years. We started working together in 1994. Oh, my goodness, 25 years. Oh gosh, time flies by. [laughs] Early 1995. And we've worked, we've written so many papers together that we really . . . Our way of thinking has merged. In the early phases, we did spend a lot of time together. Jim would come and stay with me. I would go and stay with Jim. But then, as we've become busier and we're in different cities, we don't do that as much.

So there's a lot of email conversation and sometimes long phone conversations, but we're able to understand each other when we write. For example, it's very difficult for people to tell which part of a paper or which part of our book we have written because we've been working so closely together.

COWEN: This is Google Docs? Or you trade a Word file back and forth?

ACEMOGLU: No, it's a Word file doc. I use voice recognition software. Google Docs is not great for that yet, but perhaps one day it will be great. We would really benefit a lot from spending three-hour walking afternoons together, but sometimes you do what you can do.

COWEN: What's your best nonobvious productivity trick?

ACEMOGLU: Coffee.

[laughter]

ACEMOGLU: But it's obvious, right.

COWEN: That's obvious.

ACEMOGLU: Well, if you asked me that question eight years ago or ten years ago, I would've said I never read blogs or anything like that on the internet, and that saves a huge amount of time. Nowadays, I do a little bit more of the internet reading because now everything's on the internet, but I try to protect my time. I try to remain focused in the office. I meet with people, I talk with people, but when it's time for work, I do the work rather than goof around on the internet.

COWEN: What TV shows do you watch?

ACEMOGLU: I haven't watched anything on TV per se. Downloads —

COWEN: That's a productivity trick right there, right?

ACEMOGLU: That's a productivity trick. Right now, I'm watching *Berlin Station*, which is a show about spies and spooks, which is one thing I have a weak spot for. None of the new Netflix things have really caught my fancy all that much. The *House of Cards* was okay, but I guess one of the things is, I still prefer movies than these very elaborately produced TV shows. But that probably shows my age.

COWEN: What's your favorite movie, and has it influenced your thought?

ACEMOGLU: I think at the deep level, many of the movies that I watched as a young man influenced many of the things that I have worked on or the way that I've approached. I like the Kurosawa movies, like *Ran* — they're this historic sort of thing. Bergman's *Seventh Seal*. But I also like the more humorous — big fan of Monty Python and such things, and I guess they do give you a perspective about the way that you look at things. But I'm not sure that any specific movie has the themes of *The Narrow Corridor* in it. [laughs]



COWEN: And finally, last question. You're well known for having advised a large number of successful students. What is your best piece of nonobvious advice for advisers hoping to promote or somehow improve their students?

ACEMOGLU: I think advising students is a lot about a human relation, so understanding what it is that people really need at that point is really important. I try to push my students if they are getting overly confident about the quality of their paper. You really have to push them because no paper is perfect, and you can always do better.

But if they're getting — as many students often do — somewhat down because the whole research process is so hard, you have to find the right way of motivating them because you're dealing with amazing people who are doing amazing work and putting their thoughts and soul into it. So I think the support from their advisers is the least that they deserve.

COWEN: To close, I'll just remind you all again, the new book by Daron Acemoglu and James A. Robinson is *The Narrow Corridor: States, Societies, and the Fate of Liberty*. Daron, thank you very much.

ACEMOGLU: Thank you, Tyler. It was a really great pleasure.