Spring 3-28-2013

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March 28, 2013

Daron Acemoglu

BLOOMINGTON, Ill. – The question of why some nations are rich and others are poor has been debated for centuries. In a lecture given Wednesday at Illinois Wesleyan University, one expert argued that it is economic and political institutions, or the lack of them, that dictate economic success.

Daron Acemoglu, co-author of *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, was the speaker at the inaugural Robert S. Eckley Lecture in Economics. The lecture was made possible by a gift from IWU President Emeritus Robert S. Eckley given shortly before his death in 2012. Acemoglu also spoke to Wesleyan students and met with economics and political science faculty prior to his public lecture.

Acemoglu, the Elizabeth and James Killian Professor of Economics at Massachusetts Institute of Technology, is the winner of the 2005 John Bates Clark Medal from the American Economic Association. A widely published scholar, Acemoglu co-authored the 2012 *New York Times* bestseller *Why Nations Fail* with Harvard political scientist James Robinson.

In his lecture, Acemoglu said that experts have long debated the question of why some nations are wealthy and others are not, noting the same question was the starting point for Scottish economist and moral philosopher Adam Smith in writing *The Wealth of Nations* (1776), today considered a fundamental work in classical economics.

“At the time Smith was writing, the gap between the richest and poorest nations of the world was on the order of four-or five-fold,” said Acemoglu. “Today that gap stands at 40-fold.”

Acemoglu said one popular theory expounded is that some nations are condemned to poverty because of their geography – that they are disadvantaged by poor soil or a bad climate for productive agriculture, for example. Other theories say cultural differences between nations or ignorance of effective policies to foster economic growth are root causes of economic disparity between nations.

Acemoglu said he and his co-author instead argue that it is a nation’s economic institutions – and whether they are inclusive or extractive – that shape its prosperity or lack thereof. Inclusive economic institutions are those which provide incentives to people to invent and to innovate and which provide opportunities to the vast majority of citizens, Acemoglu said, citing secure property rights and an unbiased, effective legal system as important examples.

“You need a level playing field so that profitable, lucrative businesses and activities in a society are not in the monopoly of a few people,” said Acemoglu. “The more people taking part in the playing field, the more likely is a society to bring its best technologies to its consumers. For that sort of level playing field, you need regulations that prevent monopolies from forming, that do not allow entry barriers to block new technologies, and that require the sort of investment in education and public structure that brings society at large into the economic theme.”

The problem, Acemoglu continued, is that historically most economic institutions have not been inclusive. Indeed, the opposite more often occurs, creating societies with extractive economic institutions, which often serve the interests of an economically, powerfully advantaged minority of citizens that Acemoglu called the elite.

“We call them ‘extractive’ because they have been designed to actually enrich and benefit the small minority in society at the expense of the rest of society,” Acemoglu said. “Extractive economic institutions often serve the interests of the elite and not so much the rest of society.”

In a question-and-answer session following his talk, an audience member asked Acemoglu if he believed that elites have a stranglehold on the current American economy, making the playing field less than even.

Acemoglu said he is both optimistic and pessimistic, noting that the U.S. has had one of the most inclusive economic and political institutions in the world. Fault lines in that inclusion have recently emerged, however.

“The U.S. has become much more economically unequal,” he said. “The gap between the top one percent and the rest of society is getting larger. We know from history [that] when societies become very economically unequal, political inequality follows."

Acemoglu said there is considerable evidence that the wealthy have a disproportionate voice in politics. “This is not inconsequential when it comes to discussion and decisions of how to get out of the current fiscal crisis or what to do about changing the structure of government,” the economist said. “Those are very political decisions.”

Acemoglu said he has optimism, however, because the country has already weathered storms, citing the Gilded Age, when there was an even more pronounced inequality with greater dominance of the economy by a few companies and much weaker political institutions.

“U.S. institutions were able to reform themselves, reducing the power of the trusts, creating a much better-regulated system" with creation and enforcement of antitrust laws and a newly empowered Justice Department, he said.

The Robert S. Eckley Lecture in Economics allows economics faculty to bring to campus a distinguished scholar to broaden the understanding of economic analyses and perspectives among others on campus and in the community. President Emeritus Eckley received a Ph.D. in economics from Harvard University. He was an industrial economist for the Federal Reserve Bank of Kansas City before joining Caterpillar Tractor Co. where his work included economic research, pricing and product control. He served as president of Illinois Wesleyan from 1968-1986.

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