

# Kingdom Report

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## Why Do Nations Fail?

Acemoglu and Robinson published their work in a book titled “Why Nations Fail: The Origins of Power, Prosperity, and Poverty” in 2012. They received the 2024 Nobel Prize for Economics. I want to make some comments with regard to God's Kingdom economics of Jubilee and South Africa

According to the Nobel committee, this work has become a cornerstone in economic literature, offering a compelling analysis of the drivers of economic success and failure. Daron Acemoglu was an economics professor from MIT and James Robinson a professor of government from Harvard.

The thesis of the book is quite straightforward: nations with “inclusive” economic and political institutions, defined as rule of law, democratic participation, political pluralism, will succeed; nations with “extractive” system, run by a self-serving ruling elite, will fail.

Now straight off I would say Moses as the writer of the Torah came up with this concept of economic freedom and an inclusive economy when he outlined God's Jubilee economic system as the solution to God's commandment that there shall be no poor among you. Samuel warned Israel that the king they wanted to rule over them would oppress them with what the Nobel winners would describe as an "extractive economy" and bring the people into bondage and poverty.

However I need to point out some major flaws in their examples of success and failure in 2012 when they published which did not age well over time. And it holds lessons for our economic Kingdom strategy.

In their analysis, geography, history, culture, and natural resources are not key drivers of a nation's destiny. Rather, political institutions and behavior of ruling class largely determine the economic success or failure of a nation.

While hardly a revolutionary theory, the book went to a lot of length to analyze numerous nations to make an empirical argument. The authors spent quite some time analyzing China and contrasting with the US. I found they had very little original insights and merely recycled western stereotype caricature of China while their praise for the US somewhat unwarranted....as time would prove.

The authors used China and the US as the examples of what they characterized as “extractive” vs. “inclusive” systems. They argued that China

was destined to fail as it had an extractive economic system run by a venal, self serving elite. On the other hand, the US would win with its inclusive, democratic system run by rule of law, democratic checks and balances, and broad citizen participation in decision making.

The Chinese system was described as closed from competition, incapable of innovation, and run by corrupt authoritarian leaders. Robinson and Acemoglu contended China's economic performance to date (at the 2012 publication date), while impressive, was unsustainable and would falter.

They stated the US economic system thrived on creative destruction as the inclusive institutions encourage competition, reward innovation, and provide opportunities for new entrants into the market. The authors argued that the U.S.'s success was not due to geography, culture, or natural resources, but rather its inclusive institutions and an elite that work to advance the interests of the population.

13 years after the publication of the book, you have to wonder what planet Robinson and Acemoglu lived on when they wrote the book and what kind of ideological blindness has led the Nobel economics committee to award the prestigious prize to them.

Bear in mind the book was published in 2012 – four years after the 2008 financial crisis when “extractive” Wall Street elite gave the world the subprime crisis and Obama bailed out the financial masters of universe, the banks, but with no bailout for the people. It was one thing for honest scholars to write a book with such an ideological bent in the haydays of pre-2008 but it truly boggles the mind for Robinson and Acemoglu to propose such a thesis in 2012 and win Nobel prize in 2024 when empirical data and facts have proven their analysis wrong

13 years later, it is clear that the Chinese leadership, rather than the self serving and “extractive” elite described by the authors, are meritocratic and effective. The country has made enormous progress since then and now enjoys one of the most competitive economies and is a world class innovator. In addition to lifting 800 million people out of poverty and 600 million into the middle class.

On the other hand, the label of being “extractive” seems to fit the US much better with its stagnant wages for the 99% and staggering concentration of wealth to the 1%, high inflation and indebtedness, crumbling healthcare and infrastructure, and a political system dominated by moneyed special interests.

And how much of American "prosperity" is based on the fact that America can print trillions of dollar Treasury notes out of nothing and use that to pay for trillions of imports of goods to stock the shelves of Walmart. How "extractive" is that? And how long can that last?

Contrary to Robinson and Acemoglu's argument, China's political system is much more inclusive than the US – 75% of the 37 most senior leaders

(members of the Politburo Standing Committee) since 1990 come from working class background while there are 13 billionaires in Trump administration's senior ranks. The Communist Party of China has nearly 100 million members.

China's economic system is also much more inclusive than the US – 65% of GDP in China goes to household income vs. less than 50% in the US. The Chinese working class enjoys rising wages, low inflation, improving healthcare and education, and world class infrastructure.

In the “extractive” Chinese system, the government has capped bankers' bonus, reduced government employees' salary, and sentenced corrupt officials to the death row. Chinese government's poverty alleviation efforts, the innovations from Huawei, China's high speed rail program, and improving standards of living among average Chinese citizens as counter examples of Acemoglu and Robinson's “extractive” characterization.

While arguing against the “extractive” label on China, it can be correctly pointed out China was beset by serious issues with pollution, inequality, housing bubble, and corruption. Interestingly, when President Xi Jinping ascended to the top leadership role in 2013, he specifically went after these issues – extensive crackdown on corruption and pollution, common prosperity push, bursting of the housing bubble, and reining in tech monopolies. Hardly the behavior of “extractive” ruling elite.

### **The Issue for South Africa**

The basic issue of an extractive elite destroy an economy but an "inclusive" economy lifts the people out of poverty is correct. It is even scriptural. Repeatedly among the Hebrew prophets the Lord would judge the ruling elite of both the court and the priests for oppressing the poor. Nehemiah is a classic example of a national reformer who demanded debt forgiveness from the rich for the poor.

But in the current world economy it is not just government waste, fraud and over regulation extracting high taxes from the people.

The very way the finance systems of the world are structured is an extractive system of debt creation. The wages of labour are not sufficient to purchase the product of labour so debt is created as promises to pay some time in the future what is needed for consumption today. On top of that the very nature of money creation by fractional reserve banking means that money creation occurs through debt creation which needs more debt creation to pay for previous debt.

In South Africa we not only face an extractive government but an extractive financial system that concentrates wealth in corporate elites. And then you can add one of the most corrupt societies in the world of theft in the public and private space. And then the government's policy of BEE as their answer

for an inclusive society has not worked for 30 years....except for a few millionaires and billionaires.

We have many reasons why our nation is well on its way to failed state status. Why Nations Fail is a good book with its initial analysis but obviously blind to an American war state that "extracted" \$8 trillion on useless wars in the Middle East while China spent \$8 trillion on national and international infrastructure, housing, education, industrialization etc. And blind to an extractive financial system that concentrates wealth into the upper 1%

The church needs to take up the cause of why our nation is failing. It must be made part of the "good news to the poor" that Jesus said He was anointed for (Luke 4:18).

Throughout the Psalms we are commanded to "meditate on the law of the Lord day and night".

If we did that we would find that the "law of the Lord" was full of economic laws and principles of governance that are designed to eradicate poverty, create an inclusive society that would make every family in Israel an owner of productive capital assets with a secure inheritance for their children and grandchildren.

Books like "Why Nations Fail" help us to understand the problems but 66 books in the Bible help us find the answers. But it will require meditating on the "law of the Lord day and night."

And this in turn will take more time and effort to teach our people than a 40 minute sermon on a Sunday morning.