



Institutions and prosperity

This year's laureates – Daron Acemoglu, Simon Johnson and James Robinson – have demonstrated the importance of societal institutions for a country's prosperity. Societies with a poor rule of law and institutions that exploit the population do not generate growth or change for the better. Their research also helps us understand why.

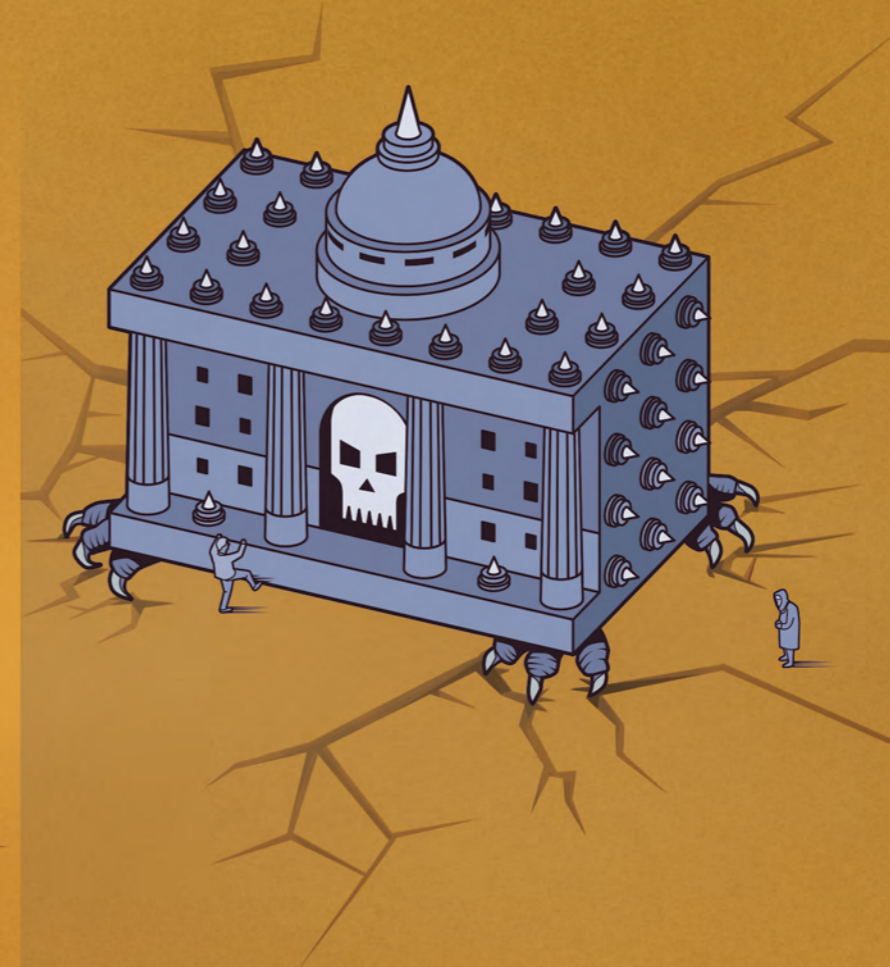
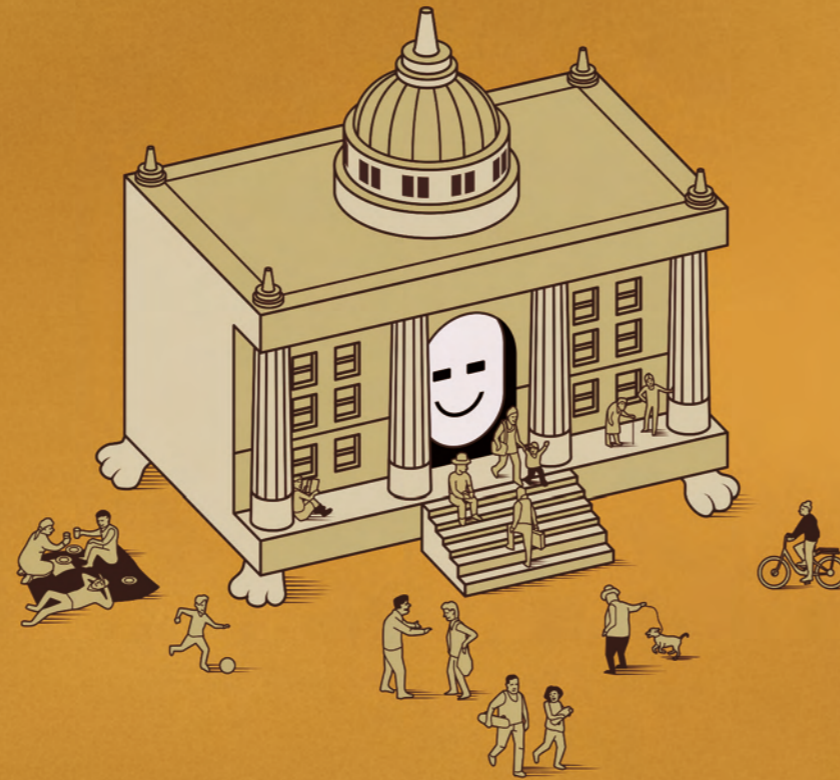
When Europeans colonised large parts of the globe, the institutions in those societies changed. This was sometimes dramatic, but did not occur in the same way everywhere. This year's laureates in the Economic Sciences used history as a form of natural experiment, allowing them to study the reasons for the vast differences in prosperity between nations.

They found that an important explanation is the political and economic systems that the colonisers introduced, or chose to retain, from the sixteenth century onwards.

In some parts of the world, the purpose was to exploit the indigenous population and extract natural resources to benefit the colonisers. In other cases, they built inclusive political and economic systems for the long-term benefit of European emigrants.

The laureates have also been able to show that this led to a reversal of fortune. The places that were relatively rich at the time of colonisation are now among the poorest.

They also developed an innovative theoretical framework that shows why societies become trapped in a situation with what they call extractive societal institutions, and why this pattern is so difficult to break. They show that change is possible and that new institutions can be created. In some circumstances, a country can break free of its inherited institutions to establish democracy and the rule of law. In the long run, these changes also lead to reduced poverty.



The importance of societal institutions

A correlation between the institutions in a society and its prosperity does not necessarily mean that one is the cause of the other. There could be other reasons for both prosperity and the types of societal institutions, or perhaps prosperity affects a society's institutions rather than vice-versa. The laureates have approached this question by studying European colonisation and finding chains of causation.

Among other things, they have seen that settler mortality influenced which societal institutions were established and, in turn, has caused persistent differences. Through their work, the laureates have shown that the original differences between the colonies' societal institutions are an important explanation for countries' reversals of fortune. This has contributed to the vast differences we see today.

Daron Acemoglu

Born 1967 in Istanbul, Türkiye. Professor at Massachusetts Institute of Technology, USA.

Simon Johnson

Born 1963 in Sheffield, UK. Professor at Massachusetts Institute of Technology, USA.

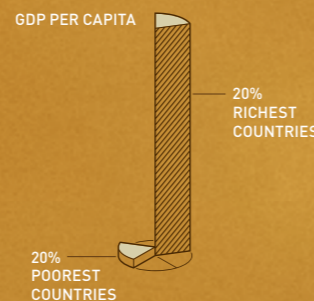
James A. Robinson

Born 1960 in Chelmsford, UK. Professor at University of Chicago, USA.



Vast differences in income

The richest 20 per cent of the world's countries are now about 30 times richer than the poorest 20 per cent. Moreover, the income gap between the richest and poorest countries is persistent. Although the poorest countries are getting richer, they are not catching up with the richest ones. Why is this? This year's laureates have found new and compelling evidence to explain the causes of persistent inequality - differences in societal institutions.



Reversal of fortune

The dots in the graph represent different countries. Urbanisation in 1500, meaning how much of the population lived in towns or cities, is a measure of how rich the country was at the time. Countries that were relatively rich in 1500 have not done as well as the countries that were then relatively poor.



Reforms, revolution or the status quo?

The laureates developed a game-theoretical framework that explains how political institutions are formed and change.

Societies can become trapped in patterns with poorly functioning institutions, poverty among the masses and a rich elite. The elite may try to appease the masses by promising to reform the economic system, but the masses do not believe that these changes will last. Nor do the elite trust that a new political system will compensate them for the loss of their economic benefits. Nothing happens.

However, the inability to make credible promises of change for the better may also explain why democratisation sometimes happens. Even a population with no formal political power has an advantage in its numbers, and so can pose a revolutionary threat. This may lead to the elite being pressured into economic reforms, or to handing over power and actually introducing democracy.

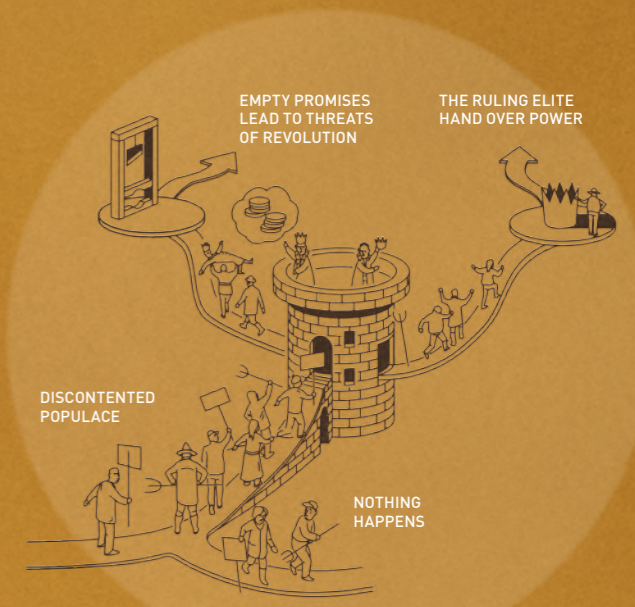


Photo: Portraits of Daron Acemoglu: Craig O'Loophlin; Portraits of Simon Johnson: Michelle Parravano; Portrait of James A. Robinson: NTNU; Thor Nilsson

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