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The 2024 Nobel Prize for Economics: An example of how conventional economics misrepresents reality

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Introduction

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024 (economists like to refer to this as a straight Nobel Prize – it isn't) was awarded to Daron Acemoglu, Simon Johnson and James Robinson.[1] According to the press release the prize was awarded for helping "us understand differences in prosperity between nations".[2] Acemoglu and Robinson (2013) are in particular well known for their best-selling book *Why Nations Fail* – why some poor nations prosper while others fail and remain poor. The basic theme is that development depends primarily on whether national institutions have "inclusive" or "extractivist" institutions. The award provoked quite a lot of critical comment. The *Financial Times,* for example, published a piece entitled "The Nobel for Econsplaining".[3]

The argument in the following article goes further. While the factors discussed by Acemoglu and Robinson are significant, they are not the main factors that determine whether or not nations develop or remain poor. The main causes are to be found in the exploitative nature of the global economy, in the taken-for-granted market system and concept of "development", and the action taken to keep these in place. These factors are foundational in capitalist economic theory and practice and give the impression that no other conception or approach to development exists. Their negative consequences for development are sketched and an alternative vision and approach is outlined. The case shows the ideological nature of conventional economic theory, and how it generates highly challengeable interpretations and justifications.

The explanation given in *Why Nations Fail* is to do with the extent to which nations have political, legal, social etc. institutions that facilitate and encourage (conventional) development. As already noted, two basic types of national developmental systems are distinguished. The first labelled "Inclusive" is characterised by institutions which provide rewards and security for innovation and investment, such

1 For critique of the economics prize visit: https://economicsociology.org/2024/10/12/the-economics-nobel-prize-what-is-it-good-for/

2 Visit: https://www.nobelprize.org/prizes/economic-sciences/2024/press-release/. For a more detailed account of the reasons for the award see: https://www.nobelprize.org/uploads/2024/10/advanced-economicsciencesprize2024.pdf.

3 Visit: https://www.ft.com/content/1e2584d6-65ef-46de-bfb2-28811be65600. See also: https://www.ipsnews.net/2024/10/another-nobel-anglocentric-neoliberal-institutional-economics/ and: https://reddytoread.com/2024/10/16/why-nobelists-fail/ and https://jacobin.com/2015/10/robinson-acemoglu-inclusive-extractive-poverty-wealth/.

as patent protection, legal systems for settling disputes, and freedom for investment. (2013: 76) The second is labelled "Extractive" because institutions are designed to extract income and wealth from one subset of society to benefit a different subset. The book's thesis is that "The ability of economic institutions to harness the potential of inclusive markets, encourage technological innovation, invest in people, and mobilize the talents and skills of a large number of individuals is critical for economic growth. Explaining why so many economic institutions fail to meet these simple objectives is the central theme of this book." (2013: 81) "World inequality today exists because during the nineteenth and twentieth centuries some nations were able to take advantage of the Industrial Revolution and the technologies and methods of organization that it brought while others were unable to do so." (2013: 271)

Space is given to arguing against alternative theories. For instance "... It is not geography, culture, or the ignorance of its citizens or politicians that keep the Congo poor, but its extractive economic institutions. These are still in place after all these centuries because political power continues to be narrowly concentrated in the hands of an elite who have little incentive to enforce secure property rights for the people, to provide the basic public services that would improve the quality of life, or to encourage economic progress. Rather, their interests are to extract income and sustain their power. (2013: 90-91)

This thesis is illustrated at length, through 540 pages, via a great deal of evidence and many case studies, much of it delving into extensive detail on the history of many nations. It is clear and well written, with extensive referencing, remarkably well informed, and easily understood by the lay person.

What then is the problem? It is not that the book agues what seems to be an intuitively obvious finding, hardly remarkable or groundbreaking, let alone worthy of a Nobel prize. The problem is **that it makes no reference at all to the overwhelmingly important reasons "why nations fail", why billions remain "poor" and live in inexcusably appalling conditions.** It dwells on some of the relevant factors but not the main ones, and it gets their causal significance wrong.

Consider these statements.

> "The great differences in world inequality are evident to everyone ... Understanding why these differences exist and what causes them is our focus in this book." (2013: 41)
>
> **"**The most common reason why nations fail today is because they have extractive institutions." (2013: 368.)
>
> "Extractive economic and political institutions, ..., are always at the root of this failure ... In all these cases the basis of these institutions is an elite who design economic institutions in order to enrich themselves and perpetuate their power at the expense of the vast majority of people in society. (2013: 399)
>
> This theory explains "... the main contours of economic and political development around the world since the Neolithic Revolution." (2013: 429)

These statements make clear that a causal mechanism is being identified, and that it is located within poor countries. In the many cases discussed it is quite true that conditions are not conducive to development etc. But the explanation stops there and is therefore highly misleading. **There is no reference to why those mechanisms are there, who maintains them and who are the ultimate**

and major beneficiaries of them. The main reason why at least half the world's people are poor is because the global economic system has established "extractive" institutions and keeps them in place, in order to siphon trillions of dollars of resource wealth out of poor countries every year. It is the global system which prevents them from escaping this fate. Conventional economic theory and practitioners endorse, legitimise and promote this system. This book is a eulogy for it. It is a Fukuyama-esque end of economic history; if only poor countries would adopt free markets and make conditions attractive to foreign investors development would thrive and poverty would be ended. It is true that there is extraction and there are extractivists, but the book fails to mention that economic theory, economists and the rich world are the main causes, protagonists and beneficiaries of extraction.

At first encounter these claims might seem to be outrageous, so it is appropriate to defend them at some length.

How (conventional) "development" works.

The book's authors do not ask what "development" means. They take it for granted as virtually all economists do that development = getting materially richer, as nations and as individuals. It is about being able to purchase more, increasing the amount of producing, selling and consuming going on, and thus it is about increasing the GDP. This is the "unidimensional" view of development whereby nations move up the slope to be like rich nations. Getting richer is assumed to improve all sorts of other things, such as health and welfare.

Conventional economists show little or no interest in thinking about what might contribute most to quality of life, let alone in measuring it, let alone prioritising developments that might improve it. They ignore the fact that except for health little or nothing that contributes to a high quality of life requires material "prosperity". Consider having adequate food, clothing and shelter, having meaning and purpose, having friends, being valued and appreciated, living in a supportive community, having worthwhile work, being secure from unemployment and poverty, not having to work hard or struggle, a sense of place, a home. These kinds of conditions can in principle be provided to all at extremely low levels of material wealth, production, industrialisation, capital investment, globalisation, IT, international trade, "living standards" and GDP. (See below.)

The basic issue is the way conventional economic theory conceives development. Because it is essentially taken to be primarily about increasing the GDP the focus must be on facilitating more productive activity. This requires investment and because a poor country has little capital it means borrowing and it means attracting foreign investment. The two main domains enabling this are exporting natural physical resources and exporting labour via plantations, mines and factories. Thus, the county must enter the global market place to sell resources, competing against many other poor counties in the same situation. Lacking the capital to set up mines etc., foreign investment must be sought. But investors want access to infrastructures such as railways and ports, so large loans have to be taken out to build these. The common result is not rapidly increasing income to repay loans but the accumulation of very large debt, which seems to be accelerating in recent years. Between 2020 and 2023 the public debt of poor African countries doubled, to 60% of GDP, and rose to almost 75% in Latin America. (UN 2024, Fig 4.)

The debt typically becomes unrepayable. At this point the IMF arranges bailout measures, "Structural Adjustment Packages, which involve granting further loans on certain conditions. These are designed to "get the economy going again" by making the economy more attractive to foreign investors, selling off profitable state-owned enterprises to them, holding down wages and social conditions, imposing savage "austerity" policies, and generally gearing the economy to the interests of the business class.

John Perkins book Confessions of an Economic Hit Man (2023) explains how his task was to persuade nations to take on loans they could never repay. Whether or not this was common practice the consequences were inevitable. There is an abundant literature documenting the damaging effects these measures have on large numbers of poorer people.

This long book makes only two brief references to the IMF, neither of them mentioning these issues. Its actions are seen as valuable, but it and other major international institutions are only criticised for having taken "an incorrect perspective", that is for not having focused on the "inclusive" vs "extractivist" distinction. (2013: 446-467)

Local elites in poor countries are delighted with conventional development because it provides investment opportunities for them. Banks are happy because they organise the loans and get the commissions. For arranging one loan to Greece Goldman Sachs took a $600 million commission. These days imperialism does not need to send a gunboat to conquer. The Neoliberal triumph identify by Chossudovsky (2004) as enabling "... the greatest wealth transfer in history", was carried out using computer keys.

The result is that the economies of the poor countries are trapped into providing the rich countries with cheap resources to enable lucrative profits for investors, corporations and banks, while preventing development that would do most to benefit impoverished and exploited masses. Hickel, Sullivan and Zoomkawala (2021) estimate that there is a $2.5 trillion net flow of wealth from poor to rich countries every year. In addition, they pay the cost of the environmental damage caused by the mines, logging, plantations, industrial smog, and the social damage caused by the unsafe work conditions, low wages and inadequate health care etc.

Central in the conventional development ideology that keeps all this in place is the indubitable religious commitment to the miraculous market system. Australian Foreign Minster Wong regularly worships the "rules-based international order", the most sacred rule being let market forces determine what is produced and who gets it. But in a market system it is the demand of richer players which determines what is produced and who get it. This is why several hundred million tonnes of grain are fed to animals in rich countries every year while around 800 million people are hungry. In a market system it is much more profitable to produce grain for feedlot beef production in rich countries than to sell it to starving Sudanese. It is why cosmetics and cut flowers are produced in Guatemala for export rather than basic food and housing for impoverished peasants. It is why developers in Australia build elaborate dwellings rather than low cost housing for poor people. In a market system these are kinds of ventures that promise most profit to those with capital to invest. As Fernandes points out, the 'rules-based order' is a euphemism for empire. (2022.)

However, effort has to go into keeping the global economic system functioning in these ways. Sometimes intervention is required, for instance to keep compliant states to policies that suit the rich and to deal with those threatening to step out of line. Sometimes vast arms sales will suffice; how much oil would the West be getting from Saudi Arabia without these? Sometimes it is necessary to invade and get rid of a leader like Mossadegh threatening our access to oil, or to supply an ally with the weapons to keep down dissidents threatening regimes exporting resources to us. At times it is necessary to kill a Lummba or Gaddafi or Castro (unfortunately 600 attempts, many by the CIA failed there) to prevent deviation. But at other times it is necessary to be selective in support for brutal dictators such as Somoza. He boasted that he always voted with the US at the UN and had no qualms about all the foreign owned plantation land. Roosevelt's Secretary of State, Sumner Welles, once said "Somoza's a bastard!" but Roosevelt replied, "Yes, but he's our bastard." (Wikiquote 2024, Jewish Independent 2016, McAlpine 2016.) Sometimes it is necessary to invade and kill large numbers. The US has attempted “regime change” over seventy times since WW2. People in rich countries could not be enjoying their resource-intensive high “living standards” had these things not been done to secure their empire.

The book attributes the failure of states to their rule by extractivists, but what the book does not draw attention to is the fact that at least many of them are in power because the global rich put them there, or helped the Somozas and Pinochets to remain there, because they enabled “normal” economic development. The most culpable extractivists are to be found among rich world corporations, banks and IMF officials. Above all the book fails to identify who the major extractivists are now.

It is true that, as this book shows, institutions within a nation which facilitate or thwart conventional development are indeed causal factors contributing to outcomes such as state “failure” and mass poverty, but they are not the dominant causal factors. They are not, as the book’s title claims, “...the origins of poverty” today. The overwhelmingly important causal factor today is the unjust and predatory global economic system that all nations are trapped in, a system which forces poor countries to enable the net flow of vast quantities of wealth to rich countries and to forego development in the interests of their people.

Thus, the book is an elaborate eulogy for capitalism. That is the right way to develop. The implicit message to poor countries throughout is that if you do economics this way you will prosper as we have. Just enable and encourage the few who own most of the capital to invest in whatever will most increase their already vast quantities of wealth, provide them with secure legal etc., conditions and incentives, and the GDP will grow. But there are few problems with this faith now, the main one being that the very last thing the planet needs is more growth. (See below.)

Thus, the book makes no reference to all to the main “...origins of poverty” today. It’s not that it deliberately seeks to conceal or mislead. It’s that conventional economists seem to be incapable of understanding that what they take to be economics is only capitalist economics, and what they take to be development is only capitalist development. Apparently, they cannot gasp that there might be other kinds. The book and the awarding of the prize reveal conventional economic theory to be a way of interpreting, a deeply entrenched, powerful and misleading ideology which advocates and legitimises.

One way it does this is by analysing in terms of only one factor, monetary value, meaning it fails to take into account many factors that are important in the production, consumption, exchange and distribution of goods and services, in the development of systems for carrying out these processes, and for assessing their desirability. Factors such as environmental and social damage are conveniently classified as “externalities”, that is not really economic phenomena and therefore ignorable. Nor are moral and justice considerations relevant to economics, such as the psychological damage caused by unemployment and poverty or the destruction of whole towns when corporations relocate to China. If capital can’t maximise profits employing people here it is alright to throw them onto the scrap heap.

Another major premise is the conviction that an economy must be based on the market system. Another is that it is in order and desirable that what ventures are developed and what is produced are best determined by what a few with capital to invest think will maximise their wealth, as distinct from what might be best for society or its eco-systems. Another is that investors are admirable, making their capital available to benefit society; the fact that they get large incomes without having to do any work is disregarded, except when ordinary people try it.

These are among the ways conventional economic theory warps thinking and deceives, making highly undesirable practices seem normal, justified and morally acceptable when in fact they legitimise "extractivism" by the rich. This book and the awarding of the "Nobel prize" provide remarkable illustrations of how taken for granted and dominant the ideology is.

The alternative: "Appropriate" development.

There is now a strong case that the global economic system has entered a terminal phase, a period of accelerating decline to a time of great troubles. (Trainer 2020.) Rich world per capita lifestyles, resource use and GDP are several times higher than all the world's people could ever rise to. It is the determination to raise them constantly and without limit that is generating all the big global problems now threatening our existence, including the climate crisis, loss of biodiversity and other environmental damage, the deprivation of billions, resource wars and crumbling social cohesion in even the richest countries. Given that the cause of this "poly-crisis" is over-production and over-consumption, the solution has to be large scale degrowth to lifestyles and systems that are far simpler in material terms than those in rich countries today.

The common response to the limits to growth argument is that the pursuit of growth and affluence can continue because better technology and tighter recycling etc. can "decouple" consumption from present resource and environmental impacts. They will allow GDP to go on rising while resource and environmental problems are solved. But there are now large scale reviews showing that this is not happening and is not remotely likely to happen. (Parrique et al. 2019a, Hickel and Kallis 2020, Haberle et al. 2019.)

The problems cannot be solved unless there is enormous degrowth to some form of The Simpler Way (TSW 2024) in which most people live in small, highly self-sufficient and self-governing cooperative communities, in control of local economies that are needs-driven not driven by profit or market forces, and happy to live in materially simple ways. The dramatic reduction this general pattern enables in resource use and ecological damage is illustrated by a study of egg supply carried out by Trainer, Malik and Lenzen (2019.) They found that the dollar and energy cost of supply via backyard pens and small cooperatives was in the region of 1% of that from the supermarket path.

Similar reductions in many other items are possible due to the smallness of scale and proximity and integration of functions. For instance nutrient loops can be closed by taking "wastes to" nearby gardens via animals and methane digesters, thereby eliminating the need for sewer systems, transport, or fertilizer production. The Dancing Rabbit Ecovillage in Missouri reports various material, energy, fuel use, etc. rates around 5-10% of the national average (Trainer 2020a). Trainer (2022) details very low cost ways achieved in homestead and ecovillage situations, including a per capita electricity use rate around 1% of the national household average. The Spanish Catalan Integral Cooperative (Trainer 2018) involves thousands in highly self-sufficient cooperatives providing an extensive range of goods and services while avoiding dependence on the market or the state. Leahy (2009) and Leahy and Goforth (Undated) discuss African movements such as Chikukwa enabling land, labour and traditional knowledge to be devoted to cooperative self-sufficient village development, contradicting futile official policies goading peasants to win export sales.

These communities typically involve high quality of life measures, (Grinde et al. 2018) and there is no need for them to involve any reduction socially-useful high-technologies, universities, medical research etc. (For the detail see TSW. 2023.) The Ecovillage, Transition Towns, Degrowth, Campesino and many other movements today are working for such a transition. Long ago Gandhi saw that the appropriate path for India was communities of this kind. It is now obvious that global resource limits prohibit conventional resource-intensive rich world "development" for all the world's people. Hence the wisdom in his saying "The rich must live more simply so that the poor pay simply live."

There is a strong case that a catastrophic breakdown of the global economy is approaching as capitalism self-destructs. (Trainer 2020b.) This is likely to eliminate any hope of a desirable transition to this alternative form of development, but The Simpler Way represents the only conception of development that makes sense now. Those who see this are not likely to be awarded a Nobel prize by the reigning economic establishment.

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