Economics Nobel: No surprises*

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The Sveriges Riksbank Prize, the Nobel for "Economic Sciences", has always been controversial. This is true of the 2024 award to Daron Acemoglu, Simon Johnson, and James Robinson as well. Typically, the economics Nobel is awarded to mainstream economists for work that directly or indirectly privileges the market in capitalist economies and makes a case for limited intervention by the state. It also tends to be awarded to academics from a few institutions that control the "academic" discourse and serve as gatekeepers to the higher echelons of the profession, at least in the US.

But claims are that this time the critics are wrong for at least two reasons. First, it is argued that the work for which these economists have been recognised does not, as in the case of most past awards, privilege markets. According to the award citation, their work emphasises "the importance of societal institutions" in determining developmental success or failure. Second, in what seems a surprise for a set of economists who remain very much within the mainstream, their work both recognises colonialism and gives it a role in ensuring successful economic development in underdeveloped countries. According to the citation, in their understanding, success and failure require attention to the "colonial origins of comparative development".

The three awardees who share the 2024 prize meet the institutional prerequisite. Two are from the Massachusetts Institute of Technology and one is from the University of Chicago—all American bastions of neoconservative economic thinking. What then does one make of the shift in their focus from markets to institutions and their decision to import the hitherto ignored and absent "colonialism" into the ahistorical analytical framework of past and contemporary neoclassical economics? Have these economists faced the truth but managed to slip through the interstices to find the right positions and win the freedom to deviate from or even challenge the mainstream?

Not really. To start with, when these economists speak of "institutions", they are expressly and avowedly referring to those that "secure private property" and ensure an "unbiased" rule of law. That is, the law that protects private property not acquired always through hard work and thrift but through plunder, exploitation, and inheritance. Investment, innovation, and growth that lead to prosperity are facilitated only with the presence of such institutions.

Moreover, although private property—often acquired through expropriation—breeds inequality and is inaccessible to most who do not inherit it, the institutional frame that protects it is seen as being "inclusive", facilitating participation by the majority in ways that maximise the benefits of talent and skills to enrich society as a whole.

That raises the question as to why only some backward countries benefited from such institutions. According to the Nobel awardees, whether a country has the institutions that can deliver prosperity or not depends on whether it was colonised by settler immigrants from the historically successful capitalist countries, who chose to carry with them and implant such institutions in the countries they chose to occupy.

Implicit in this reasoning are two assumptions. First that there is something intrinsically superior about the metropolitan, colonising countries that results in the endogenous generation of the needed institutions, whereas countries in the "poor" periphery must have them delivered by a benevolent coloniser. And second, that colonialism is not necessarily bad for the colony. Its impact can be positive, when it transplants institutions that allow for innovation, productivity growth, and transition to prosperity. This explains what happened in the "regions of recent settlement": the US, the rest of North America, and Australia.

Those countries are, of course, geographically a small portion of the vast colonial empires that covered much of the globe in the 19th and early 20th centuries, most of which remain backward to varying degrees. What explains this differential impact? The answer, according to the awardees, lies in the kind of environment that the colonisers confronted in the lands they went to. Where they were not faced with the ravages of disease, such as the temperate (as opposed to tropical) regions, and where they were not outnumbered by the indigenous populations, the colonising immigrants, backed by their states, chose to settle, transplant "inclusive" political and social institutions, and accelerate capital accumulation.

On the other hand, where they were faced with an environment ridden with disease and an indigenous population that was numerically large and hostile to the immigrants, they chose to extract as much as they could from these locations and leave behind a denuded and distorted economic and social structure that precluded escape from backwardness. The institutions established here were "extractive" in nature. Such extractive behaviour is recognised, but the circumstances of the colonised are blamed for it.

It does not take more than a nodding acquaintance with the history of capitalist development to realise how devoid of substance and empirical validity this argument is. Colonial "conquest" everywhere was brutal, extractive and genocidal, even if in very different ways. In the temperate regions that immigrants from Britain and Europe—driven by the prospect of unemployment and poverty at home—found conducive, they not only emigrated permanently, leading to settler colonialism, but also wiped out a large part of the indigenous populations (with both military power and "disease" as weapons) and took the land to build their fortunes.

As Utsa Patnaik and Prabhat Patnaik have traced in much detail, this migration of a large share of the population, which hugely reduced unemployment at home, was backed by large flows of capital to finance the investment and innovation that took these regions to prosperity. Britain also kept its markets open to imports from the Americas, stimulating growth in the latter but notching up large balance of payments deficits with those colonies.

That, however, did not prove a problem for Britain. In colonies where British imperialism's objective was extractive, exemplified by India, it expropriated and exported raw materials paid for with taxes on the producer. It also exported what it manufactured to the colonies to support industry at home and generate external surpluses to finance deficits with the regions of recent settlement. Finally, it extracted financial surpluses as home charges, or imposts for being privileged to be ruled by Britain. The consequence was a devastated agrarian sector, backward production relations, de-industrialisation, poverty, and famine in these colonies.

On the other hand, the surpluses extracted to generate this backwardness financed the investment that helped diffuse successful capitalism from the original metropolitan countries to the settler colonies to make them prosperous. Underdevelopment in the periphery was part of the process that delivered development and prosperity at the core.

This year's Nobel winners have thus pursued multiple goals in their work: they celebrate private property and capitalism, sanitise imperialism, and whitewash its brutality, to make colonialism the driver in the journey to prosperity. Countries that remain poor are the victims of their unfortunate circumstances and the inadequacies of their institutions. This apology for a brutal, inequalising, and unjust system is far more than what conventional orthodoxy has delivered. By the metrics that seem to matter to the decision makers, the three winners definitely deserved the Nobel.

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