

Acemoglu, Daron; Robinson, James (2012-03-20). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (p. 345-51). Crown Publishing Group. Kindle Edition.

# Why Nations Fail

THE ORIGINS OF POWER,  
PROSPERITY, AND POVERTY

**Daron Acemoglu** and  
**James A. Robinson**



## **FROM SLAVERY TO JIM CROW**

In Guatemala, extractive institutions persisted from colonial to modern times with the same elite firmly in control. Any change in institutions resulted from adaptations to changing environments, as was the case with the land grab by the elite motivated by the coffee boom. The institutions in the U.S. South were similarly extractive until the Civil War. Economics and politics were dominated by the southern elite, plantation owners with large land and slave holdings. Slaves had neither political nor economic rights; indeed, they had few rights of any kind.

The South's extractive economic and political institutions made it considerably poorer than the North by the middle of the nineteenth century. The South lacked industry and made relatively little investment in infrastructure. In 1860 its total manufacturing output was less than that of Pennsylvania, New York, or Massachusetts. Only 9 percent of the southern population lived in urban areas, compared with 35 percent in the Northeast. The density of railroads (i.e., miles of track divided by land area) was three times higher in the North than in southern states. The ratio of canal mileage was similar.

Map 18 (below) shows the extent of slavery by plotting the percentage of the population that were slaves across U.S. counties in 1840. It is apparent that slavery was dominant in the South with

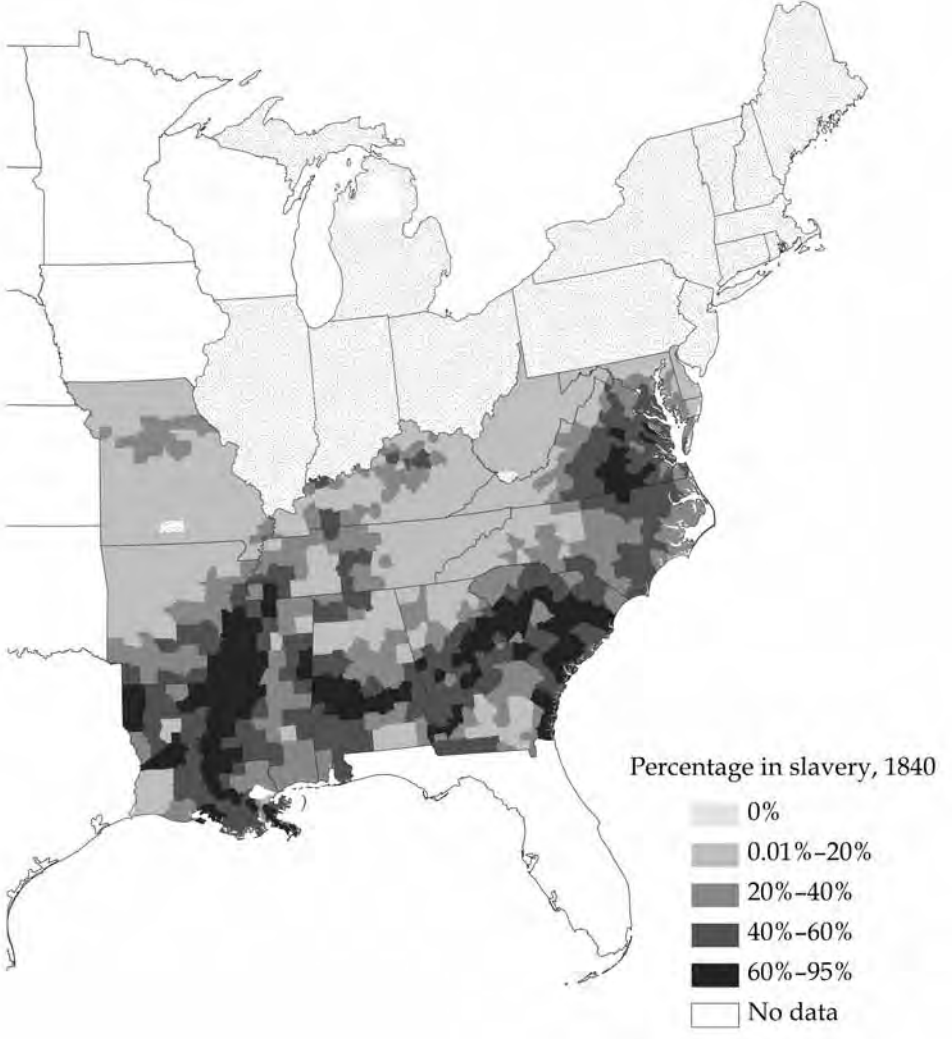
some counties, for example, along the Mississippi River having as much as 95 percent of the population slaves. Map 19 (next page) then shows one of the consequences of this, the proportion of the labor force working in manufacturing in 1880. Though this was not high anywhere by twentieth-century standards, there are marked differences between the North and the South. In much of the Northeast, more than 10 percent of the labor force worked in manufacturing. In contrast in much of the South, particularly the areas with heavy concentrations of slaves, the proportion was basically zero.

The South was not even innovative in the sectors in which it specialized: from 1837 to 1859, the numbers of patents issued per year for innovations related to corn and wheat were on average twelve and ten, respectively; there was just one per year for the most important crop of the South, cotton. There was no indication that industrialization and economic growth would commence anytime soon. But defeat in the Civil War was followed by fundamental economic and political reform at bayonet point. Slavery was abolished, and black men were allowed to vote.

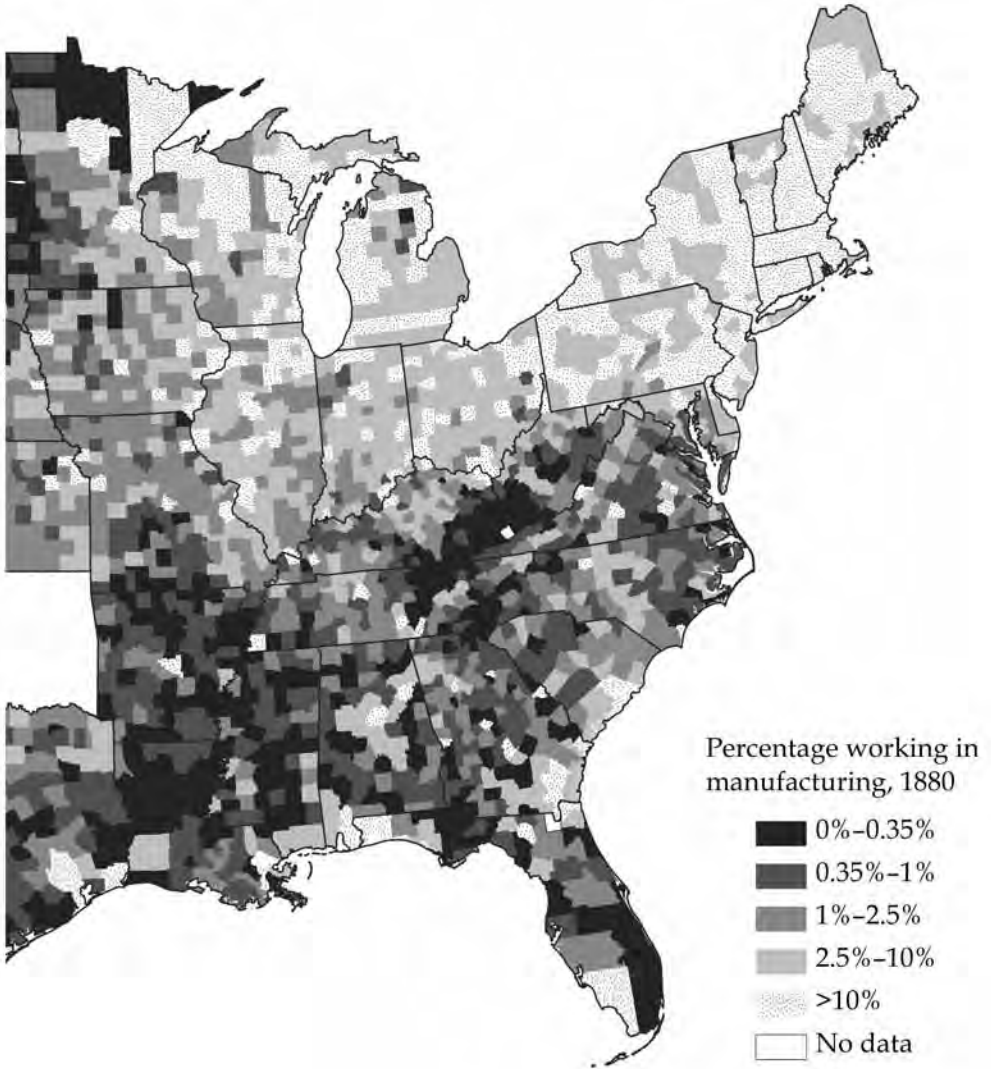
These major changes should have opened the way for a radical transformation of southern extractive institutions into inclusive ones, and launched the South onto a path to economic prosperity. But in yet another manifestation of the vicious circle, nothing of the sort happened. A continuation of extractive institutions, this time of the Jim Crow kind rather than of slavery, emerged in the South. The phrase Jim Crow, which supposedly originated from “Jump Jim Crow,” an early-nineteenth-century satire of black people performed by white performers in “blackface,” came to refer to the whole gamut of segregationist legislation that was enacted in the South after 1865. These persisted for almost another century, until yet another major upheaval, the civil rights movement. In the meantime, blacks continued to be excluded from power and repressed. Plantation-type agriculture based on low-wage, poorly educated labor persisted, and southern incomes fell further relative to the U.S. average. The vicious circle of extractive institutions was stronger than many had expected at the time.

The reason that the economic and political trajectory of the South never changed, even though slavery was abolished and black men were given the right to vote, was because blacks’ political power and economic independence were tenuous. The southern planters lost the war, but would win the peace. They were still organized and they still owned the land. During the war, freed slaves had been offered the promise of forty acres and a mule when slavery was abolished, and some even got it during the famous campaigns of General William T. Sherman. But in 1865, President Andrew Johnson revoked Sherman’s orders, and the hoped-for land redistribution never took place. In a debate on this issue in Congress, Congressman George Washington Julian presciently noted, “Of what avail would be an act of congress totally abolishing slavery ... if the old agricultural basis of aristocratic power shall remain?” This was the beginning of the “redemption” of the old South and the persistence of the old southern landed elite.

The sociologist Jonathan Wiener studied the persistence of the planter elite in five counties of the Black Belt, prime cotton country, of southern Alabama. Tracking families from the U.S. census and considering those with at least \$ 10,000 of real estate, he found that of the 236 members of the planter elite in 1850, 101 maintained their position in 1870. Interestingly, this rate of persistence was very similar to that experienced in the pre– Civil War period; of the 236 wealthiest planter families of 1850, only 110 remained so a decade later. Nevertheless, of the 25 planters with the largest landholdings in 1870, 18 (72 percent) had been in the elite families in 1860; 16 had been in the 1850 elite group. While more than 600,000 were killed in the Civil War, the planter elites suffered few casualties. The law, designed by the planters and for the planters, exempted one slaveholder from military service for every twenty slaves held. As hundreds of thousands of men died to preserve the southern plantation economy,



Map 18: Slavery across U.S. counties in 1840



Map 19: Manufacturing employment across U.S. counties in 1880

many big slaveholders and their sons sat out the war on their porches and thus were able to ensure the persistence of the plantation economy.

After the end of the war, the elite planters controlling the land were able to reexert their control over the labor force. Though the economic institution of slavery was abolished, the evidence shows a clear line of persistence in the economic system of the South based on plantation-type agriculture with cheap labor. This economic system was maintained through a variety of channels, including both control of local politics and exercise of violence. As a consequence, in the words of the African American scholar W.E.B. Du Bois, the South became “simply an armed camp for intimidating black folk.”

In 1865 the state legislature of Alabama passed the Black Code, an important landmark toward the repression of black labor. Similar to Decree 177 in Guatemala, the Black Code of Alabama consisted of a vagrancy law and a law against the “enticement” of laborers. It was designed to impede labor mobility and reduce competition in the labor market, and it ensured that southern planters would still have a reliable low-cost labor pool.

Following the Civil War, the period called Reconstruction lasted from 1865 until 1877. Northern politicians, with the help of the Union Army, engineered some social changes in the South. But a systematic backlash from the southern elite in the guise of support for the so-called Redeemers, seeking the South’s redemption, re-created the old system. In the 1877 presidential election, Rutherford Hayes needed southern support in the electoral college. This college, still used today, was at the heart of the indirect election for president created by the U.S. Constitution. Citizens’ votes do not directly elect the president but instead elect electors who then choose the president in the electoral college. In exchange for their support in the electoral college, the southerners demanded that Union soldiers be withdrawn from the South and the region left to its own devices. Hayes agreed. With southern support, Hayes became president and pulled out the troops. The period after 1877 then marked the real reemergence of the pre– Civil War planter elite. The redemption of the South involved the introduction of new poll taxes and literacy tests for voting, which systematically disenfranchised blacks, and often also the poor white population. These attempts succeeded and created a one-party regime under the Democratic Party, with much of the political power vested in the hands of the planter elite.

The Jim Crow laws created separate, and predictably inferior, schools. Alabama, for example, rewrote its constitution in 1901 to achieve this. Shockingly, even today Section 256 of Alabama’s constitution, though no longer enforced, still states:

*Duty of legislature to establish and maintain public school system; apportionment of public school fund; separate schools for white and colored children. The legislature shall establish, organize, and maintain a liberal system of public schools throughout the state for the benefit of the children thereof between the ages of seven and twenty-one years. The public school fund shall be apportioned to the several counties in proportion to the number of school children of school age therein, and shall be so apportioned to the schools in the districts or townships in the counties as to provide, as nearly as practicable, school terms of equal duration in such school districts or townships. Separate schools shall be provided for white and colored children, and no child of either race shall be permitted to attend a school of the other race.*

An amendment to strike Section 256 from the constitution was narrowly defeated in the state legislature in 2004. Disenfranchisement, the vagrancy laws such as the Black Code of Alabama, various Jim Crow laws, and the actions of the Ku Klux Klan, often financed and supported by the elite, turned the post– Civil War South into an effective apartheid society, where blacks and whites lived different

lives. As in South Africa, these laws and practices were aimed at controlling the black population and its labor.

Southern politicians in Washington also worked to make sure that the extractive institutions of the South could persist. For instance, they ensured that no federal projects or public works that would have jeopardized southern elite control over the black workforce ever got approved. Consequently, the South entered the twentieth century as a largely rural society with low levels of education and backward technology, still employing hand labor and mule power virtually unassisted by mechanical implements. Though the proportion of people in urban areas increased, it was far less than in the North. In 1900, for example, 13.5 percent of the population of the South was urbanized, as compared with 60 percent in the Northeast.

All in all, the extractive institutions in the southern United States, based on the power of the landed elite, plantation agriculture, and low-wage, low-education labor, persisted well into the twentieth century. These institutions started to crumble only after the Second World War and then truly after the civil rights movement destroyed the political basis of the system. And it was only after the demise of these institutions in the 1950s and '60s that the South began its process of rapid convergence to the North. The U.S. South shows another, more resilient side of the vicious circle: as in Guatemala, the southern planter elite remained in power and structured economic and political institutions in order to ensure the continuity of its power. But differently from Guatemala, it was faced with significant challenges after its defeat in the Civil War, which abolished slavery and reversed the total, constitutional exclusion of blacks from political participation. But there is more than one way of skinning a cat: as long as the planter elite was in control of its huge landholdings and remained organized, it could structure a new set of institutions, Jim Crow instead of slavery, to achieve the same objective. The vicious circle turned out to be stronger than many, including Abraham Lincoln, had thought. The vicious circle is based on extractive political institutions creating extractive economic institutions, which in turn support the extractive political institutions, because economic wealth and power buy political power. When forty acres and a mule was off the table, the southern planter elite's economic power remained untarnished. And, unsurprisingly and unfortunately, the implications for the black population of the South, and the South's economic development, were the same.

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## **THE END OF THE SOUTHERN EXTRACTION**

It was December 1, 1955. The city of Montgomery, Alabama, arrest warrant lists the time that the offense occurred as 6: 06 p.m. James Blake, a bus driver, was having trouble, he called the police, and Officers Day and Mixon arrived on the scene. They noted in their report:

*We received a call upon arrival the bus operator said he had a colored female sitting in the white section of the bus, and would not move back. We ... also saw her. The bus operator signed a warrant for her. Rosa Parks (cf) was charged with chapter 6 section 11 of the Montgomery City Code.*

Rosa Parks' offense was to sit in a section of the Cleveland Avenue bus reserved for whites, a crime under Alabama's Jim Crow laws. Parks was fined ten dollars in addition to court fees of four dollars. Rosa Parks wasn't just anybody. She was already the secretary of the Montgomery chapter of the National Association for the Advancement of Colored People, the NAACP, which had long been

struggling to change the institutions of the U.S. South. Her arrest triggered a mass movement, the Montgomery Bus Boycott, masterminded by Martin Luther King, Jr. By December 3, King and other black leaders had organized a coordinated bus boycott, convincing all black people that they should not ride on any bus in Montgomery. The boycott was successful and it lasted until December 20, 1956. It set in motion a process that culminated in the U.S. Supreme Court ruling that the laws that segregated buses in Alabama and Montgomery were unconstitutional.



Breaking another mold: Rosa Parks challenges extractive institutions in the U.S. south The Granger Collection, NY

The Montgomery Bus Boycott was a key moment in the civil rights movement in the U.S. South. This movement was part of a series of events and changes that finally broke the mold in the South and led to a fundamental change of institutions. As we saw in chapter 12, after the Civil War, southern landowning elites had managed to re-create the extractive economic and political institutions that had dominated the South before the Civil War. Though the details of these institutions changed— for example, slavery was no longer possible— the negative impact on economic incentives and prosperity in the South was the same. The South was notably poorer than the rest of the United States.

Starting in the 1950s, southern institutions would begin to move the region onto a much faster growth trajectory. The type of extractive institutions ultimately eliminated in the U.S. South were different from the colonial institutions of pre-independence Botswana. The type of critical juncture that started the process of their downfall was also different but shared several commonalities. Starting in the 1940s, those who bore the brunt of the discrimination and the extractive institutions in the South, people such as Rosa Parks, started to become much better organized in their fight against them. At the same time, the U.S. Supreme Court and the federal government finally began to intervene systematically to reform the extractive institutions in the South. Thus a main factor creating a critical juncture for change

in the South was the empowerment of black Americans there and the end of the unchallenged domination of the southern elites.

The southern political institutions, both before the Civil War and after, had a clear economic logic, not too different from the South African Apartheid regime: to secure cheap labor for the plantations. But by the 1950s, this logic became less compelling. For one, significant mass outmigration of blacks from the South was already under way, a legacy of both the Great Depression and the Second World War. In the 1940s and '50s, this reached an average of a hundred thousand people per year. Meanwhile, technological innovation in agriculture, though adopted only slowly, was reducing the dependence of the plantation owners on cheap labor. Most labor in the plantations was used for picking cotton. In 1950 almost all southern cotton was still picked by hand. But the mechanization of cotton picking was reducing the demand for this type of work. By 1960, in the key states of Alabama, Louisiana, and Mississippi, almost half of production had become mechanized. Just as blacks became harder to trap in the South, they also became no longer indispensable for the plantation owners. There was thus less reason for elites to fight vigorously to maintain the old extractive economic institutions. This did not mean that they would accept the changes in institutions willingly, however. Instead, a protracted conflict ensued. An unusual coalition, between southern blacks and the inclusive federal institutions of the United States, created a powerful force away from southern extraction and toward equal political and civil rights for southern blacks, which would finally remove the significant barriers to economic growth in the U.S. South.

The most important impetus for change came from the civil rights movement. It was the empowerment of blacks in the South that led the way, as in Montgomery, by challenging extractive institutions around them, by demanding their rights, and by protesting and mobilizing in order to obtain them. But they weren't alone in this, because the U.S. South was not a separate country and the southern elites did not have free rein as did Guatemalan elites, for example. As part of the United States of America, the South was subject to the U.S. Constitution and federal legislation. The cause for fundamental reform in the South would finally receive support from the U.S. executive, legislature, and Supreme Court partly because the civil rights movement was able to have its voice heard outside the South, thereby mobilizing the federal government.

Federal intervention to change the institutions in the South started with the decision of the Supreme Court in 1944 that primary elections where only white people could stand were unconstitutional. As we have seen, blacks had been politically disenfranchised in the 1890s with the use of poll taxes and literacy tests (this page— this page). These tests were routinely manipulated to discriminate against black people, while still allowing poor and illiterate whites to vote. In a famous example from the early 1960s, in Louisiana a white applicant was judged literate after giving the answer “FRDUM FOOF SPETGH” to a question about the state constitution. The Supreme Court decision in 1944 was the opening salvo in the longer battle to open up the political system to blacks, and the Court understood the importance of loosening white control of political parties.

That decision was followed by *Brown v. Board of Education* in 1954, in which the Supreme Court ruled that state-mandated segregation of schools and other public sites was unconstitutional. In 1962 the Court knocked away another pillar of the political dominance of white elites: legislative malapportionment. When a legislature is malapportioned— as were the “rotten boroughs” in England before the First Reform Act— some areas or regions receive much greater representation than they should based on their share of the relevant population. Malapportionment in the South meant that the rural areas, the heartland of the southern planter elite, were heavily overrepresented relative to urban



areas. The Supreme Court put an end to this in 1962 with its decision in the *Baker v. Carr* case, which introduced the “one-person, one-vote” standard.

But all the rulings from the Supreme Court would have amounted to little if they hadn’t been implemented. In the 1890s, in fact, federal legislation enfranchising southern blacks was not implemented, because local law enforcement was under the control of the southern elite and the Democratic Party, and the federal government was happy to go along with this state of affairs. But as blacks started rising up against the southern elite, this bastion of support for Jim Crow crumbled, and the Democratic Party, led by its non-southern elements, turned against racial segregation. The renegade southern Democrats regrouped under the banner of the States’ Rights Democratic Party and competed in the 1948 presidential election. Their candidate, Strom Thurmond, carried four states and gained thirty-nine votes in the Electoral College. But this was a far cry from the power of the unified Democratic Party in national politics and the capture of that party by the southern elites. Strom Thurmond’s campaign was centered on his challenge to the ability of the federal government to intervene in the institutions of the South. He stated his position forcefully: “I wanna tell you, ladies and gentlemen, that there’s not enough troops in the army to force the Southern people to break down segregation and admit the nigras into our theaters, into our swimming pools, into our homes, and into our churches.”

He would be proved wrong. The rulings of the Supreme Court meant that southern educational facilities had to be desegregated, including the University of Mississippi in Oxford. In 1962, after a long legal battle, federal courts ruled that James Meredith, a young black air force veteran, had to be admitted to “Ole Miss.” Opposition to the implementation of this ruling was orchestrated by the so-called Citizens’ Councils, the first of which had been formed in Indianola, Mississippi, in 1954 to fight desegregation of the South. State governor Ross Barnett publicly rejected the court-ordered desegregation on television on September 13, announcing that state universities would close before they agreed to be desegregated. Finally, after much negotiation between Barnett and President John Kennedy and Attorney General Robert Kennedy in Washington, the federal government intervened forcibly to implement this ruling. A day was set when U.S. marshals would bring Meredith to Oxford. In anticipation, white supremacists began to organize. On September 30, the day before Meredith was due to appear, U.S. marshals entered the university campus and surrounded the main administration building. A crowd of about 2,500 came to protest, and soon a riot broke out. The marshals used tear gas to disperse the rioters, but soon came under fire. By 10:00 p.m. that night, federal troops were moved into the city to restore order. Soon there were 20,000 troops and 11,000 National Guardsmen in Oxford. In total, 300 people would be arrested. Meredith decided to stay on campus, where, protected from death threats by U.S. marshals and 300 soldiers, he eventually graduated.

Federal legislation was pivotal in the process of institutional reform in the South. During the passage of the first Civil Rights Act in 1957, Strom Thurmond, then a senator, spoke nonstop for twenty-four hours and eighteen minutes to prevent, or at least delay, passage of the act. During his speech he read everything from the Declaration of Independence to various phone books. But to no avail. The 1957 act culminated in the Civil Rights Act of 1964 outlawing a whole gamut of segregationist state legislation and practices. The Voting Rights Act of 1965 declared the literacy tests, poll taxes, and other methods used for disenfranchising southern blacks to be illegal. It also extended a great deal of federal oversight into state elections.

The impact of all these events was a significant change in economic and legal institutions in the South. In Mississippi, for example, only about 5 percent of eligible black people were voting in 1960. By 1970 this figure had increased to 50 percent. In Alabama and South Carolina, it went from around 10

percent in 1960 to 50 percent in 1970. These patterns changed the nature of elections, both for local and national offices. More important, the political support from the dominant Democratic Party for the extractive institutions discriminating against blacks eroded. The way was then open for a range of changes in economic institutions. Prior to the institutional reforms of the 1960s, blacks had been almost entirely excluded from jobs in textile mills. In 1960 only about 5 percent of employees in southern textile mills were black. Civil rights legislation stopped this discrimination. By 1970 this proportion had increased to 15 percent; by 1990 it was at 25 percent. Economic discrimination against blacks began to decline, the educational opportunities for blacks improved significantly, and the southern labor market became more competitive. Together with inclusive institutions came more rapid economic improvements in the South. In 1940 southern states had only about 50 percent of the level of per capita income of the United States. This started to change in the late 1940s and '50s. By 1990 the gap had basically vanished.

As in Botswana, the key in the U.S. South was the development of inclusive political and economic institutions. This came at the juxtaposition of the increasing discontent among blacks suffering under southern extractive institutions and the crumbling of the one-party rule of the Democratic Party in the South. Once again, existing institutions shaped the path of change. In this case, it was pivotal that southern institutions were situated within the inclusive federal institutions of the United States, and this allowed southern blacks finally to mobilize the federal government and institutions for their cause. The whole process was also facilitated by the fact that, with the massive outmigration of blacks from the South and the mechanization of cotton production, economic conditions had changed so that southern elites were less willing to put up more of a fight.

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Breaking another mold: Rosa Parks challenges extractive institutions in the U.S. south The Granger Collection, NY

## REBIRTH IN CHINA

The Communist Party under the leadership of Mao Zedong finally overthrew the Nationalists, led by Chiang Kai-shek, in 1949. The People's Republic of China was proclaimed on October 1. The political and economic institutions created after 1949 were highly extractive. Politically, they featured the dictatorship of the Chinese Communist Party. No other political organization has been allowed in China since then. Until his death in 1976, Mao entirely dominated the Communist Party and the government. Accompanying these authoritarian, extractive political institutions were highly extractive economic institutions. Mao immediately nationalized land and abolished all kinds of property rights in one fell swoop. He had landlords, as well as other segments he deemed to be against the regime, executed. The market economy was essentially abolished. People in rural areas were gradually organized onto communal farms. Money and wages were replaced by "work points," which could be traded for goods. Internal passports were introduced in 1956 forbidding travel without appropriate authorization, in order to increase political and economic control. All industry was similarly nationalized, and Mao launched an ambitious attempt to promote the rapid development of industry through the use of "five-year plans," modeled on those in the Soviet Union.

As with all extractive institutions, Mao's regime was attempting to extract resources from the vast country he was now controlling. As in the case of the government of Sierra Leone with its marketing board, the Chinese Communist Party had a monopoly over the sale of produce, such as rice and grain, which was used to heavily tax farmers. The attempts at industrialization turned into the infamous Great Leap Forward after 1958 with the roll-out of the second five-year plan. Mao announced that steel output would double in a year based on small-scale "backyard" blast furnaces. He claimed that in fifteen years, China would catch up with British steel production. The only problem was that there

was no feasible way of meeting these targets. To meet the plan's goals, scrap metal had to be found, and people would have to melt down their pots and pans and even their agricultural implements such as hoes and plows. Workers who ought to have been tending the fields were making steel by destroying their plows, and thus their future ability to feed themselves and the country. The result was a calamitous famine in the Chinese countryside. Though scholars debate the role of Mao's policy compared with the impact of droughts at the same time.

Soon the Cultural Revolution, just like the Great Leap Forward, would start wrecking both the economy and many human lives. Units of Red Guards were formed across the country: young, enthusiastic members of the Communist Party who were used to purge opponents of the regime. Many people were killed, arrested, or sent into internal exile. Mao himself retorted to concerns about the extent of the violence, stating, "This man Hitler was even more ferocious. The more ferocious, the better, don't you think? The more people you kill, the more revolutionary you are."

Deng found himself labeled number-two capitalist roader, was jailed in 1967, and then was exiled to Jiangxi province in 1969, to work in a rural tractor factory. He was rehabilitated in 1974, and Mao was persuaded by Premier Zhou Enlai to make Deng first vice-premier. Already in 1975, Deng supervised the composition of three party documents that would have charted a new direction had they been adopted. They called for a revitalization of higher education, a return to material incentives in industry and agriculture, and the removal of "leftists" from the party. At the time, Mao's health was deteriorating and power was increasingly concentrated in the hands of the very leftists whom Deng Xiaoping wanted to remove from power. Mao's wife, Jiang Qing, and three of her close associates, collectively known as the Gang of Four, had been great supporters of the Cultural Revolution and the resulting repression. They intended to continue using this blueprint to run the country under the dictatorship of the Communist Party. On April 5, a spontaneous celebration of the life of Zhou Enlai in Tiananmen Square turned into a protest against the government. The Gang of Four blamed Deng for the demonstrations, and he was once more stripped of all his positions and dismissed. Instead of achieving the removal of the leftists, Deng found that the leftists had removed him. After the death of Zhou Enlai, Mao had appointed Hua Guofeng as the acting premier instead of Deng. In the relative power vacuum of 1976, Hua was able to accumulate a great deal of personal power.

In September there was a critical juncture: Mao died. The Chinese Communist Party had been under Mao's domination, and the Great Leap Forward and the Cultural Revolution had been largely his initiatives. With Mao gone, there was a true power vacuum, which resulted in a struggle between those with different visions and different beliefs about the consequences of change. The Gang of Four intended to continue with the policies of the Cultural Revolution as the only way of consolidating theirs and the Communist Party's power. Hua Guofeng wanted to abandon the Cultural Revolution, but he could not distance himself too much from it, because he owed his own rise in the party to its effects. Instead, he advocated a return to a more balanced version of Mao's vision, which he encapsulated in the "Two Whatevers," as the People's Daily, the newspaper of the Chinese Communist Party, put it in 1977. Hua argued, "We will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave."

Deng Xiaoping did not wish to abolish the communist regime and replace it with inclusive markets any more than Hua did. He, too, was part of the same group of people brought to power by the communist revolution. But he and his supporters thought that significant economic growth could be achieved without endangering their political control: they had a model of growth under extractive political institutions that would not threaten their power, because the Chinese people were in dire need

of improved living standards and because all meaningful opposition to the Communist Party had been obliterated during Mao's reign and the Cultural Revolution. To achieve this, they wished to repudiate not just the Cultural Revolution but also much of the Maoist institutional legacy. They realized that economic growth would be possible only with significant moves toward inclusive economic institutions. They thus wished to reform the economy and bolster the role of market forces and incentives. They also wanted to expand the scope for private ownership and reduce the role of the Communist Party in society and the administration, getting rid of such concepts as class struggle. Deng's group was also open to foreign investment and international trade, and wished to pursue a much more aggressive policy of integrating with the international economy. Still, there were limits, and building truly inclusive economic institutions and significantly lessening the grip the Communist Party had on the economy weren't even options.

The turning point for China was Hua Guofeng's power and his willingness to use it against the Gang of Four. Within a month of Mao's death, Hua mounted a coup against the Gang of Four, having them all arrested. He then reinstated Deng in March 1977. There was nothing inevitable either about this course of events or about the next significant steps, which resulted from Hua himself being politically outmaneuvered by Deng Xiaoping. Deng encouraged public criticism of the Cultural Revolution and began to fill key positions in the Communist Party at all levels with people who, like him, had suffered during this period. Hua could not repudiate the Cultural Revolution, and this weakened him. He was also a comparative newcomer to the centers of power, and he lacked the web of connections and informal relations that Deng had built up over many years. In a series of speeches, Deng began to criticize Hua's policies. In September 1978, he explicitly attacked the Two Whatevers, noting that rather than let whatever Mao had said determine policy, the correct approach was to "seek truth from facts."

Deng also brilliantly began to bring public pressure to bear on Hua, which was reflected most powerfully in the Democracy Wall movement in 1978, in which people posted complaints about the country on a wall in Beijing. In July of 1978, one of Deng's supporters, Hu Qiaomu, presented some basic principles of economic reform. These included the notions that firms should be given greater initiative and authority to make their own production decisions. Prices should be allowed to bring supply and demand together, rather than just being set by the government, and the state regulation of the economy more generally ought to be reduced. These were radical suggestions, but Deng was gaining influence. In November and December 1978, the Third Plenum of the Eleventh Central Party Committee produced a breakthrough. Over Hua's objections, it was decided that, from then on, the focus of the party would be not class struggle but economic modernization. The plenum announced some tentative experiments with a "household responsibility system" in some provinces, which was an attempt to roll back collective agriculture and introduce economic incentives into farming. By the next year, the Central Committee was acknowledging the centrality of the notion of "truth from facts" and declaring the Cultural Revolution to have been a great calamity for the Chinese people. Throughout this period, Deng was securing the appointment of his own supporters to important positions in the party, army, and government. Though he had to move slowly against Hua's supporters in the Central Committee, he created parallel bases of power. By 1980 Hua was forced to step down from the premiership, to be replaced by Zhao Ziyang. By 1982 Hua had been removed from the Central Committee. But Deng did not stop there. At the Twelfth Party Congress in 1982, and then in the National Party Conference in September 1985, he achieved an almost complete reshuffling of the party leadership and senior cadres. In came much younger, reform-minded people. If one compares 1980 to 1985, then by the latter date, twenty-one of the twenty-six members of the Politburo, eight of the eleven members of the Communist Party secretariat, and ten of the eighteen vice-premiers had been changed.

Now that Deng and the reformers had consummated their political revolution and were in control of the state, they launched a series of further changes in economic institutions. They began in agriculture: By 1983, following the ideas of Hu Qiaomu, the household responsibility system, which would provide economic incentives to farmers, was universally adopted. In 1985 the mandatory state purchasing of grain was abandoned and replaced by a system of more voluntary contracts. Administrative control of agricultural prices was greatly relaxed in 1985. In the urban economy, state enterprises were given more autonomy, and fourteen “open cities” were identified and given the ability to attract foreign investment.

It was the rural economy that took off first. The introduction of incentives led to a dramatic increase in agricultural productivity. By 1984 grain output was one-third higher than in 1978, though fewer people were involved in agriculture. Many had moved into employment in new rural industries, the so-called Township Village Enterprises. These had been allowed to grow outside the system of state industrial planning after 1979, when it was accepted that new firms could enter and compete with state-owned firms. Gradually economic incentives were also introduced into the industrial sector, in particular into the operation of state-run enterprises, though at this stage there was no hint at privatization, which had to wait until the mid-1990s.

The rebirth of China came with a significant move away from one of the most extractive set of economic institutions and toward more inclusive ones. Market incentives in agriculture and industry, then followed by foreign investment and technology, would set China on a path to rapid economic growth. As we will discuss further in the next chapter, this was growth under extractive political institutions, even if they were not as repressive as they had been under the Cultural Revolution and even if economic institutions were becoming partially inclusive. All of this should not understate the degree to which the changes in economic institutions in China were radical. China broke the mold, even if it did not transform its political institutions. As in Botswana and the U.S. South, the crucial changes came during a critical juncture— in the case of China, following Mao’s death. They were also contingent, in fact highly contingent, as there was nothing inevitable about the Gang of Four losing the power struggle; and if they had not, China would not have experienced the sustained economic growth it has seen in the last thirty years. But the devastation and human suffering that the Great Leap Forward and the Cultural Revolution caused generated sufficient demand for change that Deng Xiaoping and his allies were able to win the political fight.

BOTSWANA, CHINA, and the U.S. South, just like the Glorious Revolution in England, the French Revolution, and the Meiji Restoration in Japan, are vivid illustrations that history is not destiny. Despite the vicious circle, extractive institutions can be replaced by inclusive ones. But it is neither automatic nor easy. A confluence of factors, in particular a critical juncture coupled with a broad coalition of those pushing for reform or other propitious existing institutions, is often necessary for a nation to make strides toward more inclusive institutions. In addition some luck is key, because history always unfolds in a contingent way.

Acemoglu, Daron; Robinson, James (2012-03-20). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (pp. 408-421). Crown Publishing Group. Kindle Edition.