Stark Lesson for Kenya from Nobel Prize Winner

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Abstract- This study examines the significant influence of institutional frameworks on economic prosperity. The research work of Nobel laureates James A. Robinson, Simon Johnson, and Daron Acemoglu, sheds light on how past institutional decisions have influenced current economic inequality, especially the continued existence of inclusive and extractive institutions. The authors show that early colonial institutions had a lasting impact on economic growth by using European colonialism as a quasi-natural experiment. Key lessons for Kenya are also included in the report, with a focus on the necessity of institutional reforms to end past injustices and elite domination. Kenya can establish a sustainable route to long-term economic growth by promoting inclusive political and economic institutions, guaranteeing fair access to resources, and solidifying governance processes. The results provide strategic reform recommendations and highlight the crucial role that institutional quality plays in determining national development.

Indexed Terms- Income inequality, Institutional frameworks, Colonial Legacy

I. INTRODUCTION

In 2024, the Economic Science Nobel Prize was awarded to Daron Acemoglu (Massachusetts Institute of Technology), Simon Johnson (Massachusetts Institute of Technology), and James A. Robinson (University of Chicago). Based on their work, the authors argue that there are vast differences in prosperity between nations. This is primarily attributed to persistent disparities in societal institutions. James A. Robinson, Simon Johnson, and Daron Acemoglu have shown a connection between institutions and prosperity by analyzing the different political and economic structures brought about by European colonists. Additionally, they have created theoretical tools that can explain how institutions can evolve and why inequalities in institutions remain (NobelPrize.org, 2025).

Background of the Study

The key question being addressed by the three authors is "Why do some countries remain poor while others become prosperous?" this critical question is asked based on key observations made by the authors as follows:

1. Global Income Inequality: The poorest 50% of the global population earns less than 10% of global income and owns approximately 2% of total wealth. These inequalities are primarily driven by the differences between countries rather than the differences within them. Also, these disparities challenge the basic assumptions of the neoclassical growth model which states that all factors held constant, poor countries should naturally catch up with wealthier nations over time.
2. Institutional Differences Matter: The second observation made by the authors is that the difference between poor and wealthy nations lies in their investment levels, population growth rates, human capital accumulation, and productivity. However, the major difference lies in the quality and nature of their economic and political institutions. Political institutions (structures that govern power distribution and decision-making) play a foundational role in shaping economic institutions and subsequently influence economic outcomes.

II. RESEARCH QUESTION

Based on these observations, they then ask the question "If institutions are so crucial, why can't poor countries simply adopt the institutional frameworks of wealthier nations?

III. THEORETICAL REVIEW

The authors build a formal theoretical model that is expected to explain the reasons why inefficient institutions persist despite being detrimental to long-term economic growth. From these models, they observe that social conflicts may arise when elites block institutional reforms to retain power and economic advantages and where reforms are promised, there exists no credible mechanism for a thorough follow-up. Additionally, institutional change is more likely to occur in periods of political or economic crises, but such moments are rare and often short-lived. Furthermore, they distinguish between two types of institutions: inclusive and extractive institutions. Based on their theoretical model, inclusive institutions protect property rights, enforce contracts, and encourage broad participation in economic activity while extractive institutions are designed to benefit a small elite, often at the expense of general societal prosperity. Their dynamic models demonstrate how historical contingencies, power struggles, and elite incentives can shape long-term institutional trajectories, and this is why some countries transitioned from extractive to inclusive institutions, while others remained trapped in extractive systems.

IV. METHODOLOGY

The researchers leveraged European colonization as a quasi-natural experiment to study how initial institutional choices during colonization have had persistent effects on modern economic outcomes. Colonization was the basis of variation in institutional structures which were based on settler mortality rates and local population density, which were largely predetermined by geography and disease environments.

The main observations made were that, in regions where settlers faced high mortality rates (e.g., due to malaria or yellow fever), colonial powers established extractive institutions designed for resource exploitation. Whereas, in regions where settlers could survive and settle in large numbers, they implemented inclusive institutions resembling those in their home countries. Settler mortality rates were used as an instrumental variable (IV) for contemporary institutional quality and the causal chain was outlined as follows:

Settler Mortality Rates → Nature of Colonial Institutions → Persistence of Institutions after Independence → Modern Institutional Quality → Current Economic Prosperity

Using the approach allowed them to isolate the causal impact of institutions on economic outcomes while accounting for indigeneity concerns. Historical data on property rights, constraints on the executive, and political systems were used to measure institutional quality over time. Cross- country regression models were used to establish the relationship between settler mortality, institutional quality, and economic performance. Confounding factors such as geography, religion, legal origins, and colonizing power were used to ensure robustness.

V. FINDINGS

Their study established that economic institutions directly affect economic performance, and in turn, these institutions are affected by political institutions. They also established that a significant portion of the difference in the quality of modern institutions across nations can be explained by the initial conditions during colonization. While historically less developed countries (like North America and Australia) gradually became wealthy, pre-colonial areas (like India and parts of Latin America) are frequently impoverished today. This is because colonists established inclusive institutions in sparsely populated areas and extractive institutions in densely populated areas through a phenomenon known as the "Reversal of Fortune." Finally, they established that institutional change frequently occurs during times of opportunity, like significant public uprisings or economic crises. These occasions are uncommon, though, and how they occur depends on how the balance of power between the general populace and elites is maintained. Furthermore, when the masses pose real risks to the elites (such as revolutions or mass protests), they are more likely to allow democracy or institutional transformations to occur.

VI. ARTICLE CRITIQUE

While their work has been celebrated based on their innovation and clarity, different authors have pointed out several weaknesses. Albouy (2012), challenges the settler mortality data, terming it as unreliable especially when extrapolated from historical sources. In his article on The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data published in the American Economic Review journal, the author questions the reliability of settler mortality data used by Acemoglu, Johnson, and Robinson, arguing that the data are inconsistent and may not meet the requirements for valid instrumental variables. Glaeser et al. (2004) also argue that the settlers brought institutions and human capital and that distinguishing their independent effects can be challenging. In their journal article "Do Institutions Cause Growth?" published in the Journal of Economic Growth, the authors argue that human capital, rather than institutions, may have been the primary driver of long-term growth. They add that the colonial settlers brought skills, education, and values alongside institutions, making it difficult to isolate the causal effects of institutions on economic prosperity alone.

VII. STARK LESSONS FOR KENYA

From the work of Daron Acemoglu, Simon Johnson, and James Robinson, the following lessons can be drawn for Kenya.

1. The Role of Colonial Legacy in Shaping Present-Day Institutions in Kenya

Kenya's colonial history laid the foundation for its modern institutions, many of which were extractive in nature and designed to benefit colonial elites rather than the local population. To achieve economic prosperity, Kenya must address the persistent extractive institutions such as corruption, weak property rights, and state capture of resources. Addressing these social injustices must remain a priority for long-term economic growth. Further, reforms should focus on building inclusive political and economic institutions that protect property rights, enforce contracts, and foster broad participation in economic activities.

Historical experiences, such as colonial land policies, resource extraction, and taxation systems, also have long-lasting effects on Kenya's institutional quality. Policy solutions must consider Kenya's historical institutional context rather than adopting one-size-fits-all economic reforms. This means that historical injustices, such as land inequality and unequal access to resources, must be addressed through structured and inclusive reforms.

2. Inclusive Institutions Are Critical to Economic Prosperity

From the authors it has been established that prosperity arises from inclusive institutions that ensure political accountability, equitable access to resources, and strong legal protections. Kenya must therefore address elite dominance in political and economic spheres, where policies often favor a few at the expense of the broader population. This can be achieved by strengthening independent institutions like the judiciary, anti-corruption agencies, and electoral bodies to reduce elite dominance. Extractive institutions, once established, are highly persistent due to elite self- interest. While reforms in Kenya may face resistance from powerful groups benefiting from the current institutional setup, building credible mechanisms to hold political and economic elites accountable and create transparent systems for wealth distribution will weaken the persistence of such institutions.

3. Political Power Shapes Economic Outcomes

Economic reforms are unlikely to succeed if political institutions remain weak or overly concentrated in the hands of elites. Kenya's political institutions must prioritize accountability, transparency, and power-sharing to ensure economic reforms are effectively implemented. Addressing political polarization and improving electoral integrity will create an environment for sustainable reforms. Institutional reforms are most likely to succeed during windows of opportunity, such as political transitions or economic crises. Kenya must seize moments of political change to implement deep institutional reforms that address underlying structural issues. Stakeholders, including civil society and international partners, should advocate for institutional reforms during key political moments (e.g., post-election periods).

4. Avoid Overreliance on Economic Growth Without Institutional Reform

From the authors, it can be established that economic growth alone does not guarantee institutional improvement. Strong institutions are prerequisites, not byproducts, of sustainable development. The implication of this is that Kenya must avoid growth strategies that overlook institutional weaknesses. Growth policies must integrate anti-corruption measures, rule of law, and inclusive governance mechanisms.

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