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The Contribution of Nobel Laureates to the Development of Economic Science

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NOBEL PRIZE IN ECONOMICS 2024 FOR DARON ACEMOGLU, SIMON JOHNSON, AND JAMES A. ROBINSON: SOME NOTES

Abstract

The article systematically presents the scientific achievements of the 2024 Nobel Prize winners Daron Acemoglu, Simon Johnson and James A. Robinson. The main directions of theoretical and applied development of the key provisions of their research results are formulated.

Key Words:

automation, democracy, inclusive and extractive institutions, Nobel laureates, technological change.

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Statement of the Nobel Committee and Results

The Nobel Prize Committee has put this prize under the heading: «For studies of how institutions are formed and affect prosperity!» We can put it, too, under the heading: «Why some countries get rich, and others not?» Daron Acemoglu, Simon Johnson, and James A. Robinson explain this or give good reasons for an explanation. Therefore, economists around the world agree that these three researchers received this outstanding mark for good reason.

In a series of scientific papers, these three authors have investigated the hypothesis that institutions constitute the most important pillar determining whether nations survive or fail. In 2001, they published e.g. «The colonial origins of comparative development: An empirical investigation» in the most prestigious *American Economic Review* (Acemoglu et al., 2001). In 2002 follows the paper «Reversal of fortune: Geography and institutions in the making of the modern world income distribution» in the *Quarterly Journal of Economics* (Acemoglu et al., 2002). In 2005, a summary of their findings, under the title «Institutions as the fundamental cause of long-run growth,» was published in the *Handbook of Economic Growth* (Acemoglu et al., 2005). Then the much-discussed but also critically received book *Why Nations Fail – The Origin of Power, Prosperity, and Poverty* by Daron Acemoglu and James A. Robinson was released in 2012 (a paperback edition followed in 2013). And on the cover not less than six Nobel laureates in Economics praised the book! Here, an interesting example is the starting point: «Nogales, Arizona, and Nogales, Sonora, Mexico, have the same people, culture, and geography. Why is one rich and the other poor?» After posing this question in Chapter 1, they explore in Chapter 2 «Theories That Don't Work» – such as geography or religion. In Chapter 3, they develop their own theory – «How prosperity and poverty are determined by the incentives created by institutions, and how politics determines what institutions a nation has», – using the distinction between extractive and inclusive economic and political institutions! In Chapter 7 «The Turning Point», they explain very concisely «how a political revolution in 1688 (The Glorious Revolution, R. E.) changed institutions in England and led to the Industrial Revolution». It was, in short, the victory of the Dutch Stateholder, William of Orange, over the king James II, which led to a lot of changes in political and economic institutions (p. 192). And after 1688 «parliament began a process of reform in economic institutions to promote manufactory, rather than taxing and impeding it» (p. 194). «Parliament also passed legislation that allowed for a complete reorganization of property rights in land, permitting the consolidation and elimination of many archaic forms of property and user rights» (p. 195). Also, the foundation of the Bank of England in 1694 «paved the way for a much more extensive 'financial revolution'» (p. 195).

Although Douglass C. North received the Nobel Prize in Economics in 1993 (together with Robert W. Fogel) «for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change» (the Nobel committee; see e. g. D. C. North (1991)), it is very good that in these days the Nobel Prize in Economics is given to other influential figures in New Institutional Economics. As many commentators emphasize, our time is marked by a loss of democracy. Therefore, this prize is also a «political signal» where the Swedish jury poses a counter-pole or counterweight to the «Abgesänge» of the liberal democracy, as R. Bachmann has remarked (Hagelücken, 2024).

Some Further Remarks

I want to stress a second argument here. During these years, Daron Acemoglu published other pioneering works, starting with papers on the «New Growth Theory», in particular on biased technical change, its effects on labour, the wage rate, and unemployment. Here, I want to mention his papers «Why do new technologies complement skills? Directed technical change and wage inequality» (Acemoglu, 1998); «Changes in unemployment and wage inequality: An alternative theory and some evidence» (Acemoglu, 1999), «Directed technical change» (Acemoglu, 2002), «Technical change, inequality, and the labor market» (Acemoglu, 2002), and «Labor and capital augmenting technical change» (Acemoglu, 2003). In all these works, the theoretical «backbone» is an equation which shows that technical change is made and directed by allocating labour (or scientists) either in labour-augmenting or capital-augmenting «machines», developing further an idea of H. Uzawa published in 1965 under the title «Optimal technical change in an aggregative model of economic growth» (Uzawa, 1965).

Daron Acemoglu was engaged, too, in the discussion about what effects robots will have on different jobs and the labour market, see, e. g., his articles together with Pascual Restrepo «The race between machine and man: Implications of technology for growth, factor shares and employment» (Acemoglu & Restrepo, 2018), and «Automation and new tasks: How technology changes labour demand» (Acemoglu & Restrepo, 2019), as well as «Robots and jobs: evidence from U. S. labour markets» (Acemoglu & Restrepo, 2020), and «Tasks, automation, and the rise in US wage inequality» (Acemoglu & Restrepo, 2022). In these papers, they discuss intensively the sad picture painted by Carl B. Frey and Michael A. Osborne, that automation will dramatically change jobs and employment, see their «The future of employment: how susceptible are jobs to computerisation» (Frey & Osborne , 2017).

Also, in this field a voluminous book written together with Simon Johnson presents itself as a culminating point: *Power and Progress: Our Thousand-Year*

Struggle over Technology and Prosperity (Acemoglu & Johnson, 2023). Here, however, in Chapter 8 («Digital Damage») they discuss why and how automation changed its character. While in the time after the Second World War, besides automation, new possibilities for workers in various sectors were created, and the distribution of the economic rents was responsible for the increase in wages, around 1970 (around the first «Oil Crisis») both these pillars crashed. The entrepreneurs (or capitalists) developed a new vision (p. 276): First, the reduction of labour costs gained priority, followed by the externalization of certain production stages; second, out of the menu of technologies they chose those that served only automation, those that replaced labour with machines, robots, and algorithms. In other words, they changed the direction of technological change (see Acemoglu (2002) and Acemoglu and Restrepo (2020)).

The significance of these Nobel laureates' research results for the development of economic science and practice is beyond doubt – as is their importance for democracy and its basic institutions.

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