

Improving the Prosperity of First Nations: Lessons From Two Nobel Laureates in Economics

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A man rides an ATV in a northern Ontario First Nations reserve in a file photo. The Canadian Press/Nathan Denette



By Rodney A. Clifton

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Commentary

Here is a question that many Western Canadians, especially those living in rural areas, could answer. “If you were blindfolded and dropped off on a First Nation or a Hutterite colony, would you know where you were if you did not see any people?”

Of course, both the question and the possible answers are politically incorrect. But to most Westerns, the answer is obvious.

 Copy	In the First Nations community there would be dilapidated and overcrowded houses, potholes in the roads, and unkempt, flea-infested dogs wandering around. On the Hutterite colony, none of these signs of poverty and desperation would be evident. Rather, there would be well-kept houses, maintained barns and workshops, large gardens, and well-cared-for animals.
 Share	If the two communities are close to each other, as they often are, the differences could not be explained by geography, soil conditions, or weather. So, it must be something else.

What could it be?

The answer is in “[How Nations Fail: The Origins of Power, Prosperity, and Poverty](#)” by Daron Acemoglu and James A. Robinson. This 2012 book was cited by this year’s Nobel Committee in awarding them (along with another economist) [the Nobel Prize in Economics](#).

Acemoglu and Robinson spent a couple of decades examining why hundreds of communities around the world and across historical eras differ in prosperity and poverty. “Why Nations Fail” provides a guide for understanding why Hutterite colonies are, generally, much more prosperous than First Nations.

The theory that Acemoglu and Robinson developed is surprisingly simple, written in beautiful English and not in mathematical equations that are often used in economics books.

The basic tenet is that the economic and political culture of some communities is extractive, while the economics and political culture of other communities is inclusive. Simply, inclusive communities have

institutions that enforce property rights, create reciprocal expectations and relationships, and encourage investments that provide jobs for residents.

In contrast, extractive communities have economic and political institutions that are structured to obtain resources from the masses. In these communities, property rights are not protected, there are few incentives for economic and political development, jobs are scarce, and people are not well-prepared for them.

Even more, in inclusive communities, political power is distributed widely while having a central authority that keeps the public safe. In extractive communities there is decentralized authority, law and order is lax or non-existent, and power is concentrated in the hands of the few who use it for their own advantage. Thus, in extractive communities many individuals and families compete to obtain the coveted power that is used to better themselves, which increases resentment and instability within the community.

In short, extractive communities create a vicious circle of resentment and unhealthy competition while inclusive communities create a virtuous circle of opportunities and healthy competition. Obviously, inclusive communities are not going to be perfect, but they are better than extractive communities.

Acemoglu and Robinson note that communities are not forever locked into their circle of viciousness or virtue. In fact, some communities change because of what the authors call “critical junctures,” such as epidemics, economic collapses, internal and external conflicts, or community leaders who implement policies that help build more inclusive institutions.

The work of these two political economists shows that communities can be prosperous (or poor) in diverse ways. For this reason, it is impossible to identify one path towards prosperity. Rather, communities must carefully examine their existing institutions, and then design workable prescriptions that suit their resources and members. As well, research must be carried out to ensure the

community is progressing from extractive to inclusive institutions, from poverty to prosperity.

At least since the mid-1960s, Canadians have been waiting for a time when they could be blindfolded and taken to a First Nation and a Hutterite colony and not know where they were because both communities were inclusive, prosperous, and safe. If indigenous communities want greater prosperity, their leaders can learn how to create institutions that are likely to achieve this worthy goal from “Why Nations Fail.” Not only is this book full of wise advice, but it is so well-written that it is a joy to read.

Rodney A. Clifton is a professor emeritus at the University of Manitoba and a senior fellow at the Frontier Centre for Public Policy. His most recent book co-edited with Mark DeWolf is “From Truth Comes Reconciliation: An Assessment of the Truth and Reconciliation Commission Report.” The book can be ordered from Amazon.ca.

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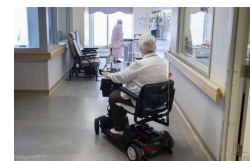
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