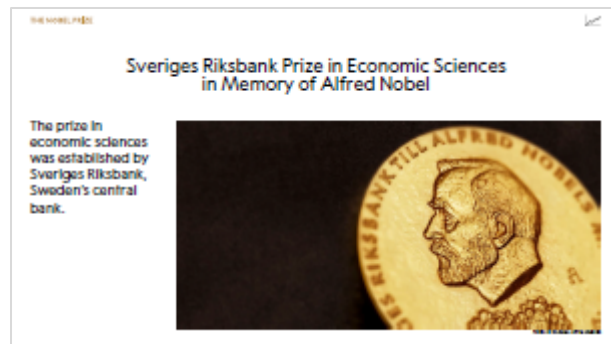


THE NOBEL PRIZE

Speaker's manuscript – Economic sciences prize 2024 Rich and poor countries

Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel

- In 1901 the Nobel Prize was awarded for the first time. It is a prize in five categories, established by Swedish inventor Alfred Nobel (1833-1896).
- The Nobel Prize categories are Physics, Chemistry, Physiology or Medicine, Literature and Peace. Alfred Nobel thus did not choose economic sciences as one of his prize categories.
- Instead Sveriges Riksbank, at its 300th anniversary in 1968, established an economic sciences prize in memory of Nobel. It was awarded for the first time in 1969 and is called the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.
- The prize is presented at the same ceremony as the Nobel Prize, on 10 December each year.
- The prize is awarded to a person or persons who have produced works of outstanding importance in the field of economic sciences. The laureates have analysed various economic problems and found ways to solve or understand them.



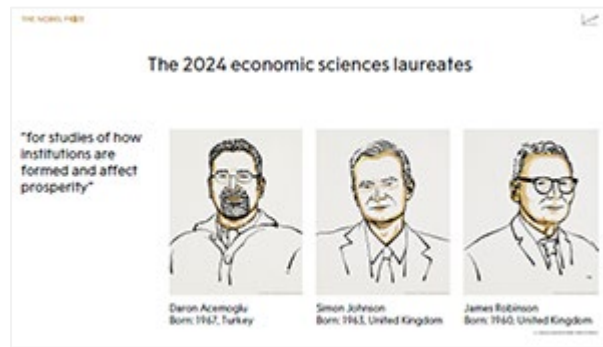
The economic sciences prize 2024

- The economic sciences prize recognises research that explains the factors that lead to big differences in prosperity among countries and why those differences persist over time.
- The laureates' research demonstrates that there is a strong connection between societal institutions and prosperity.



The 2024 economic sciences laureate

- The economic sciences prize is awarded to Daron Acemoglu, Simon Johnson and James Robinson “for studies of how institutions are formed and affect prosperity.”
- Daron Acemoglu and Simon Johnson work at the Massachusetts Institute of Technology in the United States. James Robinson works at the University of Chicago in the United States.



The income gap

- The richest 20 per cent of the world's countries are about 30 times richer than the poorest 20 per cent today.
- The income gap between the poorest and the richest countries does not seem to change over time. Although the poorest countries are becoming more prosperous, they have not caught up to the richest.
- To determine why this is, the economic sciences laureates studied Europeans' colonisation of large parts of the world from the sixteenth century on.



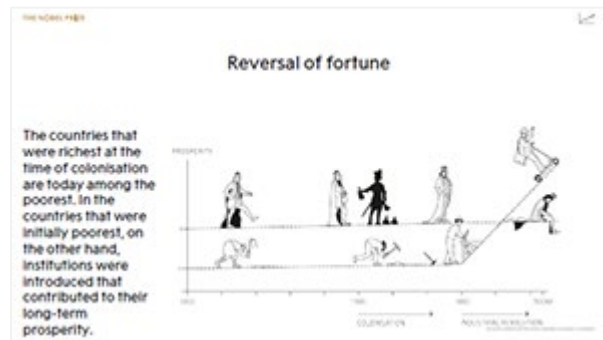
The role of colonisation

- When Europeans colonised large parts of the world, the societal institutions in those areas changed, but not in the same way in every case.
- In countries that were rich and densely populated at the time of colonisation, the Europeans introduced a system meant to extract the country's natural resources and exploit the original population as a workforce. Few Europeans chose to settle down in such colonies. There were no elections and political rights were very limited.
- In countries that were poor and more sparsely populated when they were colonised, there was less risk for resistance and a smaller labour force to exploit. More Europeans emigrated to such countries, and inclusive political and economic systems became established.
- Which societal institutions were introduced – or preserved – would turn out to be highly determinative for the future development of the colonised countries.



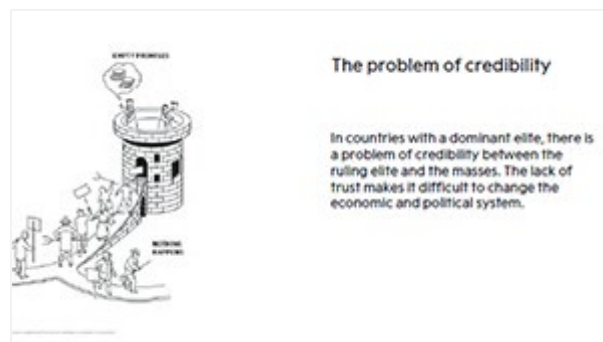
Reversal of fortune

- The laureates have demonstrated that there has been a reversal of fortune in the colonised areas. The places that were rich when the colonialists arrived are today among the poorest, while the places that were poor when they were colonised now have more prosperity and a higher standard of living.
- This development is largely a result of the societal institutions introduced by the European colonisers.
- Since more people from Europe settled in the poorer and more sparsely populated countries, good governance and the rule of law benefitted the population. This was an incentive for the settlers to stay, work hard and invest in the new country.
- Eventually this led to the emergence of democratic forms of government with economic liberty and legal protections in these areas.



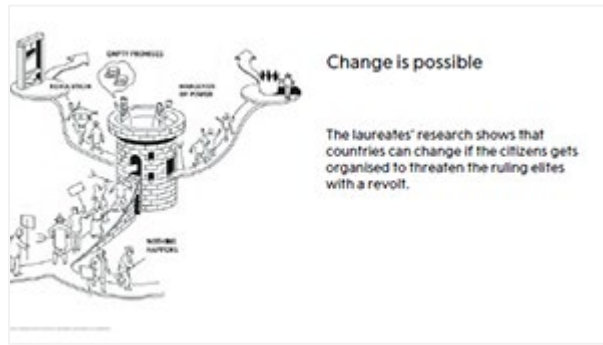
The problem of credibility

- Thus, the laureates have identified a clear chain of causation. Institutions that are built to benefit the elite and exploit the masses are bad for long-term economic growth, while institutions that are built to benefit the masses are good for long-term growth.
- But if inclusive institutions offer more prosperity, why doesn't the elite in countries with poor economic growth just switch out the economic system?
- The problem, as the laureates explain, is the lack of trust between the ruling elite and the masses. The citizens don't trust the elites' promises of coming economic change, since the elites have always acted in their own self-interest. Meanwhile, the elites don't trust the citizens if the economic system should change, since they are worried about losing their economic advantages.
- The problem of credibility means the societies get stuck in a pattern of exploitive institutions, impoverished masses and a wealthy elite.



Change is possible

- However, it possible to change the conditions in a country so that it benefits the people in the long-term and increases well-being.
- Even though citizens in a non-democracy lack formal power, there are many of them. They can join forces to create a revolutionary threat. The threat does not necessarily need to be violent – they could also use peaceful means.
- Faced with the threat of revolution, the elites can hand over power and start a democracy.
- In summary, working to strengthen democratic institutions is an important way forward to increase prosperity and narrow the world's income gaps.



“True, genuine, inclusive democracy matters, very clearly.”

- In an interview given in conjunction with the announcement of the economic sciences prize 2024, Simon Johnson asserted the connection between democracy and prosperity can diminish the world's income gaps.
- The interview was given just a few minutes after Simon Johnson had been notified that he had been awarded the economic sciences prize. He recounts that he received word through calls of congratulations from friends and acquaintances.

