The Colonial Origins of Economics

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By providing an easy and elegant "answer" to the complex process of development, albeit a wrong one, Daron Acemoglu, Simon Johnson and James Robinson's rise to prominence has lent support to a very particular understanding of development that is now prevalent in the discipline. It also provided an easy, unfalsifiable, and arguably racist narrative of underdevelopment, that reinforces Eurocentrism and a colonial world view. The awarding of the Nobel Prize in Economics to AJR once again reveals the insular nature of the discipline, and its resistance to fundamental change and improvement, apart from very narrow changes in methodology.

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The recent Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024 was awarded to Daron Acemoglu, Simon Johnson and James Robinson (henceforth, AJR). The Nobel committee noted that the laureates "have demonstrated the importance of societal institutions for a country's prosperity. Societies with a poor rule of law and institutions that exploit the population do not generate growth or change for the better." One of their key insights is that to understand differences in prosperity, we need to consider the "colonial origins of comparative development" (Acemoglu et al 2001). Some have called this a "colonial turn" in economics (Ince 2022). While this is an improvement on a discipline that has historically focused on markets as the main avenue for development, and has tended to neglect the role of colonialism in shaping economies, this colonial turn nonetheless falls short of understanding the roots of global (and local) inequality and the institutions that underpin the economic system. To understand how AJR managed to integrate colonialism into economics without addressing the capitalist dynamics of uneven development, we need to go back to the colonial origins of economics.

Economics has arguably been founded on Eurocentrism since its inception as a discipline (Dutt et al 2025). Economics assumes that development (of capitalism) took place in Europe endogenously, based on a range of internal factors such as technological progress, high productivity, hard work, and cultural and social changes, which meant that the production for the market aligned with what economists would consider rational (Amin 1988). Consequently, if the same conditions can be created in other countries, development can also take place there. This Eurocentric narrative, however, is partial and biased, as it distracts from the violent processes of colonialism, exploitation, changes in social relations, imperialism, and racialisation that shaped the advancement of capitalism in Europe, while creating underdevelopment in other parts of the world (Rodney 1972; Brenner 1976; Patnaik and Patnaik 2021; Inikori 2020). As such, it reduces the process of economic development to finding the right kind of institutional mix that ushers in efficiency increases, technological progress, and rational decision-making, in order to propel underdeveloped countries to a path of prosperity. Given this Eurocentric view's lack of understanding of the role of colonialism in shaping the global economy and creating the development–underdevelopment dichotomy as a result of a common historical process, it actually serves to reinforce a colonial view of the world that sees the global North economies as naturally better models for development.

As the discipline's focus narrowed during the Cold War to strengthen its reliance on methodological individualism and methodological nationalism—which sees the nation state and the individual as the most relevant units of analysis without recognising the structures that shape and constrain both the global economy and individual behaviour (Blaug 2003; Fine and Milanokis 2009)—the Eurocentric narrative has only been further cemented and has largely gone unnoticed and unquestioned.

AJR and the 'Colonial Turn' in Economics

When the public protests in the United States (US) following the murder of George Floyd in 2020, the caste-based student movements post-Rohith Vemula, and the movements for decolonising universities starting with #RhodesMustFall escalated, the discipline's lack of attention to racial and caste inequities and its Eurocentric approach finally came to the attention of economists. In the wake of these developments, the discipline has also had to reckon with its colonial origins and its lack of understanding of colonialism and imperialism. Many economists take issue with critiques of economics as being blind to colonialism, as, arguably, AJR and their highly cited work show us the opposite. Furthermore, the Nobel in Economics being awarded to AJR may seem like an attempt to highlight that the discipline does in fact deal with colonialism. But does it do so in a way that challenges the Eurocentric narrative we outline above, or, rather, leave that narrative intact?

To give some context, new institutional economics arose in the 1970s as a further development of neoclassical economics, placing emphasis on the role of property rights and transaction costs, seeing failures associated with free market reforms in the global South as being due to imperfect institutional arrangements that do not adequately support growth (North 1991). AJR's contribution is a further development within new institutional economics, and their work on how colonialism shaped institutions paved the way for a boom in further work on colonialism and slavery within this tradition (Nunn 2008; Engerman and Sokoloff 2006; Michalopoulos and Elias Papaioannou 2013).

The AJR argument, in a nutshell, is that the inequality in the world can be explained by whether countries have "inclusive" or "extractive" institutions. Considering 500 years of colonial history, they argue that sustained capitalist growth and prosperity can be attributed to inclusive institutions, which they associate with the protection of private property, contract enforcement, and enabling markets that incentivise investment and innovation (market-supporting institutions). According to them, these institutions characterise Western Europe as well as Western European settler colonies (US, Canada, Australia and New Zealand). Extractive institutions, on the other hand, enable expropriation and rent-seeking due to legacies of extractive colonialism, hindering development in countries of the global South. In this inclusive–extractive dichotomy, colonialism as a system of extraction is contrasted with capitalism as a system of inclusion.

Although this appears to bring the role of colonialism back into the discussion of development, and specifically highlights the role played by European colonialism's extractive institutions in creating underdevelopment, we argue that AJR's approach actually serves to reinforce Eurocentrism in economics.

The Eurocentrism of AJR

There are three important ways in which AJR reinforce Eurocentrism and a colonial world view. The first is that their research neglects the *global* nature of capitalist development and the central role of colonialism in it (Grinberg 2018; Ince 2022). Various radical anti-colonial scholars have long argued that capitalism unfolded across the world in a manner that it concomitantly produced capitalist development in the global North and capitalist underdevelopment in the global South. The so-called inclusive institutions in some parts of the world were sustained by extractive institutions, such as racialisation, destruction of artisan economies, and the development of extractive mining and plantation economies, in other parts. This created unevenness on a global scale, producing the developed–underdeveloped dichotomy, which was borne out of a common process of capitalism's global unfolding, supported by colonialism (Amin 1988; Patnaik and Patnaik 2021). In fact, this unevenness is not limited to only within-country dynamics; economies of the developing world have seen that the process of capitalist accumulation has been associated with the large-scale dispossession of those subsisting on the resources needed for the accumulation process (Sanyal 2007). This scholarship, thus, highlights the differentiating nature of capitalism's dynamics, the failure to deal with which betrays a rather simplistic understanding of development processes.

AJR considers colonialism a discrete external shock to the trajectory of endogenous domestic institutional development. Path dependency, in this account, is not due to the uneven nature of capitalist development but rather due to a self-reinforcing nature of political and economic institutions (generating "vicious" or "virtuous" cycles). By focusing on (market-supporting) institutions as the drivers of change, the AJR framework papers over the uneven nature of capitalism itself. As such, it demonstrates a lack of understanding of capitalism as a global and violent system that, both historically and contemporaneously, produces unevenness, and generates development and underdevelopment. Thereby, underdevelopment in the global South is understood to be an outcome of failed cases of capitalist transformation and the lack of "good" institutions. Similarly, development in the global North is simply attributed to the establishment of good institutions, without considering that such development depended on a global system of exploitation and extraction. Neglecting the structural, violent and uneven processes of capitalist development, AJR reinforces the Eurocentric idea that capitalist development is based on rational, progressive and endogenous (good) institutions.

The second way Eurocentrism is reinforced is in AJR's neglect of the violent and uneven process through which institutions of private property rights have been established in both the global North and the South. This neglect leads them to deem them "inclusive" institutions, despite the fact that property rights were created through large-scale dispossessions and enclosure of common or indigenous land, a far cry from "protection from expropriation" (Khan 2012). Indeed, it is well documented that the capitalist expansion in Western European settler colonies was supported by the elimination and dispossession of indigenous peoples (Rana 2010). As such, it seems particularly bizarre to suggest that it is protection from expropriation and coercion that characterises these allegedly inclusive institutions.

Besides, even in the global North, private property rights, for both physical and intellectual property, were routinely violated where convenient, during the process of development. For instance, in the US in the 19th century, the success of private railroad companies is often attributed to the fact that they were given the power of eminent domain—meaning they could violate the private property of others by paying compensation—in order to expand (Klemestrud 1999). In addition, Chang (2001) shows that intellectual property regimes were also historically very lax in Europe and the US in the 18th and 19th centuries, and producers routinely violated intellectual property rights of competitors well into the 20th century. Generally, in singling out domestic institutions as the key factor explaining economic development, the AJR view betrays a lack of complexity in understanding how institutions are embedded and evolve with economic and social systems more broadly.

Furthermore, if we look at how such institutions have been rolled out across the world, we find that they have had highly unequal impacts on different people, often marginalising the less powerful in society. For example, when property rights were instituted by the British in India, a reliance on written contracts was enforced. As such, only socially privileged castes were able to take advantage of this, forcing marginalised caste groups to lose their ownership claims (Ilaiah 1990). Others have noted that assigning property rights to tribal and indigenous populations in India, by bringing common land within the ambit of market exchange, opens it up to grabs by big capital who yield much more power in the market than the tribal population (Bhattacharya et al 2017). Similarly, the upholding of private property rights as sacrosanct in South Africa after the end of apartheid, despite the immense violence through which the land was grabbed by the apartheid government for the White population, has contributed to the continuation of vast inequalities in South Africa (Ngcukaitobi 2021). As such, AJR's critical promotion of (market-supporting) institutions sweeps under the carpet the power imbalances that are reinforced through such institutions and the violent ways in which these institutions have been established across both the developed and developing world.

Third and finally, in identifying the fundamental causes for development, the AJR framework, unfortunately, also leads us to think of development as a techno-bureaucratic process of policy fixes (Rist 1997), thus depoliticising the process of capitalist development. The ultimate lesson that is often drawn from their work is that Anglo-American political institutions are historically unique and should be universalised in order to support capitalist development globally (Morefield 2014). Indeed, the key policy prescription that came out of AJR's work was that countries in the global South needed to adopt the right kinds of institutions to support capital accumulation, also aligning closely with what has since come to be known as the post-Washington Consensus (Fine 2006).

While AJR move away from the plumbing-type behavioural fixes that the randomistas promote as the solution to development (Banerjee and Duflo 2011), their general understanding of development as something that can be solved by importing solutions developed in the global North remains. Perhaps unsurprisingly, importing "good" institutions has generally not been particularly successful in promoting economic development in the global South, given that it is a fallacy that such institutions facilitated economic development in the global North. An extreme example is the case of Afghanistan, where the US attempted to import good institutions to facilitate development, without dealing with the broader structural problems or recognising their own role in shaping the country's political economy (Goodhand and Sedra 2013). As we know, this attempt failed miserably. Generally, depoliticising development to move our attention away from the structural and violent forces that support capital accumulation serves to reinforce the Eurocentric view of development. This has real material consequences for people across the world who are subject to policies associated with new institutional economics.

Consequently, although AJR's work is often considered to represent a "colonial turn" in economics, it actually fails to deal with the colonial world view embedded in mainstream economic theory, given that colonialism is considered a shock from the past, and the continued dynamics of imperialism and uneven capitalist development are not considered. Remarkably, despite their attempt to integrate history and colonialism into their analysis, AJR's theoretical framework actually remains ahistorical and Eurocentric (Ankarloo 2002; Dutt et al 2025).

Conclusions

The awarding of the Nobel Memorial Prize to AJR despite the easily disprovable nature of their hypotheses on institutions and development—which has indeed been heavily critiqued in other fields—once again reveals the insular nature of economics, and its resistance to fundamental change and improvement, apart from very narrow changes in methodology. This award to the three professors from the Massachusetts Institute of Technology and Chicago lends further credence to Freeman et al's (2024: 1) recent finding that there has been a "high and rising" concentration of Nobel Prize winners in just a handful of elite US universities. This insularity and concentration of power is particularly problematic, given the disproportionate influence that the economics discipline has on the policy world. Indeed, policy formulations on "good governance" in key international organisations are still heavily influenced by AJR's simplistic and biased view of the nature of capitalist development process.

Why does this matter? By providing an easy and elegant "answer" to the complex process of development, albeit a wrong one, AJR's rise to prominence has lent support to a very particular understanding of development that is now prevalent in the discipline. It also provided an easy, unfalsifiable, and arguably racist narrative of underdevelopment: Why are developing countries not able to develop, even after decades of efforts to strengthen institutions as per the Eurocentric standard? Because their private property rights and other capitalist institutions are still not strong enough. This narrative suggests that there is something intrinsically good about Western capitalist institutions and intrinsically bad about non-capitalist institutions. The role of colonialism in destroying the good non-Western—both capitalist and non-capitalist institutions—that could promote improvements in living standards and social cohesion in the currently underdeveloped nations is beyond the pale. Our aim is not to suggest that the study of institutions is not important, but rather that the way institutions are studied in the mainstream of the economics discipline is seriously deficient for understanding global inequality.

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