Samandrag

Å forklare kvifor statar veks og fell har lenge vore eit mål innanfor samfunnsfaga. I si bok, *Why Nations Fail* (2012), kjem Acemoglu og Robinson med eit forslag til ei mogleg løysing på denne gåta. Deira teori seier at velstand og økonomisk vekst kan forklarast ut frå kva institusjonar eit land har. Acemoglu & Robinson argumenterer for at vestlege statar har vorte rike fordi dei har avskaffa ekstraktive institusjonar, institusjonar som diskriminerer og utnyttar befolkninga. I staden har desse landa forma inklusive institusjonar. Dette er institusjonar som sikrar befolkninga sin rett til deltaking i samfunnsstyringa og som vernar om deira økonomiske fridomar. Inklusive institusjonar tilrettelegg difor betre for økonomisk aktivitet.

I denne oppgåva testar eg teorien om ekstraktive og inklusive institusjonar ved hjelp av ein kritisk case studie av tysk politisk og økonomisk utvikling i tidsrommet 1871 til 1939. Denne perioden vert delt inn i fire mindre casar etter regimetype og fylgjer fartstida til Otto von Bismarck, Wilhelm II, Weimarrepublikken og Adolf Hitler. Desse periodane vert samanlikna for å sjå kor vidt endring i regimetype gjev endring i vekst.

Resultata visar at samanhengen mellom politiske institusjonar og økonomisk vekst er svak i Tyskland sitt tilfelle. Derimot fylgde tysk økonomisk utvikling internasjonale trendar uavhengig av regimetype. Eg finn òg at autokratiske regime, som under Bismarck og Hitler, tilrettela for økonomisk aktivitet i større grad enn teorien førespegla. Desse funna antydar eit behov for alternative eller utfyllande forklaringar. I tillegg til å peike på behovet for å ta høgde for faktorar på systemnivå for å forklare økonomisk vekst, så foreslår eg i diskusjonen at ideologi og legitimitet framleis er nyttige perspektiv for å forstå bruken og forminga av institusjonar.

Preface

It has been said that he who knows not how sausages and laws are made, sleep better for it. Looking back on this semester, I can attest that the something along the same lines can be said for master's candidates in political science. This semester has been a challenging one, but also one of good learning experiences. Naturally, I could not have completed this undertaking had it not been for the help of many others.

First, I would like to thank my supervisor, Torbjørn L. Knutsen, who has given me invaluable support throughout the work on this thesis. Having already been given the moniker of "closet historian" by Torbjørn, I saw it as only fitting that I would take this opportunity to delve into a historical case for theory-testing purposes and, luckily, he was willing to help me in doing so. His help and input, both at the conceptual stage and throughout the semester, has been both challenging and enlightening, and the end result has become all the better for it.

Both within, and outside the study hall, I have been blessed with class mates, friends, flat mates and family members who all in one way or another have helped make my time as a student full of fond memories. Although there are too many to name here, I owe them all many thanks for having in some way contributed to the preservation of my sanity and for keeping my feet on the ground. Additionally, I would like to thank Emilie K. Fjeldstad and Rebecca Martinsen, both have provided valuable comments on the form and presentation of this thesis.

With all that being said; if any errors or faults should remain uncorrected in this thesis, I bear the sole responsibility for them.

To the reader of this thesis I thank you for taking the time to read this preface. Should you continue to read past this page, I hope that you will find it an interesting read. More than that I hope that you will see some value in this small contribution to the colossal undertaking of uncovering the causes for wealth and poverty throughout the world.

Daniel Albertsen Trondheim, 6th of June 2018

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1. Introduction

Answering the question of how countries achieve economic growth can be considered something of a holy grail for the social sciences. Acclaimed researchers like Jared Diamond (Diamond, 1997), Mancur Olson (Olson, 1982) and William Easterly (Easterly, 2001) have all introduced their own explanations as for why some countries are rich and prosperous while others are poor and destitute. One of the proposed explanations that has gained traction in recent years is the one introduced by Acemoglu & Robinson's *Why Nations Fail* (2012). Receiving wide praise from critics (Bass, 2012; Collier, 2012; Friedman, 2012), their work has been hailed as "deserving to be hugely influential" (Forbes, 2012). Rejecting explanations such as geography or ignorance, the answer they give to this question is that the nature of a country's political institutions is the determining factor for its prosperity. According to these authors the "west" surpassed the "rest" because they managed to replace extractive, in other words authoritarian, discriminatory and repressive, institutions with inclusive ones, institutions that are pluralistic, open and equal-opportunity. The dichotomy between these two kinds of institutions form a framework which Acemoglu & Robinson in their endeavor use to explain a wide range of different cases, ranging from the fall of ancient Rome and the rise and decline of Venice to the relative success of post-colonial Botswana. Alluding to the extractive institutions of Mubarak's Egypt, they state that: "Whether it is North Korea, Sierra Leone, or Zimbabwe, we'll show that poor countries are poor for the same reasons that Egypt is poor (Acemoglu & Robinson, 2012, p. 3)." Their bold claim is then that their theory gives a universal explanation to why some states achieve prosperity while others do not (Acemoglu & Robinson, 2012, pp. 43-44).

In their sweeping narrative there is however one country they neglect discussing. Acemoglu & Robinson (henceforth referred to as A&R) present a wide selection of cases, showing great variation in time period as well as geographical location, to support their theory. But they do not test their theory on one of the leading economic power houses in Europe from the time of its unification in 1871 up until now, namely Germany. Admittedly one can hardly criticize the authors for not including all conceivable cases, yet it is curious for such a study to omit such a notable economic power, especially seeing as many has considered Germany to have taken different road to democracy and prosperity compared to much of Western Europe (Tipton, 2003, p. 2). Whereas countries like the United Kingdom, the Netherlands and Norway had a gradual shift from authoritarian rule to democracy, Germany had a tumultuous path to modernity marked by several regime changes, wars and crises. Notably, many of these regimes had distinctly authoritarian traits (Tipton, 2003, pp. 161, 426). Even so the country managed to see substantial economic growth through most of this period (Palmer, Colton, & Kramer, 2007, pp. 574-575). Is this an instance of A&R having “cherry picked” their cases? Have they omitted cases that do not fit to their theory while choosing those which conform nicely with it? While such an allegation is not one to be taken lightly, it does provide a good opportunity to put their theory to further testing. As such I will in this thesis try to test whether A&R’s theory of economic growth is sufficient to explain German economic development between 1871 and 1939.

The remainder of this paper is structured in the following manner: Chapter 2 contains an examination of Acemoglu & Robinson’s theory. I begin with looking at their understanding of institutions, comparing their take on institutions with existing views on institutionalism, here represented by North & Weingast (1989) on one side and March & Olsen (1989) on the other. I go on to describe A&R’s typology of institutions which will function as the analytical framework for the rest of this discussion. Further I go more into depth explaining the mechanisms by which political institutions influence economic prosperity before ending the chapter with recounting some of the response and criticisms that *Why Nations Fail* has garnered. Chapter 3 will go on to describe and defend the choice of method and case for this thesis - a critical case study of Germany in the period of 1870-1940. In chapter 4 I get to the case study in proper. Splitting the case up in four parts, covering the regimes of Otto von Bismarck, Wilhelm II, the Weimar Republic and Adolf Hitler. I try to evaluate the political and economic institutions as well as the economic performance of each period to see whether they conform with A& R’s theory. In chapter 5 I discuss these findings. I find that the relationship between political institutions and economic institutions is faint. Autocratic regimes and inclusive economic institutions coexisted in several of the periods, showing that A&R do not take into account alternative motivations for shaping institutions such as ideology or securing legitimacy. These results also show that many of the fluctuations in economic growth can be best explained with international factors. This suggests that A&R’s theory needs to be complemented with explanations on the systemic-level. I end the study with a short summary of the thesis in chapter 6, recapping the most important findings.

2. Literature Review

To answer the question of what makes nations rise and fall, both economically and politically speaking has been a major goal within the social sciences. This is an inquiry which goes back to Adam Smith in his seminal work *The Wealth of Nations* (1776) who in a time of mercantilism emphasized the need for countries to adopt policies favoring market freedom and division of labor, thus striking the theme of resource allocation for the economic literature (Stigler, 1976, p. 1121). The literature on this topic is divided on several points such as how far back one trace the causes of nation's success or failure. In one end here, we find proponents of a geography thesis, such as Jared Diamond (1997), which see the inequalities of today as largely predicated on millennia old geographical factors. In the other end we find supporters of varying forms of short-term explanations such as Mancur Olson (1982) who describes a cyclical motion between growth and stagnation. Another concern is whether or not the rise and the fall of a nation have the same explanation. Paul Kennedy seems to think not, whereas he see growth as caused by various factors related to innovation and trade, nations fall and failures are mostly the consequence of international relations (Kennedy, 1988). Acemoglu and Robinson (2012) addresses these concerns and see both short and long-term rise and the fall as fundamentally caused by the same factor, institutions.

2.1 The New Institutionalism

The central topic of study in *Why Nations Fail* is how a nation's prosperity is determined, indirectly, by political institutions, by the way of economic institutions (Acemoglu & Robinson, 2012, p. 44). This also makes institutions the central theme of their book and in thesis as well. A&R are not the first to acknowledge the importance of institutions for economic growth. In what way does the work of A&R relate to these earlier works on institutions? In this section I will give a brief introduction to the new institutionalist tradition. I will highlight two different strands of this tradition in order to identify more closely A&R's approach and set the basis for the further discussion of *Why Nations Fail* in this thesis. These two strands are the economic institutionalism of Douglass North and Barry Weingast and the normative institutionalism of James March and Johan Olsen.

What is then meant by institutions? A&R state that “Each society functions with a set of economic and political rules created and enforced by the state and the citizens collectively.” (Acemoglu & Robinson, 2012, p. 42). This harkens back to Douglass North’s definition of institutions, which the authors cite in their earlier works (Acemoglu, Johnson, & Robinson, 2005). For North, “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” (North, 1990, p. 3). This suggests that Acemoglu & Robinson to some extent place themselves in the theoretic tradition of economic institutionalism that was revived by North making that their roots as it were (Peters, 2005, p. 21). To North institutions matter when it comes to economic growth due to how they can alter the cost of economic transactions. Whether it is through formal institutions, such as regulatory laws, or informal institutions, such as norms, these constraints change the incentives and opportunities for engaging in economic actions (North, 1990, p. 5). This is as such an economically-grounded rational choice perspective. In this view the prevailing rules exist in order to provide a stable and predictable framework within which human interaction can take place. When this works it can effectively bar predatory economic behavior by making the risk of punishment or other costs outweigh the profit of such an action. It also ensures cooperation between individuals. I can trust that you will uphold your end of an agreement because we both are bound by some rule that makes breaking the agreement too costly to consider (North, 1990). North & Weingast (1989) demonstrate how this affects economic matters. They show how British reformers during the Glorious Revolution of 1688, in their efforts to limit the arbitrary rule of the English crown, created institutions which restricted government ability to overtax the population or in other ways expropriate others property and gave a wider part of property owners representation in government. This gave the British government more credibility when it came to whether it would uphold its citizen’s property rights. This had a lasting effect on the economy which saw a notable growth after these events (North & Weingast, 1989, p. 804). This mode of thinking is continued by A&R who use the Glorious Revolution as one of their key cases in *Why Nations Fail*. They illustrate how the institutions had a positive effect also for England’s lower classes by stressing that members of parliament and the aristocracy did not refrain from exploiting their subjects out of moral sensibilities, but rather because the rules that they themselves had helped set in place barred them from doing so (Acemoglu & Robinson, 2012, pp. 46, 304-305).

This, however, is not the only strand of “new institutionalism” that has made its presence known in the last couple of decades. It is worth noting that while North define institutions “negatively”, in the sense that he focuses on how institutions restrict economic actors. There are others who rather emphasizes that institutions not only shape behavior through incentives and costs, but also through altering morals and values (Peters, 2005, p. 23). So, let us take a short detour and look at how their approach differs from these earlier takes at new institutionalism. Among the first to reintroduce institutions to the discourse of political science were James March and Johan Olsen with what has been called “normative institutionalism” (Peters, 2005, p. 25). Here institutions are also seen as mostly rules, regulations and routines, but there is an emphasis on how these are shaped by the collective past experiences of the community that those institutions belong to (March & Olsen, 1989, p. 38). North and Weingast do not see institutions as much as organic growths of society, but rather something that has been shaped and willed into existence by political actors with some specific goal in mind, a sentiment also supported by A&R (Acemoglu & Robinson, 2012, p. 79; North & Weingast, 1989, p. 809).

While March and Olsen’s basic definition of institutions is roughly similar to North’s, they introduce a different understanding of how institutions influence human action, namely the logic of appropriateness (Peters, 2005, p. 30). The logic of appropriateness states that decision making among humans is based on consideration of social norms, roles and identity (March & Olsen, 1989, p. 160). The action that is undertaken in a given situation is the one that is deemed as appropriate according to rules determined by the relevant institutions present in that community. Each member of a community then acts out of a sense of obligation to internalized rules. March & Olsen contrast this with an opposing view, which they refer to as the logic of consequentiality. Here human nature is portrayed as being driven by universal goals with institutions merely changing how one can attain those goals (March & Olsen, 1989, pp. 160-162). The logic of consequentiality is a perspective more akin to the one found in North and Weingast’s theory, and equally in A&R’s narrative (Acemoglu & Robinson, 2012; North & Weingast, 1989).

We have before us here then two ways of explaining how institutions shape human behavior. From March and Olsen’s perspective of appropriateness individuals can be motivated to undertake a given action because they perceive that they have an obligation to do so, imposed by themselves as well as by their peers (March & Olsen, 1989, p. 23). From North's perspective of consequentiality, on the other hand the motivation for action is whatever is in the individuals own self-interest; it is not given by the institutions themselves which rather determine the selection of actions that are available and the consequences of them (North, 1990, pp. 18-19). Factors such as morals or legitimacy are not allotted time and consideration. This is also the perspective of A&R in *Why Nations Fail* (2012). Rather focus here lies on how institutions incentivize, allow or hinder individual financial gain, through either exploitation of, or cooperation with others (Acemoglu & Robinson, 2012). Yet, regardless of how they understand the underlying mechanics, both approaches to institutions agree in that, rather than the individual actors that engage with the society, institutions are the key factor determining the wellbeing of a society (March & Olsen, 1989, p. 171; North, 1990, p. 118). Indeed, earlier works by A&R, together with Simon Johnson, has contributed to this view reinforcing the notion of the importance of economic institutions for explaining global inequality (Acemoglu, Johnson, & Robinson, 2001, 2002). Rather the question left to answer is how one can get the right institutions to attain a prosperous society. The starting point for A&Rs work in *Why Nations Fail* is then a logic of utility seeking consequentiality, rather than a social approach of appropriateness.

2.2 On extractive and inclusive institutions

> *Countries differ in their economic success because of their different institutions, the rules influencing how the economy works, and the incentives that motivate people*. *(Acemoglu & Robinson, 2012, p. 73)*

Douglass North ends his book with a call for a more thorough analysis of the history of economic development with the purpose of answering the question of "…what creates efficient institutions?" (North, 1990, p. 137). Although Acemoglu & Robinson do not explicitly say so, it seems like the project which they have undertaken in *Why Nations Fail* is to answer this question (Acemoglu & Robinson, 2012, pp. 43-44). So how does Acemoglu & Robinson go about doing this? What is their contribution to this field?

Their answer come by the way of an introduction of a typology that discerns between different institutions depending on who, or how many, that benefit from them as well as on whether these institutions shape economic life or political life. Thus, institutions relevant to society are split into two sets of dichotomies: extractive and inclusive economic institutions and extractive and inclusive political institutions (Acemoglu & Robinson, 2012, pp. 44, 73). Important to their theory is that there is a closely intertwined relationship between these two types of institutions. While the economic institutions of a country might determine the economic growth of that country, the nature of these economic institutions are in turn largely dependent on the kind of political institutions that are present (Acemoglu & Robinson, 2012, p. 83). The following section will be devoted to give a more in-depth look at how A&R portray these institutions as well as to look at the underlying mechanics that are at work here. In *Why Nation's Fail* they build upon their earlier work where they have established that the relationship between economic prosperity and economic institutions (Acemoglu et al., 2000).

What then is an economic institution? Rather than formulating one clear-cut definition of what an economic institution's properties are, A&R state that these are institutions that enable or hinders a country's population to engage in economic activity (Acemoglu & Robinson, 2012, p. 75). Institutions are defined by the function they play rather than the specific shape they take within any specific case. Inclusive economic institutions are then the institutions that ensure equal opportunity to produce and trade goods in the market as well as those which gives these individuals the incentives to do so. Extractive economic institutions on the other hand systematically stifle people's opportunities for accumulating and holding property or in other ways engage with the market (Acemoglu & Robinson, 2012, pp. 73-75).

A&R (2012) emphasize some specific inclusive institutions as having especially important functions for maintaining economic growth. They seem to agree with authors like North and Weingast (1989, p. 803) that emphasize the importance of property rights for a successful economic system. Secure property rights give citizens both the means and incentives for engaging with the market. Not only do they ensure that you are given the right to produce and transact, but one can also rely on that the wealth accumulates today will not be taken away tomorrow (Acemoglu & Robinson, 2012, p. 77; North, 1990, p. 19). Property rights are in turn predicated on a solid rule of law. The rule of law is a concept which roughly means that rulers and lawmakers can themselves be judged after the rules and laws that they hold power over (Acemoglu & Robinson, 2012, p. 310). In practical terms this often ensured by the presence of an independent judiciary that hinders arbitrary encroachment on the citizen's property by the rulers, something which could disincentivize citizens from making investments (Acemoglu & Robinson, 2012). To state the importance of these institutions is not that controversial, as many has stated the same earlier (Boettke & Fink, 2011; Posner, 1998). However, A&R does not limit their definition of economic institutions to laws such as these. They also state that, in order to have an inclusive economy, a state needs institutions that feature "… a provision of public services that provides a level playing field in which people can exchange and contract …" (Acemoglu & Robinson, 2012, pp. 74-75). Thus, in A&R's narrative, public education and infrastructure falls under the category of economic institutions. Depending on how you see it, this can represent a significant break from earlier, as well as their own, definitions of what is considered economic institutions.

Up until now we have been focusing on immaterial factors. Can material goods such as an asphalt road be considered an institution? It can, however make sense if we concern us with not the good in itself, but the act of making these available to the public through institutions. Still, even though parsimony seems to be an implicit goal of the authors (Acemoglu & Robinson, 2012, pp. 68, 122-123), it begs the question of whether the term becomes oversimplified when rule of law and property rights falls into the same category as roads and school books. This is a concern Francis Fukuyama raises in his review of the book. He writes that these broad terms make their analyses hard to falsify and, more importantly, has little usefulness in forming policy since individual components of inclusive and extractive institutions are not distinguished from each other in any meaningful way (Fukuyama, 2012). One could also make the argument that public goods such as a good education system and a well-made transport system themselves are hallmarks of nations that already have achieved some level of prosperity. Even so they can have an important reinforcing effect in what A&R call a Virtuous Circle, where prosperity and inclusive institutions begets more prosperity and inclusive institutions (Acemoglu & Robinson, 2012, p. 309).

So, we have established the nature of inclusive economic institutions. What are examples of extractive economic institutions, then? The most extreme form of extractive economic institutions is slavery. By taking the profit of the slave's labor the slaver enriches himself, while the slave is bereft from trading and holding property as he himself is treated as property (Acemoglu & Robinson, 2012, p. 88). This illustrates the basic logic of extractive economic institutions: they allow members of certain segments of society to extract riches for their own benefit to the detriment of other groups. Yet in the same way as with the inclusive kind, extractive economic institutions can manifest themselves in many ways. Predatory taxes which go into a ruler's pockets rather than towards public goods, and trusts or monopolies that artificially raise prices while barring competitors from entering the market are only some examples of the kind of systematic exploitation which extractive institutions open the opportunity for (Acemoglu & Robinson, 2012, p. 76).

In the same way that economic institutions shape how we interact with markets by deciding who can trade and produce goods, political institutions determine how the rules of society are made and who is allowed to make them (Acemoglu & Robinson, 2012, p. 80). As such, the main question here becomes one of how power is distributed, specifically the power to shape and enforce laws. Extractive political institutions bar citizens from taking part in decisions that shape their own society. These decisions become the prerogative of a privileged few who can change the rules as they see fit (Acemoglu & Robinson, 2012, p. 79). We are, in other words, talking of autocracies in different forms and shapes, be it the feudal monarchies of the Middle Ages, the Cold-War-era communist dictatorships or modern anocracies. Most notably for rulers in regimes such as these is that they possess the power to shape the economic institutions of their own society. Having this influence will lead them to create the institutions which will give them the highest financial benefit, if they can get away with it. In other words, they will fashion extractive economic institutions (Acemoglu & Robinson, 2012, p. 81).

Inclusive political institutions allow citizens to take part in the decision making, either directly or (more often) indirectly. In modern western democracies. Consequentially power over laws will be spread thinly giving no single person the opportunity to make laws that solely benefit himself or the minority he represents. Instead the legislators will have to rely on compromises which a majority can get behind, which in most cases will lead to laws ensuring equal opportunity to everyone who partake in the decision making (Acemoglu & Robinson, 2012, p. 82). This is not a question of ethics or of what is appropriate to do. It is rather a case of what the political institutions and your standing in society allow you to do. States with inclusive political institutions tend to allow larger parts of their population to also engage in economic activity. A&R do, however, concede that not only does states need pluralistic regimes where most of population have a say in the rule of the state to achieve prosperity. The state must also be powerful enough to enforce its own laws if they are going to have a positive effect on the economic institutions of the nation. If this is not in place, you get a case like Somalia where the lack of any centralized power has led to a divided society where clans vie to overpower one another (Acemoglu & Robinson, 2012, p. 80). Whether A&R regard a strong centralized state as a part of what it means to have inclusive political institutions, or they see it as a separate variable remains unclear. In any event they regard a centralized state with monopoly on violence as a necessary, yet not sufficient cause for inclusive economic institutions.

2.3 Why is inclusive better?

In many ways the benefits of an inclusive society may seem rather self-evident. Some of the reasons A&R give for why inclusive institutions lead to more prosperous societies have already been touched upon. It does not take a massive leap of faith to agree that rulers hoarding wealth taken from their subjects is bad for the economy. There is more to their theory than this however. They argue that inclusive economic institutions help a society allocate its resources more effectively. They assume that individual actors in the market are more well suited for fruitful resource allocation than rulers and governments. When people are free to find work at a job of their own choosing, use their property as they see fit and buy and sell whatever the society benefits from this since its inhabitants are more likely to take up work that is more fitting to their skillset and to spend or reinvest their assets in ways that stimulate the market further (Acemoglu & Robinson, 2012, pp. 76-78).

Yet, in addition to the more optimal allocation of resources from inclusive institutions, A&R stress that there is one crucial factor for the lasting economic success of nations with inclusive political institutions over those with extractive ones: their ability to adapt and innovate. A&R explain how inclusive states manage to better at this by adopting a term originally coined by Joseph Schumpeter, “creative destruction” (Acemoglu & Robinson, 2012, p. 84). Creative destruction refers to how the introduction of new technology into a society will create winners and losers. Schumpeter (1942) envisioned technological progress as a force that would displace old economic actors or systems in society and replace them with new ones. When new and more efficient technology or techniques are introduced it represents something akin to a paradigm shift for the society rendering old techniques and tools obsolete, siphoning resources from old sectors to new sectors and in other ways breaking up existing industries (Hospers, 2005, p. 23). While this is beneficial for the society at large, seeing as production becomes more efficient and adds to its denizen's prosperity, there are some who will feel the downside of such a development as well. Those who have an interest in the old forms of technology or labor techniques will see themselves lose in competition with the adopters of the new technology and are thus forced to either pay the cost of modernizing, thus adopting the same innovations as their rivals, or to see themselves becoming an increasingly marginalized part of the market until they are forced out of that industry entirely (Acemoglu & Robinson, 2012, pp. 84-86). One of the more well-known examples of this is the luddite uprisings in Britain during the 1700s where weavers and others belonging to the cottage industry who saw their livelihoods threatened by the introduction of new machinery, such as the famed spinning jenny, which could maintain a similar quality of production with lower costs and higher output. This development led workers to sabotage new machinery, threaten owners and petition for prohibitory laws in a futile effort to resist the changing industrial structures of 18th century England (Acemoglu & Robinson, 2012, p. 85).

What does this have to do with inclusive and extractive institutions? As the example above show people will not stand idly by in the face of the threat that creative destruction poses; rather they will struggle to maintain the status quo by suppressing new innovations. This may lead to a competition over the economic institutions where actors attempt to attain privileges for the parts of the industry where they have vested interests (Acemoglu & Robinson, 2012, p. 86). By revising legislature and adding restrictions or taxation, one is able to hinder or mitigate the effects of creative destruction, in effect making extractive institutions to the detriment of those striving to bring about innovation. Conversely those actors who will earn by adopting new innovations, will try to steer legislature in a direction which safeguards their interests. The outcome of this competition is largely determined by who the participating actors are as well as the nature of the political institutions. It is important to note that not only laborers and workers face the risk of losing to creative destruction. Just as often it is the economic elite. Rich owners of factories or lands are also susceptible to the perils of innovation. In contrast to the poor workers, these wealthy elites can stand a genuine chance of changing a country's economic institutions. In

Why Nation's Fail the emphasis lies mostly on this latter group who are more likely to thrive in countries with extractive political institutions (Acemoglu & Robinson, 2012, p. 85). Under conditions where power over institutions is unevenly distributed, there is a tendency that the political elites will ally or conjoin with the economic elites in order to create the conditions that enabled them to stay rich and stay in power - effectively to preserve the status quo and hinder changes that may disrupt it. Under inclusive political institutions, however, these groups are less likely to be able to consolidate sufficient influence to implement restrictions which discriminate against new innovations.

This can, according to A&R, be illustrated by comparing Britain before and after the Glorious Revolution. Already before the 18th century attempts were made at inventing machinery which could make British cloth industry more effective. These were however blocked by the English crown which feared the political consequences this could bring (Acemoglu & Robinson, 2012, p. 183). After the Glorious Revolution, where power effectively changed hands from the King to the Parliament, such blocking of innovation was no longer possible due to the new restrictions imposed on rulers as well as the fact that the legislature and government now consisted of diverse groups with conflicting economic interests. Thus, the turn to more inclusive political institutions opened up for new innovations to be adopted and as such paved way for the beginning of the industrial revolution (Acemoglu & Robinson, 2012, p. 191).

Why Nation's Fail present the pluralistic nature of western governments as an indirect cause for the economic success of the West compared to the rest of the world. This does not mean that they deny that growth under authoritarian rule can take place. Indeed, they discuss at lengths how the regimes of the Soviet Union and modern-day China managed to achieve economic growth despite the authoritarian nature of their institutions (Acemoglu & Robinson, 2012, pp. 92-94). Their explanation for this is that these cases follow their own logic of economic growth. Whereas inclusive economies maintain economic growth through innovation and an optimized allocation of labor, extractive economies achieve some form of growth through diffusion of technology from inclusive economies and forcefully reallocating resources into sectors that yield better economic results. Even though these countries are slow to make innovations and tend to allocate labor and resources in an inefficient manner they can still experience economic growth spurts from when they import innovations, which has proven useful and productive in inclusive regimes, into their own system. An example of this is the plan economy implemented in Soviet Union. A forced shift from agriculture to heavy industry, much of which was based on methods already tried out in Western industrialized countries, led to a more productive allocation of labor and resources which up until then had been tied up to outdated agriculture (Acemoglu & Robinson, 2012, p. 132). The problem with this, according to A&R, is that this way of stimulating the economy is not capable of ensuring economic growth over time. Any positive change in economic growth and expansion will eventually lose its steam when the advantages of the adoption of these innovations have run their course, the resources have already been reallocated and there is no system in place which ensures new innovations coming into play.

2.4 Summary and objections

Although *Why Nations Fail* garnered a lot of praise, critics were not without objections. In this section I will sum up the key points of A&R's theory, as it is represented in *Why Nation's Fail*, and highlight the main gripes that reviewers had with their work. So, to recap the core message of *Why Nation's Fail*: a nation's prosperity is dependent on the nature of its economic and political institutions. The more inclusive the political institutions are, the larger the portion of citizens are allowed to take part in political decision making. This, in turn leads, to more inclusive economic institutions. The more inclusive the economic institutions are, the larger the portion of citizens who are free to engage the market in the way they wish, the more inventive and prosperous the society will become (Acemoglu & Robinson, 2012). On this argument, we would expect to find that countries with a well-functioning democratic regime will give their citizens more equal opportunities to work, produce and trade and, consequentially, be more prosperous than their autocratic counterparts. Conversely, we can expect that those states which have a political system where a privileged group rules exclusively will be comparably worse off prosperity-wise and will do less to allow and motivate its citizens to take part in beneficial economic activity.

Francis Fukuyama (2012) has raised a concern over whether the typology of inclusive and extractive institutions give an oversimplified account of the complex mechanics behind economics and prosperity. Fukuyama points out that disparate regimes such as modern electoral democracies and the parliamentary rule of Britain after the Glorious Revolution with its oligarchic traits are lumped together under the broad term inclusive (Fukuyama, 2012). It can be retorted that there is value in generalized findings if it gives any new applicable insights, which would justify simplifying these mechanisms. However, this helps little if the theory generalizes these mechanisms to such an extent that they no longer provide insight that is applicable for further testing or fashioning new policy. Fukuyama goes as far as to say that this factor alone diminishes the usefulness of A&R's theory (Fukuyama, 2012).

Another, and perhaps more crucial, point of contention revolves around whether there might be a reverse causality between the main variables. This ties up to an existing debate over what is known as the modernization hypothesis. While A&R does touch upon this in *Why nations fail* under their discussion of South Korea's move from autocracy to democracy (Acemoglu & Robinson, 2012), they go more into detail on this point in their earlier works. Originally introduced by Seymour Lipset (Lipset, 1960), this alternative approach, which A&R rejects in earlier papers (Acemoglu, Johnson, Robinson, & Yared, 2009), maintain that, rather than democratic governments leading to economic prosperity, it is economic prosperity which promotes democratic institutions (Barro, 2015, p. 987). Robert Barro and Edward L. Glaeser both find support for this hypothesis in their work. Glaeser et. al. (2004) finds that many of the instrumental variables used by A&R and others in earlier papers to stand in for political institutions show the relationship between these and prosperity, measure outcomes rather than the permanent features present in the definitions of institutions. Consequentially these variables are sensitive to GDP fluctuations and volatile to change, something that stands at odds with the alleged permanence of such institutions. In addition, they point out that A&R's use of European settler mortality as a proxy for political institutions are just as highly correlated with human capital as they are with political institutions. This raises the questions of whether human capital is the crucial factor for economic growth instead, and whether settler mortality is a valid measure for institutions. Further they interpret the positive relationship between GDP and democracy as supporting Lipset's hypothesis (Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2004). In several papers Barro reinforces this view. Using data from a selection of countries starting 1870 with a timeframe from the shows that GDP per capita has a positive effect, albeit sensitive to country-fixed effects, on political institutions (Barro, 1996, 2015). Their work has, however met retorts from A&R who suggest that these studies do not properly take into the account their result’s sensitivity to country-fixed effects (Acemoglu et al., 2009), to which Barro in turn argue that A&R are relying too much on the use of country-fixed effects in their interpretation of the data (Barro, 2015, p. 935). As such there are two sides in this argument both of claim that the, admittedly conflicting, empirical evidence supports their view. This disagreement has especially revolved around the question of which quantitative methods and interpretations yields the most valid results.

It is not unthinkable that this inability to present decisive evidence for their theory quantitatively has helped motivate the more qualitative approach in *Why Nations Fail*, but that approach has not been exempted from criticism either. Although being mostly sympathetic to the conclusions that A&R comes to, William Easterly (2012) takes a cautious stance to the qualitative approach of *Why Nations Fail*. He states that A&R provide too few data points to support many of their explanations about why nations have developed in the way they have. For example, when they claim that Congo’s poverty is a consequence of its vicinity to historical hubs of the slave trade while failing to provide additional cases to support this statement. Easterly also comments that A&R in many of their cases fail to address competing explanations, such as the impact of international affairs on the economy (Easterly, 2012).

Here we touch upon one of the dangers relevant for all theory-inferring qualitative studies: the risk of having committed the fallacy of cherry picking - meaning that cases that contradict your theory have been omitted. Admittedly a sizable portion of *Why Nations Fail* is devoted to showing why some of the most likely cases used for objecting against its theory. As mentioned above they have already touched upon the most glaring deviations such as China and the Soviet Union giving alternative takes on these countries’ development. Yet, to do so they are dependent on treating them as exemptions to their basic logic of growth through innovation with their own set of rules (Acemoglu & Robinson, 2012). Are there cases which do not fit neatly into any of these logics?

Despite the objections which have been voiced towards A&R’s theory, there has been few efforts to rigorously put it to the test. Rather, much of the objections to the book has been limited to reviews and blog posts, hence my reliance on those for this section. It has also mostly remained a largely theoretical discussion with little work done on testing the theory further empirically. Yet, considering the overall positive reception of the book it seems like testing its core statements ought to be a task worth undertaking. Thus, the remainder of this thesis will be devoted to testing A&R's theory from *Why Nations Fail* using a critical case study where I will try to apply their theory on German political and economic development in the period 1871-1940.

3. Method, case and predictions

The remainder of this study will take on the form of a critical case study. This entails finding a case, either current or historical, to which the theory is applicable and then imagine what outcome the theory would logically predict based on the given parameters of the case. The imagined outcome is then compared to the actual historical outcome from the case to see whether the causal relationship the theory dictates holds true. In this manner one is able to evaluate a theory, either disproving it or, more often helping to specify it further (Hancké, 2009, p. 68). This way of testing follows what Moses & Knutsen (2012) call a mis-fitting logic, taking inspiration from Popper's falsification principle. Focusing on narrowing down a theory into simple statements which can be proven true or false and then checking whether these statements fit with the given case. In practical terms this means that I will look at my chosen case, Germany, and compare its political and economic history with the expectations set by A&R's theory and in this way try to determine whether these accounts mesh together or not.

So why choose a qualitative method when a quantitative approach could test A&R's theory across a greater range of cases (Van Evera, 1997, pp. 52-53)? Even though the inferential statistics approach is commonly seen as giving results that are more conducive to valid inferences (Moses & Knutsen, 2012, p. 93), it might not be without issues. As seen in the debate between A&R and Glaeser and Barro there is contention over which statistical methods give the results which reflect the relationship between institutions and economic performance most accurately showing that the statistical data on the topic is open to interpretation. This shows that there is a concern over whether a quantitative study would give valid results. In this context there is something to be said for looking at history with a more detailed eye than what quantitative methods allow. Using a case study approach makes it feasible to trace causal processes and test whether the more generalized mechanisms from theory are present in actual history, thus determining not only whether the theory is affirmed or infirmed, but also why it is so (Moses & Knutsen, 2012, p. 134). By using a small *n* study instead, I may not be able to test if A&R's theory holds true for the whole case universe, but I can still test whether it is applicable for one important case with some degree of certainty.

3.1 Choice of case

Going forward with the critical case approach I opt to look at Germany during the tumultuous years from its unification in 1871 up until the beginning of the second world war in 1939. Initially I mentioned some of the motivation for choosing Germany as a subject of study here, in this sub-chapter I will go into further detail into the reasoning for why the choice fell upon this case, as well as look at what economic performance we can expect to see in Germany based on A&R's theory.

Why pick Germany? For one it is a case which A&R themselves omits, aside from a few passing mentions comparing Eastern and Western Germany during the cold war. To answer the question of how the West became richer than the rest is one of the authors' primary goals in *Why Nations Fail* (Acemoglu & Robinson, 2012, p. 1). In light of this, A&R's decision to leave Germany out of the analysis is odd, for Germany was one of the economically leading countries in Europe during the 19th and 20th century, when the West truly began to outrun the rest in earnest in terms of economic prosperity and welfare (Palmer et al., 2007, pp. 574, 580). This calls into question whether Germany's history fits poorly with A&R's theory and therefore is an inconvenient case for them.

Secondly, it is a country which's economic growth was of international importance from a realist perspective. Germany's prosperity and industrial capacity had a decisive impact on European history to the extent that the country was at the center stage for not one, but two world wars (Palmer et al., 2007, pp. 678, 827). Being able to explain the rise of Germany has thus been of some importance to the existing literature on the rise and fall of nations (Kennedy, 1988, pp. 241, 269-277) and an important case to study here.

Thirdly, Germany has had great variations in its political institutions and economic fortune. In the span of seventy years Germany was ruled as an imperial monarchy, a parliamentary democracy and one-party dictatorship before splitting into two separate states (Kitchen, 2006, pp. 1-7). At the same time Germany's economic structures was changing in the same ways as other western countries, going from a predominantly agrarian nation to one that was chiefly industrial and urbanized (Tipton, 2003, p. 193). As such we should be able to observe whether variation in political institutions correlate with variation in economic institutions and economic growth.

It is also worth noting that Germany during our chosen period was known to encourage invention and the adoption of new technology being one of the leading tech nations of the second industrialization (Streb, Baten, & Yin, 2006). This means that if we were to find growth under extractive political institutions it cannot fall under the same exception which A&R use to explain the growth under China or the Soviet Union, that growth happened due to adoption of existing innovations, and consequentially would pose a problem for the theory's soundness.

I split the case into four parts of varying length, each marking a change in political leadership and organization. Treating each period as a case of its own within the larger case of Germany between 1871-1939, allows me thus to compare the political and economic institutions as well as the economic growth between the periods.

First, I will begin with looking at the period dominated by the chancellor Otto von Bismarck, consisting of the first two decades of the German Empire, from 1871 to 1890 (Kitchen, 2006, p. 139). This section is longer than the remainder of the cases because it serves as an outline of the German political and economic landscape showing what it was like at the beginning of our period, allowing me to focus on the changes in this landscape in the following periods. The second period I look at is the years between 1890 and 1918. It follows the rule of the emperor Wilhelm II and is hence known as the Wilhelmine period (Tipton, 2003, pp. 175-177, 243-245). This allows us to see if a change in leadership gave change in economic fortunes even though there was no formal change in institutions. The third period is the era of the Weimar Republic, which lasted from 1918-1933, marked Germany's first, brief stint as a liberal democracy (Henig, 2002, p. 13). This gives us the opportunity to see if a change into a democracy truly lead to a change in economic institutions and, consequentially, economic growth. The fourth and last period I will examine is the period from 1933 to 1939 with Germany under the totalitarian rule of Adolf Hitler's German national socialists party (NSDAP), commonly known as the Nazi party (Kitchen, 2006, p. 258). I let the year of 1939 be the vanishing point of this study as I opt to refrain from commenting on the war-time economies of the first and second world wars. I also choose to not continue the study into the Cold War period due to the significant changes brought about by the split into an Eastern and Western Germany making this period harder to compare with the preceding periods.

From A&R's theory as described in chapter 2 we can make some predictions on Germany's economic performance for each of these periods. As Germany started out as an autocratic state and continued to be one until 1918, we should expect that this period shows poor economic performance with little growth, also compared to other Western countries with more democratic institutions. The beginning of the interwar period should see faster growth due to Germany adopting a liberal democratic system. Conversely, the totalitarian regime ushered in by the Nazi party ought to perform worse than the rest of these periods. For clarity's sake this can be sketched out like this:

Table 1. Theory-derived expectations for economic growth

Timeline	1870-1890	1890-1918	1918-1933	1933-1939
Periods	Bismarck	Wilhelm II	Weimar	Hitler
Regime type	Autocratic	Autocratic	Democratic	Totalitarian
Expected economic growth	So-so	So-so	Fast	Slow
Actual economic growth	A	B	C	D

As Table 1. shows, Germany was an autocratic country under both Bismarck and Wilhelm II, which also means that it had extractive political institutions, we should therefore find that the periods 1870 to 1890 and 1890 to 1918 had some growth, but that these regimes underperformed compared to the following period of 1918 to 1933 under the democratic Weimar Republic. The Weimar Republic is the most democratic of the four regimes listed here and should have the fastest growth of these. In the last period, 1933 to 1939, Germany was ruled by Hitler's totalitarian Nazi party and should as such be the most extractive of the regimes. We should thus expect this period to have the slowest growth of all the periods.

3.2 Operationalization and Variables

To explain their dependent variable economic growth, A&R rely on “institutions”, making this their independent variable. They split institutions into political institutions and economic institutions where political institutions are the underlying cause for growth through the intermediary variable economic institutions. In this part I will go into the operationalization of these variables as well as the reasoning behind it.

A&R seek to explain economic prosperity or growth, this is their dependent variable. In their paper co-authored with Simon Johnson, A&R use gross domestic product per capita as their main measure for economic prosperity (Acemoglu et al., 2000), I find it prudent to use this as the main operational indicator as well. Pulling data from the Maddison project (Bolt et.al., 2018), I will compare German levels of GDP per capita in with some of its European neighbors, namely France, Italy and the United Kingdom, thus giving perspective to Germany’s relative success or failure. For each case this will be supplemented with qualitative accounts that capture how the economic development was perceived at the time, factors such as accounts of investment, unemployment and innovations will go into this evaluation.

It is somewhat harder to pin down any exact operational indicator for the dependent variable as A&R’s definition of these is not clear-cut, emphasizing the functions they perform over any particular form they might take. When studying the political institutions of Germany, the focus will be on how these distributed power among its citizens and enable different actors to exert influence over politics. As a proxy for inclusive political institutions I use the POLITY variable from the Polity 4 data set (Marshall et.al., 2016). This is a combined measure which measures regime type on a scale from – 10 to + 10 where a – 10 is a “strongly autocratic” regime and a + 10 signifies a “strongly democratic” regime (Marshall et.al., 2016, p. 16). Although A&R stress that inclusive political institutions encompasses more factors than just liberal democratic features (Acemoglu & Robinson, 2012, p. 80), the Polity4 variable serves as a valuable indicator for comparison both cross-country and longitudinal, seeing as it incorporates a variety of important institutional factors such as restriction on executive power and free competition for the executive power (Marshall et. al., 2016, p. 16). Using only the polity score would nevertheless pose a validity problem for this thesis and therefore it will be supplemented with qualitative accounts of the German political landscape. If we find that a single person or a single group is able to decide policy against the will of substantial portions of the population, this would imply that there are extractive institutions in play which enable him, or they, to do so. Likewise, if such behavior is hindered it would speak in favor of the institutions being more inclusive. Another clue will be whether citizens have opportunities to voice their misgivings with the way regime handles the rule of their nation. Even though citizens are unable to partake in policy making directly, allowing for a free press and other opportunities for voicing dismay may be important inclusive institutions.

Evaluation of economic institutions will be based on a qualitative evaluation of whether they fostered “inclusive markets”, meaning whether they provide equal opportunities and incentives for people to engage with the market. On the most basic level this will entail whether all citizens had decent property rights as well as freedom to choose where to work or invest their holdings freely. After that we are then on the lookout for signs of whether exploitation was allowed or hindered and to which extent. Discriminatory taxation schemes or expropriations are examples of institutions which turn the economy more extractive while laws protecting intellectual property rights or hinder monopolies would make the economy more inclusive. Provision for public goods is another important factor in this examination seeing as this opens up opportunities for citizens within the economy and mitigates differences between upper and lower classes. This speaks for utilizing a broader definition of economic institutions also encompassing relevant policy decisions which help bring about such political change. Casting such a wide net does make it harder to use any quantitative measure for economic institutions and therefore I refrain from using any such measure in this thesis.

4. On German Economic and Political Development

In this chapter I aim to take a look at Germany’s political and economic development and as such begin the case study in proper. Before I begin with the first period, I will first take a look at the general trends in political institutions and economic growth for the case in its entirety here.

Table 2: POLITY scores for Germany, Britain, France and Italy, 1871-1940 (Marshall et. al., 2016).

	1871	1880	1890	1900	1910	1920	1930	1940
Germany	-4	-4	1	1	2	6	6	-9
Britain	3	7	7	7	8	8	10	10
France	n/a	7	7	8	8	9	10	-9
Italy	-4	-4	-4	-1	-1	-1	-9	-9

Table 2. shows polity scores for a selection of countries for our period. Worth noting is that France and Britain stayed markedly more democratic than Germany for the entirety of this period. Italy stays autocratic in way for the entirety of this period with scores close to the German ones. Germany’s scores change for each of the different eras I will be looking at here: being predominantly autocratic under Bismarck then turning slightly more democratic under Wilhelm II. before turning into an actual democracy under the Weimar republic and lastly slipping back into a totalitarian state under Hitler at the end of the period. From A&R’s theory we should then expect that Britain and France were more prosperous and faster growing than Germany and Italy. And we should also expect that Germany grew more and faster during its democratic periods than during its more autocratic periods.

Figure 1. Levels of GDP per capita for Great Britain, Germany, France and Italy, 1870-1940, expressed in 2011 US Dollar (Bolt et.al., 2018).

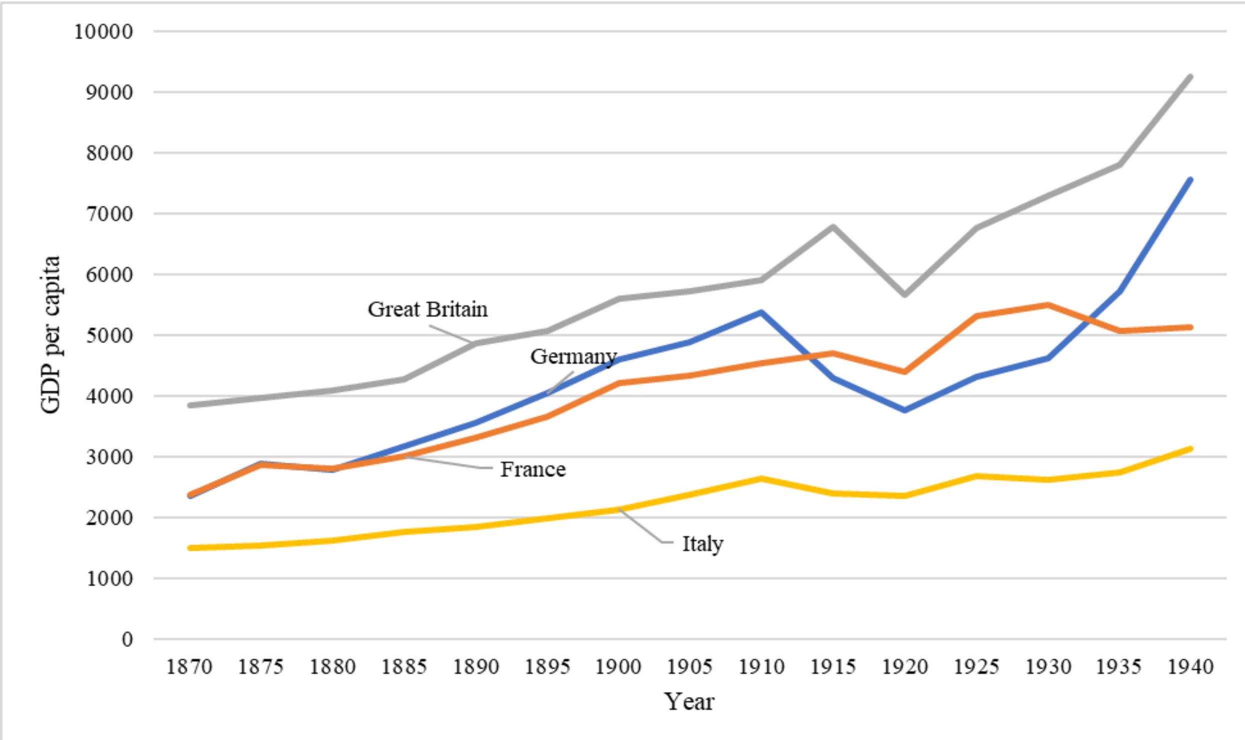

Figure 1. shows the growth of GDP per capita for the abovementioned countries for the entire period discussed here (for numerical expression of GDP, see appendix A). The top line represents Britain which had the highest GDP pc. for this whole period. Even so, on several occasions Germany has steeper growth in GDP than Britain; so much so that at two points we see the German line begin to converge with the British one. While France starts out at the same level of GDP as Germany it has a weaker growth throughout the pre-great-war period before overtaking Germany during the first world war and interwar period before being overtaken again by Germany in the thirties. At the bottom lies Italy which has a weak growth in GDP throughout the period.

A closer look at Germany shows that after a dip in the mid-1870's there is a period of substantial economic growth continuing through the rest of Bismarck's period and up through the Wilhelmine era until the first world war. The period of the Weimar Republic is mostly marked by economic downfall and slow recovery which gives way to a sharp economic upturn under the

Nazi regime in the thirties. As we can see in Table 3., this does not conform to the expectations drawn from A&R's theory.

Table 3. Expected and actual economic growth

Timeline	1870-1890	1890-1918	1918-1933	1933-1940
Periods	Bismarck	Wilhelm II	Weimar	Hitler
Regime type	Autocratic	Autocratic	Democratic	Totalitarian
Expected economic growth	So-so	So-so	Fast	Slow
Actual economic growth	Bust, then Boom	Boom	Bust	Boom

Aside from a decline in the 1870's, the periods of Bismarck and Wilhelm II show steady growth throughout this period and performs better than expected. Whereas we expected the Weimar Republic's economy to outperform the rest of the cases due to its democratic regime, in reality it sees only slow growth throughout its period. Under Hitler, Germany's economic performance was also, contrary to the predictions, good as it had the most rapid growth of these periods.

This cursory glance at the democratic regimes and the economic growth for these countries show that the relation between these variables is weak at best in this case. This glance is too superficial to prove anything. It does, however, indicate that the nature of the political institutions is an insufficient explanation for the economic development of Germany. In the following sub-chapters I will take a more in-depth look at these factors to determine whether this initial impression holds true up close as well.

4.1 Bismarck 1871-1890

The year 1871 marked in many ways a turning point in European history. What European monarchs and statesmen had feared and strived to thwart for centuries, a unified German nation state, finally came into existence. A large unified nation state in the center of Europe was considered something of a game changer for its neighbors as they deemed such a state to become a major actor in the power politics of the time, almost by default (Kissinger, 1994, pp. 60, 169).

The accomplishment of unifying the diverse German states is usually credited to the Prussian Minister-President Otto von Bismarck. Although the question of how much Bismarck influenced the unification is up to debate (Jefferies, 2008, pp. 51-53), he did in any event make a decisive impact on the constitution of the new German Empire which, quite conveniently, allotted a fair share of influence to his own office of chancellor (Tipton, 2003, p. 160). In this section I will examine these first years of unified Germany under the rule of Otto von Bismarck, looking first at its political and economic institutions before examining the economic situation.

4.1.1 Political institutions

Mapping out the German political landscape of this era is a job easier said than done. The system which Bismarck fashioned was in many ways complex and ambiguous. Motivated by the countervailing goals of ensuring support from liberally-minded politicians and at the same time to secure the Prussian monarchy's position as head of the empire (Blackbourn, 1997). Add to this the fact that it was based on the framework of the already existing states within Germany which all retained some sort of internal self-rule (Tipton, 2003, p. 158), and the result became somewhat of an entangled affair where some institutional traits were pointing towards inclusiveness whilst other aspects were clearly extractive (Jefferies, 2008, p. 102).

On a federal level power was distributed to several different groups and actors. The legislature was split into two chambers the *Bundesrat*, a council of 58 representatives appointed by the heads of the federated states, and the *Reichstag*, consisting of 397 representatives appointed by free elections accessible to all male citizens past the age of 25 (Tipton, 2003, p. 160). The Bundesrat was also intended to hold some executive and judiciary tasks and, in this way, ensure that each state in the federation had a say in the governing of the empire. Yet, the Bundesrat's power would quickly become marginalized to the advantage of the office of chancellor (Jefferies, 2008, p. 94), largely due to the fact that Prussia held a sufficient number of seats in the council to veto proposals, effectively barring any form of change which opposed the intentions of the Prussian government (Tipton, 2003, p. 159). The *Reichstag* was not altogether powerless, but the opportunities they had to influence policy was mostly reactive seeing as they were limited in their ability to propose laws of their own and were relegated mostly to having the opportunity to approve budgets (Blackbourn, 1997, p. 257). The assemblies was as such unable to set the agenda for politics, but the chancellor was still relying on forging alliances with groups of it in order to avoid having his propositions vetoed out (Jefferies, 2008, pp. 105-106).

Even though Germany then had among the most progressive franchises in Europe the system was fixed in favor of a conservative Prussian agenda, which was not particularly democratic. The Polity data show that Germany in this period had a score of -6, implying that it was far more autocratic than democratic, and notably being far less democratic than its main competitors France and Britain.

It may seem like the *Reichstag* was never really intended to serve as the citizen's channel of wielding influence over state matters, rather Bismarck allowed for such a wide franchise in a bid to include the more conservative peasantry into the assembly and in this way reinforce the legitimacy of the German monarchy (Jefferies, 2008, p. 99). Among those fronting a liberal agenda in Germany at the time it was widely recognized that the federation was far from being democratic. Even so, there was a belief that the *Reichstag* could open the opportunities for further reform (Tipton, 2003). And admittedly, the inclusive franchise made an opening where mass political parties such as the SPD, the German social-democratic party, could emerge and take part in the political discourse of the day, despite laws banning socialist agitation. Parties such as these would, however, not come to exert any substantial influence until the period after the first world war (Jefferies, 2008, pp. 65, 112).

In contrast to the bottom-up representation of the assemblies, the power over state emanated from the emperor in his double role of being both emperor of Germany and king of Prussia. Whether the *Kaiser* took an active part in the rule of the Empire would come to vary depending on who sat on the throne. Yet the potential for power was there through the Kaiser's right to decide not only over who held the office of chancellor, but also over the conduct of foreign policy as well as his sway over the army. The emperor remained the supreme commander of the Prussian Army due to his title as king of Prussia (Blackbourn, 1997, p. 257). In charge of the armed forces of the Empire at large was the Prussian War Minister who was answerable only to the emperor. In this way the German military was left outside popular control. In fact, the army command became an interest group of its own vying for attention and funds in competition with other parts of the Prussian bureaucracy. This left the army with the moniker of being "a state within the state" (Tipton, 2003, p. 161). Having control over punitive power outside the common citizen's reach reinforces the impression that the German Empire only payed lip-service to democracy and instead reveals a regime with deeply extractive political institutions.

Lastly, we get to the office of chancellor, which Bismarck held for the entirety of this period. The chancellor was appointed by the emperor and was as the only imperial minister to act as his representative in the day to day politics of the Empire. To the detriment of the *Bundesrat*, the chancellor took on the main tasks as the executive of the Empire, thus having the chief responsibility for the administration of the state (Jefferies, 2008, p. 95). In addition, Bismarck retained his roles as minister-president and foreign minister of Prussia (Tipton, 2003, p. 159). In these capacities he held power over not only the German foreign policy, but also the Prussian bureaucracies. The heads of each federal ministry were also directly subordinated to the chancellor, ensuring loyalty and compliance in execution of policies on a national level (Jefferies, 2008). Bismarck had as such achieved a position of political privilege for himself where had a say in all major policy decisions in the nation.

In the absence of any overarching imperial bureaucracies, Bismarck took use of the already existing Prussian bureaucracy, itself grown out from the absolutist era of the Prussian monarchy (Blackbourn, 1997, p. 22), and expanded its functions to also encompass the administration of the Empire at large. Many of the more minute details of policies were effectively left to the bureaucrats themselves to decide, giving them some measure of influence over policy as well. Among the ministers leading this bureaucracy there was an overrepresentation of Prussian noblemen and landowners, further strengthening this group's influence. Incidentally, representatives in the *Reichstag* were also prohibited to holding such offices barring popularly elected politicians from increasing their influence through such means (Jefferies, 2008, p. 96). In this way Bismarck had consolidated the power in the Empire in the hands of the monarchic Prussia led by himself. That does not necessarily mean that he was powerful enough to rule on his own or that he was able to always force through his will. Rather, his legacy lay in how he was able to forge alliances in order to keep his influence over policy and to preserve the Prussian monarch (Jefferies, 2008, p. 57).

Was Germany under Bismarck's rule predominantly politically inclusive or extractive? The extent of Bismarck and his allies' power can be seen in one of his big post-unification projects, namely his "battle" against the Catholic Church. Bismarck feared that the Catholic Church held too much power over Germany's catholic population the implication being that a substantial part of German's citizens would more loyal to a foreign pontiff than to their own emperor (Jefferies, 2008, p. 64). To hinder such a development, Bismarck allied with liberal politicians, who shared this fear, in order to restrict the German Catholic Church's power in what came to be known as the *Kulturkampf* (Tipton, 2003, p. 164). This entailed a set of laws aimed at curbing the church's freedom to appoint its own clergy and too organize education, but the conflict escalated to imprisonments, seizure of church property and violent clashes between rioters and the army (Blackbourn, 1997, p. 262). Even though these measures can hardly be said to have had the intended effects of curbing Catholic resistance against Prussian rule and Bismarck himself going back on these policies eventually (Blackbourn, 1997, p. 400), it shows quite clearly how the Prussian dominance over the empire was undemocratic and discriminatory. It is then hard to argue that a regime capable and willing to commit such serious infringements on the religious freedom of a substantial part of its citizens can qualify as being inherently inclusive. Rather, this leaves the impression that the German Empire was a distinctly extractive political regime.

4.1.2 Economic institutions

In some ways the second half of the 19th century was the era after many substantial reforms in Germany. In Prussia, the power seat of the empire, the institution of serfdom had lasted up until the early modern era, severely restricting the personal freedoms of substantial parts of its population (Moore, 1967, pp. 460-461). Serfdom was formally abolished in the early 1800s when a series of social and agricultural reforms were put in motion, in part to compensate for heavy losses during the Napoleonic war which made apparent the need for modernization. All subjects were then free to choose where to live and work. These reforms also ensured that peasants were given property rights and right to hold lands on equal ground as existing landowners (Kitchen, 2006, p. 17; Powelson, 1988, pp. 103-106). As such the most basic individual freedoms needed for an inclusive economy were already in place at the start of our period.

Were there other extractive institutions which could have inhibited the citizen's opportunity to engage with the market? Given the extractive nature of the empire's economic institutions we would expect to see Bismarck use his power for enrichment of himself and his own group. There were at least examples of groups which enjoyed special privileges. Especially the Junkers, wealthy landowning nobles residing in the eastern parts of Prussia, who still enjoyed significant tax exemptions on their holdings (Tipton, 2003, pp. 40, 161). Even so these aristocratic privileges did seemingly not hinder the rise of an urban elite of industry owners who became important economic actors during this period (Tipton, 2003, p. 187). In fact, one of the larger trade restrictions for the budding German industry was removed in the process of unifying the nation, namely the tariff barriers on trade between the German states. The ensuing free passing of goods and funds past state borders helped connecting different markets and industries. With its origin in Prussian efforts to establish free trade zones for itself and exclude Austria from the rest of the German economy, the *Zollverein* eventually became a customs union encompassing the whole German nation, sans Austria (Blackbourn, 1997, pp. 96, 242).

One of the more notable events in German trade policy during this period was a shift in tariff policy, popularly known as the "marriage of iron and rye". Due to advancements in the transportation of goods in combination with a couple of decades with a free trade policy there came a large influx of imported goods which pushed down prices, especially for agricultural products, but also for the budding steel industry (Blackbourn, 1997, p. 191). The solution for these industries was to ally in pushing for a change in policy from free trade to a protectionist stance. The Junkers together with industrial elites managed to get the state to implement import tariffs on the goods which they themselves produced (Schonhardt-Bailey, 1998, p. 291).

Was this an extractive move by a coalition of rich elites? It was indeed an act intended to raise the financial prospects of its main proponents and it must be conceded that it created both winners and losers. It pushed up prices on grain and iron to the detriment of the urban poor who had to pay more for their staple foods whilst allowing rich landowners to continue a comfortable lifestyle (Winkler, 2006, p. 220). Yet, this rise in prices benefitted also the poorer farmers who got higher returns on their crops and therefore remained in favor of the agricultural tariffs throughout the period that they remained in place (Schonhardt-Bailey, 1998, p. 295). Even so this is one of the more clear-cut examples of extractive behavior in the German Empire.

AR do, as has been mentioned previously, not only consider regulatory laws and taxation relevant when evaluating a country's economic institutions. The public goods that the state provides to its citizens is also of importance if you want an equal opportunity society. They emphasize the need for access to roads for travel and education (Acemoglu & Robinson, 2012, p. 74). So how was the infrastructure and public services of the German Empire? In the preceding period many of the states had begun constructing a nationwide railroad system, despite some early resistance from the Prussian government (Tipton, 2003, pp. 65-66). This system connected the larger industrial areas of the nation and became popular projects among investors which made transportation and communication among the most booming industries of the young nation which in turn contributed to the interlinking of different industrial centers (Streb et al., 2006). Incidentally, one of the contributing factors to German victory over France in the Franco-Prussian war of 1870 was the Prussian military's ability to mobilize quickly through adept use of the German railway system (Howard, 1981, pp. 70-71). As such Germany were at least not lagging behind in employing the innovations of the day within the transport sector.

Yet of equal, if not greater, importance to A&R is the provision of a quality education to the populace. Of the German education system of this period it has been said that it was the best in the Western world (Moe, 2006, p. 64). The German state offered primary education, encompassing basic literacy skills and vocational training for all citizens in addition to university preparatory education for those who could afford entrance (Tipton, 2003, pp. 39-40). When it comes to higher education Germany had a number of universities and technical high schools which were well-funded and competitive with an emphasis on research and practical application (Blackbourn, 1997, p. 275). The German education system was however not an invention from the days of the unification, but had rather evolved from the earlier periods. The Prussian state became the first to implement state funded universal education already in the late 18th century and went through reforms and expansions throughout the first decades of 19th (Kitchen, 2006, p. 21). Notably, this happened before the abolishment of serfdom in Prussia, which goes to show that states with harshly extractive institutions are indeed capable of providing a universal education of at least some quality to its citizens. Throughout the 19th century the German education became a model followed by both the US and the Scandinavian countries and its universities, which outnumbered the English ones, were world-leaders in fields such as medicine, chemistry and physics (Blackbourn, 1997, p. 275).

It is also worth noting that Germany was among the first European countries to implement a state provided social security program. Under the moniker of “Practical Christianity” Bismarck implemented a number of social insurance policies covering aid to the sick, those wounded in work accidents and the elderly (Blackbourn, 1997, p. 346). A&R maintain that social security is, like infrastructure and services, a result of inclusive political institutions, but they still show up here under Bismarck’s extractive rule. It has been widely regarded that these policies were not altruistically motivated, rather they were intended to reduce the grievances among the which liberal and socialist movements could profit on as well as to increase legitimacy of and loyalty to the current regime among the working classes (Van Kersbergen & Vis, 2013, p. 39; Winkler, 2006, pp. 225-226). Nonetheless this system functioned well enough to become a model for similar social policies in France and Great Britain (Blackbourn, 1997, p. 347).

This leaves an impression of Bismarck using his power more to front ideological concerns than economical privileges. Even though he himself belonged to the land-owning Junker class, he did not primarily pursue policies safeguarding this groups economic interests. His pragmatic approach to politics entailed that he was liable to change opinion on taxes and trade barriers overnight, if it could provide him with a stronger political alliance (Winkler, 2006, pp. 213,). This shows that he had little concern over which specific economic policies were enacted, rather he seemed more preoccupied with the question of how he could maintain political power and legitimacy for himself as well as the Prussian monarchy (Blackbourn, 1997, p. 256). Other groups seem to have had limited ability to impose market restrictions to the sole benefit of themselves on a federal scale. Even though alliances were made which succeeded in changing economic policy, there was no one grouping which was able to implement the kind of extractive economic institutions which would inhibit economic growth on a national scale.

4.1.3 Economic Performance

As mentioned above, the German Empire had, in spite of being a clearly authoritarian regime, many of the inclusive economic institutions which A&R deem necessary for stable economic growth. Let us now take a closer look on whether the economic growth reflected these economic institutions. If we study Figure 1 we would find that, although Germany seem to roughly follow the same economic trends as Britain, France and Italy, both Germany and France had a noticeable dip in GDP during the 1870's and early 1880's. This coincides with what was known at the time as "the Great Depression" (Blackbourn, 1997, p. 190), which is not to be confused with the Great Depression of the 1930's.

In the peace treaty following the Franco-Prussian War Germany of 1871 imposed a 5-billion-franc debt on France in war reparations with the intention of crippling France and keep its military from recovering. The German government spent most of these funds immediately on retiring government debts and large governmental prestige projects. In the process they created a huge influx of capital into the German economy. These events unfolded at the end of an economic upswing leading to inflation. At the same time there was a boom in investing and speculation in upstarting companies, many of questionable soundness. This led to a financial bubble which came crashing down in 1873 with a collapse in the stock market. The result of these converging factors was the bankruptcy of a number of companies and consequentially a spike in unemployment (Tipton, 2003, pp. 134-135).

In this manner the German economy threatened to stagnate entirely. Was this a consequence of the extractive political institutions present in Germany? As I laid out in the last subchapter, the German economy seemed to be predominantly inclusive, suggesting that this was not the case. The fact that there was a substantial portion of the populace who were able to invest freely in upstart companies with little regulation seem to suggest that this indeed was the case. There seems to be little to suggest that predatory behavior by the government encroaching on the citizen's property had precipitated the crisis and the depression preceded the interest politics of the "marriage" which was rather caused by the depression (Tipton, 2003, pp. 143-144). Not to say that the government was without blame for the crises, but they seemed to rather be caused by shortsighted policy decisions in international relations, rather than any malicious extractive behavior. This impression is reinforced by the fact that the same fluctuations are seen in neighboring countries such as France (Blackbourn, 1997, pp. 190-191).

Yet, when we wish to comment on A&R's theory it is important that we discern between various kinds of growth. It is not sufficient that we establish that there is growth in the economy, there must be some indication of whether the regime stifled or encouraged innovation. It is then particularly telling that, the initial industrialization process which had begun in the 1830's and 1840's led to a second wave of industrialization where Germany would come to take the lead in Europe. As specialized industries evolved, German industry was able to take advantage of the fact that scientific breakthroughs within chemistry, mechanics and, eventually, electronics would take place in German universities and engineering schools (Blackbourn, 1997, p. 275). These schools provided also a steady stream of competent personnel who can turn this scientific knowledge into profitable production. This era marked the birth of corporate giants such as Siemens, AEG and I.G. Farben. All had their roots in inventors who took advantage of the opportunities which the open German market allowed for large scale investments (Tipton, 2003, p. 187). Although the recovery from the financial crises of the 1870's was slow, the depression thus gave way to a period of renewed growth which continued well into the following period.

Does the economic history of this era support A&R's theory? I have argued here that the faults in German governance here could just as easily have happened under a more inclusive political regime, and that economic speculation made possible by an inclusive economy takes much of the blame for the crisis. There is also a notion here that the economy was sufficiently inclusive to serve as a foundational period laying the groundwork for the coming prosperity of the German Empire.

4.2 Wilhelm II 1890-1918

For the first two decades of the empire, Bismarck was left free to hold and use the office of chancellor as he saw fit, that changed with Wilhelm II's ascension to the throne. Wilhelm 1. had been content to let Bismarck hold the reins of state while he took on the role of figurehead, and Frederick 3. had died too soon to make any attempt at changing the status quo. Wilhelm II, however, was eager to see Bismarck go (Tipton, 2003, p. 175). Seeing himself as a soldier and gifted practitioner of foreign policy Wilhelm was set on taking a more hands-on approach compared to his predecessors and in that way give Germany "a place in the sun" (Tipton, 2003, p. 249).

4.2.1 Political institutions

The change of head of state and the dismissal of Bismarck in 1890, did not bring about any substantial change in the formal constitution and laws of the German state, yet it shows how these could open for different ways of distributing power among the political actors in the Empire (Jefferies, 2008, pp. 84-85). While the title of emperor brought with it a potential for wielding power in the previous period as well, Kaiser Wilhelm II was the first one to truly act on this potential. There were still someone holding the office of chancellor. Statesmen like Leo von Caprivi and Bernhard von Bülow both made their impact on policies, yet they would never come to enjoy the same influence which Bismarck had in his heyday (Tipton, 2003, pp. 243-245). The Emperor's privilege to appoint chancellor meant that whomever held the office stayed in that position by the Emperor's grace alone, this was also true for Bismarck who fell out of Wilhelm II's graces. This also meant that the emperor had the ability to take a more direct approach to politics if he desired to do so (Jefferies, 2008, pp. 84-86). Did this development lead to a more inclusive, or a more extractive polity? The change in the polity scale, from - 4 to + 1, seems to suggest that the Wilhelmine Empire, while still not fully democratic, represented a significant step in the direction of a more inclusive political regime. This may be attributed to two changes that I will go into in the following paragraphs: the change in power distribution and the removal of restrictions on party organization.

How did the relative power of different actors change? The emperor wielded his power to decide Germany's actions in international and great power politics, but his sole focus on enabled other actors to make their mark on domestic policies. Many of the above mentioned chancellors used Wilhelm's disinterest to their advantage (Tipton, 2003, pp. 244-245), yet even if they managed to circumvent the emperor they still had to overtake another hurdle in order to effectively shape domestic policy. A matter that has been up for debate among historians is whether Germany undertook a "silent parliamentarization" during this period (Jefferies, 2008, p. 104). Some argue that the relative importance of the *Reichstag* increased decidedly throughout the reign of Wilhelm II. They point for example to the fact that the chancellor became increasingly forced to negotiate with the parliament over budgets which became gradually more important as the government found it increasingly difficult to find funding for its projects

(Tipton, 2003, pp. 247-248). Despite this development there was markedly little clamor among political parties for higher degree of parliamentarization, in the sense of making the executive power subordinate to the legislative power, rather there was more clamor for making franchises for state legislatures more inclusive. This meant that the executive arm of the government continued to remain outside democratic control for the entirety of the period. Still this parliamentary practice can be understood as an important "learning process", easing the transition to a liberal democracy after the first world war (Jefferies, 2008, pp. 106-109).

Another event that might explain the change in the polity score is the lifting of the ban on socialist activity, which incidentally was central in bringing about Bismarck's resignation. The anti-socialist laws, brought about due to Bismarck's fear of the political instability they might have caused, entailed that taking part in party organization and spreading socialist literature were previously offences punishable by fines or prison sentences (Tipton, 2003, p. 167). Lifting this ban made it easier for workers to partake in mass politics, which led to the electoral success of the SPD in *Reichstag* elections (Blackbourn, 1997, p. 401). That parties which were disfavored by the imperial government were able to win parliamentary elections brings credit to how inclusive the franchise had become and helped in giving citizens a voice in the ruling of the nation. Even so the fact that the government were still not answerable to the parliament poised a significant barrier to democracy for the entirety of this period (Jefferies, 2008, p. 124).

To sum up there was little change in the way of formal institutional change in the German political system. Still Wilhelm II's reign shows how the imperial constitution was open to interpretation in a way that could make power in the Empire shift between different groups and actors making it in effect slightly more democratic and inclusive.

4.2.2 Economic institutions

In most manners it seems that the status quo of the German economic system was kept. The provision for basic property rights and social securities stayed mostly the same for this period and workers continued to be free to choose where they worked (Tipton, 2003, p. 187). Education and infrastructure also retained the quality they had in earlier periods (Lenoir, 1998). Seeing as this period encompasses the golden age of German industrialization (Tipton, 2003, p. 184), I will rather take the time to focus on a couple of more specific institutions which became increasingly important for the industries throughout this period namely, patents and cartels.

Although AR focuses on the need for the protection of physical property when they emphasize the need for property rights, there are other kinds of property that may need protection as well, such as intellectual property. Seeing as the industrial revolution was based on the innovations brought about by inventors and entrepreneurs, there was a need for these actors to be certain that they would retain some exclusive right to profit on their innovation in order to make it worth the effort of research and development. In other words, there was a need for a functioning patent system. Which Germany, in the same way as the UK and the US, had in this, as well as the preceding period (Streb et al., 2006). Timothy Lenoir (1998) has stated that this in combination with the ample support for German universities and technical high schools helped incentivize invention and investment in (Lenoir, 1998). Thus, showing the continued inclusive aspects of the Imperial Germany's economy.

Whereas the paragraph above shows how the state in many ways was friendly to and protective of industry in a manner that helped encourage innovation. There were, admittedly, other kinds of government support for industry which mostly served to enrich existing industrialists and exclude other actors from competing at a level playing field. In contrast to what the United States did at the time, with their bans on thrusts and monopolies through the Anti-Trust laws of the 1890's (Palmer et al., 2007, p. 584), Germany went in the opposite direction and formalized the organization of cartels and trust through laws classifying them as legally binding contracts. This meant that corporations were legitimately allowed to collude to dominate their market sector (Tipton, 2003, pp. 192-193). Although German cartels were of varying effect when it comes to enrichening their members, there are examples of some of these becoming sufficiently influential to push other competitors out of the market or in other ways increase their profit to detriment of other actors. One of these were the Rhinish-Westphalian coal syndicate which managed to force a surge in prices on coal, thus inhibiting coal-dependent industries (Blackbourn, 1997, pp. 321-322).

The German Empire's political system allowed in this way for larger corporations to engage in some extractive behavior. Even so there was no one sector which was able to dominate the rest. As Espen Moe (2006) points out, in addition to among the industrialists themselves, there seemed to be some measure of consensus in favor of industry also among the lower and middle classes. As such there was not any grouping that was both opposed to industrialization and in a position of power to hinder its emergence, thus explaining why German's industrialization was allowed to go on unhindered (Moe, 2006, p. 65). Other than that, it does not seem like the shift in political institutions and power distribution in the Empire led to any decisive change in the nature of its economic institutions.

4.2.3 Growth

> Three powers alone – Britain, Germany and France – accounted for more than seven-tenths of all European manufactures and produced over four-fifths of all coal, steel and machinery. Of the European countries Germany was now forging ahead. To use steel alone as a criterion, in 1871 Germany was producing annually three-fifths as much steel as Britain; by 1900 it was producing more, and by 1914 it was producing twice as much as Britain … (Palmer et al., 2007, pp. 574-575).

In its period as an empire there was, as discussed earlier, periods of economic decline. Even so Germany had begun closing the gap between itself and the industrial giant, the United Kingdom, as a manufacturer Germany had already surpassed the UK (Blackbourn, 1997, p. 313). In terms of GDP it was still a little under Britain, but had grown more rapidly than its immediate neighbor, France. Whereas the period under Bismarck had been a time of economic downtime and industrial start-ups struggling to find traction, the period of Wilhelm II's reign was the time where Germany took the center stage as an industrial powerhouse. This "Golden Age" of German industry (Tipton, 2003, p. 184) would have important connotations for international relations as this was an era where steel output was used to determine the military strength of nations (James, 2009, p. 102).

Did the trend of innovation from the earlier period continue? Searching through patents from the era, Streb, Baten and Yin (2006) identify four distinct waves of industrialization taking place during the reign of the empire, beginning with the railroad boom and ending with the introduction of electronics and chemistry. Their study shows that rather than being hindered by older industries innovation in newer sectors largely benefitted from technology spillover from related sectors (Streb et al., 2006, p. 371). Germany continued to be leading in sectors such as chemistry and German industry also branched into new venues such as electricity and automobiles (Blackbourn, 1997, p. 320). As such there was not only economic growth through innovation in this time frame, but also signs that new industrial sectors were allowed to grow freely. This suggests that the German state ensured that there was room for creative destruction.

Were there still winners and losers in this development? Indeed, some won more on this growth period, than others, landowners and industrialists continued to get a greater piece of the pie whilst workers, both urban and rural, were becoming an increasing source of grievances fueling socialist support (Tipton, 2003). Germany had by this period experienced a shift in demographics, whereas most workers up until this period had been employed in agriculture. This group was now overtaken by workers in industry (Tipton, 2003, p. 193). This shift in labor force was not a result of forced rationalization of the Soviet kind, rather it was a sign of the increasing need for labor in the cities which opened up more job opportunities for the working class. In particular workers in agriculture were paid less than workers in industry making it attractive for many to make the move from countryside to city (Tipton, 2003, p. 187).

Anyhow Germany saw in this period a clear reversal of the misfortunes from the 1870's and 80's. Does this support A&R's view that a more inclusive polity leads to economic growth? As stated above there was little change in economic institutions, which is the intermediary variable that political institutions are supposed to influence growth through. In addition the economic upswing featured largely companies which had had their beginnings in the earlier period under Bismarck (Tipton, 2003, p. 187). Therefore, it might be more prudent to understand the economic success of this period not as caused by a break from the former period, but rather as a continuation of the earlier period.

4.3 The Weimar Republic 1918-1933

In the aftermath of what many Germans considered a humiliating surrender to the remaining Entente powers in 1918, Wilhelm 2. was deposed and the German Empire had to give way to a new democratic republic, putting a permanent end to the Kaiser's ambitions of statesmanship. Popularly called the Weimar Republic from the city where it was founded, the new regime was based on the existing framework of the *Reichstag* which now held power over who sat in the government (Kitchen, 2006, pp. 220-221). According to A&R, inclusive political institutions, such as those present in democracies, should lead to a more inclusive economy which should perform better than an economy under extractive political institutions. If that is the case, we should expect that the Weimar Republic would fashion a more inclusive economy which in turn should lead to a more prosperous society. Let us see whether this became the case here.

4.3.1 Political Institutions

The deposing of the emperor and the strengthening of parliamentary power made Germany substantially more politically inclusive. By engaging in party politics even lower-class workers and farmers were able to have their say in the governing of the state. This notion is reinforced by the polity data which give the republic a score of 6 on the scale from – 10 to + 10, marking it as a democratic state. The Weimar Republic was still governed by a cabinet led by a chancellor, but now this cabinet was chosen by, and accountable to, the parliament which had the same inclusive franchise as the earlier periods (Henig, 2002, pp. 13-14). There were also reforms to the franchises in Prussia and other states which made this the norm also on state level. This contributed also to the end of Prussian dominance over the country. Which was also exacerbated by the fact that much of old Prussia was now part of a newly reforged Poland (Kitchen, 2006, p. 221).

In the political thinking of the time there were two conflicting views on what the new state should look like. While there was strong support for a liberal democracy after a Western model in the republic, there were intellectuals and laymen, especially on the right, who advocated a state based on a concentration of power in an executive cabinet with direct popular support (McElligott, 2009, p. 26). This was opposed by those who feared that this would lead to another autocrat along the lines of Bismarck's chancellorship. Yet, due to the violent reactions caused by the Versailles Treaty there was ample support for having a strong man which could take decisive action, thus the new republic ended up having a president elected by universal suffrage who had the power to appoint the chancellor and to dissolve the *Reichstag* (Kitchen, 2006, pp. 223-224). Of particular note was the fact that the president through the constitution's article 48 was allowed to rule by presidential decree in times of crisis effectively circumventing parliament (McElligott, 2009, p. 31; Tipton, 2003, p. 395).

Still, there is little doubt that the Weimar Republic was far more democratic than its predecessors and as such more politically inclusive. But was the republic strong enough to enact its own laws? A&R stress that inclusive political institutions matter little if the state is not strong enough to enact its own decrees. Inclusive economic institutions which incentivize people to engage with the market requires as such a modicum of stability (Acemoglu & Robinson, 2012). Several parties with popular support questioned the legitimacy or viability of the liberal democracy; consequentially they actively sought absolute power through legitimate and illegitimate means, which were clamped down on to varying degree. Throughout the life-span of the Republic there were several attempts at overthrowing the government by force, some of these like the Kapp Putsch did so with support from parts of the German army showing the government's partial lack of control over its own armed forces (Kitchen, 2006, pp. 224-225, 232-233). One could then argue that the Weimar Republic had the opposite problem of the Empire: the political institution had become more inclusive, but the state had a weaker grasp on the nation and failed in part to maintain their monopoly on violence as they did not hinder emergence of paramilitary organizations such as the Nazi *Sturmabteilung* or the communist *Roter Frontkämpferbund* (Kitchen, 2006, pp. 234, 245). Even so, the government showed that it was capable of clamping down on the uprisings and coups against it, albeit sometimes through excess of force, and of protecting property and upholding its own laws. In that regard it was sufficiently strong for our economic concerns here.

In the end it was not public unrest or revolt which eventually toppled the republic. As time went by the call for a stronger cabinet became strong enough to motivate an increasing use of article 48. This came to a head during the great depression in the 1930's where concern over whether the cabinet had the necessary power to save the German economy led to rule by presidential decree. Which meant that when the Nazi party was in position, the road to removing the parliament's power altogether was short (Tipton, 2003, pp. 405, 424). All in all, the Weimar Republic was a politically inclusive regime, but its fragility meant that it was susceptible to once again fall back into autocracy.

4.3.2 Economic institutions

As we now have established that the Weimar Republic was more politically inclusive than its predecessors we should, according to A&R, expect that economic institutions became substantially more inclusive during its tenure. There was at least a prevailing notion among Weimar politicians that the government was a capable of and had an obligation to regulate the economy to attain lasting economic success (James, 2009, p. 102). This led to a substantial degree of interventionist economic policies. During the great inflation politicians sought to alleviate the crisis by policy of spending. When it became clear that this remedy was unable to fix the inflationary crisis, politicians approached the economic crisis by striving to convince the population that their hands were tied and that they were unable to avert a new depression. And not entirely without reason: any viable counter-measure would entail an austerity policy of some sort, either cutting in spending or increasing taxation. In both events this would alienate important voting block or another (James, 2009, p. 122). This indeed was partially a sign of how the economy in part became influenced by the lower classes who had been included into the political system.

This era saw also the rise of trade unions advocating workers' rights. Many of these were successful in getting government support for raising wages and in other ways improving workers' rights. In a democracy increasingly dominated by mass politics, social security policies became an important means for securing votes from the lower class for parties on both sides of the left-right spectrum. There were also interest groups speaking on companies' behalf. The cartels from the Wilhelmine era remained and had entrenched themselves as an integral part of the German economy. By 1930 there were 3,000 cartels active in Germany which were able to dictate prices for products in their respective sectors. Not only was this to the detriment to consumers who had to buy goods at inflated prices, but it also had the effect of suppressing price signals which meant that German companies were slow in picking up changes in supply and demand. This would come to hurt them when economic crises were inbound (James, 2009, p. 105). Even so the inclusive political regime of Weimar was reluctant to do away with these old extractive institutions, for fear of any voting backlash. The cartels functioned as interest groups on the same level as the trade unions, clamoring for subsidies, tax exemption or other measures aimed at protecting their sector. This organizing into interest groups, which encompassed agricultural interests as well, led to competition for financial support from the government which has by Harold James (2009, p. 106) been likened to a pursuit of rent seeking to the detriment of seeking out new innovations that would have led to higher returns and progress for the society at large.

In this way the Weimar Republics legacy of economic institutions was, like its predecessors, ambivalent. Yes, ordinary citizens had a larger say in economic policy; there were inclusive institutions which were deepened and reformed, yet at the same time some of the more extractive traits of the German economy were left standing. Other than that, the basic prerequisites for an inclusive market such as property rights were still there but did not change in any noteworthy way.

4.3.3 Economic Performance

The optimism of early Weimar politicians did not necessarily translate into the ability to make good on their promises of regulating the economy into success. The era of the Weimar Republic has become strongly associated with economic instability, and not without reason. Following an exhausting world war, the Republic was left not only coping with the loss in manpower and natural resources, but was also responsible for handling the massive debt of 132 billion gold mark in war reparations to the Entente (Tipton, 2003, pp. 326, 329). Throughout this whole period there was a struggle to get the crippled German economy back on its feet with varying results. The Maddison Project data (Bolt et. al., 2018) show that on several occasions Germany had a negative growth in GDP. The low point was 1923 when GDP per capita dropped, from 4,328 $ the year before, to 3,502 $ that year.

During the war all the fighting nations had resorted to printing more money to finance the war effort when funds from other sources dried out, this resulted in inflation. Reluctant to increase taxes to increase government spending, Germany continued this policy in the interwar years. The German government had a conception that the inflation could be solved by providing more of the already inflated currency (James, 2009, p. 108). The result was a massive devaluation of the German mark making it quite literally not even worth the paper it was printed on. The disaster that followed was similar to the one that had struck Germany in Bismarck's era simply at a larger scale. Savings became worthless overnight, unemployment increased and investment dried up (Tipton, 2003, p. 334). There also seemed to be a halt in innovation. Rather than improving their methods, many industries, such as the steel industries, used the same old techniques that had been developed during the 19th century. This was particularly alarming since as key technologies that had given German industries an advantage abroad had now also been adopted by its foreign competitors. Thus, although wages for labor increased sharply during this period, the same cannot be said for labor productivity which stagnated (James, 2009, pp. 104, 106). The conditions were not conducive to upstarts by hopeful independent inventors either; they faced an investor-poor environment dominated by established corporations and cartels. The dynamism which had made Germany a serious contender to the UK in earlier periods, seemed to have lost its steam.

The instability of the early 1920s gave way to some optimism in the mid-twenties when international loans allowed Germany to introduce a new currency intended to re-establish German creditworthiness (James, 2009, p. 113). This newfound recovery was to be short-lived. Germany had not yet fully recovered when it was caught in the great depression, triggered by the New York stock market crash in 1929 (Tipton, 2003, pp. 338, 404). Germany's misfortunes in this period were caused by international conditions. But were they exacerbated by political malpractices? Since the effects of the inflationary crisis, caused by the aftermath of the Great War, still were felt in the capital market, there were little opportunity to borrow money to stabilize the economy (James, 2009, p. 115). There is some support for the notion that none of the Weimar governments had sufficient support to enact unpopular policies which could have mitigated the crisis. Yet, as stated above some of the crises were in fact also deepened due to the misconceptions of those in power (James, 2009, pp. 121-123).

These events although more severe than other places, were not unique for Germany. They were part of a broader downward trend of an economic cycle in the Western world. It can therefore be called into question whether a different regime could have hindered the economic crises of the inter-war period. The relationship between international events and domestic economy will be discussed further in chapter 5. In any event, the results were devastating and with more than 6 million workers struggling with unemployment in 1932 there was a clamor among the populace to find other political solutions (James, 2009, p. 115).

4.4 Nazi Germany 1933-1939

Discontent from the economic depression and grievance over the outcome of the Great War opened the way for a regime which overturned the parliamentary democracy of the Weimar Republic, the Nazi regime. Although this last part of the chapter covers a period so short that its validity can be called into question, it is still worth commenting on. The Nazi regime was for a short time in the 1930's regarded as a serious contender to the liberal democracies when it came to economic performance (Palmer et al., 2007, p. 813), and partially due to it giving us the opportunity to extend the time frame of the case as a whole.

4.4.1 Political Institutions

In contrast to the previous cases, the job of classifying the nature of the political institutions under the Nazi party's regime is easy. Nominally Germany continued to be a democracy for some years still, but in practice it was now ruled solely by one party and its leader. On the polity scale this is reflected by a steep decline from + 6 to – 9 signaling the overthrow of a liberal democracy and the rise of a totalitarian dictatorship. The state was led by Adolf Hitler who, after President Hindenburg's death in 1934, held both the position as chancellor and president. He managed not only to put the Nazi party in a position of total control of the German state, but also undertook purges to keep himself and his inner circle in control of the Nazi party (Kitchen, 2006, pp. 270-272).

The *Third Reich* was, firstly, a personal dictatorship led by the *Führer*, Adolf Hitler, and, secondly, it was a one-party state (Noakes & Pridham, 1984, p. 1). Hitler's authority was charismatic, coming from the cult-like belief in his unique abilities as a gifted leader capable of putting Germany on a path to greatness. Nominally he held total power over the state, although his ability to wield this power were for all practical purposes limited to what he could hold personal oversight over. He, as all dictators, was dependent on having effective channels of information about society, with these channels having a substantial effect on his political decisions. Political positions did then hold secondary value with influence rather becoming determined by accessibility to the *Führer*'s ear. This became increasingly important as Hitler became less and less interested in the tedium of day-to-day rule, gradually shifting power over to other actors within the party (Noakes & Pridham, 1984, p. 14).

The party Hitler led was called the *Nationalsosialistische Deutsche Arbeiterpartei*, abbreviated NSDAP, but more often referred to as the Nazi party. The Nazi party had moved quickly during its takeover ensuring that they had members in most of the influential positions in government and bureaucracy and quickly banning all other parties (Tipton, 2003). The Polity data show that Germany in this period had a score of -6, implying that it was far more autocratic than democratic, and notably being far less democratic than its main competitors France and Britain. . In this way becoming a member of the Nazi party quickly became the sole route for attaining influence in the nation. The party also held direct control over its own armed forces, first the *Sturmabwehr* (SA) and later the *Schutzstaffel* (SS), giving the party its own base of power (Kitchen, 2006, p. 276). As a counterbalance to the more rulebound bureaucracy the party was also given the task of carrying out tasks usually given to the civil service (Noakes & Pridham, 1984, p. 8). In this way, the line between state and party became blurrier with time as existing political institutions were uprooted and replaced with a new set of extractive political institutions which allowed for a high degree of personal power. For the common citizen influence over institutions and policies were meager, with objecting to state policy becoming an increasingly dangerous way of passing time. State censorship came into force early in the Nazi regime's reign and became more severe with time (Kitchen, 2006, p. 266). Personal freedoms were restricted, especially for Jews which will be touched upon in the next chapter, but also for Slavs, political dissidents and several other groupings (Noakes & Pridham, 1984, pp. 327, 384), thus confirming that the regime was deeply politically extractive.

4.4.2 Economic Institutions

In contrast to the Weimar era, in which the regime saw politics as a means to fix the economy, Hitler regarded the economy as a tool to achieve political goals (Noakes & Pridham, 1984, p. 66). One of these goals was to increase his own legitimacy by increasing spending on important groupings among the populace, financed by retaining the high taxation put in place by their predecessors (Tipton, 2003, p. 430). Many German farmers and workers found the Nazi party appealing not necessarily because of its blatant anti-Semitism or nationalist agenda, but due to its promises of commitment to aid farms and provide employment in industry (Tipton, 2003, p. 429). In part these impressive numbers were achieved through regulating the work force, removing freedom of choice for many workers in the process. Means such as sending the unemployed to work on farms, encouraging women to leave the work market and introducing compulsory labor services, all helped lower the unemployment numbers drastically, even if it did not exactly make the economy more inclusive. At the same time labor unions were abolished, thus dampening the clamor for higher wages when the economy began to recover (Tipton, 2003, p. 431). Much of the surplus labor was put to work on prestige infrastructure projects. The biggest of these was the *Autobahn,* a nation-wide highway network. This project, aimed at modernizing the German transport network, had already been planned out during the Weimar days, but only gained traction after the Nazi regime funneled funds from other sectors to finance the project. On a similar note the regime undertook housing projects constructing new and affordable homes, albeit of poor quality (Tipton, 2003, p. 432). This goes to show that an extractive political regime can have an interest in investing in infrastructure and public services, if it gives some benefit to the regime. The propaganda leveraged from these projects was so effective that German citizens decades later, despite striving to distance themselves from the Nazi ideology, still applauded Hitler, giving him the credit for reversing the misfortunes of the depression (Tipton, 2003, pp. 421-424). Thus, as was the case under Bismarck, public services and social support was used as a means for securing regime legitimacy.

Securing continued legitimacy can be seen as an intermediary goal. An important over-arching goal for the Nazi regime during the thirties was to rearm and modernize the German military - a costly undertaking since most of it had been disbanded in the aftermath of the first world war (Noakes & Pridham, 1984, p. 57). The rearmament policy revolved around restructuring the peace-time economy with the intention of making it capable of supporting a future war. This entailed a drive for increased production and efficiency as well as a shift in demand from consumer goods to military hardware. The government now was the largest spender (Noakes & Pridham, 1984, p. 68). Government tariffs and taxation were leveraged in order to increase government expenditure on weapons which grew by the tenfold (Kitchen, 2006, p. 284). This policy also had a marked effect on the livelihood of businesses and industries. Were the

Nazis industry friendly? Once again it seems like their approach to business was mostly utilitarian as it was goal-focused and agnostic when it came to means. The basic structures of a capitalist economy were kept (Kitchen, 2006, p. 313), but the needs for large-scale production were only serviceable by the established industrial corporations. Consequentially, the regime was thus reliant on the cooperation of these big businesses as its goals were unattainable without them, leading the regime to favor policies beneficial to them. Small businesses however struggled to adapt to the new regime's demands as the demand for consumer goods sank, this was not helped by the Hitler's "survival-of-the-fittest-stance" to business meaning that support for businesses which were unable to cope under the new economic regime did not receive much in the way of aid from the government (Noakes & Pridham, 1984, p. 70). The economy was in this way leveraged by diverting funds into one specific goal of the party, attaining a strong militarized state, in the process turning it more extractive.

Among the most infamous sides of the Nazi regime was something that went unheeded by the population at large: the ethnic cleansing of the Jews. Whereas life could continue mostly as normal for most Germans, the Nazi regime showed its true colors in its treatment of the Jews. The Nazi ideology stressed German ethnic purity to such a degree that for a German buying into this view it would be appropriate to treat other groups, such as Jews, as "lesser", if not unwanted, beings (Noakes & Pridham, 1984, p. 327). The Nazi regime legalized economic and social discrimination by depriving Jews of full rights as citizens. Jews were gradually more restricted in where they could go or work, who they could meet or marry, what they could buy or own and so on. These policies included also expropriation or destruction of Jewish property (Tipton, 2003, pp. 451-455). From an economic perspective this was a deeply extractive trait of the Nazi regime as there now was no guarantee against government infringements upon person or property. The economic value in the persecution was dubious. It was counterproductive as it inhibited citizens from investing and squandered away their skilled labor. As such it is hard to see any economic motivation for this policy. It was, rather, an example of ideology driving regimes to pursue goals which run counter to rational economic motivations.

Another sector that suffered due to the new regime's ideological beliefs was education. Hitler himself espoused a deep dislike towards intellectuals, something that was reflected in his writings. This not only made scholars and university professors easy targets for persecution if they held views that did not conform with the Nazi ideology, but also denied support for important research. Instead, funding went to unproductive and pseudo-scientific research into areas such as race or mysticism. This disfavor of higher education was also reflected in university education, The number of students enrolled in universities more than halved between 1933 and 1939 (Kitchen, 2006, p. 314). Thus, the inclusive German education system withered away under the new extractive regime.

The German regime was economically extractive. Even though party leaders lived lavishly, the economy was not primarily geared towards the enrichening of individual members of government (Noakes & Pridham, 1984, p. 70). The extractive behavior was clearly motivated by ideological concerns, such as the military expansion of the state and the persecution of the Jews. Economic institutions were regarded as tools for attaining these goals and as such the form of these did not matter much as long as they gave the needed political results. The extractive policies affected groupings differently. It did not encroach too much on the interests of big business, which managed to thrive under the new regime. Neither was it felt by the majority of workers and unemployed. But for those it affected, the new extractive regime was felt strongly. Increases in military production came at the expense of consumer goods. This weakened the economic market-mechanisms of supply and demand, and the population experienced a reduction of consumer goods as these became increasingly rationed (Kitchen, 2006, p. 286). This development falls in line with the expectations from A&R, that the turn to a more extractive political regime did lead to a more extractive economy. Due to this change from an inclusive economy to an extractive one we should be able to see a decline in economic performance in this period as well.

4.4.3 Economic performance

Remarkably, Nazi Germany outperformed its liberal counterparts in the latter thirties. The United States had yet not recovered when its economy slowed down again in 1937. The economies Britain, France and Italy also slowed down. Germany, by comparison had almost rid itself of unemployment in the first four years of Nazi rule (Kitchen, 2006, p. 284) and was once again closing in on British levels of GDP. From a level of 4,624 $ per capita in 1930, German GDP rose to 7,566 $ per capita in 1940. Although the Nazi regime made a clear effort to make political profit out of the fact that the economy saw an upswing after they came to power (Tipton, 2003, pp. 420-421), it is dubious that its policy can take the sole credit for Germany's reversal of fortunes during this period. Indeed, just before Nazi entrance into government, war reparations had ended through the Lausanne conference. This freed up funds originally intended for paying off debt and allowed the Nazi government to increase spending. In addition to that, the economic downswing was about to come to a halt, once again bringing up demand to stimulate the industry (James, 2009, pp. 123-124).

The Nazi period, just like Weimar, are too brief to give any final judgement on the economic viability of their respective regimes. It is unwise to draw fast conclusions about economic performance from either of them. Indeed, Harold James has speculated that if the Nazi economy had continued without the outbreak of war, it would eventually meet with failure economic down period, similar to the one experienced by the German Democratic Republic (DDR) during the Cold War (2009, p. 124). This could have been exacerbated by the neglect of the universities and the education system at large. A continued Nazi Germany then, might not be able to rely on the dynamic technological innovation which had marked the preceding periods.

Although, I won't go into detail on this, there is nevertheless something to be said for how long the regime held out in war. Combating an alliance of Great Powers for several years is not the hallmark of a state that has failed economically. And Germany did so, partially due to the massive output of the German war economy which could sustain numerous armies across several theaters of war (Kennedy, 1988, p. 455). This was admittedly only possible through the turn to a war-time command economy. Still this shows that the initial decade of Nazi rule did not hinder Germany's industrial capacity. The Nazi regime did eventually lead Germany to ruin, but not through the economic stagnation, which A&R's theory would predict. Rather, it happened due to the undertaking of an expansionist war that alienated and antagonized most other Great Powers. This exhausted Germany, and eventually led to its decimation and partition. The case of Nazi-Germany, however, does, together with the preceding periods, tell us something useful about Germany's capacity for economic recovery. As mentioned, in the beginning of this sub-chapter, Germany's fortunes were partially a result of changes in international conditions. If Nazi financial policy, like Tipton among others has argued (Tipton, 2003, p. 429), largely followed the same vein as the policies of the late Weimar era, other factors than the domestic institutions, which remained relatively constant for each one of these recovery periods, such as availability of natural resources or skilled labor, both of which Germany had a solid supply.

5. Discussion

Chapter 4 has given a brief and simplified look at German political development in four periods, each being so complex as to warrant entire studies in themselves. Still, looking at the German institutional development of our period suggests that the link between political institutions, economic institutions and growth is weaker than expected. If we would try to classify these four cases by the nature of their economic and political institutions, we could arrange them into a 2 x 2 table like this:

Figure 2: German regimes classified by political and economic institutions

	Inclusive Political Institutions	Extractive Political Institutions
Inclusive Economic Institutions	Weimar Republic	Bismarck, Wilhelm
Extractive Economic Institutions		Nazi Germany

Laying the cases out in this manner show that there are two points worth discussing. Firstly, that the strong connection between extractive political institutions and extractive economic institutions which A&R stresses is not clear-cut in the case of Germany. Rather it is something of a mixed bag. The cases of Nazi Germany and the Weimar Republic point in favor of A&R as political and economic institution correlate in these cases. Germany under Wilhelm and Bismarck suggests otherwise, as these regimes adopted predominantly inclusive economic institutions despite their extractive political institutions. Importantly, inclusive economic institutions and economic growth predated any proper form of democracy and the most important economic reforms in areas such as providing general education and property rights were undertaken under extractive political regimes. Neither can we see a clear-cut correlation between an increase in inclusive political institutions within Germany and any change in rate of growth. Measured in GDP these results do not clearly show any correlation between positive growth and inclusive political institutions. Indeed, twice in our period we can see Germany beginning to close the economic gap between itself and the United Kingdom, which remained markedly more inclusive for the entire period. Notably, the growth that we see in Germany throughout this period cannot be attributed to latecomer diffusion of technology, which A&R use to explain growth in the Soviet Union and China. In the case of Germany therefore, the connection between the independent variable political institutions and the dependent variables economic institutions and economic growth is weak.

Secondly, the dichotomy of extractive and inclusive institutions fails to capture important nuances between different regimes. Both the Bismarck's Empire and Nazi Germany were dominated by extractive political institutions, but their institutions differed. Was this simply a difference in degree of extractiveness, or was there a fundamental qualitative difference between the two regimes? As mentioned earlier, A&R belong to an economist tradition with a rationalist model for human action (Acemoglu & Robinson, 2012; North, 1990). This implies that all actions are motivated by material gain, yet we can see that Imperial and Nazi economic policies were suboptimal when it came to extract riches for personal gains. Rather, many German policies seemed to be informed by ideology rather than economy. If we look to March and Olsen's (1989) logic of appropriateness instead, it becomes more understandable that the disparate ideologies backing these regimes might explain their differences. Both Bismarck and Hitler were informed by their understanding of their role, one saw himself as a loyal servant to the Prussian state ensuring its stability and future, the other as a chosen leader of the German people on a quest to restore a mythical German hegemony. This led to diverging policies, both economically and politically. Where Bismarck used economic policy as a means of securing alliances, Hitler sought military expansion and rearmament. In addition to ideological concerns we also see in both cases a concern for regime legitimacy: Bismarck and Hitler both, worked to sustain the legitimacy of their regimes by increasing government spending on infrastructure and public services. This shows that also extractive regimes need to retain popular support in some way and inclusive economic institutions seem to be an effective way of doing so. Perspectives such as these may be vital for understanding the economic policies of the varying German regimes, but fit poorly with the rational economic assumptions in A&R's argument.

A final observation concerns the importance of the international economy. Some of the economic crises that Germany suffered in the 19th and 20th centuries, cannot be explained in terms of domestic institutions alone. Indeed, they were all connected somehow to events happening beyond Germany's borders. The most serious of them was the outcome of the first world war. This is neglected by A&R who devote their attention to internal factors. The importance of the international economy is indicated by Figure 1. It shows clearly that the German economy followed roughly the same economic trends as its neighbors regardless of the nature of its domestic institutions. The period between 1870 and 1915 was a one of stable economic growth for all the countries listed here, while GDP levels for all these countries sink around the period of the first world war and again during the Great Depression before beginning to recover again in the 1930's. Especially German and French, which are nations of comparable size, growth in GDP pc follows each other closely. In the first decade up until the 1880's these countries grew and declined together. Both continued to follow the growth trend up until the first world war, but Germany began to gradually outpace France and close in on Great Britain. In the wake of the Great war these fortunes were reversed as both countries went into a recession. However, France's economy struggled less than Germany's in recovering from the warm. This can be attributed to Germany's added burden of debt in war reparations. After some optimistic growth in the mid-1920's both economies stagnated again during the Great Depression, but after that Germany recovered quicker than France. The tendency for all of these countries to fluctuate in tandem imply that there is some varying factor that is shared across nation borders. This was an era marked by free trade and market integration (Palmer et al., 2007, p. 575), which makes it harder to rule out the effects of the international market on the domestic economy. This suggests that there may be need for an explanation which, like Kennedy's overstretch theory (1988), also takes into account the workings of the international economy. A&R needs, in other words, to be complemented by a system-level theory in order to properly explain domestic economic fluctuations.

Does the case give us some clues as for why Germany showed economic success for much of this period? For even though there were several periods with economic downtime, these were on both occasions followed by economic booms. If we had extended our analysis to post-World War II West-Germany, we would once again see the capability it had to recover from crises. Merely a couple of years after the end of the second world war, the West-German economy had begun to recover and was once again starting to export goods and take part in the international market economy (Tipton, 2003, pp. 496, 511).

Germany has shown a remarkable ability to recover from crises regardless of domestic institutions. What can explain this ability to recover? As has been pointed out earlier, there are those who argue that human capital is a key factor for growth. A&R might agree that human capital is important for growth. But for them it would rather be an indicator for growth caused by inclusive institutions, rather than an explanatory variable in itself (Acemoglu & Robinson, 2012, p. 77). Does A&R downplay the importance of human capital? Thus far I have emphasized that already before the unification there was a high-quality education system in place in Germany. And going through each case up until the rise of Nazi Germany, this education system continued to provide a high degree of literacy to the German populace at large as well as a steady access to engineers and other kinds of highly skilled labor. This could, in conjunction with natural resource endowment like the coal and steel deposits of the Ruhr area, very well be an important contributing factor to German industry's ability to recover. Even though physical assets such as factories or resources were lost to bombings or war reparations the human capital was still there. German engineers still knew how to make cars and German chemists still knew how to make dyes and pharmaceuticals. The mass literacy could also have been an important contributor to the emergence of mass political parties during the course of the life-span of Imperial Germany. This suggests that Lipset's modernization thesis, as extolled by Robert Barro and others (Barro, 1996), provides an alternative explanation to A&R's. In other words, it could be that economic performance and public services help bring about democracy, rather than the other way around.

It must also be noted that for the entirety of this period Germany was a strongly centralized state – a factor that A&R state as necessary for inclusive institutions to be effective. A&R emphasize the importance of states' capacity for keeping a monopoly of violence and enforce its own laws. But Germany stands out for also having an effective state administration throughout our periods. All the regimes in our case relied on a highly professionalized cadre of bureaucrats who stood in a administrative tradition from before the unification (Tipton, 2003, pp. 36,). The bureaucracy could have served as a conservative element and keep some sense of permanence to German institutions despite the changes in regimes. Germany's own Max Weber regarded an efficient bureaucracy as a necessary prerequisite for administering human interaction on a larger scale. As smaller markets merge together into greater ones the need for oversight and regulation rises, thus effective administration become an increasingly important factor for the economic sphere as well (Weber, 1922/2015). A&R's theory state that one of the reasons for why inclusive institutions are better than extractive is that they allocate resources more efficiently, but it could very well be that an effective state administration gives higher returns on growth than inclusive institutions.

An objection one might retort with would be to claim that German political institutions under Bismarck and Wilhelm II were sufficiently inclusive to allow for its inclusive economic institutions. This poses the question of whether there is a threshold for when a nation's political institutions are sufficiently inclusive to create inclusive economic institutions. Could it be when there is popular control over the legislature? Or is this boundary crossed only when you have an effective separation of power? Pointing out one specific feature of government as necessary would run counter to A&R's generalist approach hindering its applicability to non-western societies. *Why Nations Fail* (2012) leave the impression that there is a lack in consistency among the cases as for which levels of inclusiveness are associated with growth. To illustrate: under Bismarck Germany was undoubtedly less politically extractive than the Roman republic which A&R claim was successful because of its inclusive traits (Acemoglu & Robinson, 2012, pp. 160-162), but at the same time it is possible to argue that Bismarck's Germany was more extractive than the post-civil-war Southern States of the USA, which A&R sees as performing poorly due to extractive political institutions in the shape of Jim Crow laws (Acemoglu & Robinson, 2012, pp. 355-357). Could it then be that the relative increases in political inclusiveness is what matters for growth and economic institutions? This study has shown that German regimes which were more extractive, both compared to its neighbors and to other German regimes, still managed to foster an inclusive economy as well as economic growth, thus calling this interpretation into question as well.

Another conceivable objection is whether the time frame of the case study, roughly 70 years, is too short to see the long-term effects of change in political institutions. A&R operate with longer time frames in their argument, drawing lines from 14th and 15th century up until today, as in their comparison between Western Europe and Eastern Europe (Acemoglu & Robinson, 2012, p. 114). Yet, in other cases, such as their comparison of North and South Korea or their examination of post-colonial Botswana, the time frame is comparable to the German case discussed here (Acemoglu & Robinson, 2012, pp. 70, 411). They are, in other words, not entirely consistent in this matter. Objecting to the German case on such grounds would in other words also call into question the validity of several of their own cases.

It is apparent that the institutional theory which A&R propose in *Why Nation's Fail* struggles to explain the 70 years of economic trends from German history which has been discussed here. Does that mean that *Why Nation's Fail* can be rejected? That might be unwise. But it does calls into question their claim that inclusive political institutions were the "secret ingredient" that made the West outpace the "rest" economically in the 19th century. It could very well be that A&R's theory fit better with certain groups of cases, for example their theory might be better suited for explaining the developments of post-colonial Africa, where great personal power in a poorly centralized state is combined with tribal ties compared to the heavily centralized and bureaucratized Western states.

Another caveat is that these findings do not necessarily mean that autocratic regimes by themselves are positive for growth either, this study is as such not an apologia for authoritarian states, rather the point here is that there may be certain regime agnostic factors which help determine economic growth. They might, however call into question the policy relevance of advertising democratic measures as a cure-all for states that struggle economically. Other factors such as education and a smoothly working administrative apparatus, can be more important to look at in the context of economics.

6. Summary

This has been a critical case study where I have looked at German political and economic development between 1871 and 1939 in order to evaluate Acemoglu & Robinson's theory of economic growth as it is presented in *Why Nations Fail* (2012). Their theory states that inclusive political institutions are required for sustainable economic growth. Inclusive political institutions foster inclusive economic institutions which in turn ensure a better allocation of resources and freedom for creative destruction. Conversely extractive political institutions bring about extractive economic institutions which discriminate and exploit the populace.

In the case of Germany, however, there is little correlation between inclusive institutions and growth. Even though autocratic or totalitarian regimes ruled in three out of the four examined periods, Germany managed, for the most part, to retain an inclusive and growing economy. Notably, inclusive economic institutions persisted despite the dominance extractive political institutions. This can partially be explained by looking at the ideologies of these regimes or the rulers need for preserving legitimacy. German economy fluctuated similarly to its neighbors with more inclusive political institutions which suggests some shared non-domestic factor which varies over short time-spans. This shows that there is opportunity for further study into system-level explanations which might complement A&R's nation-level explanations. Another potential topic worth looking into is the effects of state centralization on growth and whether an effective administration can have a larger impact on growth than inclusive political institutions.

7. Literature

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8. Appendix

Appendix A, Table: Levels of GDP per capita for Great Britain, Germany, France and Italy, 1870-1940, expressed in 2011 US Dollar (Bolt et.al., 2018).

Year	Germany	France	Great Britain	Italy
1870	2,362	2,383	3,846	1,503
1875	2,889	2,866	3,975	1,541
1880	2,792	2,812	4,090	1,631
1885	3,184	3,004	4,269	1,769
1890	3,572	3,316	4,862	1,844
1895	4,044	3,675	5,068	1,983
1900	4,596	4,214	5,608	2,144
1905	4,887	4,341	5,723	2,384
1910	5,386	4,551	5,917	2,655
1915	4,290	4,707	6,793	2,399
1920	3,777	4,399	5,656	2,363
1925	4,316	5,322	6,770	2,696
1930	4,624	5,502	7,301	2,619
1935	5,716	5,074	7,809	2,755
1940	7,566	5,131	9,264	3,131