



A Critical Look at the 2024 Nobel Laureates in Economics

"The secret of prosperity lies in understanding its formula—once unlocked, it reveals countless tools, paths, and methods for achieving it"

Why This Nobel Prize May Reshape Your World

For generations, humanity has grappled with the enduring riddle: *How is prosperity created?* And its ultimate continuation: *How can it be enhanced?*

These questions are not merely academic; they shape policies, livelihoods, and the futures of nations. Understanding prosperity is not just an intellectual exercise; it is

essential for building equitable policies that uplift societies and reshape economies. This column examines whether the 2024 Nobel laureates in economics, whose work addresses the source of prosperity, provide the answers we need—or if a broader perspective that embraces the complexity of prosperity is required.

To clarify, prosperity exists on a scale. At one end is “negative prosperity,” which broadly reflects failure to achieve our goals—whether personal, societal, or economic—including obtaining scarce resources relative to our environment. At the other end is “positive prosperity,” the success of achieving the goals we set for ourselves—economic and beyond—resulting in fulfillment, security, and growth. Prosperity, therefore, transcends mere wealth; it represents an alignment between effort, goals, and meaningful outcomes.

As I reflected on the prosperity riddle—one that reveals itself in countless shades, faces, and meanings—I realized that prosperity is humanity’s oldest and most elusive pursuit. It touches every aspect of every life, often as a source of deep pain and longing. Yet, when truly understood and achieved, prosperity has the power to transform that pain into fortune, fulfillment, and lasting happiness.

Solving this riddle, I understood, is not just a pursuit—it is a necessity. For how can one hope to bring prosperity to farmers' lives, or anyone's, without first uncovering its roots and learning how to create it?

The Contribution: Linking Institutions With Prosperity

On December 8, 2024, the Royal Swedish Academy of Sciences awarded the Nobel Prize in Economic Sciences to Daron Acemoglu, Simon Johnson, and James Robinson for their groundbreaking research on *"how institutions are formed and affect prosperity"*. Their work has been praised for demonstrating the critical role that societal institutions play in shaping nations' economic trajectories.

The Nobel jury highlighted the far-reaching significance of their research:

"They have helped us understand differences in prosperity between nations. They have demonstrated the importance of societal institutions for a country's prosperity. Societies with a poor rule of law and institutions that exploit the population do not generate growth or change for the better. The laureates' research helps us understand why".

At the core of their work lies a bold and decisive conclusion: **to escape poverty, countries must prioritize building trusted and effective societal institutions.**

According to the laureates, no amount of investment in technology, innovation, entrepreneurship, or even the UN SDGs can compensate for weak institutions.

Similarly, production, efficiency, exports, agriculture, education, health, logistics, and knowledge fall short unless they rest on a foundation of robust, trusted institutions—designed to eradicate corruption and promote fairness, equality, justice, and democratic freedoms. The laureates argue that poverty fundamentally stems from institutional shortcomings: address these, and prosperity will follow. Their framework rests on three key ideas.

First, institutions drive economic outcomes. **Inclusive institutions**—such as democratic governance, secure property rights, and free markets—foster innovation, equitable participation, and economic growth. In contrast, **extractive institutions**—such as autocratic regimes and monopolistic systems—concentrate power and wealth, stifling growth, innovation, and opportunity.

Second, colonial legacies shape institutional trajectories. In regions where European settlers faced **high mortality** rates and could not establish a permanent presence, colonizers often imposed extractive institutions designed for resource exploitation. These systems entrenched inequality, corruption, and weak rule of law, legacies that persist today. By contrast, areas with **lower settler mortality** often saw the establishment of inclusive institutions modeled after those in the colonizers' home countries, paving the way for long-term governance and economic growth.

Third, the laureates present a universal pattern that illustrates how institutional quality shapes prosperity across different contexts. For example, they compare Nogales—a city geographically split between the United States and Mexico—where the same climate and location produce vastly different economic outcomes due to differences in governance. Similarly, nations like Nigeria, where institutional weaknesses dominate, struggle to achieve sustained development.

These insights are not merely theoretical. The Tony Blair Institute for Global Change (TBI) offers a practical application of the laureates' ideas. Through initiatives that strengthen governance, foster inclusive institutions, and improve policy implementation, TBI translates the societal institutions model into actionable strategies. Across Africa and beyond, TBI demonstrates how these principles can help governments build the foundations for sustainable economic and social progress.

The Limits of Simplicity

The societal institutions' theory is undeniably important and compelling. It provides a clear, straightforward lens to analyze why some nations flourish while others flounder. By emphasizing institutions as the bedrock of prosperity, the laureates highlight crucial elements—trust, governance, and accountability—that cannot be ignored.

However, the theory is far from complete. While it aspires to be a universal framework, it is undermined by gaps, contradictions, and oversights that limit its reliability. In its pursuit of simplicity, the model overlooks critical nuances and complexities essential to fully understanding poverty and prosperity. History and real-world experience demonstrate that the path to prosperity is rarely straightforward or linear. In truth, no single factor—not even societal institutions—can fully account for the intricate interplay of forces that drive or hinder prosperity.

Discrepancies in the Laureates' Theory

Several key issues highlight the limitations of the laureates' model and suggest areas where it fails to provide a comprehensive explanation for prosperity.

Correlation and Causation. The laureates' reliance on correlation undermines their ability to identify root causes or predict outcomes, as correlation is an inadequate tool for such purposes. For example, for centuries, people associated flapping wings with the ability to fly, which left humanity literally grounded for millennia. It wasn't until the Wright Brothers applied the principles of aerodynamics that powered flight became possible. Similarly, while institutions and prosperity often correlate, assuming institutions are the root cause risks over-simplification and misdirected solutions.

Countries, Kingdoms, and Companies. The laureates' framework does not account for prosperity across all organization types, geographies, or historical periods. Like the kingdoms that preceded them, nations are business-oriented organizations with significant social goals that extend beyond economic prosperity. Why, for instance, did the Greek and Roman Empires achieve unprecedented prosperity while other kingdoms in the same era remained impoverished? Why do some modern corporations thrive—outperforming many countries—while others fail under similar institutional frameworks? A truly universal framework should explain prosperity across all business-oriented organizations, from ancient Egypt to modern-day limited liability companies.

Nogales: Oversimplifying Complex Realities. The Nogales example, a village split between the US and Mexico, over-simplifies complex realities. The laureates attribute disparities in prosperity between the U.S. and Mexican sides of Nogales solely to differences in institutional quality. Yet other factors—language, education, cultural practices, geographic advantages, or early governance decisions—could also contribute. Without addressing these and other variables, the theory risks attributing causality to institutions alone, where multiple factors are likely at play.

Bias and Narrow Focus. A notable bias in the laureates' work lies in its narrow focus on differences in prosperity between nations. While the Nobel Prize announcement claims they 'have helped us understand differences in prosperity between nations,' their model overlooks significant disparities within regions, including relatively prosperous ones, such as those between European countries or U.S. states. These variations highlight that prosperity transcends specific eras and geographies. A truly universal theory must address these broader disparities and offer insights applicable across diverse contexts.

Kibbutz: A Contradiction to the Model. The success of Israel's Kibbutzim defies the laureates' framework. Under the Ottoman Empire, societal institutions in the region were extractive and corrupt, mortality rates from diseases like malaria were high, and environmental conditions were hostile. According to the laureates' model, these factors should have perpetuated poverty in this colony. Yet, under the same extractive institutions, rural communities organized as Kibbutzim prospered, while traditional village structures consistently failed and eventually disappeared or transformed. Later, under the British Mandate, when colonial institutions persisted, the Kibbutzim continued to thrive due to their unique organizational model, defying the laureates' predictions.

Latin America vs. Africa. The laureates' framework does not account for disparities between Latin America and Africa. Countries in Latin America, where colonizers decimated indigenous populations, are often more prosperous today than African nations, where colonizers annihilated fewer native populations, or Israel, where the entire population was displaced (primarily as slaves) 2,000 years ago. This raises questions about whether colonial institutions alone can adequately explain these outcomes.

Democratic vs. Non-Democratic Prosperity. The laureates' model struggles to explain how non-democratic countries like China, Singapore, and the UAE have achieved remarkable prosperity. These nations have created governance systems that foster trust, collaboration, and economic growth without adhering to democratic principles. This suggests that societal institutions are tools, not universal prerequisites, and their effectiveness depends on specific contexts.

TBI and Field Data. If the Tony Blair Institute for Global Change (TBI) follows the principles advocated by the laureates, why isn't there more field-proven data supporting their theory and model? The lack of such evidence raises questions about whether the societal institutions model can consistently deliver the outcomes it promises.

The Prosperity Formula: Contextualizing Societal Institutions

To better understand the role of societal institutions, we must ask: "*What is the job they are meant to do?*" Their purpose is to reduce friction within societies, foster collaboration, and establish a foundation for shared values and trust. These outcomes are essential for enabling cooperation and sustainable economic activity.

This perspective aligns with the *Prosperity Formula*, a broader and more adaptable framework for understanding how societies succeed:

$$\textbf{Prosperity} = f(\textbf{External Integration} + \textbf{Social Integration}) / \textbf{Internal Disintegration}$$

The formula demonstrates that prosperity arises from balancing three key forces: fostering internal cohesion, integrating with external systems, and minimizing inefficiencies. As reflected below, societal institutions are not standalone drivers of prosperity but can serve as enablers in achieving this balance.

Social Integration. Societal institutions are pivotal in building trust and fostering collaboration within societies. They reduce societal friction and encourage cooperation among diverse groups by ensuring fairness, equality, and justice. Frameworks that uphold the rule of law, protect rights, and promote inclusivity create a shared sense of purpose. For example, (1) post-apartheid South Africa relied on inclusive institutions to integrate historically divided communities, laying the foundation for national development. Similarly, (2) Israel's Kibbutzim, driven by collaborative, mission-focused organizational structures, thrived despite weak overarching governance systems, i.e., the Ottoman and the British Empires. In these cases, institutions acted as the glue that bound societies together, enabling collective action toward shared goals.

External Integration. Beyond fostering internal cohesion, societal institutions enable societies to connect with the broader world. By building trust and transparency for external partnerships, they facilitate trade, diplomacy, and the exchange of culture, knowledge, experience, and technology. For instance, institutions that enforce the rule of law attract foreign investment by ensuring contract enforcement and reducing

corruption. Institutions that enable well-crafted trade policies promote global market access, while those fostering education and research drive knowledge exchange and innovation. Singapore exemplifies the transformative potential of strong institutions, having evolved into a global trade hub, while the European Union's harmonized frameworks have enabled unprecedented levels of external integration. Without strong institutions, societies struggle to build credibility and engage effectively with global systems, limiting their growth opportunities.

Internal Disintegration. Internal Disintegration. Societal institutions play a crucial role in reducing internal inefficiencies, conflicts, and inequalities that undermine prosperity. By ensuring fair resource distribution, providing transparent mechanisms for conflict resolution, and promoting accountability to curb corruption, they address systemic barriers to growth. The consequences of weak institutions are stark: Venezuela's rampant corruption has led to economic collapse despite abundant natural resources. In contrast, Singapore's robust institutions have transformed it into a global economic hub, demonstrating how strong governance can effectively channel resources and drive sustainable growth.

Viewed through the lens of the Prosperity Formula, societal institutions are best understood as tools—perhaps even as 'social infrastructure'—designed to achieve specific goals rather than as root causes of prosperity. They foster collaboration and trust by enhancing social integration, enable engagement with global systems through external integration, and address internal disintegration by reducing inefficiencies and conflict. Like any tool, institutions must be adapted to the unique needs and contexts of a society. Their effectiveness depends on how well they align with broader societal goals and how skillfully they are implemented.

A Broader Path to Prosperity

The Prosperity Formula offers a broader, more adaptable framework that complements the laureates' contributions. It recognizes that prosperity is shaped by external connections, internal cohesion, and friction reduction. Societal institutions are one tool in this dynamic interplay—powerful but not singular.

By contextualizing societal institutions within the Prosperity Formula, we see their dual role in fostering integration and managing disintegration while acknowledging their limitations. Societal institutions are not universal prerequisites for prosperity but are mechanisms that societies can adapt to their unique contexts and challenges. For

example, non-democratic nations like China, Singapore, and the UAE have successfully used alternative governance systems to achieve economic growth, fostering collaboration and trust without adhering to democratic norms.

The Prosperity Formula emphasizes that each element—external integration, social integration, and minimizing internal disintegration—can be achieved through various approaches. This flexibility allows societies to choose tools and methods that align with their specific histories, cultures, and circumstances. Institutions remain essential enablers but must work in harmony with other drivers, such as targeted investments, infrastructure, and cultural cohesion, to create sustainable progress.

The path to prosperity is not linear, nor is it one-size-fits-all. By integrating insights from the laureates' work with the Prosperity Formula, we can create strategies that embrace diversity, address complexity, and foster sustainable growth. Prosperity requires vision and adaptability, recognizing that the tools we use must evolve with the challenges we face.

In this way, the Prosperity Formula broadens the discussion beyond societal institutions alone, encouraging a flexible, inclusive approach to addressing poverty and achieving lasting prosperity. By building on the laureates' valuable insights and situating them within a dynamic framework, we can create a clearer roadmap for a future where progress is shared and sustainable.

What do you think, are societal institutions the root cause of prosperity, or merely tools to enable it under certain circumstances? And one more little-big thing: please forward the column to economists and policymakers.

Takeaway Messages

» **Societal institutions** are enabling tools, not universal prerequisites, for prosperity.

» **The Prosperity Formula** reflects societal institutions as adaptable tools fostering integration.

» **While societal institutions** provide a limited toolset, the Prosperity Formula offers a limitless framework for achieving prosperity.

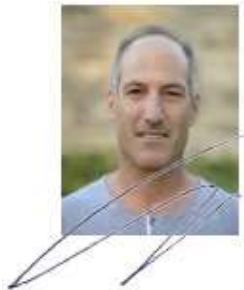
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See you soon,

Nimrod



Dr. Nimrod Israely is the CEO and Founder of [Dream Valley](#) and [Biofeed](#) companies and the Chairman and Co-founder of the [IBMA conference](#). +972-54-2523425 (WhatsApp), or email_nisraely@biofeed.co.il

P.S.

If you missed it, here is a link to last week's blog, "[How Will We Get Farmers to Work Together?](#)"

P.P.S.

Here are ways we can work together to help your agro sector and rural communities step forward and shift from poverty into ongoing prosperity:

* **Nova Kibbutz and consultancy** on rural communities' models.

* **Local & National programs related to agro-produce export models** - [Dream Valley](#) global vertical value and supply chain business model and concept connects (a) input suppliers with farmers in developing economies and (b) those farmers with consumers in premium markets.

* **Crop protection:** [Biofeed](#), an eco-friendly zero-spray control technology and protocol.

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*This article addresses general phenomena. The mention of a country/continent is used for illustration purposes only.