

Acemoglu, Liberal Democracy and the Investor's Rutter

A country-risk interpretation

Richard Marney and Philipp Waeber – September 2026

1. Acemoglu's liberalism theory

In his 2026 book *What Happened to Liberal Democracy? Remaking a Politics of Shared Prosperity*¹, Acemoglu argues that liberal democracy is more than elections. It combines political participation with liberal constraints on power: the rule of law, individual rights, institutional checks and protection against arbitrary government. Its durability also depends on whether citizens believe the system delivers broadly shared economic gains.

His central argument is that this settlement has weakened. Globalisation, technological change, deindustrialisation and the growing influence of economic and political elites have separated liberalism from the material interests of large parts of the population. Formal democratic institutions may therefore survive while trust, participation and commitment to liberal constraints erode.

The remedy is not less democracy, but a renewed form of liberal democracy rooted in shared prosperity: stronger citizen voice, greater state capacity, institutions capable of constraining concentrated power, and economic arrangements that distribute the gains from growth more broadly.

2. The Investor's Rutter

In *The Emerging Market Investor's Guide to Country Risk – Systematic Risks and the Threat to Investment Performance*², Marney and Waeber present the Investor's Rutter. This framework approaches country risk from a different direction. Its purpose is not to classify political systems, but to judge a country's underlying trajectory and its implications for investment. It distinguishes four interacting dimensions:

- **Endowments:** the inherited resources and structural characteristics with which a country begins.
- **Enablers:** the institutions, policies and state capabilities that determine whether those endowments are converted into productive capacity.
- **Context:** the economic, financial, political, technological and geopolitical environment within which the country operates.
- **Outcomes:** the resulting economic, financial and developmental performance.

The key analytical distinction is between current condition and direction of travel. Short-term “weather” and cyclical “winds” can obscure the deeper “currents” that ultimately shape investability.

3. Applying the two frameworks together

The two approaches are complementary. Acemoglu helps explain why apparently stable liberal democracies can weaken from within; the Rutter translates that political and institutional deterioration into an assessment of country trajectory and investment risk.

¹ Acemoglu, D. (2026) *What Happened to Liberal Democracy? Remaking a Politics of Shared Prosperity*. London: Profile Books.

² Marney, R. and Waeber, P. (2026) *The Emerging Market Investor's Guide to Country Risk*. Cham: Palgrave Macmillan.

In Rutter terms, Acemoglu's argument is primarily about deterioration in the enablers and context. Weakening trust, greater concentration of political or economic power, declining institutional restraint and exclusion from the gains of growth can gradually impair policy effectiveness and state legitimacy. These effects may precede any obvious deterioration in conventional macroeconomic outcomes.

This matters for investors because political institutions are not simply background conditions. They affect policy predictability, property rights, regulatory credibility, fiscal choices, social cohesion and ultimately the distribution of risks and opportunities across sectors and companies. A country can therefore look economically sound today while its underlying institutional current is deteriorating.

The converse also matters. A country with weak current outcomes may be improving its institutional capacity, broadening participation or strengthening policy credibility. The investor's task is therefore not to equate democracy mechanically with low risk, or authoritarianism with high risk, but to identify whether the political-economic settlement is becoming more or less capable of producing sustainable and investable outcomes.

4. Current country cases

United States — The United States illustrates Acemoglu's concern particularly clearly. Its formal democratic institutions remain substantial, but polarisation, declining trust, concentrated economic and political influence, and pressure on institutional constraints suggest movement away from the liberal-democratic equilibrium he describes. From the Rutter perspective, the important question is not whether the United States remains a democracy, but whether its institutional and political currents are weakening the predictability and effectiveness of its enablers.

Argentina — Argentina demonstrates why better political or market headlines should not automatically be read as structural improvement. Fiscal adjustment and reform can improve near-term weather, but durable investability depends on whether institutional credibility, policy continuity and state capacity improve sufficiently to survive the political cycle. Acemoglu's emphasis on legitimacy and broad participation reinforces the point: reform that lacks a sustainable social settlement may remain vulnerable to reversal.

Chile — Chile offers almost the reverse problem. Political contestation and constitutional uncertainty have generated considerable noise, yet relatively strong institutions, policy capability and legal frameworks remain important underlying currents. The combined frameworks warn against mistaking visible political disagreement for institutional collapse. The relevant question is whether contestation is being processed through institutions or is progressively weakening them.

Indonesia — Indonesia shows why regime labels alone are inadequate for investors. Strong growth, favourable demographics and substantial economic opportunity coexist with questions around institutional quality, governance, policy implementation and the concentration of political power. The Rutter directs attention to whether the enablers are strengthening sufficiently to convert endowments into durable outcomes; Acemoglu adds the question of whether political and economic power remains sufficiently constrained and broadly legitimate.

Investor conclusion. Acemoglu provides a theory of how liberal-democratic systems can lose legitimacy and institutional strength; the Investor's Rutter provides a way of detecting what that deterioration means for country trajectory. Together they reinforce a central investment proposition: current outcomes are not enough. The critical question is whether the underlying political, institutional and economic currents are strengthening or weakening the country's capacity to generate sustainable outcomes—and how those currents affect the specific investment under consideration.

Appendix: Related Literature

The argument developed in this note sits within a broader literature on institutions, political order and economic performance. North (1990) established the importance of institutions in shaping incentives and long-run economic outcomes, while Acemoglu, Johnson and Robinson (2005) place economic and political institutions at the centre of differences in long-run development. Fukuyama (2011, 2014) develops a complementary perspective, emphasising

the interaction between state capacity, the rule of law and political accountability, as well as the possibility of institutional decay even within established political systems.

A related literature examines more directly how institutional quality affects investment and financial intermediation. La Porta et al. (1998) link legal institutions and investor protection to financial development, while Djankov, McLiesh and Shleifer (2007) demonstrate the importance of creditor rights and information-sharing institutions for private credit. Marney and Stubbs (2024) extend this perspective to emerging-market debt resolution, emphasising the institutional framework as a core support for an effective debt-resolution capability and, consequently, productive financial intermediation.

These contributions reinforce the Investor’s Rutter emphasis on enablers. Institutions matter to investors not simply as measures of governance, but because they influence whether a country can convert its underlying endowments and opportunities into sustainable economic and investment outcomes. Acemoglu’s recent argument adds a further dimension: the durability and legitimacy of the underlying political settlement are themselves important components of that institutional capacity.

References

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