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Did colonialism and related practices do permanent harm to economic development?

The variety of colonial practices is said to have engendered different effects on present economic development, where settler colonies developed inclusive institutions, protective of private property and hence incentives for production and innovation, and colonisation that forged extractive institutions detrimental to economic development. Extractive colonisation practices such as practicing the slave trade, expropriating labour via forced migration in the early modern era, and artificial redrawing of state boundaries in the 19th and early 20th centuries that ensure ethnic conflict within states, are a few examples that produce circumstances that hinder economic development. Even when colonisers establish extractive institutions, they still brough human capital and technology with them. Thus, when discussing the effects of colonialism on economic development, a nuanced differentiation of situations is needed. Moreover, although current literature has succeeded in establishing the econometric links between colonisation and current economic development, the mechanism through which the shadows of colonisation loom over the world today is worth questioning. Mechanisms proposed include continuity of colonial institutions, formation of cultural norms such as trust, and an import of human capital and technology from the Europeans. This essay will discuss the harms and occasional benefits that colonialism and related practices have on economic development, whilst assessing the robustness of mechanisms that deliver such persistence, to argue that colonialism and related practices with extractive properties, more often than not, do permanent harm to economic development.

Acemoglu et al. were the proponents of institutional continuity as a mechanism for extractive institutions established by colonisers to persist to modern day. In their 2001 paper, they describe the channel wherein settler mortality rates were a major determinant of settlements, which determined early institutions, and there is a strong correlation between early institutions and institutions today.[[1]](#footnote-1) Past institutions alone explain 20% of the variation in the index of current institutions, where early institutions were measured by constraint on the executive in 1900.[[2]](#footnote-2) The link between extractive institutions and suboptimal economic development today could be explained by Acemoglu’s proof against the Political Coase Theorem, which maintains that if property rights are well-defined and there are no transaction costs, political organisations should be able to contract with citizens to achieve an efficient outcome.[[3]](#footnote-3) According to the theory of social conflict, decisions made by politically powerful social groups that are interested in maximising their own payoffs and not aggregate output or social welfare.[[4]](#footnote-4) Hence, since there’s no third-party enforcement on the contract between citizen and state to allocate resources efficiently, there is a significant commitment problem from the people in power.[[5]](#footnote-5) By extension, for an extractive institution to persist, there would either need to be social groups that remain in power and continue the practice of extraction since colonial times, or another group that displaces the old one but continues to practice extraction. This could be plausible since any group that comes into power can be benefit-maximising.

However, there’s no guarantee in practice that extractive institutions cannot be overthrown and stop having an effect on the current state of the economy. A passing remark by Sapienza and Zingales that refutes the Acemoglu institution continuity illustrates how persistence based on legal establishments would not stand: they are designed to be changeable, and Argentina had four different constitutions in the last 60 years.[[6]](#footnote-6) Acemoglu also over relied on social conflict theory. The theory of social conflict downplays the importance of consensus and concessions between social groups in political decision making. In an instance where the political establishment changes after independence from colonisation, the new political group in power would be inclined to concede to policies that benefit the masses in order to maintain popularity and therefore their hold on power. The legitimacy of power of a country that broke away from the shackles of colonisation would be one where they led the masses were freed from colonial oppression and can now live a better life, and not a legitimacy imposed via violence like the colonisers, hence giving them more incentive to build inclusive institutions. As an example, consider Argentina’s independence in 1816 and its economic development. Even though the revolutionary government in Buenos Aires collapsed in the 1820s, Rosas’ government was federalist, and he was portrayed as the arbiter of a balance between the masses and the elites. In Bradford and de Long’s study, where they were examining countries that in 1870s were likely to converge to a high degree of productivity and income per capita, Argentina was a country with high productivity and would have been likely to converge with western Europe and the US.[[7]](#footnote-7) It was not the continuity from colonial institutions that hindered its growth but in fact extractive military dictatorships in the 1930s.

Banerjee and Iyer (2005) and Dell (2010) both explore the continuity mechanism of extractive institutions through case studies and point to the importance of public goods investment for economic development. They differ on the effects of colonisation on economic outcome, where the former focus on the benefits of British colonisation on parts of India and the latter on the shortcomings of Spanish colonisation on parts of Peru. Banerjee and Iyer study India and use state level data in India after independence to demonstrate that the historical property rights contribute to the sustained difference in economic outcomes.[[8]](#footnote-8) Where the local elites had significant power, no extensive public investment was made, and the British focused more on non-landlord areas for public good investment.[[9]](#footnote-9) The British were fearing of the tragedy of the commons, where the landlord can disproportionately exploit public resources and overuse them for their private benefits. Moreover, the peasants’ rational calculations regarding the efforts exerted in production and innovation would involve high probabilities of extortion from landlords, hence disincentivising them to benefit from public resources such as railroads and education to generate more output, which the extractive British colonial office was interested in. Hence, the extractive attitude of the British selected non-landlord areas for development and left them underdeveloped.

A comparison between Banerjee and Iyer with Dell could, however, yield the conclusion that extractive institutions can function, as long as public investments were made, which does not take away from either’s conclusion although their attitudes towards colonisation’s effect on the economy are different. Dell maintains an opposite attitude with regards to the landlord class, the hacienda in Peru.[[10]](#footnote-10) The Spanish created the mita system to force migration of labour to produce elsewhere, whereas the hacienda lobbied for public good provision, and the roads built in hacienda provinces were thought to improve market access.[[11]](#footnote-11) However, tragedy of the commons and peasant incentive reduction would still both hold true for the hacienda, and it would be hard to conclude that the landowning classes were not just another extractive force alongside the Spanish colonisers, just one where the haciendas, like the British, believed that more investments could yield more extraction. Moreover, according to Abad and Maurer, the mechanism of land tenure was historically questionable, since it’s not clear that the mita persisted for very long or that the connection between haciendas and better schooling and roads was historically or econometrically proven.[[12]](#footnote-12)

Other than the mechanism of persistent institutions, the mechanism of trust is emphasised when studying the persistence of the slave trade and subsequent colonisation in Africa, remain more questionable than other mechanisms. Nunn and Wantchenkon (2011) point to the negative effect of the slave trade on trust and demonstrate that the relationship was causal.[[13]](#footnote-13) In Nunn (2008), the connection between the slave trade and subsequent economic development was established, where the relationship between the number of slave exports and GDP per capita was robust.[[14]](#footnote-14) On the other hand, Michalopoulos and Papaioannou demonstrate how the ethnic partitioning increased the duration of political violence and caused a vicious circle of government-led discrimination and ethnic wars, and split groups were hence economically disadvantaged.[[15]](#footnote-15) Considering Michalopoulos and Papaioannou’s conclusion, Nunn and Wantchenkon’s study is subject to omitted variable bias. Subsequent colonial endeavours might have been more important to the formation of trust. Detrimental borders and ethnic conflict were demonstrated to relate to current economic development, and most places where the slave trade happened in the 17th and 18th centuries were not immune to colonisation in the 19th century that resulted in arbitrary borders. Regarding omitted variable bias, Nunn and Wantchenkon was only able to demonstrate how the initial trust conditions, another omitted variable, does not distort their results. Although their conclusion is causal, consider the effect of an expansion of their samples to include places in Africa where the slave trade was not prominent, but colonisation was. If trust was regressed on both the slave trade and subsequent colonial practices, a situation where the effect of the slave trade diminishes could be plausible. Moreover, Nunn has yet to prove that the relationship between slave exports and GDP per capita was not statistically significant.

An alternative continuity mechanism that works through technology stresses the beneficial imports of technology from the Europeans to their settlements, the reverse argument to Acemoglu et al.. However, this argument did not take into account that technology would need beneficial institutions to create positive economic development, and therefore is still less important than the institution transmission mechanism. There are propositions where technology developments worked independent of colonisation. Comin (2010) identified the continuity of technology development since 1000BC.[[16]](#footnote-16) Comin’s mechanism was one of path dependency, where complementarity to old technology initiates the adoption of new technology.[[17]](#footnote-17) This argument works through cost minimising behaviour of people wanting to utilise new technology, where complementarity should save the cost of new inventions. But this argument ignored the even less costly channel of innovation imports. According to Easterly and Levine, Comin doesn’t take ancestry into account, and if some people lived in the same place, they should be able to come up with a complementary new technology, and instead proclaims that human capital and technology were brought to the new world by Europeans and supported economic development.[[18]](#footnote-18) Easterly and Levine examined the counterfactual of less European settlers bring about new technology and concluded that technology attributed to growth in ex-colonies today.[[19]](#footnote-19) However, even though new technology was beneficial as it pushed the production possibility frontier forward, the extractive institutions in the colonies made sure that the economies stayed within the frontier. Easterly and Levine’s argument is correct but has a quantitatively lower significance for economic development today.

In conclusion, colonialism had adverse effect on economic development more often than not. Extractive institutions, and a lack of public investments in some areas are likely to deter development. On the other hand, colonialism can also bring benefits when colonisers import technology and human capital or become willing to invest in public goods. The mechanisms for persistence sometimes suffer from ignoring historical nuances. Acemoglu’s institution persistence cannot be used to explain a drastic change in institutions after independence, Dell’s hacienda cannot be linked to positive economic development historically, and Nunn’s trust persistence ignores historical episodes of imperialism happening between the slave trade and modern times. The lack of historical accuracy of the mechanisms of persistence takes away from the strength of conclusions that colonialism in fact contributed significantly to economic development today.

1. Acemoglu, D., S. Johnson and J. A. Robinson (2001). "The Colonial Origins of Comparative Development: An Empirical Investigation." The American Economic Review 91 (5) [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. Acemoglu, D. (2003). "Why not a political Coase theorem?" Journal of Comparative Economics 31 [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. Guiso, L., P. Sapienza and L. Zingales (2016). "Long-term persistence." Journal of the European Economic Association 14 (6): 1401-1436, pp1402 [↑](#footnote-ref-6)
7. De Long, B. “Productivity Growth, Convergence, and Welfare: Comment.” [↑](#footnote-ref-7)
8. Banerjee, A. and L. Iyer (2005). "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." The American Economic Review 95 (4): 1190-1213 [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)
10. Dell, M. (2010). "The persistent effects of Peru's mining mita." Econometrica 78 (6): 1863-1903 [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. Abad, L. A. and N. Maurer (2021). "History never really says goodbye: A critical review of the persistence literature." Journal of Historical Political Economy 1, pp 48 [↑](#footnote-ref-12)
13. Nunn, N. and L. Wantchekon (2011). "The Slave Trade and the Origins of Mistrust in Africa." The American Economic Review 101 (7): 3221-3252 [↑](#footnote-ref-13)
14. Nunn, N. 2008. “The Long-Term Effects of Africa’s Slave Trades”. Quarterly Journal of Economics 123(1), pp 167 [↑](#footnote-ref-14)
15. Michalopoulos, S. and E. Papaioannou (2016). "The long-run effects of the scramble for Africa." American Economic Review 106 (7): 1802-1848 [↑](#footnote-ref-15)
16. Comin, D., W. Easterly and E. Gong (2010). "Was the wealth of nations determined in 1000 BC?" American Economic Journal: Macroeconomics 2: 65-97 [↑](#footnote-ref-16)
17. Ibid. [↑](#footnote-ref-17)
18. Easterly, W. and R. Levine (2016). "The European origins of economic development." Journal of Economic Growth 21: 225-257 [↑](#footnote-ref-18)
19. Ibid. [↑](#footnote-ref-19)