

02/15: Colonial Origins, AJR

- Why are countries rich or poor?
 - Total factor productivity!
 - Solow and production model pretty much as origin of \bar{A}
- AJR focus on institutions (rules of the game)
 - Quality of Govt
 - Private property rights
 - sound rule of law
- we know institutions matter
 - North vs. South Korea
 - East and West Germany
- Q: to what degree do institutions matter?
 - cannot do double blind RCTs b/c of ethics
- look at history and data

Problems:

- Questions of causality: institutions \rightarrow rich countries or rich countries \rightarrow institutions?
- Can't measure institutions: use PRs?
- Omitted variable bias: disease, geography, etc.

ATPs focus: settler mortality rates

- mortality rates high \rightarrow extract resources
- mortality rates low \rightarrow modeled after home country

Colonies:

- settler colonies: large numbers of settlers, modeled after europe institutions
- extractive colonies: take away resources

Path dependence?

- elite don't want change
- expensive to change institutions

Measure institutions

- protection against expropriation (PRS)
- link to measure
- bias

OLS regression: $\log y_i = \alpha R_i + X_i' \gamma + \epsilon_i$

\downarrow
protection
against
expropriation

Correlation \neq Causation!

Identification or endogeneity problem: Reverse causality

Solution: instrumental variables

- source of mortality: malaria and y^*
- local pop case immune, though

- derive cons from Disease and Empire by Philip Curtin

$X \rightarrow Y$?

- $Y \rightarrow X$, perhaps
- find Z , strongly connected to X ,
unconnected to Y other than through its effect on X

X : prohibition

Y : output/capita

Z : Settler Mortality

Z should have no direct impact on Y other than through X

- ultimately, it's just persuading the reader

- if instrument affects economic performance outside of X , then it's less persuasive.

Criticisms:

- Albury (2012)
 - criticize judgment calls AJR make about mortality data
- inconsistently select among multiple data
 - more than one mortality rate, inconsistently select
- judgment calls about neighboring countries
- limited comparability of data
 - no distinction between barrels and campaigns
- AJR becomes less significant