

Sokolof: factor endowments and the "preconquest social organizations."

1. patterns of land ownership: cheap land where abundant, and expensive when it scarce.

Latin America

- "But ascribing differences in development to differences in institutions raises the challenge of explaining where the differences in institutions come from."
- "initial conditions, or factor endowments broadly conceived, could have had profound and enduring impacts on long-run paths of institutional and economic development in the New World."
- "Spain focused on colonies such as México and Peru whose factor endowments were characterized by rich mineral resources and by substantial numbers of natives."
- factor endowment: Abundant labor (slaves), and land (mines and sugar plantations).
- "Spanish authorities adopted the approach of distributing enormous grants of land, often including claims to a stream of income from the native labor residing in the vicinity, and of mineral resources among a privileged few. The resulting large-scale estates and mines, established early in the histories of these colonies endured"
- "For different reasons, therefore, Spanish America was like the colonies specializing in the production of crops like sugar in generating an economic structure in which wealth, human capital, and political power were distributed very unequally, and where the elites were drawn from a relatively small group that was of European descent and racially distinct from the bulk of the population"

The US and Canada

- US and Canada: "These economies were not endowed with substantial populations of natives able to provide labor, nor with climates and soils that gave them a comparative advantage in the production of crops characterized by major economies of using slave labor."
- "their development [...] was based on laborers of European descent who had relatively high and similar levels of human capital [...] had rather homogenous populations. Correspondingly equal distributions of wealth were also encouraged by the limited advantages to large producers in the production of grains and hays."
- "There is strong evidence that various features of the factor endowments of these three categories of New World economies—including soils, climates, and the size or density of the native population—predisposed them toward paths of development associated with different degrees of inequality in wealth, human capital, and political power. Although these conditions might reasonably be treated as exogenous at the beginning of European colonization, it is clear that such an assumption becomes increasingly tenuous as one moves later in time after settlement."
- "in those societies that began with extreme inequality, elites were better able to establish a legal

framework that insured them disproportionate shares of political power, and to use that greater influence to establish rules, laws, and other government policies that advantaged members of the élite relative to nonmembers— contributing to persistence over time of the high degree of inequality"

- "In societies that began with greater equality or homogeneity among the population, however, efforts by élites to institutionalize an unequal distribution of political power were relatively unsuccessful, and the rules, laws, and other government policies that came to be adopted, therefore, tended to provide more equal treatment and opportunities to members of the population."
- "In the United States, where there were never major obstacles to acquiring land, the terms of land acquisition became even easier over the course of nineteenth century."
- "The major crops produced in the expansion of the United States and Canada were grains, which permitted relatively small farms given the technology of the times and"

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- cotton, coffee, tobacco, and sugar were expensive to produce, but very lucrative. it was labor-intensive too. hence, it is only profitable in large quantities (economies of scale)
- grains can be produced in large farms
- Because of the need for intense fertilization, sugar planters also had to maintain large herds of livestock to meet the demand. The mills, boiling houses, and distilleries that were required for sugar production were not prohibitively expensive. The cane fields, livestock, and slave labor, however, were the costliest and most valuable parts of a sugar plantation. Sugar production was therefore not an industry to be entered into lightly, but the rewards for a successful plantation owner were substantial.
- Sugar cane takes between fourteen to eighteen months to ripen, but once it is harvested, it must be processed within a few hours to keep it from fermenting and thus spoiling

Mahoney, vom Hau

- criticize the "exclusive focus [of Acemoglu/Robinson and Sokolof/Engerman] on domestic conditions within colonies ignores other factors that shaped colonial and postcolonial trajectories."

argument

- "Our core argument focuses on the causes and consequences of different levels of colonialism for Spanish and British colonies. We define level of colonialism as the extent to which a colonizing power installs economic, political, and sociocultural institutions in a colonized territory."
- " (1) similar kinds of factor endowments led Spanish and British colonizers to pursue different levels of colonial institutional establishment. The Spanish generally settled [...] in those areas that were the most populous and most politically and economically developed [...] In contrast, the British pursued comparatively limited settlement and institutional transformation in the more populous and more

politically and economically developed precolonial areas."

- "Hence, precolonial level of development is positively associated with level of Spanish colonialism, but negatively associated with level of British colonialism."
- "This finding contradicts recent work on the great reversal that assumes that factor endowments have similar consequences for institution building across all European colonizers."
- "In the second part of our argument, we show that level of colonialism had opposite effects on long-run socioeconomic development for the Spanish and British colonies. More extensive Spanish colonialism produced predatory states and dysfunctional markets, and it also left behind highly stratified societies. Less extensive Spanish colonialism did not directly lead to the creation of effective states and markets, but it did spare regions from the establishment of the most destructive institutions, giving them a chance to experience development in the aftermath of the colonial period. Conversely, more extensive British colonialism introduced a rule of law, effective administration, and competitive markets, promoting development in the postcolonial period. Yet limited forms of British colonialism distorted existing institutions in ways that greatly hindered future development. Hence, the effect of level of colonialism on development is the opposite for Spanish and British colonialism"

economic models: mercantilist and liberal

mercantilism

- "A mercantilist model organizes productive activity to obtain national economic self-sufficiency and short-term gains through favorable trade balances and the accumulation of precious metals."
- "As such, mercantilism aligns economic and state elites, concentrating resources in few hands. A mercantilist economic model therefore fosters a rigidly hierarchical society in which the majority of the population is dependent on a small elite"

liberalism

- "a liberal model organizes productive activity toward maximizing profit through exchange in free markets [...] Unlike the mercantilist model, the liberal model is not associated with a state that privileges status groups and explicitly imposes hierarchical relations of dependence. Instead, political authorities use the state to uphold private property, encourage commercial production, and enforce the rule of law. Though the state is not directly involved in economic production, it is vital for the provision of the basic infrastructure necessary to sustain a market economy"

levels of colonialism // preexisting levels of development shape the extent of Spanish and British colonialism

- (1) "mercantilist and liberal powers impose different levels of colonialism in territories with **similar levels of precolonial development**.
 - For mercantilist powers:
 - The first hypothesis is that mercantilist and liberal powers impose different levels of colonialism in territories with similar levels of precolonial development. For mercantilist powers, we argue that they are more likely to pursue extensive institutional establishment in comparatively more complex (i.e., more economically and politically developed) precolonial regions; mercantilist powers are less likely to pursue a high level of colonialism in comparatively less complex regions. Our reasoning grows out of the fact that complex precolonial regions exhibit densely settled populations, statelike political organizations, and hierarchical economies that often rely on coercive labor systems. These conditions facilitate the mercantilist goal of extracting resources through the use of a dependent labor force without having to alter radically preexisting economic structures.
 - [...] When mercantilist powers colonize less complex societies, therefore, they generally do so without imposing a broad range of institutional arrangements and without encouraging large-scale settlement.
 - liberal economic powers are likely to pursue low levels of colonialism in more complex precolonial regions, and they are likely to pursue high levels of colonialism in less complex precolonial regions."
- "levels of colonialism": "institutions that regulate
 - (1) commerce and markets (e.g., the extent of free trade),
 - (2) political authority (e.g., the degree to which a rule of law is present), and
 - (3) race and ethnicity (e.g., the degree to which all groups have the same rights)."
- "For mercantilist colonies, a high level of colonialism greatly inhibits postcolonial development. More extensive mercantilist colonialism shapes economic development through the establishment of trade restrictions, protected merchant guilds, and entrenched actors who benefit from state privileges. In a capitalist world economy, these mercantilist institutions are a serious disadvantage."
- "For liberal colonies, conversely, level of colonialism is positively related to socioeconomic development. More extensive liberal colonialism tends to direct production toward international trade, which encourages competitiveness within a capitalist world economy and may also benefit human well-being by providing greater resources to state and societal actors. In addition, higher levels of liberal colonialism can lead to the establishment of coherent administrative, juridical, and police institutions that provide the basic infrastructure for functioning markets."
- "In turn, by empowering indigenous elites, limited liberal colonialism creates patron-client systems characterized by hierarchy, dependence, and the absence of a rule of law."
- "The Spanish most extensively colonized those areas of the New World where preexisting civilizations were located."