

02a. Colonial Origins

Econ 373: US Economic History

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Fall 2023

The “colonial origins” hypothesis

- A famous idea in the study of economic and political history of the New World is that current outcomes have “colonial origins”
- This view was popularized by Douglass North, William Summerhill, & Barry Weingast as well as Daron Acemoglu, Simon Johnson & James Robinson

Order, Disorder and Economic Change: Latin America vs. North America

Douglass C. North, William Summerhill, and
Barry R. Weingast

September 1999

1. Introduction

Successful societies require a means for securing political order. That we often take order for granted in developed societies does not imply that it is unimportant. Although most economists ignore problems of disorder, creating order is a central task for establishing the foundations of long term economic growth. As the turmoil in post-independence Spanish America—or today in the former Yugoslavia and the Great Lakes region of Central Africa—demonstrates, political order is not automatic. Political order is a public good that must be carefully constructed.

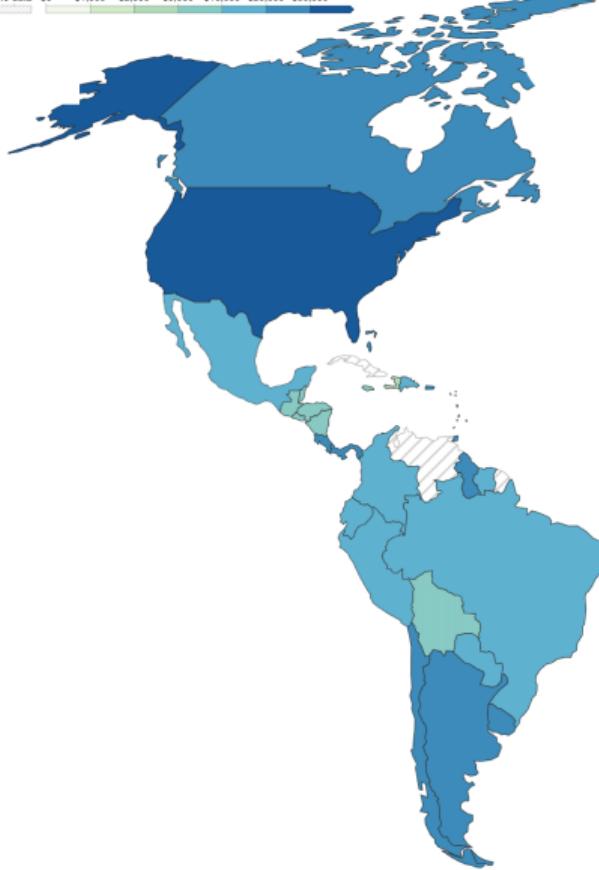
Because political order is a necessary condition for economic and political development, we must enquire about the conditions that provide for it. Citizens behave very differently under political disorder; that is, when they fear for their lives, their families, and their sources of livelihood. Focusing solely on market reform or the instruments of democracy is insufficient to help a developing state or one in transition move onto the path of development. We argue that the sources of political order involves state capacity concerning the creation of credible commitments.

Establishing and maintaining social order in the context of dynamic change has been an age-old dilemma of societies and continues to be a central problem in the modern world (Huntington 1968). It is one thing to

The Colonial Origins of Comparative Development: An Empirical Investigation

By DARON ACEMOGLU, SIMON JOHNSON, AND JAMES A. ROBINSON*

We exploit differences in European mortality rates to estimate the effect of institutions on economic performance. Europeans adopted very different colonization policies in different colonies, with different associated institutions. In places where Europeans faced high mortality rates, they could not settle and were more likely to set up extractive institutions. These institutions persisted to the present. Exploiting differences in European mortality rates as an instrument for current institutions, we estimate large effects of institutions on income per capita. Once the effect of institutions is controlled for, countries in Africa or those closer to the equator do not have lower incomes. (JEL O11, P16, P51)

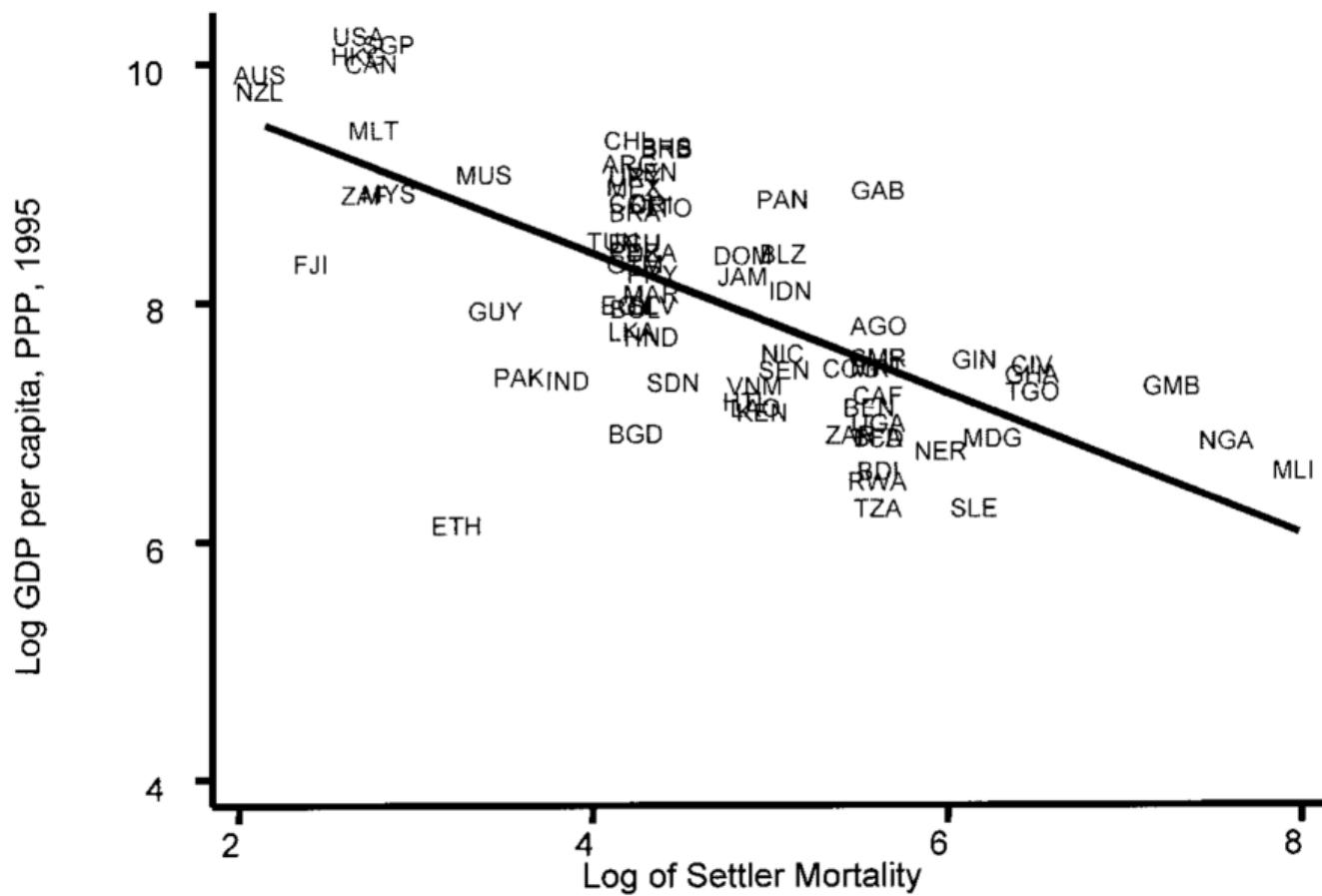


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- This view was popularized by Douglass North, William Summerhill, & Barry Weingast as well as Daron Acemoglu, Simon Johnson & James Robinson
 - A crude version emphasizes colonizer identity (e.g., English versus Spanish)
- More concretely, “colonial origins” emphasizes one or several:
 1. Initial conditions: population (i.e. size of native population), commodity production (i.e., crop suitability, mineral availability), disease environment
 2. Policy choices: land concentration, militarization of settlers and elites, promotion of different types of economic activity, extent of migration

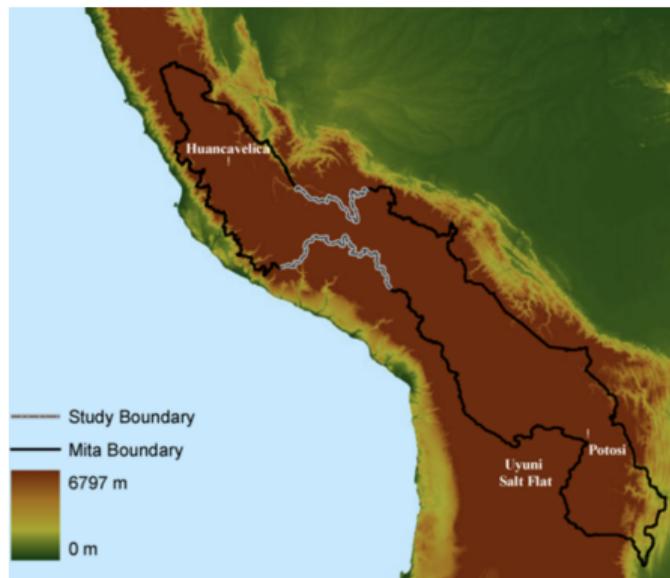
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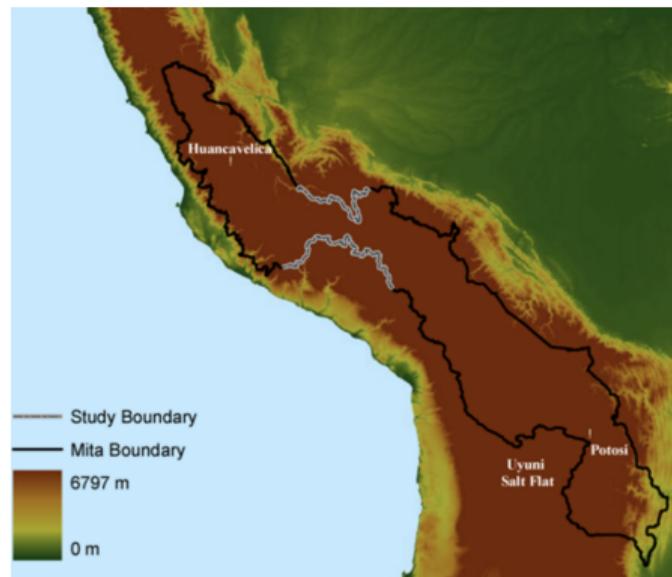
Example: Peru's mining *mita* in Peru

- The mita was forced system of labor imposed by Spanish Empire
- Required indigenous communities to send 1/7 of male population to work in silver and mercury mines



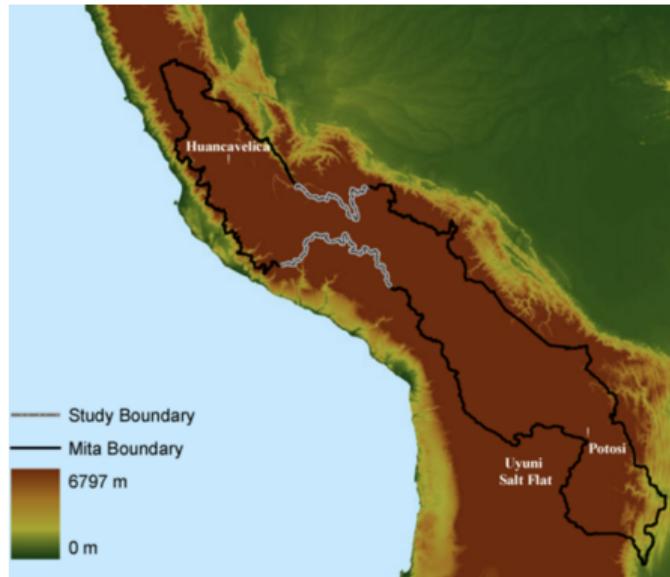
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- **Key:** places on either side of boundary were similar before European settlement



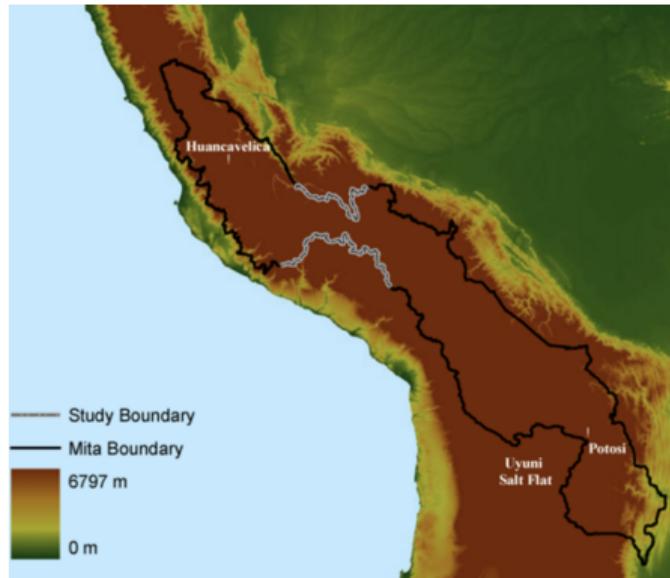
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- Today in the mita area...
 - There are fewer haciendas (large plantations) and large landowners provide fewer public goods
 - Households consume less and children are shorter (nutrition is worse)

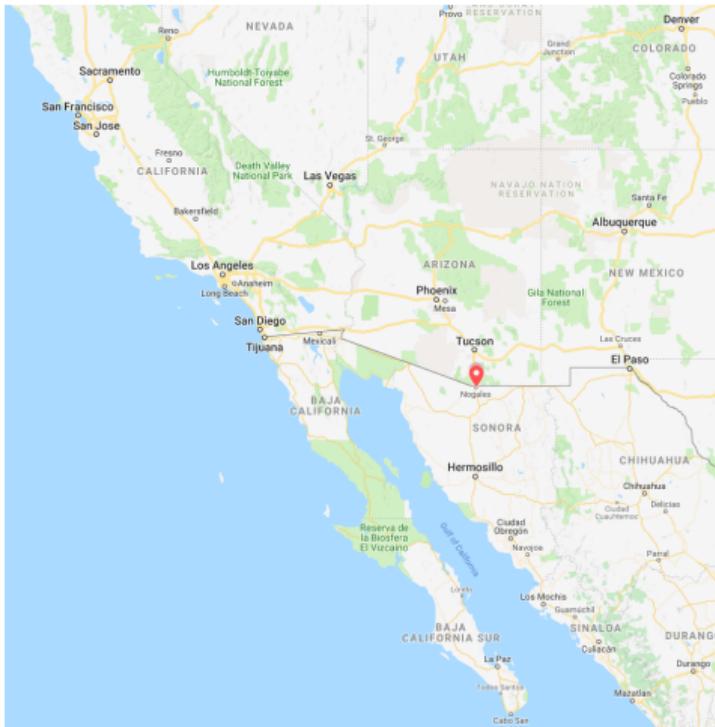


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- What's the explanation?



Example: Nogales, USA or Mexico



- Income p.c. in Mexico is roughly \$12,000, in United States it is about \$42,000
- This can be explained by many factors
- But there are fewer differences between Nogales on either side of US-MEX border
- Difference in Nogales is smaller (\$14,000 versus \$25,000), but still not small
- What's the explanation?

Example: *The 1619 Project*

- Explores the long-running effects of slavery throughout America history
- Essays include:
 - Alternative ideological origins of the American Revolution
 - The evolution of suburbanization and segregation in cities
 - And others...
- Related to “new history of capitalism”



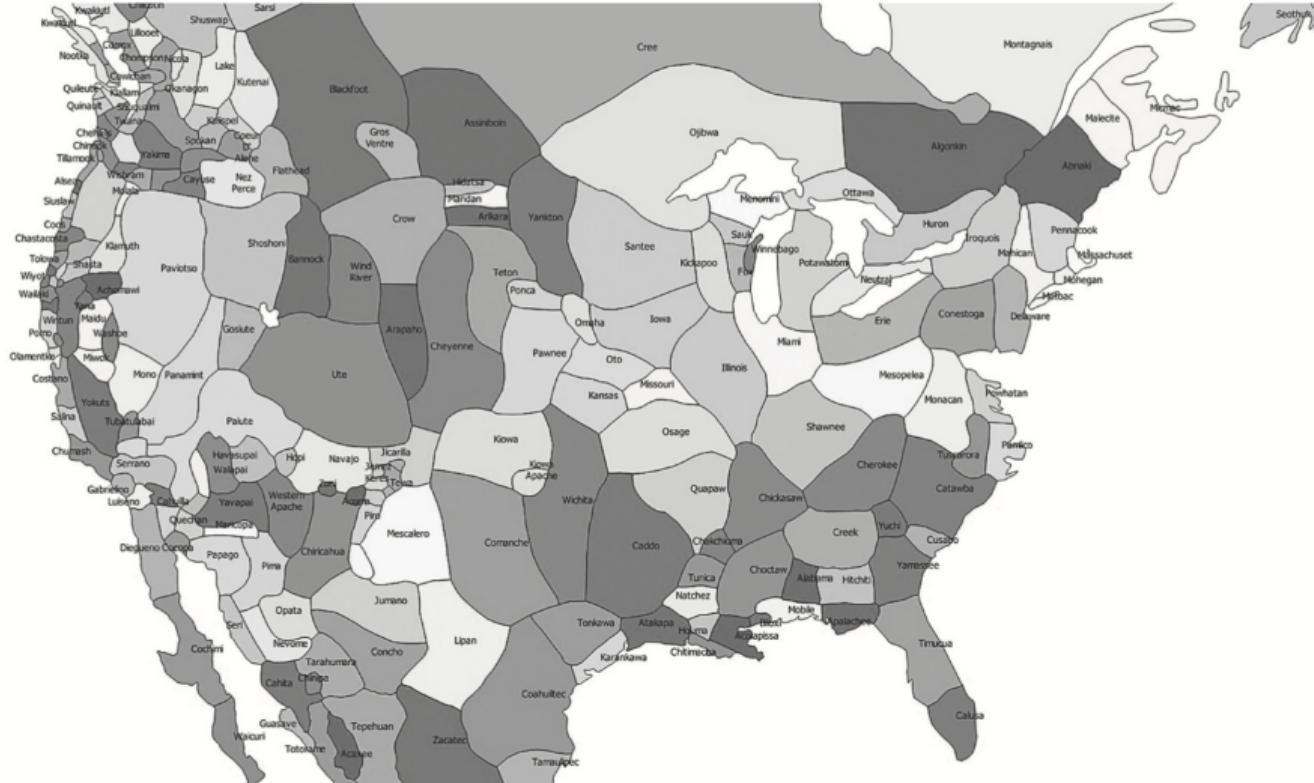
Deep roots

- This view emphasizes the importance of factors like institutions or cultural heritage and their persist effects over long stretches of time
- Very broadly: societies have traits with deep historical roots and these traits are fundamental (but not exclusive) determinants of behavior *today*
- The approach of this class will be different:
 1. Understand a particular historical time period (set of events, institutions, etc)
 2. Provide narrative that links these periods together (“growth” and “equality”)

Indigenous Economic Development

Against the “Pristine Myth”

- The standard account of early US development describes evolution from struggling European settlements to the world's most successful economy
- Focus on abundant land (scarce labor), technological adaptation, human capital, private property, rule of law, and an emphasis on individual liberty
- This account ignores people whose productive activities had shaped land, cultivated natural resources, and whose own institutions of property and governance already managed myriad and complex relationships



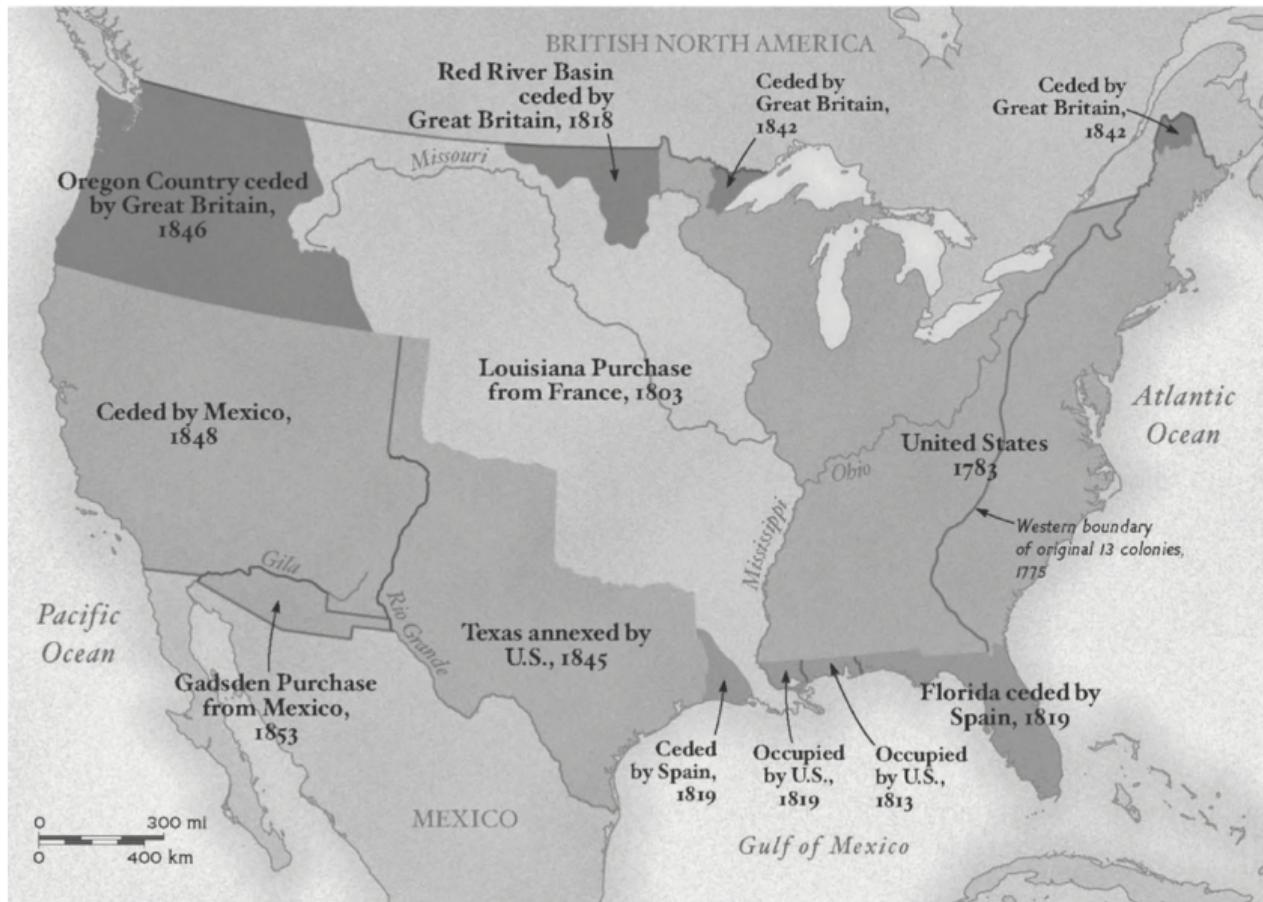
Indigenous nations in 1600

Against the “Pristine Myth”

- Land across North America was already heavily affected by human processes and modified to meet economic needs before arrival of Europeans
- Economic surplus from Indigenous production were exchanged continent-wide through vast system of trading networks
- Territorial boundaries were understood by Indigenous nations
 - Shared rights were well defined, and when ignored, war or violence could result
- Diversity of governance structures utilized: confederacies, house-structures, leagues, chieftainships, or extended kin-based groupings

The evolution of institutions and power

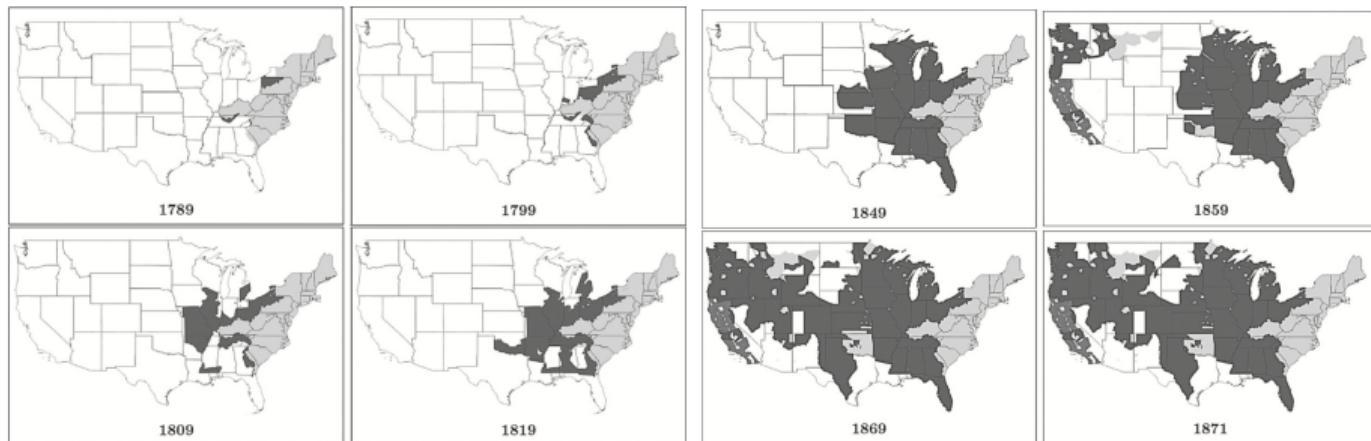
- US territorial expansion is often depicted through a series of land acquisitions that increased the formal size of the public domain



US acquisition of negotiation rights

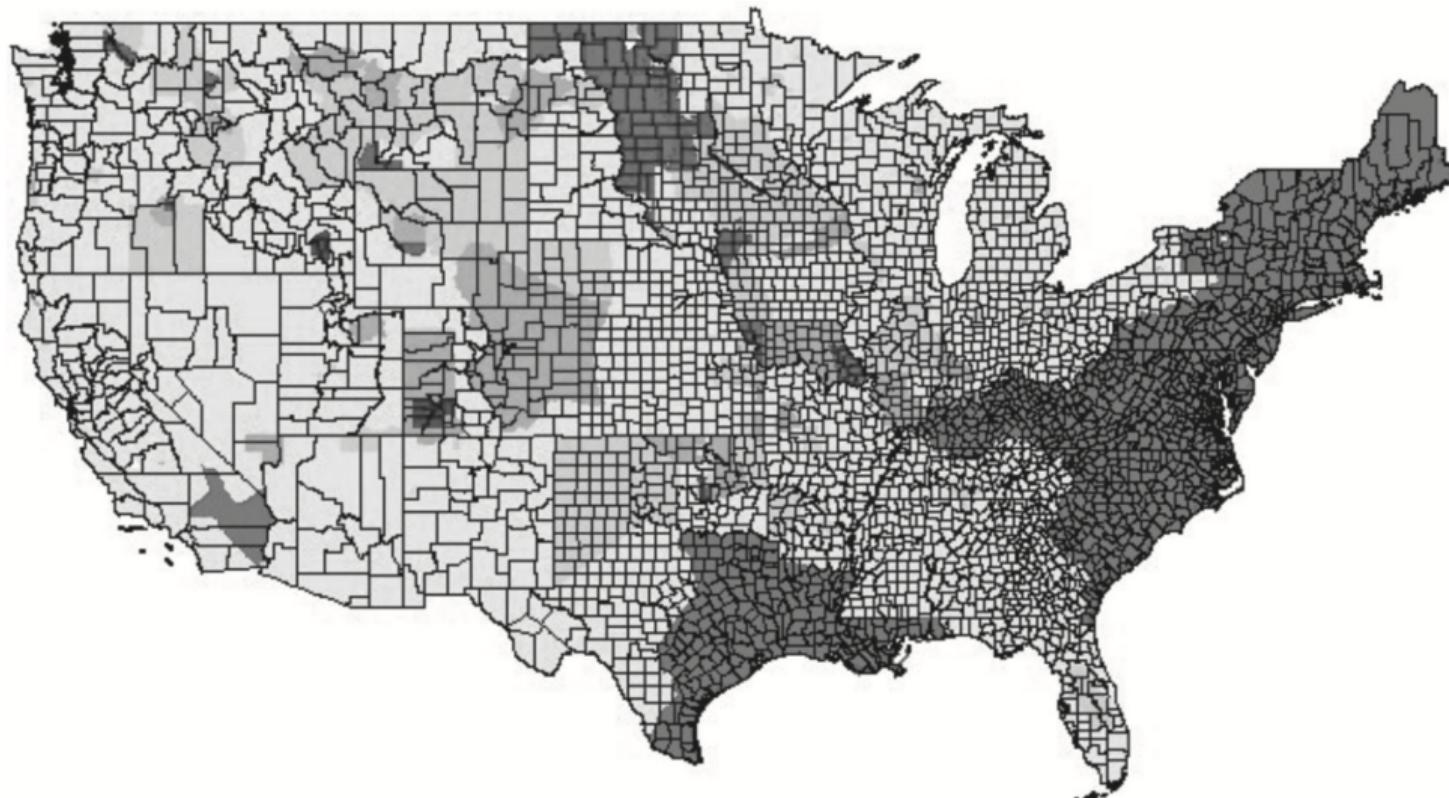
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- And renegotiation of initial treaty terms was not uncommon



Treaty re-contracting, 1783-1900

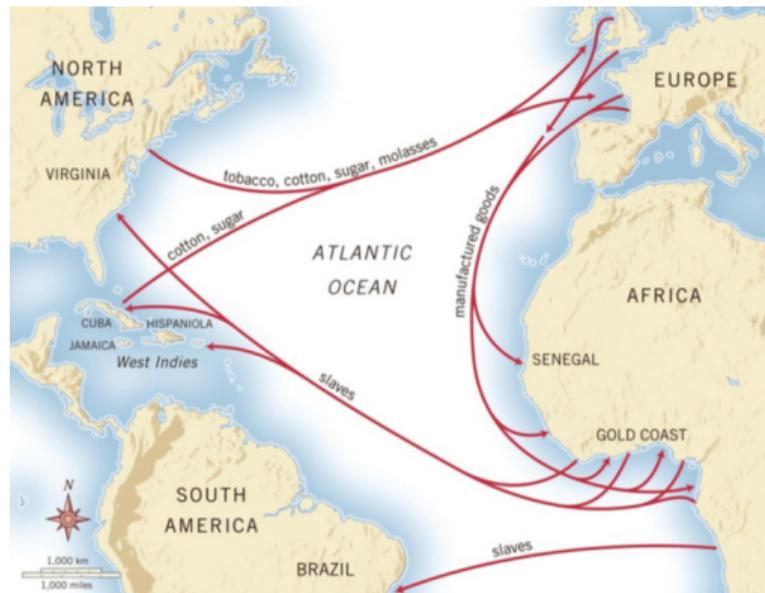
(lightest = 1, darkest = 5)

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- Leads to different view for conditions underlying colonial development
 - *Not* “good” institutions protecting private property to create level playing field
 - European institutions redistributed productive assets to facilitate western settlement

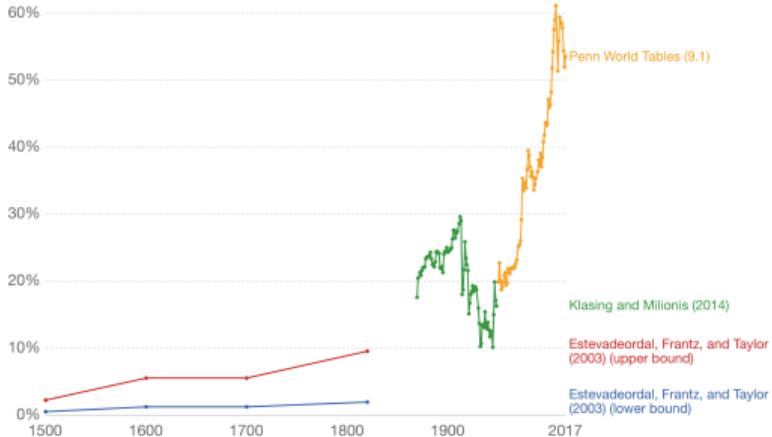
American Colonialism

The Columbian exchange



Globalization over 5 centuries

Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Source: Estevadeordal, Frantz, and Taylor (2003), Klasing and Milionis (2014), Feenstra et al. (2015) Penn World Tables 9.1. CC BY

- The discovery of the New World unleashed two forces:
 - (1) a disease epidemic killing \approx 95 percent of the indigenous population
 - (2) the globalization of food, the world economy, and paths to development

Mercantilism

- An approach to economic policymaking
- Mercantilists thought source of wealth from exports (“trade deficit”) and that international trade was largely zero-sum game
 - Motivated by desire to have specie (gold) flow to imperial core
 - Helped to finance wars and colonization
 - English approach to colonization was typically not direct government finance
 - Instead Crown licensed monopolies to colonize – monopoly rents were reward
- Navigation Acts highlight aspects of British mercantilism

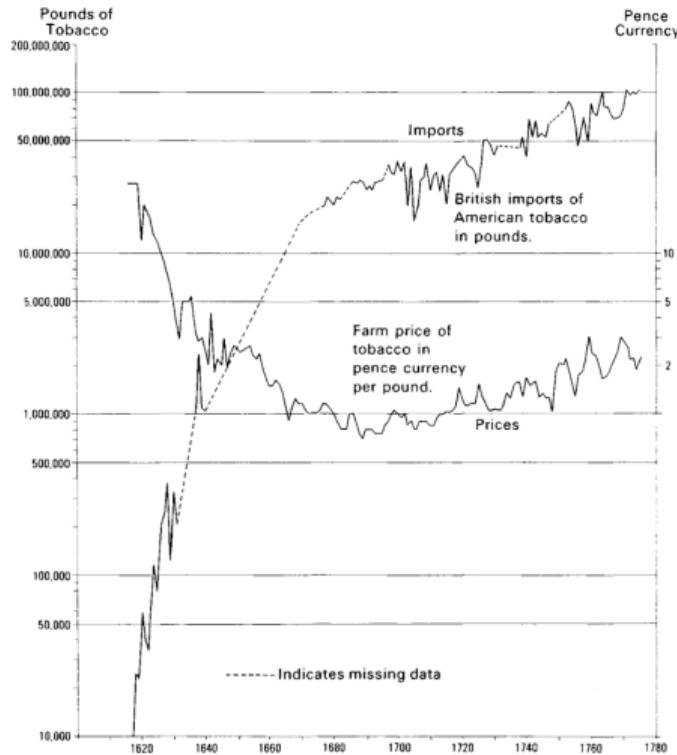
Mercantilism

- Navigation Acts one way to reward commercial enterprises for colonization
 - Increase English commerce at expense of Dutch (dominant world traders in 17thC)
 - Beginning in 1651, regulated various aspects of commerce between England, colonies, other countries, broadened in 1660, 1663, 1673, 1696, 1733, and 1760s
- Effects on Britain:
 - Reduce dependence on foreign markets, shipping technology transferable to Royal Navy, large profits for British Merchants, spurs financial development to finance trade
- Effects on Colonies:
 - Higher shipping costs, higher price of colonial goods, constraint on development

Colonial development

- Trade was central to development of colonies
 - Colonial economies 1/3 size of British economy, about 85% were employed in agriculture, trade with Britain as well as between various colonial regions
- Imports largely paid for by exporting cash crops, e.g., tobacco

Farm Prices and British Imports of Chesapeake Tobacco, 1616–1775



Tobacco trade

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- Imports largely paid for by exporting cash crops, e.g., tobacco
 - Regional diversity within colonial economy: New England, Mid-Atlantic focus on commercial services diversity within colonial economy versus South on agriculture
- A key constraint on growth was availability of labor to clear land, dig ditches, and build fences for purposes of further agricultural development
 - Hence the emergence of systems for the transatlantic transfer of labor