

Colonial Rule and Economic Freedom

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Abstract

This paper studies the legacy of European colonial rule for economic freedom in former colonies. I find that current levels of economic freedom in former colonies are directly related to the level of economic freedom of their colonizers. This association can be seen as early as the time of independence. I also find that additional European settlement from colonizers with high (low) economic freedom contributes to (detracts from) the overall economic freedom of their colonies. These results are robust to selection on unobservables and to controls for geography, climate, natural resource endowments, colonizer identity, settlement patterns, and precolonial characteristics. The difference in modern-day economic freedom associated with being colonized by the freest colonizer instead of the least free implies a predicted increase in modern-day per capita income of up to US\$10,000.

JEL codes: N40, O10, P14, P50

Keywords: colonial rule, economic freedom, institutions, persistence

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