

Response to Editor and Reviewers for PUCH-D-24-00316 ("Colonial Rule and Economic Freedom")

April 12, 2025

1 Summary

I once again thank the editor and the reviewers for their additional comments, concerns, and suggestions. In this document I detail my responses and the revisions that have been made to the paper. I appreciate the careful attention to detail, and I hope these additional edits are now satisfactory.

As before, all quoted sections of the revised text that appear below are indented. (Since the revised text is "copied-and-pasted" into this document, please note that footnotes may be numbered differently here than in the paper.) I have also included page numbers in **bold** indicating where the excerpt appears in the manuscript. These always refer to the LaTeX PDF file in the submission packet.

The order in which I address the comments is simply the order in which they appear in the editor's correspondence. I have included labeled subsections to better organize my response. Responses to the Editor begin on the next page. Responses to Reviewer 1 begin [here](#); and those to Reviewer 2 begin [here](#).

All editor and referee comments are reproduced in **bold** below. For Reviewer 1, his original comments are in ***bold and italic***, and his new comments are in **bold** only.

2 Editor

I am very pleased with your revisions. Your paper makes a valuable contribution to both the development and economic freedom literatures, and I appreciate the thoroughness with which you addressed both the referees' comments and mine. As Reviewer #1 noted in their comments to me, the

manuscript has “dramatically improved.” Their remaining suggestions are minor.

Response: I appreciate the kind words. I hope the additional edits detailed below are sufficient to bring the paper to publication standards.

1. One of their comments pertains to providing an earlier and clearer explanation of economic freedom. While the concept is well understood by both of us, it’s important to remember that much of the economics profession is unfamiliar with the Economic Freedom of the World (EFW) index. Currently, a clear definition of economic freedom appears only on page 9, where you describe it as “the degree to which economic activity is guided by voluntary transactions in the market, free from government constraints.” I suggest emphasizing this definition in the introduction—perhaps even in the opening paragraph—to ensure clarity for all readers. However I don’t think major changes are necessary to address this comment. Reviewer #1’s other suggestions are also helpful but, in my view, require only minor adjustments.

Response: Thank you for the suggestion. I have now included this definition as a footnote to the opening line of the paper, which reads:

Footnote 1: Economic freedom can be defined as the extent to which economic activity is directed by voluntary market transactions rather than government interference. (p. 2)

2. One of their comments pertains to providing an earlier and clearer explanation of economic freedom. While the concept is well understood by both of us, it’s important to remember that much of the economics profession is unfamiliar with the Economic Freedom of the World (EFW) index. Currently, a clear definition of economic freedom appears only on page 9, where you describe it as “the degree to which economic activity is guided by voluntary transactions in the market, free from government constraints.” I suggest emphasizing this definition in the introduction - perhaps even in the opening paragraph - to ensure clarity for all readers. However I don’t think major changes are necessary to address this comment. Reviewer #1’s other suggestions are also helpful but, in my view, require only minor adjustments.

3. Before resubmitting, please proofread the manuscript carefully for typos. I also have a few minor comments:

3.1) In Figure 1, Thailand is coded as a French colony, but it was never formally colonized. Is this classification due to France’s historical occupation of certain Thai territories?

Response: Thank for the question. Precisely, that is the reason why. There are two

features of The Colonial Dates Dataset (Becker, 2019) codes that require attention. First, it considers effective control over a territory, regardless of how the metropolitan power classifies it (e.g., colony, protectorate, territory). For instance, many of the former Spanish colonies were not *technically* colonies, but rather a direct part of the empire, as Vice-Royalties. Second, following the Correlates of War data, Becker (2019, p. 4) explains that “contemporary nation states are also regarded to have a colonial legacy if they absorbed a geopolitical unit that previously had a colonial dependency.” That is precisely the case of Thailand. Nevertheless, I should highlight that Thailand only appears in the most basic regressions, because Thailand is not the sample of Acemoglu et al. (2001, 2002), and thus the controls for pre-colonial population density and settler mortality are not available. To be sure, I added the following footnote to the main text:

Footnote 15: Importantly, as explained in Becker (2019, p. 4) “contemporary nation states are also regarded to have a colonial legacy if they absorbed a geopolitical unit that previously had a colonial dependency,” following the standard used in the Correlates of War project (Sarkees and Wayman, 2010). For example, this would be the case for Thailand. (p. 12)

3.2) The summary statistics table could be moved to the appendix.

Response: The summary statistics is now Table A1; also, following Referee # 1’s suggestion, former Table 2 (list of countries by colonizer) is now also in the appendix as Table A2. The remaining tables have been renumbered to accommodate these changes.

3.3) In Table 4, the distinction between the “Year First HIEL” variable and “First HIEL” is unclear—please clarify.

Response: Thank you for the attentive eye. *Year First HIEL* was supposed to be the year in which the *First HIEL* score was measured, but that is simply the year of colonization, which is how the variable is now labeled (*Year of Colonization*).

3.4) There are a few typos to review. For example, on page 19, “textitHIEL” appears as a formatting error.

Response: Thank you for spotting that. It has been fixed. More generally, the paper has been thoroughly checked by a professional copy editor to avoid any typos and grammatical errors.

3.5) Additionally, per Springer’s policy, online appendices should be designated as “Electronic supplementary material.”

Response: I have relabeled the Appendix as “Electronic Supplementary Material,” and all references to it throughout the text (pp. 17, 19, 21, 22, 23)

3 Reviewer 1

I thank the author for their thorough revisions to their manuscript, which has improved a lot compared to its original version. Below I provide my original comments in italic and directly below my response to the author's changes to the manuscript.

To summarize, I believe that the author has appropriately responded to nearly all my comments. I just have 4 remaining comments (for more details, see my responses below):

- Related to main comment 1:
 - The concept of economic freedom is still not appropriately defined in the introduction.
 - The empirical meaning of the EFW index is still not clear. I provide suggestions on how to improve the manuscript on this dimension.
- Related to main comment 3.b: the null results on the early and late hypotheses are important. Could the author interpret it a little more than what is done in the current version and briefly mention this interpretation in the introduction? So far it is unclear how it reconciles with the rest of the argument.
- Related to minor comment i: despite some improvement, the literature review should be tied more systematically to the argument of the manuscript.
- Related to minor comment iv: the results are interesting, but could the author include one sentence of interpretation? It is unclear why there are discrepancies

Also, Table 2 could go in the appendix (Figure 1 is sufficient).

Response: Done!

(One advice on responses to referees: whenever you quote from the revised manuscript, indicate the relevant page of the revised manuscript.)

Response: I have now included page numbers (referring to the LaTeX PDF manuscript of the packet) in all excerpts of the text quoted here. Thank you for the advice.

Main comments

[1] Conceptualize “economic freedom” theoretically and empirically.

The manuscript focuses on the concept of economic freedom. However, economic freedom is not properly conceptualized, either theoretically or empirically. What are the theoretical foundations of this concept? How does it differ from the “quality” of institutions as understood in the literature? Is it biased toward the functioning of a market economy? Beyond this conceptualization, an empirical exploration seems necessary. What exactly distinguishes the EFW index from other measures (rule of law, polity IV, legal origins, etc.)? For instance, one area of the index is precisely the “rule of law” . If the author wants to make a specific argument about economic freedom, then they need to document which dimensions of the EFW index are orthogonal to the standard measures of institutional quality. The regression analysis should also control for these alternative measures to highlight what distinguishes economic freedom.

Ok on the explanations in Section 3 and 4.5.2 (and in the introduction). Controlling for legal origin and unpacking the various areas of the EFW index is interesting and useful. These responses only partially address my comment, however.

First, I still find that the concept of economic freedom is not properly explained in the introduction—I note that the author properly defines it empirically in the Data section. The author assumes the reader knows what they have in mind, but I am still not clear on the definition of the concept. Could the author conceptualize this concept in a couple of sentences in the introduction? This would go a long way in clarifying the point of this manuscript.

Response: Thank you for the suggestion. I followed the Editor’s explicit suggestion of including the definition that appears in the data section in the opening paragraph of the manuscript. There is now a footnote at the end of the very first line defining economic freedom, which reads:

Footnote 1: Economic freedom can be defined as the extent to which economic activity is directed by voluntary market transactions rather than government interference. (p. 2)

Moreover, it is still not entirely clear what “exactly distinguishes the EFW index from other measures”. The most direct way of doing this is two-fold: showing the raw correlation between the EFW and other measures in the

Data section (through an appendix table) and using the residual variation in the EFW as a robustness check, eg, around 4.5.2 (specifically, regressing the EFW on these other measures and taking the residuals as the main outcome variable). I agree with the author that “the rule of law and other outcomes of legal origins are a fundamental part of economic freedom” but it would be useful to see what this index captures independent of these measures. Here, look at the alternative indices available in V-Dem.

Response: Thank you for the explicit suggestion on how to implement this robustness check. I have added a whole new section in the Electronic Supplementary Materials following your recommendations. First, in the data section, I mention the raw correlation between the EFW and these variables (highlighted in italic).

3 Data

3.1 Economic Freedom of the World Index

[...]

Accordingly, it covers a much broader set of institutions than those considered in previous work, such as [Acemoglu et al. \(2001, 2002\)](#), which focuses on the “institutions of property rights” and constraints on the executive. These measures are captured by Area 2 of the EFW index. In turn, the related work of [La Porta et al. \(1997, 1998, 1999\)](#) focuses on legal origins, which again is captured by Area 2 and is likely correlated with Area 5 (Regulation). *Table C5.A shows the historical relationship between economic freedom and other institutional measures rule of law, of constraints on the executive, electoral democracy, and liberal democracy. (p.10)*

To keep the formatting similar, I include this section as a fifth robustness check in Section 5.5, but I reference it where appropriate in the main text (in p. 25, in Section 4.5.2, as you suggested).

5 Robustness Checks

5.5 Controlling for Institutional Quality

3.1 Controlling for Institutional Quality

As a final robustness check, Section [C5](#) reestimates the main results from Table [1](#) with the components of economic freedom that are independent of other measures of institutions. Specifically, I regress the average economic freedom of the colonizer on four measures of institutional quality – rule of

law, judicial constraints on the executive, and indexes of electoral and liberal democracy – and then use the residuals of each of these regressions as the main explanatory variables. The results are largely robust to controlling for historical institutional quality, providing further evidence that there is a distinctive component of economic freedom that is orthogonal to these measures – see Table C5.B. (p. 25)

Finally, I detail the test in greater detail and provide the results in Section C5 of the Electronic Supplementary Materials (p. 53-54):

C.5 Controlling for Institutional Quality

In this section, I present robustness checks to distinguish the effect of economic freedom from other measures of institutional quality. Thus, I aim to show that there is a distinctive component of economic freedom that is not explained by contemporaneous measures of institutions.

As benchmarks, I use four measures of institutions, all sourced from V-Dem (Coppedge et al., 2019): Rule of Law, Judicial Constraints on the Executive, Electoral Democracy, and Liberal Democracy. Table C5.A show the pairwise correlation between the HIEL and each of these four other variables.

Table C5.A: Pairwise Correlation with Economic Freedom (HIEL) of Colonizer

<i>Variable:</i>	Rule of Law	Jud. Constraints on Exec.	Electoral Democracy	Liberal Democracy
V-Dem code	(v2x_rule)	(v2x_jucon)	(v2x_polyarchy)	(v2x_libdem)
Correlation	0.8453	0.8882	0.5206	0.5935

To capture the components of economic freedom that are independent of these institutions, I regress the colonizer’s average economic freedom (HIEL) score on each of the aforementioned measures, and then use the residuals as the main explanatory variables for modern day economic freedom. This “residualized” measure captures the components of economic freedom that are orthogonal to the alternative measures of institutional quality. The results are reported in Table C5.B.

The results are largely robust to this method, sometimes at even greater magnitudes, but somewhat less precisely estimated. A minor exception is when I use the residuals from judicial constraints on the executive, for which two out of the four specifications become nonsignificant.

Table C5.B: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019): Accounting for Institutional Quality

Dependent Variable:	Average Economic Freedom (2000-2019)			
<i>Explanatory Variable:</i>	<i>Economic Freedom orthogonal to the Rule of Law</i>			
Panel A:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	1.238*** (0.113)	1.921*** (0.503)	2.384*** (0.368)	2.308 (1.260)
R^2	0.132	0.523	0.819	0.839
<i>Explanatory Variable:</i>	<i>Economic Freedom orthogonal to Judicial Constraints of the Executive</i>			
Panel B:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.786* (0.349)	0.909 (0.768)	1.926* (0.886)	1.827 (1.110)
R^2	0.039	0.403	0.803	0.831
<i>Explanatory Variable:</i>	<i>Economic Freedom orthogonal to Electoral Democracy (Polyarchy)</i>			
Panel C:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.881*** (0.0857)	0.983*** (0.217)	1.519** (0.420)	1.656** (0.534)
R^2	0.170	0.507	0.808	0.841
<i>Explanatory Variable:</i>	<i>Economic Freedom orthogonal to Liberal Democracy</i>			
Panel D:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.899*** (0.119)	1.081*** (0.230)	1.510** (0.435)	1.626* (0.603)
R^2	0.158	0.512	0.808	0.840
Controls				
Continent Dummies	No	Yes	Yes	Yes
Basic Geographical	No	Yes	Yes	Yes
Ruggedness	No	No	Yes	Yes
Pop Density in 1500	No	No	Yes	Yes
Settler Mortality	No	No	Yes	Yes
Humidity/Temperature	No	No	Yes	Yes
Climate/Social	No	No	Yes	Yes
Natural Resources	No	No	Yes	Yes
Legal Origins	No	No	No	Yes
Colonizer FE	No	No	Yes	Yes
N	87	70	53	53

Notes: Standard errors clustered at the colonizer level in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All panels average the dependent variable for the 2000-2019 period. In each panel, the explanatory variable is obtained by regressing the average HIEL of the colonizer on the respective measure of institutional quality, and using the residuals. Controls report the variables included in each column, identical across panels.

[2] What is the argument?

Even if the results were valid, what is the author’s argument? First, why do we see a positive correlation between the economic freedom of colonizers during colonization and that of colonized countries today? It is still not clear to me why this should be the case. Second, the rationale for the “positive” effect of the length of colonization is even less clear. Third, what is the relationship between the two mechanisms? The analysis in Columns 5–6 of Table B3 is interesting, but should be explored further. Overall, while the author rejects possible explanations through various empirical exercises, I am still unclear about what the main argument is. Also, in addition to a better theorization of the argument, it would be very helpful to have at least a some institutional analysis with some case studies (or developed examples).

I thank the author for their changes to the manuscript. The argument is much clearer now, especially the introduction – modulo the issue of defining the concept of economic freedom (see above). I particularly appreciate this sentence, which highlights the contribution of the analysis relative to what we already knew: “Moreover, my results imply that by focusing too narrowly on legal systems (La Porta et al., 1997, 1998, 2008) and “the institutions of property rights” (Acemoglu et al., 2001, 2002), this literature provides an incomplete account of institutional transmission during colonial history. Instead, I emphasize a broader set of institutions – those of economic freedom” . The analysis in Section 4.3 on direct vs indirect rule is also very interesting and useful. The alternative “multiplicative” hypothesis relative to the “additive” one is also quite insightful. The examples are also useful. Overall the author has appropriately addressed this comment.

Response: Thank you for the thorough feedback.

[3] Empirical analysis

[3.a] Is the author making a causal claim? This should be clarified. If so, then there should be an argument about the empirical design at hand. But even if not – the claim is only correlational – there are many potential confounders of the relationship between current EWF and colonizer’s EWF. While the author controls for a few observables in the analysis, these should be included altogether and not separately. These should also include pre- colonization characteristics throughout, such as the pre-colonization population density (along with a set of geographic characteristics).

I agree with the changes here, with the inclusion of the controls together. The results are looking much better now. I particularly like the specifications including colonizer FE. The sensitivity checks made in Appendix C are also

impressive and suggest that the results are quite robust. I also agree with the revised conclusion on the causal interpretation.

Response: Glad to hear the are satisfactory.

[3.b] In addition, it is not entirely clear to me why the author focuses on the average EFW of the colonizer during colonization. Arguably, colonial institutions exhibit path dependence, so they should be set at the beginning of the colonization period. Could the author use this variable instead? This would also have the advantage of allowing the use of colonizer FE in these regressions to remove potential confounders introduced by a particular colonizer (in the spirit of Table 4), in order to discard potential confounders that are brought by a given colonizer.

I like the revisions distinguishing the “early” vs the “late” hypothesis (vs Bauer). These distinctions are quite insightful. The results are a little surprising but suggest that colonial institutions were continuously shaped by colonizers.

This is an important result. Could the author interpret it a little more than in the current version and briefly mention this interpretation in the introduction? So far it is unclear how it reconciles with the rest of the argument.

Response: Thank you for the opportunity to clarify. I have made two additions to the manuscript to better interpret those results. First, as requested, in the introduction, which now reads (additions highlighted in italic):

Using data on 107 former European colonies, I study the colonial determinants of modern-day economic freedom, based on the average *Economic Freedom of the World* (EFW) Index score (Gwartney et al., 2021) for the 2000-2019 period. First, I investigate whether colonizers transmit their levels of economic freedom to their colonies. Using a historical index of economic freedom (Prados De La Escosura, 2016) covering the colonial period, I show that countries colonized by European nations with greater economic freedom at the time of colonization have greater economic freedom today. Each standard deviation increase in a colonizer’s economic freedom score corresponds to as much as a 0.8 standard deviation increase in its colony’s score. These results are robust to selection on unobservables and controls for geography, climate, natural resource endowments, colonizer identity, precolonial characteristics, and prior mechanisms of institutional transmission highlighted in the development literature (Acemoglu et al., 2001, 2002; Nunn and Puga, 2012; Easterly and Levine, 2016). (pp. 2-3)

I also analyze the role of the timing and persistence of institutional transmission. First, I show that the level of economic freedom of the colonizer at the very beginning of the colonization period or at independence is insuffi-

cient to explain modern-day economic freedom. Instead, specifications using the average economic freedom for the entire colonial tenure have much greater explanatory power, suggesting that modern-day institutions are built over long periods. Additionally, by studying the evolution of economic freedom in a panel of former colonies from 1950 to 2019, I show that this relationship seems to be strong and does not fade over time. The evidence favors the persistence of historical levels of economic freedom inherited from colonizers.
(p. 3)

Then, in Section 4.2.1, I provide an illustrative example of why measuring institutions at a single point in time could lead to errors (again, additions in italic)

Next, column 3 tests the late hypothesis. Here, I control for the country’s independence year, in addition to the baseline controls, and include colonizer fixed effects. The results remain nonsignificant. These findings suggest that economic freedom at a single point in time does not predict future economic freedom.

Indeed, colonial institutions often changed drastically. Consider Brazil. From 1548 onward, Portugal explicitly prohibited communications from one captaincy to another (Ziravello, 1999); a 1733 law prohibited the opening of roads connecting them (Gomes, 2014, p. 115); going back at least to 1649 the General Company of Commerce held a monopoly over Brazilian trade (Coaracy, 1965, p. 150-1); most inland cities hardly had any currency with which to trade (Simonsen, 2005, p. 285; Calógeras, 1938, p.49); and in 1785, Queen Maria I prohibited the establishment of industries and manufactures in the colony. After 1808, however, Prince Dom João VI lifted Queen Maria’s prohibition, opened the Brazilian ports of trade to all “friendly nations,” and established property rights for both Portuguese settlers and foreigners.¹ As this case illustrates, measures of economic freedom at a single point in time can introduce substantial measurement error.² The more parsimonious specification using the colonizer’s *average* economic freedom in the main results appears to better capture the underlying mechanism. (pp. 16-7)

Other comments

[i] The literature review is interesting but should be tied more systematically to the argument of the manuscript. Moreover, it should highlight the specific contribution relative to the AJR and La Porta literature. It wasn’t very clear.

¹See, for example, Wilcken (2005, p.222), Bethell (2009; 2018, p. 58), das Neves Alves (2005).

²For other examples of important institutional changes in which timing is quite relevant, see Banerjee and Iyer (2005) for India, and Garfias and Sellars (2024) for Mexico.

The literature review has improved but some parts are still quite disconnected with the argument of the manuscript e.g. the first half of 2.1, the first half of 2.2, and the first half of 2.3.

Response: Thank you for the feedback. I have made several edits to summarize less critical points (especially in 2.1) and connect the literature to my overall argument at the excerpts you mentioned. It now reads:

2.1 Geography

First, many scholars have argued for the importance of geography for development. To a large extent, geography shapes agricultural productivity, transportation costs, and access to trade routes, rivers, and seas (e.g., [Ashraf and Galor, 2011](#); [Nunn and Puga, 2012](#)).³

A prominent theory relating development to geography is that of [Diamond \(1999\)](#), who emphasize domesticable species and the East-West orientation of continents as crucial determinants of development.⁴ Similarly, [Sachs \(2001, 2003\)](#) argues that tropical environments face slow development due to lower agricultural productivity and higher mortality rates than temperate areas.⁵ *I highlight these previous studies primarily because the literature on the determinants of economic freedom has drawn on these theories to explain variations in institutions. (pp. 5-6)*

In the spirit of Sachs, [Nikolaev and Salahodjaev \(2017\)](#) shows that higher pathogen prevalence is associated with lower economic freedom. They argue this is because collectivist values that arise in areas with high prevalence of infectious diseases — the parasite-stress theory. [Gohmann \(2018\)](#) develops a variant hypothesis of [Diamond \(1999\)](#)’s theory, in which societies adopting agriculture earlier began institutional development sooner, providing more opportunities for institutional evolution. This, in turn, fostered institutions better suited to greater economic freedom. While he finds that the two biogeographical factors relate to specific components of the EFW index (see Section 3.1), no significant link emerges with the overall economic freedom index. [Murphy \(2021\)](#) finds that larger countries (in area) tend to have less economic freedom.⁶ Following a similar intuition, [Fors \(2014\)](#) argues that

³Also see the discussions in [Acemoglu et al. \(2001, 2002\)](#).

⁴Diamond’s theory identifies three biogeographic factors: (1) the availability of crops for agriculture, (2) domesticable large animals useful for food, transport, and farming, and (3) a continental land-mass oriented mostly along the East-West relative to North-South axis, which facilitated migration and technology transfers across regions with similar climates. For empirical evidence supporting the first two factors, see [Olsson and Hibbs Jr \(2005\)](#) and [Bleaney and Dimico \(2011\)](#); for the technology-transfer component, see [Pavlik and Young \(2019\)](#).

⁵Sachs also underscores Diamond’s (1999) technology-transmission argument, noting that technologies suited to temperate climates often fail in tropical environments.

⁶This builds on [Alesina \(2003\)](#), who argue that countries with large *populations* are more heterogeneous and less cohesive, complicating the creation of institutions that serve the common interest or provide public goods. [Murphy \(2021\)](#) instead focuses on *geographical* size, arguing that population size

islands exhibit greater social cohesion and presents evidence that their economic institutions are better. *I show that economic freedom of colonies is consistently determined by the level of economic freedom of colonizers, even after controlling for several geographical factors.*⁷ (p. 6)

2.2 Legal Origins and the Identity of the Colonizer

Another branch of this literature focuses on the qualities of specific institutions.

Hall and Jones (1999) posit that institutions with greater “Western influence” generate greater output per capita in modern times. However, Western influence is a rather broad concept. Indeed, Europeans implemented various types of institutions. The Spaniards implemented the *encomienda* system, granting governing powers over land and people to the ruling *encomendero* (Lockhart and Schwartz, 1983); the French exported a centralized rational bureaucracy, sending emissaries and public officials to act as representatives of the French government and providers of public services (Fieldhouse, 1982); the British established large settlements in the “Neo-Europes,” and while they primarily relied on indirect rule elsewhere — with India serving as a mixed case with both direct and indirect rule — they had the English law, along with the English language, served as a “unique foundation” that united the empire (Churchill, 1956, p. 10). In turn, these institutions shaped modern-day outcomes. For instance, Grier (1999) finds that former British colonies have larger incomes today relative to former French and Spanish colonies.⁸ *I contribute to this literature by showing that the modern-day economic institutions of former colonies are directly related to the institutions that their colonizers enjoyed at home.* (pp. 6-7)

More closely related to this argument is the work of La Porta et al. (1997, 1998, 1999, 2008), who highlight the role of legal systems in creating widely different incentives for economic development. Crucially, legal systems are one of the most important institutions to be transmitted from colonizers to their colonies. Their findings show that English common law systems provide greater protection of investors and their property than do systems of French civil law origins. Since both outcomes are fundamental parts of economic freedom, scholars in this literature have considered the role of legal origins as an important determinant. Nattinger and Hall (2012) show that US states that were first settled by civil law countries have less economic freedom today.⁹ In a similar vein, Callais (2021) attributes poor economic outcomes in

may result from geographical characteristics.

⁷Incidentally, I find strong support for Fors’s (2014) argument; in nearly all specifications in which a dummy for islands is included, it correlates strongly with greater economic freedom.

⁸She also finds that countries colonized for longer have greater income today. This hypothesis was revisited by Feyrer and Sacerdote (2009) for a sample of islands, finding similar evidence.

⁹Alabama, Arizona, Arkansas, California, Florida, Louisiana, Mississippi, Missouri, New Mexico, and Texas were first colonized by either France, Mexico, or Spain and thus originally adopted a civil law legal system.

Louisiana to its French legal origins. *I add to this literature by showing that colonizers transmit a much broader set of institutions, highlighting that the transmission of legal systems alone cannot explain variation in contemporary economic freedom.* (p. 7)

3.2 European Settlement

The largest strand of this literature focuses on European settlement as the key source of variation in colonial development. Although the studies vary in highlighting institutions or human capital as the primary relevant endowment brought by Europeans, they agree that the costs and benefits of different settlement strategies are conditioned by geographical and historical factors (Easterly and Levine, 2016). The first of these studies, Engerman and Sokoloff (1997), conditions Western influence on initial factor endowments. For instance, where slave-labor agriculture was feasible, inequality was high because institutions were designed for resource extraction by small colonial elites. (p. 8)

Likewise, Acemoglu et al. (2001) contend that the institutions established during colonization were shaped less by colonizer identity and more by the costs and benefits of European settlement. In areas with harsh disease environments (Acemoglu et al., 2001)¹⁰ or in densely populated regions where land for settlement was costly (Acemoglu et al., 2002), colonizers had little incentive to settle. Instead, they found it more profitable to establish “extractive” institutions that relied on forced labor and enslavement to produce goods for international markets. Conversely, in areas suitable for settlement, Europeans came in large numbers. They brought a set of “inclusive” institutions, similar to those found at home,¹¹ which promoted property rights and physical capital investments, fostering long-term development (Acemoglu et al., 2001, 2002). (p. 8)

A potential limitation of these contributions is their implicit view of inclusive institutions as monotonically increasing in additional settlement (under direct rule), without accounting for the quality of institutions at home. Thus, at least implicitly, the view assumes that additional settlement from countries with relatively non-inclusive institutions will contribute to the same extent as that from inclusive countries – regardless of the colonizer, more-European institutions are always an improvement. A key contribution of this paper is to account for the inclusiveness of the home institutions of settlers, showing

¹⁰Bennett et al. (2017) diverge from Acemoglu et al. (2001) by contending that colonizer identity and settlement conditions should be treated as complements rather than substitutes. They also posit that geography exerts both direct and indirect effects on postcolonial development paths.

¹¹Several papers also complement this mechanism of institutional transmission associated with migration flows (e.g. Putterman and Weil, 2010; Spolaore and Wacziarg, 2013; Giuliano and Nunn, 2018). Closer to this paper, Pavlik and Young (2021) find that countries whose populations have greater historical experience with representative assemblies have stronger property rights, rule of law, and constraints on the executive – all of which are important elements of economic freedom.

that additional settlement from colonizers with high (low) economic freedom increases (reduces) overall economic freedom of their colonies. (pp. 8-9)

In turn, [Easterly and Levine \(2016\)](#) support the notion that former colonies with greater prevalence of European settlers have higher income today but emphasize the transmission of human capital as the key mechanism, following [Glaeser et al. \(2004\)](#). Their findings indicate that early settlement during the colonial period is more influential than the modern-day prevalence of European descendants. They argue that this aligns with the slow development of educational systems and the gradual transmission of human capital, and they downplay the direct role of Europeans per se ([Easterly and Levine, 2016](#)). *My results are broadly in line with their idea but highlight that settlement is not the only relevant mechanism: Institutional transmission occurs even under strictly indirect rule (with zero settlement). (p. 8)*

[iii] I like Figure B1 but it is difficult to understand which units matter more from just the map. I would suggest to also showing a table that provides the relative weight (as a share in percent) of each observation in generating the overall estimate. Also, provide the shares of each continent, so as to support the claim that “[t]his also dissuades concerns that the lack of significance in specifications without Africa may be caused by colonies in that continent driving the overall results” (p. 18). The new appendix C solves this issue and is quite useful.

The new appendix C solves this issue and is quite useful.

Response: Thank you! Glad to hear it.

[iv] It could be interesting to see in robustness population-weighted regressions.

Ok for the results. But could the author include one sentence of interpretation? It is unclear why there are discrepancies.

Response: I have included the following sentence (in italic) at the end of the paragraph:

5.4 Population-Weighted Regression

Table [C4](#) reestimates the main results from Table [1](#), weighting colonies by their population at independence. This approach, while subjective, assigns greater relevance to more populous colonies, offering an alternative perspective. In this case, columns 1 and 4 remain highly significant, whereas columns 2 and 3 do not. *This suggests that at least some of the results are partially driven by colonies with smaller populations, which lose its importance in the regression with the inclusion of population weights.*

4 Reviewer 2

The author should cross-check the English exposition before it is published.

Response: I thank the reviewer's feedback. The paper has been thoroughly checked by a professional copy editor recommended by the Editor to avoid any typos and grammatical errors. Respo

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