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 today. I find that current levels of economic freedom in former colonies is directly related to the level of economic freedom of their colonizers. This association can be seen as early as the time of independence, and persists until today. I also find that additional European settlement from colonizers with high (low) economic freedom is incremental (detrimental) to overall economic freedom of their colonies. These results are robust to selection on unobservables, and controls for geography, climate, natural resource endowments, colonizer identity, settlement patterns, and pre-colonial 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.

1 Introduction

Economic freedom is a strong determinant of economic growth and several other measures of development (De Haan et al., 2006; Hall and Lawson, 2014; Lawson et al., 2024). Given such relevance for positive developmental outcomes, a large literature has emerged to understand why some countries have more economic freedom than others (Lawson et al., 2020). Although present-day institutions evolve through long, path-dependent processes (North, 1991; Spolaore and Wacziarg, 2013), relatively few studies have thoroughly examined the historical roots of economic freedom.

In this paper, I study the legacy of European colonial rule for economic freedom in former colonies today. Former European colonies inherited numerous institutions established during colonization, notably their legal system, tax collection structures, and land tenure systems (e.g. Banerjee and Iyer, 2005; Levine et al., 2021; La Porta et al., 1998; Garfias and Sellars, 2021). Moreover, the characteristics of colonial rule (e.g. direct vs. indirect rule, the identity of the colonizer) presumably affected which institutions were implemented, which in turn shaped current levels of income (e.g. Grier, 1999; Acemoglu et al., 2001).

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 (Gwartney et al., 2021) score 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 inherited higher levels of 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. By studying the evolution of economic freedom in a panel of former colonies from 1950 to 2019, I also 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 their colonizers.

Further, I show that European settlement seems to be an important (but not the only) transmission mechanism that mediates the transmission of economic freedom. The findings suggest two important implications, which directly relate to the literature on the colonial origins of development. First, it suggests that additional settlers implied by direct rule create "inclusive" institutions (as in Acemoglu et al., 2001, 2002; Easterly and Levine, 2016) *in proportion to* the "inclusiveness" of institutions in their countries of origin. That is, additional European settlement from colonizers with high (low) economic freedom increases (reduces) overall economic freedom of their colonies. However, it also highlights that settlement is not the only relevant mechanism: the transmission of economic freedom from colonizers to their colonies occurs even under strictly indirect rule (implied by zero settlement).

The main results are robust to selection on unobservables and controls for geography, climate, natural resource endowments, colonizer identity, pre-colonial 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).

This paper primarily contributes to the literature on the determinants of economic freedom (Lawson et al., 2020). While this literature identifies several key determinants of economic freedom, it mostly overlooks long-run factors, especially those related to colonial rule. However, my results suggest long-run determinants – notably the level of economic freedom of their colonizer – are quite persistent even after several decades following independence and can account for a large share of the variation in modern-day economic freedom.

I also extend the literature on colonial origins of comparative development in two key directions. First, I argue that the set of institutions imported during colonial times depended not only on settlement conditions (Acemoglu et al., 2001, 2002) and factor endowments (Engerman and Sokoloff, 1997), but also on the quality of institutions of the colonizer. While several studies highlight the superiority of common law (La Porta et al.,

1997, 1998, 2008), and British rule over its French and Spanish counterparts (Grier, 1999), my identification strategy also allows leveraging variation in colonizer institutions over time. As a result, even after accounting for legal systems and colonizer identity, colonies with longer exposure to colonizers with higher economic freedom are freer today.

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 — which include sound money, regulation, and international trade freedom. In fact, the strongest result from the sub-indexes of economic freedom shows that former colonies of freer European colonizers are significantly more open to international trade, which is not accounted by their legal systems, the identity of their colonizer, nor by geographical variables.

These results also yield important implications in terms of their economic significance, especially given the robust association between economic freedom and economic growth (Lawson et al., 2024). The difference in modern-day economic freedom associated with being colonized by the freest colonizer (the Netherlands) instead of the least free (Portugal), implies a predicted increase in modern-day per capita income of up to $10,000.[1]

This article proceeds as follows. Section 2 reviews the literature on determinants of economic freedom and links it to the literature on the colonial origins of modern-day institutions. Section 3 introduces the data. Section 4 presents the econometric results and the following section discusses their robustness. The last section concludes.

2 Literature Review

Despite a large literature investigating the determinants of economic freedom (Lawson et al., 2020), only a few studies examine historical or geographical factors as sources of today's

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[1]Considering the mean effect of the meta-analysis by Lawson et al. (2024) – see the discussion at the end of Section 4.1.

economic freedom. In contrast, there is a large literature on the historical origins of development that analyzes the impact of geography and the transmission of institutions and human capital throughout the colonial period, while overlooking the role of economic freedom specifically. Thus, there are large potential gains to be made by connecting these two literatures, which can be divided into three, often interconnected, main branches.

2.1 Geography

First, many scholars who 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).[2]

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.[3] Similarly, Sachs (2001, 2003) argue that tropical environments face hindered development due to lower agricultural productivity and higher mortality rates than temperate areas. This is attributed to differences in soil quality, water access, and the prevalence of diseases and pests. Sachs also underscores Diamond (1999)'s technology transmission argument, noting that technologies suited to temperate climates often fail in tropical environments.

A few studies on economic freedom determinants draw on these theories to explain variations in institutions. Building on Sachs's focus on disease prevalence, Nikolaev and Salahodjaev (2017) test the parasite-stress theory, which argues that infectious diseases influence personality traits and cultural values. The theory suggests that higher pathogen prevalence fosters collectivist values, which undermine economic freedom through institutional development, and is supported by their empirical evidence.

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

[3]Diamond'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 landmass oriented mostly in East-West relative to North-South axes, 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).

Gohmann (2018) develops a variant hypothesis of Diamond (1999)'s aforementioned theory, in which these two factors are associated with contemporary levels of economic freedom. Gohmann argues that 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 (see Section 3.1), no significant link emerges with the overall economic freedom index.

In addition to the previous papers, Murphy (2021) considers the absolute size of a country, and finds that larger countries (in area) tend to have less economic freedom.[4] Following a similar intuition, Fors (2014) argues that islands exhibit greater social cohesion and presents evidence supporting their better economic institutions.

2.2 Identity of Colonizer and Legal Origins

Another branch of this literature focuses on the qualities of specific institutions. Hall and Jones (1999) posits that institutions with greater "Western influence' generate higher levels of output per capita in modern times. However, "Western influence" is a rather broad concept. Indeed, European implemented various types of institutions, with varying outcomes. For instance, Grier (1999) finds that former British colonies have larger incomes today relative to former French and Spanish colonies.[5]

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 French government and providers of public services (Fieldhouse, 1982); the British established large settlements in the "Neo-Europes," and while they

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[4]This 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 focus on *geographical* size, arguing that population size may result from geographical characteristics.

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

primarily relied on indirect rule elsewhere – with India serving as a mixed case of both direct and indirect rule – they had the English law as a "unique foundation" that united the Empire, along with the English language (Churchill, 1956, p. 10).

In this vein, La Porta et al. (1997, 1998, 1999, 2008) highlight the role of legal systems in creating widely different incentives for economic development. Their findings show that English common law systems provide greater protection of investors and their property than do systems of French civil law origins. Crucially, legal systems are one of the most important institutions to be transmitted from colonizers to their colonies.

With respect to economic freedom specifically, Nattinger and Hall (2012) show that U.S. states that were first settled by civil law countries have less economic freedom today.[6] In a similar vein, Callais (2021) attributes poor economic outcomes in Louisiana to its French legal origins.

2.3 European Settlement

The larger strand of this literature focuses on European settlement as the key source of variation in colonial development. Although they 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 will be conditioned by geographical and historical factors (Easterly and Levine, 2016). First in this literature, Engerman and Sokoloff (1997) condition 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.

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),[7]

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[6]Alabama, 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.

[7]Bennett 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

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 to international markets.

Conversely, in areas suitable for settlement, Europeans came at large. As part of their baggage, they brought a set of "inclusive" institutions, similar to those found at home,[8] which promoted property rights and physical capital investments, fostering long-term development (Acemoglu et al., 2001, 2002).

A potential limitation of these contributions is their implicit view of "inclusive" institutions as monotonically increasing in additional settlement implied by direct rule, without accounting for the quality of institutions at home. Thus, at least implicitly, it assumes that additional settlement from countries with relatively noninclusive institutions will contribute to the same extent as those from inclusive countries – regardless of the colonizer, more "European" institutions are always an improvement.

In turn, Easterly and Levine (2016) support the notion that former colonies with greater prevalence of European settlers have greater levels of 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, while downplaying the direct role of Europeans per se (Easterly and Levine, 2016)

The present study bridges these the economic development and economic freedom literatures by examining the link between colonial rule and contemporary economic freedom. While there is substantial evidence that colonies inherit institutions from their colonial period, it remains unclear whether this extends to the broader set of institutions

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geography exerts both direct and indirect effects on post-colonial development paths.

[8]Several 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 greater constraints of the executive – all of which are important elements of economic freedom.

underlying economic freedom. As the results detail below, even after controlling for initial geographical characteristics, colonizer identity, legal origins, and settlement patterns, the colonizer's economic freedom significantly influences the economic freedom of their colonies.

3 Data

3.1 Economic Freedom of the World Index

Estimates of economic freedom are derived from two sources. Modern-day economic freedom for colonies comes from the Economic Freedom of the World (EFW) Index (Gwartney et al., 2021). Conceptually, the EFW measures the degree to which economic activity is guided by voluntary transactions in the market, free from government constraints. It consists of five equally weighted areas: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally, and Regulation.[9]

As such, it covers a much broader set of institutions than those considered in previous work, such as Acemoglu et al. (2001, 2002), who focus on the "institutions of property rights" and constraints on the executive. These measures would be captured by Area 2 of the EFW. In turn, the related work of La Porta et al. (1997, 1998, 1999) focus on legal origins, which again will be captured by Area 2, and is likely correlated with Area 5 - Regulation. However, at least three areas of the EFW index remain largely unexplored by the existing literature.

Data ranges from 0 to 10 (most free) and are available in five-year intervals from 1970 to 1995 and annually since 2000. Murphy and Lawson (2018) also provide an extension of the data back until 1950, but with a smaller number of variables under each area. I use the EFW to construct four outcome variables for the colonies. The main variable of

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[9]The authors explain that to achieve a high EFW rating, a country must ensure secure protection of private property, a fair legal system with equal treatment for all, consistent enforcement of contracts, and a stable monetary system. Additionally, it should maintain low taxes, avoid barriers to domestic and international trade, and prioritize markets over government intervention for allocating goods and resources (Gwartney et al., 2021).

interest is the average economic freedom for the 2000-2019 period (*Avg. EFW*). There is considerable variability in the index, ranging from a minimum of 3.92 (Sudan) to 8.38 (Singapore); the mean is 6.13 and represents a country like Swaziland or Zambia.

For additional results, I analyze the sub-indexes for the five areas separately and the standard deviation across them. The latter will be used to test whether countries with multiple colonizers have less "cohesive" EFW scores, as different colonizers may have implemented functionally disconnected institutions over time. This follows the spirit of Bolen and Sobel (2020), who find that countries with a smaller standard deviation (i.e. more cohesiveness) among the areas of EFW have larger growth rates. Summary statistics for all variables are available in Table 1. Table A1 provides summaries disaggregated by colonizer and continent.

Finally, I construct a panel of economic freedom using data from 1950 to 2019 to track its evolution following independence and test the persistence of this relationship between colonies and their colonizers. A summary for this version of the data appears in A3.

3.2   Historical Index of Economic Liberty

The *Historical Index of Economic Liberty* (HIEL) (Prados De La Escosura, 2016) provides historical data on economic freedom for European colonizers. It offers economic freedom scores for OECD countries from 1850 to the present. Although it excludes the Size of Government area, the remaining four areas align with the structure of the EFW described above. Seven of the 15 variables in the four sub-indices are sourced from the V-Dem project (Coppedge et al., 2019), while the rest are proxied using national accounts from economic history literature.[10]

For each colony, I calculate its colonizer's economic freedom as the average HIEL score during the period of colonization for which data is available. For example, the colonizer's economic freedom of a British colony from 1800 to 1900 is calculated as the

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[10]Variables from V-Dem primarily cover Legal System and Property Rights, as well as Regulation. Data for Sound Money and International Openness come from historical national accounts. For example, tariff data is inferred from the ratio of total tariff revenue to total trade value.

United Kingdom's average HIEL score from 1850 (the first year of available data) to 1900.[11]

According to this method, the Netherlands had the highest HIEL score (7.96) during its time as a colonizer, followed closely by Britain (7.81). The remaining are Belgium (7.47), Germany (7.42), France (7.06), Spain (6.52), Italy (6.36), and Portugal (6.34). Additionally, I calculate the HIEL score of the colonizer at the start of colonization (for post-1850 colonies) and at the time of the colony's independence. Crucially, two colonies of the same colonizer will have different scores if they were colonized in different years, allowing for variation in the colonizer's economic freedom over time.

3.3 Historical and Geographical Data

Historical data for this paper comes from multiple sources, with the main one being the Colonial Dates Dataset (Becker, 2019). This dataset identifies former European colonies and is used to construct variables such as the duration of colonial rule. It includes 128 former colonies of Belgium, Britain, France, Germany, Italy, the Netherlands, Portugal, and Spain. However, 21 colonies were excluded due to the unavailability of EFW data,[12] On average, these countries remained 170 years under colonial rule.

For the 23 cases with multiple colonizers, I follow the same classification as La Porta et al. (1999), which is also used by Acemoglu et al. (2001, 2002). The exceptions are the Philippines and Suriname, which are both incorrectly coded as Portuguese colonies. I code them as Spanish and Dutch colonies, respectively. Seychelles, which does not appear in their sample, is coded here as a former British colony. Table 2 provides the main classification used for each country, and Figure 1 maps the colonies according to their main colonizers and their levels of economic freedom.[13]

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[11]To address potential biases from the omitted pre-1850 period, I also run a specification limited to countries colonized after 1850. The results remain largely unchanged. Countries that gained independence before 1850 are excluded from both samples, as no information about the economic freedom of their colonizer can be obtained.

[12]Most of these are small islands in the Pacific or Indian Oceans, but also include Cuba, Dominica, Eritrea, and Equatorial Guinea.

[13]In 7 of the 23 cases, the main colonizer is also the longest. Table A2 compares the classification of

I also use data on geographical and pre-colonial characteristics to control for potential selection biases in the colonization process. The set of geographical characteristics includes five indicators of temperature, four of humidity, six of climate/soil quality, and five for natural resources (gold, iron, silver, zinc, and oil reserves), all sourced from Parker (1997). Additionally, I include two dummy variables to indicate whether a country is landlocked or an island, accounting for better access to maritime trade routes.[14]

Finally, I include controls for mechanisms of institutional transmission highlighted in the development literature. Specifically, these controls include settler mortality (Acemoglu et al., 2001), the prevalence of European settlers (Easterly and Levine, 2016), the share of modern-day populations with European language ancestry (Giuliano and Nunn, 2018), pre-colonial population density (Acemoglu et al., 2002), terrain ruggedness (Nunn and Puga, 2012),[15] and dummy variables for British, French, and Socialist legal origins (La Porta et al., 1999). I detail the importance of these variables as they appear in the empirical results.

4 Results

4.1 Economic Freedom of Colonizer

The main results, reported in Table 3, examine the relationship between the economic freedom of the colonizer and the former colony. The dependent variable is the former colony's average EFW score for the 2000-2019 period, while the main explanatory variable is the colonizer's average HIEL score during its rule. Since HIEL data is available only from 1850 onward, the sample excludes countries that gained independence before then. In all cases, standard errors are clustered at the colonizer level.[16]

colonizer identity using the longest-ruler criterion and the one used for the base sample.

[14] All of these are available in Acemoglu et al. (2002).

[15] As explained in Nunn and Puga (2012, p.20), rugged terrain is "tough to farm, costly to traverse, and often inhospitable to live in," and, on a global scale, it hinders trade and development. However, it has the opposite effect in Africa, whereby terrain ruggedness offered protection from the slave trades.

[16] Table C3 also reports results using Conley (1999) standard errors, which yield unchanged results.

Column 1 presents a "naive" regression with no controls, while subsequent columns address potential concerns. The results indicate that each additional point in the colonizer's average economic freedom score during the colonial era corresponds to a 0.7-point increase in the former colony's present-day economic freedom. Figure A1 also plots this relationship.

Column (2) includes basic controls for geography, including continent dummies, absolute latitude, and two dummies for land-locked and island colonies. The results are somewhat less precisely estimated and with around 30% smaller magnitude, but still significant at the 5% level.

In addition to geography, the third column controls for several environmental and historical factors emphasized in the development literature (e.g. Acemoglu et al., 2001, 2002; Sachs, 2001, 2003; Nunn and Puga, 2012; Engerman and Sokoloff, 1997) — climate/soil, humidity, temperature, natural resources, terrain ruggedness, and disease environment — that may influence land productivity, pre-colonial development, and, importantly, settlement patterns. For the sets of controls related to climate/soil, humidity, temperature, and natural resources, I report only the p-value for their joint significance. I also include colonizer fixed effects to restrict comparisons to colonies of the same colonizer and account for time-invariant unobserved colonizer characteristics. The results show that the relationship between the colonizer's economic freedom and that of the colony is actually stronger when accounting for these factors and is not solely explained by unobservable colonizer-specific characteristics.

A natural question is whether these findings simply reflect differences in legal origins rather than economic freedom more broadly. For instance, La Porta et al. (1997; 1998; 1999) demonstrate that common law systems provide stronger protection of private property, which is captured by the EFW index. Previous research has also shown that British legal origins, particularly in contrast to French ones, are a key determinant of modern economic freedom, even among US states (e.g. Nattinger and Hall, 2012). Since colonies typically inherit the legal origins of their colonizers, legal origins promoting greater eco-

nomic freedom at the colonizer level would likely foster greater economic freedom in their colonies as well. To test this, I include dummies for French and British legal origins based on La Porta et al. (1999).[17] Notably, after accounting for legal origins, the relationship between the colonizer's and colony's economic freedom becomes approximately 40% stronger in magnitude.

To illustrate this relationship, consider the cases of Benin and Burkina Faso, and then Mali and Senegal, all four contiguous neighbors in West Africa. They were all colonized by France and adopted the French legal system following their independence in 1960. Data from Acemoglu et al. (2002) codes them as having identical pre-colonial levels of development (data for Mali is unavailable). To a great extent, they also share similar climates and disease environments, with tropical forest in the south and arid lands in the north, lying on the southern edge of the Sahara desert.[18]

The key difference is that Benin and Senegal, colonized earlier and under a relatively free France, have higher EFW scores than their respective pairs, Burkina Faso and Mali. That is, as the average economic freedom of France fell from 7.22, to 7.0, the economic freedom of her colonies fell from the high of 6.038 in Benin to 5.858 in Burkina Faso. The case of Mali (then French Sudan) and Senegal is particularly impressive because they even co-existed as a single country under the Mali Federation around independence. Yet, Senegal's economic freedom exceeds Mali's by a proportion consistent with the difference in France's economic freedom during their respective periods.

Further, to put the economic significance of these results in perspective, consider the following example. If, instead of being colonized by Portugal, Brazil had been colonized by the Netherlands – an implied increase of 1.59 points in the average economic freedom of the colonizer – we would expect Brazil's modern-day average economic freedom to

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[17]My sample does not include countries of German legal origin, and Scandinavian legal origins are not present among former colonies. The baseline is Socialist legal origin.

[18]Granted, Mali has a much larger share of desert land, and perhaps Niger may serve as a better counterfactual. The same story applies: Niger was also a French colony until 1960, with similar settler mortality rates than those of Benin and Burkina Faso. But being the latest to be colonized, in 1910, it endured its 50 years of colonial rule under the least free era (6.7) of France of the inter- and post-war period. As a result, its EFW score, at 5.11, is the lowest in French West Africa.

be 1.14 points (1.19 st. dev.) higher. This would place Brazil in the top 50 most free countries, instead of almost than 60 positions below, ranking at around 109 in 2019. More importantly, if we consider the average effect of economic freedom on income reported in the meta-analysis by Lawson et al. (2024), this increase in economic freedom implies that Brazil's per capita income would be around $8,300 to $10,400 higher, which would be sufficient to *double* its current per capita income (around $8,900).[19]

4.2 Timing and Mechanisms of Transmission

4.2.1 Timing

This section investigates the timing and mechanisms of transmission of economic freedom from the colonizers to their colonies. First, consider the role of timing in transmission. One explanation is that a colonizer's economic freedom at the start of colonization is most influential, for it establishes a path dependence for the entire colonial period – what I call the "early hypothesis."[20] Conversely, the "late hypothesis" suggests that economic freedom near independence is most influential, as it reflects the colonizer's most recent institutions and policies. A related view is Peter Bauer's argument that African countries suffered significantly from the price controls and central planning imposed by colonizers in the post-war period (Bauer, 2004) – the "Bauer hypothesis" – which I also test.

Table 5 consider these three hypotheses. For the "early hypothesis" (columns 1-2), I regress the average EFW score of the colonies on the very first available HIEL, which is only available for countries colonized at or after 1850. Beyond the baseline controls, I include the colonization year to account for trends in the colonizer's economic freedom. In column (2), I restrict the sample to countries where the first colonizer was also the *main* colonizer, enabling the inclusion of colonizer fixed effects.[21] In both cases, *HIEL at*

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[19]Lawson et al. (2024) report that a one standard deviation increase in EFW (around 0.96 points) is related to a 0.4 to 0.5 standard deviation increase in income (around $7,000–$8,750).

[20]This is similar to the view of Easterly and Levine (2016) in which early European settlement is more relevant than current shares of population with European ancestry.

[21]Otherwise, the inclusion of colonizer fixed effects could potentially introduce measurement error when their first colonizer was not their main one.

Independence is insignificant, suggesting that economic freedom of the colonizer at the beginning of colonization is unrelated to modern-day economic freedom.

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. As in previous columns, the results remain insignificant. These findings suggest that economic freedom at a single point in time does not predict future economic freedom. By contrast, the more parsimonious specification using the colonizer's *average* economic freedom in the main results appears to better capture the underlying mechanism.

I also conduct two tests of the "Bauer hypothesis" (Bauer, 2004). Column 4 tests Bauer's hypothesis by regressing average economic freedom on a post-1945 independence dummy, along with baseline controls. Indeed, countries that gained independence post-war tend to have lower present-day economic freedom. Column 5 presents a specification more directly related to this paper. Specifically, I interact the postwar dummy with the colonizer's economic freedom at independence. Taken together, even though all postwar countries have lower economic freedom on average (column 4), the interaction term suggests that colonies with freer postwar colonizers have higher economic freedom on the margin, though this should be interpreted cautiously due to potential selection on unobservables (see Section C.2, in Appendix C).[22]

4.3   Mechanism: Direct and Indirect Rule

Here I examine direct and indirect rule as potential transmission mechanisms. Direct rule has been linked to "inclusive" political and economic institutions: it typically led to a larger share of European settlers, who brought their institutions and human capital (Easterly and Levine, 2016). In contrast, indirect rule is linked to "exclusive" institutions.

However, this theory suggests two hypothesis. Both Acemoglu et al. (2001, 2002) and Easterly and Levine (2016) imply an "additive" model: higher rates of European migra-

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[22]Alternatively, we can interpret that the relationship between the economic freedom of colonizer *at independence* and the modern-day economic freedom of colonies is only significant for the postwar period – see Brambor et al. (2006).

tion associated with direct rule simply add to the bundle of "inclusive" institutions. I propose that a "multiplicative" model better captures this process. That is, the impact of additional settlers on "inclusive" institutions depends on the "inclusiveness" of institutions in their countries of origin. Additional settlers from *freer* European nations will contribute more to economic freedom in their destination colonies than those from less free European nations.[23]

I use two proxy measures for direct and indirect rule from previous literature. Easterly and Levine (2016) estimate the prevalence of European settlers during the colonial period (*Euro Settlers*) — a more direct measure, but available for substantially fewer countries. Giuliano and Nunn (2018) use ethnographic sources to trace ancestral characteristics across all modern countries. Specifically, I use their measure of the share of the population speaking a European-origin language (*Euro Origins*). I also use a slightly adjusted version of Giuliano and Nunn (2018) to account for large discrepancies relative to Easterly and Levine (2016).[24]

Table 5 reports the results. Panel A uses the measure of Easterly and Levine (2016); Panels B and C use Giuliano and Nunn (2018)'s measure, without and with adjustments, respectively. For each proxy of direct and indirect rule,[25] I test both the "additive" (columns 1-3) and the "multiplicative" (columns 4-6) hypotheses.

I find limited evidence for the "additive" model. The coefficients indicating larger shares of Europeans (either settlers of ancestry) are only significant in the first column with no controls, and in column 2 of Panel A. The coefficient on *Avg. HIEL*, on the other hand, is robust to controls for European settlers/ancestry in 8 out 9 specifications.

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[23]Indeed, a broader literature indicates that the institutions brought by immigrants are those which they have experience with (e.g. Putterman and Weil, 2010; Spolaore and Wacziarg, 2013; Pavlik and Young, 2021).

[24]For three countries, despite Easterly and Levine (2016) reporting high European settlement rates and English being the main language, Giuliano and Nunn (2018) record zero *ancestral* populations speaking a European language. In the adjusted version, I assign Belize's value to Barbados and the Bahamas, and Australia's to New Zealand. As discussed in both Easterly and Levine (2016) and Giuliano and Nunn (2018), this likely results from differences in the measurement period.

[25]Due to the limited observations for Easterly and Levine (2016)'s measure in Panel A, I include only a "baseline" set of controls: continent dummies, absolute latitude, island and landlocked dummies, ruggedness, and pre-colonial population density (measured in 1500). Columns 3 and 6 include colonizer fixed effects. In Panels B and C, they also incorporate a full set of controls (as in Table 3, Column 4).

Instead, the data aligns more closely with the "multiplicative" hypothesis and suggests two key implications. First, since *Avg. HIEL* is significant in 7 out of 9 specifications, countries colonized by freer nations tend to be freer today even under strictly indirect rule (*Euro Settlers/Origins* $= 0$). This also indicates that European migration is not the sole channel of institutional transmission. Second, consistent with the "multiplicative" model, a larger share of European settlers/ancestry from colonizers with high economic freedom amplifies the transmission of economic freedom –*Avg. HIEL* $\times$ *Euro* is positive and significant in 5 out of 9 cases.[26]

Nonetheless, these results should be interpreted with caution. First, the data does not allow precise identification of settlers by country of origin. Thus, these interpretation rely instead on the assumption that former colonies had a larger share of settlers from their respective colonizers. While plausible, this may not hold universally. Second, as Easterly and Levine (2016) highlights, the timing of settlement is crucial – particularly early settlement – but obtaining consistent estimates for all countries at the same period is unfeasible. [27] Finally, the interaction term of Column 6 of Panel 5B is quite sensitive to selection on unobservables (see section C.2 in Appendix C).

4.4 Persistence

The main results support the idea that colonizers transmit their levels of economic freedom to their colonies, which remains observable in former colonies' economic freedom in the 21st century. A large literature emphasizes the long-run persistence of colonial institutions, making it important to assess the durability of these effects in the case of economic freedom. To address this, I construct a panel of colonies' economic freedom from 1950 to 2019. The estimated equation is:

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[26]This is also suggested by the often-negative constitutive coefficients on European settlers/ancestry (*Euro Settler, Euro Origins*) but should be considered with caution because it is an extrapolation outside of support of the data —- no European country had zero economic freedom.

[27]See also the discussion on timing of measurement in Giuliano and Nunn (2018).

$$ColonyEFW_{ict} = \alpha + \beta HIEL_i + \mu YearsFromIndependence_{it}$$

$$+\delta(HIEL_i \times YearsFromIndependence_{it})$$

$$+\lambda TimeTrend_{it} + \phi X_i + \tau_t + \rho_c$$

where $ColonyEFW_{ict}$ is the EFW score in year t for colony i, colonized by country c. $HIEL$ represents the colonizer's economic freedom score, measured either at independence (*HIEL at Indep.*) or as the average during the colonization period (*Avg. HIEL*). *Years from Independence$_{it}$* denotes the time elapsed since independence.[28] The first coefficient of interest, β, captures the relationship between the colonizer's economic freedom and that of the colony at independence (when *Years from Independence* $= 0$). $TimeTrend$ accounts for the global increase in average EFW scores, which rose from approximately 4.95 in 1950 to 6.89 in 2019. All specifications include year fixed effects (τ_t) to control for cross-colony, year-specific shocks to EFW scores.

The second coefficient of interest, δ, associated with the interaction terms in each specification, captures how the relationship between the economic freedom of colonizers and colonies evolves over time. A negative coefficient would argue against persistence, as colonies "lose" the economic freedom initially inherited from their colonizers. An insignificant coefficient would indicate that this relationship remains stable over time, while a positive coefficient would imply that the relationship strengthens as time since independence increases.

I present the results in Table 6. Columns 1-3 use *HIEL at Independence*, while columns 4-6 use *Avg. HIEL* as measures of the colonizer's economic freedom. As noted earlier, the constitutive terms – textitHIEL at Independence and *Avg. HIEL* – both capture the relationship between the colonizer's economic freedom at the time of independence (*Years from Independence* $= 0$).

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[28]Thus, μ has no empirically meaningful interpretation, as it captures the effect of time since independence when $HIEL = 0$.

When measuring the colonizer's economic freedom at independence (columns 1-3), I find limited evidence of a direct relationship with its colonies' economic freedom at independence. This result is only significant conditional on controls, as in column 3, in which case colonies "inherit" 1.245 points of economic freedom for every additional point of their colonizer's score at independence. The interaction term (*HIEL Indep × Years since Indep.*) indicates that this relationship strengthens over time, with colonies expected to inherit an additional 0.033 points per decade after independence.

Columns 3-6 present a similar pattern: at independence, colonies "inherit" between 0.691 and 1.827 points for each point of their colonizer's average economic freedom. Again, the relationship strengthens when controls and colonizer fixed effects are included. In this case, colonies are expected to "inherit" an additional 0.009 points per decade after independence, but only conditional on observables (column 6).

While the evidence modestly suggests that the colony-colonizer economic freedom relationship strengthens over time, it more clearly indicates that it does not fade. No coefficient is significantly negative, which would argue against persistence.[29]

4.5 Additional Results

4.5.1 Sample Splits

To examine potential heterogeneity, I conduct four sample splits. Due to the smaller sample size, I include only a baseline set of controls. The results are reported in Table B1.[30] First, since average HIEL scores are based on data from 1850 onward, column (1) excludes countries colonized before that year to ensure the averages fully capture the entire colonization period. The results remain largely unchanged.

Columns (2) and (3) examine whether the findings are driven by specific regions. Interestingly, excluding Africa (column 3) reverses the sign. As Figure A2 shows, the

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[29]Table C3.C in Appendix C also shows that these coefficients may be driven to zero under selection by unobservables, but are at least modestly robust to sign changes.

[30]All columns include the same set of controls: continent dummies, absolute latitude, island and landlocked dummies, and controls for ruggedness and pre-colonial population density (measured in 1500). Cells with – or (–) are omitted due to a lack of observations or collinearity.

raw correlation between colonies' and colonizers' economic freedom is positive across all continents except Asia, where it is slightly negative but statistically indistinguishable from zero. Without Africa's large number of observations, Asia dominates the sample, and the relationship turns negative when conditioning on observables. However, a sensitivity analysis as in Appendix Section C.2 informs that this negative result would easily be driven to zero by unobservables.[31] More generally, the discussion in Section C.1 details that the regression weights in the main results are not consistently driven by a specific continent or colonizer.

4.5.2   Categories of the EFW

While I find evidence of a general relationship between a colonizer's economic freedom and that of its colony, it is unclear whether this holds across all areas of the EFW index. Another concern is the overlap between economic freedom and other institutional quality measures used in previous literature (e.g. Acemoglu et al., 2001, 2002), making it important to isolate the components of economic freedom not explained by these measures.

In Table B2, I answer these questions by regressing the average score (2000-2019) of each of the five areas of the colonies' EFW score on their colonizer's HIEL score, following the specifications of the main results.

Column (1) shows a positive and significant correlation, indicating that colonies ruled by freer colonizers score higher across all areas of the EFW index, though only a few remain robust to additional controls. In particular, freer colonizers are associated with better regulation (Panel E) and stronger property rights and rule of law (Panel B), but these results lose significance when controlling for legal origins. This is expected, as these areas are largely shaped by a country's legal system.

The most striking and robust finding is that freer colonizers are strongly associated with higher scores in Area 4 – Freedom to Trade Internationally (Panel D). This relationship remains significant even after including all controls, including legal origins. For each

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[31]Results available upon request.

additional point in the colonizer's economic freedom, colonies gain up to 2.8 points in this sub-index, indicating greater openness to trade. This also underscores that international trade is a distinct component of economic freedom, orthogonal to other institutional quality measures, and was thus overlooked in previous studies of institutional transmission during colonial rule.

4.5.3 Multiple Colonizers and Institutional Cohesion

I also test whether colonization by multiple nations (simultaneously or sequentially) affects institutional cohesion, defined as the standard deviation across the five EFW sub-indexes. Bolen and Sobel (2020) show that variation among EFW areas strongly predicts growth. Since different colonizers may have prioritized different institutions over time, countries with multiple colonial rulers could develop dysfunctional or incoherent institutional environments. Table B3 regresses the 2000-2019 average of within-year standard deviations across the five EFW areas on an indicator for countries with multiple colonizers. I find no evidence that multiple colonizers reduce institutional cohesion.

5 Robustness Checks

Beyond the numerous specifications in the main results, this section briefly reports additional robustness checks that further support the findings. A detailed discussion of each test is provided in Appendix C.

5.1 Regression Weights

Following Aronow and Samii (2016), Tables C1.A and C1.B report the effective regression weights by continent and colonizer, respectively. While some variation exists across specifications, no continent or colonizer is consistently over- or under-represented in the main results (Table 3). This ensures that the findings are not driven by any specific continent or colonizer — see Section C.1 for details.

5.2 Sensitivity Analysis

I conduct several sensitivity tests to assess whether the results may be driven by omitted variable bias. First, I report the test proposed by Oster (2019), where δ indicates how large selection on unobservables must be, relative to selection on observables, to "explain away" the results (i.e., $\beta = 0$). However, Diegert et al. (2022) show that Oster's δ may incorrectly account for correlation between unobservables and observed control variables. Additionally, Masten and Poirier (2024) demonstrate that the selection on observables required to set $\beta = 0$ can be substantially greater than that needed to flip its sign. Since this paper argues that a colonizer's economic freedom positively affects its colonies, I apply their test for $\beta > 0$.

These tests are detailed in Appendix C, Section C.2, and results are reported in Tables C2.A and C2.B. Given the benchmarks suggested by Oster (2019) and Diegert et al. (2022), the specifications with full controls appear robust to selection on unobservables. However, as mentioned earlier, other coefficients of interest in Tables 4-6 are much less so and should be interpreted with caution (see Section C.2 for details).

5.3 Spatial Correlation

As Conley and Kelly (2025) argues, spatial correlation is a major source of inflated t-statistics in studies of persistence. In this context, neighboring countries are more likely to have been colonized by the same power within a short time frame, introducing spatial correlation in the observations. Tables C3.A-C3.C show that nearly all results remain robust to Conley (1999) spatial standard errors and often become more significant. The exception is the *Postwar* dummy in Table 5.[32]

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[32] As discussed in Conley and Kelly (2025), this likely reflects a case where latitude and longitude alone can strongly predict whether a country gained independence before or after the war.

5.4 Population-Weighted Regression

As a final exercise, Table C4 reestimates the main results from Table 3, 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.

6 Conclusion

Institutions consistent with greater economic freedom are important predictors of economic growth and development. As such, research on the determinants of economic freedom has been receiving the attention of several scholars (Lawson et al., 2020). However, institutions usually develop across long periods of time (Spolaore and Wacziarg, 2013), and are often constrained by historical accidents in a path-dependent process (North, 1991; Page et al., 2006) – still, the long-run determinants of economic freedom have been mostly overlooked. This paper bridges this gap by studying the relationship between modern-day economic freedom and characteristics of colonial rule among former European colonies, while also expanding the literature on colonial origins of modern institutions.

The findings suggest two main takeaways. First, colonies ruled by European nations with greater historical economic freedom are freer today. This relationship is sizeable, persistent, and robust to selection on unobservables and controls for geography, climate, natural resource endowments, colonizer identity, pre-colonial characteristics, and prior mechanisms of institutional transmission highlighted in the development literature.

Second, these results suggest a more nuanced version of the theory of settlement patterns as the main driver of "inclusive" institutions (Acemoglu et al., 2001, 2002; Easterly and Levine, 2016): rather than a dichotomy between direct and indirect rule, I show that the "inclusiveness" of institutions brought by additional settlers is proportional to the "inclusiveness" of institutions in their countries of origin. That is, it suggests that

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additional European settlement from colonizers with high (low) economic freedom increases (reduces) the overall economic freedom of their colonies. It also emphasizes that former colonies inherited a much broader set of institutions from their colonizers than simply legal origins (La Porta et al., 1997, 1998, 1999) or "the institutions of property rights" (Acemoglu et al., 2001, 2002).

A final contention is in order. While a large literature has argued for causality in similar arguments of institutional transmission in colonial settings (Acemoglu et al., 2001, 2002; Easterly and Levine, 2016; La Porta et al., 1999), especially highlighting their persistent effects until today, the potential causality of the findings presented here should be interpreted with caution. On the one hand, given their strong robustness to numerous geographical and historical controls highlighted in previous literature, and also to selection on unobservables, a causal argument may be made on the basis of unconfoundedness. However, on the other, there is only so much that can be inferred from historical data, which is often permeated by measurement errors.

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Tables and Figures

Table 1: Summary statistics

Variable	Obs	Mean	Std. dev.	Min	Max
Economic Freedom of Colonies (avg. 2000-2019)					
Avg. EFW	107	6.442	0.959	3.860	8.751
EFW Area 1	107	6.888	1.024	4.186	8.916
EFW Area 2	107	4.555	1.347	2.258	8.538
EFW Area 3	107	7.645	1.316	3.654	9.711
EFW Area 4	107	6.518	1.372	2.305	9.412
EFW Area 5	107	6.607	1.102	3.779	8.884
Std. Dev. across Areas	107	1.445	0.407	0.517	2.318
Economic Freedom of Colonizers					
Avg. HIEL Colonizer	87	7.463	0.514	6.342	8.416
First HIEL	87	7.668	0.726	5.397	8.454
HIEL at Independence	87	7.555	0.733	4.918	8.554
Geographical Controls					
America*	107	0.262	0.442	0	1
Africa*	107	0.449	0.500	0	1
Asia*	107	0.262	0.442	0	1
Absolute Latitude	90	0.178	0.116	0.011	0.667
Landlocked*	90	0.167	0.375	0	1
Island*	107	0.187	0.392	0	1
% of world's Gold	89	0.753	5.122	0	47
% of world's Iron	89	0.451	2.045	0	16
% of world's Silver	89	0.618	2.583	0	13
% of world's Zinc	89	0.663	2.598	0	15
Coal reserves*	90	0.322	0.470	0	1
Oil Reserves†	89	127.9K	577.3K	0	4,500K
Development Literature Controls					
Ruggedness	107	119.341	118.516	1.600	674
Log Settler Mortality	76	4.716	1.194	2.146	7.986
Pop. Density in 1500	86	0.499	1.558	-3.831	4.610
British Legal Origins*	105	0.400	0.492	0	1
French Legal Origins*	105	0.562	0.499	0	1
Socialist Legal Origins*	105	0.038	0.192	0	1
Scandinavian Legal Origins*	105	0	0	0	0
German Legal Origins*	105	0	0	0	0
Prevalence of European Settlers	59	0.112	0.199	0	0.905

Notes: * denotes dummy variables. Colonies' economic freedom are measured by the *Economic Freedom of the World Index* (EFW), and colonizer's use the *Historical Index of Economic Liberty* (HIEL). Both scale from 0 to 10. *First HIEL* is the HIEL measured at the first year of colonization (if post-1850). † in thousands of barrels per capita.
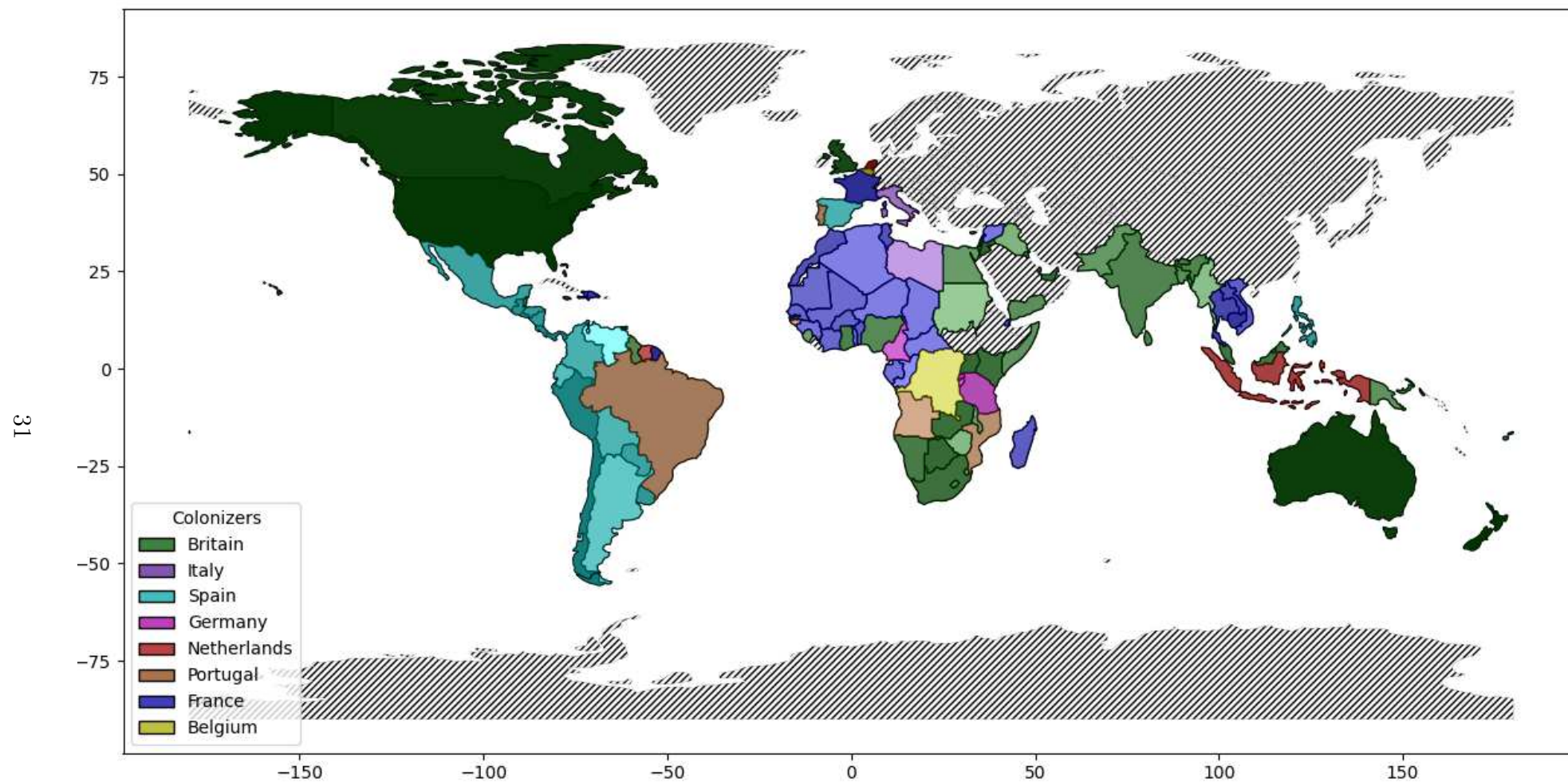
Figure 1: Colonization Map and Economic Freedom

Notes: Darker colors represent higher economic freedom scores.

Table 2: List of Former Colonies with Available EFW Data, Base Sample

Belgium: 1	Britain (cont.)	France (cont.)
Dem. Rep. of the Congo	Singapore	Tunisia
Britain: 49	Somalia*	Vietnam
Australia	South Africa	**Germany: 4**
Bahamas	Sri Lanka	Burundi*
Bahrain	Sudan	Cameroon*
Bangladesh	Swaziland	Rwanda*
Barbados	Tanzania	Tanzania*
Belize	Trinidad & Tobago*	**Italy: 1**
Bhutan	Uganda	Libya*
Botswana	United Arab Emirates	**Netherlands: 2**
Brunei Darussalam	United States	Indonesia
Cameroon*	Yemen	Suriname
Canada*	Zambia	**Portugal: 6**
Cyprus	Zimbabwe	Angola
Egypt	**France: 27**	Brazil
Fiji	Algeria	Cabo Verde
Gambia	Benin	Guinea-Bissau
Ghana*	Burkina Faso	Mozambique
Guyana	Cambodia	Timor-Leste
India	Central African Republic	**Spain: 17**
Iraq	Chad	Argentina
Israel	Comoros	Bolivia
Jamaica*	Congo	Chile
Jordan	Côte d'Ivoire	Colombia
Kenya	Djibouti	Costa Rica
Kuwait	Gabon	Dominican Republic
Lesotho	Guinea	Ecuador
Malawi	Haiti	El Salvador
Malaysia*	Laos	Guatemala
Mauritius*	Lebanon	Honduras
Myanmar (Burma)	Madagascar	Mexico
Namibia*	Mali	Nicaragua
New Zealand	Mauritania*	Panama
Nigeria	Morocco*	Paraguay
Pakistan	Niger	Peru
Papua New Guinea	Senegal*	Philippines
Qatar	Syria	Uruguay*
Seychelles*	Thailand	Venezuela
Sierra Leone	Togo*	N = 107

Notes: Excludes 21 countries without EFW data. Countries with multiple colonizers (*) have been classified following Table A2.

Table 3: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019), Main Results

Dependent Variable:	Avg. EFW (2000-2019)			
	(1)	(2)	(3)	(4)
HIEL Colonizer	0.716***	0.521**	1.199***	1.648***
	(0.153)	(0.206)	(0.176)	(0.206)
America dummy		0.0338	-0.595	0.242
		(0.125)	(1.052)	(1.667)
Africa dummy		-0.327	-0.532	1.022
		(0.273)	(1.083)	(2.297)
Asia dummy		-0.137	-1.021	0.0103
		(0.110)	(1.243)	(2.070)
Abs. Latitude		1.082*	-5.296***	-2.267
		(0.489)	(0.709)	(1.227)
Landlocked		0.339	0.782**	1.134**
		(0.292)	(0.217)	(0.334)
Island		0.959***	1.562***	1.565***
		(0.219)	(0.255)	(0.197)
Ruggedness			-0.000917	0.000340
			(0.00154)	(0.00231)
Log Settler Mortality			-0.164	-0.388***
			(0.164)	(0.0592)
Pop. Density in 1500			-0.0582	0.000869
			(0.211)	(0.295)
French Legal Origin				0.371
				(0.974)
British Legal Origin				1.628**
				(0.486)
P-val. humidity			[0.118]	[0.000]
P-val. temperature			[0.006]	[0.012]
P-val. climate/soil			[0.518]	[0.169]
P-val. nat. resources			[0.064]	[0.187]
Colonizer FE	No	No	Yes	Yes
N	87	70	53	53
R^2	0.154	0.435	0.793	0.837

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. Dependent variable is the average *Economic Freedom of the World* (EFW) Index score in the 2000-2019 period. The scores range from 0 to 10. HIEL Colonizer is the average HIEL score (starting in 1850) of the colonizer(s) during the period of colonization. Columns (3) and (4) include four indicators of humidity, five indicators of temperature, and six indicators of climate/soil, as well as controls for the presence of gold, iron, silver, zinc, and oil reserves. Dummies for German and Scandinavian not included for lack of observations.

Table 4: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019): Alternative Measures

Dependent Variable:	Avg. EFW (2000-2019)				
Specification:	Early Hypothesis		Late Hypothesis	Bauer Hypothesis	
	(1)	(2)	(3)	(4)	(5)
First HIEL	0.280	-0.174			
	(0.241)	(0.466)			
HIEL at Independ.			0.218		0.122
			(0.181)		(0.214)
Postwar				-0.451**	-1.228**
				(0.148)	(0.381)
Postwar × HIEL Indep.					0.117*
					(0.057)
Year First HIEL	-0.028**	-0.037**			
	(0.010)	(0.010)			
Year Independence			-0.007**		
			(0.002)		
America dummy	-	-	-0.054	-0.064	-0.130
	(−)	(−)	(0.206)	(0.181)	(0.219)
Africa dummy	-	-0.150	-0.360	-0.376	-0.431
	(−)	(0.504)	(0.326)	(0.270)	(0.345)
Asia dummy	-0.298	-	0.052	-0.030	0.080
	(0.327)	(−)	(0.301)	(0.201)	(0.349)
Abs. Latitude	0.059	-0.119	0.163	0.095	0.423
	(2.281)	(3.983)	(0.559)	(0.685)	(0.450)
Landlocked	0.645	1.314***	0.341	0.342	0.329
	(0.457)	(0.277)	(0.433)	(0.426)	(0.430)
Island	0.379	1.529***	0.974***	0.990***	0.950***
	(0.338)	(0.128)	(0.217)	(0.204)	(0.219)
Ruggedness	0.001	-0.001***	0.000	-0.000	-0.000
	(0.002)	(0.000)	(0.001)	(0.001)	(0.001)
Pop. Density in 1500	-0.054	-0.003	-0.156***	-0.171**	-0.158***
	(0.073)	(0.122)	(0.036)	(0.047)	(0.037)
Colonizer FE	No	Yes	Yes	Yes	Yes
N	40	34	66	66	66
R^2	0.283	0.517	0.581	0.576	0.580

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. *First HIEL* is the first available Historic Index of Economic Liberty (HIEL) score for the colonizer of countries colonized post-1850. Column 2 considers only countries for which the first colonizer is the main colonizer, according to La Porta et al. (1999) - see Table A2 for details. *Postwar* is a dummy for countries that obtained independence after 1945. All columns use the same set of controls, beggining with the America dummy row. Cells with - or (−) have been omitted for lack of observations of collinearity.

Table 5: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019), Mechanism: European Settlement

Dependent Variable:	Avg. Economic Freedom (2000-2019)					
Interaction:	Additive			Multiplicative		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: *Prevalence of European Settlers* (Easterly and Levine, 2016)						
Avg. HIEL	0.431**	0.337*	-0.061	0.349*	0.263	-0.383
	(0.159)	(0.145)	(0.826)	(0.169)	(0.185)	(0.705)
Euro Settlers	0.021***	0.012***	0.008	-0.294*	-0.337	-0.462
	(0.002)	(0.003)	(0.004)	(0.120)	(0.486)	(0.607)
Avg. HIEL× Euro Settlers				0.039**	0.044	0.059
				(0.015)	(0.061)	(0.077)
Controls	No	Baseline	Baseline	No	Baseline	Baseline
N	40	37	37	40	37	37
R^2	0.432	0.670	0.688	0.456	0.678	0.698
Panel B: *Ancestral Origins of Current Populations* (Giuliano and Nunn, 2018)						
Avg. HIEL	0.718***	0.446**	1.442**	0.698***	0.448**	1.344***
	(0.134)	(0.146)	(0.440)	(0.125)	(0.153)	(0.217)
Euro Origins	0.00239	-0.000394	-0.0159	-0.206***	0.0596	-1.344**
	(0.00132)	(0.00263)	(0.00819)	(0.0560)	(0.181)	(0.466)
Avg. HIEL× Euro Settlers				0.0263***	-0.00753	0.167**
				(0.00712)	(0.0224)	(0.0590)
Controls	No	Baseline	Full	No	Baseline	Full
N	86	66	53	86	66	53
R^2	0.170	0.525	0.880	0.180	0.525	0.893
Panel C: *Adjusted Ancestral Origins of Current Populations* (Giuliano and Nunn, 2018)						
Avg. HIEL	0.648***	0.443**	1.299**	0.615***	0.427**	1.067***
	(0.124)	(0.141)	(0.432)	(0.114)	(0.141)	(0.227)
Adj. Euro Origins	0.00501**	-0.0000870	-0.0158	-0.277***	-0.214	-1.433**
	(0.00148)	(0.00380)	(0.00861)	(0.0311)	(0.226)	(0.470)
Avg. HIEL× Adj. Euro Origins				0.0354***	0.0269	0.178**
				(0.00394)	(0.0289)	(0.0597)
Controls	No	Baseline	Full	No	Baseline	Full
N	86	53	53	86	66	53
R^2	0.186	0.589	0.876	0.214	0.527	0.890
Colonizer FE	No	No	Yes	No	No	Yes

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. The scores range from 0 to 10.

Table 6: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019), Persistence Panel

Dependent Variable:	Economic Freedom of Colony$_t$					
	(1)	(2)	(3)	(4)	(5)	(6)
Years since Independence	-0.012	-0.048	-0.051***	0.032	-0.046	-0.105**
	(0.019)	(0.027)	(0.011)	(0.046)	(0.044)	(0.029)
HIEL at Independence	-0.031	0.117	1.245**			
	(0.321)	(0.316)	(0.399)			
HIEL at Indep. × Years since Indep.	0.003	0.006	0.003*			
	(0.003)	(0.003)	(0.001)			
Avg. HIEL				0.840**	0.691*	1.827**
				(0.288)	(0.299)	(0.459)
Avg. HIEL × Years since Indep.				-0.003	0.005	0.009*
				(0.006)	(0.005)	(0.003)
Time Trend	0.003	0.019***	0.041***	0.007	0.027***	0.047***
	(0.004)	(0.003)	(0.006)	(0.005)	(0.004)	(0.004)
Abs. Latitude		0.872*	-2.138		1.463**	-1.582
		(0.351)	(1.179)		(0.380)	(1.109)
Landlock		-0.025	0.579**		0.182	0.769*
		(0.177)	(0.151)		(0.227)	(0.325)
Island		0.706**	1.332***		0.756**	1.359***
		(0.211)	(0.249)		(0.269)	(0.124)
Ruggedness		0.000	-0.001		0.001	0.002
		(0.001)	(0.001)		(0.001)	(0.001)
Log Settler Mortality		-0.114*	-0.208**		-0.092*	-0.287***
		(0.051)	(0.054)		(0.038)	(0.015)
Pop. Density in 1500		-0.109	0.066		-0.230**	-0.072
		(0.060)	(0.052)		(0.059)	(0.150)
British Legal Origins			0.132			1.093**
			(0.288)			(0.320)
French Legal Origins			-0.827*			0.605
			(0.380)			(0.664)
Controls for Soil/Climate (*p*-value)			[0.000]			[0.000]
Controls for Temperature (*p*-value)			[0.000]			[0.000]
Controls for Humidity (*p*-value)			[0.001]			[0.006]
Controls for Nat. Resources (*p*-value)			[0.018]			[0.002]
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Continent FE	No	Yes	Yes	No	Yes	Yes
Colonizer FE	No	No	Yes	No	No	Yes
N	2,002	1,361	1,361	2,002	1,361	1,361
R^2	0.284	0.609	0.769	0.359	0.636	0.756

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. The scores range from 0 to 10.

Appendices

A   Data Description

Table A1: Summary statistics of main variables by colonizer and continent.

Variable:	Avg. EFW		HIEL Colonizer			
	Mean	Std	Mean	Std	Obs.	(%)
By Main Colonizer						
Belgium	5.062	–	7.470	–	1	0.93
Britain	6.712	0.975	7.815	0.206	49	45.79
France	5.921	0.678	7.059	0.272	27	25.23
Germany	6.068	0.570	7.420	0.146	4	3.74
Italy	4.604	–	6.366	–	1	0.93
Netherlands	6.521	0.421	7.962	0.034	2	1.87
Portugal	5.974	0.804	6.345	0.005	6	5.61
Spain	6.922	0.921	6.525	–	17	15.89
By Continent						
Africa	5.965	0.838	7.322	0.506	48	44.86
America	6.954	0.843	7.882	0.080	28	26.17
Asia	6.618	0.843	7.517	0.507	28	26.17
Oceania	7.647	1.158	8.083	0.191	3	2.80
Total	6.442	0.959	7.463	0.514	107	100.00

Notes: Colonies' economic freedom are measured by the *Economic Freedom of the World Index* (EFW), and colonizer's use the *Historical Index of Economic Liberty* (HIEL). Both scale from 0 to 10. Countries with multiple colonizers have been classified according to Table A2. Shares may not add to 100% due to rounding. Excludes 21 colonies without EFW data.

Table A2: Classification of Countries with Multiple Colonizers

Source Country	Becker (2019) (Longest)	La Porta et al. (1999) (Main)	Base Sample (Adopted)
Belize	Spain	Britain	Britain
Burundi	Belgium	Germany	Germany
Cameroon	Britain	Germany	German
Canada	France	Britain	Britain
Ghana	Portugal	Britain	Britain
Guyana	Netherlands	Britain	Britain
Jamaica	Britain	Britain	Britain
Libya	Italy	Italy	Italy
Malaysia	Portugal	Britain	Britain
Mauritania	Spain	France	France
Mauritius	Britain	Britain	Britain
Morocco	Spain	France	France
Namibia	Germany	Britain	Britain
Rwanda	Belgium	Germany	Germany
Senegal	France	France	France
Seychelles	Britain	n/a	Britain
Somalia	Britain	Britain	Britain
South Africa	Netherlands	Britain	Britain
Sri Lanka	Britain	Britain	Britain
Tanzania	Britain	German	German
Togo	France	France	France
Trinidad & Tobago	Spain	Britain	Britain
Uruguay	Spain	Spain	Spain

Note: All the main regressions adopt the Base Sample.

Table A3: Summary Statistics, Panel Data

Variable	Obs	Mean	Std. dev.	Min	Max
Economic Freedom of Colonies					
EFW_t	4,198	6.435	1.242	2.370	9.145
EFW Area 1_t	3,210	6.894	1.018	4.186	8.916
EFW Area 2_t	3,210	4.556	1.345	2.258	8.538
EFW Area 3_t	3,210	7.650	1.314	3.654	9.711
EFW Area 4_t	3,210	6.522	1.360	2.305	9.412
EFW Area 5_t	3,210	6.594	1.097	3.779	8.884
Std. Dev. across Areas	3,210	1.444	0.402	0.517	2.318
Economic Freedom of Colonizers					
Avg. HIEL Colonizer	2,590	7.462	0.513	6.342	8.416
First HIEL	2,590	7.669	0.716	5.397	8.454
HIEL at Independence	2,590	7.556	0.733	4.918	8.554
Geographical Controls					
America*	4,922	0.175	0.380	0.000	1.000
Africa*	4,922	0.301	0.459	0.000	1.000
Asia*	4,922	0.179	0.383	0.000	1.000
Absolute Latitude	2,819	0.179	0.116	0.000	0.667
Landlocked*	2,814	0.171	0.377	0.000	1.000
Island*	4,922	0.127	0.333	0.000	1.000
% of world's Gold	2,793	0.744	5.064	0.000	47.000
% of world's Iron	2,793	0.445	2.022	0.000	16.000
% of world's Silver	2,793	0.610	2.554	0.000	13.000
% of world's Zinc	2,793	0.656	2.569	0.000	15.000
Coal reserves*	2,820	0.318	0.466	0.000	1.000
Oil Reserves[†]	2,792	121.4K	552.6K	0.000	4,500K
Development Literature Controls					
Ruggedness	3,210	117.646	114.902	1.600	674.000
Log Settler Mortality	2,379	4.679	1.207	2.146	7.986
Pop. Density in 1500	2,708	0.505	1.577	-3.831	4.610
British Legal Origins*	3,152	0.395	0.489	0.000	1.000
French Legal Origins*	3,152	0.569	0.495	0.000	1.000
Socialist Legal Origins*	3,152	0.000	0.000	0.000	0.000
Scandinavian Legal Origins*	3,152	0.000	0.000	0.000	0.000
German Legal Origins*	3,152	0.036	0.185	0.000	1.000
Prevalence of European Settlers	1,792	0.111	0.198	0.000	0.905

Notes: Summary statistics for panel data used in Table 6. * denotes dummy variables. Colonies' economic freedom are measured by the *Economic Freedom of the World Index* (EFW), and colonizer's use the *Historical Index of Economic Liberty* (HIEL). Both scale from 0 to 10. *First HIEL* is the HIEL measured at the first year of colonization (if post-1850). † in thousands of barrels per capita.

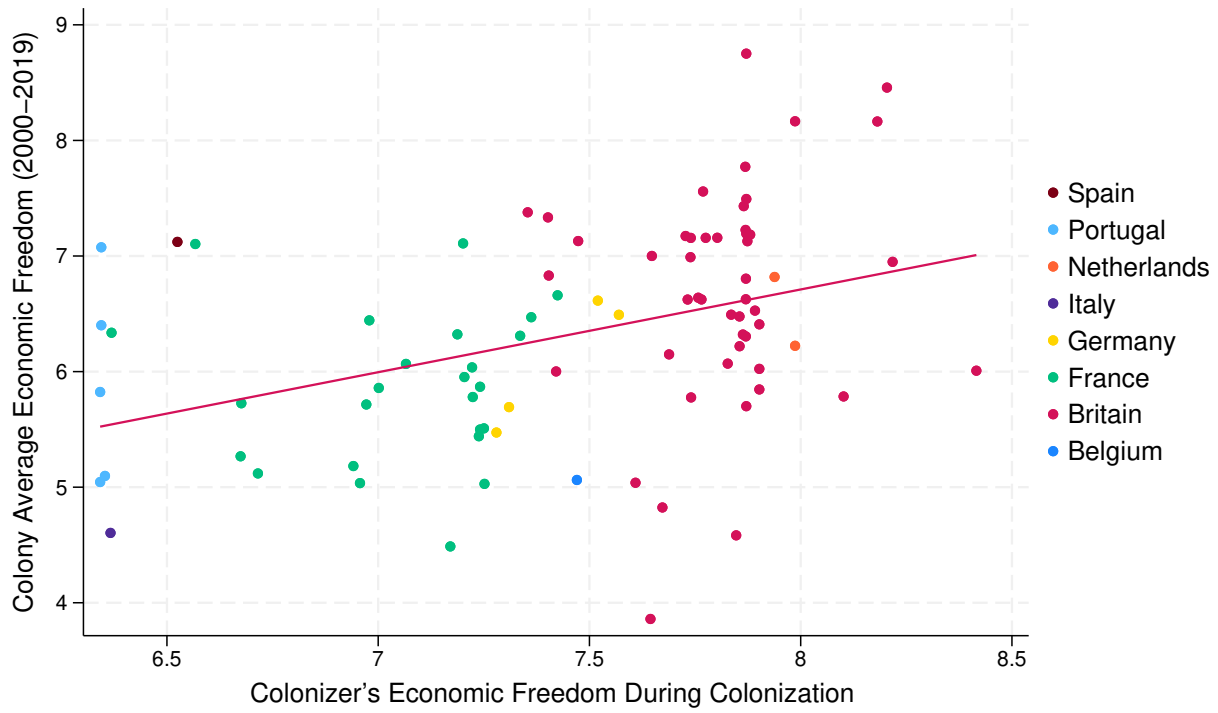Figure A1: Raw correlation between economic freedom of colony and its colonizer

Notes: See Table A2 for details.
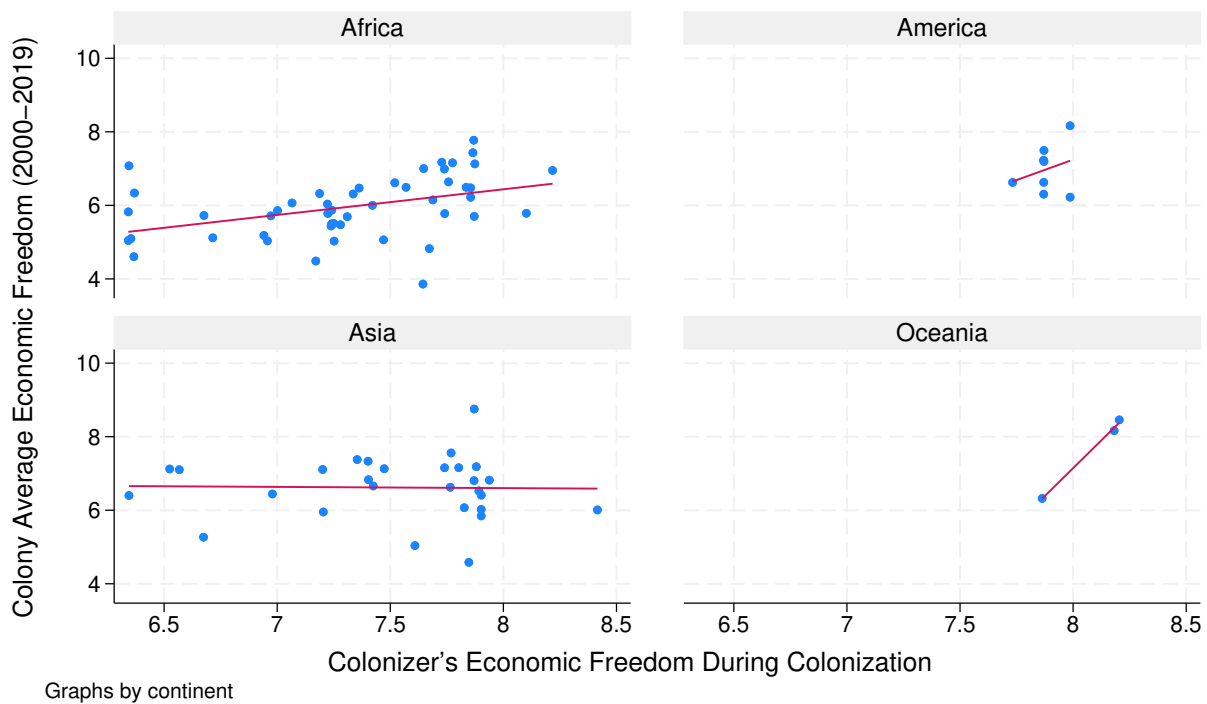
Figure A2: Raw correlation between economic freedom of colony and its main colonizer, by continent

Notes: See Table A2 for details.

B   Additional Results

Table B1: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019), Sample Splits

Dependent Variable:	Avg. EFW (2000-2019)			
	Colonized Post-1850 (1)	Without Africa (2)	Without Americas (3)	Without "Neo-Europes" (4)
HIEL Colonizer	0.579***	-0.533*	0.426**	0.424**
	(0.125)	(0.187)	(0.169)	(0.166)
America dummy	-	-0.198**	-	-
	(−)	(0.0586)	(−)	(−)
Africa dummy	0.330	-	-0.910**	-0.174
	(0.407)	(−)	(0.366)	(0.256)
Asia dummy	-	0.175**	-0.609**	0.121
	(−)	(0.0361)	(0.245)	(0.147)
Abs. Latitude	-0.0192	1.722***	-0.453	-0.266
	(2.476)	(0.284)	(1.324)	(1.230)
Landlocked	0.386	-0.254	0.203	0.223
	(0.382)	(0.204)	(0.366)	(0.358)
Island	0.417	1.114***	0.803*	0.863**
	(0.304)	(0.0228)	(0.350)	(0.292)
Ruggedness	0.001	-0.001**	0.001	0.001
	(0.001)	(0.000)	(0.001)	(0.001)
Pre-Colonial Pop. Density	-0.045	-0.279***	-0.157**	-0.146**
	(0.090)	(0.008)	(0.043)	(0.046)
N	40	22	58	63
R^2	0.239	0.746	0.481	0.408

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. Dependent variable is the average *Economic Freedom of the World* (EFW) Index score in the 2000-2019 period. The scores range from 0 to 10. HIEL Colonizer is the average HIEL score (starting in 1850) of the colonizer(s) during the period of colonization. Column (4) excludes Australia, Canada, New Zealand from the sample; the United States is not in this sample because it became independent before 1850. All columns use the same set of controls; cells with - or (−) have been omitted for lack of observations or collinearity.

Table B2: Economic Freedom of Colonizer and Areas of Economic Freedom (2000-2019)

Dependent Variable:	*Area 1 - Size of Government*			
Panel A:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.325**	0.204	-0.0373	0.415
	(0.131)	(0.170)	(1.242)	(1.038)
R^2	0.029	0.205	0.745	0.789
Dependent Variable:	*Area 2 - Property Rights and Rule of Law*			
Panel B:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	1.124***	0.650**	1.956*	2.372
	(0.290)	(0.252)	(0.753)	(1.626)
R^2	0.176	0.476	0.821	0.849
Dependent Variable:	*Area 3 - Sound Money*			
Panel C:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.505***	0.451	1.797	2.089
	(0.135)	(0.314)	(1.213)	(1.200)
R^2	0.043	0.249	0.728	0.749
Dependent Variable:	*Area 4 - Freedom to Trade Internationally*			
Panel D:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.740**	0.650*	2.288***	2.867***
	(0.302)	(0.317)	(0.321)	(0.615)
R^2	0.078	0.282	0.757	0.805
Dependent Variable:	*Area 5 - Regulation*			
Panel E:	(1)	(2)	(3)	(4)
Avg. HIEL Colonizer	0.881***	0.638***	0.106	0.616
	(0.124)	(0.165)	(1.145)	(0.937)
R^2	0.158	0.359	0.661	0.699
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: All panels average the dependent variable for the 2000-2019 period. Controls report the variables included in each column, identical across panels.

Table B3: Multiple Colonizers and Institutional Cohesion

Dependent Variable:	St. Dev. Across Areas of EFW (2000-2019 avg.)			
	(1)	(2)	(3)	(4)
Multiple Colonizers	-0.141**	-0.100	-0.201**	-0.217***
	(0.0450)	(0.0562)	(0.0732)	(0.0374)
America dummy		0.434	0.301	0.187
		(0.237)	(0.437)	(0.371)
Africa dummy		0.409*	0.170	-0.0134
		(0.184)	(0.537)	(0.403)
Asia dummy		0.240*	0.0347	0.108
		(0.116)	(0.380)	(0.501)
Abs. Latitude		-0.483**	1.329*	1.320*
		(0.154)	(0.563)	(0.635)
Landlocked		0.0438	0.271	0.233
		(0.104)	(0.202)	(0.219)
Island		0.0384	0.116	-0.00770
		(0.231)	(0.374)	(0.268)
Ruggedness			-0.00136	-0.000903
			(0.000773)	(0.00111)
Log Settler Mortality			0.000986	0.0268
			(0.0674)	(0.0835)
Pop. Density in 1500			0.0942	0.0705
			(0.0583)	(0.0622)
French Legal Origin				0.671*
				(0.323)
British Legal Origin				0.238
				(0.182)
P-val. humidity			[0.118]	[0.002]
P-val. temperature			[0.006]	[0.000]
P-val. climate/soil			[0.518]	[0.000]
P-val. nat. resources			[0.064]	[0.000]
Colonizer FE	No	No	Yes	Yes
N	107	90	73	73
R^2	0.020	0.094	0.470	0.520

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. Dependent variable is the average standard deviation across the five sub-indexes of the *Economic Freedom of the World* (EFW) Index score in the 2000-2019 period. Columns (3) and (4) include four indicators of humidity, five indicators of temperature, and six indicators of climate/soil, as well as controls for the presence of gold, iron, silver, zinc, and oil reserves (not reported). Dummies for German and Scandinavian not included for lack of observations.

C   Robustness Checks

C.1   Effective Regression Weights

Tables C1.A and C1.B report the distribution of effective regression weights by continent and by colonizer for each of the four specifications of Table 3, as in Aronow and Samii (2016). The second column, Expected Weight, reports the percentage of observations coming from each continent/colonizer, thus also implying the percentage of expected regression weights assigned to that continent/colonizer if all observations contributed identical weights to the estimation of *HIEL Colonizer*. The third column, Effective Weight, report the percentage of regression weights effectively received by each continent/colonizer. The last column reports the ratio of effective to expected weight; thus, values greater than 1 indicate overrepresentation, while values less than 1 indicate underrepresentation.

Although there is some variation across specifications, no continent/colonizer is consistently over- or under-represented across all specifications. Discrepancies greater than 10 percentage points (i.e., Ratio < 0.9 or Ratio > 1.1) are also mostly restricted to continents/colonizers with very small numbers of observations, presumably because their distribution of weights is not so smooth. However, this also indicates that relatively large localized imbalances have small impacts on the overall sample.

Table C1.A: Regression Weights for HIEL Colonizer Coefficient, by Continent

Colonizer	Obs.	Expected Weight (%)	Effective Weight (%)	Ratio
Table 3, Column 1				
Africa	48	0.552	0.532	0.965
America	8	0.092	0.102	1.105
Asia	28	0.322	0.326	1.014
Oceania	3	0.034	0.040	1.155
Table 3, Column 2				
Africa	46	0.657	0.709	1.078
America	8	0.114	0.081	0.712
Asia	13	0.186	0.195	1.052
Oceania	3	0.043	0.015	0.344
Table 3, Column 3				
Africa	32	0.604	0.668	1.106
America	8	0.151	0.107	0.708
Asia	11	0.208	0.222	1.068
Oceania	2	0.038	0.004	0.101
Table 3, Column 4				
Africa	32	0.604	0.669	1.108
America	8	0.151	0.107	0.709
Asia	11	0.208	0.220	1.061
Oceania	2	0.038	0.004	0.101

Notes: See Table 3 for specifications.

Table C1.B: Regression Weights for HIEL Colonizer Coefficient, by Colonizer

Colonizer	Obs.	Expected Weight (%)	Effective Weight (%)	Ratio
Table 3, Column 1				
Belgium	1	0.011	0.012	1.002
Britain	48	0.552	0.600	1.088
France	25	0.287	0.258	0.899
Germany	4	0.046	0.045	0.989
Italy	1	0.011	0.008	0.726
Netherlands	2	0.023	0.026	1.125
Portugal	5	0.057	0.041	0.721
Spain	1	0.011	0.009	0.766
Table 3, Column 2				
Belgium	0	0	0	–
Britain	37	0.529	0.528	0.999
France	21	0.300	0.321	1.070
Germany	4	0.057	0.061	1.069
Italy	1	0.014	0.020	1.393
Netherlands	2	0.029	0.033	1.140
Portugal	4	0.057	0.031	0.540
Spain	1	0.014	0.007	0.472
Table 3, Column 3				
Belgium	0	0	0	–
Britain	26	0.491	0.472	0.963
France	19	0.358	0.375	1.045
Germany	4	0.075	0.076	1.013
Italy	0	0	0	–
Netherlands	2	0.038	0.041	1.080
Portugal	2	0.038	0.036	0.956
Spain	0	0	0	–
Table 3, Column 4				
Belgium	0	0	0	–
Britain	26	0.491	0.471	0.961
France	19	0.358	0.375	1.047
Germany	4	0.075	0.077	1.014
Italy	0	0	0	–
Netherlands	2	0.038	0.041	1.082
Portugal	2	0.038	0.036	0.958
Spain	0	0	0	–

Notes: See Table 3 for specifications.

C.2 Sensitivity Analysis

I perform several robustness checks for potential selection on unobservables. First, I compute Oster (2019)'s δ, which indicates the ratio of selection on unobservables to selection on observables required for a zero effect ($\beta = 0$). For instance, a δ of 2 means that unobservables would have to have twice the explanatory power of observables to "explain away" the results.

However, Oster's δ suffers from two potential problems. As argued in Diegert et al. (2022), Oster's approach uses a method called *residualization* to avoid making assumptions about the exogeneity of the controls. As the name suggests, *residualization* "replaces the unobservables by the portion of the unobservables that is uncorrelated with the included controls." (Diegert et al., 2022, p. 3). Nonetheless, in practical applications, unobservables are likely correlated with the included controls.[33] Thus, Oster's δ suffers from inverse monotonicity biases, whereby excessive weight is given to unobservables when most selection is done by observables, and too much weight is given to observed variables when most of the selection is done by unobservables (Diegert et al., 2022, p. 5).

The second problem, described in Masten and Poirier (2024), is that the "explain away" breakdown point – the smallest value of δ required for $\beta = 0$ – is not necessarily the same as the smallest δ required for β to flip its sign – the *sign change* breakdown point.[34]

Their sensitivity parameter, $\bar{r}_X$, follows the intuition of Oster's δ – Selection on Unobservables / Selection on Observables –, but accounts for correlation between observables and unobservables. More generally, their method allows researchers to set the problem as an inequality (in this case $\beta > 0$). Their method also allows for controlling for a maximum amount of correlation ($\bar{c}$) between unobservables and included controls X. When $\bar{c} = 1$, by construction, $\bar{r}_X < 1$.

The interpretation of $\bar{r}_X$ generally follows that of Oster's δ in the sense that a $\bar{r}_X = 0.5$ implies that selection on unobservables would have to be 50% as large as selection on observables, but the outcome and benchmark differ, as discussed below.

Table C2.A reports the results for Tables 3 and 4.[35] In column (1), I report Oster (2019)'s δ. I follow Oster's rule of thumb for assuming that R^2 would rise by a maximum of 30% if all unobservables were included in the regression ($R^2_{long} = 1.3 \times R^2_{med}$).

Columns (2) through (5) report the values of $\bar{r}_X$ under different assumptions of maximum correlation ($\bar{c}$) between unobservables and included controls X. In these columns, there is no constraint on the relative impact of unobservables on the outcome variable.[36] However, as argued in Diegert et al. (2022, p.40-42), this is a conservative estimate.

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[33]On this topic, see Angrist and Pischke (2017, p. 129).

[34]As explained in Masten and Poirier (2024, p. 2): "This can occur when the omitted variable bias is discontinuous in the sensitivity parameter, allowing the value of the bias adjusted estimand to jump across the horizontal axis at zero as the sensitivity parameter varies. [...] Such discontinuities can arise in regression analysis because the sensitivity parameters often involve covariance and variance terms, which lead to nonlinear restrictions on the value of the bias."

[35]Because these tests are always performed *relative to* a baseline set of parameters, I do not report the least-specified equation of each Table. Following the recommendations of Diegert et al. (2022), I use the basic geographical characteristics (continent, island, and landlocked dummies, as well as latitude) as the baseline.

[36]Formally, this is denoted by $\bar{r}_Y$, which is the analogous measure to $\bar{r}_X$, but relates the ratio of unobservables to observables to Y, the outcome variable.

The authors suggest $\bar{r}_X = \bar{r}_Y$ as an alternative benchmark, which assumes that the impact of unobservables (relative to observables) is the same for treatment (X) and for outcomes (Y). However, the process of imposing this constraint requires a numerical optimization algorithm, which can be extremely demanding in terms of computational capacity. Therefore, I was not able to obtain it for some specifications, denoted in the tables with (–).

Most results for specifications including all controls are quite robust to selection on observables according to Oster's δ. For instance, the specifications of Table 3, Col.4, and Columns (3) and (6) of Table 5 (Panels B and C), would require selection on unobservables from 105.2% to 507.1% that of on observables to drive the results to zero. Notice that Column 3 of Table 5 follows the same specification as Table 3, Column 4, but includes a control for European ancestry, and the sensitivity parameters are substantially improved. Thus, the inclusion of this control eliminates a large portion of selection on unobservables.

In turn, when no restriction on $\bar{r}_Y$ is applied (Columns 2-5 of Tables C2.A-C2.B), the $\bar{r}_X$ parameters hover around 0.4-0.7 in the tests for *Avg. HIEL*. This can be considered robust according to the discussion in Diegert et al. (2022, pp. 31, 40).[37]

Moreover, when we apply the restriction $\bar{r}_X = \bar{r}_Y$ – assuming the impact of unobservables (relative to observables) is the same for treatment (X) and for outcomes (Y) –, the results are deemed much more robust to unobservables.

Table C2.A: Sensitivity Analysis, Tables 3-4

Parameters	Oster (2019) δ ($R^2_{long} = 1.3 \times R^2_{med}$)	Diegert et al. (2022) $\bar{r}_Y = +\infty$ $\bar{c} = 0.25$	$\bar{r}_Y = +\infty$ $\bar{c} = 0.5$	$\bar{r}_Y = +\infty$ $\bar{c} = 0.75$	$\bar{r}_Y = +\infty$ $\bar{c} = 1$	$\bar{r}_Y = \bar{r}_X$ $\bar{c} = 1$
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Table 3:						
Avg. HIEL						
Column 3	0.685	0.339	0.337	0.337	0.337	0.614
Column 4	1.054	0.471	0.459	0.459	0.459	0.702
Table 4:						
Postwar						
Column 4	0.977	0.248	0.248	0.248	0.248	–
Postwar×HIEL Indep.						
Column 5	0.149	0.047	0.047	0.047	0.047	–

Notes: Sensitivity analysis not provided for insignificant coefficients or columns with less than the baseline controls (e.g. Column 2, Table 3). Estimates could not be obtained for cells with –. See main text for details.

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[37]They suggest a cutoff of 0.5 as a "more reasonable value for determining robustness." Diegert et al. (2022, pp. 31). As they argue, this is sensible assumption because researchers do not choose controls at random. It is likely that they first include the most important variables, and thus omitted ones will likely have less predictive power. Also see Altonji et al. (2005).

Table C2.B: Sensitivity Analysis, Table 5

Parameters	Oster (2019) δ ($R^2_{long} = 1.3 \times R^2_{med}$)	Diegert et al. (2022) $\bar{r}_Y = +\infty$ $\bar{c} = 0.25$	$\bar{r}_Y = +\infty$ $\bar{c} = 0.5$	$\bar{r}_Y = +\infty$ $\bar{c} = 0.75$	$\bar{r}_Y = +\infty$ $\bar{c} = 1$	$\bar{r}_Y = \bar{r}_X$ $\bar{c} = 1$
Variable	(1)	(2)	(3)	(4)	(5)	(6)
Table 5A:						
Column 2						
Avg. HIEL	0.942	0.389	0.385	0.385	0.385	0.626
Euro Settlers	0.207	0.148	0.148	0.148	0.148	0.375
Table 5B:						
Avg. HIEL						
Column 2	0.659	0.632	0.591	0.588	0.588	0.745
Column 3	1.512	0.471	0.459	0.459	0.459	0.648
Column 5	0.668	0.633	0.592	0.589	0.589	0.747
Column 6	1.919	0.463	0.452	0.452	0.452	0.613
Euro Origins						
Column 6	0.379	0.376	0.376	0.376	0.376	-
Avg. HIEL×Euro O.						
Column 6	0.901	0.377	0.374	0.374	0.374	0.561
Table 5C:						
Avg. HIEL						
Column 2	0.872	0.715	0.655	0.645	0.645	0.798
Column 3	2.875	0.418	0.412	0.412	0.412	0.599
Column 5	0.731	0.635	0.593	0.590	0.590	0.775
Column 6	3.075	0.410	0.405	0.405	0.405	0.565
Adj. Euro Origins						
Column 6	3.616	0.092	0.092	0.092	0.092	–
Avg. HIEL×Adj. Euro O.						
Column 6	5.071	0.091	0.091	0.091	0.091	0.264
Table 6:						
HIEL Indep						
Column 3	0.354	0.360	0.358	0.358	0.358	0.740
HIEL Indep.×Years since Indep.						
Column 3	1.045	0.420	0.414	0.414	0.414	0.729
Avg. HIEL						
Column 5	0.289	0.289	0.289	0.289	0.289	0.679
Column 6	0.398	0.154	0.154	0.154	0.154	0.775
Avg. HIEL×Years since Indep.						
Column 6	0.275	0.373	0.370	0.370	0.370	0.786

Notes: Sensitivity analysis not provided for insignificant coefficients or columns with less than the baseline controls (e.g. Column 2, Table 3). Estimates could not be obtained for cells with – . See main text for details.

C.3 Conley Spatial Standard Errors

The main results cluster the standard errors at the colonizer level. However, a potential concern is that neighboring countries are more likely to have been colonized by the same colonizer within a relatively short period, introducing spatial correlation across observations. Conley and Kelly (2025) argue that accounting for spatial correlation is especially important in studies of persistence. Indeed, clusters of colonization are visible in Figure 1. Here, I reestimate the main results from Tables 3-5 using Conley (1999) spatial standard errors at four distance thresholds: 1,000, 2,500, 5,000, and 10,000 km. The new standard errors and their significance levels are reported in Table C3.A for Tables 3 and 4 and in Table C3.B for Table 5. Unfortunately, those for Columns 3 and 6 of Table 6 could not be estimated using Conley (1999) standard errors – see Table C3.C.[38]

The results using Conley (1999) errors are generally at the same or higher levels significance, indicating that accounting for spatial correlation actually leads to more precise estimates. A clear exception is the results involving the coefficient *Postwar* and its interaction with *HIEL Indep.*. This seems to be the case that knowing the latitude and longitude will tell one whether a country has had independence before or after the war, as discussed in Conley and Kelly (2025).

Table C3.A: Reproduction of Tables 3-4, Accounting for Spatial Correlation

		Clustered	Conley (1999) with Distance Threshold:			
	Coefficient	(1)	1,000km (2)	2,500km (3)	5,000km (4)	10,000km (5)
Table 3						
HIEL Colonizer						
Column 1	0.716	0.153***	0.188***	0.191***	0.185***	0.152***
Column 2	0.521	0.206**	0.208**	0.200**	0.211**	0.208**
Column 3	1.199	0.325**	0.527**	0.446**	0.341**	0.000***
Column 4	1.648	0.206***	0.537***	0.415***	0.354***	0.249***
Table 4						
Postwar						
Column 4	-0.451	0.148*	0.266*	0.255*	0.297*	0.230*
Column 5	-1.228	0.381**	2.486	2.368	2.361	2.217
Postwar × HIEL Indep.						
Column 5	0.117	O.057*	0.344	0.332	0.334	0.317

Notes: Estimations not performed for insignificant results. See main tables for full specification.

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[38]Package `conleyreg` in R informs: `Error in solve.default(crossprod(V_spatial_HAC)) : system is computationally singular: reciprocal condition number = 2.28269e-25`. This is likely due to the high dimensionality of fixed effects.

Table C3.B: Reproduction of Table 5, Accounting for Spatial Correlation

| | | Clustered | Conley (1999) with Distance Threshold: | | | |
| | | | 1,000km | 2,500km | 5,000km | 10,000km |
	Coefficient	(1)	(2)	(3)	(4)	(5)
Table 5A						
Avg. HIEL						
Column 1	0.431	0.159***	0.231*	0.207**	0.206**	0.174**
Column 2	0.337	0.145*	0.216	0.188*	0.162**	0.126**
Column 4	0.349	0.169*	0.252	0.230	0.237	0.205*
Euro Settlers						
Column 1	0.021	0.002***	0.003***	0.003***	0.003***	0.003***
Column 2	0.012	0.003***	0.007	0.009	0.009	0.008
Column 4	-0.294	0.120*	0.158*	0.134**	0.110*	0.093***
Avg. HIEL × Euro Settlers						
Column 4	0.039	0.015**	0.019	0.017**	0.013***	0.012***
Table 5B						
Avg. HIEL						
Column 1	0.718	0.134***	0.213***	0.212***	0.184***	0.142***
Column 2	0.446	0.146**	0.189**	0.187**	0.197**	0.193**
Column 3	1.442	0.440***	0.461***	0.388***	0.353***	0.246***
Column 4	0.698	0.125***	0.213***	0.213*	0.186***	0.143***
Column 5	0.448	0.153**	0.189**	0.187**	0.196**	0.191**
Column 6	1.344	0.217***	0.421***	0.338***	0.289***	0.206***
Euro Origins						
Column 3	-0.016	0.008	0.004***	0.004***	0.004***	0.005***
Column 4	-0.206	0.056***	0.184	0.161	0.157	0.146
Column 6	-1.344	0.466**	0.521**	0.514**	0.450***	0.384***
Avg. HIEL × Euro Origins						
Column 4	0.026	0.007***	0.023	0.020	0.020	0.018
Column 6	0.167	0.060**	0.066**	0.065**	0.057***	0.048***
Table 5C						
Avg. HIEL						
Column 1	0.648	0.124***	0.208***	0.204***	).173***	0.139***
Column 2	0.443	0.141**	0.191**	0.189**	0.201**	0.200**
Column 3	1.299	0.432**	0.486**	0.412***	0.359***	0.234***
Column 4	0.615	0.114***	0.209***	0.207***	0.179***	0.147***
Column 5	0.427	0.141**	0.194**	0.206**	0.206**	0.204**
Column 6	1.067	0.227***	0.450**	0.368**	0.289***	0.184***
Adj. Euro Origins						
Column 1	0.005	0.001**	0.003	0.004	0.005	0.004
Column 3	-0.016	0.008	0.004***	0.004***	0.005***	0.005***
Column 4	-0.277	0.031***	0.137**	0.123**	0.124**	0.116**
Column 6	-1.433	0.470**	0.543**	0.457***	0.345***	0.245***
Avg. HIEL × Adj. Euro Origins						
Column 4	0.035	0.004***	0.017**	0.015**	0.015**	0.014**
Column 6	0.178	0.060**	0.068**	0.058***	0.044***	0.031***

Notes: Estimations not performed for insignificant results. See main tables for full specification.

Table C3.C: Reproduction of Table 6, Accounting for Spatial Correlation

	Coefficient	Clustered (1)	Conley (1999) with Distance Threshold: 1,000km (2)	2,500km (3)	5,000km (4)	10,000km (5)
Table 6 *HIEL at Indep.*						
Column 1	-0.031	0.321	0.192	0.204	0.214	0.205
Column 2	0.117	0.316	0.322	0.326	0.265	0.240
Column 3	1.245	0.399***		[see Table Notes]		
HIEL at Indep. × Years since Indep.						
Column 1	0.003	0.003	0.003	0.003	0.003	0.002
Column 2	0.006	0.003	0.005	0.004	0.004	0.004
Column 3	0.003	0.001*		[see Table Notes]		
Avg. HIEL						
Column 4	0.840	0.288**	0.354**	0.365**	0.360**	0.298***
Column 5	0.691	0.299*	0.351**	0.369*	0.349*	0.256***
Column 6	1.827	0.459		[see Table Notes]		
Avg. HIEL × Years since Indep.						
Column 4	-0.003	0.006	0.006	0.006	0.007	0.006
Column 5	0.005	0.005	0.006	0.006	0.007	0.006
Column 6	0.009	0.003*		[see Table Notes]		

Notes: Columns 3 and 6 could not be estimated using Conley (1999) standard errors. Package `conleyreg` in R informs: `Error in solve.default(crossprod(V_spatial_HAC)) : system is computationally singular: reciprocal condition number = 2.28269e-25`. This is likely due to the high dimensionality of fixed effects.

C.4 Population-Weighted Regressions

Table C4: Economic Freedom of Colonizer and Average Economic Freedom (2000-2019), Population Weighted

Dependent Variable:	Avg. EFW (2000-2019)			
	(1)	(2)	(3)	(4)
HIEL Colonizer	0.453***	0.236	0.621	1.659**
	(0.122)	(0.179)	(0.317)	(0.399)
America dummy		-0.0603	-0.723	0.0229
		(0.120)	(0.586)	(1.007)
Africa dummy		-1.789***	-1.324	0.304
		(0.280)	(0.927)	(1.818)
Asia dummy		-1.470***	-1.538	-0.546
		(0.217)	(0.848)	(1.202)
Abs. Latitude		-1.153	-3.712**	-1.346
		(0.936)	(1.272)	(2.172)
Landlocked		0.259	1.122*	1.497***
		(0.436)	(0.412)	(0.293)
Island		0.334*	0.930	1.064
		(0.160)	(0.490)	(0.561)
Ruggedness			-0.00226	0.0000893
			(0.00296)	(0.00197)
Log Settler Mortality			-0.173	-0.399**
			(0.207)	(0.124)
Pop. Density in 1500			-0.0692	0.0397
			(0.140)	(0.227)
French Legal Origin				0.413
				(0.748)
British Legal Origin				1.517***
				(0.217)
P-val. humidity			[0.002]	[0.000]
P-val. temperature			[0.013]	[0.000]
P-val. climate/soil			[0.322]	[0.000]
P-val. nat. resources			[0.200]	[0.417]
Colonizer FE	No	No	Yes	Yes
N	87	70	53	53
R^2	0.090	0.329	0.882	0.914

Notes: Standard errors clustered at the colonizer level in parenthesis. *, **, and *** indicate statistical significance at the 10, 5, and 1% levels, respectively. Observations weighted by population at independence. Dependent variable is the average *Economic Freedom of the World* (EFW) Index score in the 2000-2019 period. The scores range from 0 to 10. HIEL Colonizer is the average HIEL score (starting in 1850) of the colonizer(s) during the period of colonization. Columns (3) and (4) include four indicators of humidity, five indicators of temperature, and six indicators of climate/soil, as well as controls for the presence of gold, iron, silver, zinc, and oil reserves. Dummies for German and Scandinavian not included for lack of observations.