

Winds of Change

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Imperialism

- Mnnmohan Singn (India's prime minister) caused a stir in his homeland by noting (in a speech) a few "beneficial consequences" of India's years under British rule
- Free press, civil service, and notion of the rule of law

- Imperialism provided a rich feast for economists: an explanation of why some countries grow rich and others do not

Institutions

- There is no dispute about that in rich countries, institutions function rather well. In poor countries, they don't
- Institutions: formal laws and unwritten rules to govern the society
- What is tricky is showing that good institutions are a cause of economic progress rather than a by-product of it

Test of theory

- The colonial adventures of the past provide the natural experiments
- Data: a century as a colony is worth a 40% increase in today's (2000) GDP (from a sample of 80 countries)

Two Interpretations

- **Explanation 1:**

An island has better resources and so was chosen in earlier days to be a colony; and better resources lead to higher GDP (and better institutions) today

- **Explanation 2:**

An island became a colony randomly, and since colonial government established good institutions so its GDP is higher today

Instrumental variables

- Feyrer and Sacerdote (2009) argue that before 19th century an island's location (wind speed and sea currents) determines if it will become a colony
- If so, explanation 2 is more plausible:
after an island became an colony, the colonial government established better institutions, and hence GDP is higher today

Colony and local people

- However, higher GDP today does not necessarily mean that local people are better off
- After Spanish colonized Puerto Rico in 1505, the native population fell from 60,000 to 1,500 within 30 years