

# Policies, Politics

## Can Evidence Play a Role in the Fight against Poverty?

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## Has all of this been useless?

- ▶ A lot of our work, and that of many development economists today, is devoted to design, and evaluate, effective policies to fight poverty.
- ▶ The big world's events seem to have more to do with politics than with policies.
  - ▶ In the West: enough aid was given to Egypt every year to pay 20 dollar per African child.
  - ▶ In the South: What good would it be to know how to best encourage mothers to immunize their children in Ivory Coast?

- ▶ Bill Easterly:

*RCTs are infeasible for many of the big questions in development, like the economy-wide effects of good institutions or good macroeconomic policies(...) Embracing RCTs has led development researchers to lower<sub>2</sub> their ambitions."*

# Political Economy

- ▶ The institutionalist view, fairly dominant among political economists today, is that the main question of development is to figure how to sort out the political process
  - ▶ Without good politics: no good policies.
  - ▶ With good politics: good policies will follow
- ▶ Acemoglu-Robinson *Why Nations Fail*.
  - ▶ *INSTITUTIONS* (property rights, political system, etc.) are the main driver of success of a country.
  - ▶ What is the evidence?
  - ▶ *INSTITUTIONS* are endogenous: In what sense?

# Identifying the effects of Institutions: basic idea

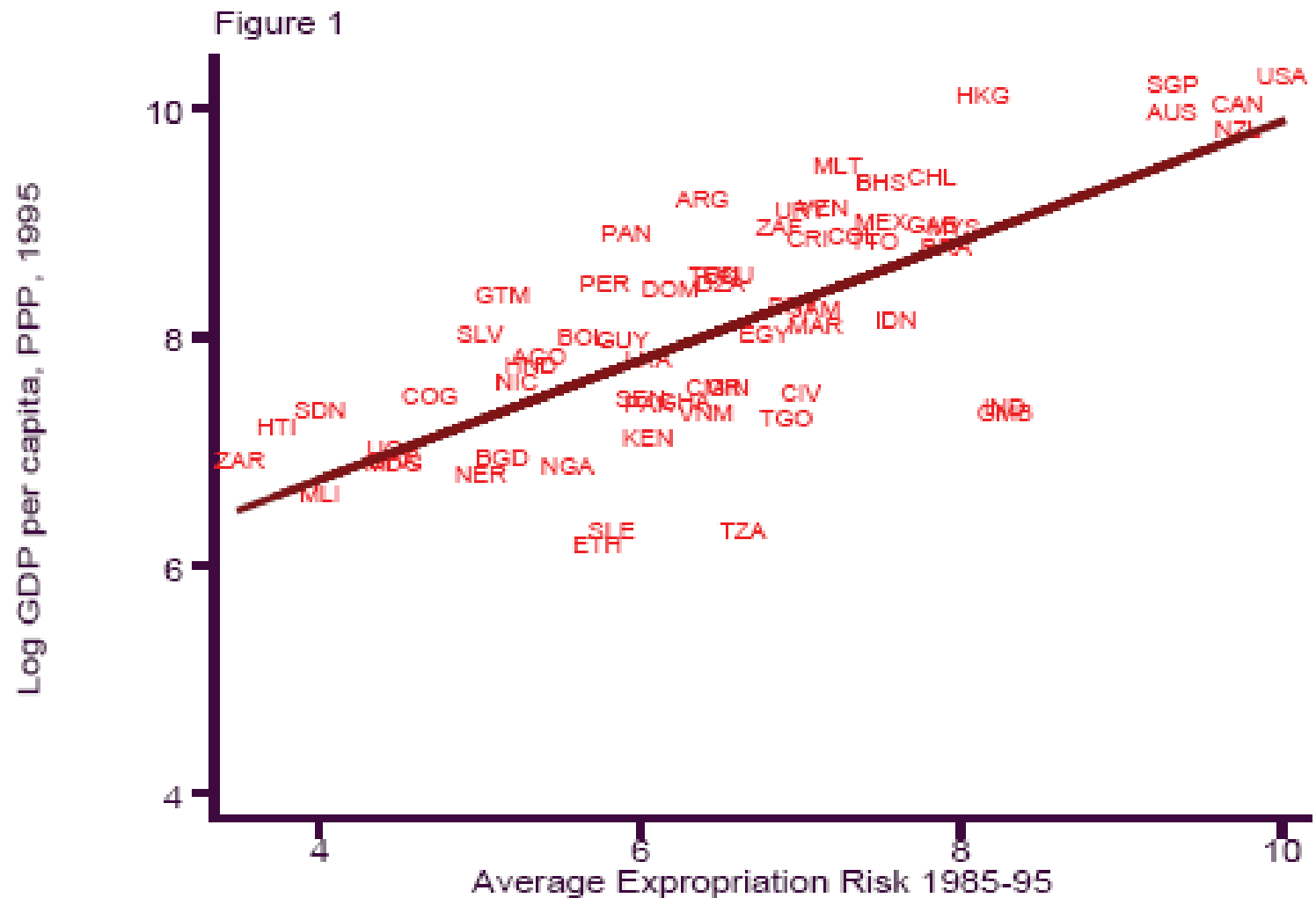
1. In former colonies, current institutions are better in places where early institutions were better.
2. In colonies, institutions were of better quality when European settlers decided to stay in the country and establish themselves there, instead of just using the country to make money.
  - ▶ Examples of countries where Europeans settled:
  - ▶ Examples of countries where Europeans did not settle but just set up an extractive state:
3. The mortality of early settlers was an important determinant of the decision of Europeans to establish themselves in the place.

# Expropriation Risk and GDP

Lecture Note

Growth

Acemoglu-  
Johnson-  
Robinson



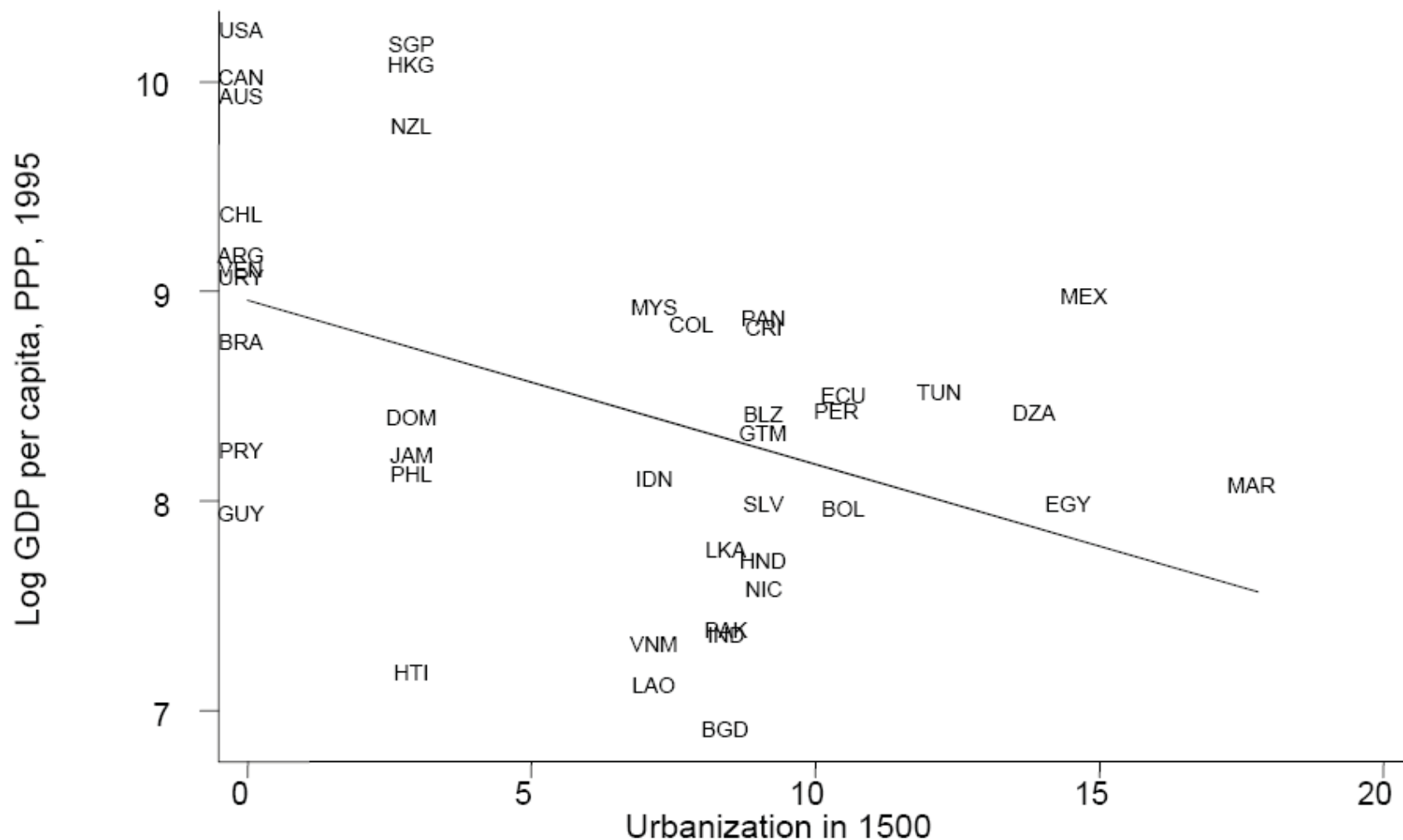
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# Urbanization then GDP today

Lecture Note

Growth

Acemoglu-  
Johnson-  
Robinson



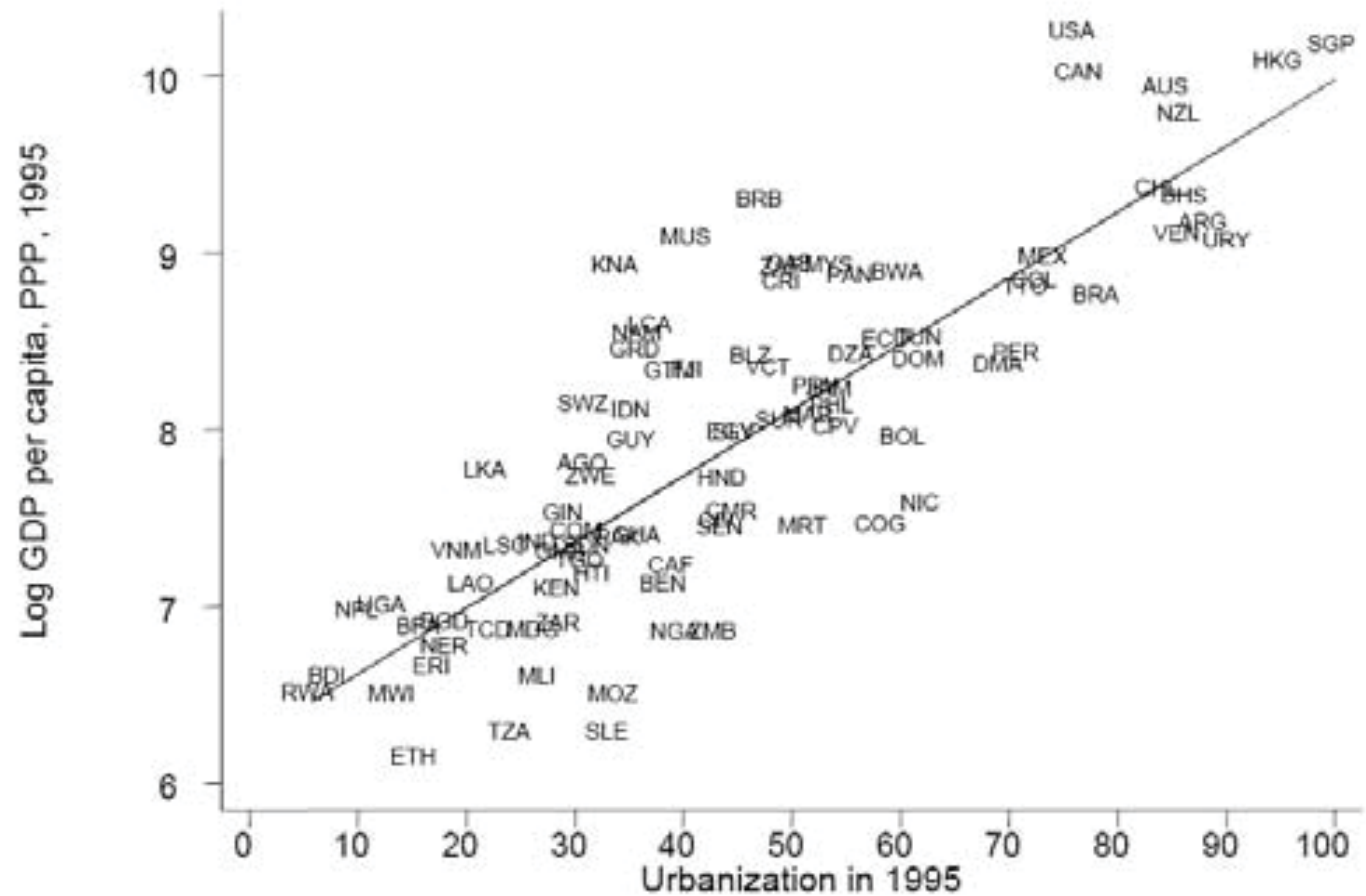
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# Urbanization today GDP today

Lecture Note

Growth

Acemoglu-  
Johnson-  
Robinson



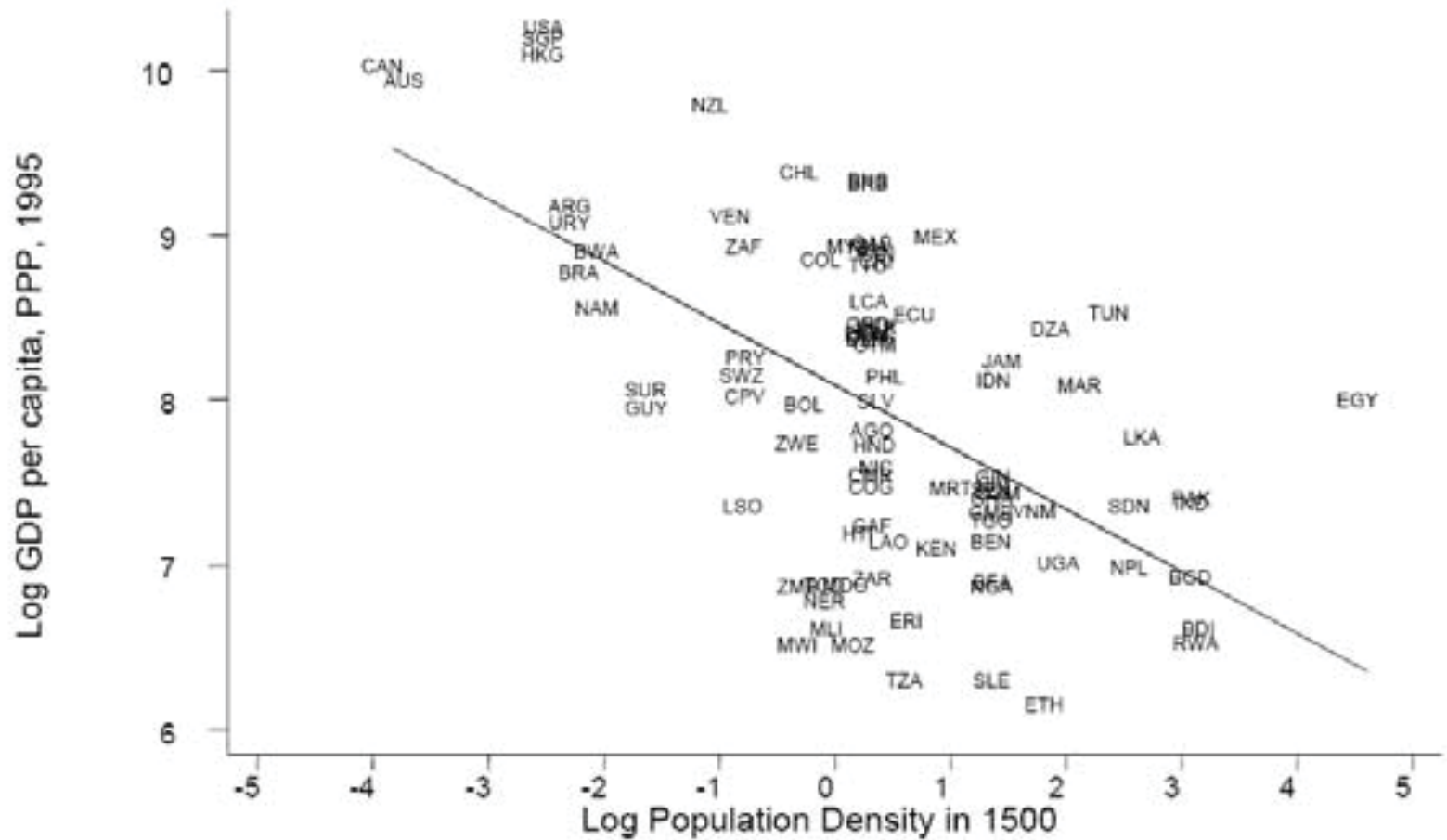
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# Population then GDP today

Lecture Note

Growth

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Johnson-  
Robinson



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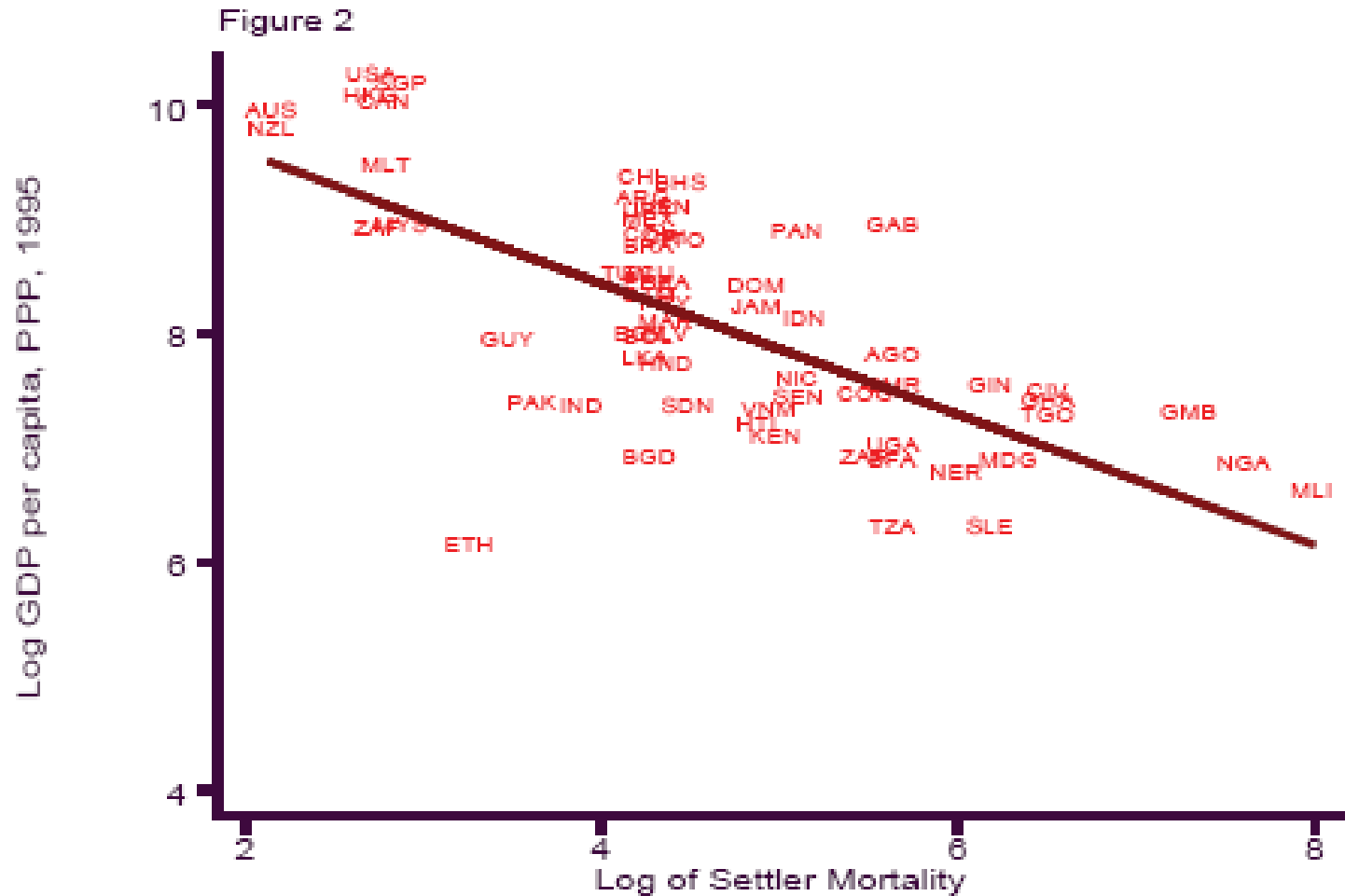


# Settler Mortality and GDP

Lecture Note

Growth

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Johnson-  
Robinson



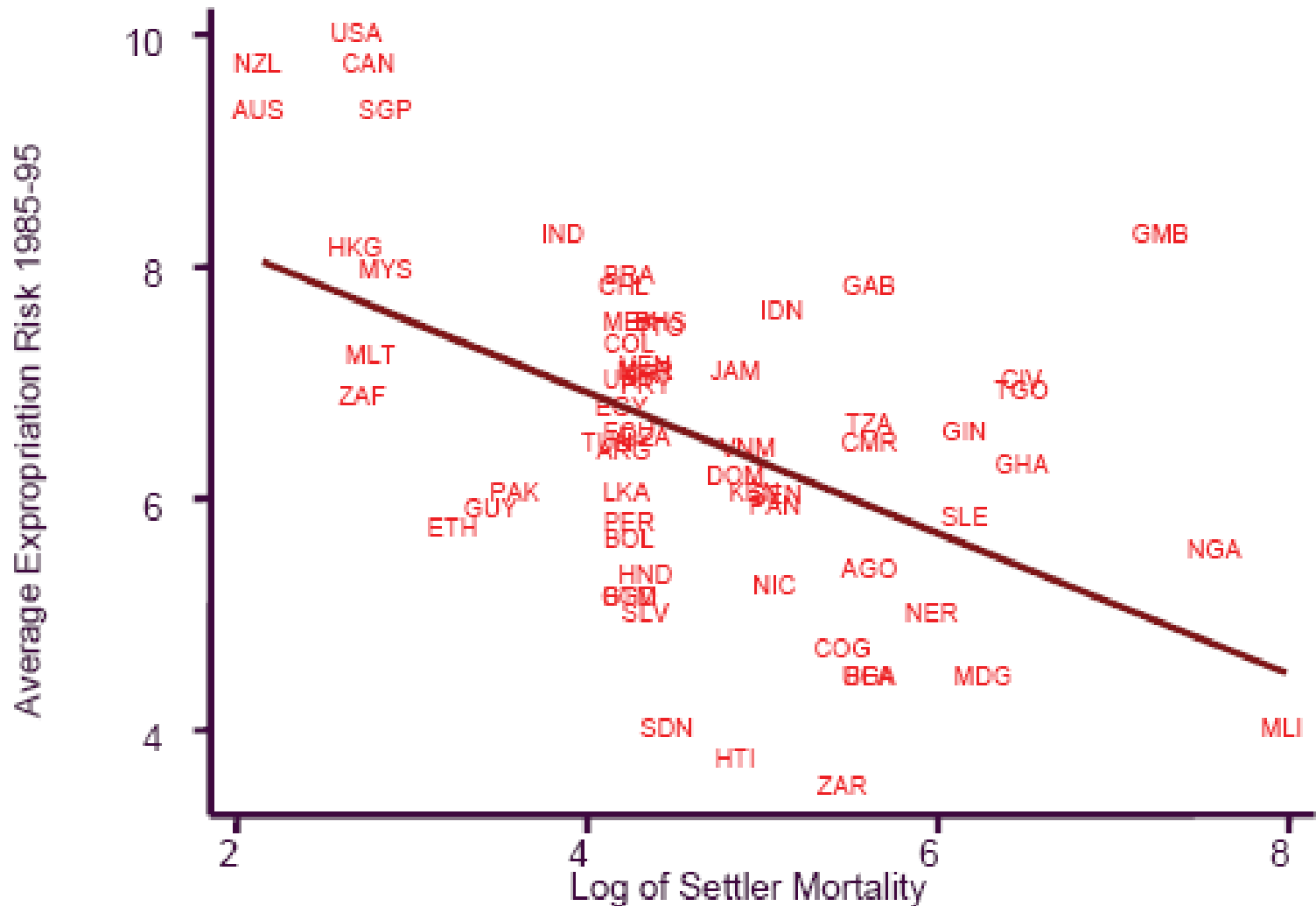
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# Settler Mortality and Expropriation Risk

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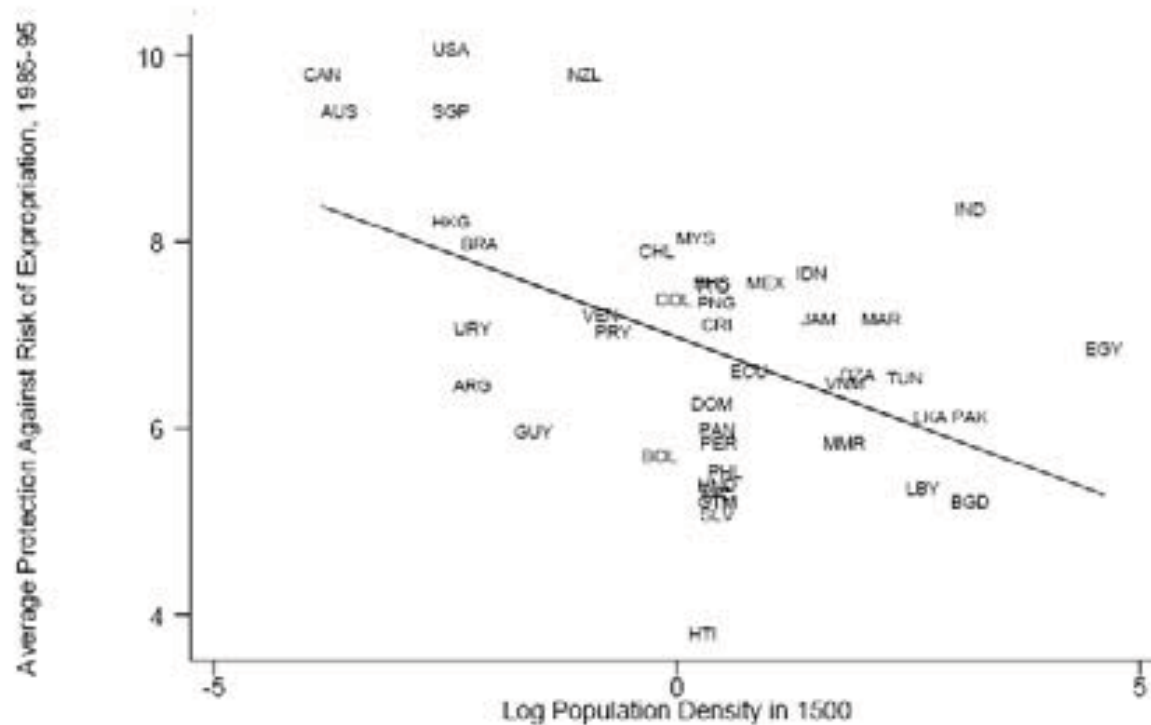
# Population Density and Expropriation Risk

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Figure 13  
Log population density in 1500 and average protection  
against risk of expropriation 1985-95



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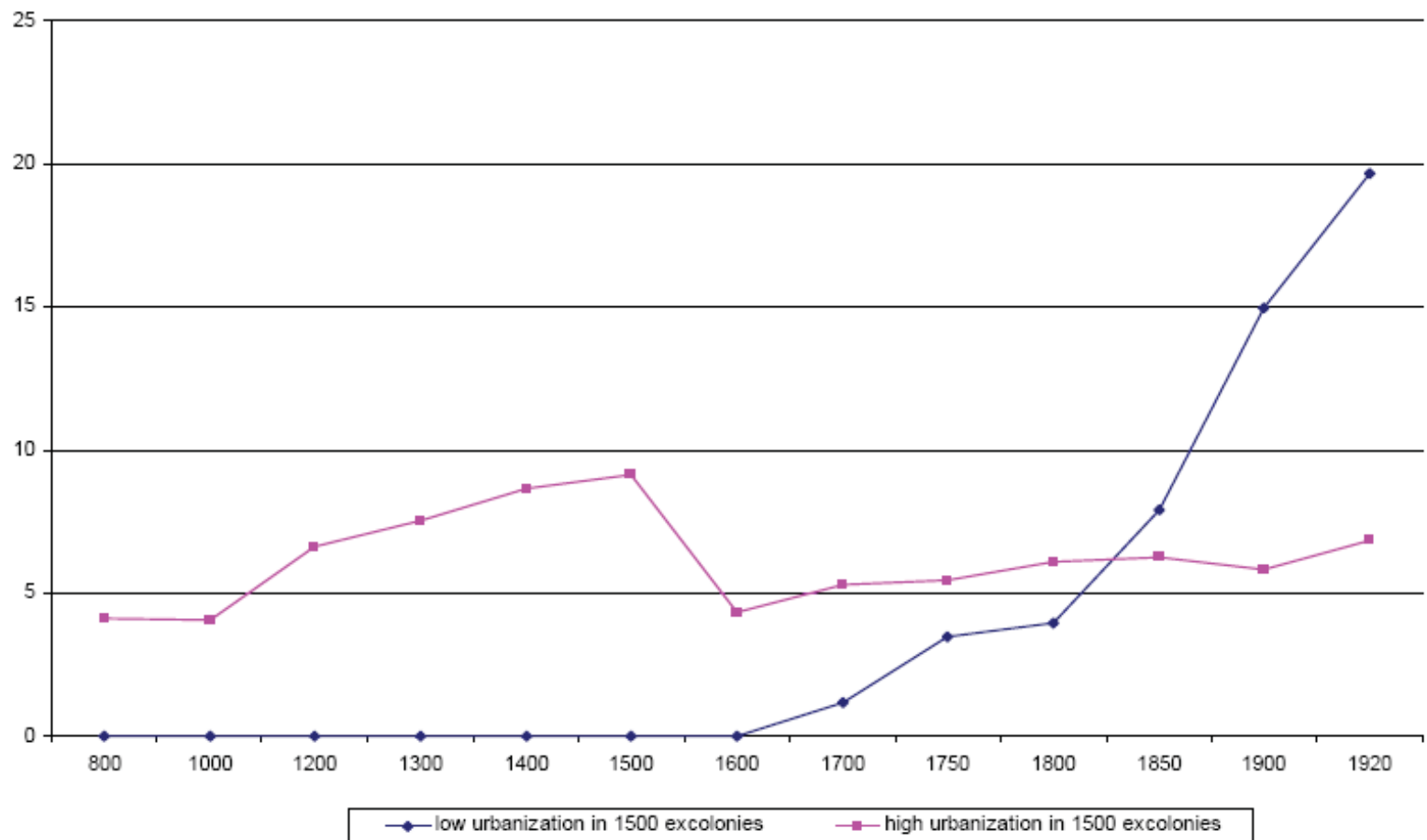
# Timing of Reversal

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**Timing of the Reversal**  
Urbanization in excolonies with low and high urbanization in 1500  
(averages weighted within each group by population in 1500)



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# Identifying the effects of Institutions: evidence

1. Expropriation risk is strongly correlated with GDP per capita
2. Settler mortality predicts both expropriation risk and GDP per capita.
3. There was a reversal of fortune.
4. What do you worry about with this evidence?
5. If Zaire today had the institutions that USA has it would be 5 times richer.

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## 14.73 The Challenge of World Poverty

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