RECITATION 4

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DEVELOPMENT

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Recitation 4

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Review - Main theories

List of main theories used to explain economic development?

- Natural endowments

- Institutions

- (Culture)

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Specific Examples of these theories and source of identification?

- Natural endowments: heat, oil, access to the sea
  Dell, Jones & Olken (11): within-country variation of
  temperature. Findings?

- Institutions: extractive institutions vs. property rights, slaves
  trade
  Acemoglu, Johnson and Robinson (01): settler mortality as
  an instrument. Findings?

- (Culture: Weber, the Protestant Ethic and the Spirit of
  Capitalism)

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INSTITUTIONAL EXPLANATIONS - LOOKING FOR THE ULTIMATE CAUSE

- Looking for a causal chain: Peru's mining mita (Dell, 10)
  What is the causal chain here?

Mita $\rightarrow$ No haciendas$\rightarrow$ Instability $\rightarrow$ Less public goods (roads)
provision

- What is usually at the origin of institutional explanation?

Chance (the butterfly effect)

- Is it a more optimistic view of the world than natural
  explanations?

4

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JARED DIAMOND: GUNS, GERMS AND STEEL (97)

- His question: why is it Europeans who conquered North America, and not Native Indians who conquered Europa?

- What do you think of this question, compared to the questions we have asked in rest of the class?

- What would you say? Nature / institutions / culture?

- His explanation: nature
  - Transfer of technologies east - west easier than north - south. Why?
  - More animals to domesticate in Europe than in North America. Why? What dit it change?

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Jared Diamond: Guns, germs and steel (97)

- Are you convinced?

- Acemoglu and Robinson's answer (Why Nations fail, 12)
  The bulk of the variance in economic performance is within
  rather than between continents - does this ring a bell?
  Broad distribution of political rights and accountability of
  government vs. self-centered elites

REVIEW - MEDIAN VOTER THEOREM

- Conditions of the MVT?

Single-peaked preferences; 2 candidates; candidates simultaneously announce and can commit to implement policies p_1 and p_2, they care only about winning; voting is by majority rule

- Theorem?

If above conditions are satisfied, in equilibrium, $p_1 = p_2 = b_{median}$

- What should the implemented policy correspond to?

The Median Voter's prefed outcome: b_{median}

Review - Median Voter Theorem

- Given my program, how does my ethnicity or gender affect my probability of getting elected?

It doesn't affect it

- How does my ethnicity or gender affect my political action?

It doesn't affect it

- What happens if I prevent some people from being candidates?

It doesn't affect the outcome

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PANDE, 2003: POLITICAL RESERVATION AND POLITY OUTCOMES

- Policy examined: mandated political representation of ethnic minorities
  - state-level legislatures in India
  - reservation of seats for SC/ST legislators based on their share in population
  - SC = 16%; ST = 8%. Social and economic disadvantage

- Identification
  - census updates population every 10 years
  - election cycles vary by state

- $Y_{st} = \alpha_s + \beta_t + \gamma R_{st} + \epsilon_{st}$
  Y_{st} a policy outcome
  α_s and β_t state and year fixed effects
  R_{st} SC and ST reservations

- What do the fixed effects control for? What variation are we exploiting?

- Identifying assumption?

The change in R_{st} is not correlated with other changes. True?

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- $Y_{st} = \alpha_s + \beta_t + \gamma R_{st} + \phi P_{stcensus} + \delta P_{st} + \epsilon_{st}$
  $P_{stcensus}$ Fraction of SC at time of census
  P_{st} Current fraction of SC

- Aren't $P_{stcensus}$ and R_{st} correlated 1 to 1?

It takes varying time for $P_{stcensus}$ to affect R_{st}.

	Job Quotas			
	1	2	3	4
SC reservation	0.539	0.493	0.659	0.675
	(0.120)	(0.115)	(0.108)	(0.135)
ST reservation	0.199	-0.316	-0.301	-0.371
	(0.109)	(0.204)	(0.225)	(0.223)
SC census population share		0.188	-0.071	-0.113
		(0.065)	(0.073)	(0.081)
ST census population share		0.559	0.842	0.861
		(0.170)	(0.190)	(0.192)
SC current population share			0.648	0.699
			(0.132)	(0.172)
ST current population share			-0.675	-0.689
			(0.294)	(0.313)
Other controls	NO	NO	No	YES
Adjusted R^2	0.88	0.9	0.9	0.91
Number of observations	519	519	519	505

- What are the units?
  - SC reservation: fraction of jurisdictions reserved for SC's
  - Job quotas = fraction of government jobs reserved for SC's

- So, interpretation of column 4? MAKE A SENTENCE!

A 1 percentage point increase in SC reservation increases job quotas by 0.6 percentage points

OTHER RESULTS

	ST reservation	SC reservation
Total spending	+	not sig.
Education spending	-	not sig.
Land reform legislation	not sig.	not sig.
Job quotas	not sig.	+
SC welfare spending	not sig.	not sig.
ST welfare spending	+	not sig.

- Are you surprised?

- What if you're told that SC individuals are more educated and geographically more dispersed than ST?

14.75 Political Economy and Economic Development
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