Recitation 4
List of main theories used to explain economic development?

- Natural endowments
- Institutions
- (Culture)
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)
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 → No haciendas → Instability → 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?
Jared Diamond: Guns, Germs and Steel

- 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 did it change?
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, $p_1 = p_2 = b_{\text{median}}$
    - What should the implemented policy correspond to?
      The Median Voter’s preferred outcome: $b_{\text{median}}$
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
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
Empirical strategy

- $Y_{st} = \alpha_s + \beta_t + \gamma R_{st} + \epsilon_{st}$
  - $Y_{st}$: a policy outcome
  - $\alpha_s$ and $\beta_t$: 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?
Empirical strategy

- \( Y_{st} = \alpha_s + \beta_t + \gamma R_{st} + \phi P_{stcensus} + \delta P_{st} + \epsilon_{st} \)
  - \( P_{stcensus} \) 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 \( R_{st} \).
### Results

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

- **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

<table>
<thead>
<tr>
<th></th>
<th>ST reservation</th>
<th>SC reservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total spending</td>
<td>+</td>
<td>not sig.</td>
</tr>
<tr>
<td>Education spending</td>
<td>-</td>
<td>not sig.</td>
</tr>
<tr>
<td>Land reform legislation</td>
<td>not sig.</td>
<td>not sig.</td>
</tr>
<tr>
<td>Job quotas</td>
<td>not sig.</td>
<td>+</td>
</tr>
<tr>
<td>SC welfare spending</td>
<td>not sig.</td>
<td>not sig.</td>
</tr>
<tr>
<td>ST welfare spending</td>
<td>+</td>
<td>not sig.</td>
</tr>
</tbody>
</table>

- Are you surprised?

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