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Summaries of Doctoral Dissertations

Essays in International Political Economy

My dissertation studies three important questions in international political economy: The long-run consequences of social divisions, the endogenous evolution of institutions, and how coercive labor market institutions determine the distribution of the gains from trade.

I study these three questions in two very distinct populations: Native American reservations and the British Caribbean.

The first paper asks whether the large differences in economic development across Native American reservations today can be explained by social divisions that were created more than 150 years ago when the U.S. government forcibly integrated distinct Native American bands into shared reservations, condemning them to a system of shared governance that was not consistent with their political traditions and tribal identities.

The second and third papers study the politics and economics of the nineteenth-century British Caribbean, a "natural laboratory" of 17 highly comparable but in precise ways distinct islands.

The first Caribbean paper provides insights into the working of colonial institutions by showing how planter elites manipulated representative institutions to maintain their control over policymaking after Abolition had freed over 95 percent of the population from slavery.

The second Caribbean paper—coauthored with Dan Trefler and Avner Greif—studies the nexus of trade, institutions, and economic development. It embeds coercion into a standard principal-agent framework to decompose the effect of output prices on wages into a neoclassical and a coercive/institutional effect and to show how the division of the gains from trade depends on institutions and how institutions themselves are shaped by trade rents.

In the following, I sketch the main points of each of the three papers.

FORCED COEXISTENCE AND ECONOMIC DEVELOPMENT: EVIDENCE FROM NATIVE AMERICAN RESERVATIONS

The motivating fact for the first paper is that there are very substantial differences in income levels across Native American reservations today, despite the fact that reservations share very similar histories and operate within the same framework of exogenously imposed local institutions and federal Indian policy.

The paper argues that these differences can in large part be explained by something that happened on average more than 140 years ago, i.e., the historical process of reservation formation. It uses a combination of historical data on reservation formation and anthropological data on tribal structures from Murdoch's Ethnographic Atlas to

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I omit references from this summary to conserve on space. This should not take anything away from the important papers which provide the context to my dissertation.

show that many reservations were formed out of subtribal bands that had historically been separate autonomous political units, something I call Forced Integration, and that forcibly integrated reservations are today about 30 percent poorer than otherwise identical reservations. The paper uses an IV strategy based on historical mining rushes which exogenously changed the government's incentive to overcome resistance by local bands against being integrated onto shared reservations. The resulting IV estimates confirm that the 30 percent reduction in incomes seems to constitute a causal effect of forced integration on outcomes today.

The paper then moves from the cross-section into panel data. It shows that the effect of forced integration was constant and relatively small from 1970 to 1990 and then magnified in the 1990s. Two-thirds of the effect in 2000 is explained by differential growth in the 1990s. Strikingly, this implies that something that happened 140 years ago determines incomes today to a larger degree than 30 years ago.

Rather than a persistent poverty trap, this pattern points to an explanation where small differences in social organization survived unnoticed in the background as a latent variable until they interacted with big changes in the regulatory environment which put decision-making power with reservation governments in the late 1980s.

Turning to mechanisms, I argue that the most important link between forced integration and economic outcomes is likely the political channel. This is because federal regulation in 1934, which specified the institutional rules imposed on reservations, put almost no checks and balances on the power of local politicians so that politicians who cater only to their groups' interests have particularly destructive effects. While I cannot pin this mechanism down, I provide evidence from newspaper counts of reported reservation internal strife to support the view that forced integration is indeed strongly associated with political conflict.

The paper adds to an already large body of evidence that historical events can have large effects on economic outcomes today. In contrast to much of the literature on the effect of social divisions, this paper arguably estimates a causal effect rather than partial correlations. It is also to my knowledge the first paper that studies group divisions below the ethnic level, in this case between bands within the same Native American tribe.

The evidence on timing in this paper is important for our thinking of economic growth because it suggests that small differences in social organization can survive latently in the background for long times until they begin to really matter when there are big changes in the environment.

On a positive note, there is anecdotal evidence to suggest that this divergence within Indian county is self-limiting in the sense that poorer reservations are now actively looking to implement institutional innovations that help them emulate more successful reservations.

INSTITUTIONAL CHANGE AND ELITE PERSISTENCE: THE NINETEENTH-CENTURY CARIBBEAN

The second paper, the first of two Caribbean papers, starts with the motivation that when it comes to historical colonialism, there is a view in the empirical institutions literature that at the time colonies were settled, initial conditions determined whether Europeans instituted inclusive or extractive institutions and that these initial choices continue to impact long-run development to the present day through institutional path dependence. A salient example is the contrast between the so-called "Neo-Europes" —places like Canada, the United States, Australia, and New Zealand—which had high settler mortality and low indigenous population densities and which enjoy good inclusive institutions and high income levels today, and places like the Caribbean in which the opposite is true.

Despite this apparent contrast, it turns out that in terms of de jure inclusiveness, i.e., local representative institutions, the British Caribbean colonies were set up with the same institutions as the Neo-Europes. Furthermore, the Caribbean colonies retained their inclusive representative institutions well into the nineteenth century. It was only in the middle of the nineteenth century, that these democratic institutions contracted and there was an institutional divergence between the inclusiveness of Caribbean and Neo-European representative institutions.

Rather than quantitatively comparing the Caribbean and Neo-European colonies, this paper then focuses on only the Caribbean—getting empirical identification only off a panel of institutional changes in the Caribbean.

The paper's main contribution is to explain this late nineteenth-century contraction of representative institutions in the Caribbean. When slavery was abolished in 1838, the Caribbean was dominated by small planter elites, which Abolition pitted against a vast majority of freed slaves. As freed slaves were becoming smallholders, the franchise expanded because the right to vote was tied to landownership. Lacking the coercive capacity to effectively prevent this, planter elites were faced with an increasing likelihood of having the median voter become a freed slave. Running out of options, white elites abolished the formal powers they had exercised through their locally elected parliaments and ceded control over government to the British colonial administration. In a regression setting, the gradual exogenous expansion of the franchise, driven by a slow process of freed slaves obtaining legal title to their smallholdings and therefore the right to vote, explains the timing of the described constitutional changes. Data on the identity of elected politicians shows that the expanding franchise led to constitutional changes because it increased political competition for planter elites in the local parliaments.

The paper then investigates the effect that ceding local representation had on local policy choices. The existing literature suggests two priors: One, ceding local representation should have relaxed the executive's spending and taxation as the taxed gave up formal control over the budget. Two, spending should have shifted in favor of the poor because colonial administrators were ostensibly more likely to act in their favor than local elites. The data rejects both hypotheses. When local elites ceded their de jure elective powers, taxation and spending did not increase and if anything, pro-poor spending declined further from an already low base.

The paper's first main point is simply that there was in fact relatively little difference in the formal institutions of the two sets of colonies that we typically think of respectively as inclusive and extractive.

The paper's second main point is that initial conditions' primary effect on long-run outcomes did not necessarily work through the shaping of initial institutions but rather through shaping an elite-dominated political economy which only translated into a divergence in formal institutions when the big exogenous shock of the Abolition of slavery pitted planter elites against their former slaves.

This matters for how we think of the role of initial conditions in long-run institutional and economic development.

The paper's third main point is that the effect of endogenously changing institutions is likely to be very different from the effects of exogenously imposed ones, and that the explanation likely has to do with the fact that elites were willing to give up their de jure powers precisely because they anticipated that they could offset them with increases in de facto collective action.

TRADE RENTS AND COERCIVE LABOR MARKET INSTITUTIONS: THE NINETEENTH-CENTURY CARIBBEAN

The third paper studies the relationship between exogenous output prices and wages when employers can invest into coercive labor market institutions. The motivation for this paper comes from the fact that we think of the "first" globalization in the nineteenth century mostly in terms of the neoclassical Heckscher Ohlin framework, which says that labor gets paid its marginal product.

This is at odds with two other literatures in economics: First, a literature on coercive labor markets suggests that most labor markets throughout history were coercive in the sense that employers could invest in technologies that would make workers accept labor contracts they otherwise would not. Second, a literature at the intersection of trade and institutions suggests first that institutions determine how the gains from trade are divided and second that trade rents themselves influence institutional development.

While the existing empirical evidence on the first globalization is broadly consistent with the neoclassical view, most data comes from countries that even back then had relatively well-functioning factor market institutions. Looking beyond this rich country club in the nineteenth century invariably means looking at colonies, and the Caribbean offers the particular advantage that it consisted of many separate but comparable labor markets.

The paper attempts to unpack the effect of output prices on wages into a standard neoclassical and a nonstandard institutional channel. In a principal agent framework, it allows the principals (plantation owners) to invest into a coercive technology that reduces workers' outside option (of being smallholding farmers) and makes them accept a lower wage by relaxing their participation constraint. In practice, that meant planters would manipulate local courts and legislatures to press hard on smallholders through measures like eviction and high parochial taxes.

The theory unpacks the relationship between the price of plantation goods and wages: Lower prices reduce wages through a neoclassical channel but also shrink the economic and therefore political power of planters, which raises wages through lowered coercion.

These patterns are strongly confirmed in the data: In a panel of Caribbean colonies from 1838 to 1914, there is absolutely no correlation between the price of sugar, the main plantation crop, and wages. However, once we unpack this reduced form relationship into the two channels, we find that both channels are highly significant but exactly offset each other. Additional support for an institutional story comes from regressions of direct measures of coercion, rates of imprisonment, and court convictions, which indeed strongly correlate with the dominance of the plantation economy.

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