

7th Annual Economics Nobel Lecture

Friday, October 25, 2024, 12:00 – 12:50

Location: Walk Auditorium, Ritter Complex (across 13th St. from SAC South)

Lecturer: Professor Dimitrios Diamantaras



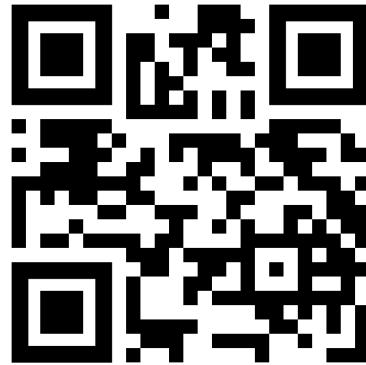
The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024 was awarded jointly to Daron Acemoglu, Simon Johnson and James A. Robinson “for studies of how institutions are formed and affect prosperity”

Lecture cosponsored by Omicron Delta Epsilon, Women in Economics, and the Temple Economics Society

Join the Theta of PA chapter of Omicron Delta Epsilon (ODE)

- Undergraduate Membership Requirements

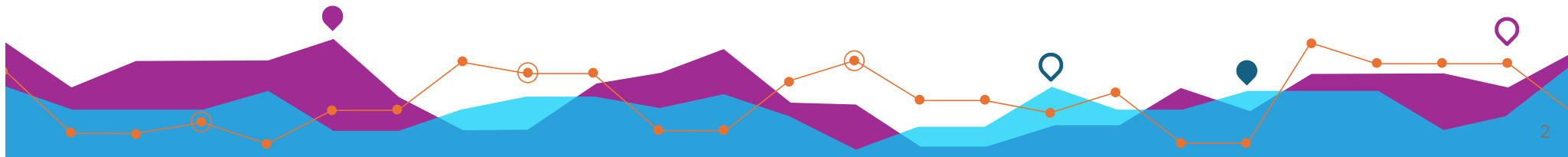
- Strong interest in Economics
- Completion of 12 hours of economics courses at time of application
- Cumulative GPA of at least 3.0
- GPA of at least 3.0 in economics coursework



- Graduate Membership Requirements

- Completion of one semester of full-time coursework
- A major or minor in economics
 - GPA of at least 3.0

Please contact Chapter President madeline.ruder@temple.edu or Faculty Advisor dimitrios.diamantaras@temple.edu with any questions.





Women in Economics



Who:

- Temple students supporting underrepresented genders in economics
- Open to anyone with a major/minor or an interest in economics

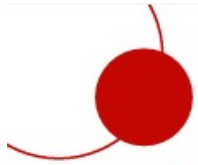
What:

- Hearing from weekly speakers
- Developing a professional network and skill set
- Providing college and career advice
- Making friends and connections in your community!!

Where and When:

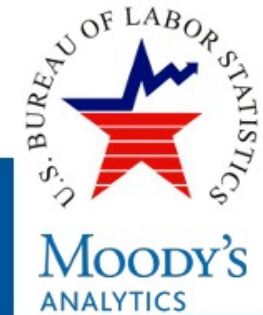
- Every **Wednesday 12-12:50 pm in Gladfelter 231B**





What you get for \$20...

- Weekly meetings every Friday, 12pm in Alter Hall
- Free pizza each week
- Industry guest speakers
- 1:1 networking and internship/job opportunities
- Career counseling session
- Professional development resources and advice
- Hands-on Economic workshops
- Peer to peer tutoring and mentorship
- Local community service opportunities
- A supportive academic and professional community :) with fun social events...
- Opportunity to attend NABE conference in Washington DC every Spring

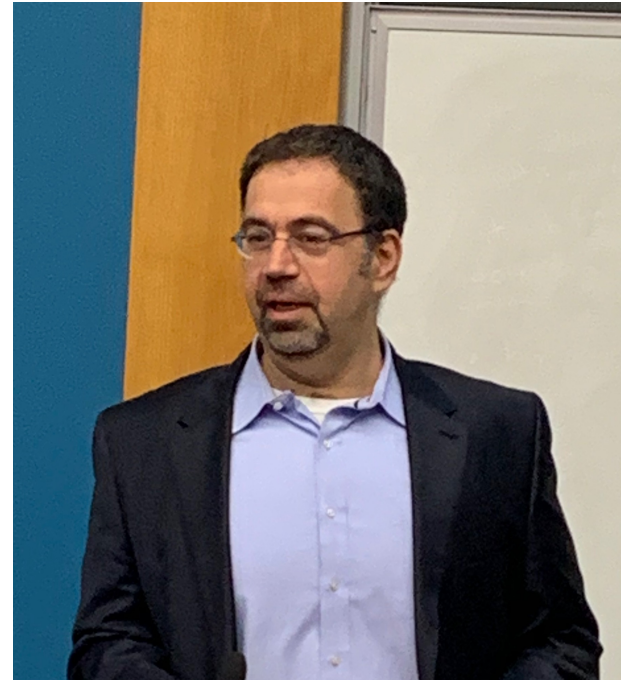


economics | policy | strategy



- **DARON ACEMOGLU**

Born 1967 in Istanbul, Türkiye.
PhD 1992 from London School
of Economics and Political
Science, UK. Professor at
Massachusetts Institute of
Technology, Cambridge, USA.



Daron Acemoglu speaking at Temple
University, November 9, 2019. Photo by
Dimitrios Diamantaras

- **SIMON JOHNSON**

Born 1963 in Sheffield, UK. PhD 1989 from Massachusetts Institute of Technology, Cambridge, USA.

Professor at Massachusetts Institute of Technology, Cambridge, USA.



By New Economic Thinking - Our
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/index.php?curid=153986499](https://commons.wikimedia.org/w/index.php?curid=153986499)

- **JAMES A. ROBINSON**

Born 1960. PhD 1993 from Yale University, New Haven, CT, USA. Professor at University of Chicago, IL, USA.



Source: University of Chicago,
Harris School of Public Policy

Impact of institutions on prosperity

A prize for studying a big question

- What makes some countries rich and others poor?
- What is the role of institutions, culture, and politics, and how do these interact and coevolve over time?
- AJR (Acemoglu, Johnson and Robinson) created a theoretical framework and conducted empirical studies, starting in 2001, to offer their answer.
- Their work sparked debates and a large literature using their framework to refine their answers.

An aside

- Economists have been expecting Acemoglu to receive the Nobel prize for years.
- The only real question in economists' minds was for which of his many contributions he would be awarded the prize.
- This is not to belittle Johnson and Robinson, they are top scholars with their own significant contributions.
- The Nobel committee's decision can be read as emphasizing the current trajectory of democracy across the globe.

The goose that laid the golden egg?

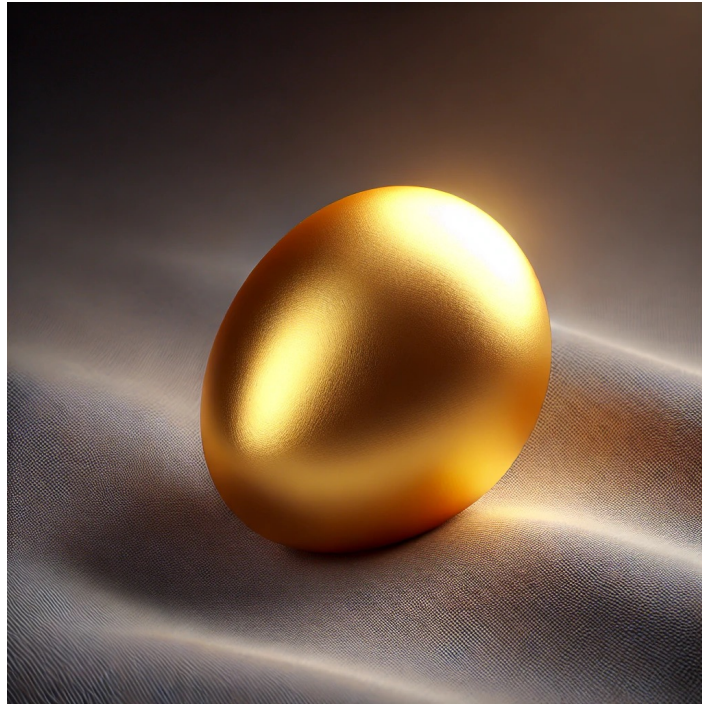
- Society's institutions matter for a country's economic well-being.
- A society not governed according to a strong rule of law and with institutions that allow a few to exploit the many does not generate economic growth and does not improve.
- Acemoglu, Johnson, and Robinson proposed a game-theoretic analysis of how this came about, advanced strong empirical support for it, and have kept refining and improving their theoretical framework to respond to new evidence.

Rule of law + Inclusive institutions



Source: DALL-E via ChatGPT 4o, 2024-10-19

Economic Prosperity and Growth



Source: DALL-E via ChatGPT 4o , 2024-10-19

A little history

- In the late 1400s CE and in the 1500s, Europeans colonized a large part of the earth.
- Some places they colonized had lots of inhabitants, lots of natural resources and plenty of tropical diseases deadly to European colonists.
- Other places were less heavily inhabited and offered a healthier environment to Europeans.

Just a little more history

- In the challenging, crowded colonies, Europeans subjugated the local population, sent few colonists (enough to keep the locals under control) and kept or introduced legal institutions that allowed a small elite to exploit the large majority of inhabitants. (Extractive institutions)
- In the healthier colonies, many European colonists settled and they brought with them legal institutions that offered more rights and more political representation to the majority. (Inclusive institutions)

Exogenous source of variation

- AJR provide evidence that *inclusive institutions caused more economic growth* in these colonies, while *extractive institutions retarded economic growth*.
- AJR take the health environment of the colonies as a **source of exogenous variation in the data**. They argue this makes their study design a quasi-experiment.

The causal chain in more detail

1. Living conditions under colonization (settler mortality) \Rightarrow
2. Size of European settlements during colonization \Rightarrow
3. Colonial institutions \Rightarrow
4. Institutions at independence \Rightarrow
5. Contemporary institutions \Rightarrow
6. Contemporary economic prosperity

Source: Scientific Background to the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024, The Committee for the Prize in Economic Sciences in Memory of Alfred Nobel

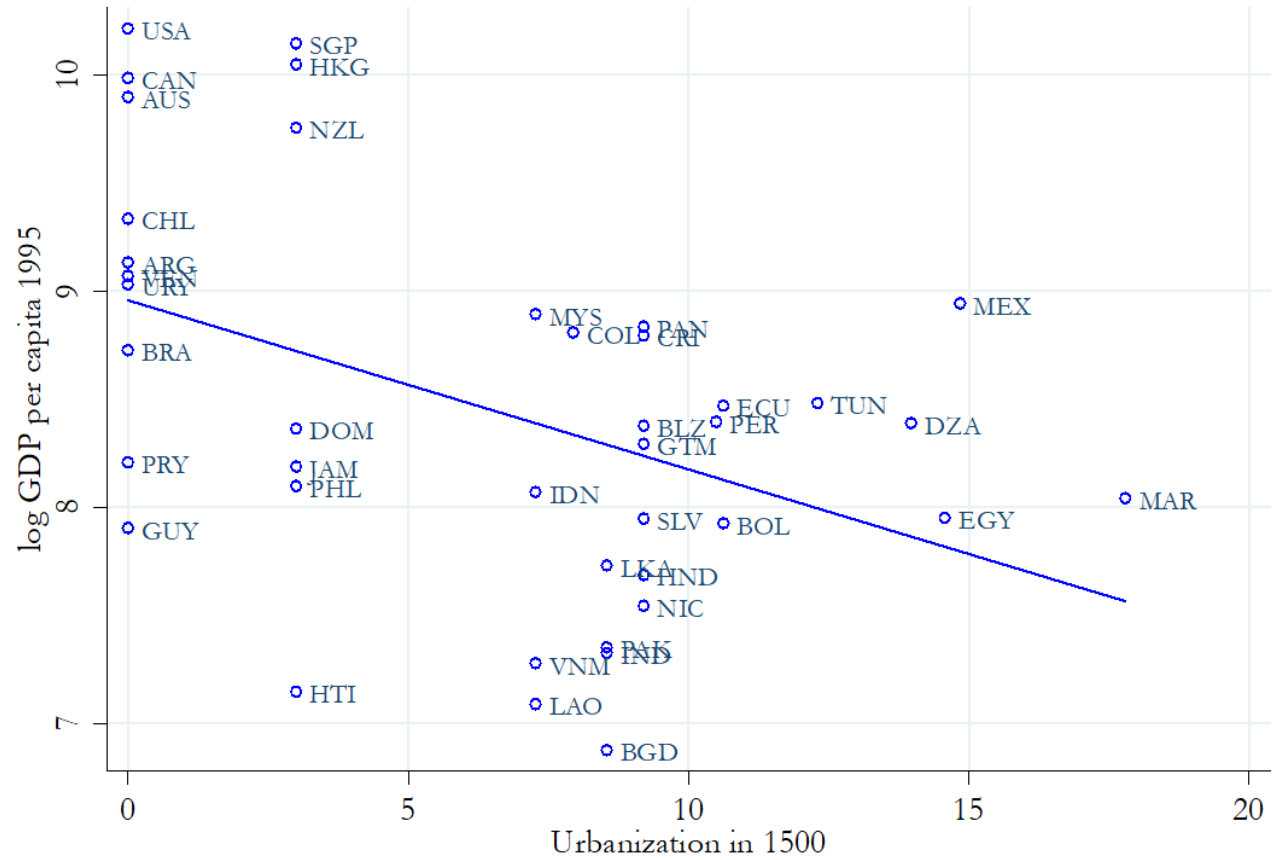
Reversal of fortune

- The more populous the colony, the more resistance it offered against colonizers, adding to the mortality of colonizers and leading to smaller colonist presence and more extractive institutions. Also, the higher the population before being colonized, the more prosperous the area was.
- If the quality of institutions matters a lot for economic growth, colonized countries that used to have high income before being colonized ought to have become poorer today.
- **So AJR's theory predicts the rich becoming poorer and the poor richer after European colonization.**

Reversal (1)

Consider urbanization in 1500 CE as a measure of prosperity then, see that it correlates negatively with the log of GDP per capita now (1995 CE).

Source: AJR (2002)

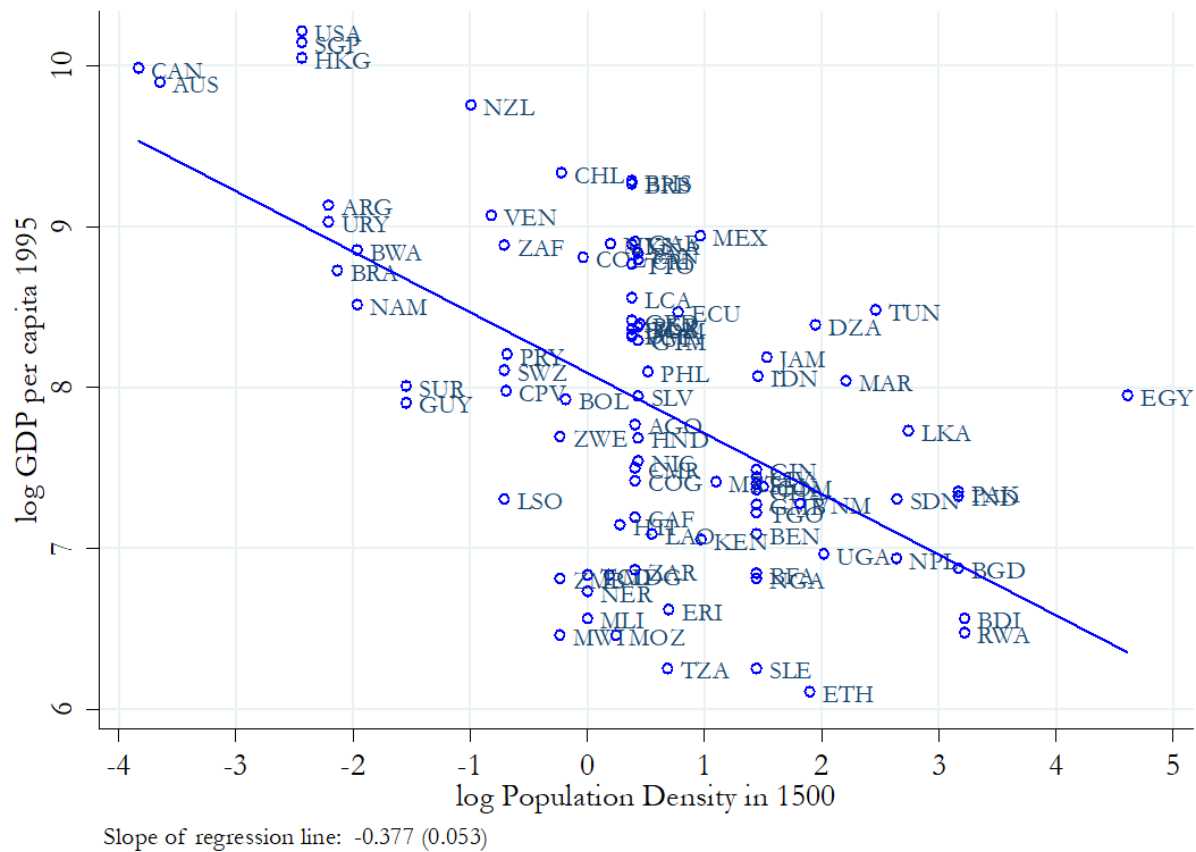


Slope of regression line: -0.078 (0.023)

Reversal (2)

Consider log population density in 1500 CE as a measure of prosperity then, see that it correlates negatively with the log of GDP per capita now (1995 CE).

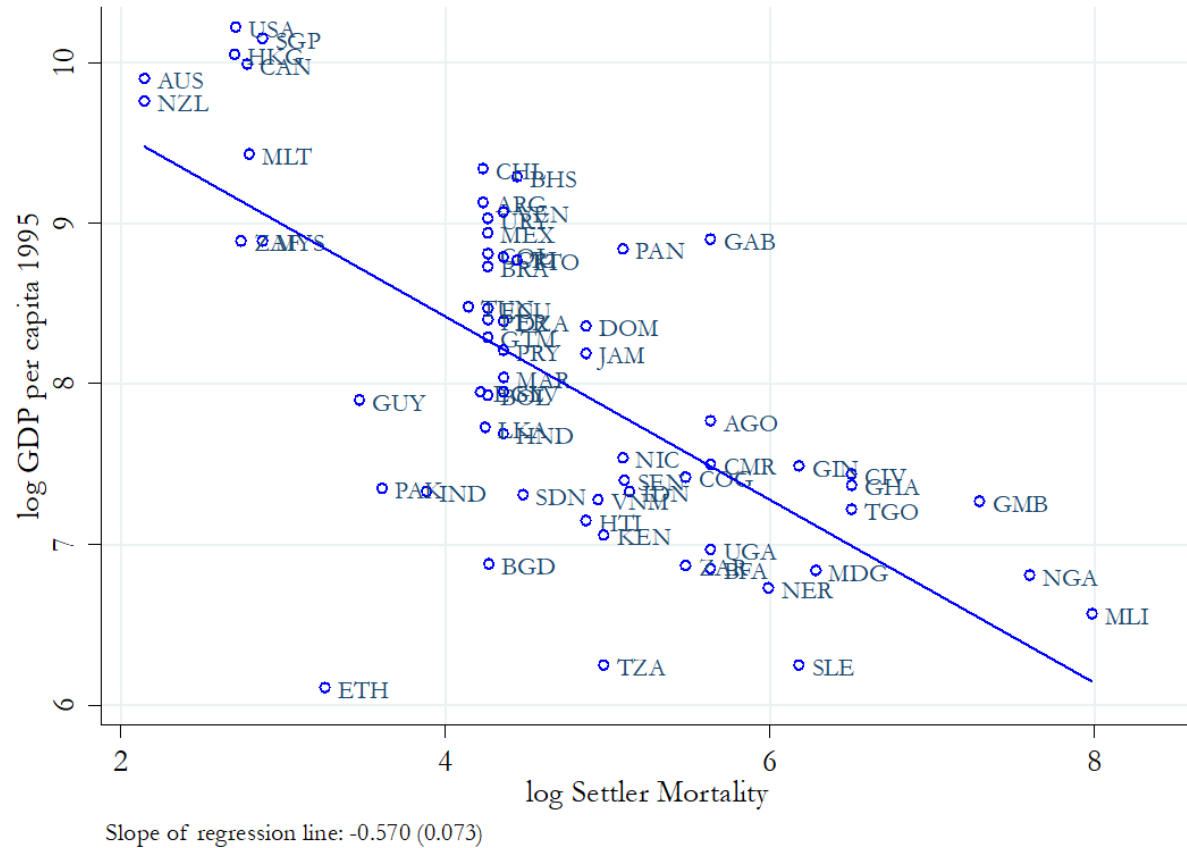
Source: AJR (2002)



Mortality (1)

Consider log settler mortality in 1500 CE as a measure of the likelihood of extractive institutions, see that it correlates negatively with the log of GDP per capita now (1995 CE).

Source: Nobel committee, based on AJR (2012)



Mortality (2)

Consider log settler mortality in 1500 CE as a measure of the likelihood of extractive institutions, see that it correlates negatively with a measure of protection against expropriation risk, which is lower in more inclusive institutions.

Source: Nobel committee, based on AJR (2012)



Slope of regression line: -0.414 (0.103)

Institutional persistence and reform

Longevity of institutions

- Political and economic institutions tend to persist for long periods.
- Events such as the French and Bolshevik revolutions do happen, but rarely.

The move from extractive to inclusive institutions

- The elite (that does the extracting) benefits from existing extractive institutions.
- Extending the political franchise and protecting property rights, leads to more inclusive institutions that bring long-term economic benefits to all.
- Why don't elites routinely offer more inclusive institutions then?

Credibility and commitment

- The elite, when facing unrest, might want to promise liberalization of institutions to make them more inclusive.
- The population though would not believe that such liberalization would last after the immediate threat of revolution subsides.
- The elite has no way to **commit** to fulfill its promises, in other words.

Credibility cuts both ways

- Changing to a new political system that allows the majority to replace the current elite leaders would allow inclusive reforms.
- The would-be reformers could promise to compensate the ruling elite for taking away their privileges (and to not throw them in jail or worse) but it won't be believed for the same reason of lack of **commitment**.

Game-theoretic formulation by AJR

- AJR put this conflict in the form of a game between the elite and the majority of the population, considered as two players.
- They showed that the commitment problem does make extractive institutions persistent, but it also can, under the right conditions, lead to a revolution that brings institutional change.

The basic game model in three easy steps

1. Conflict over the elite and the masses over resource allocation and decision-making
2. Occasionally, opportunity for mass uprising threatening the elite
3. Commitment problem → elite forced to yield decision-making power to the masses

Extensions and applications of the model

- AJR have kept improving and refining the game, making it dynamic and fine-tuning its details.
- They have used it to explain some historical episodes of democratization or expansion of the electoral franchise.
- They have pointed out how the fundamental commitment problem they have identified leads to the persistence of inefficient institutions.
- In the same spirit, ruling elites often have the incentive to block beneficial change, be it institutional or technological.

Criticisms of AJR

Specifically, of their work that was cited by the Nobel Committee

Was the empirical design of AJR (2001) truly a quasi-experiment?

- AKA, was the difference in mortality exogenous?
- “Glaeser et al. (2004), for example, pointed out that the immigrants not only brought institutions; they also brought themselves.” (Scientific Background, page 17)
- Bringing themselves, the settlers also brought their knowledge and human capital, which have their own direct effects on long-term economic growth.
- “The actual IV-estimate should thus be taken with a grain of salt.” (Scientific Background, page 17)

Data reliability concerns

- Data AJR used are from centuries ago, and have been questioned by scholars (e.g., Albouy).
- The biggest concern regarding data quality is about African data on settler mortality.
 - Even when excluding Africa, the AJR conclusions hold up.

How about Asia?

- In the AJR view, a move towards more Western-style democracy is a move to more inclusive institutions.
- Asian “tigers” (most prominently China) have had tremendous economic growth under a state-led economic system under a system that is not Western democracy.
- This introduces doubt about the importance of free markets operating under a democracy for long-term prosperity.

Too idealized a concept of institutions?

“Congrats to AJR! 🌟 They are brilliant.

But I don't agree with their idealized portrayal of institutions in Western development

It is historically inaccurate, if not ideologized

Thus, not only do they struggle to explain China, they also can't explain why Western economies like the US prospered despite being as corrupt as China is today”

Yuen Yuen Ang (@yuenyuenang)

(Post on X/Twitter on October 14. Yuen Yuen Ang is Professor of Political Economy at Johns Hopkins University)

• For further reading:

<https://www.noemamag.com/the-clash-of-two-gilded-ages/>

Reinforcement of colonialism and a Eurocentric world view

“By providing an easy and elegant “answer” to the complex process of development, albeit a wrong one, [...] [AJR’s] rise to prominence has lent support to a very particular understanding of development [...] It also provided an easy, unfalsifiable, and arguably racist narrative of underdevelopment, that reinforces Eurocentrism and a colonial world view.”

Source: The Colonial Origins of Economics, by Ingrid Harvold Kvangraven, Surbhi Kesar, Devika Dutt, Economic & Political Weekly EPW OCTOBER 19, 2024 vol LIX no 42

Questions?