

Gov 97 Week 7: Wealth, income and democracy

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(1) Discuss Dan Ziblatt's questions on causal analyses (plus two extra)

Questions sent ahead of time

1. Is there at least a correlation between cause and effect?
2. Does the cause come before the effect, chronologically?
3. Is there a plausible causal pathway (i.e. story) that links cause and effect, and is there any evidence of this?
4. Has the author dispensed with alternative explanations that either could explain the "effect" or both the cause and the effect? e.g. omitted variable bias, reverse causality, spurious correlation
5. Who/what is the author arguing against?
6. What is the historical timeframe of the argument?

(2) Examples of endogeneity (attached)

(3) Fill up worksheet/discuss readings

	Cause (X)	Effect (Y)	Did cause precede effect?	Causal pathways	Alternative explanations
Lipset	Econ growth - wealth - industrialization - urbanization - education	Democracy - competitive elections - low votes for totalitarian parties [But what does this have to do with pol participation?]	- Unclear: used cross-sectional data, didn't provide evidence that mdzn preceded democy	- Educn: to create good citizens - Urbzn → literacy → growth in media (thru newspapers, TV networks etc) → greater pol particn - High incomes → lower inequality → lower support for radical econ change, lower dd for redistribn (also lower need to protect ppty), greater solidarity (not an insurmountable gulf btw upper and lower class) Note that these causal pathways sometimes end with results that don't obviously link back to	-The causal direction is wrong: democ pol instns → conditions for econ growth. (Or: milder: endogy. If Y is related to X, then it's hard to say that X → Y) -There is no causal relnship: something else caused both, e.g. ideas about indiv rights, educn (human k) -The causal direction is right but the pathways are wrong, e.g. what happens when income inequality goes up with econ growth?

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				democracy. Seems like econ growth → social conditions necc for democracy	
A&R	<p>Democ pol institutions</p> <p>-Inclusive instns = property rights + checks on govt power (from the paper)</p>	Econ growth	<p>-Yes</p> <p>- The two eggs: the two Nozales on either side of the Arizonan border, the <i>mita</i> and non-<i>mita</i> town in the mountains of Peru: these are great eggs of research because they were almost exactly the same/the same town before some exog event. For the Peruvian towns: the reason one was <i>mita</i> and one wasn't was prob just distance. Not reld to X or Y. Also the two Koreas.</p> <p>-The prob with causal pathways that are chronologically too far apart: why should such effects persist over time?</p>	<p>-Extractive pol instns → extractive econ instns → low econ growth</p> <p>-Inclusive pol instns → inclusive econ instns → high econ growth</p> <p>-In the book: the foundation of Jamestown: the English <i>couldn't</i> establish extractive econ or pol institutions because there wasn't really gold to extract, the territory was too open. In the paper: (potential) settler mortality → settlements → early institutions → current institutions → current economic performance (for instns: use protection against "risk of expropriation" index)</p> <p>-What's the causal pathway in the book? Extractive pol and econ institutions (I think they go tog) → lower econ growth. Where forced to have inclusive pol and econ institutions – e.g. property rights, checks on govt (so can't expropriate) → higher econ growth.</p> <p>-Friedman: civil rights create a counterbalance to govt. So this is democracy as <i>liberty</i>.</p>	<p>-Reverse causality btw pol and econ instns → I don't think this matters that much for them</p> <p>-Reverse causality btw econ growth and institutions → use instrumental variables</p> <p>-Possible omitted variables: disease envt/climate; geography; the identity of the colonial power (In the article, AJR said they controlled for all of them)</p> <p>-Glaeser et al: (potential) settler mortality → settlements → human capital → econ growth → democ (Cos Glaeser: dictators can estbpty rights too. So human capital → good econ instns → econ growth → democracy) So South Korea: grew under a one-party dictatorship, <i>then</i> democratized. The institutional view: pol constraints on govt → pro-investment. (Not unlike Friedman – so we're putting aside ideas that democ = popular <i>control</i>)</p> <p>Development view: leaders → pro-investment policies (so you can have the Asian Tigers). Also: very hard to measure instns. Measuring the risk of expropriation by govts is measuring <i>outcomes</i>, not institutions. (Altho I don't like the Glaeser et al explanation for that – they say that the risk of</p>

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					expropriation in Singapore and the USSR is low, but that's not an institution, it doesn't constrain the govt – it's the free choice of the dictator. But all rules can be changed by any govt, dictatorial or democratic. (It might not be a democratic govt after that, but it can change the rules.) But the point about the difficulty of measuring institutions remains – and the subjectivity: we tend to think that countries with good econ growth have good institutions. (How else would you tell?)
Bates	Democ pol institutions -majoritarian, competitive elns	Econ growth -GDP	-Yes	-Democ pol instns are majoritarian → policy biased toward the rural sector, which had the numbers (evidence: relative prices of food increased) → rural productivity increased, farmers invested more → econ growth	-Reverse causality? For this to work, pol change has to be exogenous: push for reform by international financial institutions like the WB; ending of the Cold War (so the US didn't care about regime change any more); homegrown demand. -Is the causal pathway wrong? Prob not. -Other variables? E.g. more security for civil rights? (Not clear that there wasn't any before/it was better after. So note: "institutions" are a black box: the qn is, <i>which</i> institutions? The causal pathway here is thru the balance of power btw groups, not thru ppty rights. (?) More education? No evidence for that.

Examples of endogeneity

Cause	Effect	Is there a causal pathway? Alternative explanations?
Ice cream sales	No. of pool drownings	No causal link Omitted variable: weather
Harvard degree	Salary at age 40	Omitted variable: personality Solution: control for colleges applied to (evidence of ambition)
Gun ownership	Gun violence	Causal link not established – reverse causality possible?
No. of days missed	Test scores	Omitted variable: personality Instrumental variable: snow days

References:

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- Doug Gavel, “New study examines the impact of snow days on student performance”, phys.org, 22 January 2014. <http://phys.org/news/2014-01-impact-days-student.html>
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