

Essays on Social Distance, Institutions, and Economic Growth

Abstract

Paper 1: Country Size and the Rule of Law: Resuscitating Montesquieu

In this paper, we demonstrate that there is a robust negative relationship between the size of country territory and a measure of the rule of law for a large cross-section of countries. We outline a theoretical framework featuring two main reasons for this regularity; firstly that institutional quality often has the character of a local public good that is imperfectly spread across space from the core of the country to the hinterland, and secondly that a large territory usually is accompanied by valuable rents and a lack of openness that both tend to distort property rights institutions. Our empirical analysis further shows some evidence that whether the capital is centrally or peripherally located within the country matters for the average level of rule of law.

Paper 2: Nationalism and Government Effectiveness

The literature on nation-building and nationalism suggests that nation-building affects economic and political performance, mitigates the problems associated with ethnic heterogeneity, but that nationalism, an indicator of successful nation-building, is linked to dismal performance via protectionism and intolerance. This paper shows that there is a nonlinear association between nationalism and government effectiveness, that nationalism leaves no imprint on the effects of ethnic heterogeneity but may be a positive force in former colonies, and that actual trade flows are independent of the level of nationalism in the population.

Paper 3: Same Same but Different? A Comparison of Institutional Models

In the growing literature on the creation of institutions, the theories emphasizing colonial and legal origin, religious affiliation, Western European influence, and settler mortality, have been especially influential. The influence of these studies rests heavily on empirical modeling, which, since the theories are obviously closely related, might actually capture the same primary mechanism. It is therefore unclear whether the empirical relationships found are the same or if they are different. Therefore, this paper takes the empirical models seriously and discriminates amongst the existing models by using modeling selection criteria, tests of encompassing, and modeling selection.

Paper 4: Where Did All the Investments Go? New Evidence on Equipment Investment and Economic Growth

Equipment investment is one of the very few variables claimed to be robustly related to economic growth. This paper examines new empirical evidence on the robustness of this relation. Firstly, the main result from DeLong and Summers (1991) is extended and tested. Secondly, the investment-growth nexus is examined in a panel data setting. Thirdly, the paper relates the investment-growth relationship to recent findings on investment prices and economic development. The results repeatedly refute that there is a strong robust correlation between investment and income growth.

Keywords: institutions, rule of law, government effectiveness, development, colonial origin, country size, Montesquieu, nationalism, nation-building, ethnic diversity, protectionism, non-nested tests, modeling selection, economic growth, productivity, equipment investment, investment prices.

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