Institutions as a Fundamental Cause of Long-Run Convergence

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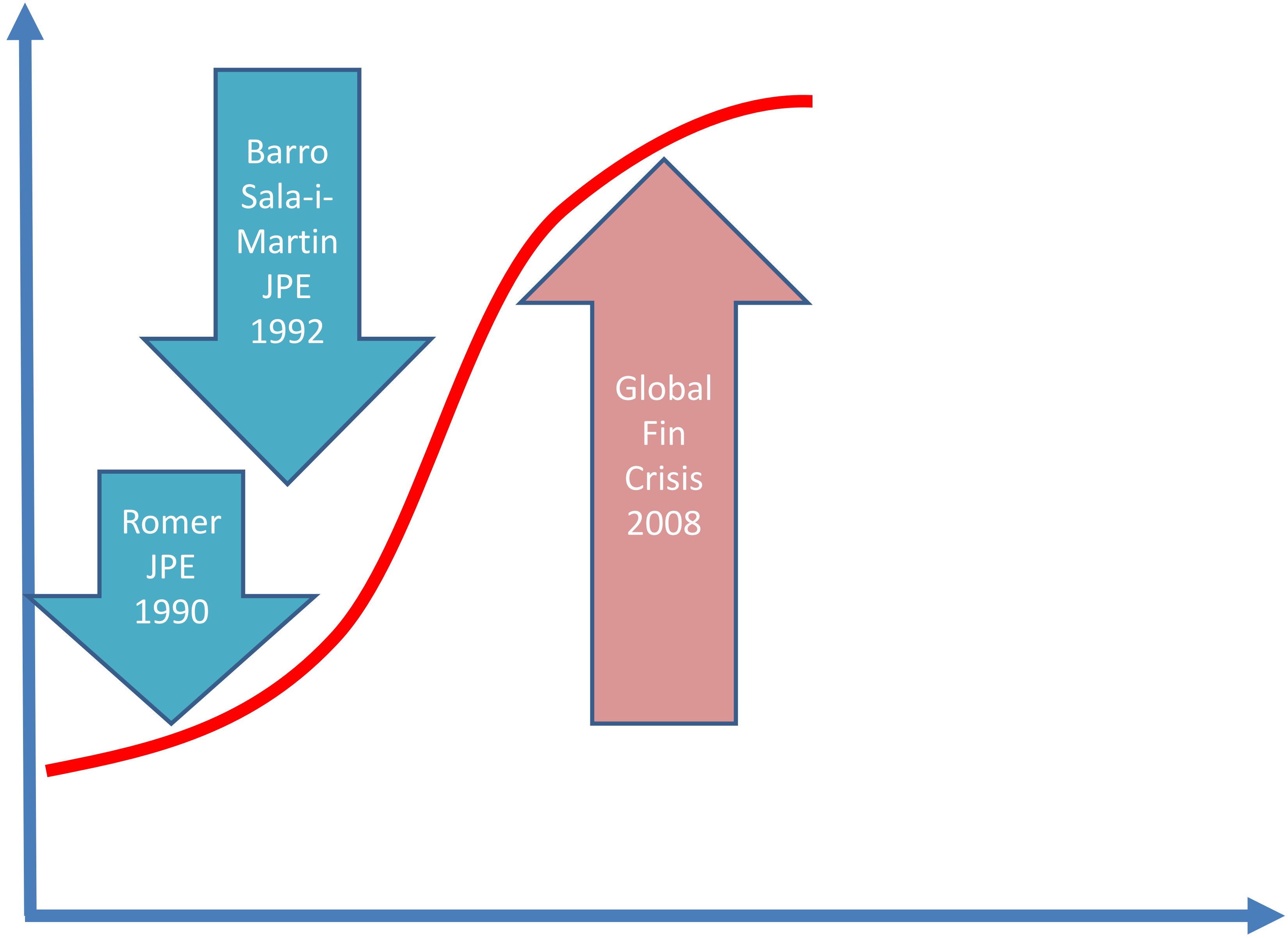

Barro
Sala-i-
Martin
JPE
1992
Romer
JPE
1990
Global
Fin
Crisis
2008

Kremer et al 2022 *"Converging to Convergence"*

- Reestimates everything up to 2015

- Find remarkable change

  Weaker convergence w/o upper quartile
  Stronger convergence w/o lower quartile
  Strong growth convergence second quartile

  OECD slowdown 2005-
  Africa laggards
  "No middle-class trap"

- Since 1990, trend toward unconditional convergence

  (after 2000 toward absolute convergence)

- What drives it? Convergence in Solow fundamentals (s, n, hk) & in key correlates (i.a., economic & political institutions)

- Raises two questions about these institutions: (1) rising or declining role over time, and (b) linear or non-linear effects

Economic & political institutions: Frontier

- Causality which way?
- Acemoglu et al AER 2009, Acemoglu et al JPE 2019
- Politico-economic institutions to economic growth
- 20/20 20% increase in per capita GDP
  long-run effect (20 years)
- Yet omnipresence of PEI dummy is unhelpful

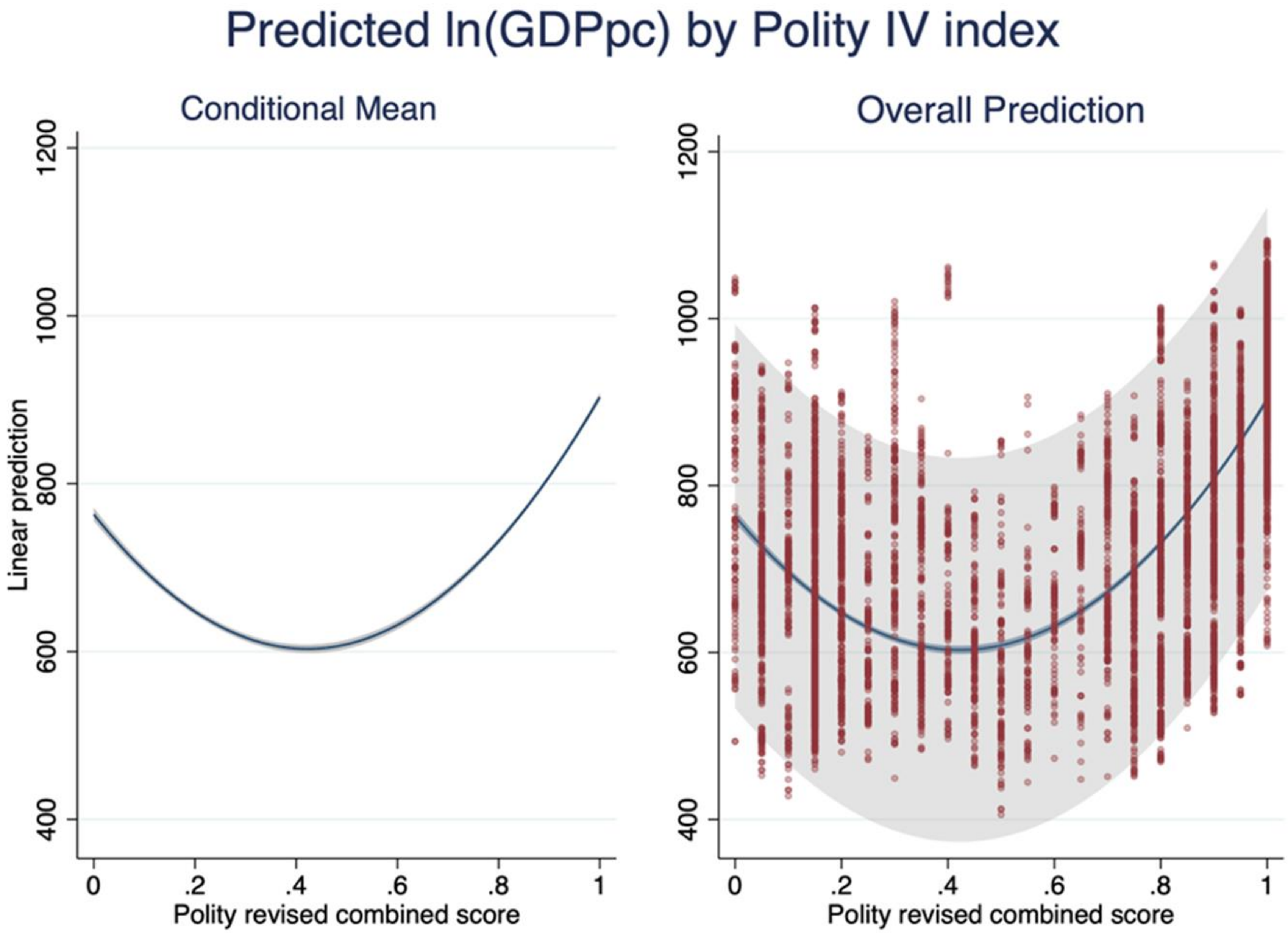
Channels : How do PEI cause GDP? ANRR JPE 2019

PEI increase likelihood of structural reforms, tax revenue (% GDP) enrolment in primary & secondary education, reduces child mortality.

Also find positive (yet less precise) effects of PEI on investment and openness to trade and negative estimates on social unrest.

No effect via productivity / TFP

Campos, Coricelli & Frigerio, 2022, The Political U



Main finding: ‘Intermediate’ PEI decrease long-run GDP per capita ……….. by around 20%

Yet Pol-U simple idea & most powerful criticism is simple too

What if weak PEI systematically manipulate GDP figures?

Martinez 2022 “overstate yearly GDP by approx. 35%.”

Main finding2: ‘Intermediate’ PEI decrease “Martinez corrected GDP figures” by around 30%

The effect of PEI seem to increase over time

Thank you

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