Were Europeans Good for Development?

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Modern economic growth is an instance of an underdetermined problem, for which the number of potential explanations dramatically exceeding the number of available data points. In an earlier post, I compared the rise of the West to Mona Lisa. Just like the rise to prominence of Da Vinci's painting, modern economic growth has no observed counterfactual and numerous alternative explanations, ranging from coal, through human capital, to institutions, or culture. Discriminating among them is far from straightforward.

A recent paper by William Easterly and Ross Levine (discussed by Chris Blattman here) makes two important contributions to this field of inquiry. One is indirect but noteworthy to historians—providing a new database of the share of European population in colonies at the early stages of colonization. Secondly, the paper tries to give a partial answer to the *big question* of what shaped comparative economic development around the globe by looking at the link between the size of early European population and present-day economic outcomes.

Clearly, colonialism was a source of terrible injustice and human suffering. Worse yet, European settlers typically brought diseases that wiped out large segments of local populations. Easterly and Levine don't deny any of this. Instead, they are interested in the question of whether the presence of Europeans has generated—notwithstanding the obvious moral wrongness of colonialism—any significant long-term economic benefits.

In fact, the paper uses the immunity of local populations to European germs as a source of exogenous variation in European settlement patterns. Europeans colonized most prominently places with temperate climate and other desirable characteristics, which can be conceivably linked to long-term economic prosperity.

However, Europeans also settled more heavily in those regions where they encountered little resistance from the indigenous populations. Such resistance was weakened dramatically if exposure to European microbes triggered extremely high mortality rates amongst the locals. Because there is little reason to expect past microbial resistance to affect present-day economic outcomes through other channels than just by shaping the density of European settlements and because such resistance was unrelated to other characteristics of these areas, it provides us with a way of assessing the direct effect of European colonization on economic outcomes.

The results are quite remarkable. Practically one half of the variation in average global development levels today can be accounted for by the size of the initial European settlement. Their results are at odds, they argue, with the story told by Acemoglu and Robinson about extractive and inclusive institutions that colonists brought with them to different regions of the world. Their version of the institutional story predicts that in places where Europeans did not want to settle in large numbers were permanently damaged by the import of extractive economic institutions. Easterly and Levine, in contrast, find that the presence of any Europeans—however few and wherever they came from—had a strong positive effect on economic outcomes.

But what exactly is the channel through which the presence of Europeans influenced present-day economic outcomes? Easterly and Levine claim that their story is consistent with the notion of human capital playing a decisive role in shaping development. Europeans brought human capital and institutions underpinning the generation of new human capital. Obviously, their results lend only indirect support to that idea.

Europeans brought many things with them—informal norms and culture, legal norms, political institutions, specific technologies—and there is no easy way of disentangling the effects of those on economic outcomes. It may, of course, be possible to see human capital more broadly, as encompassing some of those other attributes, but that would take the analytical edge off the human capital-centered accounts of development.

At the same time, narrow understanding of human capital does not seem to resonate with experience. For example, the 19th-century Chinese immigration to South East Asia recruited disproportionate numbers of impoverished peasants from Southern China, which would become indentured laborers. Yet, within a couple of generations, this diaspora would become a motor of economic development in places like Singapore and Malaysia—often in spite of overt hostility and discrimination. It is quite plausible that the Chinese immigrants succeeded because of the social norms they brought with them, but it is much less likely that they succeeded because of some narrowly defined set of skills they brought with them.

Given that economics deals with humans, it cannot escape some degree of conceptual fuzziness. More importantly, the *big question* seems unlikely to be elucidated significantly through further cross-country evidence, no matter how cleverly obtained. Maybe it is time to approach it in a more humble way—e.g. by studying growth miracles and growth disasters (ideally accompanied by natural experiments)—and to give up on economics as a source of certain and quantifiable answers about the deep drivers of modern prosperity.