"Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development " by Dani Rodrick, Arvind Subramanian and Francesco Trebbi

Abstract

In this paper, authors estimate the influence of institutions, geography, and trade (integration) on the income.

Geography of this research covers the wide range of countries.

Results of the paper show that quality of the institutions has the most significant influence. Influence of the geography is weak. Its impact is indirect because it influences on the quality of institutions. Influence of the trade is negative but insignificant.

Authors compare own results with findings of the previous studies.

Structure of article

Article consists of next sections:

1.Introduction;

2.Core results and robustness;

3.What does it all mean?

Moreover, authors have added two appendixes in the article

Section 1

In this section, authors explain their choice of factors, which should influence on the income. They explain, that three groups of researchers exist. The first group thinks that main factor is geography, the second group thinks that it is the trade, and finally, the third group thinks that main factor is institutions. Authors provide the clear scheme of the influence of this factors on the income.

Authors emphasize that strong problem of inequality of income exists in the world. They provide the example that GDP per capita for the richest country (50,061$) exceeds the value of this indicator for the poorest country (490$) in 100 times.

Authors provide their approach to the investigation in this section. Authors explain that they use the systematical estimation of series of regressions, where income relates to geography, trade, and institutions.

Section 2 (simple estimation)

Authors state that they want to estimate following equation:

log (income per capita) = m + a*(measure for institution) + b*(measure for integration) + c*(measure for geography) + random error,

where m, a, b, c are estimated coefficients.

Graph analysis and simple OLS regressions show the positive influence of these indicators on the income.

Section 2 (deep estimation)

To avoid causality, omitted variables bias, and measurement error authors use two-stage least squares estimation procedure.

Complex analysis shows that:

geography does not influence on all dependent variables;

institutions positively influence on all dependent variables and these relationships are significant at 1% level;

integration significantly negatively influences in some cases.

Checks of robustness of results show that only influence of institutions is really significant.

Section 3

Authors state that their results are close to results of previous researchers.

Results of paper show that policy-makers should pay more attention to the development of institutions. It will lead to the growth of income of people.

Also, it is important that low income of people could not be explained by some historical, geographical and other reasons. Such arguments are very popular among the policy-makers when they want to justify own mistakes. That is why people should not believe them. Only development of institutions will improve the situation with incomes.

Our estimation

The topic of the paper is very actual in our time. Results of paper confirm the necessity of the development of institutions in society. Authors have made the qualitative and complex statistical analysis. They have evaluated the problem from different angles. Results of this paper confirm the results of previous researchers.