



# Critical junctures and economic development – Evidence from the adoption of constitutions among American Indian Nations<sup>☆</sup>



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## ABSTRACT

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Utilizing a novel data set on American Indian Nations, we investigate how conditions at critical junctures of development can have long-lasting economic effects. We investigate the effect of the party of the US President at the time when American Indian tribes adopt a written constitution for the first time. Our results indicate that there is a persistent effect on economic development, even after controlling for other important characteristics and conducting extensive robustness checks. We also find suggestive evidence for the constitutional design, and specifically whether the chief executive is elected directly or indirectly, being a likely channel through which the presidential party affects long-run economic development. *Journal of Comparative Economics* 43 (4) (2015) 844–861. University of California, Los Angeles, United States; IZA, Bonn, Germany; University of Arizona, United States; University of Munich, Geschwister-Scholl Platz 1, Muenchen D-80539, Germany; CEPR, London, UK.

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## 1. Introduction

The importance of historical contingencies for economic development is one of the most intensely researched areas in economics and political science in recent years. Particular interest has been devoted for understanding the implications of historical accidents on the pattern of institutional development that explains persistent differences in economic development. Some recent

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contributions have emphasized the potential importance of the conditions during critical junctures of the development process, e.g., Acemoglu et al., 2001, 2008. While the existing empirical work has focused on the persistence of historically determined institutions or other factors, such as colonial rule or pre-colonial institutions, direct evidence for the critical junctures hypothesis is scarce.

This paper contributes to this literature by providing novel evidence for the persistent effects of historical conditions at critical moments in time on economic outcomes, focusing on the implications of the external political conditions at the time of adoption of American Indian constitutions and how they affect long-run economic development for those tribes. We assemble a novel data set which documents the historical conditions at the time of adoption of various American Indian constitutions in addition to the particular details of the constitutions themselves. Our data set merges data from the 1900 US Census, initial tribal constitution data and characteristics, and economic outcome data at the reservation-level from the 1990 and 2000 US Censuses and the 2005–2009 5-Year American Community Survey. Due to the particular legal and political situation of American Indian tribal nations, the US Federal government had a large influence on the determination of political and legal institutions on American Indian reservations. In particular, the Executive branch of the US Federal government had considerable oversight and influence on American Indian reservations via the Bureau of Indian Affairs. In this analysis, we focus on differences in US political parties' ideologies towards American Indian governance and investigate how this has affected long-run economic development. The differences in political ideology across US parties had persisted for generations. Republican Presidents such as Theodore Roosevelt envisioned US Federal programs as a means to dismember tribal institutions and to increase assimilation. Democratic Presidents, on the other hand, did not take such an extreme view in the administration of programs and imposition of political institutions although they continued to exert considerable influence over tribal governments via the Bureau of Indian Affairs (Champagne, 2006, p. 14).

We explore the role of the party of the US President at the time of constitutional adoption by tribal governments; in additional analysis we investigate whether differences in party control of the US Congress has an effect on long-run economic development. We find that differences in political party of the US President at the time of the tribal constitutional adoption had a strong effect on long-run economic development; these results are robust to the inclusion of important control variables and year effects. Tribal nations that adopted a constitution under a Democratic President had better long-run economic outcomes than tribes that adopted under a Republican President; we find no indication for an effect of party control of the US Congress at the time of adoption.

After establishing a difference in long-run economic development outcomes, we investigate the potential mechanisms that explain this result. We focus on differences in political institutions that were created at the time of the initial adoption of the tribal constitutions. In our data on tribal constitutions, we find that there are significant differences in the method of electing a chief executive depending upon whether a Democrat or a Republican was the US President at the time of adoption. No other institutions appear to be as heavily influenced by the political party of the US President. Under Democrat US Presidents American Indian tribes tended to adopt an indirectly elected chief executive (parliamentary-type system) and under Republican US Presidents they tended to adopt a directly elected chief executive (presidential-type system). Results from 2SLS estimations using the party of the US President as an instrument for the form of government suggest that tribes with indirectly elected chief executives (i.e., a parliamentary form of government) have significantly higher levels of development in terms of per capita incomes and labor force participation rates. There is little evidence for persistent effects of other elements of constitutional design, such as independence of the judiciary, staggering of elections, term length, or the size or election rules of the tribal council.

Our research environment provides several advantages. First, since American Indian Nations are subject to the same institutional framework of the United States, the data provide the unique possibility of holding the broader legal and political environment fixed. Additionally, however, there is substantial heterogeneity in American Indian economic development outcomes and in their governance structures. Moreover, the setting allows for a detailed analysis of the institutional channels through which the conditions during this critical juncture affects development.

We conjecture that this setting allows for insights that are of broader interest and relevance, given that American Indian reservations and communities have a substantially lower income per capita than the United States as a whole and the highest poverty levels in the United States, with living conditions that approach those in many developing countries. In particular, average income in 1990 was around 5160 in 1990 dollars, poverty rates on American Indian reservations have hovered around 30% in the last two decades of the 20th Century while they were less than 10% for the rest of the US, and unemployment levels on American Indian reservations have persisted at average rates above 15% for the same time period while for the US as a whole it was just 6% (Kalt and Taylor, 2005).

These empirical findings contribute to several ongoing debates in the literature. Several studies have identified institutions as a potential channel for the persistent effects of historic events on economic development (for a survey see Nunn, 2009). The evidence in these studies has typically been based on variation in colonial or domestic institutions.<sup>1</sup> In contrast, the identifying variation in our analysis stems from differences in the identity (and presumably ideology) of the quasi-colonial power that has no direct influence on development, but influence on the institutional development at the critical juncture – the adoption of the first constitution and its design. The paper also complements recent work that has shown the importance of environmental conditions for major policy changes (see, e.g., Fleck, 2008).

<sup>1</sup> See, e.g., Acemoglu et al., 2001; Banerjee and Iyer, 2005; Gennaioli and Rainer, 2007; Iyer, 2011, and Acemoglu et al., 2012.

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