Colonial Migration and the Deep Origins of Governance Theory and Evidence from Java

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Local Governance in Emerging Economies

Key issue in scholarship and development policy

- 1. Conceptualization (Teorell, Williamson)
- 2. Measurement (Kaufmann and colleagues)
- 3. Consequences (Adsera et al., Hall and Jones, Kaufmann and colleagues)

Today's Presentation: Origins

Local Governance in Java

Indonesia: wide-ranging decentralization since 2001, but

- Wide variation in quality of governance (Pepinsky and Wihardja 2011)
- Laboratory for governance interventions
- A persistent presentist bias

My Argument: Colonial Migration

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My Argument: Colonial Migration



Jakarta Governor Joko Widodo [right] with Vice-Governor Basuki Tjahaja Purnama (Tjong Ban Hok, or Ahok)

My Argument: Colonial Migration



Social exclusion of trading minorities in the colonial era \Rightarrow accommodative local economic governance today

Outline of Today's Talk

- 1. Migration and the colonial economy of Java
- 2. The argument in more depth
- 3. Concepts, measures, and tests
- 4. Inferential challenges
- 5. Implications for scholarship and policy

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- 1. Migration and the colonial economy of Java
- 2. The argument in more depth
- 3. Concepts, measures, and tests
- 4. Inferential challenges
- 5. Implications for scholarship and policy
 - Colonial origins of comparative development (Acemoglu and colleagues)
 - Ethnicity and informal institutions (Greif, Landa, and others)
 - Social capital and democratic performance (Putnam in Italy)
 - Governance-enhancing interventions and evaluations

The Colonial Economy of Java: Background

Dates to the early 17th century (Dutch East India Company) Long open to trade and migration from South China, Indian Ocean communities



Agricultural exports dominate \Rightarrow socioeconomic structure is "plural economy" (Furnivall 1939)

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Image: A matrix and a matrix

The Colonial Economy of Java: Migration

 $\label{eq:Plural economy} {\sf Plural economy} = {\sf three kinds of people recognized under colonial law}$

- 1. so-called "natives" or "indigenous" people (Inlander)
- 2. Europeans and assimilated persons (Europeanen en gelijkgestelden)
- 3. "foreign Easterners" (vreemde Oosterlingen)
 - Chinese (Chineezen)
 - Others (andere vreemde Oosterlingen)

Foreign Easterners: Chinese from Southern China



Important groups: Hokkien (S. Min), Cantonese, Hakka, Teochew

Foreign Easterners: Arabs from the Hadramawt



"Hadrami" can denote "Arab" more broadly

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The Colonial Economy of Java: Migration

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Two crucial observations

- 1. Common economic position of foreign Easterners: traders, middlemen, intermediaries, petty financiers (more on this later...)
- 2. Important **social distinction** between Chinese and Arabs in Java (more on this later...)

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Colonial Economies and Governance: The Problem

Characteristic problem: trade and exchange without property rights

Solutions?

- Internal focus: ethnic ties (Greif, Landa, Fearon/Laitin)
- External focus: personal, informal networking and collaboration with local indigenous political elites (compare to Fearon/Laitin's "spiral model")

Colonial Economies and Governance: The Problem

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Local elites provide property rights and physical protection for migrant traders in exchange for preferential access to commodities, taxes and tribute, etc.

Colonial Economies and Governance: The Consequences

Solution to colonial-era problem: personal, informal networking and collaboration with local indigenous political elites

Long-term consequences: where these informal networks arise, they persist (why?)

Informal networks more likely to support informally institutionalized exchange when

- 1. Trading minorities have settled
- 2. "Ethnic ties" with the indigenous population are impossible: "social exclusion"

The Deep Origins of Governance: Summary

What are the origins of economic governance?

- 1. Local economic governance depends on informal relations between local political elites and local business networks
- 2. Informal political-business relations are 'sticky'
- 3. Social exclusion under colonial rule necessitated cooperative informal political-business relations

Social exclusion in the past \Rightarrow cooperative informal networks in the past \Rightarrow cooperative informal networks today \Rightarrow economic governance today The Deep Origins of Governance: Back to Colonial Java

Differential trajectories of colonial migrants

- 1. Europeans: incorporation in formal politics
- 2. Chinese: social exclusion
- 3. Others: social inclusion

Migration without Social Exclusion



Banten Gubernatorial candidate Zulkieflimansyah with Vice-Governor candidate Marissa Haque

Migration without Social Exclusion



What are the differences between Marissa Haque and...Ahok? ... They both are candidates to be Vice Governor (Banten and Jakarta). Marissa openly notes that her grandfather, Siraj UI Haque, comes from Uttar Pradesh. In fact...grandfather was an Indian, while [on the other side] her father was Pakistani. But no problem. Marissa Haque is still an Indonesian. Compare Marissa with Ahok. Over and over again, Ahok emphasizes that he is Indonesian. He has to struggle to get people to even recognize that.

- Marching (2012), Koran Tempo

The Deep Origins of Governance: Back to Colonial Java

Differential trajectories of colonial migrants

- 1. Europeans: incorporation in formal politics
- 2. Chinese: social exclusion
- 3. Others: social inclusion

Chinese versus Others: isolate social exclusion from other features of trading minorities (human capital, "business-mindedness", etc.)

Predictions: social exclusion produces not "good" governance, but "accommodative" governance

General Empirical Strategy

Social exclusion in the past \Rightarrow cooperative informal networks in the past \Rightarrow cooperative informal networks today \Rightarrow economic governance today

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Measuring Social Exclusion

Migrant population density of colonial administrative units from the 1930 Census of the Netherlands Indies (*Volkstelling 1930*)

Administrative Divisions in Java:

Colonial	Indonesian	U.S. Equivalent
Provincie or Gouvernement	Propinsi	State
Residentie	-	-
Regentschaap	Kabupaten or Kota	County
District	Kecamatan	Township

Match *Regentschaap* to *kabupaten/kota* where possible, use *District* where necessary

Chinese Population, 1930



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Chinese Population, 1930



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Measuring Economic Governance: Concepts

Normative theories of "good" economic governance:

- "the norms of limited government that protect private property from predation by the state" (Kaufmann)
- "impartiality in the exercise of public authority" (Rothstein and Teorell)

Measuring Economic Governance: Concepts

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Contrast with "accommodative" economic governance:

- "government actions/policies/regulations/etc. not interfering with firms' objectives"
- partial, not impartial
- May be normatively objectionable!

Measuring Economic Governance: Measures

Exploratory factor analysis of 40+ governance indicators (KPPOD and the Asia Foundation, McCulloch (2011))

Natural cluster of loadings on first principal component

Indicator	Loading
Interaction: Obstacle or Impact on Firm Performance	0.24
Information Access: Obstacle or Impact on Firm Performance	0.25
Regent/Mayor Integrity: Impact on Firm Performance	0.25
Infrastructure: Obstacle or Impact on Firm Performance	0.26
Land Access: Obstacle or Impact Impact on Firm Performance	
Security and Problem Solving: Obstacle or Impact on Firm Performance	0.26
Transaction Costs: Obstacle or Impact on Firm Performance	0.28
Licensing: Obstacle or Impact on Firm Performance	0.28

Economic Governance Index (EGI) = first principal component

NOTE: definition **entails** conceptualization of "accommodative" rather than "good" economic governance

EGI in Java



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 $EGI = \alpha + \beta_1 CHI_{1930} + \beta_2 OFE_{1930} + \beta_3 EUR_{1930} + \gamma \mathbf{X} + \delta \mathbf{D} + \epsilon$

where

- $CHI_{1930} = \log \text{ percent Chinese in } 1930$
- $OFE_{1930} = \log$ percent other foreign Easterners in 1930
- $EUR_{1930} = \log \text{ percent Europeans in } 1930$
- X = demographic, economic, geographic controls
- **D** = provincial fixed effects

Results

	(1)
Other Asians Per 1000 Citizens (1930)	-0.52*
	(0.18)
Europeans Per 1000 Citizens (1930)	0.030
	(0.22)
Chinese Per 1000 Citizens (1930)	0.87*
	(0.43)
Sec. Enrol. Rate (2001)	-4.62*
	(1.39)
Urban	-1.53
	(0.80)
Constant	-0.86
	(1.16)
Observations	98

OLS with bootstrapped standard errors in parentheses. Province fixed effects suppressed for presentation. * = p < .05.

How to interpret this correlation between settlement in 1930 and economic governance today?

• Colonial social exclusion (my preferred explanation), but also

Inferential Hurdles

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- Colonial social exclusion (my preferred explanation), but also
- Chinese population?
- Sorting?
- Human capital?

Inferential Hurdles

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- Human capital?

Rely on design and argument to dismiss these

Chinese Population 1930 vs. Chinese Population Today

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Chinese Population 1930 vs. Chinese Population Today



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Chinese Population 1930 vs. Chinese Population Today

	(1)	(2)
Other Asians Per 1000 Citizens (1020)	0.52*	0.55*
Other Asians Fer 1000 Citizens (1950)	-0.52	-0.55
	(0.18)	(0.22)
Europeans Per 1000 Citizens (1930)	0.030	0.00052
	(0.22)	(0.24)
Chinese Per 1000 Citizens (1930)	0.87*	1.00*
	(0.43)	(0.50)
Sec Enrol Rate (2001)	-4 62 [*]	-3 79*
	(1 30)	(1.62)
Urban	1.53)	1.02*
Orball	-1.55	-1.93
	(0.80)	(0.89)
Other Asians Per 1000 Citizens (2000)		0.12
		(0.15)
Foreigners Per 1000 Citizens (2000)		0.056
		(0.25)
Chinese Per 1000 Citizens (2000)		0.018
		(0.22)
Constant	0.86	7 1 2
Constant	-0.80	(0.52)
	(1.16)	(8.52)
Observations	98	98

OLS with bootstrapped standard errors in parentheses. Province fixed effects suppressed for presentation. * = p < .05.

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Sorting?

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Sorting?



Chinese per 1000 (1930), log scale

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Sorting?

	(1)	(2)	(3)
Other Asians Per 1000 Citizens (1930)	-0.52*	-0.55*	-0.54*
	(0.18)	(0.22)	(0.23)
Europeans Per 1000 Citizens (1930)	0.030	0.00052	0.030
	(0.22)	(0.24)	(0.35)
Chinese Per 1000 Citizens (1930)	0.87*	1.00*	1.27*
	(0.43)	(0.50)	(0.60)
Sec. Enrol. Rate (2001)	-4.62*	-3.79*	-4.37*
	(1.39)	(1.62)	(1.63)
Urban	-1.53	-1.93*	-4.48*
	(0.80)	(0.89)	(1.38)
Other Asians Per 1000 Citizens (2000)		0.12	0.048
		(0.15)	(0.17)
Foreigners Per 1000 Citizens (2000)		0.056	0.13
		(0.25)	(0.26)
Chinese Per 1000 Citizens (2000)		0.018	-0.0049
		(0.22)	(0.25)
Ln GRDPPC (2001)		-0.52	1.06
		(0.57)	(0.92)
Growth (2001-7)		-24.7	-15.6
		(20.0)	(27.9)
Ln GRDP (2001)			-1.22*
			(0.51)
Mining/GRDP (2001)			-0.28
Constant	0.06	7 10	(7.03)
Constant	-0.80	(0.52)	18.0
	(1.10)	(8.52)	(9.75)
Observations	98	98	89

OLS with bootstrapped standard errors in parentheses. * = p < .05.

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Human Capital, Industriousness, etc.?

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Human Capital, Industriousness, etc.?

Table: Occupational Groups in Java

Occupational Group	Occupational Group Description		Others
Oerproductie	Farming, fishing, mining	9.1	2.8
Nijverheid	Industry	20.8	10.6
Verkeerswezen	Transportation	2.8	3.6
Handel	Trade	57.7	72.6
Vrije beroepen	Medicine, law, religion, teaching	2.1	3.5
Overheidsdienst	Public Service	0.5	0.9
Overige beroepen	Other	6.9	5.9

Entries are percentages of all employed Chinese and other foreign Easterners.

Source: Volkstelling 1930.

Human Capital, Industriousness, etc.?

Table: Traders in Java

Occupational Subgroup	Description	Chinese	Others
In voedings- en negotmiddelen	In foods	22.3	4.3
In textiele stoffen	In textiles	16.0	48.8
In ceramiek	In ceramics	0.5	0.3
In hout, bamboe an voorwer-	In wood and bamboo prod-	0.7	1.3
pen daarvan	ucts		
In vervoermiddelen	In vehicles	1.0	0.5
In kleeding en lederwaren	In clothing	0.8	2.5
Gemengde kleinhandel	Miscellaneous small trading	46.8	27.5
Groot- en tusschenhandel	Wholesale and distribution	1.8	0.3
Overige handel	Other trade	5.1	8.6
Credietwezen	Banking and finance	5.1	5.8

Entries are percentages of all Chinese and other foreign Easterners employed in trade (*Handel*). Source: *Volkstelling 1930*.

Summary of Inferential Hurdles

Possible to tell a story about unobservables

...but stories are inconsistent with the evidence available to us

Conclusions and Implications

• For scholarship on the origins and consequences of governance

- Colonial origins of comparative development (Acemoglu and colleagues)
- Ethnicity and informal institutions (Greif, Landa, and others)
- Social capital and democratic performance (Putnam in Italy)

Conclusions and Implications

- For scholarship on the origins and consequences of governance
 - Colonial origins of comparative development (Acemoglu and colleagues)
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 - Social capital and democratic performance (Putnam in Italy)
- For governance-enhancing interventions and evaluations (more personal reflections, so defer to the Q+A)

Colonial Origins

$\label{eq:colonial origins \Rightarrow extractive institutions or inclusive institutions $$$

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 $\mbox{Colonial origins} \Rightarrow \mbox{extractive institutions or inclusive institutions}$

My contribution:

- 1. What are the "everyday" responses to extractive institutions?
- 2. Can we study them in a principled manner?
- 3. Do they shape long-term outcomes?

Ethnicity and Institutions

Avner Greif, Janet Landa, many others: What is the internal logic of trade and exchange?

Ethnicity and Institutions

Avner Greif, Janet Landa, many others: What is the internal logic of trade and exchange?

My intervention:

The "external strategy" is interesting and consequential

Social / Historical Origins of Democratic Performance

Putnam: historical/informal origins of democratic performance in modern Italy

Social / Historical Origins of Democratic Performance

 $\label{eq:putnam:historical/informal origins of democratic performance in modern \\ Italy$

My perspective:

- 1. History matters, but former colonies have different foundational moments
- 2. Precision over parsimony

Colonial Migration and the Deep Origins of Governance

Thank you!

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Extras: Policy Evaluation

The Goal: discover policy T to improve governance

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Extras: Policy Evaluation

The Goal: discover policy T to improve governance

"The effect" of T is θ . Commonly we <u>define</u> θ to be the Population Average Treatment Effect (PATE). For $i \in N$:

$$\theta = \mathbb{E}(Y_{i,T=1} - Y_{i,T=0})$$

To estimate θ , we use sample S:

$$\tilde{\theta}_{S} = \bar{Y}_{i \in S, T=1} - \bar{Y}_{j \in S, T=0}$$

When is $\tilde{\theta}_S$ a useful estimate?

Extras: For Policy Evaluation

Assuming unconfoundedness of T in S, $\tilde{\theta}_S$ is useful if some of the following are true.

- 1. the sample is a census of the population: S = N
- 2. no sample selection: $p(i \in S) = p(j \in S)$ for all $i, j \in N$
- 3. the PATE (θ) is <u>itself</u> interesting

Extras: For Policy Evaluation

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Social foundations and governance-enhancing policies:

- 1. implementation bias? Probably.
- 2. heterogeneous treatment effects? Probably.

Extras: Other Indicators



First 20 Components in EGI Construction

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Extras: Downstream Consequences"

Colonial settlement as first stage IV for growth regressions?

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