

Gerschenkron:

Why don't certain countries develop?

- resource endowments
- social/political institutions

Need a coordinated start

- more backwards  $\Rightarrow$  need more coordination
- political institutions  $\Rightarrow$  coordination  
 $\Rightarrow$  development

How to get political change?

- No explanation - exogenous event.

How to measure backwardness?

- Proxy to look directly at politics

Institutions are initially exogenous. Then, at the beginning of the process, they become endogenous.

- size of agriculture at  $t=0$ : more agriculture  
 $\Rightarrow$  more backwardness.

Heavy industry

- scarcity of entrepreneurs and administrative personnel.

Not very well-developed financial markets in some countries, so it was difficult to channel the capital.

Germany (moderately backward):  $\exists$  capital but not capital markets. Need banks

Russia (very backward):  $\neq$  capital. Need the state to be involved

Petra Moser:

- Patents affect not only aggregate innovation, but also industry patterns.
- Original dataset: innovations presented at the world's fairs.
  - Crystal Palace, 1851
- If have patent system, will have one pattern of innovation. If have no patent system, will see a different pattern.
- secrecy was an alternative to patents for some industries.
- If Moser could have gotten an objective measure of importance of patents, this would have been helpful.

Moser and Voith have expanded our set of datasets

O'Rourke:

Germany comes into existence formally in 1870

- Process by which industrialization leads to globalization.

Transportation costs go down.

Cheap grain imported. Two options for a country

- Protectionist tariffs
- Reallocation of resources

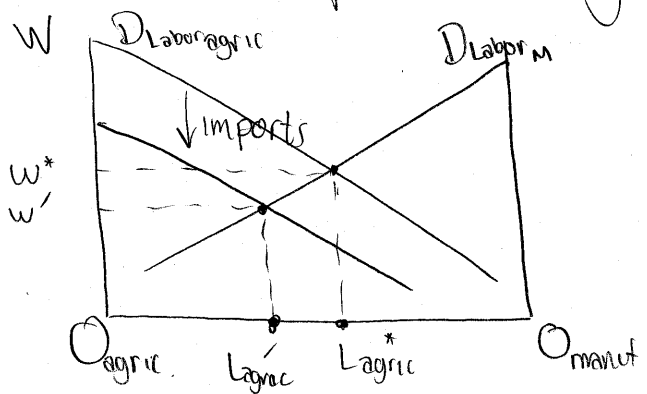
No tariffs

England  
Denmark

Tariffs

Germany  
France  
Sweden

Very few datapoints (degrees of freedom)



$$w' < w^*$$

$$L_{agric}' < L_{agric}^*$$

- O'Rourke tries to quantify the changes in welfare
- Computable general equilibrium model
- Allen will do another CGE later.
- Imposes same functional form on each country.
  - many implicit assumptions.

Findings:

- England: nominal wages  $\downarrow$  but prices  $\downarrow$  by more
- opposite for France, all that matters is size of agric.
- Perhaps land rents are more important.