

Do tariff revenues generate a resource curse? Theory and evidence from the First Wave of Globalization

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- For instance, natural resource revenues and aid:
 - ▶ Reduce political competition.
 - ▶ Increase domestic conflict.
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- **Can import tariff revenues generate a resource curse?**

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- For instance, natural resource revenues and aid:
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- **Can import tariff revenues generate a resource curse?**
 - ▶ **Yes!**: political competition falls and domestic conflict increases.
 - ▶ **It is atypical**: There's a moderating redistributive effect.

Figure: Import tariff revenues and institutions, 1972-2012

Low pol. competition:

- Depends more on tariff revenues.

High pol. competition:

- Depends less on tariff revenues.



Theoretical framework: the politics

- Two groups:
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 - ▶ A group of competitors.
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- 6 **Import tariff revenues grow.**

H1: Tariff revenues grow → lower political competition.

- Ruling elites want to hold onto power.
- They want to consume the fiscal windfalls.

Testable hypotheses: Rapacity effect

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This is the *rapacity effect*.

Testable hypotheses: Redistributive effect

The comparative advantage is in agriculture:

- Ruling elites benefit from better terms of trade.
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H2a: Tariff revenues (\uparrow) + inequality (\uparrow) \rightarrow pol. competition. (\downarrow)

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H3a: Tariff revenues (\uparrow) + inequality (\uparrow) \rightarrow domestic conflict (\updownarrow).

- Both groups want the fiscal windfalls.
- But the competitors are weak to fight.

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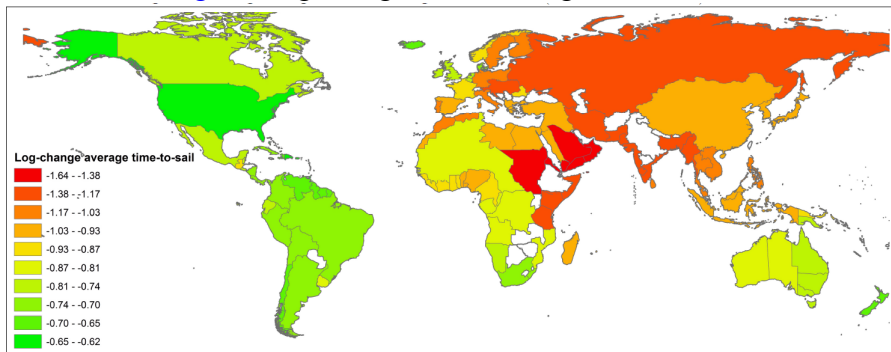
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H2a - H3b are the *redistributive effect*.

Empirical context: First Wave of Globalization (1870-1913)

The advent of the steam ship reduced shipping times...

Figure. Log-change in the average time-to-sail

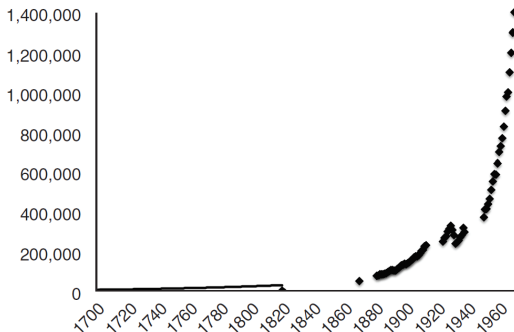


Source: Pascali (2017).

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... increased trade flows substantially...

Figure. Total trade (USD 1990=100)

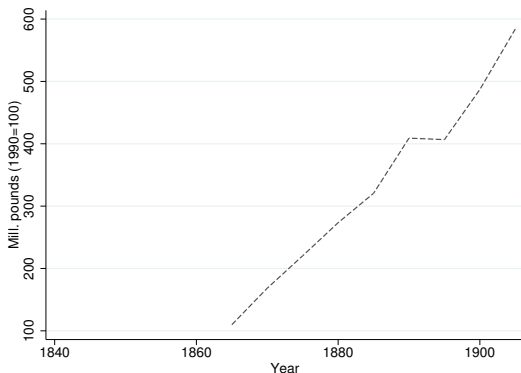


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... also tariff revenues...

Figure. Tariff revenues (Mill. pounds 1990=100)



Source: Authors' calculations.

Why do we focus on the First Wave of Globalization?

We can identify the rapacity effect:

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- Geographic component of shipping times provides identification.

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Urban density proxy strong manufacturing sector

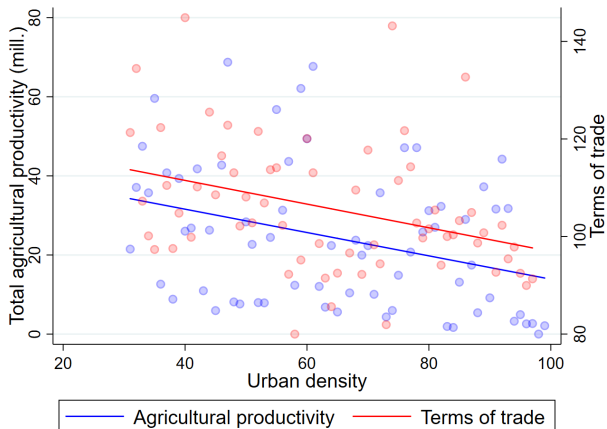
Low urban density:

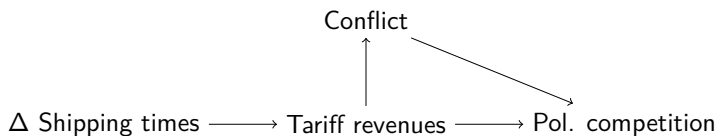
- Higher agricultural productivity.
- Better terms of trade.

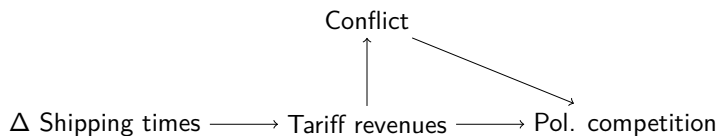
High urban density:

- Lower agricultural productivity.
- Worse terms of trade.

Figure: Terms of trade and agricultural productivity, by urban density

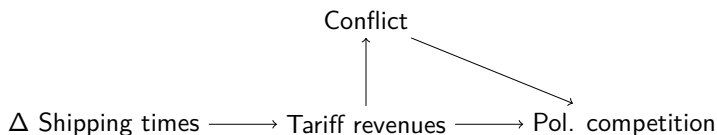






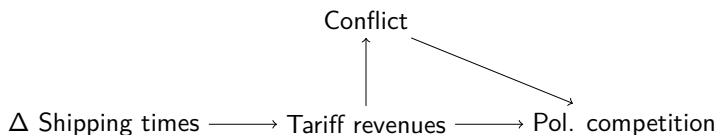
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Empirical strategy



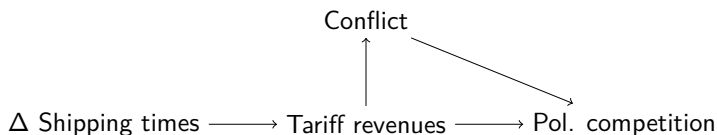
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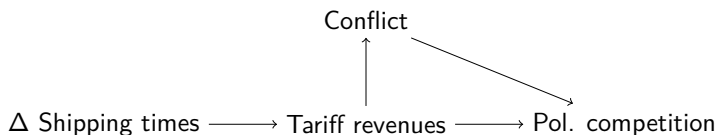
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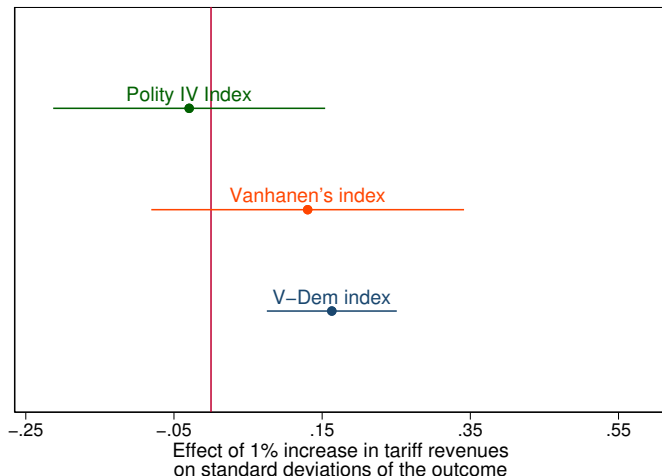
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- 5 **Standard errors:** Clustered by country and year.

Estimating the rapacity effect

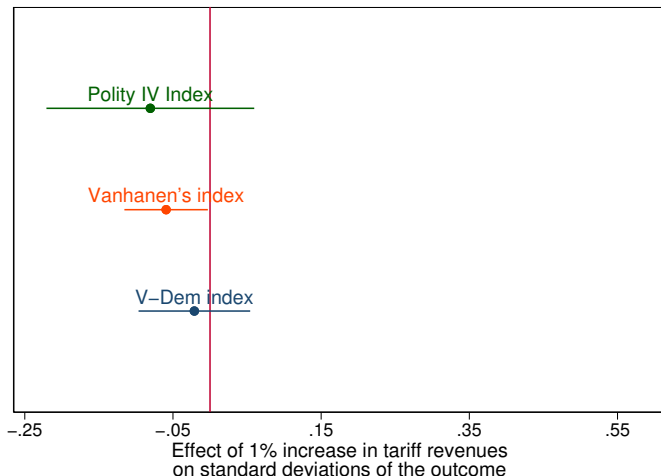
Figure. Effect of tariff revenues on political competition, OLS



Note: 95% confidence intervals.

Estimating the rapacity effect

Figure. Effect of transport shock on political competition, 2-SLS



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Heterogeneous effects

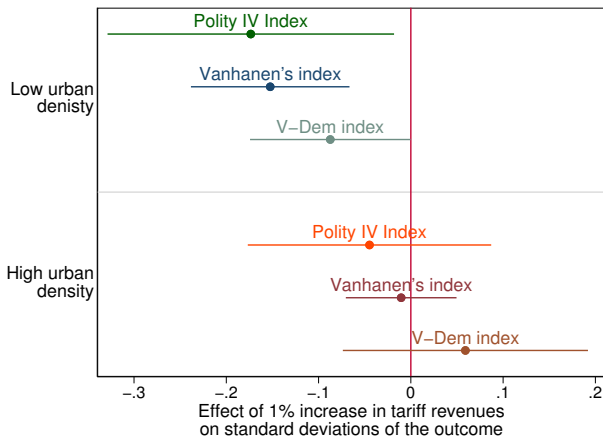
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High urban density:

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Figure. Heterogeneous effect of tariff revenues on pol. competition, 2-SLS



Mechanism: Conflict, heterogeneous effects

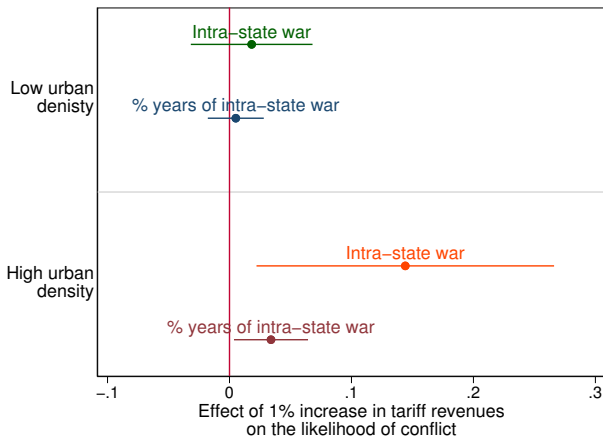
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Figure. Heterogeneous effect of tariff revenues on domestic conflict, 2-SLS



When the terms of trade move against the ruling elite:

- They seek to avoid the conflict over tariff revenues.
- But conflict may still occur.

When the terms of trade move in favor of the ruling elite:

- Ruling elites move to capture the tariff revenue.

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