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Prof Nikolaus Wolf

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Title: Extractive Institutions, Closed Borders and Economic Development

Abstract:

Autocratic regimes often limit access to information concerning the outside world, to prevent their citizenry from learning about the comparatively poor performance of their economy. In this paper, we analyze the use of censorship, and model it as a moral hazard problem, in the context of an augmented Solow growth model. We find that higher technological backwardness, lower quality of domestic institutions, low level of income inequality and low costs of collecting information about foreign economies lead to more restrictive and comprehensive censorship. These findings are consistent with stories of socialist dictatorships, like the Soviet Union or North Korea, where very restrictive forms of censorship were/are used. We also explain why the most restrictive forms of censorship, like political isolationism, are less popular now. We assume that censorship reduces opportunities for adoption of technologies, which results in underdevelopment, higher vulnerability to negative shocks, and potentially higher political turbulence. To avoid this outcome, a political regime can prefer not to implement the most strict forms of censorship. This finding is in line with censorship policy which is applied in nowadays China.