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Jonathan Lehne - An opium curse? The long-run economic consequences of narcotics cultivation in British India

The long run consequences of colonial rule depended on the institutions introduced by the colonisers and the economic activities they promoted. This paper analyses the effects of opium production under British rule on current economic development in India. I employ a border discontinuity design which interacts fine-grained local variation in environmental suitability for poppy cultivation with administrative boundaries that demarcated opium-growing areas.

I find that greater suitability for opium is associated with lower literacy and a lower rate of public good provision within opium-growing districts but has no effect in bordering areas where opium cultivation was prohibited. Placebo tests using suitability for other crops show no such discontinuity. Colonial administrative data allows me to test potential mechanisms for the persistent negative effect of opium production. Greater opium cultivation is associated with less per capita public spending on health and education by the British administration, a lower number of schools, and a greater concentration of police officers. These results suggest that colonial officials in opium growing districts concentrated on administering and policing the extraction of monopsony rents, while investing less in the wider local economy.