

What Explains the Geographic Variation in Corporate Investment ?

ABFER

DISCUSSION BY: MANPREET SINGH (GEORGIA TECH)

Research Question

- Can **history** explain dispersion in corporate investment across regions?
 - Yes, how much 13% (beyond agglomerative factors, geography and expectation)
- What in the history is important?
 - **Two Channels** in this paper:
 1. Economic Organization
 2. State Capacity

Setting

Identification: Heterogeneity based on how districts in India ruled under British empire

Direct v/s Indirect ruling

Long-term Impact:

- 1) Greater Concentration of Investment in states with greater proportion of directly ruled districts
- 2) Reason: Lower corporate investment size in directly ruled states

Robustness:

- 1) IV based on annexation policy
- 2) Bordering Districts

Overall Assessment

- Well written
- Learnt a lot about the Indian History
- Addresses lots of identification concerns

Comment 1: Risk Taking

- Good News for Identification: Lots of history and randomness
- Bad News: Way too much diversity and hard to find good control groups
- Underlying differences in **risk taking behavior** of residents of **directly v/s indirectly** controlled districts
- Example: Some districts in Punjab State are known as “Indian Army” villages.
- Some tribes are known warriors communities.
- Some directly controlled districts couldn't defend themselves, reason could be underlying risk taking / spirit of taking risk
- Lower investment today could be just those differences

Comment 2: Entrepreneurship

- How state capacity impacts entrepreneurship?
- This paper shows state capacity impacts timely provision of public goods
- Are the results just limited to less investment by existing firms or we see lower entrepreneurship rates?

Comment 3: Matching for Bordering Districts

- ❑ Authors do lots of test using bordering districts
- ❑ Assumption: Bordering districts are similar in underlying economic conditions
- ❑ Match on district size, population, any other data on underlying population characteristics.

Comment 4: Heterogeneity

The Channels results show IV using demise of cotton industry.

How the results vary across industries based on how these industries are related to cotton industry?

Can you also talk what friction today is leads to long-term effect?