

Title: *"Institutions, Comparative Advantage, and the Environment."*

Abstract: Why are poor countries polluted? I propose that financial, judicial, and labor market institutions provide a source of comparative advantage in clean industries. Thus, weak institutions make countries poor and polluted. Clean industries disproportionately rely on inputs that require credit, labor market flexibility, and complex contracts. Countries and states with stronger institutions concentrate economic activity in clean industries, even conditional on environmental regulation and endowments of water, energy, and other sources of comparative advantage. Moving a region from the 10th to the 90th percentile of institutional quality would decrease its industrial pollution by nearly half. Institutions have similar or greater importance than environmental regulation or factor endowments in explaining patterns of industrial pollution.