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## **Law, Democracy and the Quality of Government in Africa**

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# **Law, Democracy and the Quality of Government in Africa**

## **Abstract**

This paper examines the big questions of African comparative politics. It assesses the interaction of three crucial components in the development of the continent: law, democracy and quality of government. Political regimes of democracy, polity and autocracy are instrumented with income-levels, legal-origins, religious-dominations and press-freedom levels to account for government quality dynamics of corruption-control, government-effectiveness, voice and accountability, political-stability, regulation quality and rule of law. Findings indicate democracy has an edge over autocracy while the later and polity overlap. A democracy that takes into account only the voice of the majority is better in government quality than autocracy, while a democracy that takes into account the voice of the minority (polity) is worse in government quality than autocracy. As a policy implication, democracy once initiated should be accelerated to edge the appeals of authoritarian regimes and reap the benefits of time and level hypotheses.

*JEL Classification:* K00; O10; P16; P43; P50

*Keywords:* Law; Politics; Democracy; Government Policy; Development

## 1. Introduction

A key issue in political economy is to understand how institutional arrangements shape policy outcomes. Development policies in Africa over the last decades could be summed up in: the control of corruption, government effectiveness, voice and accountability, political stability, rule of law and regulation quality; in two words “government quality”. There is some consensus on the positive relationship between democracy promotion and the production of policies and institutions that guarantee government quality. On the other hand some proponents assert that democracies have important effects on the degree of competition for public offices but otherwise have insignificant effects on policies towards good governance (Mulligan et al., 2004). On a global scale the intriguing debate on the impact of political regimes on institutional qualities remains unsolved. This leaves us with the puzzling question on the effect of democracy on the quality of government; especially in the African continent. As pointed out by Rothstein (2011) the debate could be summarized in the observation of Diamond (2007): *“there is a specter haunting democracy in the world today. It is bad governance—governance that serves only the interests of a narrow ruling elite. Governance that is drenched in corruption, patronage, favoritism, and abuse of power. Governance that is not responding to the massive and long-deferred social agenda of reducing inequality and unemployment and fighting against dehumanizing poverty. Governance that is not delivering broad improvement in people’s lives because it is stealing, squandering, or skewing the available resources”* (page 199).

This work therefore aims to assess how political regimes affect government quality dynamics in the African continent. Plainly put, it addresses the concern of whether democracies perform better in governance than authoritarian regimes. The remainder of the paper is organized as follows. Section 2 reviews existing literature. Data and methodology are disclosed and

outlined respectively in Section 3. Empirical analysis and discussion are captured by Section 4. Section 5 concludes.

## **2. Existing Literature**

### **2.1 Theoretical highlights**

#### *2.1.1 The demand-side of government-quality: culturalist theories.*

As pointed out by Charron & Lapuente(2009), in the culturalist theoretical perspective, political institutions are fixed and changes in government quality results from social preferences and values. Thus key players are ordinary people governed by cultural values who are instrumental in determining what sort of governance they need. The prevailing values of society urge citizens to mount powerful collective actions that put pressure on the elite to provide good governance. Different social demands cannot totally explain the observed level of government quality. It is also necessary to account for the supply-side.

#### *2.1.2 The supply-side of government-quality: political institutions*

Here political institutions shape the quality of governance. In this *institutionalist* approach, the preferences of actors following standard rational-choice assumptions are kept fixed and the variations in levels of government quality depend on how institutions shape the incentives of individuals. This implies the key actors are rulers from one particular type (or sub-type) of political regime. The demanders of good governance(citizens) play, if any, a minor role as inhabitants of a country are assumed to be hard-working individuals ready to develop innovative technologies if rulers provide them with good institutions( and low corruption).

## **2.2 Quality of government**

Democracy and Good Governance or Government Quality (hence GQ) have received much attention in circles dealing with developing countries. GQ is now used by many national development agencies and international organizations such as the World Bank, International Monetary Fund (IMF) and the United Nations to explain the state of developing countries. In 1996, the IMF declared: *"promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper"* (IMF, 2005). The components of this definition will guide our conception of GQ through-out this paper.

## **2.3 Conflicts in the literature**

### *2.3.1 Democracy and government-quality*

There is a general agreement among scholars and policy-makers on the crucial role that political-regimes play in GQ. GQ or good-governance fosters social and economic development. An intriguing unsolved debate is that concerning the impact of political-regimes on GQ. Plainly put, the concern is about if democratic states affect dynamics of GQ better than authoritarian ones. Many theoretical initiatives have been put forward as to why democracies exhibit higher levels of GQ than autocracies. However, empirical evidence is object of controversy on the subject matter.

Thus, qualitative literature has provided exhaustive case studies depicting how corruption (GQ) has increased (decreased) with the advent of democracy. This is the case of many developing countries in Africa (Lemarchand, 1972), Southeast Asia (Scott, 1972), India (Wade, 1985) and Turkey (Sayari, 1977); post 1990 communist countries like Russia (Varsee, 1997) and

many Latin American countries upon different waves of democratization (Weyland, 1998). These have inspired a number of quantitative studies, with some confirming the contradictory relationship between democracy and corruption (Harris-White & White, 1996: 3) and Sung (2004: 179). Some studies have pointed to the existence of a non-linear relationship between democracy and GQ at the tender stages of democratization. However, this negative impact becomes positive as the democracy grows. Two explanations have been put forward and tested independently to elucidate this non-linear relationship: the *time* and *level* hypotheses.

Concerning the *level* of democracy hypothesis, it has been found using continuous measures of political-regimes that GQ is highest in strongly democratic states, medium in strongly authoritarian regimes and least in states that are partially democratized. Based on the varying empirical specifications, this level-oriented non-linearity has been defined as either U-shaped (Montinola & Jackman, 2002), J-shaped (Back & Hadenius, 2008) or S-shaped (Sung, 2004). With respect to *time of exposure to* or historically accumulated experience with democracy, Keefer (2007) shows that younger democracies produce worse GQ than older ones. In summary, the general idea in this literature is that partial or young democracies perform worse (worst) than authoritarian (full or older democratic) regimes.

### 2.3.2 *Democracy and growth*

The link between political democracy and economic growth has been the center of debate in the past decades. A great chunk of cross-country research has shown a theoretical divide on the impact of democratic versus authoritarian regimes on growth. Both theoretical and empirical literatures are in antagonism over the effects of democracy on economic growth. Whereas from a theoretical perspective, Clague et al. (1996) and Haggard (1997) argue that democracy promotes

economic growth better than autocratic regimes, Rao(1984) and Blanchard & Shleifer(2000) disagree.

Advocates of democracy postulate that the motivations of citizens to work and invest; the effective allocation of resources in the marketplace and profit-maximization private activity can all be maintained in a climate of liberty, free-flowing information and secured control of property (North,1990; Doucouliagos & Ulubasoglu,2008). Democracies seriously inhibit state intervention in the economy, improve responsiveness to public's demand on areas such as education, justice and health, and most importantly encourage long-run and stable growth (Rodrik, 2000; Baum & Lake, 2001, 2003).

Conversely, opponents of democracy postulate that democracies lend themselves to popular demands for immediate consumption at the expense of profitable investments and can neither be insulated from the interest of rent-seekers nor mobilize resources swiftly. By the same token, democracies are said to be prone to conflicts due to social, ethnic and class struggles. While some authors subscribe to authoritarian regimes in efforts to suppress conflicts, resist sectional interests and adopt coercive measures necessary for rapid growth, others emphasize the central role of markets and institutions irrespective of political regime-type (Bhagwati, 1995). Democracy comes with a potential risk to growth because it is open to pressures from interest groups (Olson, 1982). Rao (1984) postulates that two-thirds of the world's population were living under nondemocratic forms of government because; democratic institutions fail to respond to the immediate demands of the population, impatient to raise its standard of living. In the investigation, authoritarian regimes orchestrate economic growth by sacrificing current consumption for investment, which makes them rather effective at mobilizing savings. Blanchard and Shleifer (2000) compare fiscal federalism in China and Russia to show that political



centralization in China reduces both the risk of capture and the scope of competition for rents by local governments. On the other hand, the emergence of a partly dysfunctional democracy in transitional Russia deters economic growth due to rampant local capture and competition for rents.

Shen(2002) shifts from the cross-country mainstream approach to empirical examination of the democracy-growth nexus and proposes a “before-and-after” analytical technique. The paper compares the economic performance of forty countries before and after they became democracies or semi-democracies over the last four decades and finds evidence that an amelioration of growth performance typically follows the transformation to democracy. In line with the analysis, growth appears to be more stable under authoritarian regimes. Interestingly, rich countries often experience drops in growth after a democratic transformation while poor nations typically experience accelerations in growth. Growth variations appears to be negatively associated with initial savings ratio and positively linked to the export ratio to GDP.

Given the debate highlighted above, Doucouliagos & Ulubasoglu(2008) challenge the consensus of an inconclusive relationship with a meta-analytic review and a quantitative investigation of the democracy-growth literature. They apply meta-regressions to a population of 470 estimates obtained from 81 papers on the democracy-growth association and conclude with the following. (1) Relative to overall available published works, there is on average no evidence of democracy being detrimental to growth since the former has no direct effect on the later. Evidence suggests only a robust and significant indirect impact on growth. (2) Results are consistent with democracies being associated with higher levels of human capital accumulation, lower political instability, lower inflation and higher economic freedom. (3) Democracies are found to be linked to larger governments and more restrictions to international trade. (4) The

growth-effect of democratic regimes is higher in Latin America, insignificant in Africa and lower in Asia.

The present paper which aims to examine the big questions of African comparative politics will contribute to literature in the following dimension. (1) Explore the impact of income-levels, religious-dominations, press-freedoms and legal-origins on political-regime and government-quality dynamics. (2) Investigate the impact of political-regimes on government quality. (3) Provide institutional policy recommendations for development needs in the African continent.

### **3. Data and Methodology**

#### **3.1 Data**

We examine a panel of 38 African countries using data from African Development Indicators (ADI) of the World Bank (WB) ranging from 1994 to 2010. Selected variables and countries are presented in the appendices (Appendix 3 and Appendix 4 respectively). In line with the IMF (2005) definition GQ dependent variables include: corruption-control, government-effectiveness, voice and accountability, political stability or no violence, rule of law and regulation quality. Borrowing from Yang (2011), independent variables are political regime indicators of democracy, polity and autocracy. Instrumental variables include: legal-origins, press-freedoms, income-levels and religious-dominations. These instruments have been largely documented in the economic development literature (La Porta et al., 1997; Stulz & Williamson, 2003; Beck et al., 2003). In the regressions we control for GDP growth, population growth and public investment.

## 3.2 Methodology

### 3.2.1 Endogeneity

While political regimes shape the quality of institutions, the reverse effect is also true as stringencies in institutional quality might affect the political powers that be. For instance a probe into corruption allegations by an independent corruption-investigation committee might unveil some very nasty aspects of government that could bring about a change in political-regime, either by popular revolt or resignation of culprits within the regime. Thus an important issue of endogeneity results from this fact which should be taken into account by the estimation technique to avoid biased and inconsistent estimates.

### 3.2.2 Estimation Technique

Borrowing from Beck et al. (2003) and recently African law-finance literature (Asongu, 2011ab) the paper adopts an Instrumental Variable (IV) estimation technique. IV estimates address the puzzle of endogeneity and thus avoid the inconsistency of estimated coefficients by Ordinary Least Squares (OLS) when the independent variables are correlated with the error term in the equation of interest. In accordance with Asongu (2011ab), the Two-Stage-Least-Squares (TSLS) estimation method adopted by this paper will entail the following steps.

First-stage regression:

$$\begin{aligned} PoliticalChannel_{it} = & \gamma_0 + \gamma_1(legalorigin)_{it} + \gamma_2(religion)_{it} + \gamma_3(incomelevel)_{it} \\ & + \gamma_4(pressfreedom)_{it} + \alpha_i X_{it} + v \end{aligned} \quad (1)$$

Second-stage regression:

$$Gov'tQuality_{it} = \gamma_0 + \gamma_1(Democracy)_{it} + \gamma_2(Autocracy)_{it} + \beta_i X_{it} + \mu \quad (2)$$

In the two equations,  $X$  is a set of exogenous control variables. For the first and second equations,  $v$  and  $u$ , respectively represent the error terms. Instrumental variables are legal-origins, dominant-religions, income-levels and press-freedoms.

We adopt the following steps in the analysis:

- justify the use of a TSLS-IV over an OLS estimation technique via the Hausman-test for endogeneity;
- show that the instruments explain the endogenous components of explaining variables (political-regime channels), conditional on other covariates (control variables);
- verify the validity of the instruments by their uncorrelation with the error-term in the equation of interest through an Over-identifying Restrictions (OIR) test.

### *3.2.3 Robustness checks*

To ensure robustness of the analysis, the following checks will be carried out: (1) use of alternative indicators of political-regime and government-quality dynamics; (2) employment of two distinct interchangeable sets of moment conditions that encompass every dimension of the instruments; (3) estimation by robust Heteroscedasticity and Autocorrelation Consistent (HAC) standard errors; (4) validation of TSLS estimations with Fixed Effect (FE) regressions.

## **4. Empirical Analysis**

This section addresses the ability of exogenous components of political-regimes to account for differences in GQ; the ability of the instruments to explain variations in the endogenous components of political-regimes and the possibility of the instruments to account for GQ beyond political-regime channels. To make these investigations, we use the TSLS-IV

estimation technique with legal-origins, press-freedoms, income-levels and religious-dominations as instrumental variables.

#### **4.1 Quality of government and instruments**

Table 1 assesses the importance of the instruments in explaining differences in GQ. Clearly it could be observed the distinguishing African countries by legal-origins, income-levels, press-freedoms and religious-denominations help explain cross-countries difference in GQ. The instruments taken together enter significantly at the 1% significance level in all regressions. Broadly, the following could be established. (1) English common-law countries have substantially better levels of GQ than their French civil-law counterparts; consistent with the law-finance (growth) literature(La Portal et al.,1997,1998; Beck et al.,2003) and recent African law-finance(growth) literature(Asongu, 2011abcde; Agbor,2011). (2) But for government-effectiveness, the dominance of Christian nations over those of Moslem decent is not very significant; the significance aspect is broadly consistent with El Badawi, & Makdisi(2007). (3) GQ increases with income-levels; in accordance with Narayan et al.(2011). (4) GQ improves with press-freedoms; contrary to Vaidya (2005) and Oscarsson (2008).

#### **4.2 Political-regimes and instruments**

In Table 2 we regress political-regime indicators on the instruments and test for their joint significance. This is the first-stage (requirement) of the IV estimation technique in which the endogenous components of the independent variables must be explained by the instruments, conditional on other covariates (control variables). Based on results of the Fisher-statistics, it could be established that the instruments are strong, as in presence of control variables they enter jointly significantly into all regressions at the 1% significance level. Thus, using those

instrumental dynamics in the African continent helps account for cross-country differences in the quality and nature of political institutions. Like in the GQ-instrument regressions, we carry-out two separate regressions for each political-regime dynamic in the presence and absence of control variables, such that we have four regressions for each dynamic. The following findings could be established. (1) Consistent with the law-finance(growth) literature (La Portal et al.,1997,1998; Beck et al.,2003; Asongu,2011abcde; Agbor,2011), English common-law countries have higher levels of democracy than their French civil-law counterparts. (2) Christian dominated countries have higher (lower) levels of democracy (autocracy) than Moslem-oriented nations; in accordance with El Badawi, & Makdisi (2007). (3) Democracy increases with income-levels: broadly in line with Narayan et al.(2011). Democratic institutions improve with press-freedoms; contrary to Vaidya (2005) and Oscarsson (2008).

#### **4.3 The Quality of government and democracy**

Table 3 assesses two main issues: (1) the ability of political-regime channels to account for GQ dynamics and (2) the possibility of the instrumental variables explaining GQ dynamics beyond political-regime channels. While the first issue is addressed by the significance of estimated coefficients, the second is looked at through the OIR test. The null hypothesis of this test is the position that the instruments account for GQ dynamics only through political-regime channels. Thus a rejection of the null hypothesis is the rejection of the view that the instruments explain GQ dynamics through no other mechanisms than political-regime channels. The Hausman test for endogeneity precedes every TSLS regression. The null hypothesis of this test is the position that OLS estimates are efficient and consistent. Therefore a rejection of the null hypothesis points to the issue of reverse causality (endogeneity) we highlighted earlier and hence lends credit to the IV estimation technique. The following measures are taken to ensure

goodness of fit and robustness of estimated coefficients. (1) For every regression, results are replicated using an alternative set of instrumental variables, as outlined in the second and third to the last lines of Table 3. (2) Robust HAC standard errors (Panel B) are used to check results of the TSLS of Panel A. (3) Based on the outcome of the Hausman test, the FE regressions (which assume the explaining variables are correlated with the error-term) are used to further check the results of panels A and B.

The first issue which is addressed by the significance of estimated coefficients could be summarized in the following: (1) in comparison to authoritarian regimes, democratic ones have a more significant impact on GQ dynamics: (2) autocracy edges polity in TSLS (panels A and B) but both overlap in FE regressions.

Concerning the second issue, two interpretations result. (1) The instruments explain government-effectiveness and political-stability beyond political-regime channels; this implies there are other mechanisms by which the instruments explain GQ dynamics of government-effectiveness and political-stability beside political-regime channels. (2) With respect to the remaining GQ dynamics, the instruments do not explain them beyond political-regime channels; meaning the instrumental variables are valid and not correlated with the error term in the equation of interest. In plainer terms, the instruments explain the remaining GQ dynamics through no other mechanisms than political-regime channels.

**Table 1: The quality of government and instruments**

		Control of Corruption	Government Effectiveness	Voice & Accountability	Political Stability	Regulation Quality	Rule of Law						
Legal-origins	Constant	<b>-1.219***</b> (-8.868)	<b>-0.260**</b> (-2.381)	<b>-1.665***</b> (-13.86)	<b>-0.319***</b> (-3.285)	<b>-1.402***</b> (-21.17)	0.041 (0.404)	<b>-1.614***</b> (-13.01)	<b>-0.572***</b> (-4.119)	<b>-1.156***</b> (-15.57)	<b>-0.169**</b> (-2.016)	<b>-1.522***</b> (-19.95)	<b>-0.430***</b> (-4.846)
	English common-law	<b>0.193***</b> (3.624)	---	<b>0.317***</b> (6.816)	---	<b>0.149***</b> (3.355)	---	0.119 (1.433)	---	<b>0.335***</b> (6.757)	---	<b>0.347***</b> (6.771)	---
	French civil-law	---	<b>-0.210***</b> (-3.778)	---	<b>-0.335***</b> (-6.777)	---	<b>-0.175***</b> (-3.325)	---	<b>-0.150*</b> (-1.778)	---	<b>-0.357***</b> (-7.033)	---	<b>-0.377***</b> (-7.033)
Religions	Christianity	-0.010 (-0.179)	---	<b>0.098*</b> (1.892)	---	0.0312 (0.619)	---	-0.019 (-0.210)	---	0.036 (0.645)	---	0.002 (0.043)	---
	Islam	---	0.023 (0.380)	---	-0.085 (-1.533)	---	-0.005 (-0.093)	---	0.023 (0.248)	---	-0.032 (-0.563)	---	0.002 (0.045)
Income Levels	Low Income	---	<b>-0.183***</b> (-2.674)	---	<b>-0.272***</b> (-4.456)	---	-0.022 (-0.352)	---	<b>-0.180*</b> (-1.839)	---	-0.068 (-1.158)	---	<b>-0.164***</b> (-2.633)
	Middle Income	<b>0.335***</b> (3.984)	---	<b>0.467***</b> (6.346)	---	<b>0.116*</b> (1.672)	---	<b>0.599***</b> (4.613)	---	<b>0.349***</b> (4.510)	---	<b>0.420***</b> (5.258)	---
	Lower Middle Income	-0.119 (-1.309)	---	<b>-0.160**</b> (-2.009)	---	-0.030 (-0.388)	---	<b>-0.404***</b> (-2.762)	---	<b>-0.271***</b> (-3.108)	---	<b>-0.242***</b> (-2.687)	---
	Upper Middle Income	---	<b>0.288***</b> (3.217)	---	<b>0.338***</b> (4.248)	---	<b>0.320***</b> (3.769)	---	<b>0.594***</b> (4.292)	---	<b>0.407***</b> (4.856)	---	<b>0.437***</b> (4.923)
Press Freedoms	Free	<b>0.835***</b> (10.44)	---	<b>0.912***</b> (13.06)	---	<b>1.632***</b> (24.12)	---	<b>1.118***</b> (8.824)	---	<b>0.791***</b> (10.48)	---	<b>0.929***</b> (11.92)	---
	Partly Free	<b>0.395***</b> (7.115)	---	<b>0.447***</b> (9.213)	---	<b>0.887***</b> (18.76)	---	<b>0.632***</b> (7.140)	---	<b>0.453***</b> (8.584)	---	<b>0.444***</b> (8.158)	---
	No Freedom	---	<b>-0.505***</b> (-9.368)	---	<b>-0.563***</b> (-11.73)	---	<b>-1.071***</b> (-20.99)	---	<b>-0.759***</b> (-9.126)	---	<b>-0.539***</b> (-10.69)	---	<b>-0.567***</b> (-10.63)
Control Variables	GDP Growth	<b>-0.014***</b> (-2.858)	<b>-0.014***</b> (-2.750)	<b>-0.008*</b> (-1.940)	<b>-0.008*</b> (-1.836)	<b>-0.006*</b> (-1.731)	-0.006 (-1.329)	-0.001 (-0.150)	---	<b>-0.008*</b> (-1.914)	<b>-0.009**</b> (-2.073)	<b>-0.009**</b> (-2.095)	<b>-0.010**</b> (-2.276)
	Population Growth	-0.020 (-0.586)	-0.054 (-1.480)	0.050 (1.620)	0.015 (0.467)	---	<b>-0.062*</b> (-1.791)	---	---	---	---	---	---
	Public Investment	<b>0.041***</b> (5.556)	<b>0.041***</b> (5.387)	<b>0.036***</b> (5.560)	<b>0.036***</b> (5.301)	<b>0.021***</b> (3.684)	<b>0.021***</b> (3.057)	<b>0.070***</b> (6.321)	<b>0.070***</b> (6.367)	<b>0.015**</b> (2.389)	<b>0.016**</b> (2.404)	<b>0.047***</b> (6.934)	<b>0.048***</b> (6.688)
	Adjusted R <sup>2</sup>	0.475	0.430	0.601	0.549	0.742	0.655	0.409	0.387	0.499	0.471	0.569	0.521
	Fisher test	<b>34.293***</b>	<b>32.128***</b>	<b>56.236***</b>	<b>51.261***</b>	<b>123.046***</b>	<b>81.255***</b>	<b>30.293***</b>	<b>36.656***</b>	<b>43.00***</b>	<b>43.950***</b>	<b>56.789***</b>	<b>53.700***</b>
	Observations	331	331	331	331	339	339	339	339	338	338	339	339

\*, \*\*, \*\*\*: significance levels of 10%, 5% and 1% respectively.



**Table 2: First-stage regressions**

		Democracy				Polity				Autocracy			
Legal-origins	Constant	0.150 (0.455)	<b>-1.317**</b> (-2.911)	<b>4.287***</b> (10.27)	<b>3.293***</b> (6.082)	<b>-2.578***</b> (-6.504)	<b>-3.226***</b> (-5.870)	<b>3.069***</b> (6.025)	<b>2.672***</b> (3.434)	<b>2.748***</b> (8.204)	<b>2.134***</b> (3.677)	<b>1.293***</b> (3.158)	<b>1.222**</b> (2.465)
	English common-law	<b>0.660**</b> (2.168)	<b>0.677**</b> (2.163)	---	---	-0.029 (-0.080)	-0.182 (-0.480)	---	---	<b>0.710**</b> (2.304)	<b>0.789**</b> (2.557)	---	---
	French civil-law	---	---	<b>-0.897***</b> (-2.847)	<b>-0.951***</b> (-2.929)	---	---	-0.314 (-0.817)	-0.098 (-0.241)	---	---	<b>-0.600*</b> (-1.942)	<b>-0.837***</b> (-2.596)
Religions	Christianity	0.089 (0.275)	0.079 (0.227)	---	---	<b>1.167***</b> (3.009)	<b>1.038**</b> (2.451)	---	---	<b>-1.024***</b> (-3.123)	<b>-0.982***</b> (-3.012)	---	---
	Islam	---	---	-0.039 (-0.117)	0.047 (0.128)	---	---	<b>-1.094***</b> (-2.663)	<b>-0.799*</b> (-1.771)	---	---	<b>1.000***</b> (3.028)	<b>0.923**</b> (2.517)
Income Levels	Low Income	---	---	<b>0.868**</b> (2.297)	0.292 (0.725)	---	---	<b>1.536***</b> (3.333)	<b>1.748***</b> (3.439)	---	---	<b>-0.644*</b> (-1.738)	<b>-0.951**</b> (-2.361)
	Middle Income	0.251 (0.508)	0.321 (0.642)	---	---	<b>-1.406**</b> (-2.373)	-0.987 (-1.624)	---	---	<b>1.590***</b> (3.175)	<b>1.295**</b> (2.514)	---	---
	Lower Middle Income	-0.872 (-1.512)	-0.392 (-0.664)	---	---	0.228 (0.331)	-0.213 (-0.298)	---	---	<b>-1.061*</b> (-1.818)	-0.744 (-1.270)	---	---
Press Freedoms	Upper Middle Income	---	---	<b>2.535***</b> (4.652)	<b>2.157***</b> (3.853)	---	---	<b>2.183***</b> (3.284)	<b>2.541***</b> (3.636)	---	---	0.285 (0.533)	-0.561 (-0.996)
	Free	<b>6.997***</b> (13.64)	<b>6.884***</b> (13.34)	---	---	<b>10.025***</b> (16.31)	<b>9.694***</b> (15.47)	---	---	<b>-3.067***</b> (-5.905)	<b>-2.892***</b> (-5.548)	---	---
	Partly Free	<b>3.464***</b> (11.00)	<b>3.185***</b> (9.567)	---	---	<b>4.899***</b> (12.99)	<b>4.420***</b> (10.94)	---	---	<b>-1.417***</b> (-4.444)	<b>-1.369***</b> (-4.331)	---	---
Control Variables	No Freedom	---	---	<b>-4.137***</b> (-13.28)	<b>-3.943***</b> (-11.99)	---	---	<b>-5.875***</b> (-15.46)	<b>-5.505***</b> (-13.53)	---	---	<b>1.731***</b> (5.667)	<b>1.491***</b> (4.605)
	GDP Growth	---	0.020 (0.977)	---	---	---	<b>-0.059**</b> (-2.316)	---	-0.047 (-1.627)	---	<b>0.068***</b> (3.164)	---	<b>0.073***</b> (3.214)
	Population Growth	---	---	---	---	---	---	---	<b>-0.423**</b> (-1.998)	---	0.083 (0.501)	---	---
	Public Investment	---	<b>0.188***</b> (4.658)	---	<b>0.188***</b> (4.501)	---	<b>0.166***</b> (3.390)	---	<b>0.151***</b> (2.885)	---	---	---	0.021 (1.334)
	Adjusted R <sup>2</sup>	0.381	0.412	0.329	0.353	0.433	0.449	0.363	0.375	0.087	0.105	0.072	0.098
	Fisher test	<b>57.936***</b>	<b>44.971***</b>	<b>55.447***</b>	<b>46.688***</b>	<b>71.792***</b>	<b>52.108***</b>	<b>64.355***</b>	<b>38.706***</b>	<b>9.905***</b>	<b>9.150***</b>	<b>9.721***</b>	<b>8.831***</b>
	Observations	555	502	555	502	555	502	555	502	555	555	555	500

\*, \*\*, \*\*\*: significance levels of 10%, 5% and 1% respectively.

**Table 3: Second-stage regressions**

Panel A: TSLS												
	Control of Corruption		Government Effectiveness	Voice & Accountability		Political Stability		Regulation Quality		Rule of Law		
Constant	-1.320*** (-8.349)	-1.358*** (-8.307)	-1.514*** (-9.550)	-1.559*** (-9.548)	-1.259*** (-10.39)	-1.308*** (-10.41)	-1.467*** (-7.390)	-1.522*** (-7.383)	-1.375*** (-7.635)	-1.421*** (-7.584)	-1.701*** (-7.881)	-1.758*** (-7.820)
Democracy	0.161*** (6.921)	---	0.188*** (7.854)	---	0.219*** (12.28)	---	0.218*** (7.455)	---	0.184*** (6.980)	---	0.216*** (6.793)	---
Polity	---	0.166*** (6.902)	---	0.194*** (7.868)	---	0.225*** (12.19)	---	0.225*** (7.425)	---	0.191*** (6.935)	---	0.223*** (6.758)
Autocracy	0.126** (2.131)	0.301*** (3.737)	0.151*** (2.665)	0.355*** (4.588)	-0.0001 (-0.003)	0.237*** (3.888)	0.149** (2.067)	0.388*** (3.884)	0.149** (2.282)	0.352*** (3.874)	0.209*** (2.666)	0.447*** (4.103)
Hausman test	79.840***	78.886***	146.66***	147.026***	298.878***	298.677***	55.324***	56.080***	148.124***	150.231***	145.491***	147.314***
OIR-Sargan	5.916	5.796	11.368**	11.109**	1.156	1.285	9.496**	8.871*	4.727	4.247	4.671	4.048
P-value	[0.205]	[0.214]	[0.022]	[0.025]	[0.885]	[0.863]	[0.049]	[0.064]	[0.316]	[0.373]	[0.322]	[0.399]
Cragg-Donald	2.212	2.198	3.094	3.097	2.213	2.200	2.213	2.200	2.198	2.185	2.213	0.210
Adjusted R <sup>2</sup>	0.170	0.172	0.193	0.194	0.597	0.594	0.284	0.283	0.186	0.184	0.208	0.210
Fisher	36.471***	36.246***	39.456***	39.562***	197.619***	194.845***	46.637***	46.109***	38.006***	37.411***	32.441***	31.995***
Observations	362	362	352	352	370	370	370	370	369	369	370	370

  

Panel B: TSLS with HAC												
	Control of Corruption		Government Effectiveness	Voice & Accountability		Political Stability		Regulation Quality		Rule of Law		
Constant	-1.320*** (-3.648)	-1.358*** (-3.543)	-1.514*** (-4.422)	-1.559*** (-4.363)	-1.259*** (-5.945)	-1.308*** (-5.657)	-1.467*** (-3.399)	-1.522*** (-3.346)	-1.375*** (-3.525)	-1.421*** (-3.414)	-1.701*** (-3.764)	-1.758*** (3.679)
Democracy	0.161*** (2.812)	---	0.188*** (3.455)	---	0.219*** (7.104)	---	0.218*** (3.456)	---	0.184*** (3.134)	---	0.216*** (3.138)	---
Polity	---	0.166*** (2.755)	---	0.194*** (3.430)	---	0.225*** (6.692)	---	0.225*** (3.394)	---	0.191*** (3.045)	---	0.223*** (3.087)
Autocracy	0.126 (1.094)	0.301* (1.719)	0.151 (1.616)	0.355** (2.441)	-0.0001 (-0.002)	0.237** (2.278)	0.149 (0.879)	0.388* (1.677)	0.149 (1.291)	0.352** (1.969)	0.209 (1.560)	0.447** (2.169)
Hausman test	79.840***	78.886***	146.669***	147.026***	298.878***	298.677***	55.324***	56.080***	148.124***	150.231***	145.491***	147.314***
OIR-Sargan	5.916	5.796	11.368**	11.109**	1.156	1.285	9.496**	8.871*	4.727	4.247	4.671	4.048
P-value	[0.205]	[0.214]	[0.022]	[0.025]	[0.885]	[0.863]	[0.049]	[0.064]	[0.316]	[0.373]	[0.322]	[0.399]
Adjusted R <sup>2</sup>	0.170	0.172	0.193	0.194	0.597	0.594	0.284	0.283	0.186	0.184	0.208	0.210
Fisher	7.354***	7.100***	7.842***	7.573***	77.850***	70.290***	12.278***	11.499***	8.630***	8.119***	7.481***	7.132***
Observations	362	362	352	352	370	370	370	370	369	369	370	370

  

Panel C: Fixed Effects with HAC												
	Control of Corruption		Government Effectiveness	Voice & Accountability		Political Stability		Regulation Quality		Rule of Law		
Constant	-0.851*** (-12.98)	-0.865*** (-12.85)	-0.935*** (-14.49)	-0.952*** (-14.11)	-0.912*** (-16.70)	-0.935*** (-15.80)	-0.986*** (-9.394)	-1.006*** (-9.386)	-0.804*** (-9.385)	-0.817*** (-8.975)	-0.983*** (-13.56)	-1.001*** (-13.60)
Democracy	0.070*** (4.098)	---	0.078*** (4.558)	---	0.129*** (11.05)	---	0.111*** (5.895)	---	0.071*** (4.270)	---	0.085*** (4.786)	---
Polity	---	0.072*** (4.140)	---	0.080*** (4.574)	---	0.132*** (11.14)	---	0.114*** (5.937)	---	0.073*** (4.212)	---	0.087*** (4.853)
Autocracy	-0.006 (-0.343)	0.068*** (3.590)	-0.009 (-0.638)	0.074*** (4.494)	-0.062*** (-5.330)	0.075*** (5.862)	0.039 (1.498)	0.158*** (7.702)	-0.0009 (-0.052)	0.075*** (3.070)	0.0008 (0.046)	0.092*** (4.728)
Adjusted R <sup>2</sup>	0.248	0.251	0.303	0.305	0.665	0.664	0.275	0.276	0.252	0.251	0.311	0.315
Fisher	72.425***	73.807***	92.591***	93.544***	439.224***	437.161***	85.027***	85.087***	75.272***	75.089***	100.867***	102.750***
Observations	434	434	422	422	442	442	442	442	441	441	442	442

Initial Instruments Constant; Lower Middle Income; Middle Income; English; Christians; Free Press; Partly Free Press  
 Robust Instruments Constant; Upper Middle Income; Low Income; French; Islam; Not Free Press

\*, \*\*, \*\*\*: significance levels of 10%, 5% and 1% respectively. OIR: Overidentifying Restrictions

### 4.3 Further discussion of results and policy implications

#### 4.3.1 Closeness in effects of democracy and autocracy

Closeness in effects has two main dimensions: *difference effect* and *sign effect*.

Concerning the *difference effect*, it is worth pointing-out the variations between democratic and autocratic elasticities are significant but not quite substantial to persuade autocratic regimes on the appeals of democracy in GQ dynamics. As regards the *sign effect*, elasticities of both types of political-regimes are positive; which is another indication that autocratic regimes are not quite detrimental at effecting GQ dynamics.

The *time* and *level* hypotheses on the non-linear relationship between democracy and GQ could provide some insights into these *closeness in-effects*. The partiality or youthfulness of African democracies renders their effects on GQ less pronounced: inline with the *level* (Montinola & Jackman, 2002; Back & Hadenius, 2008; Sung, 2004) and *time of exposure* (Keefer, 2007) hypotheses.

#### 4.3.2 The overlapping of autocracy and polity

Polity index is the difference between polity's democracy and autocracy. The polity score is the aggregate of 6 component measures that aim to record what are called key qualities of democracy: executive recruitment, political competition and constraints on executive authority. However it should be noted that the Polity's concept of democracy is thin. Its measurement as the difference between democracy and autocracy by definition highlights it should be compared with autocracy in interpretation as a distinct measurement of democracy. Polity-democracy is a democracy in which the voices of the minority are considered. It follows that, a democracy that does not take into account the voice of the minority is better in GQ than

autocracy, while a democracy that takes into account the voice of the minority (polity) is worse in GQ than autocracy.

#### 4.3.3 *Policy implications, caveats and limitations*

A key issue in political economy is to understand how institutional arrangements shape policy outcomes. In our analysis we used four moment conditions: press-freedoms, income-levels, legal-origins and religious-dominations. In analyzing policy options we shall assume the first two instruments are variables while the last two are fixed. In other words religious and legal origins are constant. Based on our findings democracy is best at effecting GQ. However, once initiated, the democratization process should be accelerated in a bid to avoid polity-democracy and the appeals of autocracy. Early democracy should come in tandem with complete freedom of the press so that the benefits in GQ are substantial. Early democracy will also improve income-levels through higher growth (Shen, 2002). Increased income-levels accompanied with press-freedom policies will in turn improve democracy and GQ substantially. As the country matures in the democratization process, it will benefit by the *time* and *level of exposure* advantages of democracy which will further improve the GQ and growth. Based on our findings and the literature, the pitfall of initiating democracy remains the failure to accelerate the process of democratization. In line with comparative religious instruments, based on relative religious elasticities of GQ, it seems Christian-dominated countries will have an edge over their Moslem oriented counterparts in the implementation of proposed recommendations.

An important limitation to take into account is that studies of this kind depend to a great extent on the integrity of the proxy for GQ obtained from perception-based measures. Thus omitted variables and media-effect may substantially influence perceptions of GQ and consequently bias the link between political-regime indicators and GQ measures. However, to

the best of our knowledge there are no better measurements of GQ other than those from African Development Indicators of the World Bank. The paper has limited the ills of this draw-back by using six different measures of GQ. Also the use of a methodology that accounts for endogeneity addresses the concerns of omitted variables and bias in the perception based measures.

## **5. Conclusion**

The present paper which aimed to examine the big questions of African comparative politics has contributed to the literature with the following findings. (1) English common-law countries have substantially better levels of GQ than their French civil-law counterparts; consistent with the law-finance (growth) literature(La Portal et al.,1997,1998; Beck et al.,2003) and recent African law-finance(growth) literature(Asongu, 2011abcde; Agbor,2011). (2) But for government-effectiveness, the dominance of Christian nations over those of Moslem decent is not very significant; but the significance is broadly consistent with El Badawi, & Makdisi(2007). (3) GQ increases with income-levels; in accordance with Narayan et al.(2011). (4) GQ improves with press-freedoms; contrary to Vaidya (2005) and Oscarsson (2008). (5) Consistent with the law-finance(growth) literature (La Portal et al.,1997,1998; Beck et al.,2003; Asongu, 2011abcde; Agbor,2011) English common-law countries have higher levels of democracy than their French civil-law counterparts. (6) Christian dominated countries have higher (lower) levels of democracy (autocracy) than Moslem-oriented nations; El Badawi, & Makdisi (2007). (7) Democracy increases with income-levels: broadly in line with Narayan et al.(2011). Democratic institutions improve with press-freedoms; contrary to Vaidya (2005) and Oscarsson (2008). (8) In comparison to authoritarian regimes, democratic ones have a more significant impact on GQ dynamics: (9) Autocracy edges polity in TSLS but both overlap in FE regressions. (10) The instruments explain government-effectiveness and political-stability beyond political-regime

channels; this implies there are other mechanisms by which the instruments explain GQ dynamics of government-effectiveness and political-stability beside political-regime channels.

(11) With respect to the remaining GQ dynamics, the instruments do not explain them beyond political-regime channels; meaning the instrumental variables are valid and not correlated with the error term in the equation of interest. In plainer terms, the instruments explain the remaining GQ dynamics through no other mechanisms than political-regime channels. (12) A democracy that takes into account only the voice of the majority is better in GQ than autocracy, while a democracy that takes into account the voice of the minority (polity) is worse in GQ than autocracy.

As a policy implication, democracy once initiated, should be accelerated (to edge the appeals of authoritarian regimes) and reap the benefits of time and level hypotheses.

## Appendices

### Appendix 1: Summary Statistics

	<b>Variables</b>	<b>Mean</b>	<b>S.D</b>	<b>Min.</b>	<b>Max.</b>	<b>Observations</b>
Government Quality	Control of Corruption	-0.622	0.597	-2.489	1.086	445
	Government Effectiveness	-0.691	0.598	-1.853	0.807	433
	Political Stability	-0.543	0.922	-3.056	1.108	454
	Regulation Quality	-0.580	0.577	-2.526	0.905	453
	Rule of Law	-0.692	0.647	-2.312	1.053	454
	Voice and Accountability	-0.589	0.721	-1.951	1.047	454
Democracy	Democracy Index	2.725	4.214	-8.000	10.000	627
	Polity Index(Revised)	1.068	5.312	-9.000	10.000	627
Autocracy	Autocracy Index	1.703	3.460	-8.000	9.000	627
Control Variables	GDP growth	4.816	6.725	-50.248	71.188	644
	Population growth	2.485	0.948	-6.526	10.043	644
	Public Investment	7.543	4.200	0.000	32.032	564
Instrumental Variables	English Common-Law	0.394	0.489	0.000	1.000	646
	French Civil-Law	0.605	0.489	0.000	1.000	646
	Christianity	0.710	0.453	0.000	1.000	646
	Islam	0.289	0.453	0.000	1.000	646
	Low Income	0.631	0.482	0.000	1.000	646
	Middle Income	0.368	0.482	0.000	1.000	646
	Lower Middle Income	0.236	0.425	0.000	1.000	646
	Upper Middle Income	0.131	0.338	0.000	1.000	646
	Press Freedom	0.136	0.343	0.000	1.000	570
	Partial Press Freedom	0.384	0.486	0.000	1.000	570
	No Press Freedom	0.478	0.500	0.000	1.000	570

S.D: Standard Deviation. Min : Minimum. Max : Maximum.

## Appendix 2: Correlation Analysis

CC	Quality of Government					Democracy			Control Variables			Instrumental Variables											
	Gov.E	PolS	R.Q	R.L	V&A	Demo	Pol	Auto	GDPg	Popg	Publ	Eng.	Frch.	Chris	Islam	LI	MI	LMI	UMI	Free	PFree		NFree
1.000	0.872	0.668	0.774	0.86	0.747	0.500	0.40	-0.03	-0.068	-0.34	0.200	0.274	-0.274	0.024	-0.12	-0.22	0.222	-0.024	0.345	0.518	0.094	-0.465	CC
	1.000	0.667	0.851	0.89	0.796	0.551	0.45	-0.05	-0.006	-0.31	0.178	0.406	-0.406	0.080	-0.16	-0.31	0.310	0.006	0.422	0.558	0.116	-0.519	Gov. E
		1.000	0.657	0.78	0.684	0.509	0.30	0.141	0.021	-0.22	0.287	0.145	-0.145	0.025	-0.11	-0.14	0.141	-0.113	0.345	0.427	0.136	-0.437	PolS
			1.000	0.82	0.760	0.505	0.39	-0.00	-0.055	-0.26	0.067	0.385	-0.385	0.082	-0.12	-0.16	0.168	-0.114	0.383	0.502	0.160	-0.514	R..Q
				1.00	0.799	0.561	0.43	0.003	-0.017	-0.31	0.229	0.361	-0.361	0.031	-0.14	-0.20	0.203	-0.086	0.398	0.536	0.113	-0.492	R.L
					1.000	0.763	0.77	-0.29	-0.049	-0.26	0.128	0.270	-0.270	-0.01	-0.08	-0.08	0.089	-0.126	0.286	0.645	0.293	-0.745	V&A
						1.000	0.73	0.056	0.0341	-0.13	0.241	0.220	-0.220	0.049	-0.04	-0.01	0.018	-0.191	0.257	0.477	0.226	-0.543	Demo
							1.00	-0.63	-0.069	-0.15	0.182	0.147	-0.147	0.105	-0.10	0.051	-0.051	-0.224	0.198	0.487	0.259	-0.582	Polity
								1.00	0.149	0.070	0.019	0.043	-0.043	-0.09	0.098	-0.09	0.096	0.109	0.003	-0.16	-0.11	0.222	Auto
									1.000	0.264	0.110	-0.03	0.035	0.011	-0.02	-0.08	0.088	-0.011	0.139	0.018	-0.05	0.036	GDPg
										1.000	-0.04	-0.21	0.211	-0.10	0.153	0.322	-0.322	-0.178	-0.23	-0.24	0.063	0.107	Popg
											1.000	-0.05	0.057	-0.08	-0.02	-0.01	0.012	0.020	-0.00	0.043	0.188	-0.212	Publ
												1.000	-1.000	0.085	-0.04	-0.16	0.164	0.056	0.163	0.190	0.041	-0.170	English
													1.000	-0.08	0.040	0.164	-0.164	-0.056	-0.16	-0.19	-0.04	0.170	French
														1.000	-0.93	-0.04	0.049	-0.154	0.264	0.07	-0.10	0.054	Christian
															1.000	0.126	-0.126	0.053	-0.24	-0.09	0.068	-0.000	Islam
																1.000	-1.000	-0.729	-0.50	-0.17	0.109	0.011	LIncome
																	1.000	0.729	0.50	0.17	-0.10	-0.011	MIncome
																		1.000	-0.21	-0.17	0.001	0.118	LMI
																			1.000	0.464	-0.15	-0.165	UMI
																				1.000	-0.31	-0.381	Free
																					1.000	-0.757	PFree
																						1.000	NFree

CC: Control of Corruption. Gov. E: Government Effectiveness. PolS: Political Stability or No Violence. R.Q: Regulation Quality. R.L: Rule of Law. V& A: Voice and Accountability. Demo: Democracy. Pol: Polity. Auto: Autocracy. GDPg: GDP growth. Popg: Population growth. Publ: Public Investment. Eng: English Common-Law. Frch: French Civil-Law. Chris: Christian Religion. LI: Low Income. MI: Middle Income. LMI: Lower Middle Income. UMI: Upper Middle Income. Free: Freedom of the Press. PFree: Partial Freedom of the Press. NFree: No Freedom of the Press.



### Appendix 3: Variable Definitions

Variables	Sign	Variable Definitions	Sources
Democracy	Demo	Institutionalized Democracy	World Bank(WDI)
Polity	Pol	Revised Combined Polity Score	World Bank(WDI)
Autocracy	Auto	Institutionalized Autocracy	World Bank(WDI)
Public Investment	PubI	Gross Public Investment(% of GDP)	World Bank(WDI)
Population growth	Popg	Average annual population growth rate	World Bank(WDI)
Growth of GDP	GDPg	Average annual GDP growth rate	World Bank(WDI)
Control of Corruption	CC	Control of Corruption(estimate)	World Bank(WDI)
Government Effectiveness	Gov. E	Government Effectiveness(estimate)	World Bank(WDI)
Political Stability/ No Violence	PolS	Political Stability/ No Violence (estimate)	World Bank(WDI)
Regulation Quality	R.Q	Regulation Quality (estimate)	World Bank(WDI)
Rule of Law	R.L	Rule of Law(estimate)	World Bank(WDI)
Voice and Accountability	V & A	Voice and Accountability (estimate)	World Bank(WDI)
Press Freedom	Free	Freedom House Index	Freedom House

WDI: World Development Indicators

#### Appendix 4: Presentation of Countries

Instruments	Instrument Category	Countries	Num.
Legal-origins	English Common-Law	Botswana, The Gambia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Uganda, Zambia, Tanzania.	15
	French Civil-Law	Angola, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Congo Republic, Congo Democratic Republic, Ivory Coast, Equatorial Guinea, Ethiopia, Gabon, Guinea-Bissau, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Togo.	23
Religions	Christianity	Angola, Benin, Botswana, Burundi, Cameroon, Cape Verde, Central African Republic, Congo Republic, Congo Democratic Republic, Ivory Coast, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, South Africa, Swaziland, Togo, Uganda, Zambia, Tanzania.	27
	Islam	Burkina Faso, Chad, The Gambia, Guinea-Bissau, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Sudan.	11
Income Levels	Low Income	Benin, Burkina Faso, Burundi, Central African Republic, Chad, Congo Republic, Congo Democratic Republic, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sierra Leone, Togo, Uganda, Zambia, Tanzania.	24
	Middle Income	Angola, Botswana, Cameroon, Cape Verde, Ivory Coast, Equatorial Guinea, Gabon, Lesotho, Mauritius, Nigeria, Senegal, South Africa, Sudan, Swaziland.	14
	Lower Middle Income	Angola, Cameroon, Cape Verde, Ivory Coast, Lesotho, Nigeria, Sudan, Swaziland.	8
	Upper Middle Income	Botswana, Equatorial Guinea, Gabon, Mauritius, South Africa.	5

Num: Number of cross sections(countries)

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