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Cold War and Institutional Quality: Some Empirical Evidence

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Abstract:

The configuration of the cold war determines institutional quality. Countries pertaining to the block of the West display a negative link with bureaucratic development, lack of corruption, credibility of governments and others. Results are maintained even after controlling for regional and colonial variables and, in general, appear robust. In addition, the memberships of blocks according to the configuration of the cold war can thus be used like relevant instruments for the institutional variables.

¹ We would like to thank Martin Kabange for lectures.

1 INTRODUCTION

In spite of the extensive literature developed over the past 20yrs, the quest for finding the determinants of Institutional quality has not waned (e.g. Chong and Zanforlin, 2000 ; Islam and Montenegro, 2002 ; Alonso and Garcimartín, 2013 ;Kanyama-Kalonda and Kodila-Tedika, 2013 ; Mijiyawa, 2013 ; Tcheta-Bampa and Kodila-Tedika, 2014a). Current study that is imposed in this list of determinants is that the theory of institutional differences is due to historical factors. The theory is that the quality of institutions is a consequence of historical events. In other words, historical events at a specific moment of time, determine the nature of the institutions, and they persist over time by generating different effects (e.g. Engerman et Sokoloff, 1997, 2002 ; Sokoloff et Engermann, 2000; Acemoglu, Johnson et Robinson, 2001 et 2002 ; Nunn, 2012).

This study is a continuation of this piece of literature. As Tcheta-Bampa and Kodila-Tedika (2014b), we believe that the Cold War is a significant determinant of institutions. These authors have shown that political instability related to the Cold War blocked the process of institutional change in course after independence, particularly for the duration of the power of African leaders. Econometric results, based on African data, establish negative and significant stability between the executive and support of the superpowers to political regimes (taken as a whole) relations. Separately, we find that African leaders supported by the United States and its allies cumulatively run a greater risk of leaving power than leaders of African countries supported by the USSR. In this research, we push this argument further: we assume that the configuration of the Cold War has maintained a sort of institutional status quo. More simply, it has developed a kind of institutional club: countries with developed beneficial institutions pro- market development (e.g. Knack and Keefer, 1995; Chong and Calderon, 2000; Henisz, 2000; Easterly and Ross, 2003; Durham, 2004; Rodrik et al., 2004; Acemoglu et al., 2005 ; Tebaldi and Mohan, 2010), are those with highly rated institutions in the conventional indicators . In interrogative words, we try to answer the following questions: Does the Cold War affects contemporary or current institutions? Why is there a difference in the quality of institutions depending on the role one played during the Cold War ? i.e. if one was a major or a neutral player? Has the West Block well noted in the usual indicators compared to the Eastern bloc institutions?

The rest of the article is organised as follows: Section II discusses conceptual framework linking Cold War to institutions. The next section describes the data. The fourth section introduces the empirical model and discusses the controls used. Five section reports the

correlation between key variables and presents the econometric results. Regardless of the institutional data used, there are reasons to believe that the effect of the Cold War on institutional quality is undeniable. In particular, countries pertaining to the block of the West appear to have bad institutions. Finally, Section 6 provides a brief summary and concludes.

2 IMPORTANCE OF COLD WAR

A recent literature is organized around progressive effects of the Cold War on both macroeconomic variables and institutions. Tcheta-Bampa (2009) develops a model of endogenous political choice where public investment, diversification of the economy, improving the potential overall economic performance equip civil society with a power that is beyond the control of political elites and can cause either the loss of their scheme is a modification of their survival strategy. As part of this model of endogenous institutional change, the effect of the Cold War is then introduced. This shows that the national balance in developing countries are not independent of the support of world powers and their ability to encourage the masses to challenge and / or support the power. Berger et al. (2013) highlight the consequences of the intervention of the Central Intelligence Agency (CIA) in the context of the Cold War. These scholars show that the country's imports from USA were boosted by these interventions. In an institutional registry Tcheta-Bampa and Kodila-Tedika (2014) explained empirically the duration of dictatorial political regimes by the patronage of the Cold War.

This research is based more on the study. In fact, it is an extension. The hypothesis of the study is simple: the cold war affects contemporary institutions. This is possible via several channels. This war is a direct confrontation between two superpowers that emerged from the Second World War, which opposes all. From an ideological point of view, the United States, with its traditional allies (Western Europe) believe the ideas of democracy and freedom, while the Union of Soviet Socialist Republics (USSR) and its allies based their ideas on a communist state to Marxism-Leninism. These ideas are reflected in the background of the system underlying the different countries or simply informal institutions as formal in this country. It is therefore not a surprise that the Western bloc was defeated on a political regime of liberal democracy, economically defending the free market economy. On the other hand, this country practices the totalitarian communist regime étatisant factors of production; highlighting bureaucratic centralization is a practice. This is akin to the USSR bloc. If these countries have taken such a direction, it is plausible to consider that the period of the Cold War deeply embedded in their mental scheme but also those countries that organizational

system. Institutions change never really bonded during this period thus, it is logical that the nuclei of the Western bloc may have an advantage in terms of ranking on the pro-market institutions and that there is a kind of resistance to these institutions in the other bloc, which the rest remained very compact, as the basis for most nation of the USSR.

Meanwhile, there is another group of non-aligned countries. These are countries that have refused to take a stand. Demonstrated in the case where market institutions are those that promote development, one might think that the fact that the non-aligned countries mostly poor have not had time to set up a favorable institutional basis progress. However, history supports this reading. Indeed, most of these countries are poor countries or colonies directly attached to predatory nations. It is logical that the effect assumed to belong to this bloc does not benefit necessarily today.

At independence, the change of beneficiary extractive institutions has resulted in conflict between winners and losers of institutional change. The elites of newly independent countries, especially in Africa, have the same incentives as the colonizers to maintain mining institutions to maintain power in this conflict environment. This situation has been exacerbated by the ideological confrontation between the two superpowers. They had the opportunity to orchestrate coups to create "unbreakable" alliance with the new leadership. Thus, the non-aligned bloc crumbled gradually inflating the other two blocks. However, institutional transplant has not necessarily been related. Because it is that is issues is not just ideological expansion itself, but first make sure to stop the extension of the other superpower. Whatever we cannot deny the fact that some countries have clearly their part: thus, for example, China ranks towards the USSR. This is also the case for other African countries that have benefited from Russian support: Angola, Mozambique, etc.

At the national level, sponsorship generally easier for governments implementing policies economically inefficient but that transfer resources to the population elites, at the same time ensuring their political survival. The connection between the failed policies becomes useful to create an environment in which all group became politically mobilized against the leaders, could be punished while those who remained faithful could be rewarded. These failed policies have not enabled the progress of these countries. However, studies continue to show a link between progress - measured here in terms of a significant per capita GDP and quality education - and demand for quality institutions. In doing so, policy entrepreneurs have therefore not increased the ability of citizens to organize in a collective, essential for institutional improvement action. The patron of the powerful states schemes of the said States

" non-aligned " discourages the formation of an effective opposition to the governing force but could not also completely destroy the resistance plans. All incentives are now in place so that there is no real change in institutional terms. Almost all of these leaders, especially in Africa, have the same behavior. Taking advantage of the political economy during the confrontation between the world powers, elites have managed to sustain political regimes with weak institutions (our binding on) and apparently benefit to anyone outside of the smaller cliques.

This political economy therefore results in several hypotheses that we test empirically:

Hypothesis 1 : the cold war is a determinant of the institutional quality

Hypothesis 2 : countries which constitute the western part of the world, need to have better established institutions, than those which constitute the Eastern part and the non-aligned countries. This hypothesis is presented through a positive coefficient for the countries of the west, whereas for the East and the non-aligned countries, a negative coefficient is displayed.

Hypothesis 3 : the dynamic of the cold war should render the results of the Western countries and the non-aligned countries weaker. As highlighted, the continuous need to further investigate into this issue presents the problem of not always succeeding in "institutional transplantation". The diffusion can be biased. As such, the non-aligned countries have given more supply to Western countries than Eastern ones. Consequently, it is expected that given the vaster level of compactness of Eastern countries, an identical coefficient is predicted to that of the first estimations.

3 DATA

Two different sources of governance indicators are used for the analysis. These were chosen for the large number of data points that they offer. The first set of measures of institutional quality is compiled by Daniel Kaufmann, and Art Kraay and Massimo Mastruzzi at the World Bank (www.govindicators.org). This data set aggregates indicators of six broad dimensions of governance: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. The six aggregate indicators are based on 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. This way of measuring institutions is current in empirical studies (Kodila-Tedika and Kanyama-Kalonda, 2013 ; Islam and Montenegro, 2002)

Our second set of governance indicators come from the Heritage Foundation. We use the property right. It is that which Johnson, Kaufmann, and Zoido-Lobaton (1998), La Porta et al. (1999) and, Beck, Demirguc-Kunt and Levine (2003) use in their studies. The data on GDP per capita comes from Pen World Tables, version 7.1 and education from Barro and Lee (2010). *Reg* refers to a regional dummy variable. If the country belongs to the region, it has a value of one, or else it is zero. Two sub regions are distinguished: sub Saharan Africa, and Latin America, as highlighted in Chong and Zanforlin (2000), Islam and Montenegro (2002). This variables allows the variation of governance to be controlled from one sub region to another. We distinguish between the English, French, Spanish and Other colony

To appreciate the effects of the cold war, we consider data from Tcheta-Bampa and Kodila-Tedika (2014a). From the geopolitics of the cold war, a binary variable that gives a score to each group of countries was constructed by these scholars. These groups comprise three blocs: The western and eastern as well as the nonaligned countries. In light of data from legal origine de La Parto et al. (1999), it can be argued that if a country belongs to the first group, for example, a score of 1 can be attributed, or else 0. A second variable was created by these scholars to consider the dynamic of the Cold War, which was fulfilled with the decolonization of countries.

4 EMPIRICAL METHODOLOGY

This study departs from Clague et al. (1996), La Porta et al. (1997), Chong and Zanforlin (2000). Our estimations use the following empirical model to test for the association between quality of institutions and cold war :

$$\text{Institutional Quality} = \alpha + \beta \text{GDP} + \gamma \text{EDU} + \rho \text{REG} + \theta \text{COLWAR} + \mu \quad (1)$$

Where institutional quality is the institutional quality variable, that is, either the World Bank Governance Indicator or the Heritage Foundation index; α is a constant, GDP is the GDP per capita in 2000, EDU is the average years of schooling of the population in 2000, COLWAR is a bloc of cold war dummy variable (third possible dummies: Western bloc, Eastern bloc and Neutral bloc), REG is a regional or/and a colonial dummy, and μ is the error term.

According to the theory of “institutions efficiency”, income per head or economic growth influences the level of institutions. Empirical studies confirm this hypothesis (e.g. Clague et al., 1996 ; Chong et Calderon, 2000a ; Kaufmann et Kraay, 2002 ; Keefer et Knack, 2002 ; Kalonda-Kanyama and Kodila-Tedika, 2013). To avoid issue related to non-orthogonally between institutions and the GDP per capica, some studies consider a GDP lagged, as long as

this variable is no longer considered as a variable of interest. Others studies on the other hand, use a current GDP (Potrafke, 2012; Kodila-Tedika, 2014). The demand for best institutions evolves with the level of development. This requires an important cost which only developed countries can afford. The inclusion of education, is to be considered as well. Glaeser *et al.* (2004) confirm that current institutions firstly lay emphasis on human capital cumulation. Kodila-Tedika (2014) and Kalonda-Kanyama and Kodila-Tedika (2012) affirm that institutions are dependent on the intelligence of the population via apprenticeship and imitation. For the authors, intelligent people could try an institutional transplant considering informal local institutions. Botero *et al.* (2012) theoretically and empirically show that higher education leads to an exemplary behavior (i.e the ability to complain about bad practices), that which brings about responsibility and consequently leads to better institutions. Other empirical studies (Arezki *et al.*, 2012; Rindermann and Kodila-Tedika, 2013), based on divers theoretical viewpoints, draw to the same conclusion. REG, represents a set of continental dummies (Latin America, Africa) and colonial dummies (British, Spanish, French, Others) « that have been included to make sure that the law tradition variable is not just picking up a regional effect, but an additional one. For example, Engerman and Sokoloff (1997) argue that unlike other regions in the world, in the particular case of present day Latin America, the quality of institutions may be closely linked with the Spanish heritage of the region » (Chong and Zanforlin, 2002 : 1062). Finally, our variable of interest is cold war. It is to test our assumption.

5 FINDING RESULTS

The ordinary least squares results are presented in Table 1. Each of the columns (2)–(8) displays the estimated model for one of the seven institutional quality variables. The regression results show that cold war affects the institutional variables. We find that our first and second hypotheses are valid in general. Belonging to countries from the Eastern block and the non-aligned countries constitute a handicap. Our coefficient of interest, θ , for East bloc is negative and significant at the 1% level in the regressions where the dependent variables is Control of Corruption, at the 5% level in the regressions where the dependent variables are Rule of Law and Property rights, ant at the 10% level in the regression where the dependent variables are is Government Effectiveness. However, the coefficients of dummy block eastern seem insignificant for variables Political Stability and Regulatory Quality. Also, our coefficient of interest, θ , for Neutral bloc is negative and significant at the 1% level for all regressions.

Table 1. Main results

	Dependant variable						
	Government Effectiveness	Political Stability	Regulatory Quality	Voice and Accountability	Control of Corruption	Rule of Law	Property rights
Eastern bloc	-0.369 (0.071)	-0.089 (0.666)	-0.135 (0.496)	-0.158 (0.473)	-0.510 (0.002)	-0.438 (0.050)	-0.884 (0.012)
Western bloc	0.801 (0.000)	0.364 (0.098)	0.757 (0.000)	0.793 (0.000)	0.991 (0.000)	0.866 (0.000)	1.242 (0.001)
Neutral bloc	-0.942 (0.000)	-0.818 (0.000)	-0.839 (0.000)	-0.791 (0.000)	-0.820 (0.000)	-0.867 (0.000)	-1.247 (0.000)
Cons	0.563 (0.001)	0.299 (0.033)	0.506 (0.003)	0.405 (0.012)	0.380 (0.009)	0.426 (0.018)	6.033 (0.000)
Obs	139	139	139	139	186	139	122
R-squared	0.3775	0.2465	0.3450	0.3340	0.3251	0.3566	0.3335

. --- dropped variable for collinearity ; All regressions are estimated using White (1980) heteroskedasticity correction. P-values are in parentheses.

Countries of Western block have better results than those of eastern bloc. Our coefficient of interest, θ , for Western bloc is positive and significant at the 1% level in all the regressions, except regression where the dependent variable is political stability. At this level, the assumptions of using this cold war variable as institutional variables seem interesting.

However, we cannot conclude with any strong results at this level. We now turn to the performance of the other determinants of institutional quality when control variables capital is accounted for in Table 2. We introduce progressively the variables in table 2. Surprisingly, the idea that richer countries are able to deliver institutions of higher quality is not statistically significant, although the expected sign is there. A better schooled population appears to be linked with institutions of better quality. The variable representing average years of schooling is positive and statistically significant higher in all the specifications. This is consistent with the previous empirical work by Glaeser *et al.* (2004) and other researchers and thus with the idea that better schooled population are able to improve institutions of higher quality. At home Alonso and Garcimartín, (2013), "historical" features either they do not seem to determine institutional quality or their effects are indirect, through the variables previously mentioned. Thus, according to our results, variables such as colonial origin do not have any impact on institutions. So general, in regional of sub-Saharan Africa and Latin America, the institutions are poor quality. This is more significant for Latin America.

Regarding our key variables of interest, the Eastern bloc proxy is negative and statistically significant at five per cent or higher. That is, countries with in the Eastern bloc proxy appear to have lower quality of institutions. The results are also consistent with the theoretical

literature discussed in section II. The western bloc continues to display the expected sign. That is, the positive effect on institutions. However, this information is no longer statistically significant. This relevance seems to be found in the effect of this variable on corruption, although it is not consistent. Nonetheless, once introduced, the variable pertaining to the identity of the coloniser loses its statistical significance. Belonging to the non-aligned countries brings no anything to the institutions. The only significant interrelationship that exists is that between the non-aligned countries and political stability.

Table 2. Regression with additional variables

	Dependant variable													
	Government Effectiveness		Political Stability		Regulatory Quality		Voice and Accountability		Control of Corruption		Rule of Law		Property rights	
Eastern block	-1.279 (0.000)	-1.147 (0.000)	-6.1797 (0.003)	-5.07 (0.091)	-8.47 (0.000)	-8.59 (0.000)	-1.361 (0.000)	-1.124 (0.000)	-.599 (0.007)	-.624 (0.024)	-1.471 (0.000)	-1.181 (0.001)	-2.121 (0.000)	-1.589 (0.004)
Western block	.216 (0.153)	.203 (0.418)	.004 (0.984)	.387 (0.552)	.293 (0.051)	.135 (0.600)	.262 (0.105)	.173 (0.597)	.573 (0.000)	.404 (0.114)	.358 (0.120)	.344 (0.385)	.381 (0.194)	.569 (0.418)
Neutral block	-.238 (0.114)	-.230 (0.215)	-.510 (0.004)	-.474 (0.032)	-.217 (0.217)	-.1604 (0.466)	-.206 (0.177)	-.236 (0.198)	-.332 (0.061)	-.291 (0.118)	-.266 (0.158)	-.301 (0.181)	-.335 (0.235)	-.396 (0.224)
School	.244 (0.000)	.226 (0.000)	.201 (0.000)	.193 (0.000)	.224 (0.000)	.226 (0.000)	.241 (0.000)	.216 (0.000)	.222 (0.000)	.2049 (0.000)	.255 (0.000)	.223 (0.000)	.372 (0.000)	.297 (0.000)
GDP per capita (log)	.001 (0.300)	.001 (0.429)	.002 (0.192)	.003 (0.124)	.001 (0.442)	.001 (0.512)	.001 (0.332)	.001 (0.495)	.001 (0.581)	.001 (0.731)	.001 (0.400)	.001 (0.724)	.002 (0.422)	.001 (0.623)
Sub-saharianafrica	-.256 (0.106)	-.303 (0.099)	.488 (0.025)	.319 (0.171)	-.152 (0.414)	-.212 (0.298)	-.181 (0.283)	-.229 (0.234)	.464 (0.026)	.454 (0.041)	-.006 (0.972)	-.048 (0.804)	-.158 (0.600)	-.3383 (0.301)
Latin america	-.637 (0.000)	-.697 (0.001)	-.175 (0.267)	-.304 (0.367)	-.401 (0.011)	-.509 (0.024)	-.795 (0.000)	-.875 (0.000)	.338 (0.011)	.245 (0.160)	-.547 (0.001)	-.705 (0.011)	-1.101 (0.000)	-1.145 (0.010)
SpanishColony		.101 (0.687)		-.120 (0.767)		.072 (0.787)		.136 (0.578)		.356 (0.179)		.277 (0.320)		---
British Colony		.053 (0.799)		-.186 (0.470)		-.0426 (0.854)		.115 (0.585)		.225 (0.387)		.152 (0.464)		.095 (0.835)
OtherColony		-.006 (0.979)		-.256 (0.422)		.0280 (0.889)		-.0666 (0.764)		.406 (0.141)		-.076 (0.767)		-.280 (0.584)
French Colony		---		---		---		---		---		---		-.112 (0.823)
Cons	-1.188 (0.000)	-1.089 (0.005)	-1.294 (0.000)	-1.038 (0.014)	-1.165 (0.002)	-1.1599 (0.015)	-1.278 (0.000)	-1.120 (0.004)	-1.491 (0.000)	-1.615 (0.001)	-1.406 (0.000)	-1.223 (0.004)	3.347 (0.000)	3.951 (0.000)
Obs	121	99	121	99	121	99	121	99	121	99	121	100	101	80
R-squared	0.7310	0.6699	0.4742	0.6959	0.6340	0.5801	0.7038	0.6427	0.5733	0.5170	0.6486	0.5946	0.6894	0.6170

--- dropped variable for collinearity ; All regressions are estimated using White (1980) heteroskedasticity correction. P-values are in parentheses.

The table 3 considers the dynamic of the cold war. The geopolitical configuration of the early 50s continually evolved, especially with the coming of independence in the 60s and those which came at a later stage. At that period, the two major players (Varsovie bloc and Western bloc) went out to enrol as many associate countries. This deployment benefited the USA and also its traditional associate countries more, than countries of the Eastern bloc. More precisely, in the framework of this study, this is translated by a higher number of countries in the Western bloc's variables, and a fall in the variable s of the non-aligned countries bloc.

Table 3. Dynamics of cold war

	Dependant variable						
	Government Effectiveness	Political Stability	Regulatory Quality	Voice and Accountability	Control of Corruption	Rule of Law	Property rights
Eastern bloc	-0.654 (0.005)	-0.162 (0.576)	-0.560 (0.010)	-0.330 (0.212)	-0.633 (0.009)	-0.623 (0.010)	-0.998 (0.016)
Western bloc	0.201 (0.135)	0.023 (0.919)	0.049 (0.716)	0.1021 (0.506)	0.277 (0.082)	0.181 (0.224)	0.339 (0.207)
Neutral bloc	-0.074 (0.773)	-0.019 (0.953)	-0.164 (0.515)	0.0393 (0.885)	-0.188 (0.596)	-0.022 (0.934)	0.067 (0.884)
School	0.222 (0.000)	0.206 (0.000)	0.220 (0.000)	0.224 (0.000)	0.219 (0.000)	0.2144 (0.000)	0.321 (0.000)
GDP per capita (log)	0.001 (0.445)	0.003 (0.080)	0.001 (0.632)	0.001 (0.619)	0.001 (0.717)	0.001 (0.493)	0.001 (0.717)
Sub-saharianafrica	-0.347 (0.067)	0.214 (0.447)	-0.249 (0.185)	0.415 (0.048)	-0.174 (0.403)	-0.253 (0.206)	-0.358 (0.286)
Latin america	-0.986 (0.000)	-0.401 (0.260)	-0.721 (0.003)	0.037 (0.869)	-1.113 (0.000)	-1.127 (0.000)	-1.619 (0.003)
SpanishColony	0.189 (0.564)	-0.065 (0.881)	0.141 (0.641)	0.451 (0.146)	0.413 (0.206)	0.2167 (0.473)	---
British Colony	-0.031 (0.881)	-0.203 (0.493)	-0.122 (0.574)	0.150 (0.580)	0.083 (0.692)	0.034 (0.870)	-0.2295 (0.665)
OtherColony	-0.204 (0.332)	-0.284 (0.354)	-0.134 (0.494)	0.319 (0.253)	-0.268 (0.274)	-0.2608 (0.221)	-0.691 (0.282)
French Colony	---	---	---	---	---	---	-0.174 (0.788)
Cons	-1.168 (0.000)	-1.439 (0.001)	-1.100 (0.001)	-1.901 (0.000)	-1.333 (0.000)	-1.235 (0.000)	3.744 (0.000)
Obs	99	99	99	99	99	99	80
R-squared	0.6265	0.3403	0.5553	0.4682	0.5419	0.5972	0.5813

--- dropped variable for collinearity ; All regressions are estimated using White (1980) heteroskedasticity correction. P-values are in parentheses.

This reconfiguration of our variables permits us to better test the third hypothesis. This hypothesis seems sustainable. Certain instability is observed in the bloc belonging to the non-aligned countries. This is manifested by the change of the signs that we observe in certain specifications. The coefficient of the Western bloc is similar to the later. If this outreach

permitted the Western bloc to enrol more countries, it is with the “Varsovie bloc” that this outreach fundamentally changed the plan. As a result no significance is noticed for certain variables.

6 CONCLUSION

In this paper, we investigated the determinants of institutional quality. More precisely, we test the hypothesis that the Cold war is fundamental to the current state of institutions. Our empirical research suggests that the quality of institutions depends essentially on cold war and education.

The significance of this study consists of using the geopolitics of the cold war as an important variable. Our empirical results attest that countries belonging to the Eastern bloc have institutions of weak quality compared to those of the Western bloc and the non-aligned countries. as such, this research is a contribution to the determinants of institutions, but also to the recent studies in political economics which attempts to understand the consequences of the cold war. Finally this study suggests a new instrument to resolve the problem of endogeneity of variables, notably that of institutional variables.

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