



Constitutional instability and Poverty: Some Empirical Evidence

Kodila-Tedika, Oasis and Mulunda Kabange, Martin

11 February 2018

Online at <https://mpra.ub.uni-muenchen.de/84501/>
MPRA Paper No. 84501, posted 15 Feb 2018 14:12 UTC

Constitutional instability and Poverty: Some Empirical Evidence

Oasis Kodila-Tedika

Department of Economics, University of Kinshasa, B.P. 832 KIN XI
Democratic Republic of Congo.
oasiskodila@yahoo.fr

Martin Mulunda Kabange

University of KwaZulu Natal (UKZN)
School of Accounting, Economics and Finance
tino_kab4@yahoo.co.za

Abstract

Is constitution linked to poverty difference between countries? In this article, we attempt to answer this question. We gather ideas of the temporal incoherence and the utility functions of political entrepreneurs. We have established a positive strong link between the constitution, and poverty. The more a country changes its constitution, the higher the level of poverty.

JEL Classification: I24, I32, I38, O1, O38, D72, N12, O11, O43, P16

Keywords: Poverty, Constitution

Introduction

Numerous factors have been put forward to explain poverty. This includes factors such as growth (Dollar and Kraay, 2002, Adams Jr, 2004, Agenor, 2005), inequality (Datt & Ravallion, 1992, Ravallion, 2001, Kakwani, 2000) , geographic factors (Sachs, Mellinger & Gallup, 2001 (Acemoglu, et al., 2002), historical factors (Acemoglu, et al., 2001, Acemoglu and Robinson, 2010), genetic factors (Ashraf and Galor, 2013; Kodila-Tedika and Asongu, 2017), financial development and financial constraints (Kodila-Tedika and Ngunza Madiata,

2018), ethnic diversity (Churchill and Smyth, 2017), institutions (Chong and Calderon, 2000; Hasan et al., 2007, Tebaldi and Mohan, 2010, Kodila-Tedika and Asongu, 2018).

The term constitution is regarded as an institution of which empirical effects on macroeconomic variables have been documented mainly by Persson and Tabellini (2003, 2004, 2006). Other scholars such as Matsura (2013) showed that the introduction of a constitutional right to health is likely to be an effective mechanism for improving health in countries with a high level of democratic governance. Edwards & Garcia Marin (2015) fail to establish a positive link between the inclusion of a constitutional right to education and the educational outcomes of the Program for International Student Assessment (PISA). However, Jeffords & Minkler (2016) in their study established that positive link in the environmental sector. Austen and Mavisakalyan (2016) demonstrated that women's representation in parliament is greater in countries with constitutional protection from gender-based discrimination. Akee et al. (2015), using a new database of Amerindian tribal nations, examines how constitutional design affects economic development. These scholars concluded that parliamentary systems (versus presidential) have a positive effect on economic development, while the ordinary least squares regressions of current economic results on parliamentary systems of government show no effect.

As portray from various studies, the direct link between constitution and poverty seems unclear in the literature. The closest article to our thinking is that of Minkler & Prakash (2015). These authors were directly interested in the effects of constitution on poverty. Their paper is of great value for attempting to determine whether people want to reduce poverty and whether they should pay for it. Furthermore, it examines whether the strength of constitutional language of the economic and social rights matter. The findings of Minkler & Prakash (2015) revealed no relationship between constitutional right generally framed and poverty. They also found no relationship between the economic and social rights framed, as directive principles, and poverty. However, these scholars found a strong negative association between economic and social rights, as enforceable law, and poverty.

The contribution of our paper to the body of research knowledge leans on the effect of the constitution on poverty. The originality of this paper is that it looks at the effects of the constitution by considering the constitutional changes that took place over a period, and test the impact on poverty . This enables us to measure differently the effects of such constitution.

The theoretical argument used in this paper is close to that of Minkler & Prakash (2015) insofar as institutional incentives dominate. Additionally, the constitutional design forces politicians to define pro-social policies that can reduce poverty (Buchanan and Brennan, 1981, North and Weingast, 1989). However, this design must last in time to create an institutional anchor but also allow for example in a case of a social provision requiring specific public spending, no political contractor to steal. In fact, it can tie the hands of politicians to the extent that the utility functions of political entrepreneurs do not always align with their social gain. On the one hand, this can make some policies predictable, but also certain allowances. As a result, the temporal inconsistency problem is controlled. The case of South Africa is proof of this theoretical argument: the constitutional right of access to health care in this country has considerably influenced government policy, regarding government failures to provide antiretroviral therapy to AIDS patients (Guari and Brinks', 2008).

In view of this theoretical argument, it is hypothesized that whenever temporal incoherence manifests itself or this social contract, called constitution is broken, the social outcomes should normally deteriorate and leads to an expected increase in poverty.

The rest of the article is organized around two points, beyond this introduction. Section 2 presents the data. Section 3 provides empirical evidence to discuss our hypothesis. Finally, a conclusion closes this article.

Data

This study uses data of the World Development Indicators (WDI). We use a poverty measure that considers the percentage of the population living on PPP \$ 2 a day as the dependent variable. To circumvent missing data, we use the average poverty rates from 1990-2006.

Our idea is to look at the effects of the rupture of the social contract, a proxy to constitution, on poverty. To measure this proxy, we used Hayo and Voigt (2013) data database. This database takes the change of regime, the transition from parliamentary to presidential and vice versa. To construct our proxy variable, we counted the number of times a given country knew the change of rupture first, from for the period 1990-2006. Then, for the two schemes considered, we also proceeded the same way. On the other hand, we expect no sign difference as much as the transition from parliamentary to presidential rule or the presidential regime to the parliamentary system are concerned. Because, in the cases, it is about a recess contract which creates an instability as well in well in the policies already committed as in the credibility.

The choice of control variables is also motivated by the literature (e.g. Tebaldi & Mohan, 2010; Kodila-Tedika & Asongu, 2018; Kodila-Tedika & Ngunza Madiata, 2018). These variables include: the log of GDP per capita (Penn World Tables 8 - Feenstra et al., 2015), a dummy for democracy-dictatorship by Cheibub et al. (2010) (Democracy), Institution (Kauffman et al., 2007 -, based on principal component analysis, PCA). We also use the KOF index as used by Dreher (2005), school (Barro and Lee, 2010) and ethnicity (Alesina et al., 2003).

Results

In Table 1, we test our hypothesis by controlling for the different variables that can influence the results. In the first column, we only count the number of constitutional regime changes that countries experienced during the study period. It seems obvious that the relationship is positive between poverty and regime change. In other words, the more there is a breach of social contract, the worse the social situation becomes with increasing poverty. Obviously, the effect seems important given the size of the coefficient.

Table 1. Basic results

	I	II	III
Regime changes	7,411*** (2,725)		
Presidential to parliamentary		11,134** (4,348)	
Parliamentary to presidential			13,248** (6,075)
Institution	-2,999 (2,032)	-2,986 (2,031)	-3,191 (2,033)
Democracy	-1,573 (4,692)	-2,265 (4,618)	-0,351 (4,911)
Economic globalization	0,137 (0,263)	0,159 (0,266)	0,049 (0,258)
GDP per capita (log)	0,019 (0,069)	0,021 (0,070)	0,015 (0,069)
School	-6,552*** (1,345)	-6,744*** (1,364)	-5,862*** (1,349)
Ethnicity	9,963 (11,167)	11,080 (11,163)	8,406 (11,292)
Cons	44,585** (17,693)	43,962** (17,710)	46,115** (17,618)

Number of observations	58	58	58
R2	0,552	0,554	0,538
note: .01 - ***; .05 - **; .1 - *;			

In columns 2 and 3, we apply the same approach with the difference, we change our variable of interest. The result suggests that As it might be expected, the chosen diet is not so much a determinant, but rather the effect of instability that counts more. Because, whether we consider the transition from presidential to parliamentary or the opposite, the sign remains the same.

Table 2 presents results that control for outliers. The empirical approach follows Huber (1973) on the use of Iteratively Reweighted Least Squares (IRWLS). As reported by Midi and Talib (2008), in comparison to the OLS model, the procedure has the advantage of producing robust estimators because of the presence of outliers and/or heteroskedasticity. Despite the change in technique, the concluding results remain like those of Table 1.

Table 2. Outliers check

	I	II	III
Regime change (number)	8,697** (3,961)		
Presidential to parliamentary		13,373** (5,589)	
Parliamentary to presidential			17,252* (10,264)
Institution	-1,770 (2,183)	-1,539 (2,121)	-1,905 (2,262)
Democracy	1,270 (4,467)	1,240 (4,393)	2,547 (4,611)
Economic globalization	0,163 (0,241)	0,204 (0,237)	0,057 (0,241)
GDP per capita (log)	-0,001 (0,063)	0,003 (0,061)	-0,006 (0,065)
School	-6,545*** (1,561)	-6,662*** (1,549)	-5,858*** (1,533)
Ethnicity	12,261 (8,898)	15,586* (8,684)	9,333 (9,269)
Cons	39,571*** (13,425)	35,571*** (13,072)	42,913*** (13,906)
Number of observations	58	58	58

R2	0,539	0,545	0,515
note: .01 - ***; .05 - **; .1 - *;			

Alternatively, we can test the effect of the constitutional regime changes on the multidimensional poverty as in the case of Churchill and Smyth (2017) and Kodila-Tedika and Asongu (2018). We use the new multidimensional poverty Index (MPI) provided by the United Nations Development Program (UNDP, 2014). This index captures deprivations across the three components of the Human Development Index (HDI), notably: education, health and standards of living. It reflects the number of people who are poor. The index identifies deprivations across the same three dimensions as the HDI and indicates the number of individuals who are multidimensionally poor (suffering deprivations in 33% or more of the weighted indicators) and the number of weighted deprivations with which poor households typically contend with (UNDP, 2014). The MPI is computed by multiplying the proportion of the multidimensionally poor in the population (or headcount ratio) by the intensity of poverty.

We note that the expected sign remains positive, except that in the case of the variable number of regime changes and the transition variable from parliamentary to presidential (number), we note that these variables have lost their statistical significance. But the transition from presidential to parliamentary has not lost its significance.

Table 3. Variable change to be explained (multidimensional poverty)

	I	II	III
Regime change (number)	0,052 (0,041)		
Presidential to parliamentary		0,084* (0,050)	
Parliamentary to presidential			0,000 (0,027)
Institution	-0,012 (0,014)	-0,012 (0,014)	-0,016 (0,014)
Democracy	-0,007 (0,027)	-0,013 (0,027)	-0,003 (0,028)
Economic globalization	-0,001 (0,001)	-0,001 (0,002)	-0,002 (0,001)
GDP per capita (log)	0,001 (0,000)	0,001 (0,000)	0,001 (0,000)
School	-0,054*** (0,007)	-0,056*** (0,007)	-0,050*** (0,008)
Ethnicy	0,138***	0,148***	0,126**

	(0,047)	(0,048)	(0,050)
Cons	0,437*** (0,093)	0,425*** (0,095)	0,447*** (0,093)
Observation	51	51	51
R2	0,761	0,768	0,748

Note: .01 - ***; .05 - **; .1 - *;

Conclusion

In conclusion, the paper shows that the effect of regime changes considering the transition from a presidential to a parliamentary system or vice versa, on poverty remains the same. It also found a relatively solid link between the rupture of social contract and the poverty. This implies that the more the social contract is broken, that is constitution, the worse the social situation becomes with the increase in poverty.

Although this concluding finding remains a correlation relationship, we have not tested its causality. This opens perspectives for the extension of this research track by trying to find instruments that can consider an endogeneity bias. In the end, the results, therefore, require some caution in the interpretation.

References

- Acemoglu, D. and Robinson, J. A. (2010). Why is Africa poor? *Economic History of Developing Regions*, 25: 21-50.
- Acemoglu, D., Johnson, S., Robinson, J.A. (2001). The Colonial Origins of Comparative Development: An Empirical Investigation. *American Economic Review*, 91, 1369-1401.
- Acemoglu, D., Johnson, S., Robinson, J.A. (2002). Reversal of fortunes: Geography and Institutions in the Making of the Modern World Income Distribution. *Quarterly Journal of Economics*, 117, 1231-1294.
- Adams Jr, R. H. (2004). Economic Growth, Inequality and Poverty: Estimating the Growth Elasticity of Poverty. *World Development*, 32(12), 1989-2014.
- Agénor, P.-R. (2005). The macroeconomics of poverty reduction. *The Manchester School*, 73(4), 369-434.

Akee, R., Jorgensen, M., & Sunde, U. (2015). Critical junctures and Economic development - evidence from the adoption of constitutions among American Indian nations. *Journal of Comparative Economics*, 43(4), 844-861.

Alesina, A., Devleeschauwer, A., Easterly, W., Kurlat, S. & Wacziarg, R. (2003). Fractionalization, *Journal of Economic Growth*, 8 (2), 155.194.

Ashraf, Q. & Galor, O. (2013). The out of Africa hypothesis, human genetic diversity, and comparative economic development. *American Economic Review*, 103: 1-46.

Austen, S., & A. Mavisakalyan. 2016. Constitutions and the Political Agency of Women: A Cross-Country Study. *Feminist Economics* 22 (1): 183-210.

Barro, R. J., and J.-W. Lee. (2010). A New Data Set of Educational Attainment in the World, 1950-2010. NBER Working Paper 15902.

Beck, T., A. Demirgüç-Kunt, & R. Levine, (2007), Finance, Inequality and the Poor, *Journal of Economic Growth*, Vol. 12, No. 1, pp. 27-49.

Blume, L., Müller, J., Voigt, S. & Wolf, C. (2009). The Economic Effects of Constitutions: Replicating—and extending—Persson and Tabellini. *Public Choice* 139, 197–225.

Buchanan, J. & Brennan, G. 1981. The Reason of Rules: Constitutional Political Economy. Cambridge University Press.

Cheibub, J., Gandhi, J. & Vreeland, J.R. (2010). Democracy and Dictatorship revisited, *Public Choice* 143: 67-101.

Chong, A., & Calderon, C. (2000). Institutional quality and Poverty measures in a Cross-Section of Countries. *Economics of Governance*, 1(2), 123–135.

Churchill, S.A. & Smyth, R. (2017), Ethnic Diversity and Poverty, *World Development* 95, 285-302

Datt, G. & M. Ravallion. (1992). Growth and Redistribution Components of Changes in Poverty Measures: A Decomposition with Applications to Brazil and India in the 1980s. *Journal of Development Economics* 38(2):275–95.

Dollar, D. & A. Kraay. (2002). Growth is Good for the Poor. *Journal of Economic Growth* 7(3):195–225.

Dreher, A. (2005). Does Globalization affect Growth? Evidence from a New Index of Globalization. Thurgauer Wirtschaftsinstitut Research Paper Series No 6.

Edwards, S. & Garcia Marin, A. (2015). Constitutional rights and Education: An international comparative study, *Journal of Comparative Economics*, 43(4), 938-955.

Feenstra, R. C., Inklaar, R. & Timmer, M.P. (2015), The Next Generation of the Penn World Table, *American Economic Review*, 105(10), 3150-3182.

Guari, V. & Brinks, D. (2008), *Courting Social Justice: Judicial Enforcement of Social and Economic Rights in the Developing World*. Cambridge: Cambridge University Press.

Hasan, R., Mitra, R. & Ulubasoglu, M. (2007). Institutions and policies for growth and poverty reduction: The role of private sector development. *Asian Development Review*, 24(1), 69–116.

Hayo, B. & Voigt, S. (2013), Endogenous constitutions: Politics and politicians matter, economic outcomes don't, *Journal of Economic Behavior & Organization* 88, 47– 61.

Huber, P. J. (1973), Robust regression: asymptotics, conjectures and Monte Carlo. *Annals of Statistics* 1, 799–821.

Jeffords, C. & Minkler, L. 2016. Do Constitutions Matter? The Effects of Constitutional Environmental Rights Provisions on Environmental Outcomes, *Kyklos*, 69(2), 294-335.

Kakwani, N. (2000). On Measuring Growth and Inequality Components of Poverty with Application to Thailand. *Journal of Quantitative Economics* 16:67–79.

Kaufmann, D., Kraay, A. & Mastruzzi, M. (2007). Governance matters VI: governance indicators for 1996–2006. World Bank Policy Research. Working Paper No. 4280, World Bank.

Kodila-Tedika, O. & Ngunza Madiata, K. (2018), Financial contraints and Poverty, University of Kinshasa Working paper.

Kodila-Tedika, O. & Asongu, S. (2017), Is Poverty in the African DNA (Gene)? *South African Journal of Economics*, 85 (4), 533–552.

Kodila-Tedika, O. & Asongu, S. (2018), Institution and poverty: A Critical Comment Based on Evolving Currents and Debates?, *Social Indicators Research DOI* 10.1007/s11205-017-1709-y.

Matsuura, H. (2013), The Effect of a Constitutional Right to Health on Population Health in 157 Countries, 1970-2007: the Role of Democratic Governance. PGDA Working Paper 10613.

Midi, H. & Talib, B.A. (2008). The performance of robust estimator on linear regression model having both continuous and categorical variables with heteroscedastic errors. *Malaysian Journal of Mathematical Sciences*, 2(1), 25–48.

Minkler, L. & Prakash, N. (2015). The Role of Constitutions on Poverty: A Cross-National Investigation, IZA Discussion Papers 8877, Institute for the Study of Labor (IZA).

North, D. C. & Weingast, B. R. (1989). Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England. *The Journal of Economic History*, 49 (4), pp. 803-832.

North, D. (2006). Understanding the process of economic change, Princeton University Press,

Persson, T. & Tabellini, G. (2006) Democracy and Development: The Devil in the Details, *American Economic Review*, 96(2), 319-324.

Persson, T. & Tabellini, G. (2004) Constitutional Rules and Fiscal Policy Outcomes, *American Economic Review*, 94(1), 25-45.

Persson, T. & Tabellini, G., 2003. *The economic effects of constitutions*. MIT Press, Cambridge, MA.

Qian, Y. & B. Weingast (1997). Federalism as a commitment to preserving market incentives, *Journal of Economic Perspectives*, 1997

Ravallion, M. (2001). Growth, Inequality and Poverty: Looking Beyond Averages. *World Development*, 29(11), 1803-1815.

Sachs, J. D., Mellinger, A., & Gallup, J. (2001). The geography of poverty and wealth. *Scientific American*, 284(3), 70–76.

Tebaldi, E. & Mohan, R. (2010) Institutions and Poverty, *Journal of Development Studies*, 46: 6, 1047 — 1066.

