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**An Empirical Study of the
Limits and Perspectives of Institutional Transfers**

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Marie Möller

Abstract The aim of this paper is to determine which country-specific characteristics promote and which impede the adoption of institutions. On the basis of a broad panel of 183 countries for the period between 1996 and 2010, we test whether there are tendencies towards a general improvement and towards a convergence of institutional quality. Based on the hypothesis that younger countries tend to adopt the smoothly functioning institutions of older ones, we analyze which of the younger countries have good institutions and why. Among other things, we found that older countries do have better institutions than younger ones, but it is questionable that there is a causal effect. Moreover, the results of our empirical investigation show that having been a UK colony or the degree of economic openness have no effect on the institutional quality; while on the other hand, religion, region and dependency on natural resources do indeed have such effects. In addition, the potential role of international organizations with regard to nation building and institutional transfer is discussed.

Keywords Institutions, Democracy, Nation Building, Freedom, Democracy Indices

Institutionentransfer – Möglichkeiten und Grenzen

Zusammenfassung Ziel des Aufsatzes ist es herauszufinden, welche länderspezifischen Eigenschaften institutionellen Transfer hemmen oder begünstigen. Auf Basis eines Panels, das 183 Länder über den Zeitraum 1996-2010 umfasst, wird untersucht, ob eine generelle Verbesserung der institutionellen Qualität im Zeitverlauf sowie eine Tendenz hin zu Konvergenz zu beobachten ist. Basierend auf der Hypothese, dass jüngere Länder dazu tendieren, die Institutionen älterer Länder, die sich bewährt haben, zu übernehmen, wird in diesem Aufsatz untersucht, welche der jüngeren Länder gute Institutionen haben und warum. Es zeigt sich, dass Länder die bereits lange unabhängig waren, tatsächlich über bessere Institutionen verfügen, dies lässt sich allerdings nicht kausal auf die Dauer der Unabhängigkeit zurückführen. Die Ergebnisse der empirischen Analyse zeigen darüber hinaus, dass die Offenheit einer Volkswirtschaft sowie die Frage, ob es sich um eine ehemalige Kolonie Großbritanniens handelt keinen Effekt auf die Qualität der Institutionen haben, während Religion, Region und Ressourcenabhängigkeit Effekte aufweisen. Überdies wird die Rolle von Internationalen Organisationen in Bezug auf *Nation Building* und Institutionentransfer diskutiert.

Schlagwörter Institutionen, Demokratie, *Nation Building*, Freiheit, Demokratieindikatoren

Im Internet unter:

http://www.wiwi.uni-muenster.de/ciw/forschen/downloads/DP-CIW_1_2012.pdf

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An Empirical Study of the Limits and Perspectives of Institutional Transfers

“Nations sometimes do manage to adopt efficient institutions and achieve prosperity, but alas, these are the rare cases.”

(Acemoglu and Robinson, 2012, p.68)

1. Introduction

Institutions matter – this is an established fact. When international organizations attempt to build nations or to stabilize unstable ones, they always wonder whether it would be possible to implement democratic institutions or at least consider which approved institutions could be adopted or transferred to the countries. The concept of *institutional transfer* is based on David Apter’s (1955) considerations about the transition of the Gold Coast colony to the independent county of Ghana. Our aim in this paper is to determine which country-specific characteristics promote and which impede the adoption of institutions.

The institutional backgrounds of political and economic systems all over the world have been subject to considerable shifts over the previous decades. Greece, Turkey, Portugal, and Spain established or reestablished their democratic systems within the second half of the 1970s and the beginning of the 1980s, and so did a number of Latin-American and some Asian countries. After 1989, close to 30 countries almost entirely reorganized their political and, more so, their economic order away from central planning and from so-called “democratic centralism” to a broad array of political and economic systems. By and large, we have seen a strong tendency towards market economies and also towards democratic systems around the world. Accordingly, almost half of all countries in the world can be viewed as democracies. The political freedom observer *Freedom House* labels 44 of 149 covered countries as “free” for the year 1974, slightly less than thirty percent.¹ For 2010, by contrast, the number of countries labeled “free” was 87 out of 194, comprising some 45 percent of all covered countries.

The particular political institutions underlying these democracies, however, have always differed considerably from country to country. There have been presidential versus parliamentary systems, systems based on majority voting and those that apply proportional representation, as well as mixed systems such as that in Germany. Furthermore, there have been repre-

¹ Countries are labeled “free” if the average of partial indicators “political rights” and “civil liberties” is 2.5 or below on a scale between 1 (most democratic) and 7 (least democratic); see freedomhouse.org.

sentative systems and those with elements of direct democracy, and we find pure republican systems, as well as constitutional democracies.

These institutional details are difficult to evaluate from the perspective of some normative theory. Nevertheless, international organizations, university researchers and think tanks have developed indicators for measuring not just institutional details, but a broader concept of institutional quality. The concept runs as follows. Within the last two centuries or so, some fundamental elements of “good” institutional structures have evolved, which can now be identified in almost any smoothly functioning modern democracy, independently of the institutional details of their respective political and economic orders. Among these fundamental elements, we find:

- the rule of law;
- judicial independence;
- freedom of the press and the media;
- competitiveness in the recruitment of both executive and parliamentary representatives; and
- civil and human rights.

In fully-fledged democracies, we typically find high scores for all of these indicators. At the same time, attempts have been made to define indicators that capture important characteristics such as the levels of corruption, political stability or governmental effectiveness. Such characteristics are not institutions in themselves, but can rather be viewed as quality outcomes of an underlying and intricate institutional structure, the individual elements of which are difficult to identify and compare over the generally large number of countries observed.

One can regard those countries that have early experiences with democratic structures as potential study objects. The experiences they encountered may explicitly or implicitly be used by imitators and latecomers in their own efforts at introducing democratic institutions. According to such a perspective, the latecomers could, in principle, learn from the forerunners, thus enabling them to avoid backlashes and political instabilities which may arise from inadequate institutional structures. This may be particularly helpful for the latecomers, since the introduction of stable democratic institutions is a considerable challenge, and transition processes to democracy are usually accompanied by numerous threats to a society. In any case, establishing democratic institutions extends far beyond the introduction of some form of elections. Improperly structured institutions may drive young democracies into political and eco-

conomic instability, ultimately rendering them vulnerable to demagogues, potential military dictators, or ideological or religious extremists. Unfortunately, a considerable part of the formerly Soviet countries are vivid examples of such phenomena, and this may also be true for some (former) Arab dictatorships, that are now embarking on a somewhat rocky road to democracy.

Given a time span of more than 200 years, during which it has been possible to observe the institutional evolution of real-world democracies, one would expect latecomers to adopt institutional characteristics that have proven supportive to both political stability and economic prosperity, while at the same time supporting political freedom and civil rights.

This paper tests some implications of possible institutional transfers, on the basis of a broad data panel of 183 countries throughout the world, for the period between 1996 and 2010. We focus on the process of democratization that can be observed globally, particularly within its “third wave” (Teorell, 2010, p.2) since 1974. Specifically, we wish to determine whether and where there are tendencies towards a general improvement in the quality of democratic institutions and whether and where we can observe tendencies toward convergence in the institutional structures of the countries in question. Furthermore, we investigate a specific subset of countries with respect to institutional transfers, namely those countries that achieved independence after World War II. These countries may have developed their institutions along the lines of experiences in countries that had been independent (long) before. We observe whether these relatively newly independent countries fall behind “older” countries with respect to institutional quality. Furthermore, consider which characteristics of newly independent countries promote the transfer of higher-quality institutions and which characteristics tend to impede such transfers.

In the next section, we develop a set of hypotheses on the transfer of institutions and formulate concrete research questions. Section 3 is dedicated to our empirical analysis. After the data description, our hypotheses are checked, based on descriptive and inferential statistics. In Section 4, we discuss the limits and perspectives of institutional transfers, as well as the potential role of international organizations.

2. Hypotheses on the Transfer of Institutions

There is now a broad literature on institutional quality and its determinants. One strand of the literature aims at the development and measurement of indicators on institutional quality (for an overview, see Voigt, 2009). Another strand is devoted to estimating how institutional

quality affects economic performance (see, e.g. Rigobon and Rodrik, 2005, Glaeser et al., 2004, Rodrik et al., 2002, Knack and Keefer, 1995 or North, 1990). In this context, the bulk of the literature focuses on the relationship between democracy and economic performance (Barro, 1996, Przeworski and Limongi, 1993, or more recently Acemoglu et al., 2008). Finally, a third strand of the literature searches for determinants of institutional quality, i.e. it investigates the historical, economic, or cultural backgrounds determining the quality of institutions (Acemoglu et al., 2005). In this paper, we aim to advance our understanding on whether countries that became independent only relatively recently (henceforth “younger countries”) learned from countries that have long been independent or that were never dependent at all (henceforth “older countries”).

Accordingly, we wish to determine which country-specific characteristics impede or promote the transfer of institutions. Therefore, we consider younger countries and examine which of them have better institutions and why. Our considerations are based on the assumptions that, firstly, older countries tend to have better institutions and, secondly, that younger countries tend to adopt effectively functioning institutions. Note that for younger countries to learn from those that have long been independent, it is not necessary that the older ones generally be endowed with better institutions. All that is necessary is that, among the older countries, there are some that have, according to some clear criteria, conspicuously good experiences with a certain set of institutional rules. If that were true, however, and if it were the case that the younger countries tended to transfer well-proven institutional rules to their own set of institutions, we should observe both an overall tendency toward better institutions over time and a reduction in the variance of institutional quality across all countries over time. Hence, with respect to our dataset, we hope to answer three questions:

1. Do older countries have better institutions than younger countries?
2. Is there a general tendency toward better institutional quality?
3. Is there a tendency toward convergence in the quality of institutions, as measured by the indicators we use?

Although the first question does not need yield a positive answer for institutional transfers to occur, it is nevertheless interesting with respect to our general topic. However, we are not only interested in these quite general questions, but also in the following one. Given that a country belongs to the group of younger countries, can we identify certain characteristics

which promote or obstruct institutional learning? Based on the literature dealing with the determinants of institutional quality, we consider the following five characteristics:

1. Was a country a colony of Great Britain during its dependence?
2. What is the dominant religion in a country?
3. To what extent is a country's economy reliant on oil?
4. How open (to international trade) is a country's economy?
5. Is a country in transition?

Concerning the first question, it has been argued in the literature that formerly dependent countries that were UK colonies, are more likely to adopt modern democratic institutions (La Porta et al. 1999). One of the suggested reasons is that Great Britain itself has gone through a long evolutionary process of institutional development, which early on showed characteristics of modern institutions. The other assumption in this respect is that Great Britain had a certain attitude toward developing colonies according to the blue print of its own institutions (Landes, 1998; North et al., 1998). An alternative explanation is that British colonists happened to settle in their "favorite" geographic regions. This led to their seeking out places that are suitable for long-term settlement, which in turn induced efforts to establish stable institutions (Acemoglu et al., 2001).

The second question refers specifically to Christian and Islamic religious backgrounds. Based on a paper by Rowley and Smith (2009), there is an evolving literature on the influence of Islam on the chances of developing modern democratic institutions. However, although most Islamic countries are not democratic, the thesis that Islam inhibits the evolution of democratic institutions has been challenged on both theoretical as well as empirical grounds (Teorell, 2010, p. 47 ff.).

The third question refers to empirical studies that found a negative relationship between oil-dependency and democratic institutions (see, e.g., Cuaresma et al., 2011 or Bhattacharyya and Hodler, 2010). The proposed explanation is that a rich endowment with oil and other natural resources tends to provoke conflict over the distribution of the associated economic returns, that are difficult to resolve under democratic rules, not least because of the associated non-single peaked preferences. We hence observe a significantly higher propensity for civil wars and greater potential instability of democratic institutions (see, e.g., Ross, 2006 or Collier and Hoeffler, 2005).

The fourth question is associated with competitive pressure that may urge political decision makers to develop efficient institutions. However, such a supposed relationship may be weak in reality. It presupposes the validity of at least two causalities that are not entirely self-evident. Firstly, not (yet) democratic decision making authorities need to be genuinely interested in the economic success of their respective jurisdiction, and that effect, in turn, needs to be worth more to them than the potential loss in power caused by the introduction of political competition; and secondly, democratic institutions would need to be the most supportive institutions for economic development. We do not intend to consider all the associated theoretical questions here. Rather, what we are interested in is the question of whether a higher degree of economic openness supports the transfer of modern institutions to younger countries.

Finally, there are roughly thirty formerly socialist countries that fundamentally changed their political and economic systems after the collapse of communism in 1989. Although we do not wish to formulate a specific hypothesis on how those events affected institutional evolution, we will take the transition process into account in our empirical analysis, with the aid of a control variable.

We are aware that our results are conditional on and sensitive to the assumptions we have formulated, namely that we think that there are some older countries that have sound institutional rules and that the younger countries tend to transfer well-proven institutional rules.

3. Empirical Analysis

To find answers to our research questions, we compile a dataset which is described below. The data description is followed by the descriptive and finally by the inferential analysis.

3.1. Data Description

Our dataset consists of 183 countries. From the total of 213 countries worldwide, we excluded countries that are either still dependent on or associated with other countries, or have incomplete or no data regarding the institutional indicators.

There are many indicators that aim at directly measuring the quality of institutions and many others that are closely related to good or bad institutions. In order to capture a broad range of different aspects and consequences of institutional quality, we consider six different indicators. We took the first three from the *Freedom House* databank, namely “Civil Liberties” (CL), “Political Rights” (PR) and “Freedom of the Press” (FOP). The first two are the partial indices from which the *Freedom of the World Index* by *Freedom House* is constructed.

The next two indicators “Government Effectiveness” (GE) and “Rule of Law” (ROL) are partial indicators of the *Worldwide Governance Indicators* (WGI) by the *World Bank*. The last indicator is an individual one of “Judicial Independence” (JUR), introduced by Feld and Voigt (2003). In sum, the indicators are:

- Civil Liberties (CL);
- Political Rights (PR);
- Freedom of Press (FOP);
- Government Effectiveness (GE);
- Rule of Law (ROL);
- De iure Judicial Independence (JUR).

The *Freedom of the World Index*, which is in fact a democracy index, can be interpreted as an indicator that measures the outcome of institutional quality; the better the institutions, the greater the degree of democracy. The partial indicator CL includes freedom of expression and of assembly, association, education and religion. It measures whether there is a generally fair system of the rule of law (including an independent judiciary) and whether there is equality of opportunity for everyone (including women and minority groups). PR measures the degree to which people can participate in the political process of their country. The FOP is based on an annual survey of media independence, including the degree of freedom of print, broadcast and internet publications.

The WGI, a result of a research project by the World Bank, comprise indicators for governance, defined as “the traditions and institutions by which authority in a country is exercised” (Kaufman et al., 2010, p. 4), in order to measure *good governance*. This is in fact another expression for *institutional quality*. The WGI cover 213 countries since 1996, and they are based on 31 different data sources such as government perceptions, as reported by survey respondents or non-governmental organizations. GE covers “the capacity of the government to effectively formulate and implement sound policies”. GE captures “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies” (Kaufman et al., 2010, p. 4). ROL measures the extent to which agents are confident in the rules of society, such as the courts, police, quality of contract enforcement, and property rights. It indicates “the respect of citizens and the state for the institutions” (Kaufman et al., 2010, p.4).

The *de iure* indicator JUR focusses on the legal foundations of judicial independence. It was introduced by Feld and Voigt (2003) and it is based on questionnaires that were sent to experts in each country, containing questions about the independence of the highest court, irrespective of the issues with which it deals. Since higher courts are usually able to overrule the sentences of lower courts, the independence of the highest court is fundamentally important. Unfortunately, JUR is only available for 69 countries and was only measured once. The results for this indicator are hence to be treated with caution. Furthermore, the indicator is only applicable for some of our tests.

We have rebased the indicators, such that they all take values between 1 (low institutional quality) and 10 (high institutional quality). Table 1 gives an overview of summary statistics of our panel.

Table 1: Summary Statistics of Panel 1996 to 2010

	CL	PR	FOP	GE	ROL	JUR
<i>Mean</i>	6.34	6.28	5.81	5.41	5.34	6.94
<i>Median</i>	7.00	7.00	5.77	5.11	4.99	6.99
<i>Minimum</i>	1.00	1.00	1.00	1.09	1.00	3.39
<i>Maximum</i>	10.00	10.00	10.00	9.77	9.33	9.45
<i>Stand. Dev.</i>	2.76	3.29	2.27	1.81	1.81	1.40
<i>Observat.</i>	2735	2735	2350	2730	2731	69

Sources: CL, PR, FOP: Freedom House (2011), GE, ROL: Worldbank (2011a), JUR: Feld and Voigt (2003)

3.2. Descriptive Analysis

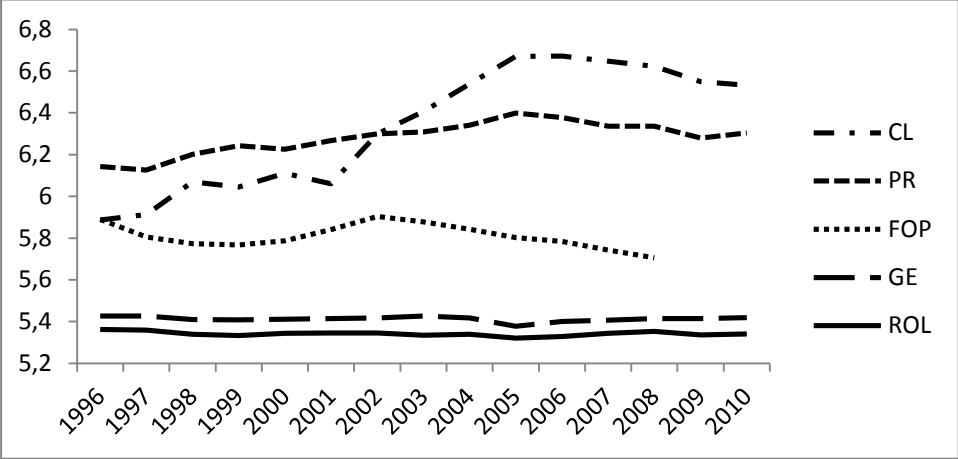
From an initial inspection of our data, we wish to obtain a brief and preliminary impression with respect to the three abovementioned questions:

- Do older countries have better institutions than younger ones?
- Can a general trend toward improving institutional quality be observed over time, as measured by our indicators?
- Can a general trend toward convergence in institutional quality be observed over time?

The average of the 183 countries for each indicator over time is presented in Figure 1. With respect to the WGI indicators, there is obviously no trend and not much variation either. By

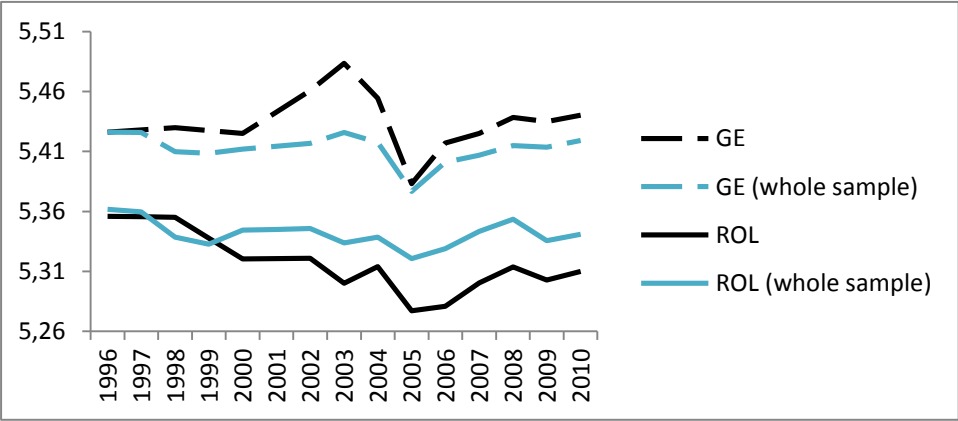
contrast, one can clearly see a general improvement in CL, namely from 5.9 to 6.5. PR also increases, albeit less pronounced. The FOP indicator displays a u-shape from 1996 to 2002, and from 2002, it decreases from 5.9 to 5.7. If any, there is hence even a downward trend in FOP.

Figure 1: Average Institutional Quality



The World Bank indicators GE and ROL display rather unsystematic fluctuations (see Figure 2). One could hypothesize that this is due to the subsequent inclusion of countries for which indicators of the earlier years were not available, since the set of countries that have been included later, may comprise more cases with relatively poor institutional quality. If this were true, however, it would indeed imply a general downward bias over time. We have thus calculated averages of GE and ROL with excluded latecomers. As Figure 2 shows, the averages of GE and ROL modified accordingly, have quite similar curve shapes to the whole-sample averages. In particular, they also do not yield any clear trend. As a result, a general improvement in institutional quality does indeed apply to CL and PR. For GE and ROL, however, there is no trend at all and for FOP, there is even a slight downward trend.

Figure 2: Average WGI



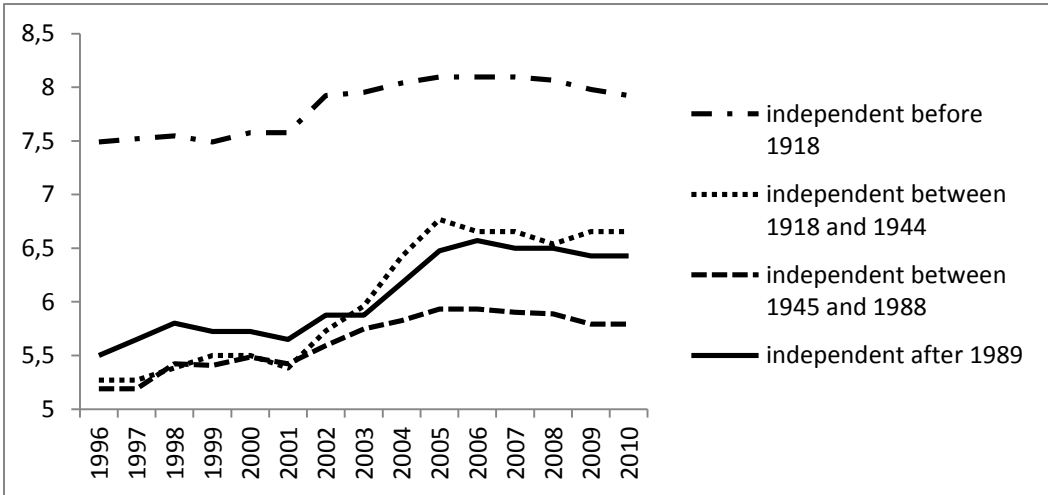
We are next interested in the question of whether there is a trend toward convergence in institutional quality. In this context, Table 2 presents the standard deviation of the considered indicators over time, revealing a slight decrease in all indicators from 1996 to 2010. However, the decrease is very low and possibly meaningless.

Table 2: Standard Deviation of Average Institutional Indicators

INDICATOR	STANDARD DEVIATION	STANDARD DEVIATION
	IN 1996	IN 2010
CL	2.83	2.75
PR	3.37	3.26
FOP	2.24	2.22
GE	1.85	1.81
ROL	1.82	1.80

Finally, we want to know whether older countries have better institutions than younger ones. If that were true, then the year of independence had an effect on today’s institutional quality. In Figure 3, CL is displayed over time as an example, and separately for four respective periods during which independence was achieved: prior to 1918, between 1919 and 1944, between 1945 and 1988, and finally, after 1989.

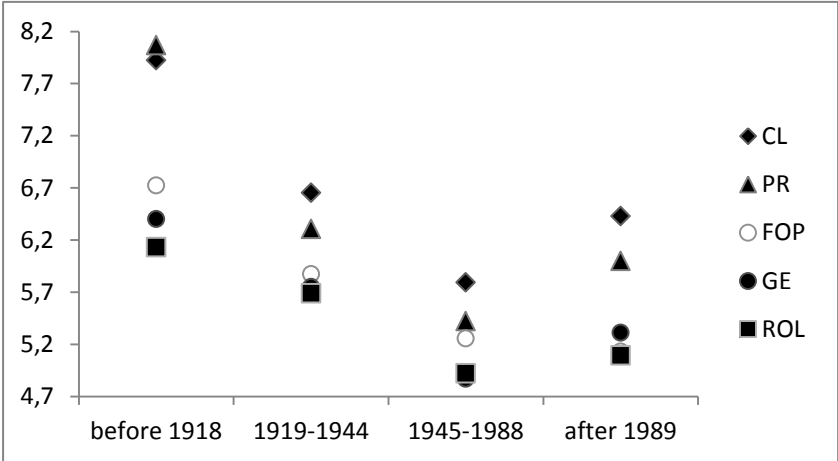
Figure 3: Civil Liberties and Years of Independence



As can clearly be seen, the CL indicator is markedly higher for those countries that became independent prior to World War I. The countries that became independent after World War II and prior to the collapse of the Soviet Union are those with the lowest institutional quality. The other institutional indicators also exhibit higher values for older countries (see Figure 4).

However, this is not true for the period following the collapse of the socialist world. Obviously, the average of those countries that became independent after 1989 now have better institutions than those that became independent between World War II and the fall of the Berlin wall.

Figure 4: Institutional Quality in 2010* Year of Independence



*FOP indicators are of 2008

However, these findings may be misleading, since it is very likely that there is a variety of factors influencing the evolution of institutions. Moreover, there may be joint factors underlying the respective period and indicators such as the suggested association between the periods in which independence was achieved on the one hand and institutional quality today on the other hand, which may disappear on a more refined analysis. We hence ran a number of regressions with the indicators of institutional quality as endogenous variables, which are presented in the next section.

3.3. Inferential Analysis

The main focus of our analysis is on the year of independence. To this end, we defined a dummy for countries that we refer to as younger. In the main part of our paper, “younger” means that a country became independent after 1945. In the appendix, we also present regression results based on 1918 as the distinguishing year between older and younger. The results did not turn out to be fundamentally different and could also be interpreted as a robustness check of our findings. Based on the considerations on possible determinants of the evolution of institutional quality in the previous section, we also used the following right-hand variables:

- a dummy for former UK colonies²;
- a dummy for countries with dominance of Christianity²;

² Source: Central Intelligence Agency (2012)

- a dummy for countries with dominance of Islam²;
- a dummy for Arab countries (specifically: for members of the Arab League)²;
- oil rents in percentage of GDP³;
- exports in percentage of GDP as a measure of economic openness³;
- real gross domestic product per capita (rGDPC)³; and finally
- a dummy for transition countries⁴.

Although our dataset is a panel ranging from 1996 to 2010, we decided to run cross-sectional regressions only. The main reason is that most of the control variables are dummies with low or no variance over time. Furthermore, the residuals exhibit considerable multicollinearity in the panel regressions we ran. As a result, the coefficients of the panel regressions are potentially unreliable. We hence calculated five-year averages over three periods as a basis for cross-sectional regressions. The periods are: 1996 to 2000, 2001 to 2005 and 2006 to 2010. Since the results are very similar, we only present results of the latter period.

The first thing we did was a form of plausibility check. We regressed all right-hand variables on our institutional indicators in order to determine whether they are significant and have the expected signs. The results are presented in Tables 3 and 4. In the first column for each indicator, we estimated with all right-hand variables, whereas in the second, we omitted those that turned out to be redundant. In a first round, we omitted the Arab league dummy (not presented). In that case, the Muslim dummy was always negative and significant. However, on entering the Arab league dummy, the Muslim dummy turned insignificant for all but one indicator, where the latter is the indicator of judicial independence. Note, however, that the indicator of judicial independence relies on only 69 observations and is therefore not very reliable. The results for the Muslim and Arab league indicators match those in the empirical literature (see Teorell, 2010, p.50). They suggest that it is not the religious background which is responsible for relatively poor institutional quality, but that the latter can better be explained by other (unknown) factors which are common in countries with a predominantly Muslim population, most of which belong to the Arab world.

The same most probably applies to the Christian dummy, which is indeed significant in all cases. Interestingly however, it has different signs. For the *Freedom-House* indicators and the indicator of judicial independence, it is positive, whereas the good-governance indicators GE and ROL are negatively affected by the Christian dummy. However, in explaining the nega-

³ Source: Worldbank (2011a)

⁴ Source: European Bank for Reconstruction and Development (2011)

tive influence on GE and ROL, it is very likely that the Christian dummy does not capture religion, but rather a broad array of common characteristics of countries that are historically and culturally rooted in Western Europe.

Table 3: Determinants of Institutional Quality (Freedom House)

<i>dependent variable</i>	<i>CL</i>		<i>PR</i>		<i>FOP</i>	
<i>Log(Real GDP per Capita average 2001-2006)</i>	0.99*** (10.67)	0.98*** (10.94)	1.15*** (9.47)	1.16*** (9.86)	0.76*** (9.04)	0.77*** (9.26)
<i>Colony UK Dummy</i>	0.25 (0.84)		0.10 (0.25)		0.34 (1.24)	
<i>Arab league Dummy</i>	-1.58*** (2.73)	-1.86** (3.57)	-2.79*** (3.66)	-2.96*** (4.35)	-0.92* (1.75)	-1.16** (2.42)
<i>Muslim Dummy</i>	-0.52 (1.10)		-0.38 (0.61)		-0.65 (1.49)	
<i>Christian Dummy</i>	0.78** (2.06)	1.02*** (3.43)	0.80 (1.61)	0.98** (2.53)	0.71** (2.06)	1.02*** (3.71)
<i>Oil rents average</i>	-0.06*** (6.22)	-0.07*** (6.61)	-0.08*** (6.14)	-0.09*** (6.43)	-0.05*** (4.99)	-0.05*** (5.41)
<i>Export ratio average</i>	-0.01** (2.19)	-0.01** (2.06)	-0.02*** (2.97)	-0.02*** (3.00)	-0.01* (1.95)	-0.01*** (1.93)
<i>Transition Dummy</i>	0.19 (0.58)		-0.02 (0.04)		-0.19 (0.64)	
<i>Constant</i>	-0.45 (0.59)	-0.57 (0.89)	-1.46 (1.48)	-1.67** (2.02)	0.29 (0.43)	0.00 (0.00)
<i>Adj. R²</i>	0.70	0.70	0.66	0.66	0.64	0.63
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00	0.00	0.00
<i>Akaike info crit./</i>	3.63/	3.60/	4.18/	4.17/	3.45/	3.45/
<i>Schwarz crit.</i>	3.82	3.73	4.37	4.26	3.64	3.57
<i>S.E. of regression</i>	1.44	1.43	1.89	1.87	1.32	1.33
<i>Observations</i>	139	139	139	139	139	139

All data are averages for the period 2006 to 2010, except GDP. The numbers in parentheses are the absolute values of the t-statistics; '***', '**' or '*' show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

The variable on oil rents is negative and strongly significant for all indicators except that on judicial independence, as we expected from the literature. The results for the export-ratio variable, however, are rather inconclusive. Although the variable is significant for the *Freedom House* indicators and GE, it has a negative impact on the *Freedom House* indicators. Nonetheless, as argued above, it is not at all clear theoretically, whether and how the openness

of an economy affects institutional quality. Finally, we were surprised that the transition dummy is insignificant for all indicators except judicial independence, for which it is negative. Recall, however, that transition countries are more than some Eastern-European countries that perform pretty well. Summing up, our results generally confirm those found in the empirical literature, especially with respect to the democracy indicators.

Table 4: Determinants of Institutional Quality (World Bank)

<i>dependent variable</i>	<i>GE</i>		<i>ROL</i>		<i>JUR</i>	
<i>Log(Real GDP per Capita average 2001-2006)</i>	0.96*** (21.32)	0.98*** (21.83)	0.97*** (17.75)	0.90*** (22.35)	0.04 (0.72)	
<i>Colony UK Dummy</i>	0.24 (1.63)	0.29** (2.05)	0.51*** (2.87)	0.39** (2.58)	-0.15 (0.81)	
<i>Arab league Dummy</i>	-0.45 (1.60)	-0.53** (2.07)	-0.16 (0.46)		-0.29 (0.78)	
<i>Muslim Dummy</i>	-0.27 (1.14)		-0.32 (1.13)		-1.19*** (4.27)	-1.21*** (8.46)
<i>Christian Dummy</i>	-0.55*** (2.96)	-0.41*** (2.80)	-0.41* (1.85)		0.25 (1.29)	0.38*** (3.65)
<i>Oil rents average 2006-2010</i>	-0.03*** (6.28)	-0.03*** (6.43)	-0.03*** (5.12)	-0.04*** (7.54)	0.01 (0.62)	
<i>Export ratio average 2006-2010</i>	0.01** (1.99)	0.00* (1.94)	0.00 (1.43)		0.00 (0.26)	
<i>Transition Dummy</i>	-0.20 (1.26)		-0.16 (0.82)		-0.31 (1.64)	-0.30*** (2.98)
<i>Constant</i>	-1.60*** (4.33)	-1.90*** (5.77)	-1.96*** (4.40)	-1.51*** (4.66)	6.67*** (13.92)	6.94*** (75.92)
<i>Adj. R²</i>	0.85	0.84	0.79	0.76	0.16	0.16
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00	0.00	0.00
<i>Akaike info crit./</i>	2.20/	2.20/	2.58/	2.59/	3.38/	3.32/
<i>Schwarz crit.</i>	2.39	2.35	2.77	2.66	3.48	3.34
<i>S.E. of regression</i>	0.70	0.71	0.85	0.87	1.30	1.27
<i>Observations</i>	139	139	139	139	69	69

All data are averages for the period 2006 to 2010, except GDP. The numbers in parentheses are the absolute values of the t-statistics; '***', '**' or '*' show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

We now turn to the issue of what factors may promote success in the adoption of institutions by younger countries. The first question we raise is: Does the time-frame of independence generally promote institutional quality, as the descriptive analysis suggests? A tentative

result with respect to the dummy-variable “independent after 1945” is presented in Table 5. We removed the JUR indicator on judicial independence, since the low number of observations did not allow for significant results. The coefficient is negative for each indicator, and it is significant at the one percent level. The adjusted R^2 , however, is below 10 percent and thus very low in each case. The reason for both the (sign of the) coefficient and the low R^2 is a strong omitted-variable bias. This is the case, since per-capita income is strongly related to all forms of institutional variables. This is a well-known fact which has been thoroughly analyzed in the empirical literature (for an overview, see Sunde, 2006).

Table 5: Institutional Quality and Year of Independence

<i>dependent variable</i>	<i>CL</i>	<i>PR</i>	<i>FOP</i>	<i>GE</i>	<i>ROL</i>
<i>Independent after 1945 Dummy</i>	-1.58*** (3.97)	-1.99*** (4.24)	-1.03*** (3.07)	-1.19*** (4.56)	-0.88*** (3.27)
<i>Constant</i>	7.59*** (24.1)	7.57*** (20.44)	6.4*** (24.25)	6.15*** (29.82)	5.89*** (27.83)
Adj. R^2	0.075	0.085	0.044	0.098	0.05
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00	0.00
<i>Akaike info criterion/ Schwarz criterion</i>	4,77/ 4,81	5.1/ 5.1	4.42/ 4.45	3.93/ 3.96	3.98/ 4.01
<i>S.E. of regression</i>	2.62	3.07	2.19	1.71	1.76
<i>Observations</i>	183	183	183	183	183

All data are averages for the period 2006 to 2010. The numbers in parentheses are the absolute values of the t-statistics; ‘***’, ‘**’ or ‘*’ show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

The problem, however, is that there is still no conclusive result on the direction of causality. Per-capita income may be high because of good institutions. It may also be, however, that the causality runs in the opposite direction, namely that rich countries tend to develop more refined institutions. With respect to the democracy variables, the latter thesis is familiar as the *modernization theory* (see Lipset 1959). Yet another thesis is that long-term processes of income growth go hand in hand with ever more refined institutions, and that there are joint determinants underlying both (see, e.g., Congleton, 2011; North et al., 2006).

Whatever the case, per-capita GDP is usually strongly correlated to indicators of institutional quality. It is hence no surprise that the dummy for younger countries becomes insignificant on the inclusion of (the log of) real GDP per capita for all but one indicator, as can be seen in Table 6. In order to reduce the likelihood of reverse causality, we used a five-year lag for the GDP variable. However, this had no influence on our results. Concerning the relationship between the time of independence and institutional quality, the omitted-variable bias suggests that there is probably no causal relationship, but that there are common factors, in

this case underlying both the “age” of a country and per-capita income. Note that most of the rich industrialized countries were independent before 1945, and many of the poor countries were dependent until more recently.

Table 6: Institutional Quality, Year of Independence, and Real Income

<i>dependent variable</i>	<i>CL</i>	<i>PR</i>	<i>FOP</i>	<i>GE</i>	<i>ROL</i>
<i>Independent after 1945 Dummy</i>	-0.57 (1.61)	-0.93** (2.11)	-0.16 (0.53)	-0.18 (1.14)	0.13 (0.75)
<i>Log(Real GDP per Capita average 2001- 2005)</i>	0.87*** (8.31)	0.91*** (7.00)	0.72*** (8.13)	0.88*** (18.97)	0.89*** (18.00)
<i>Constant</i>	-0.26 (0.28)	-0.17 (0.14)	0.24 (0.31)	-1.32*** (3.21)	-1.65*** (3.76)
<i>Adj. R²</i>	0.33	0.28	0.30	0.70	0.67
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00	0.00
<i>Akaike info crit./ Schwarz crit.</i>	4.39/ 4.44	4.84/ 4.89	4.07/ 4.13	2.77/ 2.83	2.9/ 2.95
<i>S.E. of regression</i>	2.15	2.69	1.84	0.96	1.02
<i>Observations</i>	177	177	177	177	177

All data are averages for the period 2006 to 2010, except GDP. The numbers in parentheses are the absolute values of the t-statistics; ‘***’, ‘**’ or ‘*’ show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

To find out whether there are certain country-specific characteristics that promoted a high institutional quality in those countries that became newly independent, we added variables that interact with our dummy for independence after 1945. We also once again added the control variables of export ratio, population density and the dummy for transition countries. The results are presented in Tables 7 and 8. The dummy for independence after 1945 is insignificant for the Freedom-House indicators, but significant for the WGI indicators. There is again a positive and strongly significant effect of real GDP per capita in each of the estimations. If this reflects a causal impact of income on institutional quality, then a one percent increase in real GDP per capita would also raise institutional quality by roughly one percent. However, as argued above, there is good reason to be careful with such an inference, even though the GDP data are lagged by five years.

The next result is that countries that became independent after 1945 and that were colonies of the UK do not differ significantly from other countries in their institutional quality, with one exception, namely the rule of law. This result requires careful interpretation, however. It means that countries that became independent after 1945 *and* that were UK colonies, are not different from both countries that became independent after 1945 and were not UK colonies, and from countries that were independent in 1945 or before. We have hence tested a variable

that interacts dependence after 1945 with a dummy for countries that were not dependent on countries other than the UK. The results were not different. Taken together, we can safely state that having been a UK colony has neither supported nor impeded younger countries in the development of institutional quality.

Table 7: Year of Independence, Year and Determinants of Institutional Quality (Freedom House)

<i>dependent variable</i>	<i>CL</i>		<i>PR</i>		<i>FOP</i>	
<i>Independent after 1945 Dummy</i>	0.25 (0.49)		0.37 (0.56)		0.61 (1.32)	
<i>Log(Real GDP per Capita average 2001-2005)</i>	1.02*** (10.54)	0.97*** (12.46)	1.12*** (8.96)	1.06*** (10.43)	0.83*** (9.56)	0.78*** (11.07)
<i>Independent after 1945* Colony_UK Dummy</i>	0.23 (0.62)		0.45 (0.96)		0.13 (0.40)	
<i>Independent after 1945* Arab league Dummy</i>	-1.55*** (2.68)	-1.93*** (3.86)	-1.74** (2.31)	-2.41*** (3.71)	-1.08** (2.06)	-1.25*** (2.78)
<i>Independent after 1945* Muslim Dummy</i>	-0.80 (1.39)		-1.46* (1.95)		-0.87* (1.67)	
<i>Independent after 1945* Christian Dummy</i>	0.33 (0.65)	0.92*** (3.26)	-0.11 (0.17)	0.78** (2.14)	0.24 (0.53)	0.92*** (3.64)
<i>Independent after 1945* oil rents average 2006-2010</i>	-0.07*** (6.26)	-0.08*** (7.33)	-0.08*** (5.41)	-0.09*** (6.66)	-0.06*** (5.46)	-0.06*** (6.21)
<i>Export ratio average 2006-2010</i>	-0.01 (1.31)		-0.02* (1.89)		-0.01 (1.01)	
<i>Population density average 2006-2010</i>	0.00 (0.98)		0.00 (0.63)		-5E ⁻⁴ * (1.78)	
<i>Transition Dummy</i>	0.27 (0.69)		0.29 (0.59)		-0.25 (0.71)	
<i>Constant</i>	-0.70 (0.88)	-0.71 (1.12)	-1.32 (1.28)	-1.54* (1.86)	-0.36 (0.50)	-0.22 (0.38)
<i>Adj. R²</i>	0.59	0.59	0.53	0.52	0.52	0.52
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00	0.00	0.00
<i>Akaike info crit./ Schwarz crit.</i>	3.95/ 4.15	3.93/ 4.02	4.47/ 4.67	4.46/ 4.55	3.74/ 3.94	3.72/ 3.81
<i>S.E. of regression</i>	1.69	1.70	2.19	2.21	1.52	1.53
<i>Observations</i>	168	177	168	177	168	177

All data are averages for the period 2006 to 2010, except GDP. The numbers in parentheses are the absolute values of the t-statistics; '***', '**' or '*' show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

Table 8: Year of Independence, Year and Determinants of Institutional Quality (World Bank)

<i>dependent variable</i>	<i>GE</i>		<i>ROL</i>	
<i>Independent after 1945 Dummy</i>	0.44*		0.65**	
	(1.78)		(2.39)	
<i>Log(Real GDP per Capita average 2001-2005)</i>	0.91***	0.91***	0.92***	0.89***
	(19.34)	(23.70)	(17.58)	(21.21)
<i>Independent after 1945* Colony_UK Dummy</i>	0.14		0.17	0.41**
	(0.78)		(0.88)	(2.57)
<i>Independent after 1945* Arab league Dummy</i>	-0.37		-0.11	
	(1.31)		(0.35)	
<i>Independent after 1945* Muslim Dummy</i>	-0.34		-0.41	
	(1.21)		(1.32)	
<i>Independent after 1945* Christian Dummy</i>	-0.45*		-0.43	
	(-1.85)		(1.58)	
<i>Independent after 1945* oil rents average 2006-2010</i>	-0.03***	-0.04***	-0.03***	-0.03***
	(6.22)	(7.53)	(5.38)	(6.18)
<i>Export ratio average 2006-2010</i>	0.00		0.00	
	(0.49)		(0.19)	
<i>Population density average 2006-2010</i>	0.00		0.00	
	(1.38)		(0.63)	
<i>Transition Dummy</i>	-0.05		-0.18	
	(0.28)		(0.85)	
<i>Constant</i>	-1.60***	-1.49***	-1.90***	-1.54***
	(4.17)	(4.84)	(4.43)	(4.52)
<i>Adj. R²</i>	0.78	0.78	0.73	0.74
<i>Prob(F-statistic)</i>	0.00	0.00	0.00	0.00
<i>Akaike info crit./ Schwarz crit.</i>	2.49/	2.50/	2.71/	2.68/
<i>S.E. of regression</i>	0.82	0.84	0.91	0.92
<i>Observations</i>	168	177	168	177

All data are averages for the period 2006 to 2010, except GDP. The numbers in parentheses are the absolute values of the t-statistics; '***', '**' or '*' show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

By contrast, countries that became independent after 1945 and that are members of the Arab league exhibit once again significantly lower institutional quality, when measured by CL, PR or FOP. Additionally, being a younger country and having Muslims as the predominant religious group, further reduces the level of political rights (PR) and freedom of the press

(FOP). Admittedly, however, these latter findings are only marginally significant at a ten percent level and they do not survive a test on redundant variables. It is thus once again the Arabian region that tends to impede the development of higher institutional quality in the younger countries, and not religion (as opposed to Rowley and Smith, 2009).

The dummy for Christianity, as the predominant religion, is positive and significant in the case of the Freedom-House indicators, but only upon omission of redundant right-hand variables. In the case of the WGI indicators, the Christian dummy is, by and large, insignificant. As argued above, there is good reason to assume that the Christian dummy captures characteristics of countries with European cultural and historical roots, of which the Christian confession is but one of many. The partial significance of the Christian dummy is, in our view, not to be understood as indicating that modern “Western-type” institutions presuppose a particular religious orientation of its population.

As expected, we find that high oil rents associated with younger countries lead to lower institutional quality. This effect is significant for all indicators and thus arguably constitutes the most convincing result. Finally, the export ratio, the population density and the transition-dummy have no significant effects on the institutional quality.

We considered different indicators of institutional quality, so that we can claim our results are robust. Moreover, we changed the method of classifying younger countries, which also does not change the results (see Table A1 in the Appendix).

Summing up, we have the following empirical findings:

- Older countries tend to have better institutions, but it is questionable that there is a causal effect. It is much more plausible to assume that those countries that became independent are generally relatively poor, whereas in the pool of those countries that have long been independent, we find both poor countries with not very well developed institutions, but also rich Western-type democracies and market economies. Hence, having had time to develop higher-quality institutions may have been important historically, but there is also no reason to believe that a young country could not introduce high-quality institutions from scratch and thus successfully transfer well-proven institutions from other countries. It all seems to depend on some other factors, as to whether or not such an institutional transfer turns out to be successful.

- In contrast to what has occasionally been claimed in the literature, having been a UK colony has obviously no important influence on the ability of formerly dependent countries to transfer modern political institutions. This factor seems neither to promote nor constrain such a transfer.
- Religious orientation, at least with respect to Islam and Christianity, appears to be somehow related to the probability of developing institutional quality. However, the causal effects behind the correlations cannot convincingly be attributed to the respective religion, but rather to a broader regional or cultural background. This follows especially from the fact that the Muslim dummy turns insignificant upon controlling for the membership in the Arab league.
- As has frequently been stated in the literature, being dependent on natural resources turns out to be an impediment to the ability of younger countries to develop institutional quality. This finding by now seems well established, since it is not only supported by empirical findings, but can also be convincingly underpinned theoretically.
- Economic openness and population density do not apparently play an important role in the institutional quality of younger countries, neither does being a transitional country.

The question is whether our results potentially yield new indications for the nation building efforts of international organizations, at least to some degree.

4. The Role of International Organizations and Concluding Remarks

It can now safely be stated that institutions play a decisive role in economic development, sustainable poverty reduction, and political stability. Apparently, institution building constitutes one of the most important policy goals for both International Governmental Organizations (IGO's) and Non-Governmental Organizations (NGO's). With properly established institutions, many problems can be solved at the same time. The United Nations, as the largest IGO, has by now established several different programs for the improvement of governance and the development of institutions. There are global programs such as those for democratic governance training and against corruption, as well as regional programs for Africa, Latin America, the Caribbean, and Western Asia. Since good governance and stable institutions are the cornerstones of modern nations, the UN projects may well be viewed as *Nation Building* projects – as far as they achieve their stated objectives.

Naturally, official Annual Reports, such as those from the United Nations, suggest the attainment of just such success. Nevertheless, claiming success and critically evaluating success are two different things. One of the most serious problems in systematically exploring the influence of international organization on institution-building processes is reverse causality. If a country successfully improves its institutions and at the same time closely operates with some international organization, then it remains an open question whether it has been successful because of the cooperation, or because the successful countries tend to cooperate more closely with international organizations. This has become particularly clear in the case of the new EU members from Central and Eastern Europe, where the question is: Have some countries been more successful than others because they were early candidates for EU membership, or did they become early candidates for EU memberships, because they already proved to be successful?

Another interesting aspect of world-wide nation building processes is the claim by Kasper and Pei (2003), that it has not been the United Nations, but rather a single, though powerful, country that has so far been the most successful nation builder, namely the United States. The authors evaluated 16 US-led nation-building efforts since 1900. However, the success of even that apparently most successful international nation-builder of the 20st century appears to be rather limited, to say the least. In just four cases were the respective countries (still) under democratic rule ten years later, and two of these were West Germany and Japan after World War II. Regardless of what had happened in these countries in the years before, they were both based on societies with strong identities, as well as effective bureaucracies and judiciaries. Moreover, Germany and Japan did already have experience with constitutional rule.

By contrast, in Haiti⁵, where the Nation Building efforts turned out to be conspicuously unsuccessful, none of these conditions were satisfied. There was a low degree of ethnic homogeneity, a high level of inequality, and practically no experience with constitutional rule. The crucial role of latter is demonstrated by the fact that “none of the states where American [Nation Building] efforts have failed have had that experience” before (Pei and Kasper, 2003, p.5). In such cases, formal political institutions have to be either transferred from outside or established from scratch, which always implies the risk of conflict between the newly established rules on the one hand and certain country-specific informal institutions on the other. Under such conditions, a foreign “flower” may be “unable to survive in the hostile local soil” (Larmour, 2005, p. 2). Because informal institutions are difficult to identify and complex in

⁵ The Nation Building projects in Haiti, as well as in Afghanistan, were authorized by the U.N.

their most subtle interaction, severe problems of constitutional ignorance in Hayek's (1982, p. 37-39) sense arise that impede rational judgments on the applicability of formal institutional rules in specific informal contexts. Nevertheless, at least with regard to the Pacific islands, Larmour (2005) believes the identification of country-specific characteristics that support institutional adoption to be possible. In his opinion, the Pacific-island region provides conditions for a natural experiment, since it is possible to judge how similar institutions were adapted by IGOs in different local contexts.

As a result, it remains an open question as to how far-reaching the influence of international organizations on processes of nation building and on the evolution of institutions for free and prosperous societies can be. By now, it indeed seems clear that it has generally been powerful single countries like, formerly, the UK, then the United States or the USSR and, more recently, also China, that were most influential in processes of nation and institution building. For the most part, however, these influences were led by foreign-policy interests, rather than by conceptual deliberations on how the evolution of free societies can or should be supported. It is not even clear whether efforts that were driven by such conceptual deliberations turned out to be more successful than international influence on nation-building processes that were based on pure self-interest. Admittedly, however, our knowledge on these issues is severely limited.

The results of our study again indicate the importance of institutions in the developing process. Moreover, we have indeed found some characteristics that support the adoption of institutions. Our results are far from being able to provide a comprehensive picture of what determines the ability of younger countries to develop its institutions or to successfully transfer institutions (from other countries) that have proven supportive to a country's prosperity. Hopefully, however, they have at least provided some orientation for further work in that field. For a more comprehensive picture to be drawn, further research is necessary. What we need is not just empirical findings, but also a deeper theoretical understanding of the complex interplay between the different causal, and most probably mutually causal relationships between the factors that underlie institutional developments. In this context, international organizations may play a supportive role, as the experiences of Central and Eastern Europe following the collapse of the communist world suggest.

Appendix

Table A1: Institutional quality (average 2006-2010) on “independent after 1918”

	<i>CL</i>	<i>PR</i>	<i>FOP</i>	<i>GE</i>	<i>ROL</i>
<i>Independent after 1918 Dummy</i>	0.11 (0.23)	0.04 (0.07)	0.44 (1.03)	0.44* (1.83)	0.69** (2.54)
<i>Log(Real GDP per Capita average 2001-2005)</i>	1.00*** (11.10)	1.11*** (9.49)	0.81*** (9.77)	0.91*** (19.90)	0.92*** (17.82)
<i>Independent after 1918*Colony_UK Dummy</i>	0.15 (0.47)	0.23 (0.54)	0.05 (0.16)	0.17 (1.02)	0.21 (1.12)
<i>Independent after 1918* Arab league Dummy</i>	-1.43** (2.87)	-1.94** (2.98)	-0.95** (2.07)	-0.43* (1.68)	-0.09 (0.30)
<i>Independent after 1918* Muslim Dummy</i>	-0.91* (1.85)	-1.22* (1.90)	-0.90* (1.97)	-0.36 (1.44)	-0.53 (1.87)
<i>Independent after 1918* Christian Dummy</i>	0.27 (0.60)	0.18 (0.03)	0.28 (0.69)	-0.46** (-2.03)	-0.44* (1.74)
<i>Independent after 1918* oil rents average 2006-2010</i>	-0.07*** (7.29)	-0.08*** (6.31)	-0.06*** (6.25)	-0.03*** (6.34)	-0.03*** (5.37)
<i>Export ratio average 2006-2010</i>	-0.01 (1.26)	-0.01* (1.86)	-0.01 (0.96)	0.00 (0.45)	0.00 (0.08)
<i>Population density average 2006-2010</i>	0.00 (1.17)	0.00 (0.00)	0.00* (1.90)	0.00 (1.35)	0.00 (0.66)
<i>Transition Dummy</i>	0.19 (0.52)	0.09 (0.19)	-0.32 (0.98)	-0.09 (0.50)	-0.20 (0.95)
<i>Constant</i>	-0.30 (0.39)	-0.88 (0.90)	-0.01 (0.01)	-1.63*** (4.24)	-1.90*** (4.40)
Adj. R ²	0.64	0.59	0.57	0.79	0.74
Prob(F-statistic)	0.00	0.00	0.00	0.00	0.00
Akaike info crit./ Schwarz crit.	3.80/ 4.00	4.33/ 4.54	3.64/ 3.84	2.45/ 2.66	2.69/ 2.89
S.E. of regression	1.57	2.04	1.44	0.80	0.90
Observations	168	168	168	168	168

The numbers in parentheses are the absolute values of the t-statistics; ‘***’, ‘**’ or ‘*’ show that the estimated parameter is significantly different from zero at the 1, 5 or 10 percent levels.

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