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**SOCIAL CAPITAL AND GOOD GOVERNANCE:
THE IMPACT OF CIVIL SOCIETY ON GOVERNMENT
PERFORMANCE**

BY

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ABSTRACT

In his widely acclaimed study *Making Democracy Work* Robert Putnam has revived the classical argument that social capital, as measured by trust in others and activity in voluntary associations, can build the basis for more democratic processes. Inspired by this assumption and driven by a critique of Putnam's empirical work, this study attempts to rigorously test whether an active and trusting citizenry is conducive to good governance. Conducting several regression analyses, this study finds evidence that higher levels of social capital help to facilitate good governance. In an additional step, the research question is extended from merely asking *whether* civil society matters for better governance to which *aspects* of governance it could influence. Disaggregating the dependent variable into its single indicators reveals the impact of social capital to be especially pronounced for the control of corruption and the effectiveness of governments.

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CHAPTER I

“Democratic governance depends on strong institutions and requires participation and accountability, with a free and vigorous public debate on the issues of the day, among an educated and enlightened electorate who have meaningful choices placed before them.”

UN Secretary-General Kofi Annan, September 2003

INTRODUCTION

Over the last centuries, political theorists from Alexis de Tocqueville, John Stuart Mill to Émile Durkheim and Georg Simmel have emphasized the importance of civil society and voluntary organizations for the functioning of democracy. Related to these ideas, more recent studies have advanced the claim that face-to-face interactions, trust and collaboration within voluntary associations enhance the capacity of people to work together. By helping citizens to overcome collective action problems, trust and membership in voluntary associations are identified as important factors in building the basis for responsive governance (Putnam 1993, 2000). Unfortunately, this wide reaching and politically important claim appears not to have been sufficiently tested empirically or for a larger number of cases. To address these shortcomings, this thesis will utilize new data on governance and attempts to empirically examine whether the levels of social capital found in various societies can positively influence the performance of their governments.¹ Thus, the main hypothesis tested in this analysis is as follows: “*Higher levels of social capital in a country contribute to better governance.*”

Additionally, to further extend our knowledge of the possible influence of an organized and trusting civil society, this study will go beyond the boundaries of present research practice and will not merely treat governance as a one-dimensional phenomenon. Instead, an alternative specification of the original econometric model will disaggregate governance and examine whether there is a different impact of social capital on the different

¹ The terms “social capital” and “good governance” will be clarified in detail at a later point of this paper.

single indicators of good governance (rule of law, government effectiveness, regulatory quality and control of corruption).

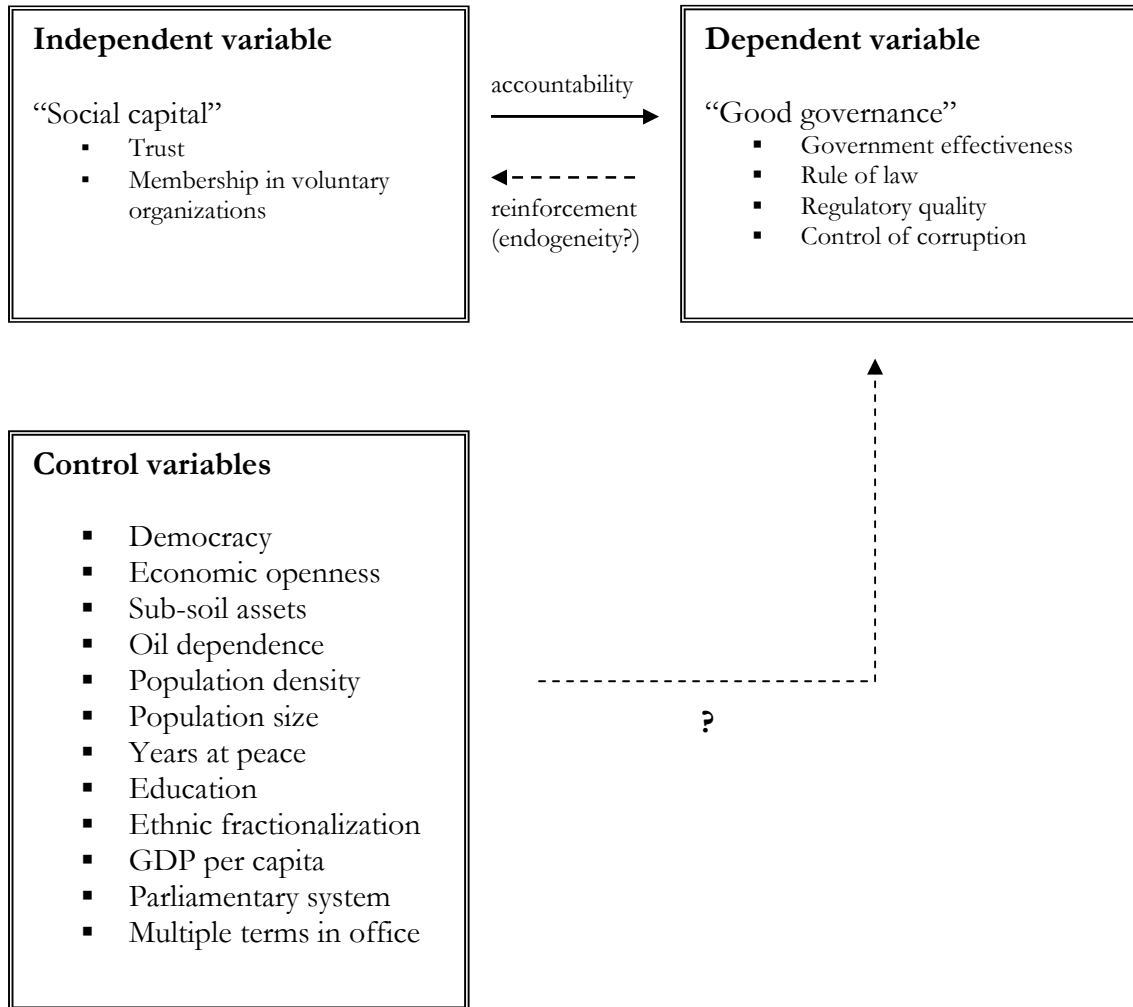
The econometric models designed to test the influence of social capital on governance will employ a combined measure of trust and membership in voluntary organizations as the major explanatory variable. Also, since recent literature has detected an influence of variables such as GDP per capita, economic openness, institutional design, ethnic fractionalization or natural resource endowments on governance, several control variables will be included to control for these possible confounding influences. Accordingly, the conceptual framework underlying this study can be summarized as presented in Figure 1 below.

As the results of this study will suggest, higher levels of social capital help to facilitate good governance. Disaggregating the dependent variable into its single indicators will demonstrate that the impact of social capital is especially distinct for the control of corruption and the effectiveness of governments.

The remainder of this study is structured as follows. Chapter II presents an outline of previous research in the fields of good governance and social capital. Chapter III explores the theoretical framework of the research question. It conceptualizes the term “social capital” and examines the general theoretical foundations of social capital theory. It goes on to look more closely at the theoretical connection between social capital and good governance. Finally, possible negative aspects of social capital and studies questioning its influence are presented. Chapter IV draws a testable research hypothesis from the theoretical framework and introduces the control variables. Chapter V outlines the operationalization of the variables. Chapter VI presents different econometric models and statistical analyses and discusses the empirical results. Chapter VII disaggregates the dependent variable into its single components. Finally, Chapter VIII states the conclusions.

Figure 1:

Social Capital – A Conceptual Framework



CHAPTER II

OUTLINE OF PREVIOUS RESEARCH

Before elaborating on the theoretical foundations of social capital research, the following section will first present some previous literature on the determinants of governance. Next, it will address the question why we should even be concerned with the possible effects of something with such seemingly unrefined boundaries as social capital.

Two strands of literature are relevant to this study. The first group is concerned with the determinants of government performance and tries to answer the question why the quality of governance varies in different countries. The majority of these studies concentrates on factors such as per capita income, ethnic heterogeneity, a country's legal origin or the degree of economic openness. For example, La Porta et al. (1999) report that rich nations and those, which are ethno-linguistically homogeneous and look back on an English legal system have better governments. Furthermore, Islam and Montenegro (2002) demonstrate that openness in trade is positively related to the quality of institutions while a French legal origin negatively affects governance. Another group of researchers focuses on the detrimental impact of natural resource endowments and especially large oil resources on government performance and democracy (Auty 2000; Ross 1999, 2001). Others consider the impact of political institutions and the institutional design (Lederman et al. 2001; Persson et al. 1997). Unfortunately, however, none of these studies acknowledges the possible impact of social capital on the quality of governance.

The second group of research examines the possible benefits of social capital. In an early analysis, Coleman (1988) examines the influence of social capital on the creation of human capital. Comparing high school drop out rates, he shows that both social capital in the family and social capital in the community outside of family bonds contributes

significantly to the reduction of the number of drop outs and to favorable educational outcomes.

Over the last decade, literature dealing with the problems and prospects of developing and transition countries has started to emphasize the importance of social capital in fostering sustainable social and economic development. For example, Pretty and Ward (2001) show how social capital – in the form of relations of trust, reciprocity, connectedness in institutions, common rules, norms and sanctions – is linked with the improvement in the natural capital of rural societies.² Focusing on Northeast Brazil, Tandler and Freedheim (1994) reveal that a high level of social capital and extended trust between health care workers and citizens was able to counter prevalent clientelistic rent-seeking practices in the region, which finally allowed the implementation of a functioning preventive health care program. Dense social networks succeeded here in creating an informed and demanding community, which managed to coerce local and state level politicians into supporting the health care program and helped to create the foundation for “better” and more responsive governance.

Focusing on the outbreak of civil violence another body of research has analyzed the possible impact of social networks and trust. Trying to explain why some communities in India experienced horrendous ethnic clashes between Hindus and Muslims while others, despite a similar distribution of ethnicities, remained peaceful, Varshney (2001) extracts cross-cutting social capital as the major explanatory variable: “... there is an integral link between the structure of civic life in a multiethnic society, on the one hand, and the presence or absence of ethnic violence, on the other” (362/63). His comparative case study of two Indian communities (Calicut and Aligarh) reveals that quotidian civic interactions in form of every day contacts but even more so organized associational forms of engagement contribute to peace as long as they cut across ethnic boundaries.³ Also dealing with the outbreak of civil

² For example, better soil and water conservation, sustainable agriculture, irrigation and forest management etc.

³ For a more in-depth treatment of his argument with more comparative case studies, see Varshney (2002).

violence, de Soysa (2002: 401) argues that “social capital through associational life may mitigate collective action problems of maintaining peaceful relations, whether between communal groups or within them.”

Displaying a number of correlations, Putnam (2000: chapters 17-21) adds some areas in which social capital seems to have a positive impact. Not only are high levels of civic engagement and trust mentioned to have a stimulating influence on education and children’s welfare but also on safe and productive neighborhoods as well as people’s “health and happiness” (326). Additionally, areas high in social capital seem to reach higher levels of economic prosperity. Continued interaction with fellow citizens or business partners and the creation of trust and trustworthiness seem to make business and social transactions less costly since “there is no need to spend time and money making sure that others will uphold their end of the arrangement ...” (288). This goes in line with an argument advanced by Fukuyama (1995: 7): “one of the most important lessons we can learn from the examination of economic life is that a nation’s well-being, as well as its ability to compete, is conditioned by a single, pervasive characteristic: the level of trust inherent in a society.” Also Knack and Keefer (1997) and Whiteley (1997, 1998) show that high levels of social capital promote economic growth.

Finally, social capital has been mentioned to be linked with democracy and government performance (Putnam 1993, 2000: chapter 21). Enabling citizens to express their demands on government, civic engagement is said to matter both on the “demand side” (raising the expectations of citizens) and the “supply side” of government (making officials more accountable and responsive) (Putnam 2000: 346).

As this overview reveals, a number of studies have been concerned with the determinants of institutional quality. Additionally, the importance of social capital for good governance and especially for a broad range of other facets has been repeatedly emphasized.

Unfortunately, most studies on government performance neglect social capital as a possible explanatory variable⁴ and few of the studies on the beneficial impact of social capital try to empirically test their propositions and the claim that social capital matters. One of the exceptions seems to be Robert Putnam's 1993 study on government performance in Italy. Regrettably, the empirical evidence he provides is limited to correlations and to a single case. Also Knack and Keefer (1997) briefly explore the possible link between trust and government performance. However, they admit that they neither developed a complete model nor addressed the possibility of reverse causality between trust and governance.

Addressing these shortcomings, this study attempts to fill the existing gap between the research on governance and social capital and tries to advance the state of current research in both fields. To do so, it will increase the number of cases included in the analysis and try to empirically examine whether social capital based on associational participation and networks of trust has an impact on good governance. The next chapter will conceptualize the term social capital and present the theoretical framework of this study.

⁴ For exceptions see Knack (2000) on the United States and La Porta et al. (1997) more generally on the performance of "large organizations".

CHAPTER III

THEORETICAL FRAMEWORK

3.1. Conceptualization of Social Capital

Trying to explain the importance of community involvement for sustainable democracy and development, the term “social capital” was first coined as early as 1916 by Lyda Judson

Hanifan:

“In the use of the phrase social capital I make no reference to the usual acceptance of the term capital, except in a figurative sense. I do not refer to real estate, or to personal property or to cold cash, but rather to that in life which tends to make these tangible substances count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among individuals and families who make up a social unit. ... The individual is helpless socially if left to himself. ... If he comes into contact with his neighbor, and they with other neighbors, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community” (as quoted in Putnam and Goss 2002: 4).

Even though Hanifan’s account seems to have disappeared for some time, it has been revived in more recent times. The idea of social capital was brought to the fore again in the 1980s by James Coleman in an effort to develop a general theory of social relations. Coleman (1988: 98; 1990: 302) argues that social capital stems from relations among individuals and that it facilitates action and the achievement of certain goals. Generally, it can assume three forms:

“... obligations and expectations, which depend on trustworthiness of the social environment, information-flow capability of the social structure, and norms accompanied by sanctions. A property shared by most forms of social capital that differentiates it from other forms of capital is its public goods aspect ...” (Coleman 1988: 119).

What becomes clear in Hanifan’s and Coleman’s characterizations is that social capital is “relational” (Narayan 1999: 6). It only exists when it is shared: “Unlike other forms of capital, social capital inheres in the structure of relations between actors and among actors” (Coleman 1988: 98). This leads Coleman to the conclusion that:

“Social capital has certain properties that distinguish it from the private, divisible, alienable goods treated by neoclassical economic theory. ... Social capital is not the private property of any persons who benefit from it” (Coleman 1990: 315).

Most recently, drawing on Coleman, Robert Putnam emphasizes the centrality of two factors to social capital, namely trust and social networks. According to his definition, social capital can be characterized as:

“features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions” (Putnam 1993: 167).

Even though many more definitions have recently emerged in the growing literature on social capital (for example Fukuyama 1995: 26; Inglehart 1997: 188; Narayan 1999: 6), I will closely draw upon Putnam’s definition.⁵ However, in this context it is important to point out that I am not treating social capital as a purely cultural phenomenon and thus exogenously.⁶ Rather, I follow Coleman in his rational-choice approach and view social capital as endogenous. Thus, instead of being static and built upon long-held social norms, social capital reflects expected utility considerations and the expectation of mutual benefit. Consequently, it is malleable and can be (re-) created.⁷

After having defined what is meant by the concept of social capital, the following section outlines the theoretical framework for this study and elaborates on the question “how social capital works”.

⁵ It has to be mentioned that some scholars (e.g. Ritzen et al. 2000) do not support the use of the concept “social capital”. Instead they prefer the term “social cohesion”: “social cohesion is a state of affairs in which a group of people (delineated by a geographical region, like a country) demonstrate an aptitude for collaboration that produces a climate for change” (6). The authors argue that social cohesion is a more appropriate term since a) the term capital might be confusing when applied to social issues and b) more social capital can have negative outcomes (“the dark side of social capital” like cronyism and clientelism) while more social cohesion in the way they define it is always better.

⁶ As for example Harrison 1985, Putnam 1993 or Inglehart 1997 do. For an elaboration on the question of treating social capital as exogenous or endogenous and the problems accompanied with viewing it as exogenous, see Jackman and Miller 1998.

⁷ Departing from the path-dependency suggested by the treatment of social capital as a cultural phenomenon and instead, treating it as endogenous has important policy implications. Contrary to what an exogenous cultural treatment such as Putnam’s 1993 historical approach suggests, social capital can be mobilized. Societies, which show low levels of social capital are not “condemned” to maintain these low levels due to some “cultural predestination”. For the policy implications deriving from this analytical differentiation see the conclusion.

3.2. Social Capital – Basic Theoretical Framework

Let us go back to the question posed at the outset of this study: why should we care about social capital? As has been pointed out, social capital seems to have the potential to facilitate various kinds of beneficial outcomes, such as sustainable development, functioning health care programs and more accountable governments, economic prosperity and even peace. The question that seems to derive logically from here is: How can social capital contribute to all these socially beneficial outcomes? The following section will attempt to shed some light on this question.

As has been pointed out in political science research over many years, social interactions are plagued by a variety of collective action problems emanating from a failure to cooperate: “the tragedy of the commons”, “under-provision of public goods”, “prisoner’s dilemma situations” only to name some. David Hume has captured the essence of these dilemmas in a simple parable:

“Your corn is ripe to-day; mine will be so to-morrow. ’Tis profitable for us both, that I shou’d labour with you to-day, and that you shou’d aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my account, in expectation of a return, I know I shou’d be disappointed, and that I shou’d in vain depend on your gratitude. Here then I leave you to labour alone; you treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security” (A Treatise of Human Nature, p. 520-521).

As this anecdote exemplifies, every part would be better off if they would decide to cooperate. However, in the absence of credible commitments and mechanisms for their enforcement, each individual has an incentive to defect and to become a free-rider (Putnam 1993: 164). Now, as Bates (1988: 398) notes, this seemingly hopeless situation is where social capital comes in: “In a world in which there are prisoner’s dilemmas, cooperative communities will enable rational individuals to transcend collective dilemmas.” Social capital fosters mutual coordination and cooperation through trust, norms, and networks, thus, overcoming collective action problems and enabling socially beneficial outcomes. Or as

Coleman (1990: 302) puts it "...social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence." Here, two mechanisms have been characterized as most important: norms of reciprocity and networks of civic engagement.

Norms of reciprocity facilitate cooperation through decreasing transaction costs and restraining opportunism. They can be "balanced" (or "specific") and "generalized" (or "diffuse"). While balanced reciprocity refers to simultaneous exchange of items, generalized reciprocity refers to a continuing relationship of exchange, where a benefit granted now will be repaid some time in the future (Putnam 1993: 172).⁸ Accordingly, the norm of generalized reciprocity is one of the corner stones of social capital and social cooperation. Only if individuals can be aware that others will meet their efforts and refrain from simply free-riding, they can be motivated to contribute their resources and to cooperate.⁹

In addition to norms of reciprocity, dense social networks have been mentioned to facilitate the resolution of dilemmas of collective action. They, for instance, help to encourage and reinforce more vigorous norms of reciprocity and highlight the benefits and accomplishments of past collaboration. Furthermore, social networks facilitate collective action through enhancing communication and information. Communication and information have been identified as important foundations for action but, unfortunately, they are costly to acquire. By increasing communication and by making the acquisition of information less costly, social networks help to facilitate cooperation and collective action (Coleman 1990: 310). Similarly, by providing information about the trustworthiness of individuals they help

⁸ To clarify this same point, Coleman (1988: 102) writes: "If A does something for B and trusts B to reciprocate in the future, this establishes an expectation in A and an obligation on the part of B. This obligation can be conceived as a credit slip held by A for performance by B."

⁹ One of the examples often used to exemplify the importance of norms of reciprocity for social cooperation is that of rotating credit associations. The members of these associations meet regularly and contribute the same amount of money to a central fund. This money is then given to one of the members. Since this procedure is repeated over time, each member will be entitled to the money at least once. Without the existence of strong norms of reciprocation, these credit associations could not exist, since a member who received a payment could defect and leave the group, which would have to bear the losses (see Coleman 1990: 306).

to decrease uncertainty and collective action dilemmas. Additionally, networks of civic engagement increase the potential costs to a defector since opportunism puts the benefits that are expected in the future at risk. Thus, to use the language of game theory: “networks ... increase the iteration and interconnectedness of games” (Putnam 1993: 173).

In sum, social capital in the form of trust, norms and networks helps to overcome collective action problems through facilitating norms of reciprocity, allowing people to work together and through lowering transaction costs and decreasing the costs of cooperation. After having examined how social capital might exert an influence on the provision of public and private goods in general, the next section extends this theoretical foundation with a closer examination of how social capital could be important for good governance and democracy.

3.3. Social Capital and Good Governance

As described in the beginning of this paper, many beneficial influences of social capital have been pointed out in the literature. Most interesting to this research, however, is if and how the stock of social capital could have an impact on good governance and democracy.

Investigating the social conditions that foster *Democracy in America*, Alexis de Tocqueville, one of the renowned forefathers of the concept of social capital, emphasizes the beneficial relation between social capital formed in civic associations and the stability of democracy:

“Americans of all ages, conditions, and all dispositions constantly unite together. ... If they wish to highlight a truth or develop an opinion by the encouragement of a great example, they form an association. ... Thus the most democratic country in the world is that in which men have in our time perfected the art of pursuing in concert the aim of their common desires and have applied this new technique to the greatest number of objectives” (Democracy in America, p. 596).

In line with him, John Stuart Mill also emphasizes the importance of social organization and civic participation for the conduct of good governance. For him good governance is greatly

determined by society and the “good qualities” of its members (*Representative Government*, p. 209). Accordingly, this leads him to argue that:

“If we ask ourselves on what causes and conditions good government in all its senses, from the humblest to the most exalted, depends, we find that the principal of them, the one which transcends all others, is the qualities of human beings composing the society over which government is exercised” (*Representative Government*, p. 206).

To further emphasize the monitoring function of society toward the “influence of defects” in the conduct of governance (*Representative Government*, p. 207), he explains:

“Government consists of acts done by human beings; and if the agents, or those who chose the agents, or those to whom the agents are responsible ... are mere masses of ignorance, stupidity, and baleful prejudice, every operation of government will go wrong; while, in proportion as the men rise above this standard, so will the government improve in quality; up to the point of excellence, attainable but nowhere attained, WHERE THE OFFICERS OF GOVERNMENT ... ARE SURROUNDED BY THE ATMOSPHERE OF A VIRTUOUS AND ENLIGHTENED PUBLIC OPINION” (*Representative Government*, p. 207, *emphasis added*).¹⁰

Building upon these classical foundations, more recent approaches point out internal and external benefits of social capital, which could be linked with governance.

At the internal or individual level, dense networks of social interactions are seen to “instill in their members habits of cooperation and public-spiritedness, as well as the practical skills necessary to partake in public life” (Putnam 2000: 358). Members not only learn to speak in public or write letters emphasizing their demands but also to run meetings, organize projects and debate public issues. Consequently, members of voluntary organizations have been found to display more political sophistication, political participation and civic competence (Almond and Verba 1963: chapter 11). In a next step, these individual social and

¹⁰ Mill, however, also realizes that there is a reciprocal relationship between an active citizenry and their governments. For example, he writes that: “A community can only be developed out of one of these states into a higher by a concurrence of influences, among the principal of which is the government to which they are subject” (*Representative Government*, p. 212). And in the same manner he realizes that: “... the most important point of excellence which any form of government can possess is to promote the virtue and intelligence of the people themselves. The first question in respect to any political institution is, how far they tend to foster in the members of the community the various desirable qualities ... moral, intellectual and active. The government which does this the best has every likelihood of being the best in all other respects, since it is on these qualities, so far as they exist in the people, that all possibility of goodness in the practical operations of the government depends” (*Representative Government*, p. 207-208). The statistical analysis conducted at a later point of this paper will control for this reciprocal relationship.

civic skills can be linked to the societal level and to the possible political consequences of social capital.

Externally, social capital enables citizens to overcome their collective action problems and allows them to react in concert to issues concerning their governments. Just as Weingart (1997: 261) points out:

“It is elites who choose whether to construct pacts, initiate democratization, violate citizen rights, and implement public policies. ... In a society that has resolved its coordination problems, citizens hold the power to threaten political elites with loss of power if they violate agreed limits of government.”

Similarly, social capital flowing from voluntary organizations is said to allow individuals to not only form an opinion but also to articulate it in a more coherent way (Newton 2001; Putnam 1993, 2000). Thus, enabling people to express their interest and demands on government more clearly and strongly, social capital can be viewed as an important control mechanism on the accountability of political processes:

“When an opinion is represented by an association, it has to assume a sharper and more accurate expression. It counts up its supporters and involves them in its cause; these supporters learn to know each other and their enthusiasm is increased by their numbers. Association binds the efforts of disparate minds and energetically drives them toward one single goal which it has clearly marked out” (de Tocqueville, *Democracy in America*, p. 220-221).

Additionally, communication and information flowing through social networks as well as organizational skills provided by them could contribute to an increased leverage of society vis-à-vis the state. Here it is argued that voluntary organizations enhance the self-sufficiency and autonomy of society by providing collective goods and services not only for their members but also for the rest of society (Coleman 1990; Offe and Fuchs 2002).

Doing so, they ensure that “state-citizen relations will be [less likely] to be deformed into inherently authoritarian relationships of dependency, paternalism, and clientelism” (Offe and Fuchs 2002: 235).¹¹

In sum, it can be argued that in societies with rich social capital, “watchful citizens” are likely to hold elected officials accountable for their actions, and that these leaders, in turn, are more likely to believe that their acts will be monitored (Norris 2002: 139).

3.4. Different Kinds of Social Capital

In a refinement of traditional social capital theory, it has been argued that we need to distinguish between different *kinds* of social capital since some forms could exert a beneficial influence while others a rather detrimental one. One classification, for instance, differentiates between inward-looking versus outward-looking social capital (Putnam and Goss 2002: 11). While the inward-looking forms are usually organized along class, gender or ethnic lines and aim to promote the material, social, or political interests of their members, outward-looking groups are more inclusive and concerned with public goods provision. Closely related to the inward-outward dichotomy, another dividing line runs between bridging versus bonding social capital. Bonding social capital creates links between people who are similar in certain respects (ethnicity, age, gender, social class etc.) whereas bridging social capital cuts across those cleavages and brings together people from different backgrounds. This distinction seems to be an important one, especially since Varshney (2001, 2002) found bridging social capital to be important to social peace while bonding social capital could even exert negative externalities. However, this should not automatically lead to the conclusion that bonding

¹¹ A similar argument is made by Evans (1996) in form of his concept of the “embedded state”. In these states, synergetic ties exist between the government and the society; thus, the state is “embedded” in society. Since societal forces are actively engaged with the state they are better able to monitor its actions, which, in turn, leads to increased accountability and more beneficial political outcomes.

social capital necessarily has to be bad (Putnam and Goss 2002: 11). Other distinctions include thick versus thin¹² and formal versus informal social capital.¹³

3.5. Social Capital, Putnam's Italy and its Critiques

In one of the most widely acclaimed recent approaches to the effects of social capital on a wider polity, Robert Putnam tries to analyze what the conditions for creating “strong, responsive [and] effective representative institutions” are (Putnam 1993: 6). In his case study of Italy, even though identical constitutional structures were installed during the 1970s in the North as well as the South, the quality of government performance in the two regions was found to vary dramatically after two decades. To solve this puzzle, Putnam examines two possible factors that could be responsible for the different quality of performance between Northern and Southern Italy: the level of socioeconomic modernity, or the strength of the civic community.¹⁴ Presented in form of a number of correlations, his results show that it is not – as has been widely expected – the level of socioeconomic modernity that accounts for the differences in institutional performance in the North and the South, nor is it party politics, ideology, social stability or political harmony. Instead, what seems to be responsible for the differences is the degree of “civicness” of each of the regions. Since the strength of the civic community can not only account for differences between the two regions but also for variations within them, Putnam concludes that the predictive power of the civic community is higher than that of economic development: “The more civic a region, the more effective its government” (Putnam 1993: 98). Thus, his study seems to lend proof to what the

¹² This categorization distinguishes the frequency and closeness of contact. It has also been referred to as ‘strong’ versus ‘weak’ ties (Granovetter 1973) or the Durkheimian versus the Tocquevillian model (Newton 1999).

¹³ The most widely known contributor to ‘formal’ social capital are voluntary organizations. ‘Informal’ social capital include less institutionalized forms of associating, such as conversations with neighbors, spontaneous meetings etc. (Putnam and Goss 2002: 9-10; Newton 1999).

¹⁴ To measure “civicness” of regional life, Putnam constructs a composite civic community index, consisting of four indicators: the vibrancy of associational life, the incidence of newspaper readership, participation in referenda and preference voting (the latter is used as an indicator for the lack of civicness).

classical theorists have emphasized many years ago: social capital positively influences the performance of governments. However, despite the wide praise *Making Democracy Work* has received, its critiques have been manifold.

For example, Putzel (1997) criticizes the theoretical foundation of Putnam's claim that higher levels of social capital are inherently beneficial. Since we cannot be sure which ideas and values are distributed through dense social networks, he argues that "there is a need to distinguish carefully between what might be seen as *mechanics of trust* (the operation of networks, norms etc.) and the *political content and ideas* transmitted through such networks and embodied in such norms" (941, emphasis in original). Even though there is a chance that the existence of networks and norms underpinning trust reduces risks and increases cooperation, the beneficial outcome "democracy" is much more dependent on the political ideas and programs conveyed through them. (942).¹⁵ As the example of a highly trusting society, such as China demonstrates, dense social networks that might be beneficial for economic development do not necessarily have to promote democracy or accountable governments. Also highly antidemocratic and illiberal movements such as Fascism or organizations like the Ku Klux Klan possess high shares of social capital, yet, the values they promote are based on intolerance, inequity and discrimination. What these few examples reveal is that there is a "dark side of social capital" one has to be aware of, especially since there is "neither any evidence that the skills and habits learned in such associations are 'transferable', nor that they are relevant to the construction of democratic practice" (Putzel 1997: 947).

Going in the same direction, Morris Fiorina (1999) also emphasizes the "dark side" of social capital. He argues that civic engagement may not necessarily be a good thing, especially since some groups might deploy their "unsocial" social capital to the detriment of

¹⁵ For example, Berman (1997) refers to the Weimar Republic and argues that its strong civil society did not help to stabilize democracy but instead played an important role in its breakdown. She claims that the existing civic associations and dense social networks were first infiltrated by the Nazis and then used to disseminate their illiberal ideas and to gain control over the society.

other groups or society as a whole (396). Focusing on Concorde, a small community in Massachusetts, he demonstrates that those who take advantage of participatory opportunities are most often minorities holding extreme opinions. As a result, “a few ‘true believers’ were able to hijack the democratic process and impose unreasonable costs ... on the larger community” (402). Consequently, high levels of social capital and civic engagement should only be expected to have beneficial outcomes “if those engaged are representative of the interests and values of the larger community” (403).¹⁶ Similarly, Olson (1982) problematizes the possible harmful effects of “distributional coalitions”. Groups with high levels of social capital, which organize primarily for rent-seeking purposes, are likely to harm economic and government performance. In sum, the general concern brought forward by those criticizing Putnam’s historical romanticism is: what kind of social capital is born out of civic engagement, by whom and to what ends?¹⁷

In addition to the various theoretical concerns, Jackman and Miller (1996a, b, 1998) disapprove of the methodological approach applied by many social capital theorists. Evaluating cultural studies, such as Inglehart (1997) or Swank (1996), the authors detect severe research design problems of temporal ordering and ex-post reasoning. Instead of preceding the phenomena they invoke to explain, the “explanatory variables” postdate these phenomena. For example, Inglehart’s principle dependent variable is based on growth rates from 1960 to 1989, whereas the data measuring his independent variable culture were collected in the 1990s. Criticizing Robert Putnam’s 1993 and 1995 studies, Jackman and Miller (1998) not only note that his composite measure of institutional performance is

¹⁶ For a similar argument on the impact of tightly knit groups which are not accountable to the society at large and thus likely to engage in corruption and cronyism, see Evans 1989.

¹⁷ Responding to his critics Putnam himself acknowledges some of the theoretical shortcomings of his previous “all good things go together” approach (2000: chapter 22). He, for example, investigates whether social capital “is at war with liberty and tolerance” or with equality. However, he refutes the possible negative impact of social capital after providing some correlations.

flawed¹⁸ but also that “clear cut signs” of the proposed decline in social capital “are hard to find” (61), thus rendering Putnam’s argument irrelevant.

An additional critique Putnam has to face concerns the execution of his empirical analysis. To support his claim that higher levels of social capital drive government performance in Italy he merely presents correlations. Even though these correlations help to shed some early light on the possible connection between his variables they cannot provide evidence for the existence of a causal relationship. Also, his analysis is restricted to a single case: Italy. Therefore, the following sections will not only examine whether a significant causal relationship exists between social capital and good governance but also apply this analysis to a larger set of cases.

¹⁸ Since the measure was constructed from a principal-component factor analysis, which only extracted a single composite from 33 available indicators of institutional performance.

CHAPTER IV

THE RESEARCH HYPOTHESIS AND CONTROL VARIABLES

4.1. Presentation of the Research Hypothesis

The theoretical reasoning leading to the research hypothesis underlying this study has been presented in Chapter III. As has been outlined, social capital seems to be an important mechanism in overcoming collective action problems. Internal, but more so the external effects of social capital, seem to increase the demand for and the provision of good governance. Deriving from these theoretical accounts, the main research hypothesis of this study is as follows:

H1: “THE HIGHER THE LEVEL OF SOCIAL CAPITAL IN A SOCIETY, THE BETTER ITS GOVERNANCE”¹⁹

Despite the seemingly beneficial aspects of social capital, some researchers have outlined its “dark side”. It has been argued that social capital does not necessarily have to be beneficial for democracy and/or good governance but could actually have the opposite effect. Since dense social networks of engagement and trust could just as well be used by extreme minorities to cultivate and promote illiberal and rent-seeking behavior, the counter-hypothesis – namely that higher levels of social capital will worsen governance – will be examined simultaneously.

¹⁹ As will be discussed in greater detail in Chapter V, the assessment of governance will be based on the effectiveness of governments, the rule of law, the regulatory quality and the control of corruption.

4.2. Theoretical Derivation of the Control Variables

To ensure that the impact of social capital on governance is not spurious, several control variables, which have been mentioned to influence governance by past research, will be included in the analysis.

Focusing on economic growth in developing countries, some research has detected an adverse impact of natural resource abundance on the quality of governance in general (Auty 2000; Ross 1999) and democracy in particular (Ross 2001). Instead of diversifying their industries, resource-rich countries rely heavily on revenues from primary commodity exports. Also, contests for resource rents tend to foster the development of predatory “rentier” states. Instead of providing public goods, these states promote sectional interests, which lead to detrimental government decisions and policies. On the other hand, countries with scarce natural resources are argued to develop more responsible governments and better policies through the need to effectively use their resources and a diversification of their industries (Auty 2000). To ensure that the quality of governance is not primarily influenced by existing resource endowments, a measure of the sub-soil resource wealth of a country will be included. Controlling for sub-soil assets, rather than all natural resources, seems to be more appropriate since what matters for governance are the rents that can be extracted from the natural resource endowments. Metals, such as gold, copper, iron, tin or silver can be expected to be more valuable than agricultural resources in fostering or hampering the conduct of governance.

Moreover, oil abundance has been presented as especially detrimental to the functioning of institutions. Large extractable oil resources tend to foster predatory interests and help to relieve governments from the need to levy taxes and to provide public goods to their citizens in return (de Soysa 2000; Ross 1999, 2001). To discern whether all valuable

sub-soil assets contribute to the worsening of governance or whether it is primarily oil, I will also control for the influence of an oil dependent economy.

Additionally, it will be controlled for population density and populations size. Civic control over governments might be increased due to a denser state-society embeddedness. If the population is barely connected and dispersed to more remote areas of a country, state penetration of society as well as societal penetration of the state should be rather low. Furthermore, larger populations could increase governance performance due to a larger tax base (Knack 2000). On the other hand, larger populations could also make governance more problematic. Due to a greater variety and diversity of interests it could be more complicated to reach a consensus regarding “taxation, expenditure, public investment, and human resource policies, as well as on the institutions and procedures used in formulating and implementing policies” (Knack 2000: 13). Additionally, it will have to be controlled for the number of people living in a country since economic openness could be driven by population size.²⁰

Previous conflict and especially civil conflict can also be expected to hamper the ability of governments to perform well. Civil conflict, more so than international conflict, seems most likely to disrupt the conduct of every day political affairs, to increase the leverage of government officials and at the same time decrease their accountability. Exceptional situations of domestic upheaval might be instrumentalized to justify exceptional political behavior. For example, “emergency bills” could be passed, which reduce accountability indirectly by restricting access to information or more directly by outlawing open critique. Furthermore, civil conflict could destroy social capital by decreasing trust in others and hampering the opportunity to engage in voluntary activities. To account for the influence of

²⁰ Being able to rely on considerable domestic markets, large countries tend to trade less than smaller countries do in relation to their GDP (see Alesina and Wacziarg 1998).

previous conflict, I will include a variable that counts the number of peace years since the last civil conflict for each country.²¹

Furthermore, ethnic fractionalization has been mentioned to influence governance. Ritzen et al. (2000) describe social cohesion as a “driving force” behind good governance. Providing governments with the “room to maneuver”, social cohesion is viewed as crucial to political reform and the quality of governance (7). To control for the influence of social cohesion, a variable capturing this phenomenon will be included. Arguing that fractionalization does not necessarily have to work in a linear way and to extend the previous finding of a negative relationship between fractionalization and governance, I will also add ethnic fractionalization as a squared term. In opposition to Ritzen et al.’s (2000) argument, it seems plausible that more homogeneity does not necessarily have to lead to better governance. Very fractionalized as well as very homogeneous societies could have a lower level of governance performance. As the authors point out, homogeneity provides governments with a “room to maneuver”. However, this room to maneuver does not necessarily need to be used for “good” reforms. It can also be used for societally, politically or economically detrimental ones. Also, very homogenous societies could suffer from a lack of “social checks and balances” and a collective action problem. As Olson (1968) mentions, large groups have problems to organize successfully. If policies negatively affect the society at large (and not just a smaller group within it) it is not very likely that an active opposition will form. Since there might be fewer small but powerful groups in a very homogenous society, governance could be hampered instead of improved. Likewise, in very fractionalized societies, civil society might be too weak and dispersed to organize successfully. The lack of

²¹ Despite the theoretical reasons for controlling for peace years, there could also be a disadvantage in doing so. Including peace years in the estimation assumes that it is exogenous. However, since bad governance could just as well increase conflict within a society and lead to low trust, including it in the analysis could take away variance from the other independent variables and skew the results. To ensure that the benefits of controlling for civil peace are not outweighed by its potential problems, I will re-run the regression models without peace years.

interethnic ties might destroy trust and prevent people from joining together to oppose detrimental government policies.

Also, as Knack (2000) emphasizes, citizens with a higher level of education could be more effective in structuring and organizing their interests and thus, be more successful in demanding efficient and responsive governance. To control for this possibility, education will be included in the model.

Based on Putnam's (1993) and Fukuyama's (1995) assumptions about the benefits of social interaction, several recent studies have examined the relationship between cultural variables and economic performance. Unfortunately, they come to ambiguous conclusions. Some of the studies see social capital as an important prerequisite of economic growth and conclude that the relationship between social capital and economic performance is clearly positive (Granato et al. 1996a, b; Swank 1996; Whiteley 1997, 1998). Others, however, have emphasized that it is not social capital that leads to better governance or socioeconomic prosperity but rather the standard neoclassical growth variables (Schneider et al. 2000; Jackman and Miller 1996a, b). In wealthier countries the state has a larger amount of resources at its disposal, which can be spent on the provision of public goods, more effective institutional procedures or simply on the salaries of public employees, therefore making better governance more likely. To control for the positive influence of such economic variables, a measure of GDP per capita will be included.

Similarly, since Islam and Montenegro (2002) have revealed economic openness as conducive to the quality of institutions and since several studies (e.g. Bussmann and Schneider 2003; de Soysa 2002; Eberle, Martin, Schneider 2003) have found a positive impact of the liberalization of trade regimes on political stability, a measure controlling for economic openness will be included. Being open to international trade could positively influence governance via more intense contact with international rules and regulations or indirectly via

self-restrictions imposed by the need to appear as a reliable and trustworthy trading partner who can increase its bargaining power with a sound domestic institutional record.

Finally, the design of political institutions could increase or decrease government accountability and the punishment expected by politicians adopting “bad” policies, thus, reducing or increasing the pressure on governments to act responsively (Lederman et al. 2001: 7). As pointed out by Anthony Downs as early as 1957, political competition plays an important role in determining policymaking and government effectiveness. Political institutions, which are designed to allow for competitive pressures and political changes, should lengthen politicians’ time horizons. Having a political incentive to achieve socially beneficial long-term goals should encourage governments to embrace good governance principles and weaken the pursuance of policies that solely benefit a small circle of political supporters (Beck et al. 2001; Lederman et al. 2001). Similarly, mechanisms of checks and balances by creating a conflict of interests should help to “prevent abuses of power, with different government bodies disciplining each other in the citizens’ favor” (Lederman et al. 2001: 7/8; see also Persson et al. 1997). Therefore, parliamentary systems where the executive has to interact with another elected body - the legislature - should be more conducive to governance than purely presidential systems. Also, good governance could solely be enabled by the existence of democratic structures, which create a space for the existence of political competition and checks and balances. To control for the influence of political institutions a measure capturing the extent of political competition, a variable indicating the design of the political system (presidential or parliamentary) as well as a measure of the level of democracy will be included.

The basic econometric model to test the social capital hypothesis will look as follows:²²

$$(I) \quad \text{Good governance}_{i,1998-2002} = \alpha + \beta_1 \text{ social capital} + \beta_2 \text{ democracy} + \beta_3 \text{ economic openness} + \beta_4 \text{ sub-soil assets} + \beta_5 \text{ oil dependence} + \beta_6 \text{ population density} + \beta_7 \ln \text{ population size} + \beta_8 \text{ peace years} + e$$

²² The more encompassing models will also include measures of ethnic fractionalization, education, GDP per capita and institutional variables.

CHAPTER V

OPERATIONALIZATION

5.1. Data

In order to test whether social capital has an impact on governance, I will utilize several datasets. To operationalize my dependent variable – good governance – I will use recently collected World Bank data capturing governance performance in more than 150 countries (Kaufmann, Kraay, Zoido-Lobaton 1999). This dataset is derived from a database containing more than 300 governance indicators from various sources.²³ Based on these indicators, six aggregate measures capturing various dimensions of governance were constructed.²⁴ The indicators include measures for “voice and accountability”, “political instability and violence”, “government effectiveness”, “the rule of law”, “regulatory burden” and “control of corruption”.²⁵ The data can be obtained as an aggregate measure for the years 1997 and 1998. Since May 2003 the data is also available for the years 1996 through 2002.²⁶ If compared to other measures of the political and institutional environment, this new dataset has the advantage that it systematically aggregates governance indicators from different sources, thus reducing distortions stemming from the selection of only one particular source. A second advantage is that this dataset allows the distinction between different aspects of governance (Harms and Lutz 2003: 9).

²³ The data is drawn from two sources: polls of experts and cross-country surveys of residents carried out by international organizations or non-governmental organizations (Kaufmann et al. 1999: 1). For example, sources include Freedom House, the World Bank and the Wall Street Journal. For a complete list of sources see Appendix A.

²⁴ To aggregate the data an unobserved component model is used, which expresses the “unobserved data in each measure as a linear function of the unobserved common component of governance, plus a disturbance term capturing perception errors and/or sampling variation in each indicator” (Kaufmann 1999: 9).

²⁵ For a more in-depth description of these components see below.

²⁶ The paper as well as the corresponding governance dataset is available at: www.worldbank.org/wbi/governance/wp-governance.htm (as of November 2003).

To operationalize the independent variable in the study – social capital – I will utilize the 1995-1997 wave of the World Values Study survey dataset.²⁷ Generally, the World Values Surveys (WVS) were designed to facilitate cross-national comparisons of values and norms for a wide range of topics and to enable the monitoring of changes to these values and attitudes. For a list of the countries included in the analysis see Appendix B.

5.2. The Dependent Variable: Good Governance

Following the World Bank, this study defines governance as the “traditions and institutions by which authority in a country is exercised” (Kaufmann et al. 1999: 1). According to Kaufman et al. (1999: 1) this includes “(1) the processes by which governments are selected and replaced, (2) the capacity of government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern the interactions among them.” It has to be mentioned that there are also more narrow definitions of governance, which mainly focus on the effectiveness of governments. However, since this study is concerned with the impact of social capital on a wider scale, a more encompassing definition of governance seems more appropriate. Thus, for the purpose of this study, good governance will not only be assessed by government effectiveness but also include the rule of law, the control of corruption and regulatory quality.²⁸

As mentioned above, the World Bank governance dataset includes six aggregate measures of good governance.²⁹ The first one, “voice and accountability” includes indicators

²⁷ So far, four waves have been conducted (1981-1984, 1990-1993, 1995-1997, 1999-2001). The 1999-2001 wave will be made available in April 2004. Unfortunately, there is a great variation in the number of countries included in the WVS waves. The available countries range from as low as 24 in the 1981-82 wave to 44 in the 1990-93 wave to 55 in the 1995-97 wave. Moreover, the WVS also collects data for regions within countries (e.g. Galicia, Andalusia), which on the one hand allows for the conduct of very detailed case studies. On the other, however, this adds to the problem of low general data availability since these regions are not part of other widely available standard datasets.

²⁸ For a discussion of the use of different definitions, see Johnson 1997.

²⁹ When speaking of *good* governance, the term ‘good’ is of course normative and subject to interpretation. In this study, ‘good’ is used in the traditional Western democratic way of thinking and could, for instance, be substituted by the word ‘sound’ (on this topic, see Johnson 1997 and Adejumobi 2000).

measuring different aspects of political processes, civil liberties and political rights. It captures the extent to which citizens of a country can participate in the selection of their governments and takes the independence of the media into account. The second aggregate measure, “political instability and violence”, accounts for the likelihood that the government in power will be destabilized or overthrown by unconstitutional or violent means. The following two measures refer to the capability of governments to formulate and implement sound policies. “Government effectiveness”, captures the quality of public service provision and the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, as well as the credibility of government commitment to policies. Including indicators of market-unfriendly policies such as price controls, inadequate bank supervision as well as perceived burdens stemming from excessive regulation in areas such as foreign trade or business development, the fourth measure, “regulatory burden”, focuses directly on the policies themselves. “Rule of law” accounts for the existence of fair and predictable rules, which form the foundation of economic and social interactions. For instance, it includes measures of the effectiveness and predictability of the judiciary and the enforceability of contracts. Finally, “corruption” combines measures of a behavior, which is defined conventionally as “the exercise of public power for private gain” (Kaufmann et al. 1999: 8).

For the empirical purpose of this study, four of the six aggregate government indicators will be chosen to capture the dependent variable. Since my measure of social capital could be closely related with the dependent variable, the problem of simultaneity exists. To minimize this problem from the start, only those aggregate indicators of governance will be chosen that do not directly contain any elements of the major independent variable. Thus, good governance is assessed by the effectiveness of governments, the rule of law, the control of corruption and the regulatory quality.

The values of the original governance indicators range from a minimum of -2.5 to a maximum of $+2.5$ with higher values indicating better governance. Even though the complete dataset reports governance indicators for more than 150 countries, this number is reduced to correspond to the data available from the World Values Survey. However, to ensure the robustness of my findings, an additional analysis containing a larger set of countries will be conducted at a later point of this paper. The general descriptive statistics of both sets of governance indicators are reported in Appendix C.

To construct a measure of good governance, I aggregated the indicators of rule of law, government effectiveness, regulatory burden and corruption for the years 1998-2002. Since all of these indicators are highly correlated, I conducted a principal component factor analysis to reduce them to a single factor, which will be used as the dependent variable.³⁰

5.3. The Major Explanatory Variable: Social Capital

For the purpose of this study, social capital is defined as: trust, norms, and networks that enable social coordination and cooperation and the achievement of shared interests (Narayan 1999: 6; Putnam 1993: 167). To capture the concept of social capital, the following two questions of the World Values Survey will be combined:

Trust

“Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”

³⁰ See Appendix D and E.

Membership in voluntary organizations

“Now I am going to read off a list of voluntary organizations; for each one, could you tell me whether you are an active member, an inactive member or not a member of that type of organization?”³¹

The original trust indicator takes the values 1 and 2, with the former indicating that “most people can be trusted”. Similarly, membership in voluntary organizations refers to an active member with the value 1 while a non-member receives the value 3. Since the theoretical framework of this study assumes that trust and membership in civic associations have a positive influence, both variables have been recoded to assume an increasing intensity. A value of 2 now means that “people can be trusted” while a value of 1 stands for “one cannot be too careful” (no trust). “Don’t know” answers have been recoded as missing.

The same procedure was utilized for the membership in voluntary organizations variable. Active membership is now coded as 2, inactive membership as 1 and no membership as 0. Since only those who belong to an organization are theoretically relevant to test Putnam’s claim of their importance, a new variable measuring membership in voluntary organizations was created. This variable counts membership for those cases in which a respondent indicated to be either a member or an active member of a voluntary organization.

To generate the variable capturing social capital, responses on the trust and associational membership survey questions were aggregated to the country level and combined multiplicatively.³² This way, larger values on both questions will have a greater

³¹ The organizations listed are: 1) church or religious organizations, 2) sport and recreation organizations, 3) art, religious or educational organizations, 4) labor unions, 5) political parties, 6) environmental organizations, 7) professional associations, 8) charities or 9) any other form of voluntary organization.

³² Among the countries with the highest levels of social capital are Norway, Sweden, Finland, the United States and China, while those with the lowest levels are the Philippines, Lithuania, Georgia, Bulgaria and Turkey.

impact than would be the case if one would combine them additively. Since Putnam (1993, 2000) argues along the lines of “the more, the better” this strategy seems more appropriate to test his claims.

5.4. The Control Variables

To control for the potential influence of confounding factors, several control variables will be included in the models. Sub-soil assets will be indicated by the percentage of ore and metal of all merchandise exports. This variable is measured relative to GDP and will be indicated as the annual average between 1995 and 1997. Economic openness will be calculated as the sum of exports and imports as a share of GDP (trade-to-GDP). It will be computed as the average of five-year intervals between 1985 and 1995. GDP per capita is expressed in purchasing power parity (PPP) terms. This variable is logged and also measured as the average of five-year intervals between 1975 and 1995. Population density refers to the number of people per square kilometer and is given for 1996. The variable capturing the size of the total population is logged and obtained by counting all residents regardless of legal status or citizenship. These indicators are obtained from the World Development Indicators CD-ROM (World Bank 2000).

Oil dependency is measured as a dummy variable assuming the value 1 if an economy is dominated by the revenues from the export of fuels (mainly oil) and 0 if it is not.³³ This variable was constructed on the basis of the World Development Indicators 1995 by Easterly and Sewadeh (2001).

The number of peace years is based on the Uppsala Armed Conflict dataset (Gleditsch et al. 2002). This dataset includes civil and interstate conflicts with a minimum of 25 battle related fatalities for the years 1946 to 2001. For the civil war peace years variable,

³³ Dominated refers to an economy in which the export of specific goods and services account for 50% or more of the total export of goods and services.

the variables measuring the occurrence of internal conflict as well as internationalized internal conflict will be combined.³⁴ To calculate this variable, peace years since the last conflict occurring between 1946 and 1995 are counted.

The measure of ethnic fractionalization used here was compiled by Fearon (2003). Fearon points out that the widely used data on ethno-linguistic fractionalization (ELF), originally collected by Soviet researchers in the 1960s is largely based on linguistic differences between groups. He acknowledges that this procedure might be appropriate for Eastern Europe/FSU and the West but argues that it diffuses ethnic differences in Latin America and leads to “considerably greater homogeneity by their measure of the region” (210). To rule out these distortions, Fearon tries to identify “prototypical” ethnic groups, which have to fulfill several criteria in order to be included in his measure of ethnic fractionalization.³⁵ Generally, he defines ethnic fractionalization as “the probability that two individuals selected at random from a country will be from different ethnic groups” (208). An additional benefit of using Fearon’s measure of ethnic fractionalization instead of ELF is that doing so increases the number of cases in my analysis.

The education data was compiled by Barro and Lee (2000). It captures educational attainment of the population over age 15 and over age 25 and is measured in five-year intervals from 1960 to 1995. For this analysis, the average schooling years in the total population for the population over age 15 are chosen to indicate education.

³⁴ All three levels of conflict will be taken into consideration, that is, minor armed conflict, intermediate armed conflict, as well as internal war. Internationalized armed conflict refers to internal conflicts where the governments, the opposition or both sides involved in the conflict receive help from other governments (see Strand et al. 2002).

³⁵ The features a “prototypical group” has to fulfill are as follows: (1) Membership in the group is reckoned primarily by descent by both members and non-members, (2) Members are conscious of group membership and view it as normatively and psychologically important to them, (3) Members share some distinguishing cultural features, such as common language, religion, and customs, (4) These cultural features are held to be valuable by a large majority of members of the group, (5) The group has a homeland, or at least “remembers” one, (6) The groups has a shared and collectively represented history as a group. Further, this history is not wholly manufactured, but has some basis in fact, (7) The group potentially “stands alone” in a conceptual sense – that is, it is not a caste or caste-like group (e.g. European nobility or commoners). For further specification, see Fearon (2003: 201).

To operationalize democracy, I utilize Polity IV, an updated version of the standard Polity III data (Jagers and Gurr 1995; Jagers and Marshall 2000). This data reports democracy and autocracy on a 10-point scale. To obtain the degree of democracy in a given country, its autocracy score is subtracted from its democracy score. Finally, to control for the influence of political institutions, two measures from the Database of Political Institutions by Beck et al. (2001) are employed in this analysis. To capture the degree of political competition, the possibility of multiple terms of the chief executive will be utilized. This dummy variable is coded as 1 if reelection is possible in a given year and 0 if it is not. To indicate the strength of checks and balances, a variable describing the political system will be employed. Systems in which there is a single executive elected by popular vote are called presidential and are coded as 0. Systems in which the chief executive is elected by an assembly are coded 1, while all others are described as parliamentary and receive the value 2. Both indicators are taken at their 1995 value.

All the above-mentioned control variables are lagged to reduce potential problems of endogeneity. Cross-correlation matrices for all independent variables are given in Appendix F and G. For a complete list of variables, their sources and descriptions see Appendix P.

5.5. Statistical Problems and Limitations of the Study

Due to several circumstances there are some limitations to this study. Since the data for the dependent variable has been gathered only recently, I will not be able to test whether my hypothesis holds true over an extended period of time. Due to differences of countries included in the various utilized datasets and as a result of missing values for certain countries, the sample size is restricted to under fifty countries. Furthermore, being a cross-sectional analysis, this study will not be able to provide intensive case study evidence contributing to the in-depth understanding of particular cases.

One of the largest problems of this study is endogeneity. Since institutions of civil society and the state are closely intertwined, it is not easy to discern which way the influence runs. On the one hand, an active civil society has the means to develop effective checks and balances on the power of the state, thus making it more accountable to its citizens. On the other hand, governments create or destroy the political and social space, which is necessary for the emergence of an active citizenry (Narayan 1999: 12). Accordingly, policy performance could be the source of social capital and not just a result. To control for this possibility and to ensure that the causal arrow runs from social capital to better governance and not the other way around, sophisticated statistical methods will be employed for the statistical analysis in the following chapter.

CHAPTER VI

EMPIRICAL ANALYSIS

To examine the influence of social capital on the conduct of governance, a linear multiple regression analysis using ordinary least squares (OLS) was estimated.

To control for the problem of endogeneity and to ensure that the obtained regression coefficients are unbiased, a two-stage least-squares analysis (2SLS) will be conducted in a second step. 2SLS or instrumental variables (IV) regression is used to obtain a consistent estimator of unknown coefficients of the population regression function when the regressor, X , is correlated with the error term, u (Stock and Watson 2003: 331). To avoid this problem and to obtain unbiased or exogenous right-hand side variables, a two-stage least-squares regression is calculated in two steps. In a first step, the problematic endogenous regressors (X), which are potentially correlated with the error term, are replaced by exogenous instrumental variables (Z). The second stage then uses the “problem-free” computed values to estimate a linear regression model of the dependent variable. Since the computed values are based on variables that are uncorrelated with the error term, the problem of endogeneity can be ruled out. Following La Porta et al. (1997), a measure of the percentage of Protestants in a given country is chosen as the instrumental variable to replace the possibly endogenous variable social capital.

6.1. The Civil Society Model

This section presents several regression models to evaluate the impact of social capital on good governance. As mentioned above, several linear multiple regressions using ordinary least squares (OLS) were estimated. Alongside social capital, Model 1 includes basic political and economic variables that could exert an influence on the quality of governance. In the

subsequent models, additional variables such as education, ethnic fractionalization, GDP per capita as well as institutional variables are added. The results are detailed in Table 1 below:³⁶

³⁶ For the descriptive statistics see Appendix H.

Table 1:

OLS Regression Analysis

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.887** (2.34)	.899* (1.95)	.929* (1.83)	.718** (2.34)	.549** (2.07)
Democracy 95	.107*** (3.44)	.079** (2.68)	.088** (2.47)	.062** (2.25)	.034 (1.37)
Economic openness 85-95	.003 (.492)	.001 (.055)	.003 (.288)	.003 (.669)	.003 (.850)
Sub-soil assets 95-97	.028 (.322)	-.016 (-.145)	.013 (.104)	.093 (1.28)	.125* (2.01)
Oil exporter dummy	-1.01 (-1.54)	-.987* (-1.89)	-1.06* (-1.97)	-.841 (-1.60)	-.823* (-1.77)
Density 96	-.001 (-1.04)	-.0002 (-.323)	.00001 (.011)	.001 (.766)	-.0001 (-.114)
Ln population size	.004 (.039)	-.014 (-.128)	.030 (.243)	.046 (.522)	.039 (.520)
Peace years (civil conflict)	.014** (2.15)	.001 (.184)	.003 (.327)	.007 (1.31)	.007 (1.52)
Education 85-95		.174*** (2.96)	.180** (2.67)		
Ethnic fractionalization			2.02 (1.14)		
Ethnic fractionalization squared			-2.29 (-1.13)		
Ln GDP 75-95				.626*** (4.00)	.572*** (4.14)
Parliamentary system 95					.369*** (3.43)
Multiple terms of chief executive 95					-.299 (-1.41)
Constant	-1.81 (-801)	-2.15 (-961)	-3.52 (-1.35)	-7.50*** (-3.26)	-6.62*** (-3.33)
R square	.63	.82	.84	.77	.85
Adjusted R square	.52	.73	.72	.69	.78
N	36	27	27	36	36
F-statistic	5.816***	8.841***	7.072***	9.827***	12.214***

Dependent Variable: Governance (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

6.1.1. Statistical Results

The regression results of Model 1 support the hypothesis that social capital exerts a positive influence on governance. The social capital indicator is positive and statistically significant at the 5%-level. The unstandardized coefficient shows that for every increase in social capital, the level of governance increases by .887 units. Unsurprisingly, the effect of democracy is also positive and significant. Interestingly, the indicator for an oil dependent economy does not show a significant inimical effect on governance, even though it has been found to have a strong negative impact on peace (de Soysa 2002) and has been argued to also influence government performance (e.g. Auty 2000; Ross 2001). As expected, natural resources per se do not seem to hamper governance. The variable measuring this concept is positive but fails to reach significance. Also economic openness, population density as well as population size do not turn out to be statistically significant. Finally, the number of years at peace since the last civil conflict reaches significance at the 5%-level and reveals a positive relation to governance. As the theoretical argument suggests, domestic upheaval disrupts the conduct of political affairs and negatively influences the accountability of governments. Thus, the longer countries have been spared from times of civil conflict, the better their conduct of governance.³⁷

In Model 2, education enters the analysis. The unstandardized coefficient shows a positive sign and is significant at the 1%-level. This lends support the argument that higher levels of education enable citizens to structure and organize their interests more effectively (Knack 2000). Equipped with these organizational skills, people seem to be more successful in demanding and receiving efficient and accountable governance. Despite the inclusion of another significant variable, social capital still proves to be significant. The impact of

³⁷ As previously mentioned, to ensure that including peace years does not bias my estimations, I re-ran the models without this variable. The results are generally the same. Thus, possible distortions stemming from including peace years can be rule out. For the complete estimation see Appendix H.

democracy also remains positive and significant, while peace years fail to do so. Sub-soil assets, economic openness as well as population density and population size again do not turn out as significant. Contrary to Model 1, oil dependency reaches significance. This result seems to support the argument brought forward by recent scholars (e.g. Auty 2000; Ross 2001) that oil abundance leads to the development of “rentier” states. Governments with a large inflow of revenues are freed from the need to levy domestic taxes and therefore are less accountable to their publics. Additionally, competition for resource rents seems to have the potential to facilitate clientelistic policymaking, which proves to be detrimental for the society at large.

Model 3 introduces ethnic fractionalization to the statistical estimation. Extending previous findings of a linear negative relationship between fractionalization and governance and including ethnic fractionalization as a squared term reveals a curvilinear relationship. Unfortunately however, the estimates of neither the fractionalization variable nor its squared term turn out to be significant. Again, social capital remains positive and statistically significant. Democracy as well as the dummy for oil dependency reveal to be significant with the expected signs. Education remains its positive sign and demonstrates significance. Economic openness, sub-soil assets, population density and population size as well as peace years do not turn out to be significant.

Model 4 adds GDP per capita (PPP). Education is removed from the model since it is highly correlated with GDP and multicollinearity cannot be ruled out.³⁸ GDP wields a positive influence and proves to be significant at the 1%-level. Not surprisingly, the higher the per capita income in a country, the better its governance.³⁹ However, even if a powerful predictor such as GDP per capita is included in the model, social capital nonetheless turns

³⁸ The Person's correlation coefficient reveals a significant correlation of .85.

³⁹ In order to reduce the problem of endogeneity – higher levels of GDP could simply be a result of better governance – GDP is lagged by 3 years.

out to be significant at the 5%-level. This result provides further substantiation to the hypothesis that civil society and social relations between people, which help to overcome collective action problems and prisoner's dilemma situations, can exert a positive influence on governance. Ethnic fractionalization is removed from this model as well as from Model 5. Conducting a variance inflation test revealed a very low tolerance and a high variance inflation factor (VIF) value for this variable.⁴⁰ The proportion of variance explained by ethnic fractionalization and its squared term, which is not accounted for by the other variables in the model is thus very small. Since it adds little new information to the model, it could cause computational problems (SPSS Version 11). Oil dependency becomes insignificant while the signs and significance levels of all the other variables in the fourth model remain unchanged. Again, democracy reveals a positive and significant influence on governance. Sub-soil assets population density, population size and peace years do not turn out to be significant.

Finally, Model 5 introduces the institutional variables – type of political system and possibility of reelection of the chief executive. While the variable measuring multiple terms of the chief executive does not turn out to be significant, the type of political system reaches a significant level. The positive sign shows that parliamentary systems, rather than presidential systems, positively influence governance. This finding suggests that the greater the checks and balances between the bodies of government, the more they manage to “discipline each other in the citizen's favor” (Lederman et al. 2001: 7/8). Again, social capital seems to be robust to variations in model specification. It displays an unstandardized coefficient of .549 and is significant at the 5%-level. Democracy loses statistical significance. This demonstrates that apparently it is not so much democracy per se that enhances governance but the specific institutional design. GDP per capita assumes its previous positive sign and remains significant. In this model, sub-soil assets as well as oil dependency reach significant levels.

⁴⁰ The tolerance is .050 and the VIF value 19.945. The squared coefficient reveals a tolerance of .056 and a VIF value of 17.849. The VIF values of the other independent variables range from approximately 1 to 5.

As expected, the general existence of sub-soil resources does not hamper governance, while the significantly negative sign of oil dependency suggests an inimical influence. This most encompassing model explains about 78% of the variance of the dependent variable.

Generally, the assumption that social capital is conducive to the conduct of governance is supported by the results of these OLS estimations. Despite controlling for possibly confounding factors, the impact of social capital remains clearly visible. Yet, even though the findings of these models seem to be robust to different model specifications, one uncertainty that cannot be ruled out by estimating a simple OLS regression is that of endogeneity. As pointed out above, since civil society and the state are closely intertwined, it is not easy to detect in which direction their influence runs: from society to governance, as hypothesized here, or from governance to society as equally possible. To control for the possibility of endogeneity and to discern in which way the causal influence runs, I conducted a two-stage least-squares analysis. The models reflect those of the previous OLS regression. The results are presented in Table 2 below:

Table 2:

Two-Stage Least-Squares Analysis (2SLS)

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	2.54** (2.37)	1.55** (2.10)	1.65* (1.99)	1.83** (2.19)	1.24* (1.84)
Democracy 95	.142*** (3.08)	.090*** (2.77)	.109** (2.59)	.089** (2.26)	.046 (1.37)
Economic openness 85-95	.002 (.298)	-.003 (-.262)	.001 (.092)	.002 (.421)	.002 (.467)
Sub-soil assets 95-97	.041 (.350)	-.007 (-.061)	.049 (.362)	.094 (1.05)	.128* (1.84)
Oil exporter dummy	-.943 (-1.09)	-.963* (-1.75)	-1.08* (-1.88)	-.811 (-1.24)	-.816 (-1.58)
Population density 96	-.001 (-.533)	-.00003 (-.046)	.00003 (.047)	.001 (.648)	.00002 (.028)
Ln population size	-.003 (-.018)	-.050 (-.421)	.016 (.119)	.035 (.313)	.025 (.292)
Peace years (civil conflict)	-.0003 (-.029)	-.004 (-.476)	-.005 (-.420)	-.001 (-.161)	.002 (.284)
Education 85-95		.158** (2.48)	.149* (1.94)		
Ethnic fractionalization			1.96 (1.04)		
Ethnic fractionalization squared			-2.63 (-1.22)		
Ln GDP 75-95				.558*** (2.80)	.549*** (3.50)
Parliamentary system 95					.366*** (2.85)
Multiple terms of chief executive 95					-.342 (-1.42)
Constant	-3.18 (-1.03)	-1.87 (-.787)	-3.58 (-1.29)	-7.74*** (-2.71)	-6.72*** (-3.00)
R square	.53	.81	.82	.70	.83
Adjusted R square	.38	.71	.69	.59	.74
N	36	27	27	36	36
F-statistic	3.654***	8.027***	6.332***	6.532***	9.890***

Dependent Variable: Governance (1998-2002)

P_≤.10*; p_≤.05** and p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

6.1.2. *Statistical Results 2SLS*

Even when utilizing a more sophisticated statistical method to estimate my models, the hypothesis that social capital contributes significantly to sound governance is supported. Model 1 reveals that even when controlling for possible endogeneity, social capital is positively related to good governance and significant at the 5%-level. Democracy exerts a positive and significant influence on governance, while none of the other control variables reach a significant level. Contrary to the previous OLS regression, the peace years estimate does not turn out to be significant.

In Model 2 education is included in the model. Its coefficient is positive and significant at the 5%-level. This seems to suggest that higher general education levels in the population can contribute to better governance independent of any government influence on education. Social capital again reaches a significant level and turns out to be beneficial for governance. Also democracy and oil dependency reach significant levels. As expected by the literature on the effects of natural resource abundance, oil dependency exerts a negative influence on the conduct of governance. Economic openness, sub-soil assets, population density and population size as well as peace years do not demonstrate a significant influence on governance.

In Model 3 a measure of ethnic fractionalization is added to the estimation. However, the fractionalization coefficient as well as its squared term do not reveal a significant influence on governance. Once more, social capital turns out to be positive and significant. Also democracy, oil dependency and education assume their expected signs and remain significant. As in the previous models, neither economic openness, population density and population size, nor sub-soil assets and peace years succeed in reaching a significant level.

Model 4 introduces GDP per capita (PPP) to the analysis. This variable assumes the expected positive sign and is significant at the 1%-level. Unsurprisingly, a higher per capita

income contributes significantly to better governance. Despite including GDP per capita in the estimation, social capital remains positive and significant at the 5%-level, lending further support to my hypothesis that social capital indeed does have an influence on governance. Democracy again shows a significant positive relationship while oil dependency loses its previously significant influence. Education has been removed from the model due to multicollinearity problems.⁴¹ As in the corresponding OLS regression, ethnic fractionalization has been removed from the model due to its large VIF value and the low tolerance level in order to avoid computational biases. Economic openness, sub-soil assets, population size, population density and peace years again do not demonstrate a significant influence on governance.

Lastly, the institutional variables are entered in Model 5. Doing so reveals that, as in the OLS regression conducted above, parliamentary systems rather than presidential systems are conducive to governance. The variable accounting for the long-term orientation of political actors, multiple terms of chief executive, does not come out as significant. When including the more refined institutional variables in the model, the explanatory power of democracy is trumped and it loses its previous significance. Again, what seems to matter is not a democratic system per se but more so in which way it is actually designed. Even in this most encompassing model, social capital reveals to be significant and favorable for the quality of governance. Sub-soil assets turn out to be significantly and positively related to governance. This goes in line with the argument brought forward by the recent literature on natural resources (see for example de Soysa 2002) that sub-soils assets are not detrimental for governance or fueling domestic conflict when only minerals and metals are included and oil is considered separately. In this last model, economic openness, oil dependency, population size and population density as well as peace years do not attain a significant level.

⁴¹ Estimating Pearson's correlation coefficient reveals a correlation of .85. Thus, the possibility of multicollinearity cannot be ruled out.

In sum, the hypothesis that social capital influences governance is supported. Even adding different control variables to my baseline model as well as estimating the models with a different statistical method to control for endogeneity renders the positive impact of social capital significant. These results demonstrate that first, social capital contributes independently to better governance and that it is not merely shaped by it. Secondly, the results demonstrate that the influence of social capital is robust to alterations of statistical technique and model specification. In addition, if comparing the social capital estimates in the OLS model with those of the 2SLS regression, one will notice that its 2SLS estimates are consistently higher than those of the OLS regression. This provides further support for the argument that social capital is an exogenous determinant of governance. If social capital would merely be shaped by governance then the social capital estimates of the 2SLS model should be lower than the OLS estimates (Grootaert 1999: 59; Narayan and Pritchett 1997: 18).

To further ensure that the explanatory power demonstrated by social capital in the previous sets of analyses is not spurious, I will estimate the same models for a larger sample of countries. The results of this analysis are presented in the section below.

6.2. Alternative Specification: The Extended Civil Society Model

The results of the OLS and 2SLS regressions conducted in the previous section suggest that the hypothesis that higher levels of social capital can contribute to better governance can be supported. However, these findings could be affected by the small number of cases. Unfortunately, this is a prevalent problem of using survey data. To rule out the possibility that my findings are biased due to a small number of countries included in the study, an additional OLS analysis including the same explanatory and control variables as the civil society model was estimated with a larger set of cases. Regrettably, at this point in time and

to the best of my knowledge more encompassing data on social capital is not available (which is why I had to rely on survey data to measure this concept in the first place). Therefore, social capital will be substituted by a variable measuring Protestantism.⁴² Doing so increases the number of countries in the sample to at least 72.

Protestantism has repeatedly been pointed out as a significant predictor of trust and civic engagement in opposition to more hierarchical religions, such as Catholicism and Islam. In his 1993 book on Italy, Putnam argues that Catholicism in Italy has a strong negative impact on civic engagement. Correspondingly, attempting to discern the factors that encourage trust La Porta et al. (1997) extend Putnam's assumptions to a cross-section of countries. Their statistical analysis confirms the inimical relation between trust and a strongly hierarchical religion. The results of the extended analysis are detailed in Table 3 below:⁴³

⁴² Using Protestantism as a substitute for social capital could lead to biases since countries with a Protestant majority are likely to be the countries with the highest GDP per capita (e.g. the Scandinavian countries). Unfortunately, since there does not seem to be a better and more widely available substitute for social capital at this point in time, Protestantism clearly is the "lesser of two evils". However, to ensure that employing Protestantism does not systematically bias my findings, I ran a regression with GDP as the independent and Protestantism as the dependent variable. Next, I re-estimated the models using the residuals from this regression as a substitute independent variable for Protestantism. Despite introducing this control, social capital remains a significant predictor of good governance in all but one model (it does not reach significance in Model 3, when ethnic fractionalization is included in the estimation. However, as mentioned before this result could be due to computational problems caused by the little additional variance ethnic fractionalization adds to the estimation). To view the complete analysis, please see Appendix K.

⁴³ For descriptive statistics see Appendix I.

Table 3:**OLS Regression with Larger Sample**

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.014*** (4.00)	.007** (2.22)	.007* (1.91)	.009*** (3.55)	.007*** (2.96)
Democracy 95	.047*** (3.23)	.025* (1.81)	.022 (1.52)	.010 (.841)	.010 (.659)
Economic openness 85-95	.009*** (2.82)	.006** (2.16)	.007** (2.18)	.003 (1.43)	.003 (1.12)
Sub-soil assets 95-97	.003 (.043)	.052 (.891)	.049 (.804)	.038 (.957)	.060 (1.46)
Oil exporter dummy	-.230 (-.678)	-.251 (-.761)	-.248 (-.732)	-.428* (-1.81)	-.434 (-1.54)
Population density 96	.00001 (.048)	.0001 (.414)	.0001 (.259)	.0002 (.980)	.0001 (.878)
Ln population size	.128* (1.91)	.040 (.713)	.055 (.917)	.076 (1.59)	.050 (1.07)
Peace years (civil conflict)	.015*** (3.60)	.007* (1.85)	.007 (1.64)	.009*** (2.94)	.008*** (2.79)
Education 85-95		.212*** (6.34)	.210*** (5.89)		
Ethnic fractionalization			.159 (.150)		
Ethnic fractionalization squared			-.264 (-.219)		
Ln GDP 75-95				.613*** (9.71)	.579*** (8.48)
Parliamentary system 95					.159** (2.02)
Multiple terms of chief executive 95					.085 (.530)
Constant	-3.11** (-2.45)	-2.37** (-2.26)	-2.60** (-2.31)	-6.57*** (-6.96)	-6.05*** (-6.23)
R square	.54	.77	.76	.79	.81
Adjusted R square	.49	.74	.72	.76	.78
N	94	74	72	93	88
F-statistic	12.251***	23.943***	17.640***	33.854***	29.354***

Dependent Variable: Governance (1998-2002)

P \leq .10*; p \leq .05**; p \leq .01***

Values in parentheses indicate t-scores; coefficients are rounded.

6.2.1. *Statistical Results (Extended Model)*

Even when basing Model 1 on a larger sample of countries, social capital reveals a beneficial relationship to governance. It is positive and highly significant at the 1%-level. Democracy is also significant and positive at the 1%-level while sub-soil assets and oil dependency fail to reach significance. Surprisingly, in contrast to the analyses based on the restricted sample, economic openness turns out to be highly significant at the 1%-level. As revealed by recent research on civil violence, the liberalization of trade regimes reduces the likelihood of domestic instability and civil war (Bussmann and Schneider 2003; de Soysa 2002; Eberle, Martin, Schneider 2003). The significance of economic openness in Model 1 suggests that trade liberalization is not only beneficial for domestic stability but also conducive to governance. Peace years assume a positive sign and turn out to be highly significant at the 1%-level. The longer the time that has passed since the last civil conflict, the higher the likelihood of good governance. This demonstrates that civil conflict not only disrupts the conduct of every day political affairs but also hampers governance. Population density again does not manage to attain significance while population size is significant and positive. This suggests that the larger the population of a country, the better its governance. This finding goes in line with the argument brought forward by Knack (2000), suggesting that a larger tax base enables governments to provide more public goods and act in a more responsible manner toward their citizens.

In Model 2, education again enters the analysis. As in the previous estimations it turns out to be positive and highly significant at the 1%-level. As pointed out by Knack (2000), higher levels of education provide citizens with a more developed cognitive structure and greater organizational skills, thus making them more successful in demanding and receiving better governance. Once more social capital emerges from the analysis as significant and favorable for governance. Also democracy as well as economic openness achieve a

significant level and assume the expected positive signs. Oil dependency, sub-soil assets and population density fail to reach significance. Population size becomes statistically insignificant while peace years remain statistically significant and positive.

Model 3 adds ethnic fractionalization to the model. Again, ethnic fractionalization reveals a curvilinear relationship, suggesting that the quality of governance is lowest in very homogenous and very fractionalized societies. However, it does not turn out to be significant. Social capital remains positive and significant while democracy as well as peace years lose their significance. Education, again, is positive and highly significant at the 1%-level.

GDP per capita enters the analysis in Model 4. As expected it turns out to be highly significant and positive. Again, even though a powerful predictor such as GDP is introduced to the model, social capital keeps its explanatory power. It is highly significant at the 1%-level and positive. Surprisingly, economic openness loses its significance. Democracy, sub-soil assets, population density and population size remain insignificant. An oil dependent economy is significantly and negatively related to governance. As demonstrated by the previous models, an extended time of absence of civil violence contributes positively and significantly to better governance. Ethnic fractionalization has been removed from the model due to the recurring problem of possible computational biases.⁴⁴ Despite being significant in the previous estimations, education is removed from the model due to multicollinearity.⁴⁵

Finally, Model 5 introduces the institutional variables. As in the analysis based on the smaller sample, having established a parliamentary system with greater institutional checks and balances rather than a presidential one is conducive to the quality of governance. The

⁴⁴ The tolerance of ethnic fractionalization assumes a value of .055, the VIF value is 18.259. The tolerance of the squared ethnic fractionalization term is comparable at .056 and the VIF value at 17.925.

⁴⁵ The Pearson's correlation coefficient between GDP per capita and education is .88.

possibility to re-run for office does not seem to affect governance. The variable measuring multiple terms in office does not succeed in reaching a significant level. Democracy again seems to be dwarfed by the inclusion of more refined institutional variables. Economic openness, sub-soil assets, population size and population density remain insignificant. Peace years as well as GDP per capita again reach their highly significant levels and assume their expected positive signs. Interestingly, despite the inclusion of a strong institutional variable as well as the dominant GDP per capita measure, social capital remains significant. Comparable to the previous OLS estimation, the most encompassing model of the extended OLS regression explains about 78% of the variance of the dependent variable.

6.3. Summary

In order to provide support for my hypothesis that social capital is conducive to the quality of governance, my general models have been subjected to three different estimations. First, a general OLS regression has been calculated. This regression demonstrates the importance of social capital for good governance. Even when powerful predictors such as GDP per capita and political institutional variables are included in the analysis, the explanatory power of social capital remains. Secondly, to further support the evidence provided by this first analysis and to rule out possible problems of endogeneity, a 2SLS regression has been estimated. When controlling for endogeneity, the influence of social capital remains robust. Finally, to prevent any biases due to sample size, I estimated the previous models for an extended set of countries. Again, social capital (as proxied by Protestantism) remains consistently significant. Even when estimating the equations with residuals to control for possible problems driven by utilizing Protestantism as a substitute for a more direct social capital measure, the impact of social capital remains. In sum, the findings suggest that there is supporting evidence for my hypothesis. These results demonstrate that the impact of

social capital is not only robust to different model specifications but also to a modification of sample size and controlling for endogeneity. Consequently, the null-hypothesis – that social capital does not have a significant positive impact on governance – can be rejected.

CHAPTER VII

DISAGGREGATING GOVERNANCE

Examining recent research on good governance, it can be observed that the conducted studies have been satisfied with treating governance as a one-dimensional phenomenon. This is certainly helpful in gaining a primary insight into the processes that might help to facilitate or hamper the way in which governance is performed. Nevertheless, to find out whether a more differentiated look at governance would be fruitful for future research, this study attempts to go beyond a merely one-dimensional treatment of governance. Disaggregating my governance indicator into its single components will allow me to examine, for instance, whether social capital has a stronger influence on decreasing corruption than on the rule of law or government effectiveness. Thus, after having provided supportive evidence for the question *whether* social capital is beneficial, the next section will go beyond this finding and examine for which *aspects* of governance an active and trusting civil society matters.

7.1. Control of Corruption

Corruption has been defined as the “misuse of public power for private gain” (Kaufmann et al. 1999: 8; Rose-Ackerman 1999: 91). It includes aspects such as corruption among public officials or within the civil service, the frequency of “additional payments” to get “things done”, irregular payments to officials and the judiciary to obtain licenses, permits or protection (Kaufmann et al. 1999).

Being constituted of trust in others and participation in voluntary organizations, social capital could work against corruption in a direct as well as in a more indirect way. Indirectly, high levels of trust within a society could render corruption rather unnecessary. One example with which to make this clear is that of the university systems in South-Eastern Europe.

Universities there are characterized by a high level of corruption. Students do not gain high grades by studying and passing their exams successfully. Mostly, good grades have to be bought. With high levels of social trust, however, students could be compelled to refrain from bribing their professors in order to obtain better grades. If they can trust their fellow students to object to the practice of bribery, there will be no need for them to spend their money on bribes instead of studying. If, on the other hand, students cannot be sure that their peers will not pay for their grades, they will feel compelled to also pay a bribe in order to get the same grade.⁴⁶ More directly, voluntary organizations could employ direct means to contribute to the reduction of corruption. On the one hand, they could raise awareness about the existence of corruption and publicly denounce those public officials who take an active part in it. On the other hand, they could organize campaigns geared toward the termination or reduction of bribery.⁴⁷ Hence, by working through trust and voluntary organizations, social capital should contribute to the reduction of corruption.

⁴⁶ The same mechanism also works for individual actors on the side of the government. As Mauro (1995: 706) points out, with low levels of social capital a politician might gain considerably when setting up a “private bribe collection system”. However, by doing so he/she decreases the likelihood that the whole government will stay in power and therefore reduces the time horizons of all the other politicians as well. These will now be more willing to “obtain a large slice of the cake today and to disregard the size of the cake tomorrow.” In societies with high levels of social trust, politicians might refrain from acting this way because they trust their colleagues to respect the rules of the game. Also, with high levels social capital, active citizen participation makes it more likely that political misconduct is discovered and publicized. It has to be mentioned, however, that on the contrary it has also been argued that high levels of trust help to increase corruption. Due to the possibility of disclosure, corrupt deals can be risky for both, the one who pays the bribe as well as for the recipient. Personalized relations between both sides should reduce this risk and facilitate corrupt behavior (Rose-Ackerman 1999: 97/98).

⁴⁷ One example of how social capital in the form of trust and voluntary organizations can help to reduce corruption can be found in Skopje, Macedonia. As has been mentioned previously, in Macedonia, just as in most other South-East European countries the university system is highly corrupt. If one pays a professor a certain amount of money one will obtain a grade that reflects the payment. To reduce this practice, civic student associations and local NGOs have joined their forces with international organizations and started an anti-corruption campaign. At every local university a telephone number was publicized, which can be called by students who observe corruption in the university system. This initiative could only be successful since a) voluntary organizations were willing to organize the campaign and b) the students revealed a high level of trust in the commitment of their peers to stop the corruption. If students can be sure that others will follow their example they are more likely to be motivated to call the number and to denounce those engaged in the illegal payments. Additionally, there are also rational reasons for trying to curb the corruption at the universities. Even though some students might benefit from this practice, the majority clearly loses. Bribery is not only expensive, it also destroys the reputation of their universities and the degrees they earn abroad, making it very hard to obtain an internationally accepted degree when leaving the university (personal conversation with a Macedonian NGO representative at the “Citizen Participation in Local Governance” seminar, Cluj-Napoca, Romania. 19th – 26th September 2003).

To test the impact of social capital on the control of corruption, I conducted an OLS regression, a 2SLS estimation to control for endogeneity as well as an OLS regression based on an extended set of countries.⁴⁸ The results of the OLS as well as the 2SLS estimation reveal social capital as a consistently significant factor in reducing corruption. As anticipated, the foundations of social capital – membership in voluntary organizations and trust between citizens – seem to play a direct and also a more indirect role in curbing bribery.⁴⁹ Democracy, per capita income as well as a parliamentary system also contribute positively to the control of corruption. Astonishingly, the existence of an oil dependent economy does not seem to lead to an increase in illegal payments and other forms of bribery. The coefficient is consistently negative but fails to reach significance in any of the models. These findings are generally supported by the extended OLS estimation. Again, social capital emerges from the analysis as a predictor of the control of corruption. Democracy, however, loses its influence while peace years become consistently significant. Per capita GDP as well as the impact of a parliamentary system remain positive and significant. Surprisingly, once again, oil dependency is not significantly related with a higher level of corruption even in this extended estimation.

7.2. Government Effectiveness

Government effectiveness refers to the formulation and implementation of sound policies. It captures the quality of public service provision and the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, as well as the credibility of government commitment to policies (Kaufmann et al. 1999).

⁴⁸ The results are detailed in Appendix L.

⁴⁹ Despite this finding it, will have to be further differentiated at which level social capital might help to curb corruption. For example, social capital might not have any effect on “grand corruption” at higher levels of government (Rose-Ackerman 1999: 27). Unfortunately, limitations of time and data availability do not permit me to examine this possibility. Future research will have to take a more differentiated look at the relationship between social capital and corruption.

As outlined by the theoretical accounts on social capital, social capital, especially the one stemming from voluntary associations, enables people to form an opinion and articulate it in a more coherent way. These skills, combined with the increased information flowing through social networks should lead to more government effectiveness in those countries where social capital is stronger. The societies in these countries should be more powerful in demanding the provision of public services and more efficient in controlling the government's commitment to policies.

Indeed, the results of the estimations seem to support these assumptions.⁵⁰ In all three estimations, the OLS, the 2SLS as well as the extended OLS regression, social capital shows a significant positive relationship to government effectiveness. Education, per capita income and a parliamentary system are also significant and assume the expected signs. The OLS as well as the 2SLS regression reveal oil dependency as detrimental to the effectiveness of governments. This goes in line with previous research on government performance, which identified oil as a major factor in decreasing accountability. Interestingly, when disaggregating governance, oil shows a detrimental impact only on certain aspects of governance (in this case on effectiveness and not on corruption).⁵¹ In contrast to the basic OLS regression, in the extended estimation peace years emerge as significant while democracy does not prove to be a robust predictor of government effectiveness. Instead, what seems to be more important is the specific institutional design. Population size also becomes statistically significant in three of the models. This provides some support to the argument that larger populations, which are providing the state with a larger tax base, should enable governments to provide public services more efficiently and at a larger scale (see Knack 2000).

⁵⁰ Please see Appendix M.

⁵¹ A more detailed discussion of the implications of this finding will be given in the conclusion.

7.3. Rule of Law

Rule of law characterizes the existence of just and predictable rules, which form the basis for social and economic interactions. For instance, it includes the effectiveness and predictability of the judiciary and the enforceability of contracts (Kaufmann et al. 1999). Rule of law should be a “hard case” for the explanatory power of social capital. The judiciary, the legal system or the work of the police seem to be more removed from the possible impact of citizen pressure.

Despite the more removed link between social capital and the rule of law, social capital proves to be significant in almost all the models.⁵² It fails to reach significance twice in the OLS and the 2SLS estimation and once in the extended OLS regression. Even though the impact of social capital is not as pronounced as on the control of corruption or government effectiveness, it nevertheless seems to contribute positively to the rule of law. Democracy is revealed as a significant predictor of the rule of law by the OLS regression while failing to reach significance in Model 5 of the 2SLS estimation. Sub-soil assets and peace years reach significance in only some of the models. Education, per capita income and a parliamentary system assume the expected positive signs and significance levels. Contrary to the OLS and 2SLS regressions, democracy and sub-soil assets lose their significance in the extended OLS regression. Peace years keep their positive sign and turn out to be consistently significant. Again, education, GDP per capita and a parliamentary system demonstrate a positive and significant relation to the rule of law.

⁵² For the results see Appendix N.

7.4. Regulatory Quality

The measure of the regulatory quality of a country includes indicators of market-unfriendly policies, such as price controls or inadequate bank supervision as well as perceived burdens stemming from excessive regulation in areas such as foreign trade or business development (Kaufmann et al. 1999). Since regulatory quality focuses more directly on actual policies, social capital can be expected to have the least influence on this aspect of governance. Instead of allowing societal pressure a rather direct access, the realm of regulatory policymaking seems to be more removed and isolated from this influence.⁵³

As expected, the results of the OLS and the 2SLS estimation show that social capital exerts a lesser influence on the regulatory quality of a state.⁵⁴ It succeeds in reaching a significant level in only one of the models. Instead, a significant impact on the regulatory quality derives from oil dependency. Those countries depending on the extraction of oil resources show a lower level of regulatory quality than those not depending on this resource. In contrast, higher levels of democracy, education and income as well as a parliamentary system are conducive to a sound regulatory framework. Strangely, the possibility of reelection of the chief executive demonstrates a negative impact on regulatory quality. Since the prospect of multiple terms in office should increase the time horizons of politicians, the direction of this influence should point the opposite way. However, this finding could be influenced by the sample size. Indeed, the impact of this variable becomes insignificant for a larger sample of countries. In the extended OLS regression the explanatory power of social capital increases somewhat. Nevertheless, it is still not as pronounced as on the control of corruption, government effectiveness or the rule of law. When compared to the previous

⁵³ It should be easier for citizens to organize a campaign against the corruption in their universities, to publicize the names of public officials accepting bribes or to monitor the efficiency of public goods provision in their communities than, for instance, to influence the extent of market competition, to decrease the controls on foreign ownership of companies or to affect legal regulations of financial institutions.

⁵⁴ The results are detailed in Appendix O.

OLS and 2SLS analyses, the robustness of oil dependency is reduced while democracy, GDP per capita and a parliamentary system remain positive and significant. Economic openness is now revealed as a positive and significant influence on the regulatory framework.

7.5. Summary

Chapter VI has provided support for the hypothesis that social capital matters for the quality of governance. In order to unveil this influence further and to gain an understanding for which aspects of governance social capital matters, in this chapter the dependent variable has been disaggregated into its single components. Doing so reveals that social capital has a similar influence on almost all aspects of governance. It demonstrates a significant positive relationship to government effectiveness and the control of corruption. Even though less distinct, a beneficial impact on the rule of law can also be detected. The only exception occurs in relation to the quality of the regulatory framework. Here, the power of social capital fades and other factors, such as democracy, institutional design, GDP per capita or oil dependency, become more influential.

CHAPTER VIII

CONCLUSION AND POLICY IMPLICATIONS

Does social capital matter for good governance, as political theorists have long expected and as recent scholars have emphasized (especially Putnam 1993, 2000)? Or do close knit groups with exclusive membership give rise to illiberal networks and “crony capitalism”, hampering the quality of governance, as some suspect?

Aiming to answer these questions, this study rigorously tested several econometric models. Doing so, the analysis contributes to previous studies on social capital and governance in three important ways. First, it extends recent models on governance by integrating social capital, instead of merely considering institutional or economic variables. Secondly, it improves upon the empirical testing of previous studies on the effect of social capital. Instead of merely considering correlations or estimating bivariate regression, the hypothesized impact of an active and trusting civil society on governance was subjected to more refined econometric methods and a number of robustness controls. Thirdly, by disaggregating governance into its single components and by identifying for which aspects of governance social capital can be conducive, this study enables a more in-depth look upon the processes at work.

The findings of this analysis suggest that social capital matters for governance. It demonstrates a robust positive influence on the quality of governance, giving empirical support to my hypothesis and to what classical political theorists as well as more recent scholars have suspected. Having been subjected to meticulous empirical testing, social capital emerges from the analyses as unaffected by model specification, endogeneity controls and alterations of sample size. Additionally, disaggregating governance reveals the importance of an active and trusting civil society especially for the reduction of corruption and the

effectiveness of governments. While its strength is weaker for the quality of the regulatory framework of a country, social capital also reveals a positive influence on the rule of law.

Before elaborating on the implications of this research project, some limitations have to be mentioned. Despite some first steps into the right direction, more research on the impact of social capital remains to be done. Notwithstanding the contributions of this analysis to the present literature, its findings should be interpreted with some caution. Whenever analyzing the potential impact of social capital, the interconnectedness of state and society cannot be neglected. As discussed before, the state can play an important role in promoting but also in hampering or even destroying social capital. For instance, authoritarian systems might pro forma tolerate the existence of voluntary associations. This however, does not mean that members of these organizations are entitled to express their opinions freely. Furthermore, even though membership in voluntary associations might be high in some countries, it might not be as voluntary as it seems. Through inflicting disadvantages or personal repercussions on those members of the society who refuse to join, the state might latently turn what looks like voluntary civic activism into mandatory activism, thus annihilating its meaningfulness for a measure of social capital.⁵⁵ Being fully aware of these potential problems, I have controlled for possible endogeneity. Unfortunately, however, this study has been limited to an aggregate cross-country level. Regardless of the many benefits of taking a large number of cases into consideration, a qualitative approach with in-depth case studies would be warranted to complement the quantitative results of this analysis and to further substantiate the argument that social capital can contribute to sound governance. Future research should aim at a more encompassing research strategy, which allows for a deeper insight into the processes at work and enables us to determine on a more

⁵⁵ For example, in the former German Democratic Republic, membership in the Communist Party or in the youth organizations of the regime was, pro forma, voluntary. However, not rarely did citizens who were generally unwilling to join become active members in these organizations due to personal disadvantages or direct threats of the regime.

detailed basis whether social capital, independent of state influence, can be conducive to governance.

As has been pointed out many times before, there is a problem with existing data on social capital. Since it is survey data it is only available for a relatively small number of countries. To circumvent this dilemma, this study has used a measure of Protestantism as a substitute for a large-scale social capital measure. Even though this practice has been justified on theoretical grounds and validated by statistical controls, the results of this study should be treated cautiously until the influence of social capital has been confirmed by studies based on more encompassing data. Generally, it would be desirable to obtain a “direct” measure of social capital for a larger set of countries in the near future, especially since a number of international organizations, NGOs and even policymakers themselves start to embrace the idea of active citizen participation. Therefore, it would be important to know whether the beneficial influence of social capital really is as promising as this study has demonstrated when subjected to a larger sample of countries. Moreover, the effort to collect more encompassing data on social capital should also be worthwhile from a scholarly perspective. Since this research has provided some preliminary evidence for the explanatory power of social capital, this variable should not be neglected but considered a valuable contribution to future research.

Regardless of these limitations, since the results of this study suggest a beneficial impact of social capital, it has to be considered what the implications of this finding might be. First of all, an active civil society should be recognized as an important variable by the international research community, as well as national and international policymakers, international organizations and NGOs alike. Its potential power should not be overlooked in future research on the determinants of good governance, nor should its influence be neglected when policies attempting to increase democratic practices, accountability and

transparency are being designed. Especially when working with developing and transition countries the potential influence of social capital should become a major focus.

This study has provided empirical support for the valuable impact of an active and trusting citizenry, making the case that political as well as financial resources should be directed toward measures to create, increase or sustain social capital.⁵⁶ For example, in the former Communist countries of Eastern and South-Eastern Europe, activism in voluntary associations was not expected and even discouraged by the Communist regime. Also, in a society where neighbors spied on neighbors, trust between people had been systematically destroyed over a long period of time. Trying to (re-) create and increase social capital in these societies seems to be a long and tedious process. In preconditions such as these, trust and the willingness to be active in voluntary organizations might still take a long time to emerge. Nevertheless, domestic and international institutions cannot and should not wait until a change occurs and social capital – somehow – finally starts to “work its magic” (Putnam 2000: 288).

One specific measure that could, for instance, be derived from the encouraging findings of this research study is that a greater emphasis should be given to the mobilization of youth. Establishing conditions that facilitate the creation of trust between young people and that encourage their participation in voluntary associations could build a major source of

⁵⁶ As has been mentioned before, this study treats social capital as endogenous rather than as an exogenous cultural phenomenon. Doing so does not only go in line with traditional, rational-choice oriented social capital theory but also allows for a different range of policy implications. Since social capital is not regarded as a cultural resource and exclusively path-dependent, there is a possibility to actively mobilize it where it is low. Just as Jackmann and Miller (1998: 51) point out: “...considering trust endogenous encourages us to ask which arrangements provide incentives for trust. Considering trust exogenous, however, means that we take levels of trust as given and not subject to change in the short-to-medium term”. Acknowledging this view, some preliminary investigations have been conducted on the determinants of social capital. Knack and Keefer (1997), for instance, consider factors such as social polarization, institutional structure, income inequality and education. Whiteley (1999) focuses on psychological variables related to the personalities and moral codes of individuals. Alesina and La Ferrara (2002) take individual experiences and community characteristics into account. For an interesting study of the creation of social capital under authoritarian conditions, see Fox 1996.

future social capital of a country and help to increase its prospects of better governance in the long run.⁵⁷

More specifically, measures attempting to increase general social capital and especially trust and activism among young people seem to be particularly helpful in conflict prone or post-conflict societies. As Varshney (2001) has demonstrated for India, inter-group social capital can contribute positively to the resolution of conflicts and the maintenance of peace. In a similar way, the example of Kosovo reveals how an active civil society can contribute to domestic stability. In the early 1990s when the Yugoslav republics were engaged in a horrendous civil war, Kosovo surprisingly managed to remain peaceful until 1999. In contrast to their warring neighbors, the citizens of Kosovo adopted a “policy of nonviolence” in their struggle against the expansive intentions of the Serbian leader Slobodan Milošević. Even though their efforts finally failed, the example nevertheless reveals how a high level of trust and civic organization assisted in delaying the outbreak of civil conflict. From villagers who named their football teams “Durim” (Endurance) or “Qendresa” (Standing firm) to miners organizing demonstrations and strikes to the political activities of the Youth Parliament:

“The Albanian self-restraint was now becoming an organised phenomenon. ... What was emerging was a set of methods and organisational structures to ... strengthen social solidarity. The Albanian movement also directed its attentions to the violence inside their own community...” (Clark 2000: 59-60).

⁵⁷ In Iran, certainly a rather extreme example of the lack of good governance, a steadily increasing number of those working against the repressive regime and being arrested for ‘subversive behavior’ are young citizens under the age of 20. Iranians working to overthrow Chomeini, both from within the country as well as those living in exile, have expressed the hope that this young generation will bring Iran closer to sound governance and more democratic processes (Ali Shirasi, public reading, Bad Bergzabern, Germany. November 5th, 2003).

As these examples reveal, through promoting social capital (and especially “cross boundary” social capital) the policy community could not only help to elevate the quality of governance but also play an important role in preventing future civil conflict.⁵⁸

By disaggregating the dependent variable, this study opened up the “black box” of governance and revealed which of its aspects could be enhanced by high levels of social capital in a society. The results of this analysis should have interesting implications for policymaking and advocacy campaigns. Policymakers and international organizations⁵⁹ that are designing projects to encourage more citizen participation, better governance or democracy should be aware of the areas in which a more active and trusting citizenry can help “to do good”. As this study has demonstrated, it might not be advisable to assume that more civic activity can be beneficial to *all* outcomes. Instead, measures to encourage social capital can be more targeted and effective if we have a more refined understanding of the processes that can be stimulated by societal actors and in which areas success might be harder to achieve.⁶⁰

Yet, notwithstanding the findings of this study, there also has to be a note of caution. Trying to facilitate social capital, several questions should never be neglected: Which kinds of social capital are promoted? Is the social capital conducive to democratic principles? Is it

⁵⁸ In his 2001 article, Varshney hints at a possible project design with which to stimulate social capital. In his example of India “reading clubs” created an environment in which citizens with different ethnic backgrounds could meet and discuss the news. These interactions not only contributed directly to people’s knowledge but also helped to decrease intolerance and prejudice. The basic structure of the “reading clubs”, as mentioned by Varshney, could be utilized by international organizations, NGOs or governments themselves and be transformed into an actual measure to promote social capital. Creating a setting in which citizens and especially young people can meet and discuss issues of their interest might not only heighten awareness or knowledge of political problems but also increase their trust in each other through constant interaction. Additionally, “discussion circles” have also demonstrated to be an important starting point for involvement in voluntary activities (Wheatley 2002).

⁵⁹ International organizations focusing on the beneficial impact of a mobilized citizenry are, for instance, the Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe. Additionally, a growing number of NGOs are emphasizing this topic in their work.

⁶⁰ This advice is also valid for activities in other policy areas. For example, the impact of natural resources and especially oil on governance and civil violence has reached a new level of awareness not only in the international research community but has also started to affect the work of international organizations and NGOs. As this study has demonstrated, large oil resources do not seem to be detrimental for all aspects of governance. Having a better understanding of the processes at work might lead to more refined activities and thus contribute to better defined and more effective policymaking.

increasing tolerance or exclusion? As Putzel (1997) has brought forward in his critique of Putnam's social naïveté, we cannot be sure that the ideas and values disseminated through dense social network are socially beneficial and conducive to better governance or democracy.⁶¹ When encouraging social capital it has to be ensured that one does not exclusively focus on "bonding" but also on "bridging" social capital (Putnam and Goss 2002). Especially since, as Levi (1996: 51) emphasizes: "Neighborhoods are a source of trust and neighborhoods are a source of distrust. They promote trust of those you know and distrust of those you do not..." Generally, mobilizing social capital appears to be difficult enough but encouraging inter-community or "bridging" social capital even more so. Accordingly, those trying to promote it should be cautious not to destroy the possible benefits of social capital demonstrated by this study and be careful to utilize this resource in a responsible way.

In sum, by showing that social capital has a positive impact on governance even when subjected to a number of statistical controls, this research has contributed insightful new evidence to the scholarly literature on civil society and good governance. In addition, by extending our knowledge of the influence of social capital on the aggregate level, this research project could provide an empirical foundation for the implementation of projects geared toward the strengthening of civil society and democratic institutions. Doing so, this study hopes to make a small contribution to the establishment of more accountable and respectful governance and the strengthening of democratic processes.

⁶¹ The examples most widely cited are the Ku Klux Klan or Fascist movements (see Putnam 1993: 221; Putzel 1997: 944). Another example are the religious-fundamental organizations and foundations, e.g. in Iran, which, despite having high levels of social capital at their disposal, do not tend to use it in a tolerant way that is conducive to the respect of human rights or democratic principles.

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Appendix A

Sources of Governance Indicators

Business Environment Risk Intelligence (BERI), The Wall Street Journal Central European Economic Review (CEER), Standard and Poor's DRI/McGraw-Hill (DRI), European Bank for Reconstruction and Development (EBRD), The Economist Intelligence Unit (EIU), Freedom House (FHFV, FHNT), Gallup International, World Economic Forum (GCS, GCSA), Heritage Foundation/Wall Street Journal (HFWSJ), Political Risk Services, International Country Risk Guide (GRS/ICRG). Political Economic Risk Consultancy (PERC), Institute Management Development (WCY), World Bank/University of Basel (WDR).

Appendix B

List of Countries (World Values Survey)

United Kingdom, Germany, Spain, United States of America, Japan, Mexico, South Africa, Australia, Norway, Sweden, Argentina, Finland, South Korea, Poland, Switzerland, Puerto Rico, Brazil, Nigeria, Chile, Belarus, India, Slovenia, Bulgaria, Pakistan, China, Taiwan, Turkey, Lithuania, Latvia, Estonia, Ukraine, Russia, Peru, Venezuela, Uruguay, Ghana, Philippines, Moldova, Georgia, Armenia, Azerbaijan, Dominican Republic, Bangladesh, Colombia, Macedonia, Croatia, Bosnia and Herzegovina.

List of Countries (Extended Dataset)

Andorra , Afghanistan, Angola, Albania, United Arab Emirates, Argentina, Armenia, Antigua and Barbuda, Austria, Azerbaijan, Burundi, Belgium, Benin, Burkina Faso, Bangladesh, Bulgaria, Bahrain, Bahamas, Bosnia-Herzegovina, Belarus, Belize, Bermuda, Bolivia, Brazil, Barbados, Brunei, Bhutan, Botswana, Central African Republic, Canada, Switzerland, Chile, China, Ivory Coast, Cameroon, Congo, Colombia, Comoros, Cape Verde, Costa Rica, Cuba, Cayman Islands, Cyprus, Czech Republic, Germany, Djibouti, Dominica, Denmark, Dominican Republic, Algeria, Ecuador, Egypt, Eritrea, Spain, Estonia, Ethiopia, Finland, Fiji, France, Micronesia, Gabon, United Kingdom, Georgia, Ghana, Guinea, Gambia, Guinea-Bissau, Equatorial Guinea, Greece, Grenada, Guatemala, French Guiana, Guyana, Hong-Kong, Honduras, Croatia, Haiti, Hungary, Indonesia, India, Ireland, Iran, Iraq, Iceland, Israel, Italy, Jamaica, Jordan, Japan, Kazakhstan, Kenya, Kyrgyz Republic, Cambodia, Kiribati, St. Kitts and Nevis, South Korea, Kuwait, Laos, Lebanon, Liberia, Libya, St. Lucia, Liechtenstein, Sri Lanka, Lesotho, Lithuania, Luxembourg, Latvia, Macao, Morocco, Monaco, Moldova, Madagascar, Maldives, Mexico, Marshall Islands, Macedonia, Mali, Malta,

Myanmar, Mongolia, Mozambique, Mauritania, Martinique, Mauritius, Malawi, Malaysia, Namibia, Niger, Nigeria, Nicaragua, Netherlands, Norway, Nepal, Nauru, New Zealand, Oman, Pakistan, Panama, Peru, Philippines, Papua, New Guinea, Poland, Puerto Rico, North Korea, Portugal, Paraguay, Qatar, Romania, Russia, Rwanda, Samoa, Saudi Arabia, Sudan, Senegal, Singapore, Solomon Islands, Sierra Leone, El Salvador, San Marino, Somalia, Sao Tome and Principe, Suriname, Slovak Republic, Slovenia, Sweden, Swaziland, Seychelles, Syria, Chad, Togo, Thailand, Tajikistan, Turkmenistan, East Timor, Tonga, Trinidad and Tobago, Tunisia, Turkey, Tuvalu, Taiwan, Tanzania, Uganda, Ukraine, Uruguay, United States of America, Uzbekistan, St. Vincent and the Grenadines, Venezuela, Vietnam, Vanuatu, West Bank, Yemen, Yugoslavia, South Africa, Democratic Republic of Congo (Zaire), Zambia, Zimbabwe

Appendix C

Descriptive Statistics of Single Governance Indicators

Governance Indicators 1998-2002

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Voice and Accountability 1998-2002	47	-1.42	1.61	.344	.836
Instability and Violence 1998-2002	47	-1.64	1.70	.201	.844
Government Effectiveness 1998-2002	47	-1.20	2.31	.357	.993
Regulatory Quality 1998-2002	47	-2.11	1.74	.372	.847
Rule of Law 1998-2002	47	-1.24	2.20	.302	1.02
Control of Corruption 1998-2002	47	-1.16	2.49	.290	1.09

Governance Indicators 1998-2002 (extended dataset)

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Voice and Accountability	199	-2.10	1.61	.016	.983
Instability and Violence	186	-2.68	1.70	.041	.951
Government Effectiveness	195	-2.23	2.44	.031	.986
Regulatory Quality	195	-3.22	1.94	.023	.978
Rule of Law	195	-1.85	2.20	.030	.993
Control of Corruption	195	-1.48	2.49	.026	.986

Appendix D

Principal Component Factor Analysis

Descriptive Statistics

	<i>Mean</i>	<i>Std. Deviation</i>	<i>Analysis N</i>
Government Effectiveness 1998-2002	.357	.99321	47
Rule of Law 1998-2002	.302	1.01651	47
Control of Corruption 1998-2002	.290	1.08916	47
Regulatory Quality 1998-2002	.372	.84732	47

Pearson's Correlation

	<i>government effectiveness</i>	<i>rule of law</i>	<i>corruption</i>	<i>regulatory quality</i>
Government Effectiveness	1	.970***	.969***	.907***
Rule of Law	.970***	1	.975***	.890***
Control of Corruption	.969***	.975***	1	.863***
Regulatory Quality	.907***	.890***	.863***	1

*** Correlation is significant at the 0.01 level (2-tailed).

Communalities

	<i>Initial</i>	<i>Extraction</i>
Government Effectiveness 1998-2002	1.00	.977
Rule of Law 1998-2002	1.00	.972
Control of Corruption 1998-2002	1.00	.958
Regulatory Quality 1998-2002	1.00	.882

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	<i>Initial Eigenvalues</i>			<i>Extraction Sums of Squared Loadings</i>		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.79	94.73	94.73	3.79	94.73	94.73
2	.160	4.00	98.73			
3	2.860E-02	.715	99.45			
4	2.212E-02	.553	100.00			

Extraction Method: Principal Component Analysis.

Component Matrix

	<i>Component</i>
	1
Government Effectiveness 1998-2002	.989
Rule of Law 1998-2002	.986
Control of Corruption 1998-2002	.979
Regulatory Quality 1998-2002	.939

Extraction Method: Principal Component Analysis, 1 component extracted.

Appendix E

Principal Component Factor Analysis (Larger Sample)

Descriptive Statistics

	<i>Mean</i>	<i>Std. Deviation</i>	<i>Analysis N</i>
Government Effectiveness 1998-2002	.031	.986	195
Rule of Law 1998-2002	.030	.993	195
Control of Corruption 1998-2002	.026	.986	195
Regulatory Quality 1998-2002	.023	.978	195

Pearson's Correlation

	<i>government effectiveness</i>	<i>rule of law</i>	<i>corruption</i>	<i>regulatory quality</i>
Government Effectiveness		1	.957***	.950***
Rule of Law	.957***		1	.959***
Control of Corruption	.950***	.959***		1
Regulatory Quality	.898***	.887***	.832***	

*** Correlation is significant at the 0.01 level (2-tailed).

Communalities

	<i>Initial</i>	<i>Extraction</i>
Government Effectiveness 1998-2002	1.00	.968
Rule of Law 1998-2002	1.00	.967
Control of Corruption 1998-2002	1.00	.937
Regulatory Quality 1998-2002	1.00	.871

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	<i>Initial Eigenvalues</i>			<i>Extraction Sums of Squared Loadings</i>		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.743	93.574	93.57	3.74	93.57	93.57
2	.182	4.552	98.13			
3	4.288E-02	1.072	99.20			
4	3.206E-02	.802	100.00			

Extraction Method: Principal Component Analysis.

Component Matrix

	<i>Component</i>
	1
Government Effectiveness 1998-2002	.984
Rule of Law 1998-2002	.983
Control of Corruption 1998-2002	.968
Regulatory Quality 1998-2002	.933

Extraction Method: Principal Component Analysis, 1 component extracted.

Appendix F

Correlation Matrix of Independent Variables

	Soccap1	Polity 95	Op85_95	Ore_gdp	Exporter	Dens96	Ln_pop	Cw_py95
Soccap1	1	-.050	-.143	-.013	.007	-.011	.113	.514
Polity 95	-.050	1	-.098	-.175	-.238	.025	-.100	.257
Op85_95	-.143	-.098	1	-.039	-.036	-.080	-.748	-.197
Ore_gdp	-.013	-.175	-.039	1	-.032	-.242	-.128	-.075
Exporter	.007	-.238	-.036	-.032	1	-.065	.111	-.050
Dens96	-.011	.025	-.080	-.242	-.065	1	.272	-.004
Ln_pop	.113	-.100	-.748	-.128	.111	.272	1	.091
Cw_py95	.514	.257	-.197	-.075	-.050	-.004	.091	1

	Tyr85_95	F_frac	F_frac2	Ln_GDP	System95	Mu195
Soccap1	.459	-.133	-.019	.104	.215	.045
Polity 95	.374	-.161	-.170	.532	.437	-.082
Op_85_95	.316	-.043	-.123	.134	-.104	.179
Ore_gdp	.024	.157	.149	-.107	-.295	-.061
Exporter	-.097	.241	.256	-.278	-.177	-.302
Dens96	-.240	-.235	-.158	-.329	.274	.010
Ln_pop	-.260	.048	.120	-.299	.097	-.098
Cw_py95	.571	-.463	-.364	.341	.250	-.024
Tyr85_95	1	-.513	-.468	.846	.142	.220
F_frac	-.513	1	.958	-.369	-.174	-.023
F_frac2	-.468	.958	1	-.392	-.123	-.001
Ln_GDP	.846	-.369	-.392	1	.268	.137
System95	.142	-.174	-.123	.268	1	.423
Mu195	.220	-.023	-.001	.137	.423	1

APPENDIX G

Correlation Matrix of Independent Variables (Larger Sample)

	Pro	Polity 95	Op85_95	Ore_gdp	Exporter	Dens96	Ln_pop	Cw_py95
Pro	1	.325	.119	-.047	-.113	-.062	-.276	.317
Polity 95	.325	1	-.062	-.042	-.325	-.021	.032	.377
Op85_95	.119	-.062	1	-.054	.034	.268	-.578	.133
Ore_gdp	-.047	-.042	-.054	1	-.021	-.084	-.026	.041
Exporter	-.113	-.325	.034	-.021	1	-.038	-.005	-.092
Dens96	-.062	-.021	.268	-.084	-.038	1	-.110	.085
Ln_pop	-.276	.032	-.578	-.026	-.005	-.110	1	-.125
Cw_py95	.317	.377	.133	.041	-.092	.085	-.125	1

	Tyr85_95	F_frac	F_frac2	Ln_GDP	System95	Mu195
Pro	.379	-.039	.018	.235	.353	.176
Polity 95	.490	-.251	-.234	.438	.459	-.217
Op_85_95	.162	.013	-.041	.253	.199	.200
Ore_gdp	.009	.079	.055	-.084	-.258	-.022
Exporter	-.050	.130	.101	.098	-.232	.015
Dens96	.131	-.099	-.109	.178	.188	.028
Ln_pop	.010	-.099	-.061	-.100	-.102	-.119
Cw_py95	.547	-.362	-.302	.337	.320	-.014
Tyr85_95	1	-.471	-.490	.880	.418	.048
F_frac	-.471	1	.967	-.468	-.331	.067
F_frac2	-.490	.967	1	-.491	-.306	.083
Ln_GDP	.880	-.468	-.491	1	.395	.035
System95	.418	-.331	-.306	.395	1	.333
Mu195	.048	.067	.083	.035	.333	1

APPENDIX H

Descriptive Statistics

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Governance (1998-2002)	47	-1.60	1.80	.000	1.00
Social capital	45	.32	1.53	.891	.329
Democracy 95	45	-7.00	10.00	6.13	4.71
Economic openness 85-95	45	17.24	161.98	61.37	32.76
Sub-soil assets 95-97	38	.00	5.73	.803	1.29
Oil exporter	47	.00	1.00	.043	.204
Population density	46	2.38	934.77	124.96	163.00
Population size	46	14.21	20.91	16.86	1.65
Peace years	46	.00	49.00	17.74	20.23
Education 85-95	32	2.22	11.73	7.09	2.49
Ethnic fractionalization	46	.00	.88	.388	.229
Ethnic fractionalization squared	46	.00	.77	.202	.201
Ln GDP per capita (PPP) 75-95	44	6.36	9.97	8.48	.882
Parliamentary system	45	.00	2.00	.756	.933
Multiple terms of chief executive	45	.00	1.00	.800	.405

Appendix I

Descriptive Statistics (Larger Sample)

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Governance (1998-2002)	195	-2.10	2.30	.000	1.00
Social capital	187	.00	97.80	13.28	21.47
Democracy 95	151	-10.00	10.00	2.83	6.89
Economic openness 85-95	174	7.92	358.05	80.02	45.89
Sub-soil assets 95-97	106	.00	8.22	.682	1.26
Oil exporter	193	.00	1.00	.088	.284
Population density	184	1.59	22046	299.55	1724
Ln population size	187	10.62	20.91	15.46	2.00
Peace years	170	.00	49.00	17.94	18.15
Education 85-95	108	.64	11.73	5.44	2.81
Ethnic fractionalization	149	.00	1.00	.467	.258
Ethnic fractionalization squared	149	.00	1.00	.284	.248
Ln GDP per capita (PPP) 75-95	165	5.95	9.97	8.02	1.03
Parliamentary system	170	.00	2.00	.765	.931
Multiple terms of chief executive	153	.00	1.00	.869	.338

Appendix J

Regression Analyses without Peace Years

Even though it makes sense theoretically to include a variable controlling for the time that has passed since the last conflict, this variable might cause problems due to possible endogeneity. To rule out any biases by including it in my analysis, I re-ran my models without the peace years variable (see tables below).

The results of the analysis without peace years are comparable to those that include it. The major differences occur in the regular OLS estimation. Here, by excluding peace years, the variable controlling for an oil dependent economy turns out to be significant in every model. When including peace years it only reaches significance in Models 2, 3 and 5. The results of the 2SLS model are almost exactly as they were when including peace years. All variables maintain their previous signs as well as their significance. Similarly, the findings of the models based on the extended sample remain comparable. Again, there are some minor differences in the significance levels of oil dependency (it is significant in Models 4 and 5 instead of just Model 4) and sub-soil assets (it reaches significance in Model 5 when peace years are excluded).

Generally, the changes that result from removing peace years from the estimation are minor. Consequently, it can be assumed that it does not seriously reduce the explanatory power of the independent variables included in the models and therefore does not lead to major computational problems.

Table J.1:

OLS Regression without Peace Years

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	1.31*** (3.83)	.946** (2.54)	1.03** (2.66)	.900*** (3.24)	.728*** (2.98)
Democracy 95	.129*** (4.14)	.080*** (2.83)	.093*** (2.84)	.067** (2.46)	.039 (1.55)
Economic openness 85-95	.001 (.191)	.0002 (.021)	.003 (.269)	.002 (.503)	.003 (.676)
Sub-soil assets 95-97	.015 (.165)	-.017 (-.167)	.017 (.146)	.093 (1.27)	.126* (1.98)
Oil exporter dummy	-1.22* (-1.77)	-.996* (-1.98)	-1.09** (-2.09)	-.920* (-1.74)	-.924* (-1.96)
Density 96	-.001 (-1.01)	-.0002 (-.304)	-.00002 (-.028)	.001 (.935)	.0001 (.091)
Ln population size	-.010 (-.082)	-.017 (-.164)	.029 (.242)	.044 (.490)	.038 (.491)
Peace years (civil conflict)					
Education 85-95		.177*** (3.33)	.180*** (2.75)		
Ethnic fractionalization			1.87 (1.12)		
Ethnic fractionalization squared			-2.25 (-1.15)		
Ln GDP 75-95				.689*** (4.57)	.640*** (4.77)
Parliamentary system 95					.372*** (3.37)
Multiple terms of chief executive 95					-.334 (-1.54)
Constant	-1.73 (-.724)	-2.13 (-.981)	-3.51 (-1.39)	-8.04*** (-3.51)	-7.20*** (-3.60)
R square	.57	.82	.84	.76	.83
Adjusted R square	.46	.75	.74	.69	.77
N	36	27	27	36	36
F-statistic	5.306***	10.506***	8.228***	10.560***	12.544***

Dependent Variable: Governance (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table J.2:

2SLS Regression without Peace Years

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	2.52*** (3.46)	1.44** (2.49)	1.53** (2.52)	1.78*** (2.81)	1.31** (2.51)
Democracy 95	.141*** (3.64)	.088*** (2.90)	.104*** (2.91)	.087** (2.47)	.048 (1.53)
Economic openness 85-95	.002 (.311)	-.002 (-.188)	.001 (.127)	.003 (.463)	.002 (.429)
Sub-soil assets 95-97	.041 (.359)	.0006 (.006)	.044 (.347)	.094 (1.08)	.128* (1.83)
Oil exporter dummy	-.939 (-1.11)	-.927* (-1.74)	-1.04* (-1.90)	-.796 (-1.26)	-.841 (-1.63)
Density 96	-.001 (-.545)	-.0001 (-.137)	.0001 (.128)	.001 (.645)	.0001 (.079)
Ln population size	-.002 (-.017)	-.042 (-.377)	.016 (.126)	.035 (.329)	.024 (.285)
Peace years (civil conflict)					
Education 85-95		.142** (2.22)	.144* (1.90)		
Ethnic fractionalization			2.25 1.26)		
Ethnic fractionalization squared			-2.74 (-1.30)		
Ln GDP 75-95				.547*** (2.74)	.565*** (3.51)
Parliamentary system 95					.365*** (2.84)
Multiple terms of chief executive 95					-.351 (-1.45)
Constant	-3.18 (-1.05)	-1.91 (-.836)	-3.61 (-1.35)	-7.64*** (-2.80)	-6.88*** (-3.14)
R square	.51	.81	.82	.70	.81
Adjusted R square	.38	.73	.71	.61	.74
N	36	27	27	36	36
F-statistic	3.950***	9.615***	7.455***	7.591***	10.495***

Dependent Variable: Governance (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table J.3:

OLS Regression without Peace Years (Larger Sample)

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.018*** (4.98)	.008*** (2.55)	.007** (2.05)	.011*** (4.25)	.009*** (3.61)
Democracy 95	.062*** (4.16)	.029** (2.04)	.026* (1.74)	.017 (1.45)	.017 (1.13)
Economic openness 85-95	.009*** (2.82)	.007** (2.41)	.008*** (2.52)	.003 (1.38)	.003 (1.07)
Sub-soil assets 95-97	.021 (.340)	.046 (.775)	.050 (.816)	.053 (1.27)	.075* (1.76)
Oil exporter dummy	-.246 (-.679)	-.363 (-1.10)	-.322 (-.947)	-.436* (-1.77)	-.492* (-1.68)
Density 96	.00004 (.165)	.0001 (.248)	.00001 (.058)	.0002 (1.10)	.0002 (.971)
Ln population size	.129* (1.80)	.037 (.647)	.053 (.871)	.076 (1.55)	.050 (1.02)
Peace years (civil conflict)					
Education 85-95		.233*** (7.22)	.229*** (6.67)		
Ethnic fractionalization			-.410 (-.405)		
Ethnic fractionalization squared			.251 (.212)		
Ln GDP 75-95				.648*** (9.99)	.599*** (8.45)
Parliamentary system 95					.179** (2.20)
Multiple terms of chief executive 95					.066 (.398)
Constant	-2.98** (-2.21)	-2.34** (-2.19)	-2.48** (-2.18)	-6.77*** (-6.88)	-6.12*** (-6.04)
R square	.47	.76	.75	.76	.79
Adjusted R square	.42	.73	.71	.74	.76
N	94	74	72	93	88
F-statistic	10.675***	25.555***	18.618***	33.927***	28.956***

Dependent Variable: Governance (1998-2002)

P \leq .10*; p \leq .05**; p \leq .01***

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix K: OLS Regression with Residuals

Table K.1:

OLS Regression (Larger Sample)

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.010*** (2.58)	.006* (1.77)	.005 (1.46)	.009*** (3.55)	.007*** (2.96)
Democracy 95	.058*** (3.65)	.030* (1.94)	.028* (1.71)	.010 (.841)	.010 (.659)
Economic openness 85-95	.009*** (2.86)	.006** (2.10)	.007** (2.19)	.003 (1.43)	.003 (1.12)
Sub-soil assets 95-97	-.002 (-.033)	.056 (.938)	.055 (.879)	.038 (.957)	.060 (1.46)
Oil exporter dummy	-.183 (-.507)	-.225 (-.665)	-.210 (-.605)	-.428* (-1.81)	-.434 (-1.54)
Density 96	-.00001 (-.050)	.0001 (.461)	.0001 (.262)	.0002 (.980)	.0001 (.878)
Ln population size	.133* (1.84)	.042 (.709)	.062 (.978)	.076 (1.59)	.050 (1.07)
Peace years (civil conflict)	.016*** (3.72)	.008* (1.84)	.007 (1.53)	.009*** (2.94)	.008*** (2.79)
Education 85-95		.222*** (6.65)	.219*** (6.19)		
Ethnic fractionalization			.015 (.014)		
Ethnic fractionalization squared			-.151 (-.123)		
Ln GDP 75-95				.657*** (10.68)	.616*** (9.22)
Parliamentary system 95					.159** (2.02)
Multiple terms of chief executive 95					.085 (.530)
Constant	-3.12** (-2.30)	-2.39** (-2.18)	-2.69** (-2.29)	-6.80*** (-7.16)	-6.24*** (-6.39)
R square	.49	.77	.76	.79	.81
Adjusted R square	.44	.73	.72	.76	.78
N	94	73	71	93	88
F-statistic	10.158***	22.884***	16.935***	33.854***	29.354***

Dependent Variable: Governance (1998-2002)

$p \leq .10^*$; $p \leq .05^{**}$; $p \leq .01^{***}$

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix L: Control of Corruption

Table L.1:

OLS Regression – Control of Corruption

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	1.20*** (2.82)	1.31** (2.27)	1.31* (2.03)	1.01*** (2.93)	.799*** (2.83)
Democracy 95	.128*** (3.69)	.104*** (2.82)	.111** (2.45)	.078** (2.529)	.046* (1.733)
Economic openness 85-95	.002 (.368)	.001 (.061)	.003 (.236)	.003 (.514)	.003 (.634)
Sub-soil assets 95-97	.047 (.478)	.027 (.199)	.050 (.319)	.119 (.153)	.157** (2.37)
Oil exporter dummy	-.885 (-1.21)	-.869 (-1.33)	-.943 (-1.38)	-.696 (-1.18)	-.605 (-1.23)
Density 96	-.001 (-.998)	-.0002 (-.253)	.0001 (.096)	.001 (.809)	-.0001 (-.205)
Ln population size	-.008 (-.061)	-.036 (-.258)	.007 (.046)	.039 (.397)	.028 (.347)
Peace years (civil conflict)	.016** (2.20)	.003 (.357)	.006 (.526)	.008 (1.37)	.009* (1.74)
Education 85-95		.159** (2.15)	.171* (2.00)		
Ethnic fractionalization			2.32 (1.03)		
Ethnic fractionalization squared			-2.49 (-.973)		
Ln GDP 75-95				.701*** (4.00)	.615*** (4.19)
Parliamentary system 95					.440*** (3.85)
Multiple terms of chief executive 95					-.254 (-1.12)
Constant	-1.80 (-.714)	-2.04 (-.724)	-3.49 (-1.05)	-8.18*** (-3.18)	-6.96*** (-3.29)
R square	.66	.80	.82	.79	.88
Adjusted R square	.56	.70	.68	.72	.82
N	36	27	27	36	36
F-statistic	6.667***	7.660***	6.019***	11.003***	15.239***

Dependent Variable: Control of Corruption (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table L.2:

2SLS Regression – Control of Corruption

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	3.22** (2.58)	2.32** (2.43)	2.44** (2.26)	2.44** (2.48)	1.67** (2.25)
Democracy 95	.171*** (3.19)	.122*** (2.89)	.144** (2.61)	.112** (2.44)	.061 (1.66)
Economic openness 85-95	.002 (.187)	-.004 (-.322)	.00003 (.002)	.002 (.269)	.001 (.238)
Sub-soil assets 95-97	.062 (.461)	.041 (.275)	.106 (.603)	.121 (1.15)	.160** (2.08)
Oil exporter dummy	-.802 (-.798)	-.832 (-1.17)	-.973 (-1.29)	-.657 (-.856)	-.596 (-1.05)
Density 96	-.001 (-.462)	.0001 (.076)	.0001 (.132)	.001 (.655)	-.00002 (-.030)
Ln population size	-.017 (-.098)	-.092 (-.595)	-.015 (-.088)	.025 (.188)	.010 (.111)
Peace years (civil conflict)	-.001 (-.107)	-.005 (-.470)	-.006 (-.415)	-.003 (-.255)	.002 (.280)
Education 85-95		.134 (1.63)	.122 (1.22)		
Ethnic fractionalization			2.24 (.904)		
Ethnic fractionalization squared			-3.03 (-1.07)		
Ln GDP 75-95				.614** (2.61)	.586*** (3.39)
Parliamentary system 95					.433*** (3.06)
Multiple terms of chief executive 95					-.304 (-1.14)
Constant	-3.47 (-.963)	-1.60 (-.522)	-3.58 (-.984)	-8.48** (-2.52)	-7.10*** (-2.88)
R square	.54	.78	.79	.70	.85
Adjusted R square	.40	.66	.64	.60	.77
N	36	27	27	36	36
F-statistic	3.860***	6.679***	5.148***	6.601***	11.385***

Dependent Variable: Control of Corruption (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table L.3:

OLS Regression (Larger Sample) – Control of Corruption

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.018*** (4.48)	.010*** (2.70)	.010** (2.50)	.012*** (4.28)	.010*** (3.67)
Democracy 95	.042*** (2.60)	.018 (1.10)	.013 (.755)	.005 (.359)	.008 (.474)
Economic openness 85-95	.007** (2.11)	.004 (1.28)	.005 (1.26)	.001 (.529)	.001 (.363)
Sub-soil assets 95-97	-.020 (-.309)	.035 (.509)	.029 (.407)	.023 (.504)	.053 (1.15)
Oil exporter dummy	-.188 (-.500)	-.345 (-.880)	-.360 (-.896)	-.376 (-1.40)	-.339 (-1.08)
Density 96	.0001 (.453)	.0002 (.877)	.0002 (.749)	.0003 (1.53)	.0002 (1.44)
Ln population size	.107 (1.44)	.007 (.107)	.025 (.343)	.058 (1.07)	.031 (.587)
Peace years (civil conflict)	.018*** (3.90)	.010** (2.10)	.011** (2.04)	.011*** (3.23)	.010*** (3.22)
Education 85-95		.229*** (5.75)	.222*** (5.24)		
Ethnic fractionalization			.823 (.655)		
Ethnic fractionalization squared			-1.01 (-.705)		
Ln GDP 75-95				.656*** (9.13)	.630*** (8.30)
Parliamentary system 95					.164* (1.87)
Multiple terms of chief executive 95					.162 (.914)
Constant	-2.79** (-1.98)	-1.91 (-1.53)	-2.25* (-1.68)	-6.62*** (-6.18)	-6.25*** (-5.80)
R square	.54	.75	.74	.78	.81
Adjusted R square	.50	.71	.69	.75	.79
N	94	74	72	93	88
F-statistic	12.387***	20.910***	15.377***	31.946***	30.220***

Dependent Variable: Control of Corruption (1998-2002)

P \leq .10*; p \leq .05**; p \leq .01***

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix M: Government Effectiveness

Table M.1:

OLS Regression – Government Effectiveness

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.992** (2.41)	.983* (2.00)	.996* (1.84)	.806** (2.45)	.636** (2.18)
Democracy 95	.099*** (2.93)	.066** (2.10)	.074* (1.95)	.049 (1.65)	.020 (.741)
Economic openness 85-95	.002 (.399)	.000002 (.000)	.002 (.222)	.003 (.559)	.003 (.715)
Sub-soil assets 95-97	-.002 (-.019)	-.061 (-.534)	-.036 (-.272)	.069 (.892)	.102 (1.49)
Oil exporter dummy	-1.24* (-1.74)	-1.18** (-2.13)	-1.26** (-2.20)	-1.05* (-1.86)	-1.05** (-2.05)
Density 96	-.001 (-.929)	-.0001 (-.091)	.0002 (.254)	.001 (.925)	.0001 (.128)
Ln population size	.029 (.245)	.004 (.031)	.048 (.366)	.075 (.792)	.069 (.828)
Peace years (civil conflict)	.011 (1.62)	-.002 (-.292)	-.00005 (-.005)	.004 (.669)	.004 (.738)
Education 85-95		.199*** (3.19)	.209*** (2.92)		
Ethnic fractionalization			2.22 (1.17)		
Ethnic fractionalization squared			-2.44 (-1.14)		
Ln GDP 75-95				.689*** (4.11)	.639*** (4.20)
Parliamentary system 95					.374*** (3.17)
Multiple terms of chief executive 95					-.327 (-1.40)
Constant	-1.84 (-.752)	-2.17 (-.911)	-3.61 (-1.30)	-8.11*** (-3.29)	-7.25*** (-3.31)
R square	.57	.80	.82	.74	.82
Adjusted R square	.45	.70	.69	.65	.73
N	36	27	27	36	36
F-statistic	4.526***	7.695***	6.199***	8.268***	9.790***

Dependent Variable: Government Effectiveness (1998-2002)

P ≤ .10*; p ≤ .05**; p ≤ .01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table M.2:

2SLS Regression – Government Effectiveness

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	2.67** (2.36)	1.53* (1.99)	1.61* (1.88)	1.88** (2.17)	1.28* (1.79)
Democracy 95	.133*** (2.74)	.075** (2.22)	.092** (2.10)	.073* (1.81)	.028 (.806)
Economic openness 85-95	.002 (.209)	-.003 (-.253)	.001 (.066)	.002 (.310)	.002 (.328)
Sub-soil assets 95-97	.011 (.089)	-.054 (-.453)	-.005 (-.034)	.071 (.766)	.106 (1.45)
Oil exporter dummy	-1.16 (-1.28)	-1.16** (-2.02)	-1.28** (-2.13)	-1.01 (-1.51)	-1.04* (-1.90)
Density 96	-.0004 (-.473)	.0001 (.118)	.0002 (.274)	.001 (.818)	.0002 (.238)
Ln population size	.020 (.127)	-.027 (-.217)	.036 (.261)	.062 (.538)	.052 (.577)
Peace years (civil conflict)	-.003 (-.243)	-.007 (-.743)	-.007 (-.556)	-.004 (-.463)	-.0008 (-.116)
Education 85-95		.186*** (2.80)	.182** (2.28)		
Ethnic fractionalization			2.17 (1.10)		
Ethnic fractionalization squared			-2.73 (-1.21)		
Ln GDP 75-95				.627*** (3.04)	.622*** (3.76)
Parliamentary system 95					.384*** (2.83)
Multiple terms of chief executive 95					-.384 (-1.51)
Constant	-3.18 (-.973)	-1.93 (-.779)	-3.66 (-1.26)	-8.30*** (-2.81)	-7.28*** (-3.08)
R square	.48	.79	.81	.68	.81
Adjusted R square	.32	.68	.67	.56	.71
N	36	27	27	36	36
F-statistic	3.004**	7.191***	5.737***	5.860***	8.604***

Dependent Variable: Government Effectiveness (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table M.3:

OLS Regression (Larger Sample) – Government Effectiveness

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.015*** (4.01)	.008** (2.29)	.007* (1.77)	.009*** (3.40)	.008*** (2.70)
Democracy 95	.047*** (3.10)	.024 (1.59)	.022 (1.39)	.007 (.579)	.002 (.135)
Economic openness 85-95	.010*** (3.00)	.008** (2.47)	.009*** (2.61)	.004* (1.67)	.003 (1.14)
Sub-soil assets 95-97	.011 (.191)	.051 (.802)	.048 (.728)	.043 (.978)	.061 (1.34)
Oil exporter dummy	-.339 (-.968)	-.324 (-.900)	-.303 (-.822)	-.556** (-2.16)	-.459 (-1.47)
Density 96	.00001 (.042)	.00003 (.165)	-.00001 (-.046)	.0001 (.853)	.0001 (.858)
Ln population size	.170** (2.45)	.092 (1.49)	.114* (1.73)	.111** (2.15)	.079 (1.52)
Peace years (civil conflict)	.013*** (3.07)	.005 (1.15)	.004 (.859)	.007** (2.28)	.007** (2.18)
Education 85-95		.211*** (5.77)	.214*** (5.52)		
Ethnic fractionalization			-.358 (-.312)		
Ethnic fractionalization squared			.305 (.232)		
Ln GDP 75-95				.606*** (8.78)	.584*** (7.74)
Parliamentary system 95					.147* (1.69)
Multiple terms of chief executive 95					.165 (.936)
Constant	-3.80*** (-2.92)	-3.25*** (-2.84)	-3.55*** (-2.90)	-7.10*** (-6.90)	-6.55*** (-6.11)
R square	.51	.73	.73	.75	.77
Adjusted R square	.47	.69	.67	.72	.74
N	94	74	72	93	88
F-statistic	11.162***	19.185***	14.351***	27.392***	22.937***

Dependent Variable: Government Effectiveness (1998-2002)

P \leq .10*; p \leq .05**; p \leq .01***

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix N: Rule of Law

Table N.1:

OLS Regression – Rule of Law

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.961** (2.56)	.702 (1.44)	.645 (1.16)	.788*** (2.65)	.616** (2.44)
Democracy 95	.118*** (3.83)	.082** (2.63)	.081* (2.06)	.071*** (2.69)	.047* (1.99)
Economic openness 85-95	.005 (.850)	.003 (.270)	.003 (.304)	.005 (1.14)	.005 (1.30)
Sub-soil assets 95-97	.023 (.265)	-.045 (-.389)	-.047 (-.349)	.089 (1.27)	.118* (1.99)
Oil exporter dummy	-.958 (-1.48)	-.904 (-1.63)	-.923 (-1.57)	-.786 (-1.54)	-.662 (-1.50)
Density 96	-.0004 (-.637)	.00004 (.061)	.0002 (.340)	.001 (1.29)	.0002 (.392)
Ln population size	.024 (.225)	.016 (.135)	.028 (.211)	.067 (.782)	.056 (.775)
Peace years (civil conflict)	.016** (2.59)	.006 (.833)	.009 (.943)	.010* (1.84)	.010** (2.28)
Education 85-95		.194*** (3.11)	.209*** (2.85)		
Ethnic fractionalization			1.29 (.664)		
Ethnic fractionalization squared			-1.17 (-.531)		
Ln GDP 75-95				.638*** (4.21)	.556*** (4.23)
Parliamentary system 95					.348*** (3.41)
Multiple terms of chief executive 95					-.126 (-.624)
Constant	-2.18 (-.980)	-2.58 (-1.09)	-3.20 (-1.12)	-7.99*** (-3.59)	-6.90*** (-3.65)
R square	.68	.83	.84	.81	.88
Adjusted R square	.58	.74	.72	.74	.82
N	36	27	27	36	36
F-statistic	7.133***	9.407***	7.060***	12.237***	15.617***

Dependent Variable: Rule of Law (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table N.2:

2SLS Regression – Rule of Law

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	2.36** (2.35)	1.45* (1.83)	1.50 (1.65)	1.61** (2.14)	.913 (1.55)
Democracy 95	.148*** (3.43)	.095*** (2.73)	.106** (2.27)	.092** (2.59)	.049 (1.68)
Economic openness 85-95	.004 (.618)	-.001 (-.093)	.001 (.090)	.005 (.879)	.004 (.984)
Sub-soil assets 95-97	.033 (.307)	-.035 (-.282)	-.004 (-.027)	.090 (1.11)	.121* (1.99)
Oil exporter dummy	-.903 (-1.12)	-.877 (-1.48)	-.945 (-1.49)	-.764 (-1.30)	-.655 (-1.45)
Density 96	-.0002 (-.287)	.0002 (.328)	.0003 (.355)	.001 (1.14)	.0002 (.451)
Ln population size	.020 (.144)	-.026 (-.205)	.011 (.078)	.059 (.590)	.045 (.611)
Peace years (civil conflict)	.004 (.405)	-.0001 (-.011)	-.0002 (-.013)	.003 (.412)	.008 (1.31)
Education 85-95		.175** (2.57)	.172* (2.03)		
Ethnic fractionalization			1.22 (.585)		
Ethnic fractionalization squared			-1.58 (-.661)		
Ln GDP 75-95				.587*** (3.26)	.550*** (4.01)
Parliamentary system 95					.360*** (3.21)
Multiple terms of chief executive 95					-.164 (-.773)
Constant	-3.37 (-1.16)	-2.26 (-.886)	-3.27 (-1.07)	-8.17*** (-3.17)	-6.87*** (-3.51)
R square	.59	.82	.82	.77	.88
Adjusted R square	.47	.72	.69	.68	.82
N	36	27	27	36	36
F-statistic	4.758***	8.439***	6.227***	9.103***	14.611***

Dependent Variable: Rule of Law (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table N.3:

OLS Regression (Larger Sample) – Rule of Law

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.013*** (3.54)	.006* (1.77)	.005 (1.40)	.008*** (3.00)	.006** (2.39)
Democracy 95	.041*** (2.67)	.016 (1.09)	.013 (.864)	.005 (.402)	.011 (.770)
Economic openness 85-95	.010*** (3.00)	.007** (2.14)	.007** (2.21)	.004* (1.74)	.003 (1.41)
Sub-soil assets 95-97	-.007 (-.121)	.016 (.255)	.007 (.103)	.034 (.791)	.057 (1.36)
Oil exporter dummy	-.152 (-.426)	-.182 (-.525)	-.182 (-.514)	-.333 (-1.33)	-.415 (-1.45)
Density 96	-.0001 (-.429)	.00001 (.039)	-.00002 (-.100)	.0001 (.294)	.0001 (.324)
Ln population size	.142** (2.01)	.046 (.779)	.063 (.996)	.095 (1.88)	.062 (1.29)
Peace years (civil conflict)	.018*** (4.03)	.010** (2.46)	.010** (2.23)	.011*** (3.43)	.010*** (3.39)
Education 85-95		.227*** (6.44)	.230*** (6.17)		
Ethnic fractionalization			-.058 (-.052)		
Ethnic fractionalization squared			.127 (.101)		
Ln GDP 75-95				.629*** (9.39)	.576*** (8.30)
Parliamentary system 95					.169** (2.12)
Multiple terms of chief executive 95					.198 (1.22)
Constant	-3.40*** (-2.56)	-2.57** (-2.33)	-2.86** (-2.43)	-7.08*** (-7.08)	-6.41*** (-6.50)
R square	.51	.76	.76	.77	.81
Adjusted R square	.47	.73	.71	.74	.79
N	94	74	72	93	88
F-statistic	11.111***	22.894***	17.095***	30.766***	29.983***

Dependent Variable: Rule of Law (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix O: Regulatory Quality

Table O.1:

OLS Regression – Regulatory Quality

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.330 (1.08)	.513 (1.55)	.656* (1.94)	.223 (.813)	.119 (.466)
Democracy 95	.070*** (2.81)	.054** (2.58)	.075*** (3.14)	.042* (1.70)	.020 (.829)
Economic openness 85-95	.001 (.282)	-.001 (-.173)	.002 (.360)	.001 (.355)	.002 (.599)
Sub-soil assets 95-97	.040 (.566)	.019 (.243)	.076 (.937)	.081 (1.25)	.106* (1.77)
Oil exporter dummy	-.786 (-1.50)	-.815** (-2.19)	-.935** (-2.61)	-.680 (-1.45)	-.804* (-1.81)
Density 96	-.001 (-1.48)	-.001 (-1.14)	-.0004 (-.949)	-.0001 (-.112)	-.0004 (-.693)
Ln population size	-.027 (-.302)	-.036 (-.462)	.028 (.348)	-.0003 (-.003)	.001 (.014)
Peace years (civil conflict)	.010* (1.90)	-.001 (-.324)	-.003 (-.479)	.006 (1.16)	.005 (1.12)
Education 85-95		.116*** (2.76)	.105** (2.34)		
Ethnic fractionalization			1.891 (1.60)		
Ethnic fractionalization squared			-2.59* (-1.94)		
Ln GDP 75-95				.395*** (2.82)	.395*** (2.98)
Parliamentary system 95					.263** (2.55)
Multiple terms of chief executive 95					-.414** (-2.03)
Constant	.037 (.020)	-.302 (-1.88)	-1.98 (-1.14)	-3.56* (-1.73)	-3.25* (-1.70)
R square	.54	.80	.84	.65	.73
Adjusted R square	.41	.67	.72	.53	.61
N	36	27	27	36	36
F-statistic	4.008***	7.311***	7.056***	5.368***	5.925***

Dependent Variable: Regulatory Quality (1998-2002)

P ≤ .10*; p ≤ .05**; p ≤ .01***

Values in parentheses indicate t-scores; coefficients are rounded.

Table O.2:

2SLS Regression – Regulatory Quality

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	1.61* (1.89)	.764 (1.50)	.893 (1.70)	1.18 (1.59)	.943 (1.35)
Democracy 95	.098*** (2.68)	.059** (2.61)	.082*** (3.04)	.066* (1.90)	.039 (1.12)
Economic openness 85-95	.001 (.176)	-.002 (-.340)	.002 (.259)	.001 (.226)	.001 (.311)
Sub-soil assets 95-97	.050 (.537)	.022 (.281)	.088 (1.04)	.081 (1.03)	.106 (1.47)
Oil exporter dummy	-.738 (-1.08)	-.806** (-2.12)	-.941** (-2.58)	-.659 (-1.14)	-.802 (-1.50)
Density 96	-.001 (-.887)	-.0004 (-.949)	-.0004 (-.914)	-.0001 (-.074)	-.0003 (-.435)
Ln population size	-.030 (-.262)	-.050 (-.609)	.024 (.285)	-.008 (-.082)	-.010 (-.113)
Peace years (civil conflict)	-.001 (-.124)	-.004 (-.620)	-.005 (-.732)	-.002 (-.230)	-.001 (-.166)
Education 85-95		.110** (2.51)	.095* (1.95)		
Ethnic fractionalization			1.87 (1.56)		
Ethnic fractionalization squared			-2.70* (-1.97)		
Ln GDP 75-95				.334* (1.89)	.363** (2.24)
Parliamentary system 95					.239* (1.80)
Multiple terms of chief executive 95					-.435* (-1.74)
Constant	-1.06 (-4.32)	-.193 (-1.18)	-2.00 (-1.13)	-3.79 (-1.50)	-3.49 (-1.51)
R square	.55	.79	.83	.58	.67
Adjusted R square	.29	.68	.71	.42	.52
N	36	27	27	36	36
F-statistic	2.730**	7.061***	6.763***	3.784***	4.306***

Dependent Variable: Regulatory Quality (1998-2002)

$P \leq .10^*$; $p \leq .05^{**}$; $p \leq .01^{***}$

Values in parentheses indicate t-scores; coefficients are rounded.

Table O.3:

OLS Regression (Larger Sample) – Regulatory Quality

<i>Independent Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>
Social capital	.008*** (3.08)	.003 (1.14)	.003 (1.22)	.004** (2.11)	.005** (2.08)
Democracy 95	.050*** (4.48)	.038*** (3.78)	.037*** (3.41)	.020** (2.14)	.016 (1.25)
Economic openness 85-95	.006*** (2.81)	.005** (2.35)	.005** (2.23)	.003 (1.41)	.003 (1.38)
Sub-soil assets 95-97	.026 (.583)	.097** (2.29)	.105** (2.34)	.047 (1.42)	.059* (1.66)
Oil exporter dummy	-.197 (-.754)	-.100 (-.417)	-.097 (-.388)	-.366* (-1.87)	-.442* (-1.82)
Density 96	.00002 (.124)	.0001 (.432)	.0001 (.359)	.0001 (.920)	.0001 (.540)
Ln population size	.068 (1.32)	.006 (.151)	.008 (.176)	.022 (.568)	.019 (.455)
Peace years (civil conflict)	.008*** (2.52)	.003 (.931)	.002 (.755)	.004 (1.63)	.003 (1.37)
Education 85-95		.140*** (5.72)	.134*** (5.09)		
Ethnic fractionalization			.211 (.271)		
Ethnic fractionalization squared			-.447 (-.505)		
Ln GDP 75-95				.444*** (8.49)	.415*** (7.07)
Parliamentary system 95					.126* (1.86)
Multiple terms of chief executive 95					-.213 (-1.55)
Constant	-1.69* (-1.74)	-1.13 (-1.47)	-1.09 (-1.32)	-4.06*** (-5.19)	-3.68*** (-4.41)
R square	.51	.76	.76	.74	.74
Adjusted R square	.47	.73	.71	.71	.70
N	94	74	72	93	88
F-statistic	11.235***	22.754***	17.126***	26.137***	19.575***

Dependent Variable: Regulatory Quality (1998-2002)

P_≤.10*; p_≤.05**; p_≤.01***

Values in parentheses indicate t-scores; coefficients are rounded.

Appendix P

Data Description and Sources

<i>Name</i>	<i>Variable</i>	<i>Source</i>	<i>Description</i>
Gov98024	Governance	Kaufmann et al. (1999, 2003)	Governance 1998-2002 (dependent variable) Generated via factor analysis from four single indicators (government effectiveness, rule of law, regulatory quality, control of corruption)
Trust	Trust	World Values Survey (Wave 3: 1995-1997); v27	Trust in other people. Coded 2 for trust and 1 for lack of trust
Vol_any	Membership in voluntary organizations	World Values Survey (Wave 3: 1995-1997); v28-36	Participation in any of the nine categories of voluntary organizations. Coded 2 for active, 1 for regular and 0 for non-membership
Soccap1	Social capital	World Values Survey (Wave 3: 1995-1997)	Multiplicative indicator, combining trust and membership in voluntary organizations
Op85_95	Economic openness	World Development Indicators (WDI) 2000	The sum of exports and imports as a share of GDP (total trade to GDP)
Ore_gdp	Sub-soil assets	World Development Indicators (WDI) 2000	General resource abundance indicated by the percentage of ore and metal of all merchandise exports (1995-1997). Relative to GDP
Exporter	Oil exporter dummy	World Bank Global Development Network Growth database (GDN); coded by Easterly and Sewadeh (1995)	Oil dependency dummy. 1 if an economy is dominated by the revenues from the export of fuels (mainly oil) and 0 if it is not.

Cw_py95	Peace years (civil war)	Gleditsch et al. (2002)	Years since the last occurrence of civil conflict (internal and internationalized internal conflict)
Tyr85_95	Education	Barro and Lee (2000)	Average schooling in the total population above the age of 15.
Ln_gdp	GDP per capita	WDI 2000	GDP per capita, PPP (current international \$)
Dens96	Population density	WDI 2000	Midyear population divided by land area in square kilometers
Ln_Pop95	Population size	WDI 2000	All residents of a country regardless of legal status or citizenship
F_frac and f_frac2	Ethnic fractionalization	Fearon 2003	Ethnic fractionalization: “the probability that two individuals selected at random from a country will be from different ethnic groups.”
Polity95	Democracy	Polity IV (Jagers and Marshall 2000)	The degree of democracy (calculated as democracy minus autocracy score)
System95	Type of political system	Beck et al. (2000)	Presidential system coded as 0, assembly elected President 1, Parliamentary system 2.
Multpl95	Reelection	Beck et al. (2000)	Multiple terms of chief executive (dummy variable)
Pro	Protestantism	La Porta et al. (1997, 1998)	Percentage of Protestants in the total population