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# The Quality of Government in East Asia

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# Abstract:

In their study, the Quality of Government, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W, Vishny (La Porta 1998) investigated empirically the determinants of the quality of governments in a large cross-section of countries and regions of the world. We empirically test the theory of La Porta et al, with a focus on 16 East Asian countries and regions. Specifically, We test if La Porta's model fits my sample, and good government performance would lead to high economic growth.

# 1 Introduction and overview:

In their study, *the Quality of Government*, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W, Vishny (La Porta 1998) investigated empirically the determinants of the quality of governments in a large cross-section of countries and regions of the world. They started their research with the questions how and why some countries have good governments and others do not, and how history and culture of countries influence governments' performance. The authors define "a good government" as one which contributes to economic development, intervenes in the private sector as little as possible, lowers social inequality, secures property rights, and keeps taxes low and regulations few, and includes all other various aspects of the quality of governments. A good government, or government performance, was measured using the following five categories: interventionism, public sector efficiency, quality of public good provision, government size, and political freedom. The authors attempted to assess these five categories in terms of the following three points of view: economy, politics, and culture. Further, they divided each of the five categories into a few variables: property rights, business

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regulations, and top marginal tax rate to measure governmental intervention; corruption, bureaucratic delays, tax compliance, and average government wages/GDP per capita to measure public sector efficiency; infant mortality, school attainment, illiteracy, and infrastructure quality to measure quality of public good provision; transfers and subsidies/GDP, government consumption/GDP, state-owned enterprises (SOEs) in the economy, and public sector employment/total population to measure the size of governments; and democracy and political rights to assess political freedom. For the independent variables, they used three kinds of variables: ethnolinguistic fractionalization (EF), legal origins, and religion. The legal origin variables include English, Socialist, French, German, and Scandinavian. Religion includes Catholic, Protestant, Muslim, and other denominations.

They found that "the quality of government across countries varies in systematic ways from the perspective of promoting development." Their main findings are: rich countries show better performance of government than poor countries; better governments tend to exist in ethnolinguistically homogeneous countries than the heterogeneous ones; countries with British legal origin have better governments than the ones with French origin; and better governments exist in predominantly Protestant countries rather than in countries that have predominantly either Catholic or Muslim population. These results reveal apparent evidence of systematic influence of historical circumstances, such as ethnolinguistic heterogeneity, legal origins, and religion, on the quality of government. As a whole, their results also support the political theories that ethnolinguistic heterogeneity and legal origin play a vital role in influencing government is, the larger the government is and the higher the taxes are.

The study undertaken by these authors is interesting, and we were therefore interested in finding out if their results could apply to the East Asian countries. East Asian countries have witnessed great economic development in the past decade. We know that good economic conditions often rely on good institutions. We stipulate in this paper that East Asian countries have a better economic situation that correlates positively with government performance. These countries share similar characteristics and values, such as Buddhism, Confucianism, European colony backgrounds, family-oriented societies, export-oriented development like the Japanese style, etc. All of these points would, in my opinion, imply different results from La Porta's study. As Deepak Lal pointed out, institutions and culture are tightly connected. Institutions in East Asia, which have different cultural background from the rest of the world, would show unique performance.

In the next section, we discuss the theories of institutions. Then, we discuss the model and explain the data, as well as all the variables we have used in this paper, before we present

regression results. Finally, we draw a general conclusion about the quality of government in East Asia, from the combined perspectives of ethnolinguistic fractionalization, legal origin, and religion.

# 2 Theories of Institutions

Among many theories of institutional development developed by various social scientists, the authors divided the appropriate theories into three categories: economic, political, and cultural. This is because economic theories are used to measure social efficiency; political theories measure redistribution toward influential political groups; and cultural theories evaluate social beliefs and values. These theories interact with one another and "are consistent with economics more broadly in the sense that political actors pursue their selfish objectives in light of their beliefs." (La Porta et al. 1998)

Economic theories of institutions are used to measure social efficiency. As La Porta suggests, the costs of governmental activities should not exceed the benefits. In other words, governments should not have deficits when they provide service for citizens. Institutions must be efficient enough to be considered as governments of good quality.

Political theories of institutions suggest, "Institutions and policies are shaped by those in power to stay in power and to amass resources." (La Porta et al. 1998) The political system of government strongly affects the quality of government because the goals that a government attempts to achieve and the political components of a government are different from those of other governments with different political systems. "To Marx, societies are divided into social classes, and policies are designed by the ruling class." (La Porta et al. 1998) One of the most common concepts of the political theories is that social groups in political power shape policies for their own benefit when they have sufficient power, but not for those who does not have.

Countries that experienced European absolutism had religious groups and an aristocracy that restricted some of autocratic control. Property rights as well as political rights were given to the societies in these countries to some extent. Consequently, French civil law was developed to constrain such rights of the subjects by the sovereigns.

On the contrary, British common law was developed "as a mechanism of protecting the subjects from the crown." (La Porta et al. 1998) This contributes to the moment that the aristocracy overturned the crown's British government, resulting in a less intervening institution with more political freedoms and more efficient bureaucratic systems. These are examples of institutions and policies being tightly connected to their histories and cultures.

Political and economic theories of institutions are closely related and overlap with some similar

features. As La Porta and colleagues claimed, taxation is considered an economic activity as well as a political activity. Further, political theories can be used to explain "the existence of inefficient, interventionist, and distortionary policies that are put in place not because they raise the social product but because they redistribute it." (La Porta et al. 1998)

Finally, cultural theories of institutions are a measure for social beliefs and values. Referring to Weber (1958), La Porta and his colleagues state that beliefs and ideas are conducive to good government in societies. "When these beliefs are highly pervasive and persistent, they get to be called 'culture." (La Porta et al. 1998)

There are two well-known authors of the cultural theories: Robert Putnam (1993) and David Landes (1998). Putnam's argument is that religion, or religious organizational systems, could have an influence on social value such as in trust and thus in the decision-making process. The higher the trust on strangers in society is, the better the government performance is. (Knack and Keefer 1997; La Porta et al. 1997) On the other hand, Landes suggested that Catholic and Muslim countries were threatened by an emerging religion, Protestant, and were, therefore, experiencing intolerance, xenophobia, and closed-mindedness against it. Protestants pushed Catholics and Muslims off from prosperity toward a decline.

Referring to Landes (1998), La Porta and his colleagues maintain that many cultural aspects of institutions and policies are, again, tightly linked with political issues. Intolerance or xenophobia can easily turn into radical political movements.

As a whole, these three aspects, economic, political, and cultural, are tightly connected with one another. Thus, it is wise to see government performance with the three aspects.

# **3** The Model

In line with La Porta's paper, we use the following model:

$$y_1 = b_1 + b_2(x_1) + b_3(x_2) + b_4(x_4)$$
$$y_1 = b_1 + b_2(x_1) + b_3(x_3) + b_4(x_4)$$

where:

- $x_1$  is ethnolinguistic fractionalization
- $x_2$  is legal origin
- $x_3$  is religion
- $x_4$  is log GNP per capita and
- $y_1$  is government performance

Following La Porta's study, Table 1 lists both the dependent variables and independent variables used in this paper. We changed the religious variables to reflect the uniqueness in East Asia. In general, Catholicism and Protestantism are both considered being Christianity in East Asia, so we categorized them as one, as Christianity. We have also added Buddhism to the religious variable because it is the most popular religion in East Asia. However, we must note that Buddhism often includes local religions because Buddhism was mixed with those religions when it spread out. For example, China and Taiwan have strong influence from Taoism, and Buddhism was incorporated into Taoism. Similarly, Japan already had a local religion, Shintoism, when Buddhism was introduced in 549 AD. However, Buddhism gradually merged into Shintoism, and both of them have coexisted in harmony since then, except for the time of its imperialism between the Meiji Restoration and the end of WWII. Moreover, socialist countries usually do not allow freedom of beliefs, so that people in socialist nations are officially considered atheists. Since it does not reflect the reality, we obtained the data from religious organizations.

Most of the data are from the meltdown file used in class, except for the following. (See La Porta's Table 1) Tax evasion index is from Global Competitiveness Report 1999. Democracy index is from the SPE database in CGU. The data for religion are from various sources. (See Table 2 in this paper) Moreover, there were some correlation problems, so that we did sensitivity analysis and dropped redundant variables.

In this section, the regressions of determinants of government performance on ethnolinguistic fractionalization (EF), legal origin, and religion, are presented. We intend in this paper to follow La Porta's methodology in order to compare their results inherent to a large number of countries and regions in the world with my study, which is exclusive to sixteen East Asian countries. We include a control variable, per capita income, to see if the economic theory of institutions that development improves government performance holds in East Asia. As La Porta pointed out, however, good policies themselves enhance per capita income. "Including income in the regressions together with other determinants of performance would then spuriously reduce the estimates of the impact of these determinants on the quality of government." Therefore, we run regressions both with and without per capita income and tried to see how different the results would be.

We presented the regression results in Table 4 and 5. As La Porta stated, religions and legal origins are highly correlated with each other, and EF is not correlated with either religious or legal origin. Therefore, we run regressions on two combinations of the independent variables, EF and legal origin as well as EF and religions respectively.

Table 4 shows the relationship between government performance and EF and legal origin. The

most important findings are as follows:

Category 1) Interference with the private sector

1-i) Model 1 (Specification 1): Property right index on EF and legal origin

This result is the same as La Porta's. The German legal origin has a positve impact on the property right. The index used for this analysis is that the more protection private property receives, the lower the score, so the figure indicates a negative sign. This result is understandable since in East Asia if we consider that Japan, South Korea, and Taiwan comparatively as the most developed countries, they all adopted the German legal origin.

In La Porta's work, French, Socialists, and EF have a negative impact on the property right. However, they were not significant in my model. As for EF, we found a negative and insignificant result. Thus, except for the German, none of the other legal origins influences the property rights protection in this region. Even countries with high EF, EF does not have much of an impact on the property rights.

1-ii) Model 1 (Specification 2) : Property right index on EF and legal origin with log GNP/capita

The result was that per capita income has a positive impact on the property rights protection, no matter what legal origin a country has and no matter how high EF is. La Porta shows per capita income also has a positive impact on the property rights, while Socialists and French legal origins have a negative impact on them.

2-i) Model 2 (Specification 1): Business regulation index on EF and legal origin

My result shows that the English and German have a positive impact on business regulations, which means that the English and German legal origin countries more straightforward business regulations. Developed nations in Asia have either the German or English legal origin. Developed countries usually have good business regulations for good economy, so my result explains this fact. On the other hand, La Porta shows that EF, Socialists, and French legal origins have a negative impact on business regulations. However, his work does not show significant result of the English and German origin nations. My EF is negative but insignificant. 2-ii) Model 2 (Specification 2): Business regulation index with log GNP/capita

When we add per capita income, we eliminated the outliers by using Cook's distance criteria. The English legal origin and per capita income turned out to be negative and significant, while German is positive but does not explain much of the business regulations. This is probably because countries with the English legal system such as Hong Kong and Singapore have freer markets and easier access to the markets than heavily regulated German origin countries such as Japan and South Korea do.

3-i) Model 3 (Specification 1): Top tax rate on EF and legal origin

The result was that the German legal origin countries impose more tax than other legal origin

countries. La Porta shows the Scandinavian and Socialists legal origin nations tax more than other legal origin countries. Both they and we have positive, insignificant effect of EF. EF does not matter for tax.

3-ii) Model 3 (Specification 2): Top tax rate on EF and legal origin with log GNP/capita

When we add per capita income and Cook's distance criteria, German has a positive and significant effect, and per capita income has negative and significant value. This indicates that Japan, South Korea, and Taiwan have high top tax rates. My EF turns out to be negative and insignificant, while La Porta's EF is positive and significant. This suggests that the higher EF, the more tax in the world. Relatively more transaction costs and public costs are needed if there is high EF in a country. However, my result suggests that governments may not pay much attention to minority groups in their countries, because the source of public costs, tax, is not affected by EF.

Category 2) Efficiency:

4-i) Model 4 (Specification 1): Corruption on EF and legal origin

My result was that the French legal origin has a negative impact on corruption, which means that the governments with this legal origin tend to be more corrupted. EF does not have an impact on corruption, although EF is negatively related with corruption. La Porta shows EF has a negative impact on corruption, which means that the more homogeneous the country is, the more corruption.

4-ii) Model 4 (Specification 2): Corruption on EF and legal origin with log GNP/capita When adding per capita income, Socialist, French, and per capita income turn out significant. French has a negative value, while the other two have positive ones. The higher per capita income, the higher corruption, which is the same result as La Porta's work. My result suggests that Socialist countries tend to be corrupted, as well, but La Porta's result does not show that.

5-i) Model 5 (Specification 1): Tax evasion on EF and legal origin

The English legal origin has a positive effect on the increase in tax evasion, which is not suggested by La Porta's work. La Porta's work suggests that high EF, Socialists, and French legal origin countries have a tendency of tax evasion.

5-ii) Model 5 (Specification 2): Tax evasion on EF and legal origin with log GNP/capita

Adding a per capita income variable, we find that German has a negative and significant effect on tax evasion, and that per capita income has a positive and significant effect on it. German legal origin countries tend to have low tax evasion, and the more per capita income, the more tax evasion.

As a summary, EF tends to have a negative and insignificant effect on efficiency in East Asia, while La Porta's results show a negative and significant effect on it. Thus, in East Asia, EF

does not influence much of government efficiency. Countries with the French legal origin have higher possibility of corruption, while those with the English origin tend to evade tax.

Category 3) Output of public goods:

6-i) Model 6 (Specification 1): Infant mortality on EF and legal origin

EF and English are the important variables to explain the dependent variable. EF is positively related to infant mortality, while English is negatively related. This means that the higher EF, the higher infant mortality, and English legal origin nations tend to have low infant mortality. French is negatively and insignificantly related with the dependent variable in East Asia, while La Porta shows that it is positively and significantly related worldwide. This means that a country with French legal origin in East Asia seems to have lower infant mortality, while a country with that in the world tends to have significantly higher infant mortality. My result on EF is the same as La Porta's: the higher EF, the higher infant mortality.

6-ii) Model 6 (Specification 2): Infant mortality on EF and legal origin with long GNP/capita

Same as La Porta's. The higher per capita income, the lower infant mortality. Again, French legal origin does not explain infant mortality in Asia, while it does explain negative relation with it worldwide.

7-i) Model 7 (Specification 1): Illiteracy rate on EF and legal origin

Socialist has a positive, significant effect on illiteracy. In La Porta's paper, Socialist has an insignificant effect on illiteracy. They show a positive, significant effect of EF on illiteracy. My result shows that EF has a positive but insignificant effect on the dependent variable.

As a summary of this section, the higher EF is, the higher infant mortality is. Unlike the theory, illiteracy rate is not affected by EF. Socialist legal origin has higher mortality rate, and English origin has low mortality rate. Output of public goods improves when a country becomes richer, and EF and legal origin are unimportant to explain the dependent variable.

7-ii) Model 7 (Specification 2): Illiteracy rate on EF and legal origin with log GNP/capita

With per capita income as a control variable, no variables can significantly explain illiteracy rates. On the other hand, La Porta's work shows that the higher EF, the higher illiteracy, and that the higher income, the lower illiteracy. The German legal origin has a negative impact on illiteracy.

Category 4) Size of public sector:

8-i) Model 8 (Specification 1): Transfers and subsidies on EF and legal origin

No independent variable has significant explanatory power for the variable transfers and subsidies. On the other hand, La Porta shows that Socialists has a tendency of big transfers and subsidies, and homogeneous countries tend to have higher transfers and subsidies.

8-ii) Model 8 (Specification 2): Transfers and subsidies on EF and legal origin with log

## GNP/capita

With per capita income as a control variable and Cook's distance criteria in this model, all the independent variables turn out to be significant. French has negative effect, while the others have positive effects. This means that a country with the French legal origin tends to have small transfers and subsidies, while a country with the German legal origin and/or high per capita income and/or heterogeneity has big transfers and subsidies. With the per capita income variable in, my result shows that high EF and German origin have a positive impact on Transfer and subsidies. On the other hand, Socialists and per capita income have a positive effect on transfers and subsidies. This indicates that Socialists tend to have greater transfers and subsidies, and also that the richer the country, the bigger the government transfers and subsidies.

9-i) Model 9 (Specification 1): Government consumption on EF and legal origin

French has a negative effect on government consumption, while EF and German have positive ones. There are only two countries that adopted the French legal system in this region, which are Philippines and Indonesia. The sample is small and therefore, the variable in consideration does not have enough weight to drive the predicted results. Additionally, these are island nations, so that they have to spend more money in making available public facilities on every island. In La Porta's test, German has a negative effect on government consumption. Also, EF has a negative sign in his test.

9-ii) Model 9 (Specification 2): Government consumption on EF and legal origin with log GNP/capita

After adding the per capita income variable, the results did not change in my test. For La Porta's result with per capita income included, Socialists has a negative effect on the consumption. This indicates that the richer a Socialist country is, the more the government consumes. In this region, China is a good example for it.

10-i) Model 10 (Specification 1): SOEs in the economy on EF and legal origin

English and French show a positive impact on SOEs. EF has a negative impact on the dependent variable. Countries with a homogeneous society tend to have SOEs on a large scale. La Porta Shows EF and Socialists have a negative effect on SOEs.

As a summary of this section, countries with German legal origin such as Japan and South Korea may be explained by the fact that the Japanese type of development used government expenditure as a tool of growth. The higher EF, the higher government consumption in East Asia. A country with French legal origin tends not to increase government consumption. The higher EF, the lower the SOEs.

10-ii) Model 10 (Specification 2): SOEs in the economy on EF and legal origin with log GNP/capita

After adding per capita income, the result does not change. For La Porta's, EF and Socialists have a negative effect, and per capita income has a positive effect.

Category 5) Political freedom

11-i) Model 11 (Specification 1): Democracy index on EF and legal origin

Socialist has a negative, significant effect on democracy. La Porta's result shows that EF, Socialists, and French have negative and significant effects on democracy.

11-ii) Model 11 (Specification 2): Democracy index on EF and legal origin with log GNP/capita With per capita income as the control variable, my result does not have any variables to explain democracy. On the other hand, La Porta shows Socialists, French, and German have a negative impact and income per capita has a positive impact on democracy.

12-i) Model 12 (Specification 1): Political rights index on EF and legal origin

German has a positive effect on political index. On the other hand, La Porta shows that German has a positive effect, and that EF has a negative effect. The higher EF, the less politica rights.

As a summary in this section, a country with German legal origin has more political rights. This result shows that developed countries in this region which are Japan, South Korea, and Taiwan, have more political rights than the rest of the countries in the sample. Ethnolinguistic fractionalization both in my and the authors' tests has a negative impact on democracy and political rights, though the authors' have significant effect. With an increase in income, EF or legal origin does not matter to political freedom. Singapore is a good explanation for this. Even though it became rich, its political system is far from being called democracy. Without an increase in income, political freedom worsens especially Social legal origin.

12-ii) Model 12 (Specification 2): Political rights index on EF and legal origin with log GNP/capita

When adding per capita income as a control variable, German still has a negative, significant effect. For La Porta, per capita income has a positive effect on political rights.

Next, Table 5 shows the relationship between government performance and EF and religion. Outstanding findings are as follows:

Category 1) Interference with the private sector:

1-iii) Model 1 (Specification 3): Property right index on EF and religion

My result shows that none of independent variables explain property rights. On the other hand, La Porta shows that EF, Catholic, Muslim and other religions have a negative impact on property rights.

1-iv) Model 1 (Specification 4): Property right index on EF and religion with log GNP/capitaWith per capita income in the model, per capita income, EF, and Christianity have a

negative impact on property rights. The more homogeneous a country is, the worse property protection is. Christian countries tend to have better property protection. Per capita income improves property rights. On the other hand, La Porta does not show any significance of religion in this model, but EF and per capita income have a positive effect.

2-iii) Model 2 (Specification 3): Business regulation index on EF and religion

My result shows that none of independent variables explain business regulations. On the other hand, La Porta shows that EF and Muslim have a negative impact on business regulations. This indicates that a country with high EF or high Muslim population tends to have worse business regulations than others.

2-iv) Model 2 (Specification 4): Business regulation index on EF and religion with log GNP/capita

Even with the per capita income variable, either EF or the religious variables do not turn significant. Per capita income has a negative effect on business regulations. This indicates that richer countries tend to have better business regulations. While authors' work shows EF has a negative and significant effect on business regulations, my result does not have a significant effect on the dependent variable.

3-iii) Model 3 (Specification 3): Top tax rate on EF and religion

EF shows a negative and significant effect on top tax rate. This means that homogeneous countries tend to collect less tax. La Porta's work shows that Catholic has a negative impact on the dependent variable.

3-iv) Model 3 (Specification 4): Top tax rate on EF and religion with log GNP/capita

After adding per capita income, EF has a positive and significant effect, while Buddhism, Muslim, and per capita income have a negative and significant effect.

As a summary of this section, EF, as well as Christianity and Buddhism, has a negative impact on the interference with the private sector in East Asia, which means that EF makes governmental interference lower when a country becomes richer. Also, when the percentages of Christianity and Buddhism are high, property rights and top tax rate are low. On the other hand, the authors' work shows that Catholic has a negative impact on top tax rate.

Category 2) Efficiency:

4-iii) Model 4 (Specification 3): Corruption on EF and religion

None of my results is significant. La Porta shows that EF, Catholic, Muslim and other religions have negative an impact on corruption. The signs for the coefficients of the independent variables are the same as in La Porta's. However, they are not all significant, except for EF. La Porta's EF is positively correlated with corruption-the dependent variable, my model, conversely, shows that it is negative and insignificant, as well. This suggests that EF

does not have a significant impact on corruption in Asia, in general.

4-iv) Model 4 (Specification 4): Corruption on EF and religion with log GNP/capita

The coefficient for Per capita income is positive and is significant. My model does not reveal that any of the other coefficients is significant, and so are La Porta's results.

5-iii) Model 5 (Specification 3): Tax evasion on EF and religion

Using Cook's distance criteria to eliminate the outliers, we find that Christianity has a positive and significant effect on tax evasion. Countries with a higher majority of Christians, in this case Catholics and Protestants have a higher rate of tax evasion than other countries where they are a minority. This result is replicated in La Porta's paper.

5-iv) Model 5 (Specification 4): Tax evasion on EF and religion with log GNP/capita

With Per capita income as the control variable, the coefficient for the percentage of Muslims in the population has a positive and significant impact on the tax evasion index. Thus, an increase in the percentage of Muslims increases tax evasion by a significant rate. However, La Porta's work shows that only per capita income has a positive and significant effect on tax evasion. Consequently, neither EF nor religion affects tax evasion.

Category 3) Output of public goods:

6-iii) Model 6 (Specification 3): Infant mortality on EF and religion

With Cook's distance criteria, Christianity has a negative and significant effect on infant mortality. This means that the more Christianity, the less infant mortality. According to La Porta's work, the higher EF is, the higher infant mortality is. My result does not show significant effect of it on infant mortality. It is rather negatively correlated.

6-iv) Model 6 (Specification 4): Infant mortality on EF and religion with long GNP/capita

The model predicts a negative correlation between the variables per capita income and infant mortality. La Porta's results show that with per capita income as a control variable, the coefficients for Muslim and EF still remain positive for infant mortality. This result is intuitive as richer countries allocate more money to their health infrastructure and hence reduce infant mortality. On the other hand, and as per capita income is negatively correlated with the variables percentage of Muslims and EF, we will expect it to be also positively correlated with infant mortality.

7-iii) Model 7 (Specification 3): Illiteracy rate on EF and religion

The sensitivity analysis revealed that none of the variables is significant. La Porta and al show that EF and Muslim have a positive and significant effect on the illiteracy rate variable. My model generates small and negative coefficients for EF.

As a summary of this section, we find that EF does not have a significant effect on output of public goods in East Asia. Moreover, even when income increases, income does not seem to have an effect on the output of public goods.

7-iv) Model 7 (Specification 4): Illiteracy rate on EF and religion with log GNP/capita

The coefficients for the variables containing information on the different religious denominations and EF are not significant and hence, the model does not expose any relationship between literacy rate and on the other hand, EF and religion with income per capita as the control variable.

Category 4) Size of public sector:

8-iii) Model 8 (Specification 3): Transfers and subsidies on EF and religion

When transfers and subsidies are regressed on EF, Christianity, and Buddhism, EF and Christianity have a negative and significant effect on the dependent variable. This means that when a country has a high EF or a high Christian population, they are likely to also have low transfers and subsidies. All other coefficients are not significantly related to the dependent variable.

8-iv) Model 8 (Specification 4): Transfers and subsidies on EF and religion with log GNP/capita

Christianity for this model is negatively correlated with the variable Transfers and subsidies. This goes counter to La Porta's results, which show that none of the variables he used is significant. An explanation would be to conjecture that because Buddhism is the most prominent religion in the countries of the sample used here Christianity, as an explanatory variable does not have enough weight to drive the results.

9-iii) Model 9 (Specification 3): Government consumption on EF and religion

When government consumption is regressed on EF, Muslim, and Buddhism, EF has a positive and significant coefficient and Muslim has a negative and significant effect on the dependent variable. This could find explanation in the fact that most Muslim countries have a smaller government, in terms of size, compared to the more developed countries.

9-iv) Model 9 (Specification 4): Government consumption on EF and religion with log GNP/capita

Surprisingly, the model does not disclose any significant coefficients for this model. As opposed to La Porta's results that show that in this case the percentage of Catholics and Muslims is negative is significant.

10-iii) Model 10 (Specification 3): SOEs in the economy on EF and religion

In this model, neither religion nor EF affects SOEs. However, and even when income per capita increases, all the independent variables, except for per capita income, do not affect the size of government. An interesting result is the finding that as per capita income increases, in the countries of my sample, SOEs increase as well. This result is also replicated in La Porta's paper, which reveals that the relationship between SOEs and EF and religion is consistent

throughout countries, religion and governments.

10-iv) Model 10 (Specification 4): SOEs in the economy on EF and religion with log GNP/capita

Using per capita income as the control variable, we find, in contrast to La Porta, that none of the coefficients for EF and religion is significant.

Category 5) Political freedom:

11-iii) Model 11 (Specification 3): Democracy index on EF and religion

Religions and EF do not have any significant impact on SOEs in Asia, in general. Socialist countries do not allow citizens to freely practice religion, and some countries like Japan have adopted atheism and so since after the Second World War as their economy took off. 11-iv) Model 11 (Specification 4): Democracy index on EF and religion with log GNP/capita

Likewise, none of the results of this model is significant. La Porta's paper, however, shows that Muslim is negatively correlated with democracy.

12-iii) Model 12 (Specification 3): Political rights index on EF and religion

Political rights is negatively correlated with EF and positively correlated with Muslim. Interestingly, La Porta's results show that EF, Catholics and Muslim are negatively correlated with political rights.

12-iv) Model 12 (Specification 4): Political rights index on EF and religion with log GNP/capita With per capita income as the control variable, the variable political rights is negatively correlated with EF and positively correlated with Muslim and Christian variables.

In summary, democracy is not affected by religion or EF, even when income per capita increases. However, with an income increase, religion increases political rights but EF decreases it.

## 4 Conclusion:

Following La Porta and al, we adopted per capita income as the control variable. It revealed to be a wise choice as per capita income is significant in most cases, in order to see how economic development affects government performance. My data show that rich countries tend to have better governments than poor ones. Government performance is not affected by ethnolinguistic differences – i.e. homogeneity or heterogeneity-. In the La Porta's paper, it is affected by an ethnolinguistic factor. Religious variables tend to indicate a lower government interference with the private sector and to have insignificant influence on most of the cases of government performance. Especially, we find it interesting that Buddhism hardly has an impact on government performance, even though it is the dominant religion of the countries in the sample.

As the theory predicts, legal origins have even more influence on government performance. In general, for Socialist, French, and English legal origins my results coincide with those of La Porta. However, the German legal origin variable stands out as more robust than La Porta's findings. The countries, which adopted the German legal system, have greater governmental intervention than the rest. This is consistent, for example, with the Japan's economic system. The Japanese government heavily intervened, throughout the last half of the twentieth century, in regulating the industries in order to achieve economic growth. Moreover, this practice found echo in the other Asian countries as they aspired to copy the Japanese economic miracle.

Economic growth often has an impact on the government performance but not all the aspects of the government's performance. Above all, major finding in this paper is that, contrary to what the political theories predict, ethnolinguistic heterogeneity does not have a significant influence on the quality of government for throughout most of the models. Especially when income per capita increases, ethnolinguistic fractionalization becomes insignificant. East Asian countries have had rapid economic growth in the past decade, so that the impact of ethnolinguistic fractionalization on the government performance was minimal. This could be overlooked in further analysis on East Asian countries.

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# Table 1.Data for dependent variables

1) Interference with private sector:

▲Property rights index:

 $\Rightarrow$ A rating of property rights in each country on a scale from 1 to 5.

 $\Rightarrow$ The more protection private property receives, the high the score.

▲Business regulation index:

 $\Rightarrow$ A rating of regulation policies related to opening a business and keeping open a business on a scale from 1 to 5.

 $\Rightarrow$ Higher score means that regulations are straightforward and applied uniformly to all businesses.

▲Top marginal tax rate: ⇒Top marginal tax rate for each country in 1994.

2) Efficiency:

▲Corruption:

Corruption in government index on a scale from 0 to 10.

 $\Rightarrow$ Low ratings indicate high government officials are likely to demand special payments, and illegal payments are generally expected thought lower levels of government in the form of bribes, etc.

▲Tax evasion:

 $\Rightarrow$ Assessment of the level of tax evasion on a scale from 0 to 7. 1=strongly disagree; 7=strongly agree

3) Output of public goods:

▲Log of infant mortality:

 $\Rightarrow$ Logarithm of the number of deaths of infants under one year of age per one thousand live births for the years 1970-1998

▲Illiteracy rate: ⇒Average of adult (15 years old and above) illiteracy rate for the years 1990-2000

4) Size of public sector:

▲Transfers and subsidies/GDP:

 $\Rightarrow$ Total government transfers and subsidies as a percentage of GDP on a scale from 0 to 10.

▲Government consumption/GDP: ⇒Government consumption expenditures as a percentage of GDP on a scale from 0 to 10.

▲SOEs in economy:

 $\Rightarrow$ Index of state-owned enterprises as a share of the economy on a scale from 0 to 10.

5) Political freedom:

▲Democracy index:

 $\Rightarrow$ Average of democracy score for the period 1970 - 1994 on a scale from 0 to 10.

▲Political rights index:

 $\Rightarrow$ Higher ratings indicate countries that come closer to the ideals such as:

a) free and fair elections

b) those elected rule

c) existence of competitive parties, etc.

## **Determinants:**

1) Ethnolinguistic fractionalization:

 $\Rightarrow$ Average value of five different indices of ethnolinguistic fractionalization. Its value ranges from 0 to 1.

 $\Rightarrow$ The five components indices are:

- i) index of ethnolinguistic fractionalization in 1960, which measures the probability that two randomly selected people from a given country will not belong to the same ethnolinguistic group (index is based on the number and size of population groups as distinguished by languages)
- ii) probability of two randomly selected individuals speaking different languages
- iii) probability of two randomly selected individuals do not speak the same languages
- iv) percent of the population not speaking the official language
- v) percent of the population not speaking the most widely used language

# 2) Legal origin:

⇒Identifies the legal origin of the Company Law or Commercial Code of each country

- i) English legal origin
- ii) Socialist legal origin
- iii) French legal origin
- iv) German legal origin

## 3) Religion:

 $\Rightarrow$ Identifies the percentage of the population of each country that belonged to the three most widely spread religions in Asia in 2001

- i ) Christianity
- ii) Muslim
- iii) Buddhism

### **Economic Development:**

1) Log GNP per capita:

 $\Rightarrow$ Logarithm GNP per capita expressed in current US dollars for the period 1970-1995.

## Table 2.

### Tax evasion:

Tax evasion is minimal. (1= strongly disagree; 7+ strongly agree) The Global Competitiveness Report 1999 (See pp.244)

## Democracy index:

Average of democracy score for the period 1973-1995. Scale from 0 to 10, with lower values indicating a less democratic environment. Source: For Bangladesh, China, India, values indicating a less democratic environment. Source: For Bangladesh, China, India, Singapore, Sri Lanka, and Thailand, "http://spe.cgu.edu/spedata/excel/RPC2000all.xls (Kuglar and Feng)

### Religion:

Identifies the percentages of the population of each country that belonged to the four most widely spread religions in Asia in 2001.

Sources: CIA Factbook 2001;

PRS Country Summaries 2001 (Azerbaijan);

Department of Statistics, Prime Minister Department of Malaysia. 2001 (Malaysia);

Latimer Clarke Corporation Pty Ltd, 1993-2001 (Singapore);

China's State Bureau of Religious Affairs cited by New Government Statistics on China's Christians, May 3, 2002 (China);

Religious Freedom World Report 2001 by the International Coalition for Religious Freedom, and Adherents.com (Vietnam);

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Population Statistics 1999/2000 (North Korea):

"http://www.library.uu.nl/wesp/populstat/Asia/nkoreag.htm; and

International Christian Concern (Laos): http://www.persecution.org/humanrights/laos.html

		PROPRGHT	RIJZREGIA	TOPTAXRA	CORRUPTI	TAXFVASI	I NINFTMO	II I TERC	TRNESR G	GOCONS G	SOF	DEMOCRA	POI ITRIT
PROPRGHT	Pearson Correlation	-	.891**	019	480	545	.774**	*	434	208	604	752*	.591
	Sig. (2-tailed)		000	.958	.160	.083	.001	.024	.243	.591	.064	.019	.072
	z	15	15	10	10	11	14	12	6	6	10	<b>б</b>	10
BUZREGLA	Pearson Correlation	.891**	-	.219	790**	875**	.853**	* .437	276	121	438	565	.065
	Sig. (2-tailed)	000	•	.543	900.	000	000	.156	.472	.757	.206	.113	.858
	N	15	15	10	10	11	14	12	6	6	10	6	10
TOPTAXRA	Pearson Correlation	019	.219	-	.198	195	182	002	.845**	.254	356	.684	565
	Sig. (2-tailed)	.958	.543	•	.583	.589	.639	766.	.004	.510	.313	.061	.089
	z	10	10	10	10	10	6	ø	6	6	10	ø	10
CORRUPTI	Pearson Correlation	480	790**	.198	-	**777.	903**	* .007	.552	.145	100.	.535	029
	Sig. (2-tailed)	.160	900.	.583	•	.008	.001	.986	.123	.710	.803	.172	.936
	Z	10	10	10	10	10	6	ø	6	6	10	œ	10
TAXEVASI	Pearson Correlation	545	875**	195	**777.	-	858**	.114	.278	063	.313	.239	.222
	Sig. (2-tailed)	.083	000	.589	.008		.002	.769	.468	.873	.379	.569	.537
	Z	11	11	10	10	11	10	<b>б</b>	<b>б</b>	6	10	œ	10
LNINFTMO	Pearson Correlation	.774**	.853**	182	903**	858**	-	.601*	582	.032	456	733*	.221
	Sig. (2-tailed)	.001	000	629	.001	.002		.030	.130	.940	.217	.025	.568
	z	14	14	6	<b>б</b>	10	15	13	80	Ø	6	<b>б</b>	6
ILLITERC	Pearson Correlation	.643*	.437	002	.007	.114	.601*	-	.201	.146	776*	724*	.843**
	Sig. (2-tailed)	.024	.156	766.	986.	.769	.030		.666	.755	.024	.042	600.
	Z	12	12	8	8	6	13	13	7	7	8	8	8
TRNFSB.G	Pearson Correlation	434	276	.845**	.552	.278	582	.201	-	.373	357	.884**	514
	Sig. (2-tailed)	.243	.472	.004	.123	.468	.130	.666	•	.323	.346	.008	.157
	Z	6	6	6	6	6	8	7	6	6	6	7	6
GOCONS.G	Pearson Correlation	208	121	.254	.145	063	.032	.146	.373	-	792*	.394	387
	Sig. (2-tailed)	.591	.757	.510	.710	.873	.940	.755	.323	•	.011	.382	.303
	z	6	6	6	6	6	8	7	6	6	6	7	6
SOE	Pearson Correlation	604	438	356	.091	.313	456	776*	357	792*	~	.390	228
	Sig. (2-tailed)	.064	.206	.313	.803	.379	.217	.024	.346	.011	•	.339	.526
	Z	10	10	10	10	10	6	80	6	6	10	80	10
DEMOCRA	Pearson Correlation	752*	565	.684	.535	.239	733*	724*	.884**	.394	.390	1	815*
	Sig. (2-tailed)	.019	.113	.061	.172	.569	.025	.042	.008	.382	339	•	.014
	Z	6	6	8	80	8	6	80	7	7	80	6	80
POLITRIT	Pearson Correlation	.591	.065	565	029	.222	.221	.843**	514	387	228	815*	-
	Sig. (2-tailed)	.072	.858	.089	.936	.537	.568	600 <sup>.</sup>	.157	.303	.526	.014	
	Z	10	10	10	10	10	6	8	6	6	10	8	10
**. Correlatio	on is significant at the 0.01	level (2-tailed).											

Correlations

Table 3-a

COTTERATION IS Significant at the 0.05 level (2-tailed).
Correlation is significant at the 0.05 level (2-tailed).

_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_
LOGGNPPC	904**	000	13	085	.772	14	.512	.061	14	725**	.003	14	287	.320	14	.445	.111	14	115	602.	13	.211	.585	<b>б</b>	.029	.924	13	-		14
BUDDHISM	258	.373	14	525	.054	14	061	.830	15	005	.987	15	382	.160	15	.315	.252	15	141	.630	14	703*	.035	6	-		15	.029	.924	13
MUSLIM	101	.795	6	.656*	.039	10	.156	.668	10	469	.171	10	.343	.332	10	۵.	•	10	132	.717	10	-	·	10	703*	.035	6	.211	.585	6
CHRISTIA	282	.329	14	.291	.313	14	163	.562	15	317	.249	15	.583*	.023	15	020.	.803	15	~		15	132	.717	10	141	.630	14	115	607.	13
GERMAN	552*	.033	15	533*	.041	15	324	.221	16	372	.156	16	182	.501	16	1	•	16	020.	.803	15	œ.	•	10	.315	.252	15	.445	.111	14
FRENCH	058	.836	15	.689**	.005	15	255	.341	16	293	.271	16	1		16	182	.501	16	.583*	.023	15	.343	.332	10	382	.160	15	287	.320	14
SOCIALIS	.919**	000 <sup>.</sup>	15	316	.252	15	522*	.038	16	1		16	293	.271	16	372	.156	16	317	.249	15	469	.171	10	005	.987	15	725**	.003	14
ENGLISH	474	.074	15	.271	.329	15	1		16	522*	.038	16	255	.341	16	324	.221	16	163	.562	15	.156	.668	10	061	.830	15	.512	.061	14
ETHNOLIN	.001	.998	14	-		15	.271	.329	15	316	.252	15	.689	.005	15	533*	.041	15	.291	.313	14	.656*	.039	10	525	.054	14	085	.772	14
PROPRGHT	-		15	.001	866.	14	474	.074	15	.919**	000	15	058	.836	15	552*	.033	15	282	.329	14	101	.795	თ	258	.373	14	904**	000.	13
	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z	Pearson Correlation	Sig. (2-tailed)	z
	PROPRGHT			ETHNOLIN			ENGLISH			SOCIALIS			FRENCH			GERMAN			CHRISTIA			MUSLIM			BUDDHISM			LOGGNPPC		

Correlations

<sup>•</sup>. Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

a. Cannot be computed because at least one of the variables is constant.

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Table 3-b

Dependent Variables			Independent Va	<u>ariable</u>					
Interference with the priva sector:	<b>te</b> Ethnolinguistic	English	Social	French	German	Latitude	Log GNP/capita	Intercept	R sq. N.
Property	-4.110			1.088	-2.955			4.318	0.438
Rights	(2.826)			(1.563)	(-0.434)			(0.941)	15
	-1.600			-0.325	-0.573		-0.906	9.631	0.890
	(1.485)			(0.836)	(0.656)		(0.162)	(1.048)	
Business	-0.485	-2.669			-2.228			4.604	0.810
Regulations	(1.002)	(0.444)			(0.560)			(0.451)	15
	-0.598	-0.834	l		0.118		-0.830	9.521	0.974
	(0.431)	(0.329)			(0.433)		(0.121)	(0.734)	
Top Marginal	-3.031		15.778		20.884			28.515	0.610
Tax Rate	(18.492)		(11.261)		(8.993)			(9.849)	10
	-8.115		6.130		12.912		-4.577	68.197	0.861
	(12.120)		(7.413)		(4.866)		(2.126)	(20.594)	
<u>Efficiency:</u>									
Corruption	-0.802		-0.218	-1.738				4.405	0.716
	(1.324)		(0.732)	(0.811)				(0.426)	10
	1.031		1.612	-0.981			0.754	-2.376	0.943
	(0.768)		(0.545)	(0.432)			(0.169)	(1.533)	
Tax Evasion	-0.786	1.873			0.884		-	2.882	0.451
	(1.810)	(0.826)			(1.091)			(0.986)	11
	-0.907	-0.520	1		-2.280		1.122	-3.755	0.848
	(1.029)	(0.765)			(1.011)		(0.283)	(1.767)	

Table4: Government performance and legal origin

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<b>Dependent Variables</b>			Independent Va	<u>ariable</u>					1
Output of Public Goods	Ethnolinguistic	English	Social	French	German	Latitude	Log GNP/capita	Intercept	У Х
Log of	4.013	-1.976		-1.896				3.257	0.557
Infant Mortality	(1.660)	(0.597)		(1.087)				(0.390)	15
	1.566	-0.451		-0.663			-0.466	6.675	0.843
	(1.392)	(0.593)		(0.882)			(0.113)	(0.864)	
Illiteracy	16.377		20.465	-3.685				3.438	0.402
Rate	(38.547)		(11.370)	(16.620)				(10.228)	13
	27.208		25.563	-7.551			00.641	757	.491
	(28.617)		(17.774)	(19.633)			(5.265)	(44.987)	
Size of public sector									
Transfers &	3.252			-2.259	5.953			0.760	0.554
Subsidies as % of GDP	(9.086)			(4.023)	(3.586)			(3.806)	6
	10.110			-3.525	4.844	ł	0.522	-6.072	0.991
	(0.838)			(0.381)	(4.844)		(0.144)	(1.319)	
Government	17.729	l		-7.276	7.463	l		3.138	0.935
Consumption As % of GDP	(2.542)			(1.126)	(1.003)			(1.065)	6
	16.836			-7.594	7.420	ł	-0.335	6.184	0.943
	(2.952)			(1.265)	(1.058)		(0.467)	(4.398)	
SOEs in	-16.877	8.084	ł	12.333	I	ł		5.602	0.817
the Economy index	(4.311)	(1.577)		(2.863)				(0.958)	10
	-13.532	7.203		11.696			0.733	-0.721	0.866
Political Freedom	(4.720)	(1.610)		(2.719)			(0.538)	(4.723)	
Democracy Index	-5.432 (4.811)		-4.984 (2.136)	-1.094 (3.023)				6.661 (1.688)	0.626 9
	-4.041		-3.855	-0.400			0.682	0.708	0.591
	(7.373)		(5.210)	(4.101)			(1.712)	(15.242)	
Political Rights Index	-3.211 (3.816)	-1.372 (1.643)		1	-5.146 (2.390)		-	7.097 (2.388)	0.518 10
	-0.620	-1.236			-5.040		-0.197	8.485	0.969
	(1.478)	(1.127)			(1.171)		(0.416)	(2.915)	

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Table 5: Government per	rformance and	religion						
<u>Dependent Variables</u>			Independent V	ariable				R sa.
Interference with Private Sector:	Ethnolinguistic	Christianity	Muslim	Buddhism	Latitude	Log GNP/capita	Intercept	z
Property rights index	-1.835	-6.3E-02		-2.1E-02			4.821	0.240
	(3.064)	(0.044)		(0.018)			(2.001)	15
	-2.604	-3.5E-02		-1.0E-02		-0.935	10.952	0.951
	(0.920)	(0.013)		(0.006)		(0.112)	(0.861)	
<b>Business Regulation index</b>	12.904	-5.7E-02	-6.4E-02				-4.9E-02	0.521
	(009.6)	(0.049)	(0.048)				(2.577)	15
ı	-3.344	1.87E-02	1.29E-02			-1.182	12.161	0.983
	(2.319)	(0.012)	(0.012)			(0.096)	(1.073)	
Top Tax Rate	-54.594	-0.401		-0.137			65.740	0.932
I	(23.396)	(0.313)		(0.137)			(15.520)	10
	72.854		-0.573	-0.147		-4.472	57.369	0.541
	(21.047)		(0.121)	(0.031)		(0.0664)	(7.911)	
Efficiency:								
Corruption	-2.814	-1.6E-02		-5.9E-04			3.905	0.409
	(1.925)	(0.026)		(0.011)			(1.277)	10
	-2.034	-2.3E-02		-9.5E-03		0.552	0.958	0.736
	(1.481)	(0.020)		(0.009)		(0.248)	(2.046)	
Tax Evasion	-1.307	0.208	-6.92E-03				3.034	0.854
	(9.971)	(0.071)	(0.053)				(2.883)	11
	-8.005	3.10E-02	4.52E-02		-	0.918	-1.149	0.959
	(4.446)	(0.022)	(0.022)			(0.217)	(2.425)	
Log of infant mortality	3.896	-0.120	-1.09E-02				3.148	0.594
	(4.419)	(0.054)	(0.024)				(1.480)	15
	-1.171	6.18E-03	1.15E-02			-0.542	7.604	0.820
	(4.008)	(0.020)	(0.019)			(0.158)	(1.905)	
Illiteracy rate	-23.816	-0.665		-0.114		I	36.406	0.241
	(32.830)	(0.452)		(0.174)			(36.001)	13

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<u>Dependent Variables</u>			Independent Va	ariable				R sc
Size of public sector Transfers & subsidies as %	Ethnolinguistic	Christianity	Muslim	Buddhism	Latitude	Log GNP/capita	Intercept	ž
of GDP	-23.602	-0.273		-1.0E-01			20.128	0.723
	(8.057)	(0.105)		(0.052)			(6.394)	6
	-26.204	-0.292		-0.107		0.432	25.066	0.729
	(13.702)	(0.142)		(0.065)		(1.686)	(20.607)	
Government consumption								
as % of GDP	48.195		-0.280	-5.8E-02			0.404	0.853
	(20.938)		(0.130)	(0.045)			(50481)	6
SOEs	-32.164		0.212	0.104			8.397	0.684
	(37.359)		(0.218)	(0.053)			(8.659)	10
	-10.540		-9.57E-02	6.74E-02		1.675	-8.086	0.787
	(23.035)		(0.133)	(0.034)		(0.727)	(8.658)	
Political freedom:								
Democracy index	-6.364	-5.6E-03		2.08E-02			4.442	0.337
	(7.535)	(0.105)		(0.047)			(5.072)	D
	-0.193	-7.8E-03		4.56E-02		1.344	-8.154	0.741
	(6.910)	(0.088)		(0.048)		(1.143)	(6.669)	
Political Right index	-21.909	7.39E-02	0.125				10.194	0.770
	(606.6)	(0.052)	(0.051)				(2.469)	10
	-29.953	0.106	0.157			-0.733	6.201	0.895
	(9.727)	(0.047)	(0.047)			(0.476)	(4.047)	
*Bold: significant at 95 % cc	onfident level							