

# Institutional Quality Dataset

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# Introduction ctd.

- Mainstream economics in the form of neoclassical economics is not generic
- "It makes little sense for economists to discuss the process of exchange without specifying the institutional setting within which the trading takes place, since this affects the incentives to produce and the costs of transacting." (Coase, 2005)
- But: What are institutions and which ones are they?

# Topic and motivation

- Compare and contrast various institutional classifications
- Develop a better measures of institutional quality and a new Institutional Quality Dataset
- Main methods: Cluster analysis, Factor analysis

# Which institutions?

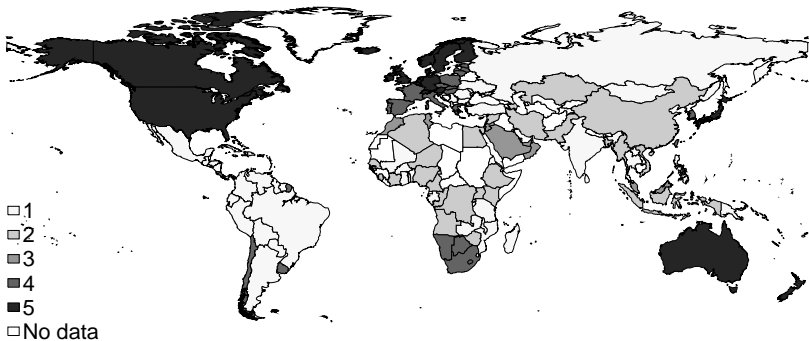
- Definition: Institutions are formal and informal rules of the game, and their enforcement characteristics
- Classification: Based on degree of formality, degree of embeddedness or on subject category, which we use:
  - legal institutions
  - political institutions
  - economic institutions

# Which institutions?

Institutional group and measure	Source	Code
<b>Legal institutions</b>		
Index of Economic Freedom: Property rights	The Heritage Foundation and WSJ	L1
Freedom of the Press: Legal Environment*	Freedom House	L2
Freedom in the World: Civil Liberties*	Freedom House	L3
EFW Index: Judicial independence	Fraser Institute	L4
EFW Index: Impartial courts	Fraser Institute	L5
EFW Index: Protection of property rights	Fraser Institute	L6
Law and order	ICRG	L7
Religion in Politics	ICRG	L8
Rule of Law	WB WGI	L9
<b>Political institutions</b>		
Freedom of the Press: Political Environment*	Freedom House	P1
Freedom in the World: Political Rights*	Freedom House	P2
Institutionalized Democracy - Institutionalized Autocracy	Polity IV	P3
Checks and balances	WB DPI	P4
Democratic accountability	ICRG	P5
Corruption	ICRG	P6
Bureaucratic quality	ICRG	P7
Internal conflict	ICRG	P8
Military in politics	ICRG	P9
Control of Corruption	WB WGI	P10
Corruption perceptions index	Transparency international	P11
Political terror scale*	Political terror scale	P12
<b>Economic institutions</b>		
Index of Economic Freedom: Financial Freedom	The Heritage Foundation and WSJ	E1
Index of Economic Freedom: Business freedom	The Heritage Foundation and WSJ	E2
Regulatory Quality	WB WGI	E3
Freedom of the Press: Economic Environment*	Freedom House	E4
EFW Index: Freedom to own foreign currency bank accounts	Fraser Institute	E5
EFW Index: Regulation of Credit, Labor, and Business: Credit market regulations	Fraser Institute	E6
EFW Index: Regulation of Credit, Labor, and Business: Labor market regulations	Fraser Institute	E7
EFW Index: Regulation of Credit, Labor, and Business: Business Regulations	Fraser Institute	E8
EFW Index: Foreign ownership/investment restrictions	Fraser Institute	E9
EFW Index: Capital controls	Fraser Institute	E10
Investment profile	ICRG	E11

\* Scale is inverse, a higher number implies lower quality.

# Cluster analysis: New Institutional World Order





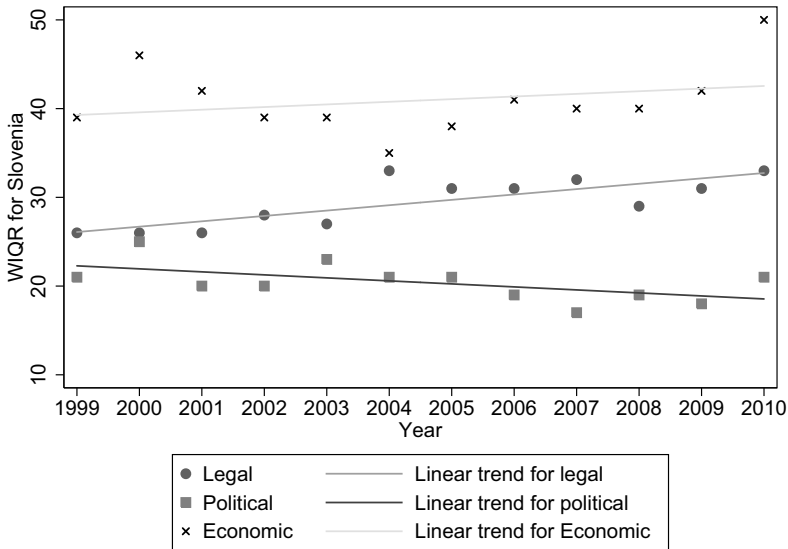
# Basic setup

- Yearly factor analysis
- Eigenvalues and Cronbach's Alphas confirm group homogeneities
- Practically no weak indicators
- Relative legal, political and economic quality of institutions
- Values are directly comparable across countries
- Final result: Three country-year factors score series

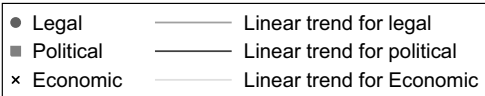
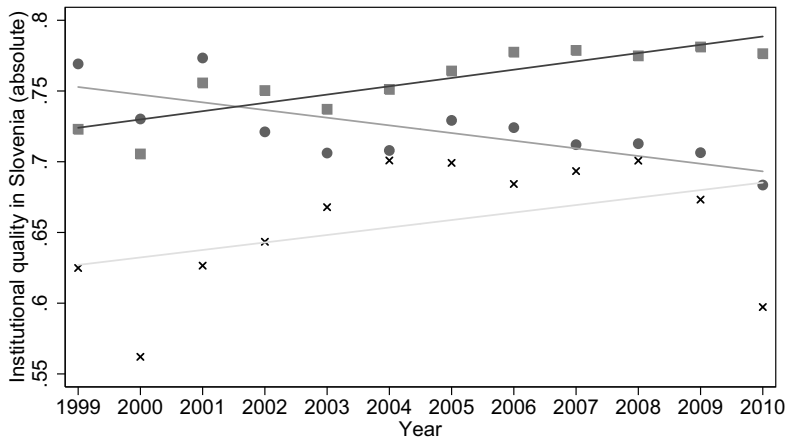
# Results

- Relative legal, political and economic quality of institutions
- Yearly World Institutional Quality Ranking - WIQR, on all three institutional fronts
- 21 year time period (1990 - 2010) and a coverage of over 100 countries each year (yielding a total of over 2000 world country panel observations)
- Dataset freely available online:  
<http://sites.google.com/site/aljazkuncic/>
- Comparative institutional analysis

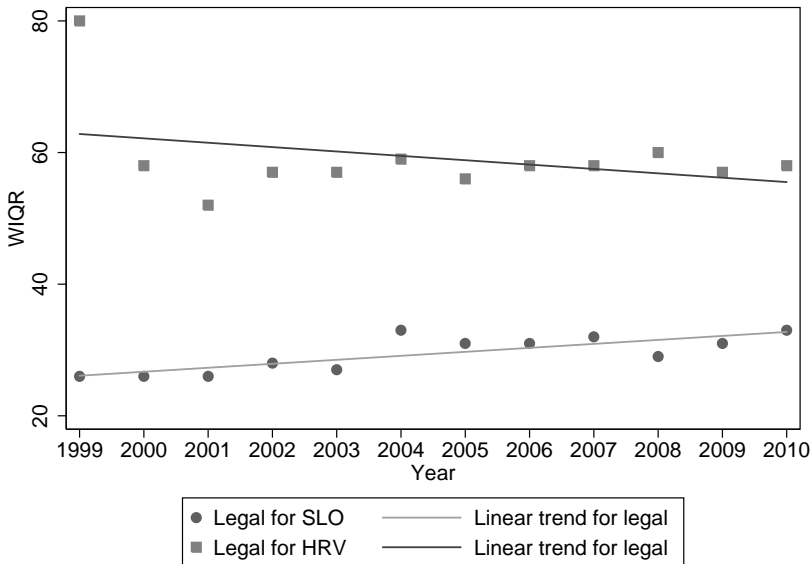
# Slovenia on the WIQR (relative institutional dynamics)



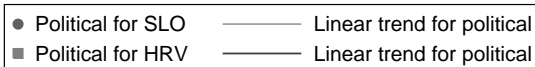
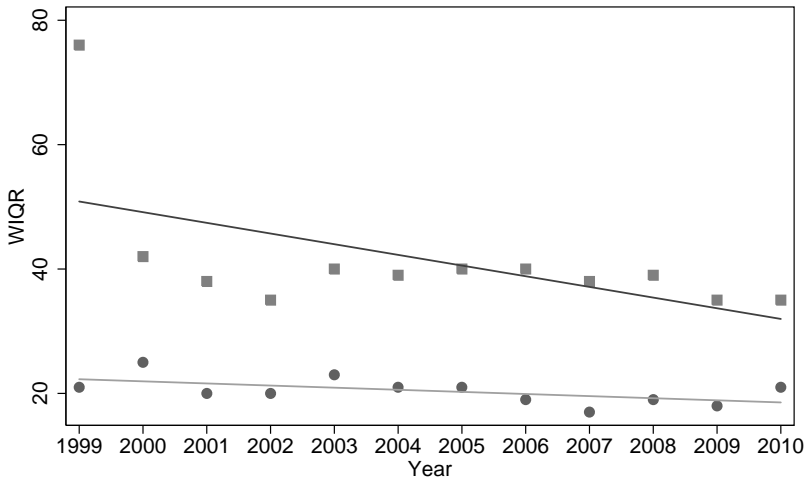
# Slovenia's absolute institutional dynamics



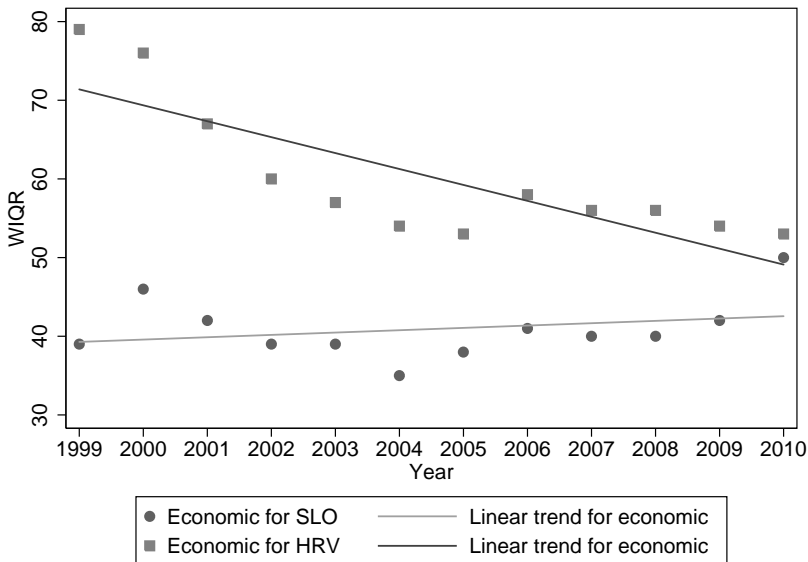
# Slovenia and Croatia: legal comparison



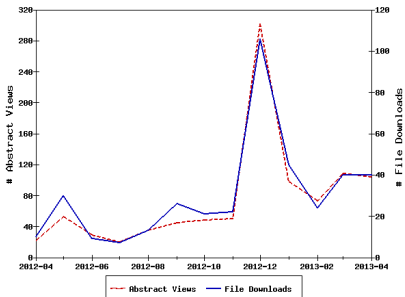
# Slovenia and Croatia: political comparison



# Slovenia and Croatia: economic comparison



- The paper is forthcoming in the Journal of Institutional Economics
  - Working paper on IDEAS (newer version on author's site)
  - Period 1990 - 2010, all the cs in the world, relative quality of legal, political and economic institutions
  - Available freely online
  - Made the list of Andres Marroquin's blog: The Best 10 Economics Papers of 2012
  - over 1000 abstract views, and over 400 downloads from IDEAS in the last year





Thank you for your attention.