JBEO, Vol. 3(1), 33-38

Journal of Business and Economic Options

Political Regimes, Economic Management and Inequality: A Comparative Analysis

Xiangdong Wei[a]
Juanyi Xu[b]

Abstract
The paper examines the relationship between political regimes, economic management, and inequalities, focusing specifically on wage and income disparities. It highlights noteworthy findings regarding the impact of democracy and autocracy on various forms of inequality, as well as the role of political stability and accountability in shaping societal equality. Firstly, the study underscores the positive association between democracy and reduced levels of wage and income inequality. Democratically governed countries tend to exhibit lower levels of inequality, particularly in terms of wages and overall income distribution. This suggests that democratic governance structures facilitate more equitable outcomes, aligning with principles of fairness and social justice. Conversely, the paper identifies autocracy as being linked to higher levels of wage inequality, although its impact on income inequality is found to be insignificant. Despite occasional instances of income redistribution in autocratic regimes, the overarching pattern suggests that autocracies tend to perpetuate wage disparities, potentially exacerbating social divisions. Moreover, the study highlights the importance of economic management in mitigating inequalities within autocratic regimes. While some autocratic governments may enact policies aimed at redistributing income, the inherent lack of accountability and adherence to the median voter hypothesis often undermines these efforts. As a result, political stability and accountability emerge as critical factors in fostering more equal societies. Interestingly, the findings indicate that political stability and accountability exert a more pronounced influence on inequalities compared to the specific form of governance (democracy or autocracy). Countries characterized by political stability and robust mechanisms of accountability tend to exhibit lower levels of inequality across various dimensions. Overall, the paper offers valuable insights into the complex relationship between political regimes, economic management, and societal inequalities. By highlighting the differential impacts of democracy and autocracy on wage and income disparities, as well as the broader significance of political stability and accountability, the study contributes to our understanding of the factors shaping social equity and justice in contemporary societies.
Keywords: Political Regimes, Democracy, Autocracy, Economic Management, Inequality, Wage Disparities
JEL Codes: D63, O15, P16, P48

1. INTRODUCTION

In the pursuit of economic efficiency, many countries have embarked on the path of dismantling barriers to international trade in goods and services over the past few decades. This wave of globalization has led to a significant expansion in the size of world trade, marking a transformative shift in the global economic landscape. Amidst this phenomenon, certain countries have emerged as success stories, experiencing remarkable growth rates and substantial reductions in poverty levels. Notably, China and India stand out as prime examples of the positive impacts of contemporary globalization. Both countries have witnessed unprecedented economic growth, fueled by their integration into the global economy. This rapid expansion has not only propelled their own development but has also contributed to poverty alleviation on a significant scale. By leveraging the opportunities presented by globalization, China and India have lifted millions out of poverty and positioned themselves as major players in the global marketplace. However, it's important to acknowledge that globalization has yielded mixed experiences for many countries. While some have reaped substantial benefits in terms of economic growth, poverty reduction, and technological advancement, others have faced challenges and setbacks. The process of globalization has exacerbated income inequalities in some regions, led to job displacement in certain sectors, and exposed vulnerabilities in domestic industries to global competition. Furthermore, globalization has also raised concerns about its impact on environmental sustainability, cultural homogenization, and social cohesion. The rapid pace of globalization has sometimes outpaced regulatory frameworks, leading to issues such as environmental degradation, loss of cultural identity, and social unrest. Globalization has unleashed significant opportunities for economic growth and poverty reduction, its impacts have been varied and complex. As countries navigate the challenges and opportunities of an increasingly interconnected world, it's crucial to adopt policies and strategies that maximize the benefits of globalization while mitigating its adverse effects. This requires a balanced approach that prioritizes inclusive growth, sustainable development, and equitable distribution of the gains from globalization.

[a] Department of Economics, Lingnan University, Tuen Mun, Hong Kong
[b] Department of Economics, Lingnan University, Tuen Mun, Hong Kong

The phenomenon of rising economic inequality has become increasingly prominent across both rich and middle-income countries, driven by factors such as skill-biased technological change, international trade dynamics, and broader processes related to globalization (Smeeding, 2002). Despite the trend towards greater integration into the global economy, a significant number of countries in Latin America, Africa (particularly Sub-Saharan Africa), and certain regions of Asia have struggled to achieve sustained and inclusive economic growth. In many parts of the Global South, the promise of globalization has not translated into meaningful improvements in living standards for a substantial portion of the population. Instead, poverty levels have either remained stubbornly high or experienced an alarming increase. Even among those countries that have managed to achieve respectable rates of economic growth, the benefits have often failed to trickle down to the most vulnerable segments of society, exacerbating existing inequalities. China and India, often touted as success stories of globalization due to their rapid economic expansion and poverty reduction efforts, are also grappling with the challenge of rising inequality. While these countries have made significant strides in lifting millions out of poverty, there are growing concerns about the widening gap between the rich and the poor within their societies. The gains from economic growth have been disproportionately concentrated among certain segments of the population, leading to social tensions and economic imbalances. Moreover, the falling poverty trends observed in China and India are not necessarily sustainable in the long term, especially in the face of rapid increases in income and wealth disparities. As economic growth becomes increasingly unequal, there is a risk that the benefits of development will accrue primarily to the affluent few, perpetuating cycles of poverty and exclusion among marginalized communities. In light of these challenges, there is a pressing need for policymakers to adopt comprehensive and inclusive strategies aimed at addressing the root causes of economic inequality. This may involve implementing policies to promote equitable access to education, healthcare, and economic opportunities, as well as fostering an enabling environment for sustainable and inclusive growth. By prioritizing social cohesion and addressing the structural drivers of inequality, countries can work towards building more resilient and equitable societies in an era of globalization.

In the context of economic development and ensuring equity, it is essential to recognize that poverty alleviation cannot solely rely on economic growth. While economic growth is undoubtedly important, it must be accompanied by a broader framework that prioritizes equity, social inclusion, and sustainable development. Beyond economic growth, a crucial point of reference for economic development is the creation of an enabling environment that fosters equitable outcomes for all segments of society. This entails addressing structural inequalities, promoting social justice, and ensuring that the benefits of development are shared equitably among all members of society. In the contemporary globalized economy, achieving equity requires a multifaceted approach that goes beyond traditional measures of economic performance. It involves promoting social norms and international standards that prioritize the protection of labor rights, gender sensitivity, and the establishment of efficient social welfare systems. This requires businesses to adhere to best practices in commerce, ensuring fair treatment of workers, promoting diversity and inclusion, and contributing positively to the communities in which they operate. Moreover, the role of common institutions cannot be overstated in facilitating each country's smooth integration into global markets and international competition. These institutions serve as platforms for collaboration, knowledge-sharing, and coordination among trading societies. They play a vital role in establishing and upholding international standards, promoting fair trade practices, and fostering cooperation on issues such as labor rights, environmental protection, and social welfare. By embracing a holistic approach to economic development that prioritizes equity and social inclusion, countries can create more resilient, sustainable, and prosperous societies. This entails not only pursuing economic growth but also ensuring that development efforts are guided by principles of social justice, human rights, and environmental sustainability. Ultimately, by working together to address the root causes of poverty and inequality, countries can build a more equitable and prosperous future for all.

The notion of democracy as a key determinant of a country's progress, encompassing intellectual, social, economic, and cultural dimensions, is indeed widely recognized and frequently cited. Developed nations, which have achieved significant levels of prosperity and societal advancement, often serve as exemplars of well-established democratic systems. As such, democracy is commonly perceived as a fundamental prerequisite for a country's progress and development. There are several reasons why democracy is regarded as a crucial factor in fostering progress. Firstly, democratic governance structures promote political stability, accountability, and transparency, creating an environment conducive to economic growth and investment. By ensuring the rule of law and protecting individual rights, democracies can attract both domestic and foreign investment, spur innovation and entrepreneurship, and facilitate the efficient allocation of resources. Moreover, democracy promotes social cohesion and inclusivity by providing avenues for citizen participation, representation, and decision-making. It empowers individuals to voice their concerns, advocate for their rights, and contribute to shaping the direction of their society. Inclusive governance processes help mitigate social tensions, promote social justice, and foster a sense of ownership and belonging among citizens. Furthermore, democracy fosters intellectual and cultural progress by encouraging freedom of expression, creativity, and diversity of thought. Open societies, where individuals are free to express their ideas and beliefs without fear of repression, tend to be more dynamic and innovative. Intellectual and cultural exchange flourishes in environments where differing perspectives are valued and respected, leading to greater intellectual inquiry, artistic expression, and cultural enrichment. However, it's important to acknowledge that democracy is not a panacea and does not guarantee automatic progress. The quality of democracy, including factors such as institutional effectiveness, political accountability, and respect for the rule of law, is equally important. Moreover, the relationship between democracy and progress is complex and multifaceted, influenced by a range of contextual factors such as historical legacies, socio-economic conditions, and cultural norms.

In this paper, a comprehensive analysis is conducted to understand the factors that contribute to successful economic outcomes, particularly in the context of developing countries. Recognizing that economic growth alone is insufficient to ensure broad-based prosperity, the study focuses on the equitable distribution of economic dividends among various segments of the population. To achieve this, a cross-sectional analysis is conducted, comparing developed and developing countries. Central to the analysis is the examination of different definitions of political institutions and their impact on inequality. Political institutions play a critical role in shaping economic policies, governance structures, and social outcomes. By exploring various dimensions of political institutions, such as levels of democracy, governance effectiveness, and political stability, the study aims to uncover their relationship with income inequality. In addition to assessing the role of political institutions, the study also investigates the impact of openness and trade policies on economic outcomes. Openness to international trade and investment is often associated with economic growth, but its effects on income distribution can vary significantly. By examining different proxies of openness and trade policy, the study seeks to understand how free market dynamics influence income inequality. Furthermore, the inclusion of a control group in the analysis enhances the robustness of the results. By comparing the outcomes across countries with varying levels of openness and trade policies, the study can better isolate the effects of political institutions on inequality. This cross-sectional analysis provides valuable insights into the complex interplay between political institutions, trade policies, and income inequality. By examining a diverse range of countries, the study offers a nuanced understanding of the factors that contribute to successful economic outcomes and equitable distribution of wealth. These findings can inform policy decisions aimed at promoting inclusive growth and reducing income disparities, particularly in the context of developing countries.

2. METHODOLOGY

In our analysis of inequality, we employ two distinct measures: the GINI income inequality index (Gini) from the UNU/WIDER World Income Inequality Database (WIID) and the UTIP-UNIDO Theil measure (Theil) calculated by the University of Texas Inequality Project (UTIP) (Galbraith and Kum, 2002). These measures offer complementary perspectives on inequality, capturing both overall income disparities and wage differentials between skilled and unskilled labor. The choice to utilize these measures is motivated by several considerations. Firstly, traditional measures of income inequality, such as household-level or per capita income, face challenges in terms of comparability and consistency across countries and over time. These measures often fail to provide accurate longitudinal and cross-country coverage, making them less suitable for comprehensive analyses of inequality dynamics. In contrast, the UTIP-UNIDO Theil measure, which focuses on inequality in manufacturing pay based on UNIDO Industrial Statistics, offers indicators that are more stable, reliable, and comparable across countries. This is because UNIDO data is based on a standardized coding framework, the International Standard Industrial Classification (ISIC), which facilitates systematic and consistent accounting practices. Moreover, manufacturing pay data has been collected with reasonable accuracy for nearly four decades in most countries, providing a robust basis for analysis. In our analysis, we consider the impact of various factors on inequality, including political institutions, integration (presumably referring to trade openness or globalization), and geography (Galbraith and Kum, 2002). By examining the relationship between these factors and inequality measures, we aim to shed light on the drivers of income disparities and wage differentials within and across countries. The basic equations governing our analysis can be conceptualized as follows:

Inequality = f (Political Institutions, Integration, Geography)

Through empirical analysis, we seek to elucidate the extent to which political institutions, trade openness, and geographical factors influence patterns of inequality, thereby contributing to a deeper understanding of the dynamics of economic disparity and its determinants.

3. ESTIMATED RESULTS

The table 1 provides regression results examining the relationship between different measures of political stability and various indicators of inequality. The dependent variables include measures of wage inequality (Theil index), income inequality (Gini coefficient), and inequality ratios across different income percentiles (High20/Low20, Middle20, Low10, High10). For instance, focusing on the coefficient for "Political Stability (Lcopen)" when regressed against "Wage Inequality (Theil)," the estimate of -0.03 suggests that a one-unit increase in Lcopen (a measure of political stability) is associated with a decrease of 0.03 units in wage inequality. The coefficient is statistically significant at the 5% level, as indicated by the t-statistic of -1.97. Similarly, considering "Political Stability (Impnov85)" regressed against "Income Inequality (Gini)," the coefficient of -0.04 implies that a one-unit increase in Impnov85 results in a decrease of 0.04 units in income inequality (measured by the Gini coefficient). This coefficient is statistically significant at the 1% level, given the t-statistic of -2.23. Furthermore, examining "Political Stability (Impnov82)" against "High20/Low20" ratio, the coefficient of -0.03 suggests that a one-unit increase in Impnov82 leads to a decrease of 0.03 units in the High20/Low20 ratio, indicating reduced inequality between the highest and lowest income quintiles. This coefficient is marginally significant at the 10% level, with a t-statistic of -1.76. Analyzing the coefficient for "Political Stability (Open80s)" concerning "Wage Inequality (Theil)," the estimate of -0.05 suggests that a one-unit increase in Open80s (a measure of political stability) is associated with a decrease of 0.05 units in wage inequality. Although this coefficient is negative, it is not statistically significant at conventional levels, as indicated by the t-statistic of -1.14. Moving to "Political Stability (Tariffs)" regressed against "Income Inequality (Gini)," the coefficient of -0.002 indicates that a one-unit increase in Tariffs leads to a decrease of 0.002 units in income inequality, according to the Gini coefficient. Although the coefficient is negative, it is not statistically significant, as the t-statistic is -0.02. Examining

"Political Stability (Owti)" against "High20/Low20" ratio, the coefficient of -0.07 suggests that a one-unit increase in Owti results in a decrease of 0.07 units in the High20/Low20 ratio, indicating reduced inequality between the highest and lowest income quintiles. This coefficient is statistically significant at the 5% level, with a t-statistic of -2.33. Each coefficient provides insights into the impact of different measures of political stability on various dimensions of inequality, with the associated t-statistics indicating the significance of these relationships. These findings contribute to understanding the complex interplay between political stability and socioeconomic inequality outcomes.

Table 1: Political Stability

Independent Variables	Dependent Variables					
	Wage Inequality (Theil)	Income Inequality (Gini)	High20/Low20	Middle20	Low10	High10
Political Stability (Lcopen)	-0.03	-8.70	-6.39	2.19	0.58	-6.87
	(-1.97)**	(-4.98)***	(-3.57)***	(5.49)***	(3.11)***	(-5.10)***
Political Stability (Impnov85)	-0.04	-8.71	-6.72	2.17	0.54	-6.68
	(-2.23)**	(-3.69)***	(-2.67)***	(4.03)***	(2.28)**	(-3.69)***
Political Stability (Impnov82)	-0.03	-8.38	-6.31	2.09	0.54	-6.47
	(-1.76)*	(-3.94)***	(-2.72)***	(4.20)***	(2.41)***	(-3.87)***
Political Stability (Tarshov85)	-0.04	-9.10	-6.95	2.24	0.59	-6.91
	(-2.41)**	(-3.68)***	(-2.69)***	(3.99)***	(2.38)**	(-3.68)***
Political Stability (Tarshov82)	-0.04	-8.73	-6.54	2.17	0.57	-6.69
	(-2.38)**	(-3.90)***	(-2.70)***	(4.13)***	(2.48)**	(-3.81)***
Political Stability (Open80s)	-0.05	-15.04	-13.32	3.21	1.25	-10.64
	(-1.14)	(-2.40)***	(-1.95)*	(2.80)***	(2.12)**	(-2.70)***
Political Stability (Tariffs)	-0.002	22.35	-13.51	4.32	2.69	-14.72
	(-0.02)	(-1.91)**	(-1.59)	(2.01)**	(1.61)	(-1.95)***
Political Stability (Owti)	-0.07	-13.55	-7.36	2.84	1.09	-9.31
	(-2.33)**	(-2.83)***	(-2.27)**	(3.13)***	(2.39)**	(-2.94)***
Political Stability (Txtrdg)	-0.03	-14.12	-8.26	3.25	1.14	-11.23
	(-2.29)**	(-3.49)***	(-2.09)**	(3.64)***	(2.47)**	(-3.54)***
Political Stability (Totimpov85)	0.0003	4.63	-4.33	-0.03	-0.69	1.45
	(0.01)	(0.78)	(-0.55)	(-0.03)	(-1.05)	(0.33)
Political Stability (Owqi)	-0.09	-2.84	-1.16	1.28	0.10	-3.40
	(-1.10)	(-0.37)	(-0.23)	(1.05)	(0.17)	(-0.75)
Political Stability (Ntarfov87)	-0.03	-16.61	-14.16	1.98	0.42	-5.59
	(-0.42)	(-0.93)	(-1.19)	(0.98)	(0.44)	(-0.82)

The table 2 presents regression results examining the relationship between "Voice and Accountability" and various indicators of inequality, including wage inequality measured by the Theil index, income inequality captured by the Gini coefficient, and inequality ratios across different income percentiles such as High20/Low20, Middle20, Low10, and High10. For instance, considering "Voice and Accountability (Lcopen)" regressed against "Wage Inequality (Theil)," the coefficient of -0.02 implies that a one-unit increase in Lcopen (a measure of voice and accountability) is associated with a decrease of 0.02 units in wage inequality. Although this coefficient is negative, it is not statistically significant at conventional levels, as indicated by the t-statistic of -1.50. Similarly, looking at "Voice and Accountability (Impnov85)" regressed against "Income Inequality (Gini)," the coefficient of -0.03 suggests that a one-unit increase in Impnov85 leads to a decrease of 0.03 units in income inequality according to the Gini coefficient. This coefficient is statistically significant at the 5% level, with a t-statistic of -2.07, indicating that improved voice and accountability are associated with lower income inequality. The findings from "Voice and Accountability (Impnov82)" against "High20/Low20" ratio reveal that a one-unit increase in Impnov82 results in a decrease of 0.02 units in the High20/Low20 ratio, indicating reduced inequality between the highest and lowest income quintiles. Although the coefficient is negative, it is not statistically significant at conventional levels, as the t-statistic is -1.64. Similarly, analyzing "Voice and Accountability (Tarshov85)" against "Middle20," the coefficient of -4.68 indicates that a one-unit increase in Tarshov85 is associated with a decrease of 4.68 units in inequality across the middle income percentiles. This coefficient is statistically significant at the 5% level, with a t-statistic of -2.25. "Voice and Accountability (Tarshov82)" regressed against "Wage Inequality (Theil)," the coefficient of -0.04 suggests that a one-unit increase in Tarshov82 (a measure of voice and accountability) is associated with a decrease of 0.04 units in wage inequality. This coefficient is statistically significant at the 5% level, with a t-statistic of -2.48, indicating that improved voice and accountability are linked to lower wage inequality. Looking at "Voice and Accountability (Open80s)" regressed against "Income Inequality (Gini)," the coefficient of -0.06 implies that a one-unit increase in Open80s results in a decrease of 0.06 units in income inequality according to the Gini coefficient. However, this coefficient is not statistically significant at conventional levels, as indicated by the t-statistic of -1.12. Analyzing "Voice and Accountability (Tariffs)" against "High20/Low20," the coefficient of -0.05 indicates that a one-unit increase in Tariffs is associated with a decrease of 0.05 units in the High20/Low20 ratio, representing reduced inequality between the highest and lowest income quintiles. However, this coefficient is not statistically significant at conventional levels, with a t-statistic of -0.75. Similarly, investigating "Voice and Accountability (Owti)" against "Middle20," the coefficient of -0.05 suggests that a one-unit increase in Owti leads to a decrease of 0.05 units in inequality across the middle income percentiles. This coefficient is statistically significant at the 5% level, with a t-statistic of -2.21. Each coefficient provides insights into the impact of "Voice and Accountability" on various dimensions of inequality, with the associated t-statistics indicating the significance of these relationships. These findings contribute to understanding how improvements in voice and accountability may influence socioeconomic inequality outcomes.

Table 2: Voice and Accountability

	Dependent Variables					
Independent Variables	Wage Inequality (Theil)	Income Inequality (Gini)	High20/Low20	Middle20	Low10	High10
Voice and Accountability (Lcopen)	-0.02 (-1.50)	-5.46 (-4.04)***	-4.04 (-2.92)***	1.43 (4.74)***	0.259 (1.71)*	-4.37 (-4.20)***
Voice and Accountability (Impnov85)	-0.03 (-2.07)**	-5.28 (3.03)***	-4.53 (-2.28)**	1.39 (3.38)***	0.17 (0.87)	-3.99 (-2.82)***
Voice and Accountability(Impnov82)	-0.02 (-1.64)*	-5.63 (-3.34)***	-4.29 (-2.62)***	1.51 (4.05)***	0.26 (1.49)	-4.50 (-3.51)***
Voice and Accountability (Tarshov85)	-0.03 (-2.27)**	-5.35 (-2.96)***	-4.68 (-2.25)**	1.42 (3.31)***	0.187 (0.91)	-4.07 (-2.76)***
Voice and Accountability(Tarshov82)	-0.04 (-2.48)**	-5.60 (-3.43)**	-4.81 (-2.57)**	1.52 (3.91)***	0.28 (1.51)	-4.48 (-3.37)***
Voice and Accountability (Open80s)	-0.06 (-1.12)	-4.20 (-1.21)	-6.18 (-1.28)	1.13 (1.54)	-0.11 (-0.24)	-3.01 (-1.14)
Voice and Accountability (Tariffs)	-0.05 (-0.75)	-19.34 (-1.05)	-16.18 (-0.90)	3.91 (1.10)	2.34 (0.89)	-11.68 (-1.05)
Voice and Accountability (Owti)	-0.05 (-2.21)**	-5.80 (-2.11)**	-4.14 (-1.42)	1.50 (2.13)**	0.23 (0.64)	-4.39 (-1.81)*
Voice and Accountability (Txtrdg)	0.08 (1.10)	-12.74 (-2.33)**	-7.76 (-1.58)	3.15 (2.52)**	0.82 (1.46)	-10.76 (-2.40)**
Voice and Accountability(Totimpov85)	0.01 (0.47)	3.06 (0.91)	-0.34 (-0.08)	-0.56 (-0.76)	-0.69 (-1.84)*	2.59 (1.02)
Voice and Accountability (Owqi)	-0.07 (-1.24)	0.70 (0.09)	0.924 (0.17)	0.27 (0.17)	-0.46 (-0.52)	0.054 (1.01)
Voice and Accountability (Ntarfov87)	-0.03 (-0.67)	-0.61 (-0.14)	-3.77 (-0.72)	0.16 (0.17)	-0.26 (-0.52)	-0.06 (-0.02)

4. CONCLUSIONS

The present results shed light on the question of whether equity, and not just economic growth, should be the primary objective for a developing country's policy apparatus. They suggest that while a less democratic political system may potentially strengthen legal, social, and economic institutions and promote political stability, the manner in which democracy is implemented—whether according to a Western model or through a combination of case-specific political and social methodologies—may be less crucial. In today's rapidly transforming global landscape, where some developing countries may benefit more from global markets than others, there is increasing pressure from populations for democratization as levels of economic and institutional development rise. In such circumstances, countries that have thrived under well-defined autocratic systems may face the dilemma of transitioning towards more democratic governance to align with global standards. However, the timing of such transitions is crucial to ensure the sustainability of economic progress, as abrupt changes carry higher risks. Nevertheless, autocratic regimes controlled by ruling elites are at high risk of collapse in the face of widespread social unrest. Therefore, the ruling class may find it beneficial to introduce increased democratization in the country, as temporary concessions in response to social pressure may be perceived as a sign of weakness. Failure to address social unrest adequately can escalate into regime change or civil conflict, highlighting the importance of transitioning towards full democracy as the most effective means of addressing underlying societal grievances.

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