Economic Growth, Income Inequality, and the Rule of Law

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Appendix: Statistics and Regression Analyses

Table 1 notes the sample summary statistics. The ICRG has constructed the Law and Order (LAW) index to vary from 0 (poor governance) to 6 (good governance); similar scale for the CORRUPT index, and MILITARY index. The World Bank Group has constructed the Rule of Law index to vary from approximately -2.5 (poor governance) to 2.5 (good governance); similar scale for the control of corruption (CC) index.

Table 1, Panel A: Sample summary statistics

	Sample size	Mean	Standard deviation	25 th percentile	Median	75 th percentile
GDPPC	6933	12,987	15,898	2,305	6,658	17,233
LAW	4,838	3.7	1.4	2.5	4	5
CORRUPT	4,838	2.9	1.3	2	3	4
MILITARY	4,827	3.8	1.8	2	4	5
RuleOfLaw	4,170	0.0	1.0	-0.8	-0.1	0.8
CC (Control of Corruption)	3,903	0.0	1.0	-0.8	-0.2	0.7
GINI	2,547	36.7	9.2	29.7	34.8	42.4

Table 1, Panel B: Correlation matrix for sample variables

	GDPPC	LAW	CORRUPT	MILITARY	RuleOfLaw	CC (Control of Corruption)	GINI
GDPPC	1						
LAW	0.697***	1					
CORRUPT	0.714***	0.727***	1				
MILITARY	0.593***	0.644***	0.565***	1			
RuleOfLaw	0.832***	0.826***	0.840***	0.729***	1		
CC (Control of Corruption)	0.821***	0.782***	0.889***	0.687***	0.964***	1	
GINI	-0.486***	-0.627***	-0.393***	-0.485***	-0.504***	-0.451***	1

* p<0.05   ** p<0.01   *** p<0.001

GDP per capita (GDPPC) are from the International Monetary Fund, World Economic Outlook Database, October 2019, in purchasing power parity dollars. LAW is the Law and Order index of The PRS Group's International Country Risk Guide (ICRG); this index is focused on their assessment of the strength and impartiality of the legal system, and the popular observance of the law. Higher index values of LAW indicate better adherence to and effectiveness of rule of law. CORRUPT is the corruption index of The PRS Group's International Country Risk Guide; CORRUPT is their assessment of corruption within the political system – patronage, nepotism, favor-for-favor, secret party funding, and close ties between politics and business. Higher index values of CORRUPT reflect less corruption. We obtain the MILITARY index from ICRG; a higher MILITARY index reflects a smaller degree of military participation in politics. RuleOfLaw is from The Worldwide Governance Indicators, 2019 Update. RuleOfLaw reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Higher index values of RuleOfLaw indicate better adherence to and effectiveness of rule of law. Control of corruption (CC) is from The Worldwide Governance Indicators, 2019 Update. CC reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Higher index values of CC reflect less corruption. GINI index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A GINI index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Table 2: Log (GDPPC) regressions. This table displays panel regressions for 134 countries. Dependent variable is Log (GDPPC). Standard errors are clustered by country and year. All variables are winsorized at the 1 and 99 percentiles. Robust t-statistics in parentheses.

Panel A: All Countries				
	Log (GDPPC)			
	(1)	(2)	(3)	(4)
LAW	0.538***	0.401***	0.276***	
	(12.738)	(6.069)	(4.312)	
CORRUPT		0.214***	0.112*	
		(3.309)	(1.843)	
MILITARY			0.231***	
			(4.605)	
Rule of LAW				0.899***
				(17.613)
Year FE	Yes	Yes	Yes	Yes
Observations	4,467	4,467	4,467	3,399
R-squared	0.436	0.459	0.511	0.544

*** p<0.01, ** p<0.05, * p<0.1

Panel **B**: Countries with 1996 population greater than 10 million				
	Log (GDPPC)			
	(1)	(2)	(3)	(4)
LAW	0.506***	0.334***	0.197**	
	(8.122)	(3.682)	(2.216)	
CORRUPT		0.304***	0.166**	
		(3.463)	(2.214)	
MILITARY			0.264***	
			(3.894)	
Rule of LAW				0.885***
				(14.251)
Year FE	Yes	Yes	Yes	Yes
Observations	2,302	2,302	2,302	1,219
R-squared	0.423	0.471	0.544	0.568

*** p<0.01, ** p<0.05, * p<0.1

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from ICRG; a higher MILITARY index reflects a smaller degree of military participation in politics. RuleOfLaw is from The Worldwide Governance Indicators, 2019 Update. RuleOfLaw reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Higher index values of RuleOfLaw indicate better adherence to and effectiveness of rule of law.

Table 3: GINI regressions. Dependent variable is the GINI index of the respective country. This table displays panel regressions for 134 countries. Standard errors are clustered by country and year. All variables are winsorized at the 1 and 99 percentiles. Robust t-statistics in parentheses.

	Panel A: All countries				
	GINI Coefficient				
	(1)	(2)	(3)	(4)	(5)
Log (GDPPC)	-3.552***		-0.357		-1.073
	(-5.932)		(-0.532)		(-0.951)
LAW		-4.110***	-3.944***		
		(-10.088)	(-7.593)		
RuleOfLaw				-3.768***	-2.916**
				(-5.732)	(-2.195)
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	2,210	1,908	1,902	1,399	1,370
R-squared	0.176	0.389	0.390	0.205	0.213

*** p<0.01, ** p<0.05, * p<0.1

Panel B: Countries with 1996 population greater than 10 million					
Dependent variable =	GINI Coefficient				
	(1)	(2)	(3)	(4)	(5)
Log (GDPPC)	-2.375***		0.646		-1.063
	(-3.012)		(0.783)		(-0.713)
LAW		-3.659***	-3.974***		
		(-5.930)	(-5.544)		
RuleOfLaw				-3.050**	-2.240
				(-2.867)	(-1.154)
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	1,159	1,075	1,072	634	634
R-squared	0.091	0.304	0.309	0.137	0.143

*** p<0.01, ** p<0.05, * p<0.1

GINI index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A GINI index of 0 represents perfect equality, while an index of 100 implies perfect inequality. GDP per capita (GDPPC) are from the International Monetary Fund, World Economic Outlook Database, October 2019, in purchasing power parity dollars. LAW is the Law and Order index of The PRS Group's International Country Risk Guide (ICRG); this index is focused on their assessment of the strength and impartiality of the legal system, and the popular observance of the law. Higher index values of LAW indicate better adherence to and effectiveness of rule of law. RuleOfLaw is from The Worldwide Governance Indicators, 2019 Update. RuleOfLaw reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Higher index values of RuleOfLaw indicate better adherence to and effectiveness of rule of law.