ERSA Research Brief
November 2018

The Measurement of Institutions and Instability in Democratic Republic of Congo, 1880-2010

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This paper attempts to provide measures of the institutions that characterize Democratic Republic of Congo. To do so we construct de jure indices of property rights, political rights and civil liberties and a de facto index of political stability for the period going from 1880 to 2010. The indices chosen represent the political and economic institutions, which are considered as crucial for economic growth. We construct indices with long time coverage as per the suggestion of Kaufmann et al. (2003): the likelihood of observing significant changes in institutional variables substantially increases with the length of time under consideration.

The period under review also allows the examination of the hypothesis of the persistence of inherited institutions. According to Acemoglu and Robinson (2012) economic prosperity depends above all on the inclusiveness of economic and political institutions. Institutions are \inclusive" when many people have a say in political decision-making, as opposed to cases where a small group of people control political institutions and are unwilling to change. They argue that a functioning democratic and pluralistic state guarantees the rule of law. The authors also argue that inclusive institutions promote economic prosperity because they provide an incentive structure that allows talents and creative ideas to be rewarded.

In contrast, the authors describe “extractive" institutions as ones that permit the elite to rule over and exploit others. Nations with a history of extractive institutions have not prospered, they argue, because entrepreneurs and citizens have less incentive to invest and innovate. One reason is that ruling elites are afraid of “creative destruction" - a term coined by Austrian economist Joseph Schumpeter - the ongoing process of annihilating old and bad institutions while generating new and good ones. Creative destruction would generate new groups competing for power against ruling elites, who would lose their exclusive access to a country's economic and financial resources. Democratic Republic of Congo is one of most concrete example of how extractive institutions can undermined long-run development (Acemoglu and Robinson, 2012).

An empirical verification of this hypothesis is problematic for several reasons. Firstly, long-run measures of institutions do not exist to permit rigorous tests of the hypothesis. Virtually all the evidence of the effect of institutions on economic performance is derived within a short-term framework of analysis, thereby limiting the ability to test the long-run effect. Secondly, new difficulties have arisen from the development of measures for institutions based on the judgments of ”experts". According to Glaeser et al. (2004), the standard indicators tend to measure outcomes, rather than the formal constraints as defined in theory. This has led to measures of institutions used in the growth literature being volatile, uncorrelated with constitutional constraints, and closely correlated with short-run government policies and election outcomes.

The systematic divergence in growth per capita over a long period among many developing countries and the possibility of country heterogeneity underlines the crucial importance of utilizing longer time series for explaining growth trajectory differences. An alternative approach is to consider constructing longer dated indicators of a de jure and de facto nature to allow for testing the impact of institutions on economic growth over time.

References

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