

**The Impact of Political Institutions on
Human Development**

An Empirical Analysis

by

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Abstract: The purpose of this paper is to investigate the relationship between political institutions and human development. How do political institutions affect human development in civil societies? This paper argues that political institutions play a fundamental role in the process of human development. This paper hypothesized that political institutions play a positive role in human development and the quality of life of people in general because the role of political institutions is to establish a legal framework designed to protect the rights and liberties of individuals in a civil society.

The more effective are political institutions, the better quality of life of people improves. After testing our hypothesis, the empirical results confirmed that our theory is supported by the data. We found the relationship between political institutions and human development to be statistically very significant with a positive correlation of moderate magnitude. Hence, we conclude that political institutions do exert a positive impact on human development, but this impact is only moderately effective.

Keywords: *Econometrics, Multiple Regression, Regression Analysis, Quantitative Economics, Development Economics, Political Science*

1. INTRODUCTION

Political institutions are not perfect because they are managed by human beings since man is a fallible being. However, political institutions play a vital role in the preservation and growth of human development within the confines of civil society. Human development could be defined as the process of enlarging people's freedom and opportunities and improving.¹ Human development is about the real freedom ordinary people have to decide who to be, what to do, and how to live.² Human development is about expanding the richness of human life rather than simply the richness of the economy in which human beings live.³

Many theories about the role of government and how government affects human development have been developed throughout the enlightenment era. But within these many theories, there are four political philosophers whose theories have everlastingly impacted the way we comprehend the nature and role of states and governments. These political philosophers are Thomas Hobbes, John Locke, Jean-Jacques Rousseau and Charles Louis de Secondat Baron de Montesquieu.

Hobbes believed that government was a necessary evil because human beings were naturally barbaric, and without an entity that would impose law and order to regulate behavior, it would be utter chaos and total anarchy.⁴ Hobbes argued that we ought to have a government with supreme power in order to maintain law, peace, and order among humans. John Locke believed that we were already free as individuals and secured in our property, but we needed government to protect what we already own.⁵ In other words, Locke argued that government exists strictly to create laws

¹ *About Human Development*. Measure of America of the Social Science Research Council.

² *Ibid*.

³ *About Human Development*. United Nations Development Program—Human Development Reports.

⁴ Dyson, R.W. "Chapter 1: Nature, Morality, and Realism: The Political Philosophy of Thomas Hobbes." *Natural Law and Political Realism in the History of Political Thought*. (2007). p. 16. Peter Lang Publishing Inc. ISBN: 978-0-820-488820.

⁵ *Ibid*. p. 35

that focus on the protection of people's freedom and right to ownership. Consequently, Locke advocated that the authority of government should be limited only to what it was initially designed to do: protect people's rights and freedom. Rousseau believed that government should have a redistributive purpose to make society more just. To live in a much fairer society, Rousseau believed that individuals should surrender their rights, not to a king but to the whole community known as the general will. By giving up our rights to the community, we prioritize the welfare of the collective over that of the individual.⁶ Montesquieu believed the role of government was to maintain law and order, political liberty, and the property of the individual.⁷ More importantly, Montesquieu argued that government is most effective when its power is balanced by the separation of powers doctrine, which ensures that no branch of government is more powerful than the other branches.⁸

Each of these theories played an archetypal role in defining what government is and what may seem the ideal type of government to promulgate human development. Hobbes's views of government advocate for authoritarianism and totalitarianism. Locke's views promote the principles of limited government. Rousseau's views promulgate the ideas of social democracy, where government will focus on the rule of the majority, and Montesquieu fostered the virtues of a republican form of government. In today's world, the ideas of Locke, Rousseau, and Montesquieu have proved to show positive results compared to those of Hobbes. Societies or countries that have embraced the ideas of Locke, Rousseau, and Montesquieu demonstrated that their political systems are generally more reliable than countries or societies that have endorsed a more totalitarian approach to government efficiency.

⁶ Rousseau, Jean-Jacques. *Social Contract*. (1762).

⁷ Montesquieu, Charles de Secondat. *The Spirit of Laws*. (1748).

⁸ Ibid.

In this paper, we argued that political institutions are most effective in promoting human development and improving the quality of life of people when government powers are generally limited. It suggests that people prosper much faster and more effectively when political institutions are strongly supported by the rule of law, political freedom, and the efficient enforcement of regulations.

2. THEORY

As stated in the last paragraph of the introduction, this paper hypothesized that there is a positive correlation between political institutions and human development. This positive correlation is based on a sum of factors. First and foremost, it ought to be said that the strength of political institutions lies in the separation of powers. Indeed, when the powers of government are separate but equal, it reinforces the check and balance concept that no one branch of government will supersede other branches of government.⁹ The separation of powers doctrine is most reflected in advanced economies such as the United States, the United Kingdom, Norway, Sweden, and Germany.

The separation of powers doctrine is enforced by the rule of law. The rule of law is a quintessential and indispensable element of good governance because it performs two functions: first, it guarantees that all citizens are equal before the law and second, it guarantees that people's rights, and liberties are protected. When the rule of law is properly enforced, the separation of

⁹ Ward, Lee. *Modern Democracy and the Theological-Problem in Spinoza, Rousseau, and Jefferson*. (2014). Palgrave MacMillan. pp. 25-26. ISBN: 9781137475053. "Calvin's republican sympathies derived from his views of human nature as deeply flawed. Compound or mixed government reflects the reality that human frailty justifies and necessitates institutional checks and balances to the magistrate's presumed propensity to abuse power. It was this commitment to checks and balances that became the basis of Calvin's resistance theory, according to which inferior magistrates have a duty to resist or restrain a tyrannical sovereign."

powers then is effective and political institutions become more reliable as a channel to which individuals can access economic resources, and have their fundamental rights secured.

Political institutions become a liability to human development when the authority of government becomes significantly expansive. In such a case, people's freedom and rights are restricted, and government uses its coercive powers to enhance corruption. As a result, most societies with an expansive and centralized government are economically poorer with a lower quality of life than societies whose government power is limited and regulated by law because an expansive and centralized government limits people's opportunities and choices. And this restriction on people's freedom unable them to enhance their welfare.

Political freedom is a necessity for the good functioning of political institutions. Nobel Prize-winning economist Milton Friedman repeatedly avowed that political freedom cannot exist without economic freedom. Economic freedom is a requirement to ascertain political freedom and the good governance of political institutions. This then suggests that political institutions work better and more efficiently at enhancing human development in a market-based economy rather than a command-based economy because a market economy enables individuals to exercise their choices. Political freedom is one of those choices that individuals can exercise as they please since they are inherently free. Individuals have the right to decide which type of government and policies they believe will contribute to the improvement of their welfare.

If the role of political institutions is to improve people's living conditions and increase human development, then their role is intrinsically limited to providing a legal framework that protects people's rights and freedom and enlarges their choices and opportunities to further their welfare. Our argument logically shows that the role of government is, by nature, limited and expanding its powers beyond its initial scope impedes human development. We consequently predict the role of

political institutions exerts a positive impact on human development in market-based economies while it wields a negative one in societies that do not have strong political institutions.

3. SPECIFICATION OF THE MODEL

The process to test our prediction is rather straightforward. We will be using two multiple linear regressions to test two hypotheses. The first hypothesis to test is to determine the relationship between economic freedom and political freedom. This model will contain one dependent variable and two independent variables. The model to test our first hypothesis could be written as the following:

$$(1) POLFREE = \beta_0 + \beta_1 ECONFREE + \beta_2 PRI + \varepsilon$$

Where POLFREE, which is our dependent variable, represents the political freedom index; ECONFREE and PRI, which are both our independent variables, represent the economic freedom index and the property rights index, respectively. (ε) represent the random error term.

The second hypothesis to test is to determine how the factors of political institutions affect human development. This model will contain one dependent variable and four independent variables. The model to test our second hypothesis could be written as the following:

$$(2) HDI = \beta_0 + \beta_1 POLFREE + \beta_2 RLI + \beta_3 GOVPC + \beta_4 REGENFORC + \varepsilon$$

Where HDI, which is our dependent variable, represents the human development index; POLFREE, RLI, GOVPC, and REGENFORC, which are our independent variables, represent the political freedom index, the rule of law index, government power constraints index, and regulatory enforcement index, respectively. (ε) represents the random error term.

4. DATA

The empirical dataset we created contains 190 observations ($n = 190$). These 190 observations represent each country. It is a cross-sectional dataset of seven variables. The dataset we created was extracted from various sources. The following table illustrates the data sources for each variable:

Variables and Data Source

Variables	Data source
HDI (Human Development Index)	United Nations Development Programme – Human Development Reports
POLFREE (Political Freedom Index)	Freedom House (2021)
RLI (Rule of Law Index)	World Justice Project (2021)
GOVPC (Government Power Constraints)	World Justice Project (2021)
REGENFORC (Regulatory Enforcement)	World Justice Project (2021)
ECONFREE (Economic Freedom Index)	Heritage Foundation Index of Economic Freedom (2021)
PRI (Property Rights Index)	Property Rights Index (2021)

Table 1

5. DESCRIPTIVE STATISTICS

Variables	Obs.	Mean	Median	Std. Dev	Min	Max	Skewness
HDI	190	0.72344211	0.741	0.15005	0.394	0.957	-0.332954
POLFREE	190	57.7789474	62	30.35	1	100	-0.298654
RLI	190	0.53989474	0.505	0.14990293	0.27	0.92	-0.221634
GOVPC	190	0.53310526	0.53	0.17106371	0.17	0.94	-0.499727
REGENFORC	190	0.53026316	0.51	0.16005764	0.2	0.9	-0.220738
ECONFREE	190	59.85	59.9	11.6325749	24.8	84.4	-0.319877
PRI	190	5.26175263	5.2305	1.45634766	2.003	8.148	0.1159804

Table 2

The descriptive statistics show the standard deviations of each variable are low. This suggests then the data are clustered around the mean. Moreover, the descriptive statistics show that the data are

not skewed enough to apply the log transformation. We can then infer that the data are evenly distributed and do fit in the model.

6. EMPIRICAL EVIDENCE

a) Results of the First Hypothesis

Variables	R ²	Adjusted R ²	P-Value	F-Statistics	Obs.
POLFREE (Dependent Variable)	0.52211764	0.5170066	1.31E-30***	102.154	190
ECONFREE (Variable of interest)	0.51203975	0.50944422	4.13E-31***	197.277	190
PRI (Variable of interest)	0.42546153	0.42240547	2.10E-24***	139.219	190

Table 3

Note on the p-value significance:

$p > 0.05$ = not statistically significant

$p \leq 0.05^*$ = statistically significant

$p \leq 0.01^{**}$ = statistically very significant

$p \leq 0.001^{***}$ = statistically highly significant

Note on the scientific (E): The (E) that appears within the p-value columns suggests that the value contains an exponent. Usually, this exponent is $(n \times 10^n)$. In our analysis, the scientific (E) is followed by the minus sign (-). Therefore, the expression of the p-values of our variables are: $1.31E-30 = 1.31 \times 10^{-30}$; $4.13E-31 = 4.31 \times 10^{-31}$; and $2.10E-24 = 2.10 \times 10^{-24}$.

Impact of Economic Freedom on Political Freedom

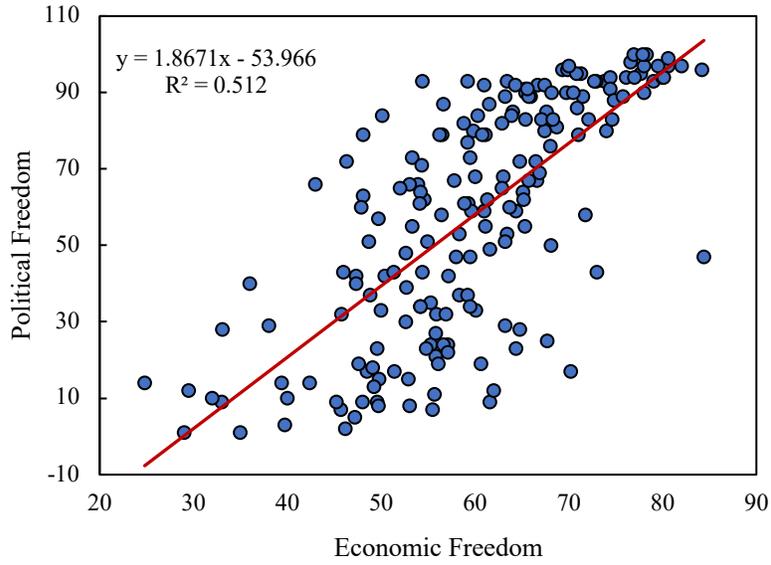


Figure 1

Impact of Property Rights on Political Freedom

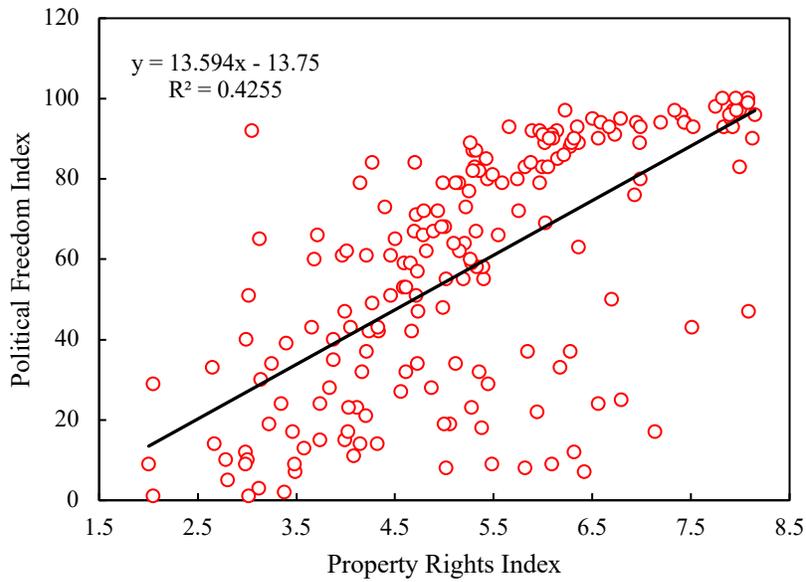


Figure 2

The empirical results of our first hypothesis show that the relationship between our dependent variable (political freedom) and variables of interest (economic freedom and property rights) is

statistically highly significant. This allows us to reject the null hypothesis which states that there is no relationship between political freedom and economic freedom and property rights. The overall correlation is positive of moderate magnitude. When combined, economic freedom and property rights have a positive impact on political freedom. The fact that these two variables are statistically significant with the dependent variables suggests that Milton Friedman's assertion is consistent with the data. Economic freedom and property rights are a required condition to obtain political freedom. However, only 52.21% ($R^2 = 0.5221$) of the variation of these two independent variables (economic freedom and property rights) can explain the changes in the variation of political freedom. This implies that economic freedom and property rights alone, although both are a prerequisite to political freedom, do not suffice to obtain political freedom.

A market economy enhances political freedom because such a system is protected by the checks and balance system which limits concentration and abuse of political power and strengthens the rule of law.¹⁰ Since political power is limited, government action ought to be more transparent, which constrains opportunities for corruption, rent-seeking, and the capture of state institutions by interest groups, and creates long-term guarantee and stability of property rights.¹¹

After the fall of the Soviet Union, many post-communist countries transitioned from a centrally-planned economy to a market economy. This transition allowed them to establish the cornerstones of a market economy, which subsequently led to the liberalization of their political system. Political freedom did not exist in these post-communist countries prior to the downfall of the Soviet Union because the Soviet Union enforced a command-based economy. It makes logically no sense to have a command-based economy and a liberalized political system. It is usually the other way around. Generally speaking, countries that do not have political freedom do

¹⁰ Dabrowsky, Marek. "Are Economic and Political Freedoms Interrelated?" *Bruegel.org*. (2018)

¹¹ *Ibid.*

have at least some extent of economic freedom. If we take the case of China, for example, we can see that although China has a very low political freedom index (9%) according to the Freedom House data, it has a moderately high economic freedom index (48%) and high property rights index (6.088 points) according to the Economic Freedom Index of the Heritage Foundation and the International Property Rights Index. But countries that do not have any economic freedom also do not have any political freedom. This is the case in countries such as Venezuela, Cuba, and North Korea. Besides being ensconced in a market economy, political freedom must be backed by the transparency of the political system as a whole otherwise individuals cannot fully exercise the rights they have been endowed with. In fact, political freedom is the result of the limitation of the power of political institutions.

b) Results of the Second Hypothesis

Variables	R²	Adjusted R²	P-Value	F-Statistics	Obs.
HDI (Dependent Variable)	0.52576325	0.51550949	5.31E-29***	51.275	190
POLFREE (Variable of Interest)	0.302012	0.29829929	2.19E-16***	81.345	190
RLI (Variable of Interest)	0.44974826	0.44682138	3.53E-26***	153.661	190
GOVPC (Variable of Interest)	0.38696502	0.3837042	9.78E-22***	118.67	190
REGENFORC (Variable of Interest)	0.5091267	0.50651567	7.24E-31***	194.99	190

Table 4

Impact of Political Freedom on Human Development

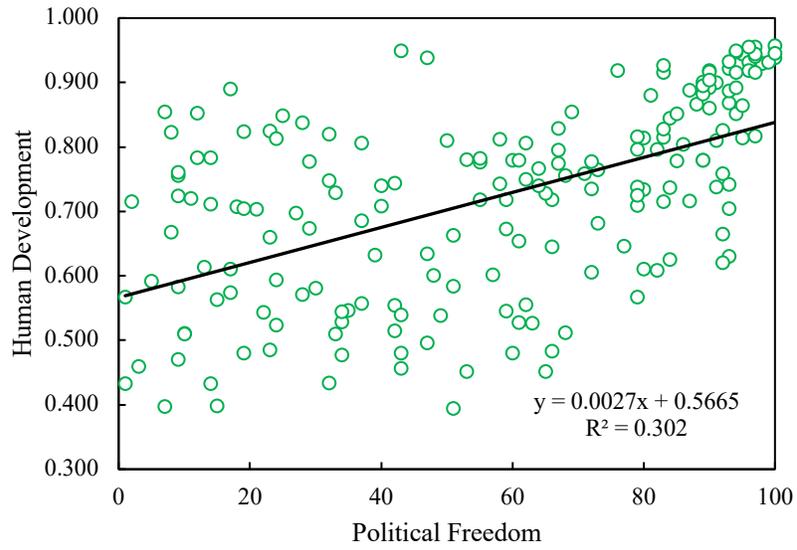


Figure 3

Impact of the Rule of Law on Human Development

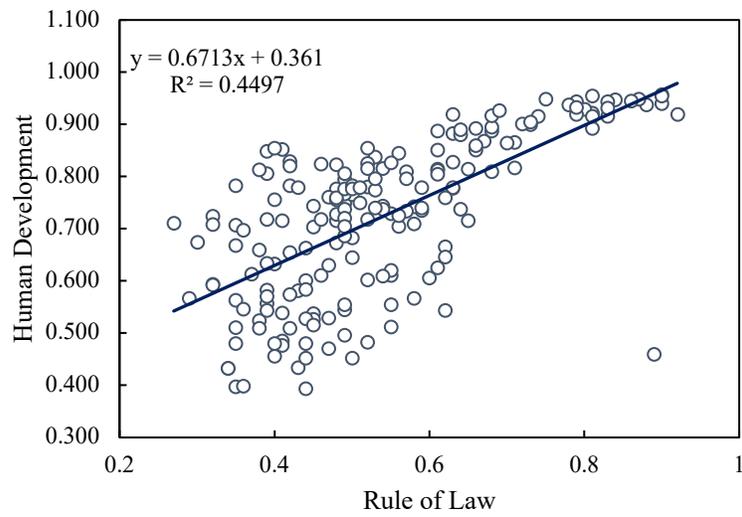


Figure 4

Impact of Government Power Constraints on Human Development

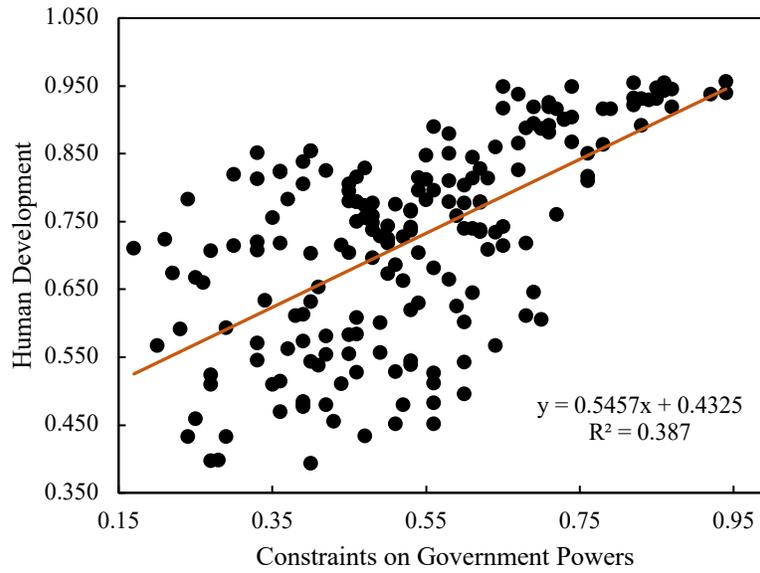


Figure 5

Impact of Regulatory Enforcement on Human Development

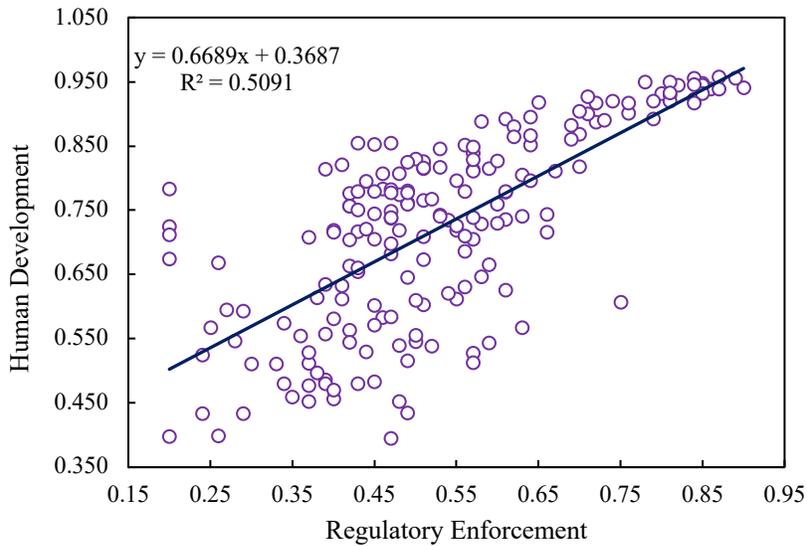


Figure 6

The empirical results of our second hypothesis are also consistent with the data. Indeed, the relationship between the dependent variable and the variable of interests is statistically highly

significant on all counts with a p-value extremely close to zero. ($p < 0.001$). Moreover, the magnitude of the correlation between human development and all the independent variables is positive and moderate. About 52.57% ($R^2 = 0.5257$) of the variation in the independent variables (political freedom, rule of law, government power constraints, regulatory enforcement) can explain the changes in the variation in the dependent variable (human development). However, among all the factors that make up the functioning of political institutions, the most impactful factor on human development is the regulatory enforcement variable in our model. 50.91% ($R^2 = 0.5091$) of the variation in regulatory enforcement can explain the changes in variation in human development. The rule of law then comes second as the most impact factor on human development with 44.97% ($R^2 = 0.4497$) in the change of variation of human development.

Why are the rule of law and regulatory enforcement the most impact factors on human development? Because governments need to have good laws, institutions, and processes in place to ensure accountability, stability, equality, and access to justice for all.¹² This ultimately leads to respect for human rights and also helps lower levels of corruption and instance of violent conflict.¹³ The rule of law establishes a legal framework that individuals can use to pursue their ends in society. It serves as a channel for individuals to gain legal access to economic and political resources. The enforcement of regulations is the element that ensures the sustainability of the rule of law. Human development flourishes when clearly written laws and accessible laws create certainty and the enforceability of legal rights.¹⁴ Legal rights are protected when an independent

¹² Koulias, Christina. "Rule of Law." *Promote the Rule of Law to protect Citizens and Businesses*. United Nations Global Impact. (2021).

¹³ Ibid.

¹⁴ Ibid.

and impartial judiciary promotes fairness and ensures transparent, timely, and predictable resolution of disputes.¹⁵

The most advanced economies have a higher human development index because they have strong political institutions. The strength of their political institutions is contained by the limitation of the authority of government. Most advanced economies such as Japan, Singapore, and Western Europe have limited the power of their government by law to ensure that their citizens are free, and their rights protected. When political institutions are governed by the rule of law, it empowers businesses and individuals to make positive contributions to the economy and society as a whole.

7. CONCLUSION

The results of our hypothesis showed that our theory is consistent with the data. Political institutions do play a crucial role in human development. This role though exerts a positive impact on human development when the power of these institutions is limited by law as we have theorized. Constitutions exist primarily to legally protect the rights of individuals, and to enumerate what the government can and cannot do. Countries with a low human development index tend to have a lower economic freedom index, restricted access to property rights, and a very high level of government corruption. Individual rights and rule of law in these countries are undermined by the Hobbesian approach to exercising political power. In this case, political institutions become a liability to human development.

¹⁵ Ibid.

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