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Nationalism and Government Effectiveness

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Abstract

The literature on nation-building and nationalism suggests that nation-building affects economic and political performance, mitigates the problems associated with ethnic heterogeneity, but that nationalism, an indicator of successful nation-building, is linked to dismal performance via protectionism and intolerance. This paper shows that there is a nonlinear association between nationalism and government effectiveness, that nationalism leaves no imprint on the effects of ethnic heterogeneity but may be a positive force in former colonies, and that actual trade flows are independent of the level of nationalism in the population.

Keywords: Nationalism, Nation-building, Ethnic Diversity, Government Effectiveness, Protectionism
JEL Codes: F52, N40.

1 Introduction

Nation-building generally refers to a process of unifying the population in a country by constructing a national unity where people feel bounded together by a sense of community and cohesion, and where people talk to, understand, and trust one another. Nation-building also refers to the creation of a common national identity, as opposed to a tribal or regional identity, and has been proposed as a possible remedy against problems associated with ethnic fractionalization (Miguel, 2004). Empirical evidence that the creation of a national unity is a worthwhile policy is, however, still largely absent. The purpose of this paper is to, for a wide cross-section of countries, empirically assess the effects of nationalistic sentiments on the ability of governments to effectively formulate and implement good policies.

Nation-building has a long history as a policy tool on the country level, and there are several interesting cases of how nation-building is brought into practice in post-colonial Africa. African countries are largely characterized by arbitrarily drawn borders and, partly as a result of these,

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of having highly ethnically heterogeneous societies. Attempts at nation-building during and after the decolonization process took different forms in different countries, and the results show similar disparities. Prime examples include the East African neighbors Tanzania and Kenya, who despite having similar initial conditions and ethnic composition, chose very different strategies of nation-building. This has had substantial effects on government effectiveness and the provision of public goods in the two countries, as argued by Miguel (2004).

African leaders pursuing nation-building could find historical precedence in policies conducted in already developed countries. The idea of nation-building has long been present in the form of the intentional creation of national symbols, such as statues of heroes from historic times, intended to spur feelings of national community and pride in one's country (Hylland Eriksen, 1993). The notion of nation-building is also central for an organization such as the European Union, which invests great effort in creating a European rather than a national sense of community. In fact, while the creation of the Economic and Monetary Union (EMU) as a common currency region surely has a wider political and economic rationale, it should partly be understood as an integral part of the efforts to build a European sense of community.[1]

In the modern literature, nation-building is often discussed as a remedy for potential problems associated with social distance in general, and with ethnically fragmented societies in particular. Ethnic diversity, or rather the potential problems associated with high levels of ethnic diversity, has often been proposed as a partial explanation for the poor economic and political performance of some countries. Most notably, Easterly and Levine (1997) argue that ethnic diversity distorts public polices, which in turn adversely affect economic growth, and Mauro (1995) claims that diversity enables corruption and therefore hurts economic growth. Others, such as Alesina et al. (1999), La Porta et al. (1999), and Miguel (2004), find that ethnic diversity leads to a distorted provision of public goods. Should nation-building moderate these negative effects, it would indeed be a recommendable policy.

More intense nationalistic sentiments signal successful nation-building in the sense that the population is united and that citizens take pride in the nation. However, there is a caveat: Promoting nationalism, with the intention to improve cooperation among citizens, may entail less understanding and less acceptance of *other* nations or cultures. Simply put, there may be good and bad forms of nationalism (Brown, 1999). Furthermore, people with stronger nationalistic sentiments tend to have stronger aversions to imported goods, and therefore have a more protectionistic attitude (Mayda and Rodrik, 2005). In sum, it is not clear from the literature whether nation-building, in the sense of creating nationalistic sentiments towards one's country, should be regarded as part of the cure or as part of the disease for troubled countries.

Despite this apparent lack of clarity in the literature, there is hardly any empirical evidence of a link between nationalistic sentiments and the ability of governments to formulate and implement good policies. The aim of this paper is therefore to provide answers to the following questions:

[1] Kaelberer (2004:173) writes: "The introduction of the euro is merely another part of this construction of a common European identity. It makes European identity more tangible and provides a concrete European symbol that engraves another element of 'Europeanness' into the daily lives of individuals."

Are more intense nationalistic sentiments associated with better government effectiveness, with a reduction in the supposedly negative effects of ethnic fractionalization, and with less openness to international trade?

In order to try to understand the importance of nation-building, our approach is to first identify a suitable measure of national unity and then relate it to an indicator of government effectiveness. A successful nation-building process can be analytically separated into several aspects: that the citizens of a country feel bounded together by a sense of community; that they talk to, understand and trust one another; and that they identify with and take pride in the nation. In this paper we focus on one of these aspects – the intensity of nationalistic sentiments. In the absence of direct measures of nation-building we use a measure of the level of national pride in the population. This measure, previously used by Shulman (2003), is obtained for a broad cross-section of countries from the World Values Survey (WVS).

The main contribution of this paper is that it is, to our knowledge, the first attempt to go beyond the theoretical discussion and to empirically estimate the effects of nationalism on a macro scale. Our findings include that of a hump-shaped relationship between nationalism and government effectiveness, that nationalism does not affect the negative association between ethnic fractionalization and poor government effectiveness, and, in contrast to Mayda and Rodrik's (2005) finding that nationalism is translated into a protectionist *attitude*, we document that that there does not seem to be any relation between nationalism and *actual* trade.

The paper is organized as follows. Section 2 reviews the literature on nationalism, nation-building, and ethnic diversity. The econometric framework and data are described in Section 3. Section 4 presents the results, and Section 5 concludes the paper.

2 Nationalism, Nation-building, and Ethnic Diversity

2.1 Nationalism: Definition and determinants

Nationalism is an ideology where the members of a nation, or nation-state, are held to have a duty to be loyal to the nation and where the primacy of the welfare of the nation is emphasized. Nationalism also refers to both the *attitude* that members of a nation have when they think of themselves in terms of members of the nation, and the *actions* they take when they seek to ensure self-determination of the nation (Stanford Encyclopedia of Philosophy, 2008).

The literature often distinguishes between civic nationalism, where the nation is defined in mainly political or territorial terms and is thought of as united by a common destiny, and ethnic or cultural nationalism, where the nation is defined in terms of ancestry and historical roots, and hence is thought of as united by a common past. This distinction is routinely criticized for its normative implications as civic nationalism is depicted as rational and forward-looking and associated with liberal and developed Western societies, while ethnic nationalism is regarded as irrational and backward-looking and associated with authoritarian and less developed Eastern countries (see for instance Barrington, 2006, and Shulman, 2002). The distinction is also criti-

cized on empirical grounds. Investigating a number of potential indicators for ethnic and civic nationalism, Shulman (2002) finds that they rarely follow the theorized rule of ethnic nationalism in the East and civic nationalism in the West, and when they do the relationship is weak.

While there is a general consensus that nationalism is a historically modern phenomenon, there is more disagreement on the historic origins of nations and the roots of contemporary national identities. The different theories can be ordered on a time scale where constructivists or modernists (Gellner, 1983; Andersson, 1983) hold that nations and national identity are recent and moldable concepts emerging during the last two centuries, whereas primordialists or perennialists (Smith, 1986) hold that nations have ancient origins and deep cultural roots, and thus change very slowly, if at all. Discussing the origins of the European centralized nation-states, Tilly (1992) describes what could be seen as the origin of different national identities and finds that "in the process [of creating powerful states with war making capacity] states generally worked to homogenize their populations and break down their segmentation by imposing common languages, religions, currencies, and legal systems"(1992:100). A result was that "life homogenized within states and heterogenized among states. National symbols crystallized, national languages standardized, national labor markets organized." (1992:116). Gellner (1983), in contrast, sees the rising nation-states as answering to the need of the industrial societies of the nineteenth century. Though constructivists differ in their perspectives on the timing of the rise of the nation-states and national identity, they would generally agree that national identity changes slowly.

Due to the only quite recent interest in empirical studies on values and attitudes, long time series with data on nationalistic sentiments are not available, and so far the scholarly interest has focused on the determinants, rather than on the effects, of national identity. Shulman (2003) investigates whether wealth and economic equality influence national pride and identity. Using data from the WVS and the International Social Survey Programme (ISSP), he finds that within countries, poor people on average have higher scores on measures of national identity. In a comparison of 59 countries, Shulman also finds that relatively poor countries on average have higher scores on national identity and national pride.[2] Therefore, Shulman concludes that a nation's wealth does not generally play a substantial role in increasing the strength of national identity.

The measures used in Shulman (2003) relate to general nationalistic sentiments. Evans and Kelley (2002) instead study pride related to more specific national achievements in for example sports, arts, literature, science, and the economy, and find clear differences among individuals from different countries in terms of what achievements they are more proud of. Even more important is that these differences are better explained by culture than by more objective measures of the actual success or failure of the respective nations in a given area. That the intensity of nationalistic sentiments may have cultural roots is supported by the findings in Smith and Kim

[2]Shulman uses, among other measures, the question "How proud are you to be ['Nationality']?" from WVS, which is also used in this paper. While Shulman uses data from 1990-93 and 1995-97 for a total of 59 countries, we use data from 1981-2004 for a total of 79 countries.

(2006), who find that neighboring countries, with supposedly relatively similar cultures, show similarities in levels of national pride beyond what could be expected based on income patterns. Apparently, there is no consensus on the origins of nationalism.

2.2 The Role of Nationalism for Nation-building[3]

In his often cited definition of a nation, Anderson (1983) describes it as an *imagined community*. It is an *imagined* community "(...) because the members of even the smallest nation will never know most of their fellow-members, meet them, or even hear of them, yet in the minds of each lives the image of their communion" (1983:6). The reason why people are able to be bound together in a community is, according to Hylland Eriksen (1993), that nationalism promotes solidarity between rich and poor, between low caste and high caste, and between left and right on the political scale. In a sense, nationalism endorses a particular kind of equality in that all members of a nation are *equal* in their membership in that nation.

Especially in poor regions, nationalism may be an instrument in the building of a more efficient state apparatus. Discussing the problem of state power in sub-Saharan African countries, Herbst (2000:126) argues that "Nationalism can be thought of as another way for the state to consolidate its power over distance not, as with taxes, through the agencies of coercion, but through the norm of legitimacy." Herbst (2000:126) also notes that nationalism can be the poor man's weapon as "(...) it may represent a way of broadcasting state authority that does not require the financial resources that poor countries lack." The answer to the question of whether the promotion of a civic nationalism is a real policy option fundamentally rests on the acceptance of the constructivist perspective of national identity and of nationalistic sentiments as moldable.

According to Pye (1971), a conflict based on ethnic diversity is a sort of "identity crisis" since the state cannot function properly as a national unit because large parts of the population identifies with, and therefore holds higher allegiances to, subnational groups.[4] Fundamental for understanding this form of identity crisis is therefore the concept of nationalistic sentiment, or the extent to which people feel that they are bound together by a common association. Verba (1971:312) concurs by noting that in order to mitigate the problems associated with allocating resources between competitors, the existence of an overarching set of a common identity, a "we-feeling," may be most useful.

In a comparison of Tanzania and Kenya, Miguel (2004) finds that the existence of a national unity based on deliberate nation-building is associated with superior financing of local public goods such as schooling and water wells. Tanzania and Kenya are interesting to compare because they are similar in terms of their geography and historical and colonial institutional legacies, yet quite different when it comes to their ambition to build a national unity. The government in

[3] Though the difference is not always clear, nation-building is separate from the concept of state building. Which one precedes the other has shifted over time and space. One view holds that while European countries generally underwent nation-building first and then state building, the order has been the opposite in many post-colonial states (Stephenson, 2005).

[4] Other forms of identity crisis are based on income/class, geographic location, and old/new society.

Tanzania has devoted significant efforts into building a national unity, to a great extent due to former president Julius Nyerere who downplayed ethnic affiliations and emphasized a unified Tanzanian national identity. In Kenya, on the other hand, it is well-known that the leaders have repeatedly played out ethnic groups against each other in national politics. Comparing the funding of local public goods in rural areas in Tanzania and Kenya, Miguel finds that the rural areas in Tanzania were quite successful in fund-raising for local public goods, whereas the rural areas in Kenya usually failed. Therefore, Miguel (2004:328) argues that "the Kenya-Tanzania comparison provides suggestive microeconomic evidence that serious nation-building reforms can successfully bridge social divisions and affect important economic outcomes, like public goods provision."

However, there is an obvious problem with the idea that people's sense of national unity can be enhanced by encouraging nationalism – national identity is created in relation to other national identities and for there to be an "us" there has to be a "them." Promoting nationalism to improve cooperation among a country's inhabitants may thus come at the price of less understanding or acceptance of other nations or cultures. Indeed, this effect may even be the primary objective in some cases of efforts to promote a sense of national unity. Individuals identifying more with a nation than with an ethnic group, or even individuals with purely individualistic identities, will be less resistant to war-mongering national leaders appealing to real or imagined injustices committed against a part of the community.

Using data from the WVS and the ISSP, Mayda and Rodrik (2005) find that countries with stronger nationalistic sentiments also on average have stronger feelings against imported goods, and therefore are less pro-trade. That individuals with strong national pride are more opposed to multilateralism and internationalism is shown also by Smith and Kim (2006), who add that a strong national pride is associated with a more negative view of immigrants and a more "demanding sense of what is important for someone to be considered a true member of a country" (2006:133). McFarland and Mathews (2005) argue that nationalism and ethnocentrism are associated with lower support for human rights in general and a willingness to restrict the rights of unpopular groups in particular. Schatz and Levine (2007) refer to work showing that a sentimental attachment to the nation and a concern for national symbolism is associated with an uncritical support for government policies as well as a rejection of national criticism and a "stalwart national allegiance." They also find that individuals with more concern for national symbols are more nationalistic (as opposed to universalistic) and have a stronger national identity, but are no more likely to take actions associated with better monitoring of officials or improved functioning of the state. These findings are all in line with the quite common notion that nationalism is positively associated with discrimination as well as with civil conflict and violence since it can be associated with antipathy, tensions, hostility, and violence among members of different groups in society.

That more intense nationalistic sentiments have to be associated with more protectionism is not evident on the theoretical level. Nakano (2004) notes that while "economic nationalism,"

an ideology seeking to empower and enrich the nation-state, has traditionally been coupled with more protectionism and active state policies, the opposite may be true under certain circumstances. One example is small countries that tend to follow more pro-trade policies to benefit the country as a whole, since they stand to lose relatively more from pursuing protectionist policies. Though some groups still may benefit from protectionist policies, an economic nationalist agenda can encourage the implementation of policies regarded as economically rational. The fact that nationalists under certain conditions are in favor of international openness and competition is discussed also in Shulman (2000). In addition, Shulman points out the faulty logic that credits nationalism for the policy of mercantilism, when the latter predates the former by several hundred years. Nakano further argues that modernization and industrialism need a strong state to guarantee the civil rights and liberties of the citizens and that this requires the support of the population. To the extent that nationalistic sentiments work as a unifying force to promote an at least superficial solidarity among citizens, nationalism can be positively associated with stronger support for, and hence capacity of, the state.

Nationalism can thus have positive effects via cooperation and understanding and negative effects via protectionistic policies and less understanding of other cultures and ethnicities. The mechanisms with which nationalism and nation-building are assumed to affect economic and political outcomes closely resemble those proposed for ethnic fractionalization. It is to the latter we turn in the next section.

2.3 Ethnic Diversity

The economic literature contains a rich documentation on relationships between ethnic diversity and public goods provision, corruption, and in the end, economic development (Alesina and La Ferrara, 2005). In the seminal contribution by Easterly and Levine (1997), ethnic diversity is shown to distort public goods provision and therefore depress economic growth. Easterly and Levine ascribe a large part of the poor performance of the countries in sub-Saharan Africa to their high levels of ethnic fractionalization. The negative relationship between ethnic diversity and public goods provisions such as roads, sewers, schooling, water wells, and general infrastructure has been documented in a still increasing number of studies (Miguel and Gugerty, 2005; Miguel, 2004; Alesina et al., 2003; Alesina et al., 1999; La Porta et al., 1999). Others, starting with Mauro (1995), argue that ethnic diversity affects economic growth not by distorting public goods provision but by promoting corruption. In fact, ethnic diversity often plays a central role in studies directly examining the determinants of corruption (Pellegrini and Gerlagh, 2007; Treisman, 2000; and La Porta et al., 1999).

Different mechanisms for how ethnic diversity can affect public goods provision have been suggested. Following Miguel (2004) we can distinguish between two sets of theories. The first builds on the notion that individuals in different groups can differ systematically in their preferences and tastes. Not only do different groups prefer different kinds of public goods, they also dislike sharing goods with other groups. The effect of this is that individuals tend to prefer to

fund public goods that benefit only their own ethnic group. A study favoring this explanation is Alesina et al. (1999). The second set of theories takes as a starting point that the problems of sustaining collective actions above the group-level stem from the fact that individuals from different groups sometimes have too little interaction and communication. What these communities are lacking is public policies for better social sanctioning; policies that promote interaction, information sharing, and coordination across groups (Miguel, 2004).

A policy that has been suggested as a remedy to the problems of conflicts along ethnic lines is that of institutionalized power-sharing among groups, but since this may solidify already existing divisions and prevent new non-ethnic identities from emerging, it does not constitute the panacea of ethnic conflicts. Another policy is to promote dialogue and interaction among leaders to strengthen their ability to extend their within-group social sanctions to apply also to violations of norms of between-group behavior (Miguel, 2004). The obvious question is then how to successfully promote dialogue and interaction in environments where these virtues are problematic, or even missing.

Pye (1971) argues that an "identity crisis" caused by ethnic diversity can be solved by either *assimilation* or *accommodation*. Assimilation is when the population is homogenized, as for instance when all ethnic groups are assimilated into a dominant ethnic group. Tilly (1992), Fearon (2003), and Ahlerup and Olsson (2007) discuss how the states in Europe have deliberately and actively homogenized their populations in order to obtain populations with a common national identity and culture. Accommodation, on the other hand, is when different ethnic groups conform or adjust to each other.[5] The idea of nation-building lies closer to the accommodation strategy in that it entails the creation of a national unity where people have the "imagined" feeling that they are bound together by a common association.

2.4 Theoretical Framework

The informal theoretical discussion above reflects the multidisciplinary research on nationalism and points to the need for a stricter theoretical framework. Building on our prior discussion, we propose that the ability of a government to formulate and implement good policies, i.e. the level of government effectiveness, is a function of the demand for good policies, the individuals' acceptance of the authority of the government, and the level of the country's openness to international trade and influence.

Best Practice Demand

We denote the level of government effectiveness Q. Let us then define the *Best Practice Demand* (BPD) as the level of the individuals' demand for economically rational policies. The higher the demand for rational policies, the more effective the government has to be to meet the demand from its subjects, so that $Q_{BPD} > 0$, where $Q_{BPD} = \partial Q / \partial BPD$.

[5] Accommodation is the strategy used by the EU. The importance of getting along within the EU was recently emphasized in an article in Time magazine (Farouky, 2007).

A more nationalistic population has a lower *demand* for economically rational and technologically best-practice policies, since nationalistic individuals tend to value ideas and methods originating within the nation very highly. This preferential treatment of internal ideas constitutes a restriction on what new ideas and techniques are considered to be both acceptable and improvements on prior policies, and therefore on what policies people believe should be adopted. The lower demand for best-practice policies also stems from a general status quo bias originating in the idealization, and even idolization, of the nation's history and traditions. Higher levels of nationalism are therefore associated with a lower demand for policies designed to enhance societal efficiency and a higher demand for policies that clearly support national glory and that are in accordance with national traditions and culture.

It is well established that societies with more heterogeneous populations tend to be less capable of agreeing on common policies (Miguel, 2004). The implication is that deviations from a demand for a common set of rational policies depend positively on the social distance between groups and are larger in ethnically fragmented societies. In sum, letting N denote Nationalism and E denote Ethnic Fragmentation we have that $BPD = BPD(N, E)$, with $BPD_N < 0$ and $BPD_E < 0$.

Acceptance

Following Herbst (2000) we conjecture that the ability of the state and its bureaucracy to implement the desired policies depends on its legitimacy, i.e. the extent to which the population accepts its authority. Defining Acceptance (A) as the individuals' acceptance of the state's authority, we have $Q_A > 0$. A more nationalistic population is more likely to accept the authority of the state, while a more fragmented population is less likely. This gives us that $A = A(N, E)$, with $A_N > 0$ and $A_E < 0$.

Openness

Openness to international trade is a disciplining device that, by determining the competitive pressure on the effectiveness of a government, can force countries to adopt sound policies.[6] Denoting openness O, we have $Q_O > 0$. The standard assumption is that nationalism entails attitudes against international openness, but as discussed in Section 2.2, a nationalistic individual may in principle favor openness if he/she believes it benefits the nation. Following the standard assumption we have $O = O(N)$ with $O_N < 0$. Bringing these concepts together gives us

$$Q = Q(BPD, A, O) \text{ and } Q = Q[BPD(N, E), A(N, E), O(N)]. \quad (1)$$

[6] The mechanism may be that the government can afford to be less efficient if it is not troubled by foreign pressure, and/or that the citizens are less aware of the weaknesses of the state if there is less openness; see for example Olsson and Hansson (2006).

Taking the total derivative of this with respect to nationalism gives us

$$\frac{dQ}{dN} = Q_{BPD}BPD_N + Q_A A_N + Q_O O_N. \tag{2}$$

The effect of nationalism on government effectiveness has three components: The first, $Q_{BPD}BPD_N < 0$, reflects the negative effect of a larger deviation from best practice demand and of a stronger status quo bias when there is more nationalism. The second, $Q_A A_N > 0$, reflects the positive effect that a more nationalistic population is more accepting of state authority, which enables a more effective broadcasting of power.

The third component, $Q_O O_N$, reflects that nationalism affects openness which in turn affects government effectiveness. The positive effect of openness is translated into a negative effect on government effectiveness only if $O_N < 0$, i.e. if more nationalistic populations are in favor of less actual openness. As discussed above, this is not completely evident a priori, and the positive and negative effects may well cancel each other out in the end. If it turns out that nationalism does not affect actual openness, $O_N = 0$, then nationalism will not affect government effectiveness through this channel.

If there is no acceptance of the government, then the government simply cannot function and it is not important whether the population demands irrational policies. Hence, we expect that a marginal change in nationalism at low levels of nationalism will have a positive effect on government effectiveness. Once people have a fundamental acceptance of the authority of the government, the diversionary costs from the demand for irrational policies will probably become increasingly problematic. Eventually, the costs will dominate the benefits. Therefore, we hypothesize that we can expect positive effects at low levels of nationalism and negative effects at higher levels.

BPD and A both depend negatively on ethnic fractionalization, E, and so will therefore also Q. If the negative effects of ethnic fractionalization ($BPD_E < 0$ and $A_E < 0$) are mitigated by nationalism, we expect to find that $\frac{\partial^2 BPD}{\partial E \partial N} > 0$ and $\frac{\partial^2 A}{\partial E \partial N} > 0$, which would give us $\frac{\partial^2 Q}{\partial E \partial N} = \frac{\partial^2 BPD}{\partial E \partial N} + \frac{\partial^2 A}{\partial E \partial N} > 0$.

We take this brief sketch of the plausible channels through which nationalism could affect both government effectiveness and the associations between government effectiveness and openness or ethnic fractionalization, as a starting point when we in the next section move on to the empirical analysis.

3 A cross-country study

3.1 Regression framework

The discussion so far indicates that the overall effect of nationalism on government effectiveness is nonlinear. As stated in the introduction, our aim is to provide answers to the following questions: Are more intense nationalistic sentiments associated with better government effectiveness, with a

reduction in the negative effects of ethnic fractionalization, and with less openness to international trade? Building on equation 2 developed in the previous section, we form the following system of simultaneous equations:

$$\begin{aligned} Q_i &= \beta_0 + \beta_1 \left(nationalism_i\right) + \beta_2 \left(nationalism_i^2\right) + \beta_3 \left(ethnic_i\right) \\ &\quad + \beta_4 \left(O_i\right) + \boldsymbol{X}_i' \boldsymbol{\gamma} + \varepsilon_i \end{aligned} \tag{3}$$

$$\begin{aligned} O_i &= \alpha_0 + \alpha_1 \left(Const.Trade_i\right) + \alpha_2 \left(nationalism_i\right) + \alpha_3 \left(nationalism_i^2\right) \\ &\quad + \alpha_4 \left(ethnic_i\right) + \boldsymbol{X}_i' \boldsymbol{\chi} + \eta_i, \end{aligned} \tag{4}$$

where Qi is a measure of government efficiency in country i, $nationalism_i$ is a measure of the level of nationalism in the population, $ethnic_i$ is a measure of ethnic fractionalization, O_i is (log) trade openness, $\boldsymbol{X}_i$ is a vector with controls, and ε_i is the error term (all variables to be explained in greater detail below). Trade is here instrumented by $Const.Trade_i$, the constructed trade share based on the Frankel and Romer (1999) gravity equation (see Appendix B for details). It is therefore possible to see whether nationalism affects *actual* trade openness when the exogenously determined trade share is controlled for, instead of *attitudes* about trade openness as in Mayda and Rodrik (2005). More importantly, from (4) it is possible to see whether there is a direct effect of nationalism on government effectiveness when also controlling for trade.

For our second question, whether the degree of nationalism can mitigate the negative effect of ethnic diversity, we modify the above systems of equations to include ethnic diversity and the interaction of ethnic diversity and nationalism, $\beta_5 \left(nationalism_i \times ethnic_i\right)$ and $\alpha_5 \left(nationalism_i \times ethnic_i\right)$ in (3) and (4), respectively. If more nationalism reduces the negative effects of ethnic diversity, then the parameter estimate for the interaction term (β_5) should be positive and significant. To identify these relationships, we require reliable measures for government effectiveness, ethnicity, and intensity of nationalism.

3.2 Data on Government Effectiveness

As dependent variable we use *Government Effectiveness*, which is one of the World Bank's Governance Indicators (Kaufmann et al., 2005). *Government Effectiveness* is constructed to indicate the ability of the government to "produce and implement good policies and deliver public goods" (Kaufmann et al., 2003). This variable therefore captures the most important aspects of the quality of government, as examined by La Porta et al. (1999), while at the same time being in line with Miguel (2004) by capturing the quality of public service delivery. *Government Effectiveness* is highly correlated to other institutional measures such as corruption and political stability.[7]

The measures of quality of governance constructed by Kaufmann et al. (2005) have gained increasing attention and are today widely used. The governance measures are constructed by

[7] The correlation between Government Effectiveness and Corruption is 0.96, and between Government Effectiveness and Political Stability it is 0.80 (for the year 2004, all measures from Kaufmann et al., 2005).

combining a large number of different measures from a wide range of sources. The argument for using a large number of measures is that while the actual level of government effectiveness cannot be directly observed, each individual measure contributes a signal about the true level of governance. Kaufmann et al. (2005) isolate each signal and combine the many data sources by using an unobserved components model. Therefore, the Kaufmann et al. measures for government effectiveness is more informative about the unobserved governance than any of the individual indexes.

3.3 Data on Nationalism

Nationalism affects the level of duty people feel to act in ways that favor the nation. What we need to capture is therefore both that individuals identify themselves as tied to the nation and the intensity of this tie. The latter is essential since it determines an individual's choice in a situation when he/she faces a trade-off between an action that gives a high private return and an action that gives a lower private return but a higher return to the nation. Asking people whether they are nationalistic, and if so about the intensity of their nationalism, is however unlikely to provide a reliable measurement of the sentiments we want to capture, since the term nationalist is often considered to be pejorative. In the absence of a direct measure of nationalism, the standard measure in the literature has been the level of national pride in the population, as has been discussed in previous sections. This turns out be an ideal measure for our purpose for the following reasons which are linked to the discussion in Section 2.4. An individual who does not consider herself as tied to a nation will obviously not report that she feels proud to be a member of that nation. Higher pride will signal a closer emotional connection to the nation. The stronger the emotional tie to a nation an individual feels, the more skewed will his/her assessment of the quality of ideas and goods originating in that nation be. Hence, the prouder an individual is of his/her nation, the lower demand for rational and best practice policies and the stronger skepticism toward imports and international exchange, all in line with the reasoning in Section 2.4. Similarly, an individual who does not feel tied to (and hence is not proud to be a member of) a nation will either feel tied to another nation or not pledge allegiance to any nation. In neither of the latter cases will the individual accept the authority of the leaders or government of the nation. The closer the ties to the nation and hence the higher the pride of being a member of it, the more important the welfare of the nation in the eyes of the individual, and the more he/she will accept the authority of the government given that it is seen to rule in the interest of the nation. As discussed in Section 2.2, it is indeed the case that individuals with more national pride are more uncompromising in their support of the government.

The World Values Survey (WVS) has since 1981 conducted detailed public opinion surveys of human beliefs and values in a multitude of areas and for a broad cross section of countries.[8] We make use of the following question from the WVS: "How proud are you to be ['Nationality']?" The respondents had four options; they could answer "very proud," "quite proud," "not very

[8] See www.worldvaluessurvey.org for more information.

proud," or "not at all proud." We assign the value 1 for "not at all proud" and 2 for "not very proud" etc., and then calculate the average for each country, giving us a maximum range of 1 to 4. If a country is included in the surveys more than once, we use the figure from the most recent survey. This gives us a range from the year 1995 (Australia) to 2003 (Kyrgyz Republic and Saudi Arabia), with the most observations from 1999, for our base sample of 79 countries. In the forthcoming analysis we refer to this variable as Pride. Calculating the mean over all survey periods gives a similar result.[9]

4 Results

Table 1 presents the descriptive statistics for the countries in our main sample.[10] The variable *Pride* has a mean of 3.41 and a standard deviation of 0.33, and since quite proud =3 and very proud = 4, people on average seem to be more than quite proud of their country. The lowest scores (from 2.7 to 2.8) are found in Germany, Taiwan, Japan, The Netherlands, and Russia (ordered from low to high). We find the highest scores (3.8-3.9) in Egypt, Venezuela, Morocco, Iran, and Puerto Rico (low-high). The U.S. is not far behind with a score of 3.7.

Table 1: Summary Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Control of Corruption	79	0.394	1.138	-1.110	2.530
Democracy	75	5.800	5.782	-10	10
Dummy for Former Colony	79	0.734	0.445	0	1
Ethnic Fractionalization	79	0.350	0.228	0.002	0.930
EU member	79	0.304	0.463	0	1
Federalism	67	1.433	0.733	0	2
Log GDP/capita 1990	77	8.197	1.430	5.155	10.413
Government Effectiveness	79	0.464	1.005	-1.200	2.250
Growth 1990-2004	77	0.016	0.020	-0.047	0.087
Latitude	79	37.579	15.535	0.333	64.150
Log Area	79	12.320	2.021	5.756	16.655
Log Population	79	9.722	1.650	5.677	14.078
Log. Constr. Trade	79	-1.946	0.765	-3.585	-0.032
LogTrade	79	-0.250	0.512	-1.395	1.467
Pride	79	3.409	0.332	2.691	3.908
Rule of Law	79	0.320	1.061	-1.530	2.010
State Antiquity	75	0.523	0.222	0.069	0.938

Since we will later relate the measure of national *Pride* to *Government Effectiveness*, a natural question is whether *Pride* can be considered to be exogenous. In Section 2.1, which discusses the creation of nationalism, we learned that there is no simple answer to what determines nationalism. The correlations between *Pride* and other variables tell us a similar story (see Table 2). First of all, *Ethnic Fractionalization* from Alesina et al. (2003), which measures the probability

[9] The correlation between pride(latest) and pride(mean) is 0.97.

[10] The main sample consists of the countries for which we have data for specification (4) in Table 3.

that two randomly drawn individuals from the same country belong to different ethnic groups, is uncorrelated with *Pride*. Although a priori one could imagine that ethnically homogenous societies are prone to stronger nationalism, it does not seem to be the case.

Table 2: Pair-wise Correlations Between Pride and Other Variables.

	Ethnic Fractionalization	State Antiquity	Federalism	Democracy	Government Effectiveness in 1996	Government Effectiveness in 2004
Pride	0.0875	-0.2453	-0.0915	-0.2297	-0.0994	-0.1815
(p-value)	(0.4430)	(0.0339)	(0.4615)	(0.0474)	(0.3833)	(0.1094)
Obs.	79	75	67	75	79	79
	Log Population	Log Area	Former Colony	NeoEurope	Log GDP/capita 1990	Growth 1990 -2004
Pride	0.1267	0.2203	0.2808	0.1659	-0.2420	0.1826
(p-value)	(0.2657)	(0.0511)	(0.0122)	(0.1440)	(0.0340)	(0.1119)
Obs.	79	79	79	79	77	77

Since the average distance to other people is smaller in smaller countries, one may think that people in these countries feel closer to each other and therefore feel a stronger sense of community and national pride. Table 2 therefore includes two measures of country size: *Log Population* and *Log Area*. The correlations between *Pride* and these two measures are nevertheless only marginally positive and not significantly different from zero at the 5 percent level. The correlation between *Pride* and *State Antiquity* (from Bockstette et al., 2002) indicates that countries with less historical experience of an independent and sovereign state apparatus, often indicating younger countries, are more likely to have more proud populations. Negative correlations are also found between *Pride* and *Democracy* (measured as Polity2 from Polity IV project) and between *Pride* and *GDP/capita 1990*. Interestingly, *Pride*, which is measured for the years 1995-2003, is not correlated with *Government Effectiveness in 1996* (where 1996 is the earliest year for which data is available). In the regressions that will follow, we use values of *Pride* for the years 1995-2003 to explain *Government Effectiveness* in 2004. Moreover, in Section 4.2 we will investigate alternative hypotheses – the *low income* hypothesis, the *satisfaction* hypothesis, and the *manipulation* hypothesis – that, if true, would imply that Pride may be an *endogenous* variable in our regressions.

Table 3: Relationship Between Pride and Government Effectiveness.

	Panel A: Dependent Variable: Government Effectiveness in 2004.				
	(1)	(2)	(3)	(4)	(5)
	OLS	OLS	OLS	OLS	2SLS
Pride	-0.550*	17.461***	13.256**	12.517***	12.065***
	(0.323)	(6.166)	(5.075)	(4.376)	(4.217)
Pride-square		-2.717***	-2.179***	-2.033***	-1.944***
		(0.918)	(0.758)	(0.649)	(0.629)
Ethnic Fractionalization			-1.130***	-1.072***	-1.037***
			(0.387)	(0.339)	(0.323)
French Legal Origin			0.038	0.048	0.054
			(0.291)	(0.250)	(0.245)
Socialist Legal Origin			-0.856***	-0.998***	-1.084***
			(0.313)	(0.271)	(0.258)
Scandinavian Legal Origin			1.053***	1.069***	1.078***
			(0.358)	(0.303)	(0.288)
German Legal Origin			0.362	0.558	0.679*
			(0.495)	(0.428)	(0.407)
Dummy for NeoEuropes			1.747***	2.013***	2.176***
			(0.266)	(0.254)	(0.299)
LogTrade				0.634***	1.021***
				(0.119)	(0.173)
Constant	2.340**	-27.186***	-18.690**	-17.727**	-17.139**
	(1.113)	(10.259)	(8.496)	(7.389)	(7.077)
Observations	79	79	79	79	79
R^2	0.033	0.107	0.626	0.71	0.68
	Panel B: First Stage Results for Log Trade Share.				
Log. Constr. Trade					0.435***
					(0.069)
Pride					-2.428[a]
					(3.096)
Pride-square					0.330[a]
					(0.466)
Ethnic Fractionalization					-0.039
					(0.211)
French Legal Origin					-0.050
					(0.133)
Socialist Legal Origin					-0.050
					(0.159)
Scandinavian Legal Origin					-0.260
					(0.225)
German Legal Origin					-0.364
					(0.246)
Dummy for NeoEuropes					-0.095
					(0.226)
Constant					5.095
					(5.161)
F(trade)					39.42

Notes: Panel A reports robust standard errors in parentheses, Panel B reports ordinary standard errors. *** p<0.01, ** p<0.05, * p<0.1. 2SLS performed with Stata's ivreg2 command. [a]: not jointly significant at the 10% level.

4.1 The relation between Pride and Government Effectiveness

Table 3 presents the main results, and starting in Column 1 the results indicate that on average, more *Pride* is associated with less *Government Effectiveness*. The linearity of this specification does not correspond to the theoretical discussion above, however, and in Column 2 there is a clear nonlinear association between the two variables. The nonlinear effect indicates that at lower levels of *Pride* there is a positive effect on *Government Effectiveness* while this effect changes sign at higher values of *Pride*.

In Column 3 we include *Ethnic Fractionalization* along with our baseline control variables. We include dummies for *Legal Origin* following La Porta et al. (1999) and a dummy for *NeoEuropes*. The inclusion of the *NeoEurope* dummy, taking the value one for Australia, Canada, New Zealand, and USA and zero for all other countries, is motivated not by their unusual values in terms of *Pride* or *Government Effectiveness* but by their unusual character as rich democratic settler colonies and their unusual combination of high *Pride* and high *Government Effectiveness*. The inclusion of a dummy for neo-Europe is not uncommon in cross-country regressions.

The inclusion of our baseline control variables in Column 3 has only a marginal effect on the parameter estimates for *Pride* and *Pride-square*. The coefficient for *Ethnic Fractionalization* has the expected negative sign. Countries with *Socialist* legal origin have significantly worse and countries with *Scandinavian* legal origin have significantly better government effectiveness than countries with *British* legal origin, which is the excluded category.

Column 4 includes *Log Trade*, resulting in only a slight change in the coefficients for *Pride* and *Pride-square*. The positive coefficient indicates that trade may work as a disciplining device, in the sense that more open countries are subject to higher competitive pressure and therefore implement more effective policies. *Log Trade* could here clearly be endogenous due to the plausible simultaneity between *Log Trade* and *Government Effectiveness*. Therefore, we instrument *Log Trade* using *Log Const. Trade* which is estimated using a gravity equation similar to Frankel and Romer (1999), details of which are presented in Appendix B. By instrumenting we also indirectly test whether *Pride* has a direct effect on *Log Trade*.

In Column 5 we estimate *Log Trade* in a two-stage procedure using *Log Constructed Trade* as the excluded instrument. Importantly, *Log Const. Trade* has a positive and significant effect on *Log Trade* (F-value = 39.42) in the first stage, and the effect of *Pride* is insignificant. That is, although Mayda and Rodrik (2005) find that countries with more nationalistic sentiments have less pro-trade *attitudes*, we find that nationalistic sentiments do not seem to affect *actual* trade flows. Turning to the second stage, the parameter estimate for *Log Trade* is now larger than with OLS. This is similar to Frankel and Romer (1999) who find that OLS understates the relationships between trade and income per capita.

A multitude of studies have shown that there is a strong geographical component of trade; i.e., smaller countries and countries closer to each other trade more. This component should not be affected by nationalism or a preference for protectionism. Though the coefficient for trade is larger in Column 5, the coefficients for *Pride* and *Pride-square* are quite stable despite the

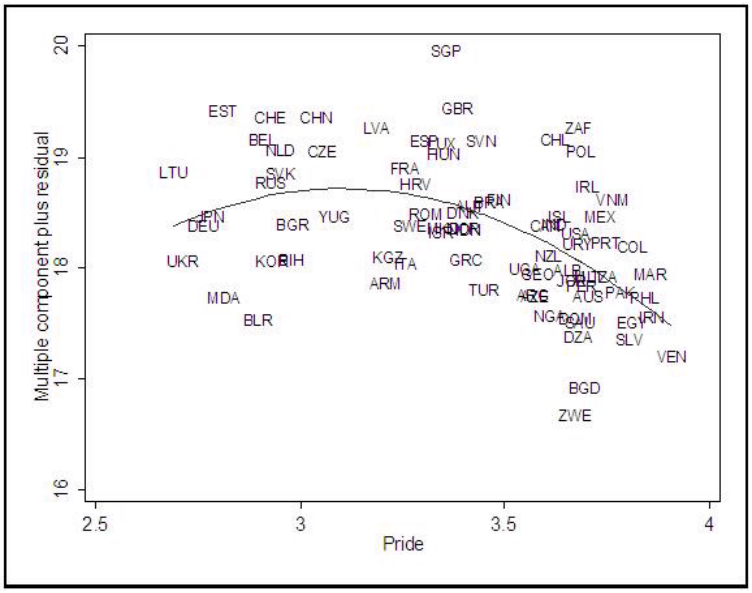

Figure 1: Component plus Residual Plot - Government Effectiveness & Pride. (Note: Component-plus-residual plot of Pride for regression 5 in Table 3.)

use of predicted rather than actual trade share. This is further evidence that the link does not seem to go from nationalism to government effectiveness via openness, since removing the endogenous part of trade from the regression has only a moderate effect on the estimates of the pride variables.

To illustrate the nonlinear relationship between *Pride* and *Government Effectiveness* in Column 5 of Table 3, Figure 1 depicts the component-plus-residual plot, which is used to illustrate functional form.[11] The figure makes it evident that the effect of *Pride* is first positive and then negative. The result indicates that the effect of *Pride* is positive up to a value of about 3 (corresponding to "quite proud"), but that more than quite proud is associated with worse scores on *Government Effectiveness*. From the figure it is interesting to note that the sub-Saharan African countries in our sample – Nigeria (NGA), Tanzania (TZA), Uganda (UGA), and Zimbabwe (ZWE) – are located at the bottom right of Figure 1 with high *Pride* but low *Government Effectiveness* (see Appendix A for a listing of countries included in the sample).

Though the graph illustrates a distinct hump-shaped relationship, most countries lie in the region where more nationalism is associated with worse government effectiveness. For the countries that lie in the region where more nationalism is associated with better government effectiveness, the potential gain seems to be moderate. Thus, while promotion of nationalism may be a mar-

[11] To adequately illustrate a partial relationship from a regression specification with this number of explanatory variables is of course not possible. One can approximately graph the relationship using an "added variables plot" to assess the presence of outliers, or a "component-plus-residuals plot" to assess the functional form. See for example the Stata manual.

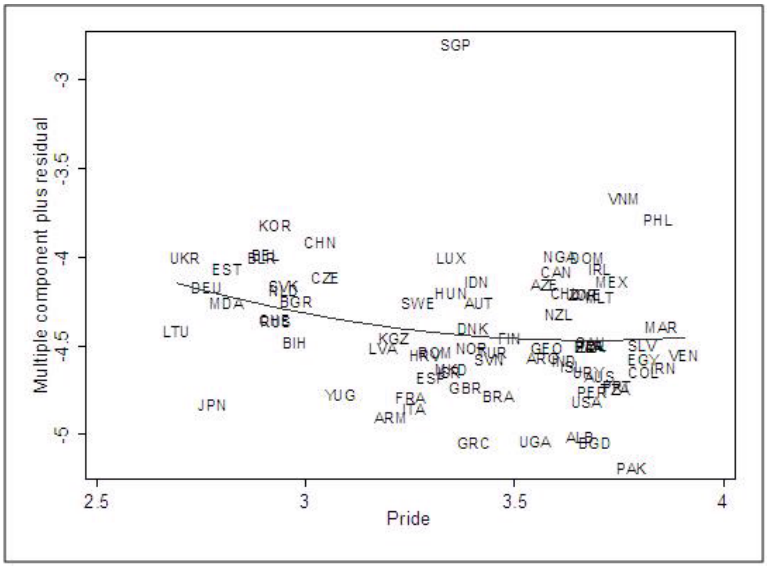

Figure 2: Component plus Residual Plot - Log Trade & Pride
(Note: Component-plus-residual plot for first stage of 5 in Table 3.)

ginally good idea in some cases, it can be really bad in others.

Proceeding to the second question of this article – whether nationalism can reduce the negative effects of ethnic heterogeneity – Table 4 includes the interaction between *Ethnic Fractionalization* and *Pride*. If the hypothesis that national pride could mitigate the effects of ethnic diversity is true, then the estimated parameter should be significantly positive. This is not the case in any of our specifications. We have here employed a host of indicators for heterogeneity in the population – ethnic fractionalization, linguistic fractionalization, religious fractionalization, size of majority group, the number of ethnic groups, and ethnic polarization. Of these, all but religious fractionalization and ethnic polarization enter significantly and with the expected sign when included on their own, but none interacts significantly with *Pride*. We have also elaborated certain combinations of shares of the largest and the second largest groups, but the results are the same – there is no indication that national pride would either mitigate or worsen the problems associated with a more heterogeneous population (results not shown but available upon request).

Table 4 also includes a dummy for former colonies (CEPII 2007). The negative parameter estimate for the colony dummy in Column 5 indicates that former colonies on average have worse *Government Effectiveness* than countries that were never colonized. Although *Pride* does not seem to mitigate the negative effects of *Ethnic Fractionalization*, it seems to mitigate the negative effect of being a former colony, as indicated by the positive effect of the interaction term in Column 6.

Table 4: Pride, Ethnic Fractionalization, and Colonial Past.

	Panel A: Dependent Variable: Government Effectiveness in 2004.						
	(1) OLS	(2 OLS	(3) OLS	(4) 2SLS	(5) 2SLS	(6) 2SLS	(7) 2SLS
Pride	15.501***	13.612**	12.590***	11.835***	10.541**	10.129**	10.023**
	(5.310)	(5.207)	(4.441)	(4.169)	(4.289)	(4.437)	(4.456)
Pride-square	-2.440***	-2.145***	-2.030***	-1.945***	-1.686***	-1.706**	-1.709**
	(0.811)	(0.783)	(0.661)	(0.617)	(0.639)	(0.670)	(0.665)
Ethnic	-3.678	4.575	-0.112	-3.577	-0.857***	-0.823***	-2.266
Fractionalization	(4.708)	(4.169)	(4.079)	(3.850)	(0.317)	(0.315)	(3.483)
Pride*Ethn.Frac	0.612	-1.640	-0.276	0.732			0.415
	(1.347)	(1.191)	(1.167)	(1.098)			(1.001)
LogTrade			0.623***	1.083***	1.084***	1.170***	1.202***
			(0.135)	(0.187)	(0.182)	(0.189)	(0.212)
Dummy for					-0.349**	-3.020**	-2.958**
Former Colony					(0.169)	(1.469)	(1.506)
Pride*Colony						0.794*	0.776*
						(0.437)	(0.445)
Legal Origin & NeoEuropes	no	yes	yes	yes	yes	yes	yes
Constant	-23.203***	-20.305**	-18.017**	-16.325**	-14.775**	-13.176*	-12.773*
	(8.659)	(8.717)	(7.530)	(7.110)	(7.216)	(7.370)	(7.538)
Observations	79	79	79	79	79	79	79
R^2	0.232	0.636	0.71	0.67	0.68	0.68	0.67
	Panel B: First Stage Results for Log Trade Share.						
Log.Constr. Trade				0.409***	0.424***	0.425***	0.405***
				(0.074)	(0.070)	(0.072)	(0.077)
Pride				-2.072[a]	-1.806[a]	-1.813[a]	-1.571[a]
				(3.123)	(3.147)	(3.180)	(3.203)
Pride-square				0.312[a]	0.226[a]	0.226[a]	0.219[a]
				(0.466)	(0.475)	(0.479)	(0.480)
All exogenous variables as IVs	-	-	-	yes	yes	yes	yes
F(trade)				30.21	36.98	34.64	27.86

Notes: Panel A reports robust standard errors in parentheses, Panel B reports ordinary standard errors. *** p<0.01, ** p<0.05, * p<0.1. 2SLS performed with Stata's ivreg2 command.
[a]: not jointly significant at the 10% level.

4.2 Robustness

In Tables 5 and 6 we include more controls, restrict the sample, and use other dependent variables. Columns 1 and 2 of Table 5 include the size measures *Log Population* and *Log Area*, and the effect of *Log Trade* is insignificant. The correlation between (predicted) *Log Trade* and *Log Area* is -0.92, and they are jointly significant. Now the constructed trade share is not even significant, making it a weak instrument. Since population size is a component of the constructed trade share, this effect is to be expected. Appendix B shows that for a larger sample, *Log Const.*

Trade is a valid instrument while also controlling for *Log Area* and *Log Population* (see Table B2). The fact that the constructed trade share is not always a strong instrument in Tables 5 and 6 is due to the smaller sample and to more factors being controlled for. The rest of Table 5 includes controls for *State Antiquity*, *Federalism*, member to the European Union (*EU*), and absolute *Latitude*, and the effect from *Pride* is still significant and nonlinear.

A natural concern is that the results presented so far may not represent causal relationships. Alternative explanations include reversed causality and that *Pride* acts as a proxy for some other more fundamental, but omitted, variable such as income or democracy. The ideal solution would be to use good instruments for national *Pride*, but we have failed to find any such instruments. Reversed causality (that causality flows from *Government Effectiveness* to *Pride*) would for instance be the case if people in countries with more effective governments expressed a higher level of *Pride* just for that reason. We investigated this by regressing nationalism on government effectiveness in 1996 (the earliest year available) and found no effect in that direction. We allowed for nonlinearities and added control variables such as ethnic fractionalization, size of population, openness, growth, and income, yet in none of the regressions was past government effectiveness a significant determinant of *Pride*. (Results not shown but available upon request.)

It is a priori fully possible that the statistically significant coefficient for *Pride* and *Pride-square* could be due to the omission of "true" correlates of government effectiveness, such as income, economic growth, and level of democracy. The first of these potential concerns draws from Shulman (2003), who when observing a negative relationship between income and nationalism concluded that a strong national identity can serve as an equalizer between rich and poor countries. Similar to the logic of nationalism in a country making the poor feel equal to the rich (which was discussed in Section 2.1), a strong national identity can make poor low-status countries feel equal to rich countries. Therefore, Shulman (2003:46) concludes: "(...) due to their need for self-esteem and a positive self-image, people in poorer, low-status countries may have a greater psychological investment in a strong and positive national identity than those in rich countries." Since government effectiveness is highly related to income, the result that high *Pride* and low *Government Effectiveness* go hand in hand could also be explained by this psychological phenomenon – a *low income* hypothesis. At the same time, richer countries can afford to pay for better and larger governments, hence income should ideally be included in the regression. The econometric problem lies in the fact that income is very likely to be endogenous to government effectiveness. In Column 1 of Table 6 we nonetheless include income in the model and still find a nonlinear association between *Pride* and *Government Effectiveness*. This shows that our result concerning the effects of *Pride* is not easily explained by populations in poorer countries being inclined to display high national pride just because they are poor. We admit that we are unable to provide a definite answer.

Table 5: Pride and more control variables.

	Panel A: Dependent Variable: Government Effectiveness in 2004.					
	(1)	(2)	(3)	(4)	(5)	(6)
	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS
Pride	12.909**	14.976*	10.789***	12.009***	9.889***	11.837***
	(5.531)	(8.126)	(4.158)	(4.476)	(2.911)	(3.858)
Pride-square	-2.039**	-2.337**	-1.740***	-1.921***	-1.580***	-1.864***
	(0.809)	(1.158)	(0.618)	(0.675)	(0.437)	(0.572)
Ethnic	-0.992**	-1.243**	-1.039***	-1.568***	-0.573**	-0.657**
Fractionalization	(0.393)	(0.596)	(0.349)	(0.367)	(0.287)	(0.289)
LogTrade	1.601	2.320	1.085***	1.204***	0.584***	0.692***
	(1.121)	(2.512)	(0.239)	(0.211)	(0.192)	(0.171)
Log Population	0.122					
	(0.221)					
Log Area		0.243				
		(0.440)				
State Antiquity			0.636			
			(0.446)			
Federalism				-0.202*		
				(0.122)		
EU member					0.727***	
					(0.140)	
Latitude						0.021***
						(0.006)
Legal Origin & NeoEuropes	yes	yes	yes	yes	yes	yes
Constant	-20.051*	-24.989	-15.450**	-16.608**	-14.512***	-18.154***
	(10.495)	(17.662)	(7.021)	(7.368)	(4.837)	(6.521)
Observations	79	79	75	67	79	79
R^2	0.55	0.32	0.67	0.71	0.79	0.75
	Panel B: First Stage Results for Log Trade Share.					
Log. Constr. Trade	0.220	0.112	0.381***	0.513***	0.436***	0.498***
	(0.139)	(0.106)	(0.078)	(0.081)	(0.077)	(0.075)
Pride	-1.949^a	-2.290^a	-2.349^a	-3.098^a	-2.418^a	-2.681^b
	(3.061)	(2.832)	(3.184)	(3.071)	(3.124)	(3.037)
Pride-square	0.248^a	0.310^a	0.316^a	0.424^a	0.328^a	0.343^b
	(0.461)	(0.426)	(0.480)	(0.464)	(0.470)	(0.456)
All exogenous variables as IVs	yes	yes	yes	yes	yes	yes
F(trade)	2.52	1.12	23.96	40.54	32.38	43.85

Notes: Panel A reports robust standard errors in parentheses, Panel B reports ordinary standard errors. *** p<0.01, ** p<0.05, * p<0.1. 2SLS performed with Stata's ivreg2 command. In the first stage of column 6, Pride and Pride-sq are jointly significant with a p-value equal to 0.09. ^{a}: not jointly significant at the 10. ^{b}: Jointly significant at the 10% level.

Table 6: Income, Growth, and Democracy.

Panel A									
Dep.Variable	Government Effectiveness							CoC	RoL
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS Demo	2SLS Auto	2SLS	2SLS
Pride	6.789*	10.121**	6.877**	9.366**	10.917***	12.860***	31.048*	11.840**	10.300**
	(3.482)	(3.986)	(3.152)	(4.016)	(3.832)	(4.560)	(17.612)	(4.684)	(4.755)
Pride-square	-1.078**	-1.655***	-0.752*	-1.506**	-1.704***	-2.055***	-4.777*	-1.895***	-1.661**
	(0.533)	(0.600)	(0.409)	(0.608)	(0.572)	(0.687)	(2.691)	(0.710)	(0.715)
Ethnic Fract.	-0.333	-0.761**	0.056	-0.914***	-0.935***	-1.222***	-1.409**	-1.124***	-1.355***
	(0.240)	(0.357)	(0.225)	(0.326)	(0.320)	(0.414)	(0.665)	(0.373)	(0.351)
LogTrade	0.416**	1.148***	0.519***	0.892***	0.785***	1.162***	-0.264	1.340***	1.278***
	(0.196)	(0.188)	(0.135)	(0.250)	(0.225)	(0.258)	(0.271)	(0.216)	(0.204)
Log (GDP/ capita)	0.397***		1.383***						
	(0.069)		(0.389)						
Growth		8.785**	13.193***						
(1990-2004)		(3.871)	(2.103)						
Pride * Log			-0.278**						
(GDP/capita)			(0.114)						
Democracy				0.051***	0.215				
				(0.014)	(0.135)				
Pride *					-0.047				
Democracy					(0.038)				
Legal Origin	yes	yes	yes	yes	yes	yes	yes[c]	yes	yes
& NeoEuropes									
Constant	-12.871**	-14.135**	-17.730***	-13.335**	-16.380**	-18.216**	-49.057*	-16.899**	-14.419*
	(5.485)	(6.568)	(6.221)	(6.607)	(6.439)	(7.536)	(28.063)	(7.698)	(7.905)
Observations	77	77	77	75	75	61	14	79	79
R^2	0.82	0.67	0.88	0.74	0.75	0.69	0.14	0.67	0.63
Panel B: First Stage Results for Log Trade Share.									
Log.	0.422***	0.471***	0.457***	0.408***	0.441***	0.443***	0.595	0.435***	0.435***
Constr. Trade	(0.080)	(0.069)	(0.079)	(0.078)	(0.082)	(0.074)	(0.314)	(0.069)	(0.069)
Pride	-2.447[a]	-3.489[a]	-5.314[a]	-1.947[a]	-3.287[b]	-4.324[b]	14.118[a]	-2.428[a]	-2.428[a]
	(3.177)	(3.087)	(3.504)	(3.140)	(3.295)	(2.675)	(17.254)	(3.096)	(3.096)
Pride-square	0.337[a]	0.483[a]	0.614[a]	0.245[a]	0.415[b]	0.618[b]	-2.188[a]	0.330[a]	0.330[a]
	(0.480)	(0.464)	(0.482)	(0.474)	(0.490)	(0.405)	(2.547)	(0.466)	(0.466)
Ethnic Fract.	0.052	0.165	0.242	-0.072	-0.062	0.259	-1.532*	-0.039	-0.039
	(0.237)	(0.222)	(0.244)	(0.218)	(0.217)	(0.198)	(0.792)	(0.211)	(0.211)
All exogenous	yes	yes	Yes	Yes	yes	yes	yes	yes	yes
variables as IVs									
F(trade)	28.07	46.18	33.55	27.44	29.13	35.55	3.59	39.42	39.42

Notes: Panel A reports robust standard errors in parentheses, Panel B reports ordinary standard errors. *** p<0.01, ** p<0.05, * p<0.1. 2SLS performed with Stata's ivreg2 command. Demo = sample with democratic countries, Auto = sample with autocratic countries. Column 8 uses "Control of Corruption" and Column 9 uses "Rule of Law" as dependent variable. Constant included in all regressions. In the first stage of Column 5 (6), Pride and Pride-sq are jointly significant with a p-value equal to 0.089 (0.098). [a]: not jointly significant at the 10% level. [b]: Jointly significant at the 10% level. [c]: Scandinavian and German Legal Origin and NeoEurope dummy dropped due to collinearity.

A second potential concern is that the level of *Pride* may reflect the level of satisfaction with recent economic performance – a *satisfaction* hypothesis.[12] With the caveat that growth is also very likely to be endogenous to government effectiveness, we include it in Column 2. The hump-shaped effect of *Pride* is intact. In Column 3 we find that the association between higher income and better government effectiveness is weakened by more *Pride*. Overall, the inclusion of income and growth leaves the main results fairly stable and significant.

A third potential concern is that the effect of *Pride* can reflect the possibility that less democratic nations are more likely to have leadership that manipulates nationalism as a means to improve its own power and position, without an intention to improve efficiency. Controlling for the potential effect of having a manipulative leadership – a *manipulation* hypothesis – is less than straightforward, but it is safe to assume that manipulations are less likely to be effective in more developed and solid democracies. Column 4 of Table 6 includes a measure of the quality of *Democracy*, Polity2 from the Polity IV project, and the results concerning *Pride* remain. In Columns 5 and 6 we split the sample into *Democracies* and *Autocracies*. As in Persson and Tabellini (2003), democracies are countries with Polity2 values larger than zero. The sample of autocracies is small which may contribute to the seemingly dramatic effects in this sample, but the fact that the effect is clear and strong in the sample with only democratic countries contradicts the manipulation hypothesis. Thus, while we are unable to provide strict statistical proof that the findings represent causal effects, we can conjecture that the most likely alternative hypotheses are false.[13]

The last columns of Table 6 show that our results are not sensitive to our particular choice of dependent variable. The results from using the indicators *Control of Corruption* and *Rule of Law* from Kaufmann et al. (2005) show that the nonlinear association with national pride can be generalized to other indicators of institutions and government effectiveness.

Finally, to allow for unobserved country heterogeneity and estimate the effects of changes in, as opposed to levels of, *Pride* and *Government Effectiveness*, we estimated the model on a panel data set (results not shown). Setting up the data in panel format is possible since the WVS is conducted at several points in time. The number of times a country is included differs and some countries are only included once. As mentioned earlier, the WVS data stretches from 1981 to 2006. This means that we cannot use the Kaufmann et al. (2005) data on *Government Effectiveness* since it does not have the same coverage. An alternative dependent variable, the *Quality of Government*, constructed by the PRS Group (see Appendix A for details), is used instead. The *Quality of Government* index is the average score of three indexes: Corruption, Law and Order, and Bureaucratic Quality. The index Bureaucratic Quality is also included as

[12] Needless to say, this mechanism could in principle also result in a positive association between income and *Pride*, but the negative correlation between these suggests otherwise.

[13] When we combine specification 3 and 4 by including *GDP/capita*, the interaction between *GDP/capita* and *Pride*, *Growth*, and *Democracy* in one regression, the coefficients are all significantly estimated with coefficients in roughly the same region as in 3 and 4, and the coefficients for *Pride* and *Pride-square* are significant and take values between those in 3 and 4. When we add the *Colony*-dummy, *Latitude*, and *State Antiquity*, none of which enters significantly, the two pride-coefficients are fairly stable but *Pride-square* becomes marginally non-significant with a p-value of 0.106.

one of the components in *Government Effectiveness* by Kaufmann et al. (2005) used earlier, and *Government Effectiveness* and *Quality of Government* are highly correlated (0.92).[14]

Using a within-groups estimator we fail to obtain significant estimates, quite possibly due to the very modest variation over time in *Pride* and *Quality of Government*. An alternative approach similar to Krueger and Lindahl (2001) is to extract the maximum amount of variation in the data by taking the latest observation minus the earliest. Yet, changes in *Pride* do not seem to significantly explain changes in *Quality of Government* with this approach either.

5 Conclusions

We find that the level of nationalism, measured by the level of national pride, has a robust inverted U-shaped relationship with government effectiveness. Though data limitations restrict an adequate examination over time, the cross-country evidence is clear – more pride is associated with better government effectiveness at low levels of national pride, while the effect is the opposite at high levels of national pride.

We find no support for the idea that nation-building, in the sense of a higher level of national pride, can resolve potential problems that come with high levels of ethnic fractionalization. However, there are indications that the general problem of low government effectiveness in former colonies may be mitigated by more national pride.

Finally, we find that higher levels of national pride do not seem to come at the expense of lower trade flows. Previous research on survey data has shown that national pride is negatively associated with pro-trade *attitudes* on the micro level, but this does not seem to translate into a negative relationship between attitudes and *actual* trade flows on the macro level.

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Appendix A: Sample and Variable Description

Table A1: Countries included in Pride Sample (79 countries)

Country	Code	Region	Income group
Australia	AUS	East Asia and Pacific	High income
Japan	JPN	East Asia and Pacific	High income
Korea, Rep.	KOR	East Asia and Pacific	High income
New Zealand	NZL	East Asia and Pacific	High income
Singapore	SGP	East Asia and Pacific	High income
Austria	AUT	Europe and Central Asia	High income
Belgium	BEL	Europe and Central Asia	High income
Czech Republic	CZE	Europe and Central Asia	High income
Denmark	DNK	Europe and Central Asia	High income
Estonia	EST	Europe and Central Asia	High income
Finland	FIN	Europe and Central Asia	High income
France	FRA	Europe and Central Asia	High income
Germany	DEU	Europe and Central Asia	High income
Greece	GRC	Europe and Central Asia	High income
Iceland	ISL	Europe and Central Asia	High income
Ireland	IRL	Europe and Central Asia	High income
Italy	ITA	Europe and Central Asia	High income
Luxembourg	LUX	Europe and Central Asia	High income
Malta	MLT	Europe and Central Asia	High income
Netherlands	NLD	Europe and Central Asia	High income
Norway	NOR	Europe and Central Asia	High income
Portugal	PRT	Europe and Central Asia	High income
Slovenia	SVN	Europe and Central Asia	High income
Spain	ESP	Europe and Central Asia	High income
Sweden	SWE	Europe and Central Asia	High income
Switzerland	CHE	Europe and Central Asia	High income
United Kingdom	GBR	Europe and Central Asia	High income
Israel	ISR	Middle East and North Africa	High income
Saudi Arabia	SAU	Middle East and North Africa	High income
Canada	CAN	North America	High income
United States	USA	North America	High income
Bulgaria	BGR	Europe and Central Asia	Upper middle income
Croatia	HRV	Europe and Central Asia	Upper middle income
Hungary	HUN	Europe and Central Asia	Upper middle income
Latvia	LVA	Europe and Central Asia	Upper middle income
Lithuania	LTU	Europe and Central Asia	Upper middle income
Poland	POL	Europe and Central Asia	Upper middle income
Romania	ROM	Europe and Central Asia	Upper middle income
Russian Federation	RUS	Europe and Central Asia	Upper middle income
Serbia and Montenegro	YUG	Europe and Central Asia	Upper middle income
Slovak Republic	SVK	Europe and Central Asia	Upper middle income
Turkey	TUR	Europe and Central Asia	Upper middle income
Argentina	ARG	Latin America and Caribbean	Upper middle income
Brazil	BRA	Latin America and Caribbean	Upper middle income

Chile	CHL	Latin America and Caribbean	Upper middle income
Mexico	MEX	Latin America and Caribbean	Upper middle income
Uruguay	URY	Latin America and Caribbean	Upper middle income
Venezuela, RB	VEN	Latin America and Caribbean	Upper middle income
South Africa	ZAF	Sub-Saharan Africa	Upper middle income
China	CHN	East Asia and Pacific	Lower middle income
Indonesia	IDN	East Asia and Pacific	Lower middle income
Philippines	PHL	East Asia and Pacific	Lower middle income
Albania	ALB	Europe and Central Asia	Lower middle income
Armenia	ARM	Europe and Central Asia	Lower middle income
Azerbaijan	AZE	Europe and Central Asia	Lower middle income
Belarus	BLR	Europe and Central Asia	Lower middle income
Bosnia and Herzegovina	BIH	Europe and Central Asia	Lower middle income
Georgia	GEO	Europe and Central Asia	Lower middle income
Macedonia, FYR	MKD	Europe and Central Asia	Lower middle income
Moldova	MDA	Europe and Central Asia	Lower middle income
Ukraine	UKR	Europe and Central Asia	Lower middle income
Colombia	COL	Latin America and Caribbean	Lower middle income
Dominican Republic	DOM	Latin America and Caribbean	Lower middle income
El Salvador	SLV	Latin America and Caribbean	Lower middle income
Peru	PER	Latin America and Caribbean	Lower middle income
Algeria	DZA	Middle East and North Africa	Lower middle income
Egypt, Arab Rep.	EGY	Middle East and North Africa	Lower middle income
Iran, Islamic Rep.	IRN	Middle East and North Africa	Lower middle income
Jordan	JOR	Middle East and North Africa	Lower middle income
Morocco	MAR	Middle East and North Africa	Lower middle income
Vietnam	VNM	East Asia and Pacific	Low income
Kyrgyz Republic	KGZ	Europe and Central Asia	Low income
Bangladesh	BGD	South Asia	Low income
India	IND	South Asia	Low income
Pakistan	PAK	South Asia	Low income
Nigeria	NGA	Sub-Saharan Africa	Low income
Tanzania	TZA	Sub-Saharan Africa	Low income
Uganda	UGA	Sub-Saharan Africa	Low income
Zimbabwe	ZWE	Sub-Saharan Africa	Low income

Note: This included the countries in the Pride sample classified according to the World Bank into income and geographic location groups. The economies are divided among income groups according to 2006 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low income, $905 or less; lower middle income, $906–3,595; upper middle income, $3,596–11,115; and high income, $11,116 or more.

The World Bank sometimes refers to low-income and middle-income economies as developing economies. By this definition, 30 out of 79 countries in this sample are developing countries.

East Asia and Pacific: 9 countries
Europe and Central Asia: 43 countries
Latin America and Caribbean: 10 countries
Middle East and North Africa: 7 countries
North America: 2 countries

South Asia: 3 countries
Sub-Saharan Africa: 5 countries.
High income: 31 countries
Upper middle income: 18 countries.
Lower middle income: 21 countries.
Low income: 9 countries

Variable Descriptions

Auto: Autocratic countries. Equals one for countries where Democracy is smaller than or equal to zero. See Democracy.

Control of Corruption: Source Kaufmann et al. (2005).

Democracy: Polity2 from Polity IV project (http://www.cidcm.umd.edu/polity/data/showFiles.asp). Polity2 is a combined polity score which is computed by subtracting the variable AUTOC from the variable DEMOC, the resulting polity scale ranges from +10 (strongly democratic) to -10 (strongly autocratic). The Democracy score used represents December 31, 2003.

Demo: Democratic countries. Equals one if Democracy is larger then zero. See Democracy.

EU: Dummy for member countries of the European Union.

Ethnic Fractionalization: Ethnic Fractionalization. Based on the Herfindahl index and is the probability that two randomly drawn individuals from the same country belong to different groups. Source: Alesina et al. (2003).

Federalism: Federalism or unitarism year 2000. Average of Nonfederalism and Nonbicameralism. Nonfederalism is coded as 0 = federal (elective regional legislatures plus conditional recognifition of subnational authority), 1= semifederal (where there are elective legislatures at the regional level but in which constitutional sovereignty is reserved to the national government), or 2=nonfederal. Nonbicameralism is coded as 0=strong bicameral (upper house has some effective veto power; the two houses are incongruent), 1 = weak bicameral (upper house has some effective veto power, though not necessarily a formal veto; the two houses are congruent), or 2 = unicameral (no upper house or weak upper house). Source: Teorell, Jan, Sören Holmberg & Bo Rothstein. 2006. The Quality of Government Dataset, version 1Jul06. Göteborg University: The Quality of Government Institute, http://www.qog.pol.gu.se.

Former Colony: Dummy for having been subject to Colonization. Source: CEPII (2007).

Government Effectiveness: Government Effectiveness. Measuring the competence of the bureaucracy and the quality of public service delivery. Source: Kaufmann et al. (2005).

Growth 1990-2004: Annual growth rate in real GDP per capita from 1990 until 2004. GDP per capita data from World Development Indicators.

Latitude: Distance from the equator. Absolute latitude in degrees. Source: CEPII.

Legal Origin: Identifies the legal origin of the Company Law or Commercial Code for each country. There are five possible origins: English Common Law, French Commercial Code, Socialist/Communist laws, Scandinavian Commercial Code, and German Commercial Code. Divided into five dummy variables, for English legal origin =1 if English legal origin, otherwise 0. Source: La Porta et al. (1999).

Log Area: Natural logarithm of total area (including lakes and rivers) in sq km. Source CIA World Factbook 2005

Log GDP/capita in 1990: Log GDP per capita (constant 2000 US$) Source: World Development Indicators (2006)

Log Population: Natural logarithm of total population (2004). World Development Indicators 2007

Log Trade: Natural logarithm of (exports + imports)/GDP divided by 100, all from 2004 in current local currency units. World Development Indicators 2007.

NeoEurope: Dummy for Australia, Canada, New Zealand, USA.

Pride: Pride of nationality. Question G006 from World Values Survey: "How proud are you to be [Nationality]?" 1 = Not at all proud, 2 = not very proud, 3 = quite proud, 4 = very proud. (Note that we have reversed the scoring in relation to WVS in order to have a high score reflecting a high degree of pride.) The latest possible data is used where for the main sample of 79 countries this includes observations from 1995 to 2003. The mean value of pride for each country is then calculated, with respect to the weights (S017). The weights are used to better represent the country as a whole.

Quality of Government: Average of Corruption, Law and Order, and Bureaucratic Quality. From the International Country Risk Guide, The PRS Group. Retrieved from: Teorell, Jan, Sören Holmberg & Bo Rothstein. 2007. The Quality of Government Dataset, version 1 July 07. Göteborg University: The Quality of Government Institute, http://www.qog.pol.gu.se.

Rule of Law: Source: Kaufmann et al. (2005).

State Antiquity: State Antiquity from year 0 until 1950, Source Bockstette et al. (2002).

Appendix B: Constructing the Constructed Trade Share

The constructed trade share is constructed in two steps: in step 1 we estimate the parameters of the bilateral gravity equation, which in step 2 are used to predict the constructed trade share.

To estimate the gravity equation we use the dataset from Frankel and Rose (2002), which consists of bilateral trade data for the year 1990 alongside data on distance, population, common border, landlocked etc. Using this data we then specify the gravity equation similar to Frankel and Romer (1999), except the use of Log Area for the two countries as well as their interaction with the common border dummy. Since area and population capture the same mechanism, and because the constructed trade share using both population and area resulted in a constructed trade share highly related to Log Area (correlation equal to -0.87), the specification with population only, seemed the most reasonable. The regression results for the gravity equation using bilateral trade data is presented in Table B1.

Table B1: Estimating the Bilateral Trade Gravity Equation

Dependent Variable: $\text{Log}(\text{Trade}_{ij}/\text{GDP}_i)$		
	Variable	Interaction
Constant	-2.333***	-
	(0.503)	-
Log Distanceij	-1.035***	-0.137
	(0.051)	(0.339)
Log Populationi	-0.266***	-0.187
	(0.022)	(0.177)
Log Populationj	0.605***	0.089
	(0.022)	(0.145)
Landlockedij	-0.606***	0.774***
	(0.083)	(0.297)
Borderij	2.080	-
	(2.103)	-
Obs.	4052	
R^2	0.238	

Robust standard errors in ( ). * significant at 10%; ** significant at 5%; *** significant at 1%. The first column reports the coefficients on the variable listed, and the second column reports the coefficient on the variable's interaction with the common border dummy.

Since some of the countries for which we have data on national Pride are not included in the dataset from Frankel and Rose (2002), we generate the constructed trade share using a complementary dataset.

Constructing this complementary dataset we start by including all 184 countries for which the World Development Indicators (WDI) have data on international trade for the year 2004. We then match each country with each of the other 183 countries, resulting in 33,672 country pairs.

Following the variable specification in Frankel and Rose we then merge in data on distance, population, common border, and landlockedness. The distance between countries is calculated using the Great Circle Formula and data on location from the CIA World Factbook. Distance between countries is expressed in miles to be in line with Frankel and Rose. The variables "common border" and "landlocked" are also constructed using data from the CIA World Factbook. Population is total population in 2004 (expressed in thousands) from WDI. The careful reader might point out that Frankel and Romer (1999) used data on labor force, although based on Table B1 and the data from Frankel and Rose (2002) we have to use data on population.

Finally, having constructed the complementary dataset of 184 countries, we use the parameter estimates from Table B1 and predict the log (bilateral) trade share. We then take the exponential of this to get the predicted (bilateral) trade share and sum over each country, which results in the predicted (total) trade share for each country.

The suitability of the constructed trade share is illustrated in Table B2, where *Log Constructed Trade* is related to *Log Trade*. *Importantly*, the effect from the *Log Const. Trade* is still significant while also controlling for *Log Area* and *Log Population*.

Table B2: Relation between Actual and Constructed Overall Trade Share

	Dependent Variable: Log Trade	
	(1)	(2)
Log Const. Trade	0.419***	0.258***
	(0.045)	(0.077)
Log Area		-0.047
		(0.030)
Log Pop		-0.014
		(0.034)
Constant	0.581***	0.960***
	(0.085)	(0.158)
Obs.	165	165
R^2	0.312	0.350
F(trade)	85.67	11.14

Robust standard errors in ( ). * significant at 10%; ** significant at 5%; *** significant at 1%.

Since the instrument depends on the parameters of the bilateral trade equation, the standard errors in the tables including the constructed trade share should be adjusted. The variance-covariance matrix is estimated as the usual IV formula plus $\left(\partial\hat{b}/\partial\hat{a}\right)\hat{\Omega}\left(\partial\hat{b}/\partial\hat{a}\right)'$, where $\hat{b}$ is the vector of estimated coefficients from the cross country institutions regression, $\hat{\Omega}$ is the vector of estimated coefficients from the bilateral trade equation, and $\hat{a}$ is the estimated variance-covariance matrix of (see Frankel and Romer, 1999: 387n). Solving numerically, this translates into a very small change.