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QUALITY OF GOVERNMENT

Quality of Government: What You Get

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Quality of Government: What You Get

For more than a decade, international organizations such as the World Bank and the United Nations have emphasized the importance of *good governance* and *sound institutions* from a development perspective. The theory behind this is that only with a high quality of government (henceforth QoG), can a country reap the benefits of economic growth and social development. In this article we present a review of this research together with a first basic benchmark empirical analysis of the bivariate relationships between three widely used measures of QoG and twenty-two different measures of important societal outcomes in five areas: health, environmental sustainability, economy, social policy and life satisfaction.¹ In the empirical analysis, we employ data from the Quality of Government Institute's data bank.² Our central question is simple and straightforward: Does QoG matter?

The 2000 United Nations Millennium Declaration identifies *good governance* as a necessary requirement for countries to foster economic development and reduce poverty.³ Similarly, the 2002 U.N. Human Development Report singles out democracy as a particularly important feature of good governance. It states that: "For politics and political institutions to promote human development and safeguard the freedom and dignity of all people, democracy must widen and deepen."⁴ However, the report also warns that: "The links between democracy and human development are not automatic: when a small elite dominates economic and political decisions, the link between democracy and equity can be broken".⁵ This warning was later expanded in the 2003 U.N. Human

¹ We thank Marcus Samanni at the QoG Institute for assistance with collecting and analyzing the data.

² Teorell, Jan, Sören Holmberg & Bo Rothstein. 2008. The Quality of Government Dataset, version 15 May 08. University of Gothenburg: The Quality of Government Institute, <http://www.qog.pol.gu.se>

³ United Nations Millennium Declaration (2000) para. 13

⁴ Human Development Report 2002, p. 1

⁵ Ibid. p. 3

Development Report. Although still championing good governance and the importance of democratic institutions, the 2003 Report states that reforms in this area on their own are not sufficient for fostering economic growth and equitable development.⁶ A closer look at data from the Human Development Index (HDI) shows that in the 1990s, a time of democratization and reform, twenty-one countries saw a fall in their HDI ranking (measuring health, education, standards of living). This can be compared with the 1980s, before the big push for good governance had begun, when only four countries saw their HDI ranking decline.⁷

The complex conceptual and empirical relation between QoG and economic and social development is manifest in discussions about whether the effects of good governance in fact are as important as has been stated by the international policy community. Critics have claimed that the benefits of good governance have been over-stated. The lack of objective data and the absence of a universal definition for “good governance” mean that empirical results in different studies support both sides of the debate. For example, while some studies show that a high QoG leads to greater income inequality (Lopez 2004), other studies show the reverse (Gupta, Davoodi, Alonso-Terme 2002). The differences in these results stem partly from the authors measuring different aspects of good governance. Whilst the first study uses the International Country Risk Guide (ICRG) index as a measure of its governance variable, the latter study uses six different indices of corruption (of which one is the ICRG index). Thus, because “good governance” is such a broad concept and encompasses a range of issues, empirical analyses hinge greatly on the definition of the term.

This article therefore begins with a review of the conceptual discussion of what *Quality of Government* means. This is then followed in Section II by discussions on four big debates within the field of good governance; these are the

⁶ Human Development Report 2003, p. 76

⁷ *Years of plenty?* Economist, 7/12/2003, Vol. 368, Issue 8332

Democracy-, Economic Growth-, Corruption- and the Rule of Law debates. Section III uses the insights from the preceding section to focus on the policy outcomes of QoG in the fields of social well-being, public health, and environmental sustainability. In addition to the review of previous studies on these topics, our own empirical analysis is presented. Finally, Section IV concludes with a discussion about future research on QoG.

What is Quality of Government?

The most frequently used definition of “quality of government” rests on the World Bank’s notion of governance. It is defined broadly as:

the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments, are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.⁸

The World Bank’s Governance Database compiles a large range of governance data to provide a measurement of the different aspects of governance according to their definition. These categories include “voice and accountability”, “political instability and violence”, “government effectiveness”, “regulatory quality”, “rule of law” and “control of corruption”. These different measurements are used in a large number of studies. Some studies focus on one of these categories while others emphasize using all of the different dimensions.

However, one criticism of the World Bank’s Governance Database is that the data is largely based on perceptions and thus lacks objectivity. This leaves the possibility that countries are rated according to prejudiced or deterministic ideas of how a country should perform. As a consequence, some scholars argue that

⁸ Kaufmann, Kraay, Zoido-Lobaton (1999) p. 1

QoG should be defined according to a set of objective outcomes. Robert Rotberg, for example, states that a country's QoG should be rated based on such measures as literacy levels, school persistence rates, medical services, state of law and order, and civil society empowerment.⁹ However, such an approach runs the risk of equating good governance with anything that produces good outcomes. In this case QoG becomes so broad that it amounts to a tautology, thus rendering it unworkable.¹⁰ On the other hand, this approach may identify certain traits of good governance that are not factored into the World Bank's more narrow definition. One such trait may, for example, be a measurement of "social cohesion", defined by Easterly, Ritzan and Woolcock as "the nature and extent of social and economic divisions within society"¹¹. However, as Anna Persson has shown, social cohesion may be a (very important) result of QoG and should in that case not be a part of the definition.¹² Another problem with the World Bank's definition is that it includes too much and is in practice identical with liberal democracy. As Rothstein & Teorell have argued, it does not distinguish between the "access to power" and the "exercise of power" and it also lacks a "basic norm" from which its many different parts can be deduced.¹³

Thus, in general terms, because researchers and practitioners have not yet arrived at a standard definition of what good governance (or QoG) is,¹⁴ different studies adopt different interpretations, generating a risk that researchers will employ definitions that best serve to confirm their theory. For instance, studies that show a link between good governance and economic growth may emphasize "regulatory quality" over other aspects of QoG.¹⁵ Therefore, when evaluating studies on the "real world" effects of QoG, it is important to keep in mind which approach to good governance that is in focus.

⁹ Rotberg (2007) p. 154

¹⁰ Rothstein and Teorell (2008)

¹¹ Easterly, Ritzan and Woolcock (2006) p. 4

¹² Persson (2008)

¹³ Rothstein and Teorell (2008)

¹⁴ Ibid.

¹⁵ Roy (2005)

However, the measurement problem may not be as difficult as the discussion above indicates. As shown in table 1, three widely used indexes of QoG correlate at the 0.90 level. These three indexes are the World Bank's "Government Effectiveness Index", Transparency International's "Corruption Perceptions Index" and the "Rule of Law Index" also from the World Bank. For a few countries there are interesting differences, but the general impression is that these variables closely go "hand in hand".

QoG and the Democracy Debate

Several studies show a link between civil liberties and democracy on the one hand, and better development outcomes on the other (Halperin et al 2005). For example, a World Bank study concludes that the greater civil liberties a country has, the larger is the success rate of implementation of government investment projects financed by the Bank. The authors thus argue that the suppression of civil liberties is likely to have adverse consequences for government performance.¹⁶ Similarly, Li *et al.* (1998) find that civil liberties are positively related to higher incomes for the poor and the rich, as well as decreases in inequality. Chong and Gradstein (2004) also find that civil liberties and political freedoms have a negative correlation with the Gini coefficient, meaning that civil liberties and political freedoms are positively related to equality. Another study which shows the importance of giving citizens a voice states that "those who know how to report corruption are significantly less likely to have to pay a bribe, to be more satisfied with service delivery, and to perceive greater improvements in education and health over time".¹⁷ It is thus argued that citizen empowerment is the key to creating effective institutions. Cheung and Leung (2006) similarly show a positive link between government accountability and life satisfaction. Thus, civil liberties and democracy are often championed as the

¹⁶ Ibid. p. 237

¹⁷ Deininger and Mpuga (2004) p. 183

antidote to everything from corruption to poverty. This is because the two are linked to accountability, which helps to reduce the discretionary powers of public officials.¹⁸ Or to use Hirschman's phrase, "while markets create managerial discipline and induce efficacy through the exercise of choice, governments are principally disciplined through the exercise of voice".¹⁹ The problem is that empirically, there is no straightforward relationship between electoral representative democracy and QoG in the exercise of public power. On the contrary, democracy seems to be curvilinearly related to the level of corruption (Montinola and Jackman 2002; Sung 2004). Empirical research indicates that some democratization may at times be worse than none for certain aspects of QoG. For example, some of the worst cases of corruption have appeared in newly democratized countries, such as Peru under its former president Fujimori (McMillan and Zoido 2004).

The problem that electoral democracy does not necessarily lead to increased quality of government was taken up at a conference held in 2007 celebrating the establishment twenty-five years earlier of the U.S. based *National Endowment for Democracy*. At this conference, where the spectacular success of democratization over the world was lauded, Larry Diamond, one of the most prominent scholars in the field of democratization studies, stated that:

There is a specter haunting democracy in the world today. It is bad governance—governance that serves only the interests of a narrow ruling elite. Governance that is drenched in corruption, patronage, favoritism, and abuse of power. Governance that is not responding to the massive and long-deferred social agenda of reducing inequality and unemployment and fighting against dehumanizing poverty. Governance that is not delivering broad improvement in people's lives because it is stealing, squandering, or skewing the available resources..... Where power confers virtually unchecked opportunities for personal, factional, and party enrichment, it is difficult if not impossible to sustain democratic rules of the game. The democratic spirit of elections drowns in vote-buying, rigging, violence, or all three.²⁰

¹⁸ Ibid. p. 171

¹⁹ Isham, Kaufmann, Pritchett (1997) p. 222

²⁰ Diamond (2007) p. 119

Diamond further argues that the idea that the pathologies of “bad governance” can be cured with more “democracy assistance” is not convincing because such assistance does not reach the deeper levels of the political culture in societies that are dominated by clientilism or endemic corruption. If such practices are “deeply embedded in the norms and expectations” of what political and economic exchanges are seen as, improvement will require nothing less than “revolutionary change in institutions”.²¹ Here, Diamond echoes the Romanian political scientist Alina Mungui-Pippi, who has leveled a similar type of criticism against efforts by for example the European Union to curb corruption in former East European countries. She argues that since “bad governance” is deeply entrenched in a “particularistic” political culture, the often very technical measures that have been launched do not reach the roots of the problem. According to her, the root of the problem is the lack of a “norm of universalism” in political culture.²² Moreover, one should keep in mind that the two states that have made the greatest progress in promoting “good governance” – Singapore and Hong Kong – have not been and are still *not* democracies.²³ It thus seems fair to say that to achieve social, political and economic development in poor and transition countries, establishing electoral representative democracy is not enough. The problem with “bad governance” has a distinctive social, economic and political logic of its own right.²⁴

QoG and the Economic Growth Debate

The argument about the relation between QoG and economic growth comes from a variety of sources. One is what can be called “the institutional revolution” in economics of which Nobel Laureate Douglass C. North is maybe the most prominent researcher. It should however be stressed that North has not

²¹ Diamond (2008) p. 120

²² Mungui-Pippidi (2006) p. 87

²³ Uslaner (2008)

²⁴ Rothstein & Teorell (2008)

only emphasized the importance of legal or semi-legal institutions for economic growth. On the contrary, there is a strong “cultural” line in his argumentation which includes things like “shared mental models” and “the belief system of societies”. In many of his writings, North actually gives more weight to the informal (cultural) institutions for economic growth than to the formal ones. For example, he argues that for making impersonal productive economic exchange generally possible, societies need a certain set of institutional frameworks. However, “while formal rules can help in creating such frameworks, it is the informal constraints embodied in norms of behavior, conventions, and internally imposed codes of conduct that are critical”.²⁵ Thus, there is a close relation between North’s arguments and those mentioned above that stress the role of the basic political and social norms in a society.

Another reason behind the institutional revolution in economics comes from development research. The idea that efficient markets could be created only by deregulations and/or privatizations have not fared well. Shock-therapy capitalism has, to put it mildly, run into a number of problems because its proponents did not pay adequate attention to the need for institutions that would hinder fraudulent, anti-competitive and other similar types of behaviour (Kornai, Rothstein & Rose-Ackerman 2004). If, for example, public contracts are given only to economic agents that are “well-connected”, belong to a specific ethnic majority, or have paid bribes, the economy is likely to suffer. Similarly, if workers that are threatened by unemployment have no social protection nets (unemployment benefits, possibilities for vocational training, etc.), they or their unions may prevent rationalization and structural change of the economy. This problem has nicely been captured by economist Dani Rodrik in a recent publication:

The encounter between neo-classical economics and developing societies served to reveal the institutional underpinnings of market economies. A clearly delineated system of property

²⁵ North (1998), see North, Wallis and Weingast (2006)

rights; a regulatory apparatus curbing the worst forms of fraud, anti-competitive behavior, and moral hazard; a moderately cohesive society exhibiting trust and social cooperation; social and political institutions that mitigate risk and manage social conflicts; the rule of law and clean government--these are social arrangements that economists usually take for granted, but which are conspicuous by their absence in poor countries.²⁶

As part of this discussion, a large number of studies in the good governance field have focused on the economic effects of QoG. For example, Kaufmann, Kraay and Zoido-Lobaton find that “a one standard deviation improvement in governance leads to between a 2.5-fold (in the case of voice and accountability) and a 4-fold (in the case of political instability and violence) increase in per capita income”.²⁷ Similarly, Kaufmann finds that:

an improvement in rule of law by one standard deviation from the low levels in Ukraine to those “middling” levels prevailing in South Africa would lead to a fourfold increase in per capita income in the long run. A larger increase in the quality of rule of law (by two standard deviations) in Ukraine (or in other countries in the former Soviet Union), to the much higher level in Slovenia or Spain, would further multiply this income per capita increase. Similar results emerge from civil liberties or control of corruption improvements: a mere one standard deviation improvement in voice and accountability from the low level of Venezuela to that of South Korea, or in control of corruption from the low level of Indonesia to the middling level of Mexico, or from the level of Mexico to that of Costa Rica, would also be associated with an estimated fourfold increase in per capita incomes [...]²⁸

Critics of such findings, however, come from two directions. The first criticism comes from those who point to the issue of reverse causality. For example, Goldsmith states that “counter to optimistic claims about how much ‘institutions matter’, [...] greater transparency, accountability, and participation are often a result, rather than a direct cause of faster development”.²⁹ He arrives at this

²⁶ Rodrik (2007) p. 153

²⁷ Kaufmann, Kraay, Zoido-Lobaton (1999) p. 15

²⁸ Kaufmann (2004) p. 15

²⁹ Goldsmith (2007) p. 165

conclusion by analyzing the history of specific governance reforms and the economic development of the United States, Argentina, Mauritius, and Jamaica. He shows that in the United States and Argentina, economic growth took off before major governance reforms had been adopted. Moreover, it is argued that despite Mauritius and Jamaica having similar sets of institutions, their development paths have been very different.³⁰ These observations lead him to form the following conclusions:

(1) Meritocratic bureaucracies, independent judiciaries, and honest elections are worthy goals in their own right, but setting them up need not give a perceptible jolt to development; (2) provided other conditions are favorable, fairly objectionable public institutions may be adequate for an upsurge in production and income; (3) good governance reforms are more effect than cause of sped-up development, although over time they seem to become a more important factor in sustaining development; (4) when the rate of development picks up, so may graft and extortion, although often any escalation in corruption prompts countervailing political demand for anti-corruption measures to be enacted.³¹

According to this view, then, it is the process of industrialization that has a tendency to give rise to better institutions. Similar conclusions are drawn by other researchers who point to an endogeneity problem that is inherent when linking good governance and economic growth. These methodological problems in the research, they claim, have contributed to an overestimation of the effects of good governance (Przeworski 2004; Glaeser et al. 2004). Nevertheless, seen from a 19th century European perspective, the historical record can be interpreted to support both cases. The English case seems to give evidence for the importance of the “QoG causes economic growth” hypothesis.³² The Swedish case seems also to indicate that a large number of institutional reforms

³⁰ Ibid. p. 170-181

³¹ Ibid. p. 181

³² North (1990)

in the “good governance” direction were implemented just before industrialization and the following economic growth started.³³

It should be underlined that one is not likely to encounter a straightforward sequential logic here. It is very unlikely that a country can first set up a full-blown set of good governance institutions and as an effect of this would start to develop. First, as Grindle has argued, the “full-set” is a very tall order.³⁴ It is not only independent courts and the rule of law, but also institutions for effective taxation, auditing, patents, an effective police force, an enforcement service, a bureau for land rights, inheritance law, a companies act, and so on. Secondly, from what we now think we know about how social causation works, we should expect to find things like “feed-back mechanisms”, “auto-correlation” and “path-dependency” making what is the “independent” and “dependant” variable in this story very difficult to sort out.³⁵ To this we have to add that we are not likely to find effects of just the formal establishment of institutions, but instead of how people in general come to perceive the credibility of such institutions.

Despite these criticisms, there are those who support the idea that good governance leads to economic growth but still criticize the good governance agenda. Their criticism focuses on how this economic growth translates into reduced poverty and income inequality. For example, there are those who argue that the policy implications of QoG tend to emphasize small governments, which could be viewed as being anti-poor.³⁶ Shepherd, for example argues that:

Civil service reform has succeeded in cutting numbers of government employees, but has failed to deal with lower-level salary problems, which result in continued widespread informal payment systems, other forms of corruption and low levels of motivation and system potential. CSR [civil service reform] has not been harmonized with universal primary education or basic

³³ Myhrman (2003), Rothstein (1998) and (2007)

³⁴ Grindle (2004)

³⁵ Hall (2003)

³⁶ Shepherd (2000) p. 270

health policies, which have usually needed more teachers and more health workers. There is a need to focus on service delivery outputs and outcomes rather than inputs: then CSR would be a powerful instrument.³⁷

His conclusion is that even though good governance reforms may be necessary, they in themselves are not sufficient to reduce poverty. Rather, targeted development actions must be taken, particularly in sectors such as education and health.³⁸

On the other hand, the supporters of the good governance agenda argue that the poor suffer most under bad governments, so reforms toward good governance will benefit the poor. According to this view, taking action to reduce corruption, increasing access to legal services for the poor, improving ethics among the police to reduce discrimination against the poor, promoting democratic institutions, increasing the quality and efficiency of public good services, and managing the economy well will benefit poor people in the long term.³⁹ In their cross-country study for the period 1960-1990, Chong and Calderón find support for this view. Their findings show a negative and significant relationship between institutional quality and poverty. They state that “the more efficient a country’s institutions, the lower the level, incidence, and severity of poverty”.⁴⁰ The risk of expropriation and the quality of the bureaucracy are shown to matter most for poverty levels, while corruption and law and order matter less. Chong and Calderón theorize that this is because the poor usually live in rural areas where the central government’s hold is weaker. Therefore what matters most is to affect those things that have a direct bearing on the poor, such as the insecurity of expropriations and the inefficiencies of service delivery.⁴¹ Chong and Calderón also put forth the notion that institutional reform may at first

³⁷ Ibid. p. 282

³⁸ Ibid. p. 283

³⁹ Ibid. p. 270

⁴⁰ Chong and Calderón (2000) p. 130

⁴¹ Ibid. p.130-131

increase poverty in a country because of high initial transaction costs until the new system has started to function efficiently.⁴²

This line of reasoning could be connected to the argument made by development economist Hernande de Soto about what can be called *the social construction of capital*.⁴³ To give a short recapitulation of de Soto's well-known argument: Capital is not the same as assets or even property. For assets/property to become capital, it has to become a universally accepted legal construction by which ownership is generally respected. Through such a normative/legal institutional invention, assets/property that become capital can be used for example as security for loans for investing in small enterprises. The point is that de Soto shows that for this to happen in the Western world it took a long and very complex process of legal institutional building that in some cases lasted for several hundred years. The feudal idea of what constituted property was for example very different from the modern/capitalist idea. According to de Soto, assets cannot be transformed to and used as capital until it is recognized by "all" others, and that demands not only a strong legal "good governance" framework but also a Douglass North type of change of minds of both "people in general" and especially those that are to be entrusted with responsibility for securing property rights.

Our general impression from this research is that there appears to be a consensus that a link between good governance and economic outcome exists, although the causality and the benefits to the poor are somewhat contested. Several commentators point to a need to develop more rigorous theoretical frameworks on how the good governance agenda can lead to pro-poor growth (Grindle 2004; Resnick and Birner 2006).

⁴² Ibid. p. 125

⁴³ de Soto (2000)

The Corruption Debate

The opening pages of the United Nation's report *Global Programme against Corruption* state that "the most significant achievement in governance during the 1990s was the shattering of the taboo that barred discussion of corruption, particularly in diplomatic circles and intergovernmental institutions." It is difficult to say why this taboo existed for such a long time – one idea is that pointing at the "C" problem in developing countries could be seen as "blaming the victim". Another is that pointing out corruption in developing countries would have decreased political support for international aid in many countries. Until the mid-1990s, the World Bank also saw corruption as an internal political problem and since the Bank was forbidden to interfere in a country's internal politics, corruption was outside its agenda. This all changed when former World Bank President James D. Wolfensohn simply redefined corruption as an economic problem. In an interview in 2005, he stated the following: "Ten years ago, when I came here, the Bank never talked about corruption, and now we are doing programs in more than a hundred countries, and it is a regular subject for discussion"⁴⁴.

This resistance to engaging with corruption also prevailed in much of the social sciences. For example, the *Handbook of Development Economics*, published in four volumes between 1988 and 1995, does not have an index entry with the term "corruption". Moreover, most undergraduate level textbooks in political science and economics still do not give corruption any attention. During the last decade, however, corruption and other problems of dysfunctional governance have received increasing attention in the social sciences, not least as a result of the "institutional revolution" in economics and political science (Levi 2006).

Today, a vast literature on the effects of corruption exists. While some authors argue that particular types of corruption can have a positive effect on economic

⁴⁴ <http://discuss.worldbank.org/content/interview/detail/2058/>

development (Nye 1967; Khan 1996, 1998), most studies point to the negative consequences of corruption (Mauro 1995; Akçay 2006; Transparency International 2008; Gupta, Davoodi and Alonso-Terme 2002). According to the first view, corruption can take different forms, some of which is efficiency-enhancing and some of which is efficiency-reducing. Hence, a cost-benefit analysis must be carried out to establish the overall effect of corruption (Nye 1967; Khan 1996, 1998). According to the opposite view, corruption has negative effects on GDP growth (Mo 2001), income inequality and poverty (Gupta, Davoodi, and Alonso-Terme 2002), human development (Akçay 2006) and health outcomes (Transparency International 2006). The mechanism here is that corruption acts like an illegal tax that distorts decision-making and economic processes.

A review of the literature on the effects of corruption on human development by Akçay (2006) shows that “corruption can indirectly affect human development by lowering economic growth and incentives to invest.” Several studies show that corruption influences what the government spends on education and health (Mauro 1998; Gupta, Davoodi, and Alonso-Terme 1998)). Akçay’s own empirical results confirm this by showing that higher levels of corruption indeed lower human development (as measured by life expectancy, educational attainment, and standard of living).⁴⁵ Kaufmann similarly finds that a one standard deviation improvement in control of corruption would reduce child mortality by 75 percent, as well as lead to significant gains in literacy.⁴⁶ Corruption also tends to distort the allocation of economic benefits, favoring the haves over the have-nots - leading to a less equitable income distribution. A share of the country’s wealth is distributed to insiders and corrupt bidders, contributing to inequalities in wealth.⁴⁷

⁴⁵ Ibid. p. 41

⁴⁶ Kaufmann (2004) p. 15-16

⁴⁷ Akçay (2006) p. 33-34

Thus, corruption generally has negative consequences for human development because it reduces economic growth and diverts money from social services.

The Rule of Law Debate

At the opening of the 17th session of the UN Commission on Crime Prevention and Criminal Justice, the Executive Director of the UN on Drugs and Crime, Antonio Maria Costa, delivered a speech titled “Rule of Law: A (missing) Millennium Development Goal that can help reach the other MDGs”. In the speech he emphasized the need for stronger rule of law to meet the MDGs:

Economic analysis has consistently shown the clear correlation between weak rule of law and weak socio-economic performance. Clear correlation, I said, though some people actually see strong causality: in countries ravaged by crime and corruption, and where governments lost control of their land, the poor suffer the most, and the services provided to them get delayed, or never arrive. They -- the so-called "bottom billion" -- have no access to justice, health and education and face rising food prices: how can such countries meet the MDGs?⁴⁸

Empirical studies often support the view that the rule of law is important for economic development. Kaufmann and Kraay, for instance, show that a one-standard-deviation improvement in the rule of law indicator “raises per capita income nearly fourfold in the very long run”.⁴⁹ Moreover, poor countries do not score well on the rule-of-law indicator whereas all rich countries do (except for less well-scoring Italy and Greece).⁵⁰ On the other hand, critics point to the example of China, which has witnessed unprecedented growth without scoring well on the rule-of-law indicator. In this view, rule of law cannot be seen as “a universal economic guide” as it may not be a prerequisite for growth.⁵¹ Messick also offers a warning in viewing rule of law as a panacea. He argues that cross-

⁴⁸ Costa (2008)

⁴⁹ Kaufmann and Kraay (2002) p. 18

⁵⁰ The Economist (2008)

⁵¹ Ibid.

country regressions do not satisfactorily answer the question of causality. First, developed countries can spend more on their judicial system. Secondly,

the same factors that contribute to economic reform and development may also be responsible for improvements in the judiciary. Both may be a result of preexisting attitudes and beliefs in society at large, or what has recently been termed "social capital".⁵²

Social capital is often understood as historically established norms of generalized trust and honest reciprocity. One can argue that social capital understood in this way is equivalent to the type of informal institutions put forward by North and Mungui-Pippidi as presented above. However, as has been shown by Rothstein, Eek and Stolle, there are relatively strong empirical indicators showing that precisely the opposite may be the case, namely that social trust is caused by high quality legal institutions.⁵³

Keeping with the view that rule of law may be a "luxury good" which is hard to attain by poor countries, Messick further points to the evolution of informal institutions into formal institutions. Informal institutions such as credit associations are usually widespread at the village level in close-knit communities. Economic development tends to put these informal methods, which rely on personal trust, at a disadvantage compared to more formal mechanisms. Furthermore, by citing Milgrom, North, and Weingast (1990), Messick shows how the trading system in Europe during the medieval period was based on reputation, where traders had an incentive not to cheat, and how this informal system became too costly over time to maintain. As the number of actors rose, the transaction costs of verifying the reputation of the traders also increased. This, it is argued, eventually led to the formalization of the legal system.⁵⁴

⁵² Messick (1999) p. 122

⁵³ Rothstein and Stolle (2008), Rothstein & Eek (2009)

⁵⁴ Messick (1999) p. 130

However, how such “efficient” institutions as the rule of law can be created remains somewhat of a mystery, at least if the starting point is transactions between agents that are utility-maximizers. The theory would predict that some agents, through the logic of the market, will eventually become much more financially strong than others. If rational utility-maximizers, they are likely to use their financial strength to bribe or corrupt the people working in the legal system in one way or another to gain economic advantages. They will also try to get their confidants in this sort of clientilism and corruption installed in positions in order to render verdicts in their favor. And if they are also rational utility-maximizers, the integrity of the law merchants will be for sale as long as the price is right and the transaction can be kept secret. Such a scenario seems to be a rather apt description of events in Russia after the “shock-therapy” privatizations of the 1990s. The economic oligarchies seem to have become so financially strong that they have managed to buy attempts to build universal trustworthy rule of law institutions out of existence.⁵⁵ This problem, which in some ways is fundamental to this discussion, has been stated as follows by economic historian Avner Greif in a chapter in the Handbook of Institutional Economics:

public-order institutions that support modern markets require high fixed costs. Large legislative, judicial, administrative, and coordination costs are required to establish the system and render it effective and credible.... Public-order institutions that best approximate this situation operate in a few advanced contemporary countries and only in recent times. We know surprisingly little, however, regarding the institutional development that led to these modern successes.⁵⁶

Thus, although the empirical evidence points to a relationship between rule of law and economic development, the nature of this relationship remains open to debate. It may be, however, that the rule of law is good in its own right, as it is

⁵⁵ Gleaser et al. (2003)

⁵⁶ Greif (2005) p. 737

believed that the rule of law improves human rights and reduces conflicts.⁵⁷

One criticism is that in many areas, such as service delivery, environmental protection, and education, the rule of law “script” is too restricted for describing the “street-level bureaucrats” operational logic. Public employees in these sectors are more inclined to use a combination of professional norms and policy goals instead of following clearly defined legal rules. The implication is that what should count as quality of government must be based on a norm that incorporates what takes place in the exercise of public policies where the rule of law concept is inadequate (Rothstein & Teorell 2008).

The Policy Outcomes of Quality of Government

As the preceding discussion has shown, quality of government is a broad topic that in recent years has been the focus of much research. Nevertheless, many of the debates in this field remain to be settled because of the lack of strong and robust empirical indicators, for example on the topics of whether good governance in general and democracy in particular promote economic growth.⁵⁸ Our own results, as presented in tables 2 (correlations) and 3 (regression coefficients) as well as in figures 4 and 5, show that the three QoG variables (Rule of Law, Corruption Perception and Government Effectiveness) have positive but surprisingly weak correlations with economic growth, while the correlation with GDP/capita is very strong. One interpretation of this result could be that the causality between economic growth and QoG is more like a “virtuous circle” where “feed-back mechanisms” play an important role. As Dani Rodrik has stressed, “I am not aware of any strong econometric evidence that relates standard governance criteria to *growth* (all the evidence is about *income levels*)” (Rodrik 2008:19).

⁵⁷ The Economist (2008)

⁵⁸ “In spite of the inexorable march of democracy around the globe, just how democratic institutions affect human well-being is open to debate. The evidence that democracy promotes prosperity is neither strong nor robust”. Besley and Kudamatsu (2006) p. 313

These results are central to the wider question of what the policy outcomes of QoG are. As will be evident in the following section, a country's GDP is one of its major determinants of policy outcomes in such fields as social well-being, public health, and the environment. Building on the discussions of the previous section, we will therefore explore in greater detail the effects of QoG on these policy areas.

In the topic of *social well-being*, we include such indicators as poverty, economic inequality, the existence of effective social insurance systems, subjective measures of life satisfaction, and the United Nations' measure of human development (HDI). As was mentioned above, there is a debate about whether QoG necessarily leads to pro-poor growth (i.e. economic growth that reduces absolute or relative levels of poverty). Kraay (2006) explores this using household survey data on average incomes from 80 developing countries mainly from the 1990s. He shows that what matters most for poverty reduction is growth in average incomes. However, poverty reduction is also affected by distributional changes. Using the World Bank's rule of law indicator as a proxy for institutional quality, he finds that "poverty increasing distributional change is more likely to occur in countries with better institutional quality". Nevertheless, he argues that this negative distributional effect on poverty in countries with better institutional quality is outweighed by the positive effect of institutional quality on economic growth.⁵⁹ Using a different methodology, Blaydes and Kayser (2007) arrive at the opposite conclusion when examining the link between democracy and pro-poor growth. They argue that even though democracy may not promote economic growth, democratic countries are more likely than autocratic states to promote economic redistribution that is beneficial to the poor. Blaydes and Kayser accredit this to democratic countries' investments in human capital development, and the benefits of competitive elections to poor voters who are often marginalized in autocracies. The

⁵⁹ Kraay (2004) p. 20

corruption literature makes similar inferences on the link between QoG and poverty. Research shows that corruption affects poverty through its consequences on economic and governance factors, such as through lower quality of public infrastructure, decreases in tax revenue, and poorer targeting of social programs (Chetwynd et al 2003).

One example of corruption's effect on poverty can be found in Anirudh Krishna's (2007) study of poverty in developing countries. Based on a vast amount of data from 25,000 households from diverse communities in India, Kenya, Uganda, Peru, and North Carolina, Krishna finds that people in developing countries move in and out of poverty to a great extent. He also finds that one of the strongest reasons for people in developing countries becoming permanently poor is that members of their family are hit by a serious illness, for which they have to spend large sums of money on health care because they do not have access to any publicly funded health care system. The cost of medical treatment for family members often forces them to sell productive assets and because of this they fall deeply into debt. One reason for the lack of publicly available health care is that corruption, not least in the tax authorities, makes it difficult to raise taxes to finance a public health care system.

Other studies focus more directly on the empirical link between governance and inequality. The results here are also rather mixed. For example, Chong and Gradstein (2004) find that better ranking on the political stability and the rule of law measures, as well as the ICRG index, lead to a decrease in inequality. Lopez (2004), on the other hand, finds the opposite result using the ICRG index.⁶⁰ However, Chong and Calderón (2000) show that in richer countries, quality of institutions and income equality have a positive relationship while in poorer countries the reverse relationship holds. They argue that this may be because institutional reforms first increase income inequality before decreasing it when institutional efficiency improves. Borrowing from Olson's (1996) theories on

⁶⁰ Resnick and Birner (2006) p. 19

economic development and institutions, they theorize that bad governance often entails state capture by specific groups who prosper at the expense of the poor. Thus, in the long run, governance reform will reduce inequality by removing discrimination against the marginalized section of the population.⁶¹ As shown in tables 2 and 3, the relationships between the QoG variables and measures of inequality (unemployment and the relative poverty rate, see figure 6) are reasonably strong. Tables 2 and 3 also show positive correlations between the QoG variables and policy measures for reducing inequality such as “benefit generosity index” and the measure of social security laws.

Thus, a high QoG appears to have positive effects on social well-being. This result echoes that of Helliwell (2006), Frey and Stutzer (2000), and Pacek and Radcliff (2008), who have observed positive links between QoG and subjective well-being (a measure of an individual’s evaluation of their quality of life in total). Helliwell reports that QoG - as measured by the averages of six main World Bank indicators - explains a large part of the international differences in subjective well-being found through surveys. Frey and Stutzer observe in a more narrow study that direct democracy appears to be associated with higher levels of well-being. They explain this positive effect by pointing to political outcomes as agreeing more with the voters’ preferences as well as the utility obtained from participating in the political process. Finally, Pacek and Radcliff find a positive link between welfare state generosity and subjective well-being when examining survey data from 18 industrial democracies between the years 1981-2000. It is concluded that the higher the “quality of welfare policy” (as measured by the comprehensiveness of social security programs, including pensions, sickness compensation and unemployment support), the greater individuals are satisfied with their lives. One reason for this, they believe, is that welfare states better protect their citizens from the insecurities produced by the market, thereby increasing their quality of life.

⁶¹ Chong and Calderón (2000) p. 124-125

Overall, therefore, the effect of QoG variables on social well-being appears as a complex pattern that is affected by intermediaries such as economic and institutional factors. Nevertheless, most evidence – including our own empirical results – points to positive outcomes of QoG on policy areas such as reduced poverty and higher degrees of life satisfaction.

Turning next to the *public health* field, there is a large body of literature that testifies to the negative consequences of corruption in the health sector. The Global Corruption Report 2006, for example, explores why the health sector is particularly prone to corruption and shows how the problem impacts upon health systems in both developed and developing countries. As three of the Millennium Development Goals relate to health outcomes (reducing child mortality, improving maternal health, and combating diseases such as HIV/AIDS and malaria) reducing corruption in this sector is imperative.⁶² Embezzlement and theft, corruption in procurement, corruption in payment systems, corruption in the pharmaceutical supply chain, and corruption at the point of health service delivery are all identified as major challenges for the health sector.⁶³ The effects are that service delivery is impaired through increasing the costs of key services, creating obstacles for those who are least able to pay, and limiting the scope for reforms to raise health care quality and efficiency.⁶⁴

Empirical studies are made difficult by the range of health care systems that exist in the world – the difference being particularly noticeable between developed and developing countries - which leads to a scarcity of comparable data. However, a review of the literature shows that significant dividends can be gained when reducing corruption in the health sector. Gupta, Davoodi and Tiongson (2000), for example, study eighty-nine countries over a period between 1985 and 1997 and find that corruption has adverse consequences for

⁶² Transparency International (2006) p. xii

⁶³ Ibid. p. xviii

⁶⁴ Cockroft et al. (2008) p. 2

child and infant mortality rates and the percent of low-birth weight babies.⁶⁵ Similarly, Rajkumar and Swaroop use cross-sectional data of countries over two years and find that in countries with less corruption and better quality of bureaucracy, health spending has a negative correlation with child and infant mortalities. With an improvement in control of corruption, public spending on the health sector becomes more effective in reducing child and infant mortalities.⁶⁶ Moreover, Eslava-Schmalback *et al.* show that inequity in health is higher in countries with more corruption.⁶⁷

Another study, conducted by Besley and Kudamatsu (2006), explores the link between democracy and health by employing panel data from a cross section of countries. They find that health policy interventions are superior in democracies. Further, their results show that countries that have been democratic from 1956 onwards have a life expectancy that is about five years as high as that for countries that have been autocratic in the same period. The democratic countries also have about 17 fewer infants dying before the age of one per 1,000 births as compared to countries that have been continuously autocratic since 1956. They accredit this to democracies having greater representation and accountability, so that health issues are promoted, and that voters in democratic countries can elect competent leaders.⁶⁸ Another of the results in the study indicate that democracies prioritize water and sanitation issues, which according to the Global Corruption Report 2008 are responsible

⁶⁵ Gupta, Davoodi and Tiongson (2000) p. 24-25

⁶⁶ Swaroop and Rajkumar (2002) p. 23. These results also hold in the education sector in terms of increasing primary education attainment.

⁶⁷ Eslava-Schmalbach *et al.* (2008) p. 146

⁶⁸ See also Kudamatsu (2006) who by comparing the survival of infants born to the same mother before and after democratization in eleven countries in sub-Saharan Africa finds that infant mortality falls by 1.8 percentage points, 18 percent of the sample mean, when the countries democratized. The study also finds that “the replacement of a chief executive by democratization is the driving force behind these results. Additional evidence suggests that improvements in public health service delivery, not an increase in affluence, are the key mechanism in which democratization has reduced infant mortality”. However, the paper does not discuss why it finds that in sub-Saharan Africa, autocratic countries had consistently lower infant mortality rates than democracies up till the mid 1990s, which may indicate that other factors are at play. This discrepancy therefore may warrant further investigation into the link between regime type and infant mortality.

for about 80 per cent of the health problems in developing countries. The Report singles out corruption as one of the root causes for the water crisis in many countries. It states that “corruption in the water sector is widespread and makes water undrinkable, inaccessible and unaffordable.”⁶⁹

As shown in tables 2 and 3 as well as in figure 1, there are strong positive relations between the three QoG variables and four widely used measures of health outcomes (subjective health, life expectancy, infant mortality and child mortality). This may be caused in part by the relatively strong correlations we show in tables 2 and 3 between QoG variables and the measures of water quality (see also figure 2). Since health seems to be causally connected to survey measures of life satisfaction and happiness, it is not surprising that we also find positive correlations between these measures of “how’s life” and the QoG variables. This is especially highlighted in figure 7, where we have combined three quality of life variables from the health studies literature (life expectancy, infant mortality, and life satisfaction) into a Good Society Index (GSI), which is strongly related to the QoG variables. The results indicate that high quality of government increases our chances of achieving the Good Society (Holmberg 2007).

While most studies find a causal relationship between QoG and public health, the same cannot be said for the effects of QoG variables on *environmental outcomes*. Here the debate is complicated by the lack of an unambiguous definition of the concept of environmental sustainability. This is because it is a broad term that encompasses a range of issues, which has led to the creation of a plethora of competing sustainability indexes (Böhringer and Jochem 2007). Consequently, empirical results are largely determined by the choice of the sustainability index used in the study. For instance, while Morse (2006) finds that corruption has a negative correlation with environmental sustainability (as measured by the Environmental Sustainability Index [ESI]), Ewers and Smith

⁶⁹ Global Corruption Report 2008, p. xxiv

(2007) obtain an opposite result using the Ecological Footprint index. The differences arise because the Ecological Footprint emphasizes measurement of a country's impact on the planet through its consumption patterns, in contrast to the ESI's broader measurements, which include a country's pollution levels, environmental management, capacity to improve environmental performance, etc. The question therefore appears to be whether one should assign a high significance to ratifications of environmental agreements, technological advances, and reductions in pollution levels, or to a country's impact on the planet in total. In other words:

If sustainability is viewed in terms of capacity and global stewardship, then the richer countries do well relative to the poorer ones, while if sustainability is seen in terms of the stress placed on the environment, then the richer countries come out worse.⁷⁰

Nevertheless, if one focuses on a country's level of water and air pollution, then empirical studies have revealed a number of mechanisms through which QoG variables can have an effect on environmental outcomes. The so-called environmental Kuznets Curve has been shown to hold for some pollutants, particularly those that have local impacts; pollution increases as countries develop from a low level of GDP per capita and subsequently fall when people's preferences change in favor of preserving the environment at higher levels of income. This means that corruption can play a direct and an indirect role in affecting pollution levels. The direct effect takes place by increasing pollution at any given income level through for example the practice of bribing officials to bypass pollution laws⁷¹. The indirect effect of corruption, on the other hand, can be either positive or negative, depending on how pollution interacts with economic development at a certain level of per capita income

⁷⁰ Morse and Fraser 2005, p. 633

⁷¹ See for example Global Corruption Report 2008, which emphasizes the link between corruption and water pollution, which has been associated with the degradation of wetlands and other important ecosystems, desertification, as well as negative consequences for wildlife preservation.

(Welsch 2004; López and Mitra 2000). Empirical investigations are thus required in order to determine which effect plays a larger role in the equation.

Welsch (2004) uses different indicators of ambient air and water pollution for 106 countries and finds that corruption enhances pollution at all income levels. He argues that low income countries have the most to gain in terms of reduced air and water pollution by reducing corruption. Damania et al. (2003) similarly find that lower corruption is correlated with tougher environmental regulations by investigating allowable lead content per gallon of gasoline. Nevertheless, their study shows that developing countries are conditionally better at having lower levels of lead per gallon of gasoline than developed countries if per capita income is taken into consideration.⁷²

Fredriksson and Mani (2002) explore the interaction of rule of law with corruption and demonstrate that environmental policy stringency is lowest in countries with a low degree of rule of law and high level of corruption. They also show that with a high degree of rule of law, the negative effect of corruption on environmental stringency grows, due to the increased incentives of bribing officials in order to circumvent environmental laws. Fredriksson and Mani therefore conclude that greater policy stringency must go hand in hand with efforts to reduce corruption if environmental policies are to have the intended effects. Esty and Porter (2005) also find that institutional factors play a role in explaining environmental performance in terms of urban particulates and energy efficiency, although income levels appear to be the dominant factor in determining environmental outcome. They therefore conclude that environmental policy makers should prioritize poverty alleviation.

Other studies have focused on the link between democracy and environmental policy. Neumayer (2002), for example, finds evidence of a positive association between democracy and environmental commitment, in terms of the ratification

⁷² Damania et al. (2003) p. 505

of environmental agreements, participation in international environmental organizations, assigning protection status to a greater percentage of their land area, etc. He warns, however, that this does not necessarily translate into environmental outcomes:

In democracies, people can express their environmental preferences better, these preferences will be honored or addressed better by policymakers and this should translate into stronger revealed environmental commitment. But it need not translate into better environmental outcomes. The link between democracy and environmental outcomes is likely to be weaker the more factors outside a government's control impact upon outcomes, the longer the time-span between environmental commitment and its effect on environmental outcomes is and the more difficult environmental outcomes are to monitor. If these conditions hold true, then the electorate in a democracy will appreciate the difficulty of holding governments accountable for environmental outcomes rather than commitment and will look for commitment instead.⁷³

Barrett and Graddy (2000) look at the link between civil and political freedoms and environmental quality and find that some of the pollutants that have the most adverse effects on human health are lower in countries with greater civil and political freedoms.⁷⁴ In a different study, Fredriksson and Wollscheid look at environmental policy stringency and democracy and show that democracies have stricter environmental policies than autocracies. However, they argue that this result appears to be driven primarily by parliamentary democracies, whereas presidential-congressional systems often do not set environmental policies that are significantly different compared to those of non-democracies. They accredit this to the lower degree of separation of powers and greater legislative cohesion in parliamentary systems.⁷⁵ In addition, there appears to be some evidence as well that the transition from autocracy to democracy may

⁷³ Neumayer (2002) p. 145

⁷⁴ See also the Rio Declaration on Environment and Development (1992), which states that transparency and public participation in environmental policy is of great importance in dealing with environmental issues.

⁷⁵ Fredriksson and Wollscheid (2007) p. 390

result in widespread environmental degradation if the period is marked by political instability. Examples of this could be seen in Indonesia after the fall of Suharto in 1998, when the rate of deforestation increased.⁷⁶

Tables 2 and 3 show that environmental outcomes correlate positively with QoG, which confirms some of the associations found in the previous literature (see also figure 2). On the other hand, the QoG variables can be seen to have a negative effect on carbon emissions, which is also in line with previous studies that find that the less local a particular type of pollution is and the more externalities it has, the less likely governments are to tackle the pollution (see figure 3). Overall, therefore, although significant relationships can be found between QoG and environmental outcomes, care should be taken in interpreting these results. As many studies point out, this is due to the broadness of the concept of environmental sustainability, the weakness of some of the data, and the difficulties in assigning cause and effect because of the many interactions with economic performance and other contextual factors.

Future Research on Quality of Government

Our research review merely presents a small section of the now vast literature that exists on QoG. Nevertheless, some general observations can be made. Firstly, while QoG appears to be a worthy cause to pursue, the research on the topic remains thin in a number of areas. For example, Resnick and Birner mention cross-country studies focusing on the political process as an interaction variable as being absent from the literature.⁷⁷ Others point to the weakness in theoretical foundation in some areas, such as the interdependent nature of institutions. Goldsmith, for instance, seeks greater efforts in “capturing nonlinear and lagged relationships in governance”.⁷⁸ A related point of criticism is that the research on good governance does not easily translate into simply

⁷⁶ Matthews and Mock (2003) p. 2

⁷⁷ Resnick and Birner (2006) p. 18

⁷⁸ Goldsmith (2007) p. 182

executed policies. To start with, there is little agreement for example on *what type* of rule of law or *what form* of democracy that is required for a country to reap the full effects of QoG. Some authors employ a “thick” definition of rule of law while others use a “thin” definition, which is more formal. The former only considers states as being ruled by law “if the state’s power is constrained and if basic freedoms, such as those of speech and association, are guaranteed”. The latter, on the other hand, narrows its focus on “property rights and the efficient administration of justice”.⁷⁹ Similarly, Welzel and Inglehart (2008) stress the importance of distinguishing between effective and ineffective democracies. The narrow definition of democracy focuses on holding regular elections that can be considered free and fair and this type is known as “electoral democracy”. The broader definition, “Liberal democracy”, maintains that competitive elections in themselves do not lead to genuine democracy. Rather, it is argued, effective democracy relies on “the wide distribution of participatory resources and a trusting, tolerant public that prizes free choice”.⁸⁰

Helliwell and Huang argue that different countries may require different institutional structures at different points in time. Through examining life satisfaction in relation to different aspects of good governance in a large cross-national study, they find that “honest and efficient governments are of especial salience for poorer countries, while voice, accountability and political stability are of greater relative importance for the richer countries”. They therefore argue that “even if at some more fundamental level all individuals have the same basic preference structures, the relative costs and benefits of different sorts of institutional structure vary with circumstances”.⁸¹

Therefore, several studies emphasize the difficulties in drawing clear-cut policy conclusions from much of the existing research.⁸² Another reason for this is

⁷⁹ The Economist (2008)

⁸⁰ Welzel and Inglehart (2008) p.126-127

⁸¹ Helliwell and Huang (2005) p. 7

⁸² Grindle (2004) p. 525

that the good governance agenda encompasses virtually anything that is related to the public sector, including institutions, bureaucratic systems, decision-making processes etc. This creates a problem for developing countries, as there is little information on which reforms should be carried out first so as to not make the transformation overwhelming. Grindle writes about the growing list of demands put on developing states to reform without a clear strategy:

The good governance agenda, largely defined by the international development community but often fervently embraced by domestic reformers, is unrealistically long and growing longer over time. Among the governance reforms that ‘must be done’ to encourage development and reduce poverty, there is little guidance about what’s essential and what’s not, what should come first and what should follow, what can be achieved in the short term and what can only be achieved over the longer term, what is feasible and what is not.”⁸³

Grindle argues that more attention should be given to these questions so as to make reforms more realistic and effective. Messick is similarly critical of the way in which empirical results about the benefits of good governance are transformed into policy strategies. He studies the introduction of rule of law reforms and argues that these can sometimes have negative side-effects in societies that have employed traditional or informal mechanisms. He states, for example, that “the sudden introduction of a formal mechanism to resolve legal disputes can disrupt informal mechanisms without providing offsetting gains”⁸⁴. Another unintended consequence of focusing on reforms in a particular area, for example property rights, before appropriate independent institutions exist is that elites may take advantage of this, for instance through land-grabbing, which may result in greater inequalities.⁸⁵

A healthy reminder is that in the 1960s, donors such as USAID and the Ford Foundation set out an ambitious task of reforming the judicial systems in a

⁸³ Ibid. p. 526

⁸⁴ Messick (1999) p. 118

⁸⁵ Ibid. p. 127-128

number of developing countries. After a few years, however, some of the key individuals involved in the project (known as the 'law and development' movement) stated that the program had failed.⁸⁶ The failure has been analyzed in a number of studies and some key criticisms have emerged:

One is that the movement lacked any theory of the impact of law on development. Practitioners thus had no way to prioritize reforms or predict the effects of various measures. A second failing was too little participation by the lawyers and others in the target country who either would have to carry out the reforms or would be affected by them. Foreign legal consultants, through a combination of expertise and access to funding, were often able to dictate the content and pace of reform. A third problem was that the movement focused on the formal legal system to the exclusion of customary law and the other informal ways in which many people in developing nations order their lives (Trubek and Galanter 1974). But perhaps the most significant reason for its failure was the naive belief that the American legal system (and the legal culture generally), which Trubek and Galanter (1974:1062) refer to as "liberal legalism," could be easily transplanted to developing countries.⁸⁷

Perhaps the good governance agenda will fall into the same traps as the 'law and development' movement did, unless there is more attention on forming more rigorous theories about how good governance works and can be established in practice. If we consider the notion of democracy, it is clear that even countries that have long been considered stable democracies vary a lot in their specific institutional configurations. Some are federal and some are not. Some have bi-cameral systems and others have only one chamber in Parliament. Some have multi-party proportional electoral systems while others are two-party systems. Some established democracies have an extended system of judicial review while in others the political power of the courts is negligible. In some established democracies grass-root initiatives for referendums play an important role while in others such political initiatives do not exist. Some democracies have strong presidential power while others are parliamentary systems. The

⁸⁶ Ibid. p. 125

⁸⁷ Ibid. p. 126

list can go on. The point is that since all these differences in how to organize electoral representative democracy are not mutually exclusive, there are innumerable ways in which the specific institutional configuration of what we call an established democracy can be institutionalized. The differences we see between for example the Swiss and the Danish democracies must be understood as resulting from each country's specific historical trajectory and carries whatever legitimacy the systems have from being anchored in such country specific history. Still, both systems with their very different institutional configurations can be seen as being rooted in one basic democratic norm which, according to Robert Dahl, is *political equality*.⁸⁸

The obvious parallel to the discussion of QoG and good governance is that for different countries we should expect the specific institutional configurations to vary. For example, some rule of law systems are based on “common law” while others are based on “civil law”. While clearly different, both systems are compatible with good governance. The same logic should apply for how to organize many other government institutions that exercise public power. The implication is that we should expect the specific institutional configuration of QoG to show great variation between countries. The reason is that the specific institutional arrangements have to be anchored in the specific history and culture of their country in order to achieve political legitimacy. If this line of reasoning is correct, a simple transfer of institutions as in the “law and development” movement is not likely to work. Instead, as with democracy, we have to find a “basic norm” for QoG from which different institutional arrangement anchored in each country's historical trajectory can be established.

In the literature we have found three terms that we think describe this “basic norm”. *Universalism* is suggested by Mungui-Pippidi, a term that she defines in opposition to a political culture dominated by “particularism”. She defines universalism as “equal treatment of citizens” (2006:88). Another suggestion has

⁸⁸ Dahl (1989)

been presented by North, Wallis and Weingast (2006), namely “*the open access orders*” which they contrast to “limited access orders”. In the former, competition in markets and politics is open to everyone and based on equal terms. A third suggestion for such a “basic norm” has been put forward by Rothstein and Teorell, namely *impartiality* in the exercise of public power, which they, following Brian Barry and Håkan Strömberg, define in the following way: “When implementing laws and policies, government officials shall not take anything about the citizen/case into consideration that is not beforehand stipulated in the policy or the law”.⁸⁹ The differences between these three are in reality only terminological since they all point to the same basic norm for the relation between the government and its citizens.

To conclude, whilst there are a multitude of studies showing the value of good governance, research remains to be done on what good governance really entails, what specific institutional forms that can follow from the above mentioned basic norm, and how change from low to high QoG can be obtained. A lack of solid understanding exists for questions such as causality and what is key for QoG in different political, economic and cultural settings. Thus, although research points to the value of achieving QoG, a “one size fits all” approach is likely not the way forward. More context-specific and historic time-series studies may aid in resolving the ambiguities that exist in the present state of research on the policy effects of QoG.

⁸⁹ Rothstein and Teorell (2008) p. 170

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Table 1. Three QoG variables – Government Effectiveness, Rule of Law and Corruption Perceptions – with all available countries ranked

Country	Government effectiveness rank	Rule of law rank	Corruption perceptions rank	Country	Government effectiveness rank	Rule of law rank	Corruption perceptions rank
Singapore	1	15	5	United Arab Emirates	39	33	
Switzerland	2	2	12	Bahrain	40	35	
Luxembourg	3	1	7	Greece	41	46	43
Netherlands	4	11	7	Hungary	42	38	32
Finland	5	3	1	Qatar	43	41	
United Kingdom	6	14	10	Czech Republic	44	47	51
Denmark	7	5	2	Latvia	45	60	51
Iceland	8	4	4	Oman	46	39	
Canada	9	13	7	Tunisia	47	69	35
New Zealand	10	9	2	Lithuania	48	58	35
Belgium	11	21	19	Poland	49	54	44
Australia	12	10	11	South Africa	50	75	35
Sweden	13	7	5	Uruguay	51	55	31
Norway	14	6	12	Maldives	52	68	
Austria	15	8	14	Mauritius	53	37	39
Germany	16	16	17	Antigua and Barbuda	54	32	
United States	17	18	15	Trinidad and Tobago	55	67	32
France	18	24	24	Costa Rica	56	49	39
Liechtenstein	19	19		Slovakia	57	62	51
Ireland	20	17	22	Bhutan	58	72	
Spain	21	28	19	Jordan	59	63	39
Bahamas	22	25		Grenada	60	70	
Andorra	23	19		Thailand	61	71	63
Barbados	24	22		Croatia	62	76	50
Chile	25	27	16	Mexico	63	96	56
Malta	26	29		China	64	93	58
Taiwan	27	36	28	Kuwait	65	43	
Japan	28	23	19	Fiji	66	99	
Israel	29	34	17	Dominica	67	50	
Portugal	30	26	24	Namibia	68	59	27
Cyprus	31	42		Samoa	69	31	
Italy	32	44	30	Morocco	70	77	51
Malaysia	33	56	32	St Lucia	71	65	
Korea, South	34	40	39	Sri Lanka	72	73	51
Botswana	35	48	23	Ghana	73	88	49
Brunei Darussalam	36	53		Mauritania	74	100	
Slovenia	37	30	26	Bulgaria	75	82	44
Estonia	38	45	28	Belize	76	81	

Table 1 continued

Country	Government effectiveness rank	Rule of law rank	Corruption perceptions rank	Country	Government effectiveness rank	Rule of law rank	Corruption perceptions rank
Jamaica	77	111	44	Tonga	116	80	
Philippines	78	122	76	Iran	117	124	
Saudi Arabia	79	61		Albania	118	153	80
Cape Verde	80	74		Argentina	119	138	69
India	81	79	70	Benin	120	101	
Senegal	82	91	65	Tanzania	121	113	70
Panama	83	83	66	Laos	122	155	
Turkey	84	84	63	El Salvador	123	106	61
Mongolia	85	64		Cambodia	124	149	
St Vincent and the Grenadines	86	51		Eritrea	125	109	
Brazil	87	97	44	Pakistan	126	132	76
Seychelles	88	57		Bolivia	127	128	88
Suriname	89	98		Indonesia	128	148	95
Marshall Islands	90	85		Bangladesh	129	134	101
Lesotho	91	86		Syria	130	102	
Kiribati	92	52		Guatemala	131	144	80
St Kitts and Nevis	93	65		Burkina Faso	132	117	
Tuvalu	94	12		Cameroon	133	167	88
Cuba	95	156		Algeria	134	126	
Vanuatu	96	89		Moldova	135	120	92
Vietnam	97	105	84	Monaco	136		
Micronesia	98	90		Mali	137	114	
Egypt	99	78	61	Malawi	138	108	67
Guyana	100	112		Sao Tome and Principe	139	118	
Romania	101	87	76	Chad	140	140	
San Marino	102			Serbia and Montenegro	141	154	
Mozambique	103	125		Kyrgyzstan	142	137	
Macedonia	104	110		Rwanda	143	152	
Uganda	105	135	92	Honduras	144	136	70
Armenia	106	115		Ukraine	145	146	84
Colombia	108	141	56	Guinea	146	133	
Lebanon	109	95		Zambia	147	119	76
Swaziland	110	127		Georgia	148	168	84
Dominican Republic	111	104	58	Papua New Guinea	149	151	
Gabon	112	94		Ethiopia	150	107	58
Madagascar	113	92	97	Kenya	151	160	95
Nepal	114	103		Zimbabwe	152	177	70
Peru	115	116	44	Kazakhstan	153	150	87

Table 1 continued

Country	Government effectiveness rank	Rule of law rank	Corruption perceptions rank
Gambia	154	121	
Niger	155	139	
Yemen	156	170	
Nicaragua	157	130	80
Bosnia and Herzegovina	158	147	
Djibouti	159	123	
Cote d'Ivoire	160	174	70
Libya	161	142	
Azerbaijan	162	145	94
Solomon Islands	163	180	
Timor-Leste	164	163	
Ecuador	165	129	88
Comoros	166	158	
Belarus	167	164	35
Uzbekistan	168	171	67
Sudan	169	176	
Nigeria	170	178	100
Tajikistan	171	175	
Venezuela	172	161	80
Togo	173	131	
Nauru	174		
Angola	175	181	97
Paraguay	176	166	97
Myanmar	177	182	
Congo	178	172	
Guinea-Bissau	179	162	
Equatorial Guinea	180	169	
Afghanistan	181	183	
Burundi	182	179	
Sierra Leone	183	173	
Turkmenistan	184	165	
Central African Republic	185	159	
Haiti	186	186	88
Liberia	187	184	
Congo, Democratic Republic	188	187	
Iraq	189	185	
Korea, North	190	157	
Somalia	191	188	

Comments: The number of countries with relevant data are 191 for the government effectiveness variable, 188 for the rule of law variable, and 101 for the corruption variable. High ranks mean “good” QoG qualities. The intercorrelations between the three QoG variables are very high, about .90.

Table 2. Correlates of Three Interrelated QoG Variables with Outcomes in the Fields of Health, Ecology, Economy, Social Welfare and Subjective Feel Goodness (r)

Societal Outcome Variables	Correlation (r)						Effect of the QoG variables
	Rule of Law	Government Effectiveness		Corruption Perceptions Index			
		n		n		n	
Health outcomes							
Subjective Health	+0.37	45	+0.44	45	+0.37	39	Positive
Life Expectancy at Birth	+0.62	180	+0.62	180	+0.53	98	Positive
Infant Mortality Rate	-0.66	178	-0.66	180	-0.55	94	Positive
Mortality Rate Children <5 years	-0.62	186	-0.62	188	-0.51	100	Positive
Prevalence of HIV	-0.17	148	-0.17	148	-0.10	95	Positive
Environmental Outcomes							
Environmental Sustainability Index	+0.50	146	+0.51	146	+0.54	98	Positive
Air Quality	+0.37	146	+0.33	146	+0.39	98	Positive
Water Quality	+0.47	146	+0.47	146	+0.47	98	Positive
Improved Drinking Water Source	+0.57	165	+0.57	165	+0.58	86	Positive
Carbon Emissions	+0.49	178	+0.48	180	+0.70	100	Negative
Forest Cover Change	+0.42	172	+0.39	172	+0.41	92	Positive
Economic Outcomes							
GDP per Capita	+0.88	131	+0.87	131	+0.87	93	Positive
GDP Growth	+0.10	130	±0.00	130	+0.20	93	Positive
Gini Index	-0.44	149	-0.44	149	-0.46	99	Positive ¹
Unemployment	-0.47	30	-0.46	30	-0.48	30	Positive ¹
Societal Outcomes/Outputs							
Social Security Laws	+0.52	84	+0.51	84	+0.51	77	Positive
Benefit Generosity Index	+0.17	18	+0.14	18	+0.17	18	Positive
Relative Poverty Rate	-0.47	30	-0.39	30	-0.33	30	Positive
Human Development Index	+0.71	175	+0.73	175	+0.70	100	Positive
Subjective Feel Goodness							
Happiness	+0.41	77	+0.44	77	+0.45	70	Positive
Life Satisfaction	+0.65	78	+0.66	78	+0.66	71	Positive
The Good Society Index	+0.83	71	+0.84	71	+0.83	64	Positive

¹Less inequality and less unemployment

Comments: The three QoG variables are highly inter-correlated (about .90). Their separate effects on the outcome variables are always the same. The effects column indicates whether the QoG variables are positively or negatively related to a “good” outcome in the societal variables. n= number of countries. The Good Society Index includes measures of life expectancy, infant mortality and life satisfaction and is presented in Holmberg (2007).

Table 3
Effects of QoG (Government Effectiveness) on some twenty Societal Outcomes (regression coefficients)

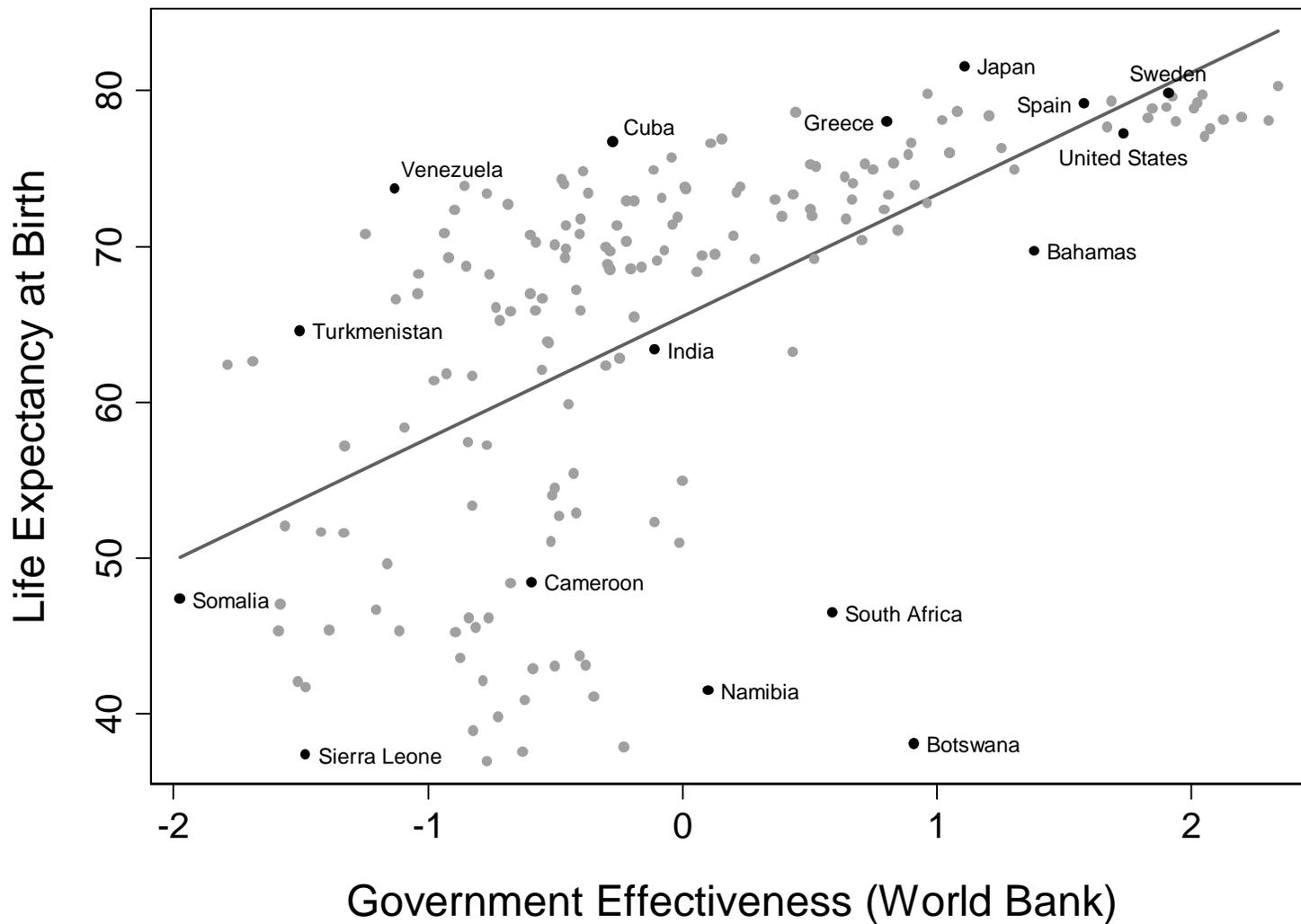
Societal Outcome Variables	b	p	Unit for the dependent variable	Effect of QoG: Government Effectiveness
Health outcomes				
Subjective health	0.12	0.003	1 – 5; Very poor – Very good	Positive
Life Expectancy at Birth	7.82	0.000	Years	Positive
Infant Mortality Rate	-27.6	0.000	Deaths per 1,000 live births	Positive
Mortality Rate Children <5 years	-41.4	0.000	Deaths per 1,000 live births	Positive
Prevalence of HIV	-0.98	0.044	Percent of population aged 15-49	Positive
Ecological Outcomes				
Environmental Sustainability Index	4.3	0.000	Composite index (29.2 – 75.1) ¹	Positive
Air Quality	0.20	0.000	Composite index (-1.6 – 2.17) ¹	Positive
Water Quality	0.30	0.000	Composite index (-1.93 – 1.64) ¹	Positive
Improved Drinking Water Source	11.3	0.000	Percentage of population with access	Positive
Carbon Emissions	3.44	0.000	Tons of carbon per capita	Negative
Forest Cover Change	0.56	0.000	% (average annual rate of change)	Positive
Economic Outcomes				
GDP per Capita	7.8	0.000	1,000 I\$ in 1996 constant prices	Positive
GDP Growth	0.47	0.511	% (real GDP per capita)	Not significant
Gini Index	-4.7	0.000	Index (theoretically 0-100)	Positive ²
Unemployment	-2.8	0.011	% of civilian labor force	Positive ²
Societal Outcomes/Outputs				
Social Security Laws	0.12	0.000	Composite index (0 – 0.87) ¹	Positive
Benefit Generosity Index	2.8	0.556	Composite index (18.6 – 41.7) ¹	Not significant
Relative Poverty Rate	-2.3	0.032	% of population below 50% of median income	Positive
Human Development Index	0.13	0.000	Composite index (theoretically 0 – 1)	Positive
Subjective Feel Goodness				
Happiness	0.12	0.000	1 – 4; Not at all happy – Very happy	Positive
Life Satisfaction	0.74	0.000	1 – 10; Dissatisfied – Satisfied	Positive
The Good Society Index	14.9	0.000	Composite index (theoretically 1 – 71)	Positive

¹Minimum and maximum value in the QoG data set.

²Less inequality and less unemployment.

Comments: The QoG variable (government effectiveness) is defined as the independent factor in a series of regression analyses with some twenty societal outcome variables as dependent factors. The source for the government effectiveness variable is the World Bank. Higher effectiveness scores signify more effective government. The Effect of QoG column indicates whether government effectiveness is positively or negatively related to a “good” outcome in the societal outcome variables (see also table 2).

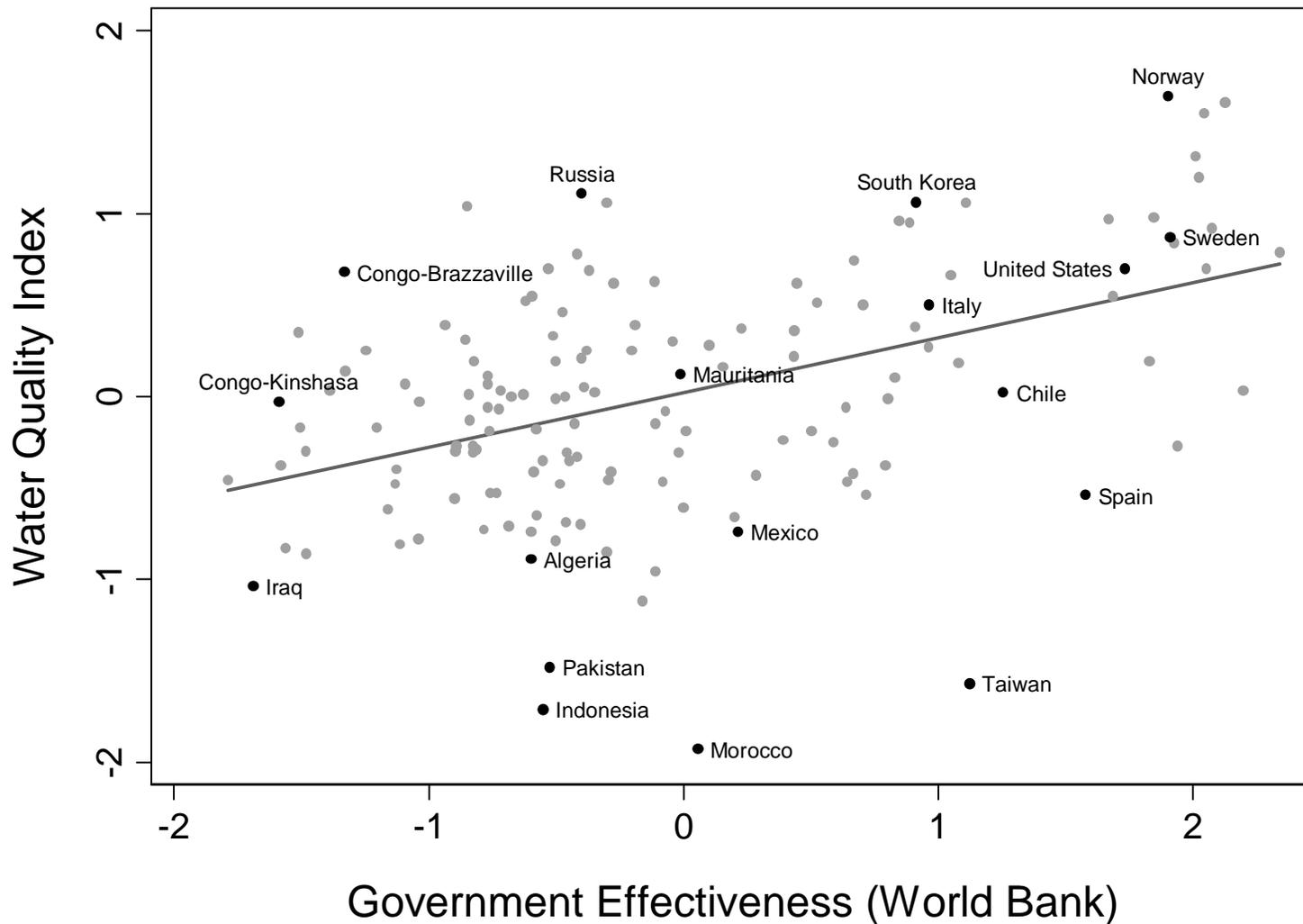
Figure 1
Life Expectancy at Birth vs. Government Effectiveness



R²=0.38

Source: The QoG Data Bank, World Development Indicators 2002, World Bank Governance Indicators 2002

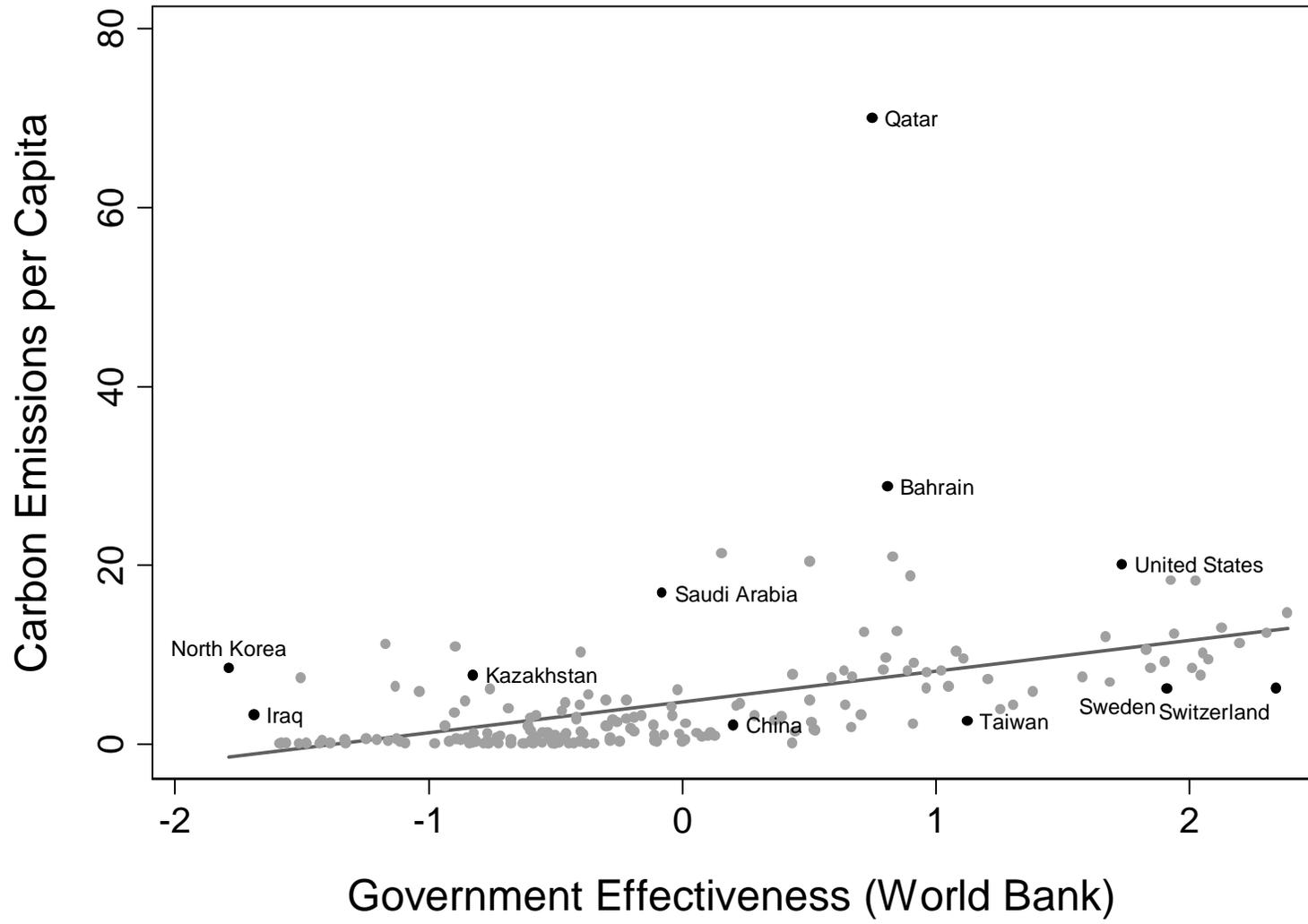
Figure 2
Water Quality vs. Government Effectiveness



$R^2=0.22$

Source: The QoG Data Bank, Esty et al 2005, (the Water Quality data pertains to the years 1994-2003), World Bank Governance Indicators 2002.

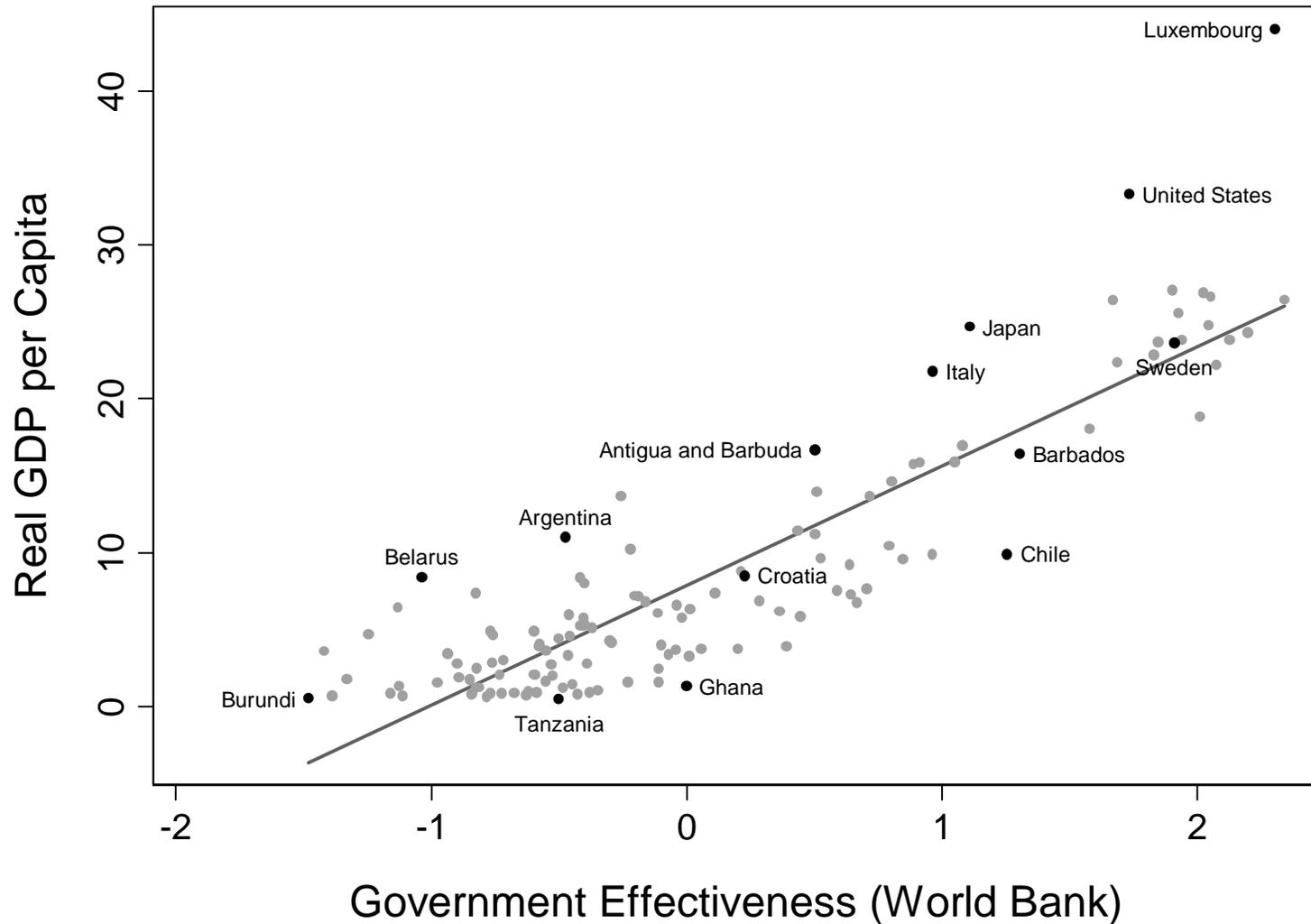
Figure 3
Carbon Emissions vs. Government Effectiveness



$R^2=0.23$

Source: The QoG Data Bank, Esty et al 2005, (the Carbon Emissions data pertains to the year 2001), World Bank Governance Indicators 2002

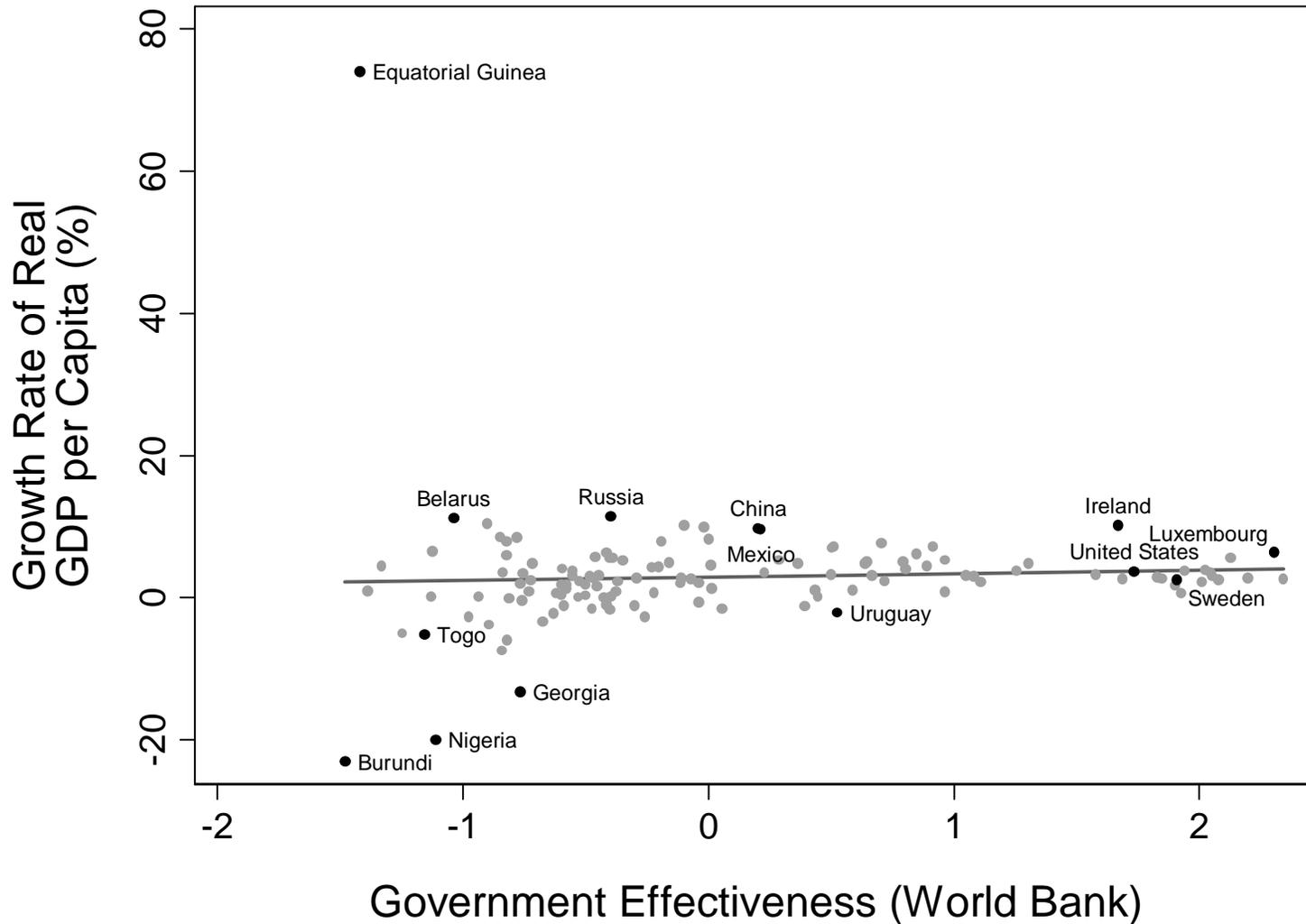
Figure 4
GDP per Capita vs. Government Effectiveness



$R^2=0.76$

Source: The QoG Data Bank, Heston et al 2002, (the GDP per Capita data pertains to the year 2000), World Bank Governance Indicators 2002

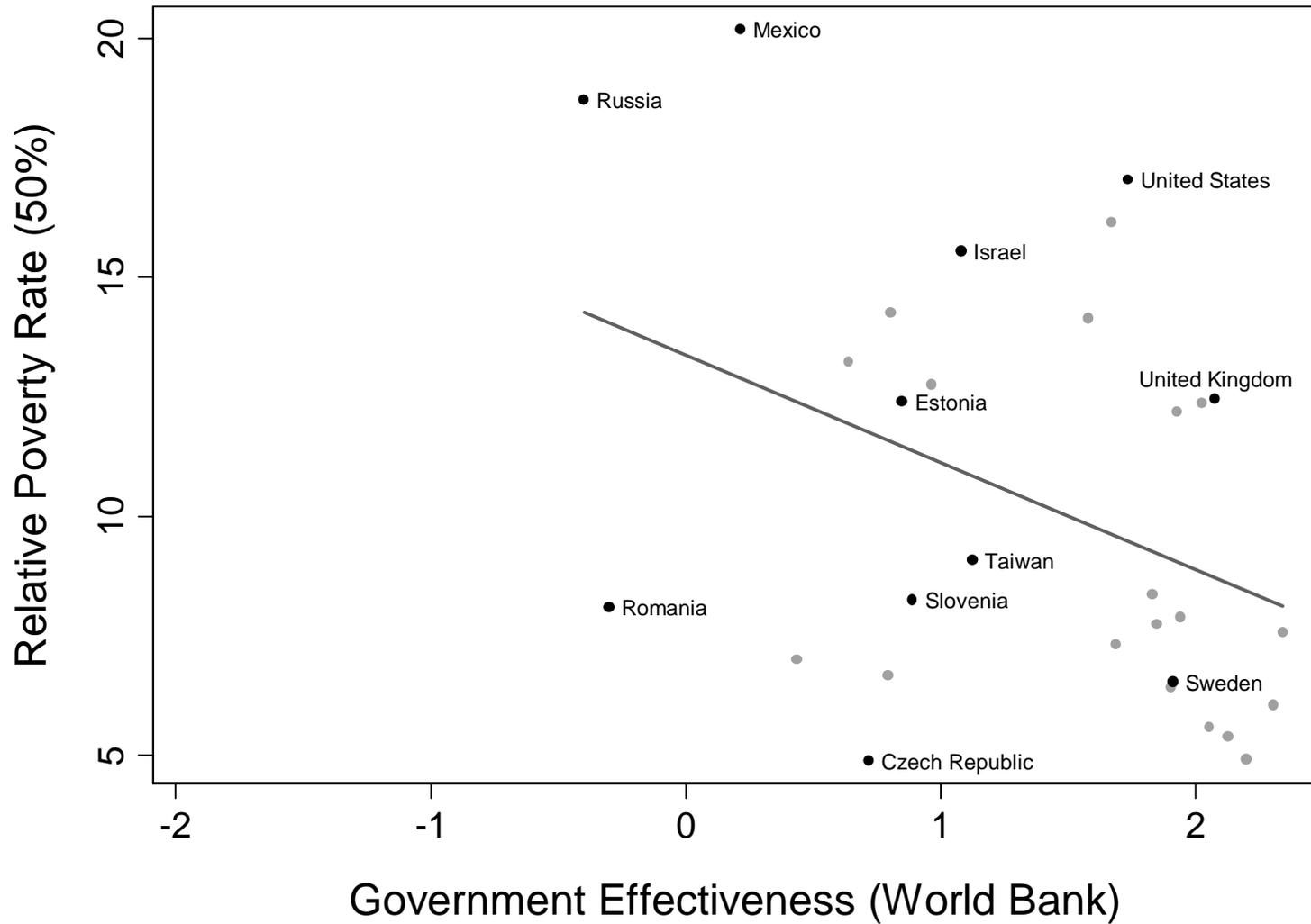
Figure 5
GDP Growth vs. Government Effectiveness



$R^2=0.00$

Source: The QoG Data Bank, Heston et al 2002, (the GDP Growth data pertains to the year 2000), World Bank Governance Indicators 2002

Figure 6
Relative Poverty Rate vs. Government Effectiveness

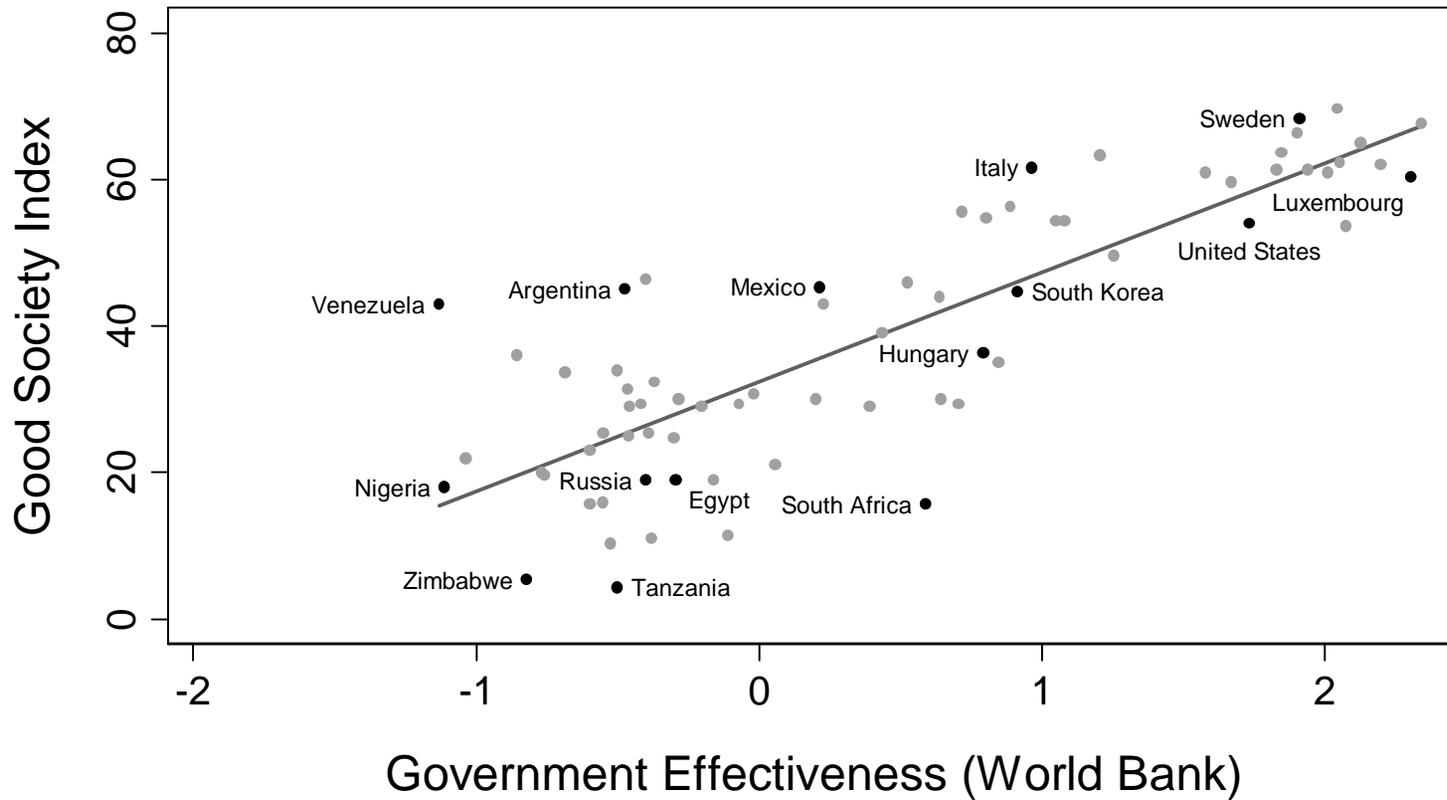


$R^2=0.15$

Source: The QoG Data Bank, Luxembourg Income Study 1996-2004, World Bank Governance Indicators 2002 Percentage of population earning less than 50% of the median income. Mostly OECD countries.

Figure 7

Good Society Index vs. Government Effectiveness



$R^2=0.71$

Source: The QoG Data Bank, Holmberg 2007, World Bank Governance Indicators 2002