

# **EFFECTIVE DEMOCRACY AND PERFORMANCE OF GOVERNMENT**

By

**SEO, JIHYEON**

**THESIS**

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

For the Degree of

**MASTER OF DEVELOPMENT POLICY**

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Professor Jong-Il YOU, Supervisor



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## **ABSTRACT**

Effective Democracy and Performance of Government

By

Ji-hyeon, Seo

Good governance is a common prescription provided for developing countries to grow. However, the current guide on good governance are not only demanding but also skeptical for its effect on growth, therefore many insist reducing it to essential institution. While the dominant view on this discussion is that protection of property right is the core prerequisite, referring to history, quality of government should be the most preceding condition. It is because the former and the other institutions are basically the outcome of government's choice. On that account, this study aims at specifying the factors which have significant impact on quality of government and verifying it by quantitative analysis. The conclusion of the effort is that voice of people is highly relevant to performance of government, thereby to the economic development of countries.

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## **INTRODUCTION**

Regarding the association between good governance and economic growth, the academic views are still on debate. Despite the findings suggested by renowned researchers asserting that “institutions rule”, the doubt over its relationship with growth seems to come from our experience. Growth under imperfect institutions has been witnessed not just in the newly industrialized countries, especially East Asian countries including China, but also in the developed countries at their early stage of development.

In order to deal with the discrepancy between theory and experience, demands has been made for narrowing down core institution to which economic development is fundamentally linked. This attempt ultimately boils down to quality of government enabling at proper choice and action for public. It is because such attribute of government is a starting point of many other good institutions in the form of policies, such as property right security, control of corruption, stability of financial institutions, which can be flexibly operated in each country’s context.

The main question of this paper arises at this point: then, what factors affect the condition under which the governments try to meet public demand?

The rest of this study is going to explore on this issue in this way: In the following literature review, the extensive concept of governance will be broken down and core institution compelling responsiveness of government will be identified. In the next part, empirical analysis is going to be conducted on the relationship between the identified variable and performance of government.

## LITERATURE REVIEW

### 2.1. Good governance and growth: an uncertain relationship

Good governance is generally regarded as a key element for economic development these days. Large volumes of institutions literature (North, 1991; Knack and Keefer, 1995; Acemoglu and Johnson, 2001; Kaufman et al, 2002; Rodrik et al, 2004) have been supporting this theory, since Adam Smith maintained in the *Wealth of Nation* that there is a certain condition of state for commerce and manufactures to thrive.

While definition and extent of good governance vary due to its excessively broad boundaries, Keefer (2004) helps understanding by dividing it into two categories. The first category of governance is about optimal policies or services that government provides to meet citizen’s needs, such as security of property rights, rule of law, control of corruption, financial institutions, modern bureaucracy, and so on. The second category deals with more fundamental dimension such as setting and dynamic in which government actors have incentive to pursue public interest. As Keefer noted, the two are distinctive in the sense that the former is “outcomes” while the latter is “causal”.

**Table 1. Definitions of good governance by international organizations**

“Outcomes” side		“Causal” side	
<b>The US agency for International Development</b>	<i>“maintain social peace, guarantee law and order, promote or create conditions necessary for economic growth, and ensure a minimum level of social security”</i>	<b>The Institute of Governance (Canada)</b>	<i>“the traditions, institutions and processes that determine how power is exercised, how citizens are given a voice, and how decisions are made on issues of public concern.”</i>
<b>World Bank</b>	<i>“building efficient and accountable public sector institutions”</i>		
<b>The International Monetary Fund</b>	<i>More stress on “the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity.”</i>		

Source: Keefer (2004, 4), www.imf.org



Unquestionably, the mainstream governance discussion is more associated with the first category, trying to find a link between economic development and some component of “good governance”, for example, property right protection and growth, or stability of financial institution and growth. It is true that these efforts should receive credit for establishing the widely recognized proposition that good governance is prerequisite for growth.

However, it is also true that many are skeptical about this assertion. The criticism addresses mainly three issues: a) weak explanatory power for reality; b) low reliability of empirical evidence largely resulted from endogeneity; c) poor policy implications.

Regarding the first issue, opponents cast doubt on if good governance really mattered for growth so far. Based on historical evidences, Chang (2001) compares the quality of institution between developed countries at the time of industrialization and developing countries of today. Coverage of institutions in the study is as follows: Democracy (Male suffrage, Universal suffrage); Modern bureaucracy; Modern judiciary; Intellectual property rights (Patent law, Modern patent law, Trademark law); Corporate governance institutions (General limited liability, Bankruptcy law, Modern bankruptcy law, Modern auditing/disclosure, Competition law, Effective competition law; Financial institutions (Modern banking, Central banking, Modern central Banking, Securities regulation, Modern securities regulation, Income tax); Social welfare and labor institutions(Industrial accident institutions, Health insurance, State pension, Unemployment insurance, and Child labor regulation, Modern child labor regulation). The conclusion of this attempt is that “the now developed countries (NDCs) were institutionally *less advanced* compared to the currently developing countries at similar stages of development (Ibid, 28)”. Table 2 presents one of examples to illustrate immaturity of institutions in early times of many NDCs by indicating that they lagged behind in adoption of universal suffrage than developing countries in the sense of income per capita level.

**Table 2. Income per capita at attainment of universal suffrage**

<b>GDP p.c.</b> (in 1990 international dollars)	<b>Now Developed Countries</b> (Year universal suffrage was attained; GDP p.c.)	<b>Developing Countries</b> (Year universal suffrage was attained; GDP p.c.)
<\$1,000		Bangladesh(1947;\$585) Burma (1948; \$393) Egypt (1952; \$542) Ethiopia (1955; \$295) India (1947; \$641) Indonesia (1945; \$514) Kenya (1963; \$713) Pakistan (1947; \$631) South Korea (1948; \$777) Tanzania (1962; \$506)

		Zaire (1967; \$707)
\$1,000-\$1,999		Bulgaria (1945; \$1,073) Ghana (1957; \$1,159) Hungary (1945; \$1,721) Mexico (1947; \$1,882) Nigeria (1979; \$1,189) Turkey (1946; \$1,129)
\$2,000-\$2,999	Austria (1918; \$2,572) Germany (1946; \$2,503) Italy (1946; \$2,448) Japan (1952; \$2,277) Norway (1913; \$2,275) Spain (1931; \$2,713) Sweden (1918; \$2,533)	Columbia (1957; \$2,382) Ireland (\$2,625) Peru (1956; \$2,732) Philippines (1981; \$2,526)
\$3,000-\$3,999	Denmark (1915; \$3,635) Finland (1944; \$3,578) France (1946; \$3,819)	Taiwan, Province of China (1972; \$3,313) Chile (1949; \$3,715)
\$4,000-\$4,999	Belgium (1948; \$4,917) Netherlands (1919; \$4,022)	Brazil (1977; \$4,613)
\$5,000-\$9,999	Australia (1962; \$8,691) New Zealand (1907; \$5,367) Portugal (1970; \$5,885) UK (1928; \$5,115)	Argentina (1947; \$5,089) Venezuela (1947; \$6,894)
>\$10,000	Canada (1970; \$11,758) Switzerland (1971; \$17,142) USA (1965; \$13,316)	

Sources: Chang (2001) recited, {Therborn (1977); Elections (1989); Maddison (1995)}

According to Chang, the western countries in their earlier times seem not to be a model case in terms of good governance. This inconsistency might be explained by some omitted variables existing in early 20th century, or the logic that innovation of institution takes more time than catching it up. If so, what about the other states which succeeded in development in more recent times? Did they meet the criteria of good governance?

It is well known that the development strategies of late-comers (or most of the East Asian countries) were mix of “orthodox” and “unorthodox” ways. It means that they in part followed some principles of good governance such as promoting free transactions, investing in promising industries, and providing decent services to the public while ruling by dictatorship, intervening markets strongly, and tolerating corruptions. After all, it worked very well and countries including China, South Korea, Singapore, Taiwan and Malaysia converged. Through exploring these cases, a contradiction can be noticed intuitively: does the established theory of good governance properly explain the real world?

In fact, many are in doubt about the empirical grounds of good governance researches. Examining Knack-IRIS and Kaufmann-World Bank dataset which was used as government quality indicators in the most cited governance literatures (Knack and Keefer, 1995, 1997; Hall and Jones, 1999; Kaufman, Kraay and Zoido-Lobaton, 1999), Khan(2007) states that it is implausible for the governance

variables to have significant impact on economic growth considering the fact that the median value of governance variables is little different between converging and diverging countries. It suggests that high scores of advanced countries on governance seem to have strong influence on the empirical result. Therefore, endogeneity or reverse causality should be present which hints that it is more likely for wealthier nations to have better governance, rather than the reverse.

Regarding endogeneity issue of institution literatures, Vollrath (2014) identifies “vague measurement of institution” as its cause. That is, even though the methodology to produce the dataset is sound, it is ambiguous to understand the difference of institution between countries based on such governance indices, because the small point gap on a scale of 1 to 10 does not give practical information as to how different the institution between, say, “Luxembourg and South Korea”, or “Liberia and Cuba” is. Moreover, difference in income per capita between countries with low governance score and those with middle score is not statistically significant. However, regressions are conducted without considering this issue, and consequently, it is more likely for noticeable distinction in income per capita to be found only between countries with the lowest governance score and those with the highest score, implying endogeneity.

Institution measurement is vague, not only in terms of index score, but also of explanatory variable selection. With regard to this, Keefer (2004) recognizes that “Knack and Keefer (1995), Acemoglu, Johnson and Robinson (2001), and Rodrik, Subramanian and Trebbi (2002) all argue for the dominant effect of “institutions” on growth, but all use measures of the security of property rights as their measures of institutions.”<sup>1</sup> While insisting that it should be understood as “broader, less well-specified institutional concepts”, Keefer admits that several issues can come up because the governance literature concerns only with one question: “do property owners have protection from the arbitrary confiscation of their assets?”<sup>2</sup> In other words, the main finding of the governance literature is that a country can be more prosperous as the property rights for investors seem to be better protected<sup>3</sup>.

Setting the debate aside whether institution can be represented by security of property rights as a whole, Dani Rodrik and others (2002) agree that this conclusion only provides with weak policy implication. First and foremost, this result does not say about how the property rights should be implemented. Taking comparison between Russia and China as an example, Rodrik et al. discuss the contradiction that investors in China feel more secure about their assets than them in Russia, despite the fact that Chinese maintains socialist legal system while Russian formal system is much more

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<sup>1</sup> 27, Keefer 2004

<sup>2</sup> 15, *ibid.*

<sup>3</sup> The reason why the property rights “for investors seem to be” better protected is that the property rights data from private rating agency like ICRG is based on perception of foreign investors.

conforming to European model. Consequently, it is hard to deduce operational guidance for institutional reform from this finding.

Due to this ambiguity, only the list of good governance to follow suit gets longer and longer. Grindle (2004) makes this point by showing dramatically increasing number of good governance agenda on annual basis<sup>4</sup>, and criticizes that it is too demanding for developing countries to attend them. Besides, this can entail considerable opportunity cost wasting already deficient financial and human resources of developing countries, as Chang (2010) argued.

## 2.2. Shifting the focus: from “outcomes” to “causal”

*The Growth Report* published by World Bank indicates thirteen cases of economic success in postwar period which have achieved “high and sustained growth”, and they are as follows: Botswana; Brazil; China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand (19, 2008)

**Table 3. Thirteen cases of successful economy**

<b>Economy</b>	<b>Period of high growth**</b>	<b>Per capita income at the beginning and 2005***</b>	
<b>Botswana</b>	1960-2005	210	3,800
<b>Brazil</b>	1950-1980	960	4,000
<b>China</b>	1961-2005	105	1,400
<b>Hong Kong, China*</b>	1960-1997	3,100	29,900
<b>Indonesia</b>	1966-1997	200	900
<b>Japan*</b>	1950-1983	3,500	39,600
<b>Korea, Rep. of*</b>	1960-2001	1,100	13,200
<b>Malaysia</b>	1967-1997	790	4,400
<b>Malta*</b>	1963-1994	1,100	9,600
<b>Oman</b>	1960-1999	950	9,000
<b>Singapore*</b>	1967-2002	2,200	25,400
<b>Taiwan, China</b>	1965-2002	1,500	16,400
<b>Thailand*</b>	1960-1997	330	2,400

Source: World Bank, World Development Indicators

<sup>4</sup> According to World Development Report, the number of items which should be done to achieve good governance increased from 45 in 1997 to 116 in 2003. (3, Grindle 2004)

\* Economies that have reached industrialized countries' per capita income levels.

\*\*Period in which GDP growth was 7 percent per year or more

\*\*\*In constant US\$ of 2000.

The 13 successful stories have five points in common: “1) They fully exploited the world economy; 2) they maintained macroeconomic stability; 3) they mustered high rates of saving and investment; 4) they let markets allocate resources; 5) they had committed, credible, and capable governments (21, *ibid*).”

According to the Keefer's division (2004), the former 4 items are comparable to good policies so that fall into the first line of governance, while the last one comes under the second line, quality of government to respond citizen's needs. However, as discussed above, it is hard to say with confidence that there is a fixed direction between the first category governance and growth, because it sometimes fits real world, but sometimes not. Therefore, maybe it is time for the current governance discourse to pay more attention to the second category, in order to be able to explain the economic development under “not so good” governance.

Actually, it is not so difficult to suppose that more responsive governments would formulate and implement right policies in each nation's own context, regardless whether the policies is recognized as “good governance” or not. The report elaborates on this as follows:

*“An economy's endowment of labor, natural resources, and capital dictates its comparative advantage. But this mandate is very broad. The crowded, coastal economies of East Asia, for example, had a comparative advantage in labor-intensive manufacturing. But what line of labor intensive manufacturing, precisely? Using what techniques? Those answers they had to discover for themselves through trial and error. This process of “self-discovery” may have been helped along by the government's hand (25, World Bank 2008.)”*

This should not be read as assuming that a “benevolent government” must exist beforehand as a cure-all and it is a necessary-sufficient condition for good governance. Rather, the gist of the argument is that appreciation of perceptiveness of government on public interest is a reasonable approach to understand its importance as a starting point of good governance, or, more prospects of right choice and action.

### 2.3. A key determinant of responsive government: Voice

The next question must be how to improve government’s responsiveness or quality of government. Again, Keefer (2004) sorted it out properly as well, and table 4 below is the summary of it.

**Table 4. Two perspectives on remedying governance failure**

	<b>Type 1</b>	<b>Type 2</b>
<b>Goal</b>	Making a condition under which government pursue beneficial policies for public	
<b>Root of problem</b>	<i>“flaws in the state apparatus (e.g. public administration)”</i>	Lack of <i>“incentives of political actors”</i>
<b>Solution</b>	Reforms in managerial system (e.g. mandatory participation of citizen in policy making in order to improve accountability; improving recruitment procedures by raising pay and stressing meritocracy and so on)	Changing “the relationship between voters and politicians” (e.g. making voter information better regarding candidate’s performance or pledges; providing with more chance for voters to mobilize and discuss about service delivery issues and so on)
<b>Features</b>	Considerable opportunities for outside assistance.	More fundamental, Comparably less opportunities for outside assistance.

Source: 41-42, Keefer 2004

Referring to this Keefer’s division, it seems to be neutral and rational for the most of external actors to prefer type 1 solution, which deals with amending the procedural aspects of governance. However, more attentions should be turned to the second perspective, considering the repeated criticisms for ineffectiveness and limitations that the dominant first approach faced with, in changing willingness and behavior of rent-seeking regimes.

Indeed, it is about advocating democracy, but fairly different from the conventional way. This paper is with the statement that “democratic rule and true voice can be separate in many times”, as viewed by many political scientists (Beetham,1999; Diamond,1999; Lindert, 2003; Hadenius and Teorell et al, 2005; Coppedge and Gerring et al, 2011).

Due to the inherent complexities of democracy to be defined, maintaining contested election and

universal suffrage are generally regarded as adequate evidence of democratic rule (Przeworski et al., 2000). However, this narrow concept of democracy has long been concerned for missing actual functioning as well. For example, the most renowned index for measuring democracy, Polity IV, marked the United States of America from mid 19<sup>th</sup> to 20<sup>th</sup> century as almost perfect democracy even though the black and women's voice were effectively excluded during this period. Similarly, India keeps on scoring 9 out of 10 points in Polity index despite ongoing but invisible restrictions on marginalized groups such as backward castes and tribes which allow them only a limited role to play in policy making process. According to the Report of the National Commission for Religious and Linguistic Minorities constituted by government of India, OBC (Other Backward Classes) in central government positions comprises less than 10% while they form more than 40% of population. Along this line, Inglehart and Welzel note that "many of the new democracies show severe deficiencies in their actual practice of civil and political liberties" (149, 2005).

In sum, the alternative line tries to capture actual influence of citizens upon public decision making beyond the rights guaranteed only within official documents. Although measuring the abstract operation should be challenging, still this attempt seems worthwhile. Above all, the relationship between democracy and economic development can be more accurately analyzed, because such approach allows broader assumption that reflection of citizen's demands by government matters for growth regardless of regime type. That is, the phenomena can be explained that some autocratic states achieved significant advance in economy while many other authoritarian and even some democratic countries fell behind. With regard to this, Lindert (2003) presents comparative examples of nineteenth-century Germany (Prussia) and India, which respectively represent a prosperous absolutist nation allowing autonomy by local beneficiaries on educational policy and a democratic and poor country restricting influence of lower classes over educational system.

Besides, emphasizing the importance of effective democracy is in the same vein of encouraging use of local knowledge in building institution, as Rodrik (2000) noted. The remark by Chairman Mao Zedong, made after the Great Chinese Famine resulted from excessive control over food distribution, illustrates this convincingly:

*"Without democracy, you have no understanding of what is happening down below; the situation will be unclear; you will be unable to collect sufficient opinions from all sides."* <sup>5</sup>

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<sup>5</sup> Mao Zedong, "On Democratic Centralism: Talk to an Enlarged Central Work Conference 20 January 1962", in Mao Tse-Tung Unrehearsed, edited by Schram, p.146.; 340, Lindert 2003 recited.

## METHODOLOGY

### 3.1. Hypothesis

This paper aims at finding out if there is a significant link between effective democracy and government performance. The methodology of measuring effective democracy refers to “*Governance and Returns of Investment*” (Isham et al. 1995), a World Bank empirical research on the link between civil liberties and Bank-financed project performance. The finding of this study is that “greater civil liberties are strongly associated with greater degree of civil unrest” (22, *ibid*) and in turn, the civil unrest indicators have positive and significant impact on projects’ economic rate of return.

**Table 5. Correlations between indices of civil liberties and civil unrest**

Civil liberties indicators	Civil unrest (all variables adjusted for population effects)		
	Riots	Demonstrations	Strikes
Freedom house (Civil Liberties) (1978-87)	.27 (.00001)	.17 (.0001)	.34 (.0001)
Media Pluralism (1983-87)	.14 (.0011)	.24 (.0001)	.29 (.0001)
Freedom to organize (1983-87)	.30 (.0001)	.29 (.0001)	.36 (.0001)

Source: 23, *ibid*

\* p-levels in parenthesis

The interpretation of this finding is as following:

*“The results support a chain of causation that runs from greater civil liberties to higher levels of the citizen’s involvement- including civil manifestations- and to better projects. This is not to suggest that civil unrest is itself the mechanism: it is more likely that environments in which civil unrest is possible are also those in which other mechanisms for expression of popular (dis)content with government performances are available and effective” (24, *ibid*).*



Within the context above, the civil unrest indicators will be understood as de facto democracy or means of local ownership in this paper, and indicated as Voice. This study is however different from the World Bank research in larger sample size, twenty nine vis-a-vis ninety three countries, and more direct attempt to link the Voice to government performance. There are surely other forms of citizen's action such as media and press or peaceful demonstrations. However, they have been not chosen for two reasons: first, there are no such data covering long enough periods to reflect sufficient time lags; second, "voice with teeth"<sup>6</sup> is supposed to be more influential on government's behaviors.

Also, the impact of international organization membership on government quality will be analyzed as a contrast with Voice, in the sense of that they respectively represent internal and external incentive for government to pursue public interest. The idea of regarding integration to international community as the external forces to impact on government's quality is based on the argument by Chang (2010) that adoption of "better institutions", or so-called Global Standard Institutions is widely recognized as an effective way to improve poor quality of governance in developing countries.

Thus, the hypothesis of this study is as follows: 1) Voice had a significant impact on performance of government; 2) Integration to international community had a significant impact on performance of government.

### 3.2. Statistical analysis model

The basic model of statistic analysis of this paper is as follows:

$$GROWTH_{it} = \beta_0 + \beta_1 GROWTH_{it-10} + \beta_3 VOICE_{it-10} + \beta_4 IOM_{it-10} + \lambda X_{it-10} + \varepsilon_{it}$$

The Dependent Variable,  $GROWTH_{it}$  denotes GDP per capita growth rate (%) for country  $i$  at period  $t$ . The time span of  $GROWTH_{it}$  variable is from 1984 to 2013, but 10 years average is applied to control contemporary event issue. That is, the years are divided and got averaged in this way: 1984-1993; 1994-2003; 2004-2013. Also,  $GROWTH_{it}$  variable is meant to gauge performance of government.

Based on the observation by Chang (2010) that it normally takes at least about 10 years for institutions have impact on growth, 10 years time lags have been set for all the Independent Variables. The time span for the Independent Variables is, therefore, from 1974 to 2003. Average of 10 years is applied as well as the Dependent Variable as following: 1974-1983; 1984-1993; 1994-2003.

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<sup>6</sup> 10, Social accountability, 2013, Governance Global Practice

$GROWTH_{it-10}$  is averaged growth rate of previous 10 years, and inserted in order to control mutual causality. Regarding the concerns for such endogeneity that the citizens of poorer and more repressive nations are more likely to express their discontent, the statistic analysis is designed to control it by adding initial value of government's performance and Polity variable. They are represented by  $GROWTH_{it-10}$  and  $X_{it-10}$  respectively, except  $X_{it-10}$  is for other control variables as well.  $VOICE_{it-10}$ , the variable of interest, stands for the civil unrest indicators, "Strikes" and "Riots".  $IOM_{it-10}$  is for level of International Organization Membership, representing adoption of best practice. Lastly,  $\varepsilon_{it}$  is error term.

### 3.3. Data and model specifications

#### 3.3.1. Dependent Variable

GDP per capita growth (%) is used to gauge performance of government.

#### 3.3.2. Independent Variables

The Voice variables such as 'Strikes' and 'Riots' are collected from Bank's Cross National Time Series Data (CNTS) Archive, following the methodology of the World Bank paper (1995). The data set from the CNTS has a substantial advantage in its large coverage of time and nations, both are over 200 years and 200 countries.<sup>7</sup> This feature of the data set enables the research consider sufficient time lags between the Voice and government's performance. With regard to the variable of Integration to international community, The KOF index of Globalization (2014) has been used and the details about construction of the index can be referred to appendix 2.

The reference of Control variables, which represent influential economic factors on GDP growth, is "Determinants of economic growth" by Robert J. Barro (1998), and they are as following: Initial GDP; Net value of TOT (terms-of-trade); FDI/GDP(%); Inflation; and Investment. In addition, Institutions variables that are commonly acknowledged as growth factors are added: Literate (%); Rule of Law; Property Right; and Polity. Particularly, the variable of Polity can be understood as a proxy of procedural democracy.

In respect to Dummy, Region Dummy of East Asia, Latin America, and Sub-Saharan Africa have been applied in OLS-dummy model. Instruments have also been applied in Three-stage Least Square (3SLS) model. This methodology refers to J. Barro (1998), in which average earlier value of

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<sup>7</sup> <http://www.cntsdata.com/>

instrument variables is employed as follows: GDP; Literacy rate; Net TOT; Investment; Polity; and Rule of Law, all in average of previous 5 years values.

### 3.3.3. Models

Four models have been utilized: 1) OLS; 2) OLS with region dummies; 3) Fixed Effect model; and 4) Three-Stage Least Square model.

## EMPIRICAL RESULTS

### 4.1. Data description

As presented below, the fluctuation is also wide enough for the most of variables, but the Voice variables have somewhat small standard deviation.

**Table 6. Data description**

VARIABLES	Obs.	Mean	Std. Dev.	Min	Max
<b>Dependent variable</b>					
GDP per capita Growth (%)	294	5.46	4.69	-11.47	18.72
<b>Independent variables</b>					
Initial GDP	292	7222	11390	122	75609
Net TOT	251	109.12	29.15	27.36	277.17
FDI/GDP (%)	276	3.38	5.38	-2.26	64.90
Inflation	284	39.41	212.28	-2.26	2891.75
Investment	283	22.36	5.97	6.29	44.98
Literate	291	80.4	21.43	10.91	101.9
Rule of Law	288	3.69	1.44	0.56	6.00
Property Right	196	3.03	0.70	0.50	4.00

Polity	291	3.67	6.58	-10.00	10.00
Strikes	294	0.17	0.34	0.00	2.10
Riots	294	0.39	1.04	0.00	12.60
International Org. membership	291	66.68	19.22	19.87	97.24
<b>Instruments</b>					
GDP_iv	292	5467	8070	113	49364
School_iv	294	0.07	0.03	0.00	0.14
Rule of Law_iv	288	3.61	1.47	1.00	6.00
TOT_iv	209	112.37	37.14	43.23	453.08
Polity_iv	290	2.27	7.33	-10.00	10.00
Investment_iv	273	23.13	7.02	6.29	66.06

## 4.2. Empirical results

**Table 7. Regressions for per Capita Growth rate**

Dependent Variable: GDP (per capita) Growth (%)				
Independent Variables	(1) OLS	(2) OLS_dummy	(3)Fixed Effect	(4) 3SLS
Initial GDP	-0.000*** (0.000)	-0.000*** (0.000)	-0.000** (0.000)	-0.000** (0.000)
Net TOT	0.060*** (0.009)	0.061*** (0.009)	0.073*** (0.013)	0.055*** (0.008)
FDI/GDP (%)	0.105** (0.042)	0.106** (0.042)	0.105 (0.089)	0.108*** (0.040)
Inflation	-0.025*** (0.007)	-0.026*** (0.007)	-0.031*** (0.011)	-0.014 (0.011)
Investment	0.060	0.041	-0.116	0.079*

	(0.046)	(0.051)	(0.108)	(0.045)
Rule of Law	-0.226	-0.330	-1.377	-0.402
	(0.267)	(0.305)	(0.849)	(0.287)
Property Right	-0.082	-0.102	0.916	-0.572
	(0.544)	(0.550)	(1.259)	(0.545)
Polity	0.044	0.060	0.185	-0.022
	(0.054)	(0.057)	(0.245)	(0.054)
Literate (%)	0.069***	0.064***	0.064	0.065***
	(0.016)	(0.020)	(0.093)	(0.016)
Strikes	-3.573***	-3.464***	-3.889**	-3.206***
	(1.018)	(1.065)	(1.758)	(0.964)
Riots	1.530***	1.442**	2.261*	0.995*
	(0.564)	(0.578)	(1.146)	(0.569)
International Org.	0.031*	0.027	0.101	0.042**
Membership	(0.017)	(0.019)	(0.064)	(0.018)
GDP_iv				1.369***
				(0.029)
Literate_iv				3.334
				(11.925)
Rule of Law_iv				528.689**
				(216.397)
TOT_iv				14.956
				(11.101)
Investment_iv				-2.927
				(34.330)
Polity_iv				13.531
				(37.963)
Dummy_EastAsia		0.677		
		(1.134)		
Dummy_LatinAmerica		-0.559		
		(0.850)		
Dummy_SSA		-0.625		
		(0.880)		
Constant	-7.995***	-6.405**	-9.293	-6.552***
	(2.277)	(2.901)	(9.239)	(2.435)
Observations	182	182	182	143

R-squared	0.457	0.460	0.530	0.476
Number of panel	93	93	93	93

Standard errors in parentheses

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

The result shows that there is a significant relationship between government performance and the following explanatory variables: Initial GDP; Net TOT; FDI/GDP(%); Inflation; Literate (%); and the Voice variables, Strikes and Riots. The consistent results of the well-known determinants for growth, such as Initial GDP; Net TOT; FDI/GDP(%); Inflation; Literate (%) contribute to confidence of this statistical analysis. Also, the mutual causality that richer countries allow more civil liberties seems to have been effectively controlled by the insertion of Initial GDP.

Among the irrelevant variables whose p-value is not significant, the finding related to Polity variable is similar to the result of the World Bank reference (1995), despite the use of data from different sources: the Center on Institutional Reform and the Informal Sector (IRIS) for the World Bank and Polity IV for this study. The conclusion of the reference was that there is no clear pattern between political regime type and project returns, except for the extreme comparison between the most democratic and the most autocratic regimes.

Against to this backdrop, the variables of interest, Strikes and Riots both have significant impact on performance of government, but to opposite directions. The negative effect of Strikes on growth can be interpreted that the economic loss on businesses resulted from strikes was much larger than benefit produced by government's improved operation. On the contrary, the coefficient of Riots is positively significant, which supports this paper's main hypothesis that citizen's voice has a meaningful influence on performance of government.

Meanwhile, the result related to International Organization Membership on government's performance is mixed. It is statistically significant in OLS and 3SLS models at 10% and 5% significance level respectively. The fact that the IOM variable lost its significance in OLS with Region dummies and Fixed effect models allows an assumption that the improvement of governance seemingly resulted from best practice adoption stemmed actually from region-specific characteristics.

## **LIMITATIONS**

Although the main purpose of this study had been set to see the influence of citizen's voice on performance of government, the unspecified channel between them is a major limitation of the discussion. With regard to this, the result that Literate (%) variable was statistically significant may have partially associated with the proposition that Education policy is the channel which suggested by Lindert in "Voice and Growth" (2003). Even then, further research is necessary to identify the proxy of government's responsiveness to voice by public.

In addition, several questions are expected to be raise which mostly deals with the basic assumption of this study: why should public uprisings represent the actual functioning of democracy? Is this making the argument that the reason for underdevelopment of nations is lack of protests?

As commented in the first part of Methodology, the selection of proxy for effective democracy is based on the reasoning by the World Bank research (1995) that regards the condition under which more public complaints can be made as the more enabling setting for citizens to speak up. However, it seems that there are needs for the development of more decent index measuring actual functioning of democracy with more sufficient time and country coverage than the existing ones, in order for this argument to be generalized. Moreover, variable of government's capacity in terms of bureaucratic quality is absent in the analysis due to limited data. If such variable is included, the analysis would be more balanced.

## **CONCLUSION AND POLICY IMPLICATION**

The ongoing controversy on whether governance matters for economic development of countries seems to be arisen from the discrepancy between the established theory and the real world. That is, the countries under "not so good" governance achieved great economic success not only in case of recently developed countries but also advanced countries at the age of their industrialization. This gap leads to a reasonable inference that not all the good governance matters, but only few of them are invariantly important for growth.

Keefer (2004)'s division of governance dimension is useful to map this subject. The most of institutions that are commonly listed as good governance including security of property rights; law and order; stability of financial institutions; control of corruption belong to the "Outcomes" category of institutions which are granted by the authorities concerned. However, many scholars point out that it is not only impossible to follow the list completely, but also it should be in varied forms depending

on each country's context.

In this respect, it is requested to explore the other side, the "Causal" dimension of governance, which concerns the decision making process of government to meet public demands. Shifting the focus on the Causal governance is important because it can be an alternative to exhausted efforts by external contributors aimed at amending governance of rent-seeking regimes.

The following discussion on how to improve such governance also can be divided into two categories: one is reform of administrative system; and the other is enforcing incentive for political actors. This study focuses the latter category, because it is the right direction for self-sustainability of recipient countries.

Evidently the discussion has to progress to praising democracy as the force to compel proper choice of policies and action by government. However, people under the democracy only guaranteed in procedure and law cannot exert such influence on their ruler. For this reason, this paper placed an emphasis on democracy in practice rather than that in documents. Along this line, it conducted empirical analysis on the relationship between effective democracy and performance of government. The finding of the analysis is that effective democracy may have an impact on government's performance in positive way.

As widely accepted, democracy has a paradoxical nature that too much of it also causes many drawbacks as the deficiency of it does. However, promoting effective democracy in developing countries seems more reasonable approach than expecting their executive and the elites to be motivated leaders by themselves in passive way.

To that end, first of all, more sensitivity is required to the inconsistency between procedural democracy and de facto democracy. Otherwise, repressed voice cannot be heard ever while misinterpretation can be widespread that democracy and performance of government are irrelevant for each other.

In addition, dealing with bottleneck for repressed voice can be understood in the framework of governance improvement. Hence, the related work can fall together into the category, such as Human capital development, Local ownership, Decentralization and so on.



## APPENDIX

### 1. Country Coverage of the Data Set

#### Country coverage

Albania Algeria Argentina Australia Austria Belgium Bolivia Botswana Brazil Bulgaria Cameroon  
 Canada Chile China Colombia Congo Costa Rica Cuba Cyprus Denmark Dominican Republic  
 Ecuador El Salvador Finland France Gabon Gambia Ghana Greece Guatemala Guinea Guyana Haiti  
 Honduras Hungary India Indonesia Iran Iraq Ireland Israel Italy Jamaica Japan Jordan Kenya  
 Korea, DPR Korea, South Kuwait Lebanon Liberia Libya Luxembourg Malawi Malaysia Mali  
 Mexico Mongolia Morocco Myanmar Netherlands New Zealand Nicaragua Niger Nigeria  
 Norway Pakistan Panama Paraguay Peru Philippines Poland Portugal Romania Saudi Arabia  
 Senegal Sierra Leone Singapore Somalia South Africa Spain Sudan Sweden Switzerland Syria  
 Taiwan Tanzania Thailand Togo Trinidad & Tobago Tunisia Turkey Uganda United Kingdom  
 United States Uruguay Venezuela Zambia

### 2. Definitions and sources of variables used in regression analysis

<b>Variables</b>	<b>Definitions and constructions</b>	<b>Sources</b>
<b>GDP pc growth</b>	Percent annual change of Gross Domestic Product Per Capita (1984-2013): IMF national currency figure converted to \$US on basis of prevailing market rate; UN Statistical Yearbook. New York: United Nations, 1950-.	Banks, Cross National Time Series Data Archive
<b>Initial GDP per capita</b>	Gross Domestic Product Per Capita (1979-2013): IMF national currency figure converted to \$US on basis of prevailing market rate; UN Statistical Yearbook. New York: United Nations, 1950-.	Banks, Cross National Time Series Data Archive
<b>Net TOT</b>	Net barter terms of trade index (2000 = 100)	World Bank
<b>FDI/GDP</b>	Foreign direct investment, net inflows (% of GDP) (1984-2013)	World Bank
<b>Inflation</b>	Inflation, GDP deflator (annual %)	World Bank

<b>Investment</b>	Gross capital formation (% of GDP) (1979-2013)	World Bank
<b>Literate (%)</b>	Percent Literate : “On the basis of nonliterate, 15 years of age and over. Literacy is defined in the UN Demographic Yearbook (from which most of the post-World War II data are extracted) as "ability both to read and to write".”	Banks, Cross National Time Series Data Archive
<b>Rule of Law</b>	“Law and Order” form a single component, but its two elements are assessed separately, with each element being scored from zero to three points. To assess the “Law” element, the strength and impartiality of the legal system are considered, while the “Order” element is an assessment of popular observance of the law (1984-2013)	ICRG, the PRS group
<b>Property Right</b>	Component “Contract Viability/Expropriation”. This is an assessment of factors affecting the risk to investment that are not covered by other political, economic and financial risk components. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk. (1984-2013)	ICRG, the PRS group
<b>Polity</b>	Computed by subtracting the AUTO score from the DEMOC score; the resulting unified polity scale ranges from +10 (strongly democratic) to -10 (strongly autocratic). (1979-2013)	Polity IV Project 2013
<b>Strikes</b>	“Any strike of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority” (1984-2013): The New York Times and other periodicals.	Banks, Cross National Time Series Data Archive
<b>Riots</b>	“Any violent demonstration or clash of more than 100 citizens involving the use of physical force” (1984-2013): The New York Times and other periodicals.	Banks, Cross National Time Series Data Archive
<b>International Organization membership</b>	Numbers added of “Absolute number of embassies in a country; Absolute number of international inter-governmental organizations; Personnel contributed to U.N. Security Council Missions per capita; Any document signed between two or more states and ratified by the highest legislative body of each country since 1945. Not ratified treaties, or subsequent actions, and annexes are not included. Treaties signed and ratified must be deposited in the Office of Secretary General of the United Nations to be included.” (1984-2013)	KOF index of Globalization 2014

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