

# Governance and Socioeconomic Performance

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**Keywords – policy, government effectiveness, development**

## I. INTRODUCTION

There are wide discussions on the causes of the differences in the economic performance. Recent studies have stressed out the crucial role of institutions – formal and informal constraints that shape human interaction. It has been argued that such factors as innovation, economies of scale, education and capital accumulation are not the causes of growth, but the growth itself, and that institutions are the fundamental cause of differences in the economic performance [2].

Equation (f.v.1) shows policy (p) as a flow variable and institutional quality (I) - as a stock variable;  $i$  denotes dimension of policy,  $\alpha$  – the impact of policy on institutional quality and  $\delta$  - the rate at which institutional quality decreases absent countervailing action [1]. Thus the government may change institutions and consequently the socioeconomic performance. Therefore the aim of this article is to evaluate the influence of governance – traditions and institutions by which authority in a country is exercised [6] – on the socioeconomic development.

## II. DATA AND METHODS

To measure the level of governance we used World Bank's Worldwide Governance Indicators (voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; control of corruption) and to measure the level of socioeconomic performance – indicators such as GDP per capita, unemployment, life expectancy at birth, public expenditure, school enrollment (tertiary) and GINI index. The analysis was done by calculating correlation and regression coefficients. It covers up to 202 countries on the world scale and 34 countries on the European scale. To cross-check the results, the analysis was also performed to such groups of countries as factor-driven economies, efficiency-driven economies and innovation-driven economies.

## III. RESULTS

### C. The results on the World and European scale

Correlation analysis shows that the governance indicators closely correlate with such socio-economic performance indicators as GDP per capita and life expectancy at birth – states with higher governance level have higher GDP per capita and higher life expectancy at birth. On the world scale governance indicators also closely correlate with public expenditure and tertiary school enrollment – states with higher governance level have higher public expenditure and tertiary school enrollment. On European scale governance indicators closely correlate with unemployment and GINI index – states with higher governance level have lower unemployment and GINI index (f.v. Table 8). Regression analysis shows that the level of governance may account for more than 50% of differences in such socioeconomic performance indicators as GDP per capita and unemployment. Governance indicators may account also for significant changes (more than 40%) in life expectancy at birth and GINI index (Table 9).

TABLE 9

REGRESSION RESULTS ON WORLD AND EUROPEAN SCALE

| Indicators                                  | GDP per capita | Unemployment | Life expectancy at birth | Public expenditure | School enrollment (tertiary) | GINI index |
|---|----------------|--------------|--------------------------|--------------------|------------------------------|------------|
| Voice and accountability                    | E**            |              | E**                      | P**                | P*<br>E*                     |            |
| Political stability and absence of violence |                |              |                          |                    |                              | -<br>E***  |
| government effectiveness                    | P**            |              | P**                      |                    | P**                          | -E*        |
| regulatory quality                          |                |              | -E**                     |                    |                              | E**        |
| Rule of law                                 | P**            | -P**         |                          |                    |                              | -<br>P***  |
| Control of corruption                       |                |              |                          |                    |                              |            |
| R2 (W)                                      | 0,621          | 0,777        | 0,448                    | 0,322              | 0,371                        | 0,406      |
| R2 (E)                                      | 0,963          | 0,563        | 0,732                    | 0,100              | 0,198                        | 0,568      |

E – Europe, W – World, \*\*\*p<0,01, \*\*p<0,05, \*p<0,10

Based on the results of analysis, we may assume that the significance of specific governance indicators on the socioeconomic performance depends on the state's level of socioeconomic performance. Thus in countries with lower socioeconomic performance rule of law is of the highest significance, whereas in more developed countries government effectiveness and voice and accountability prevail (f.v. Picture 4).

### D. The results on the three groups of countries

The results of the regression analysis in such groups of countries as factor-driven economies, efficiency-driven economies and innovation-driven economies partly approve the above mentioned assumption on the significance of specific governance indicators on the socioeconomic performance. Government effectiveness has a significant influence on the socioeconomic performance in all the groups of countries, voice and accountability – in efficiency-driven economies, whereas rule of law and regulatory quality – in factor-driven economies.

## IV. CONCLUSIONS

The results of the analysis approve that governance plays an important role in state's socioeconomic performance. Investments in the governance and especially government effectiveness will bring socioeconomic benefits to the state and its inhabitants.

## V. REFERENCES

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