

How to improve the quality of institutions and governance at the country level

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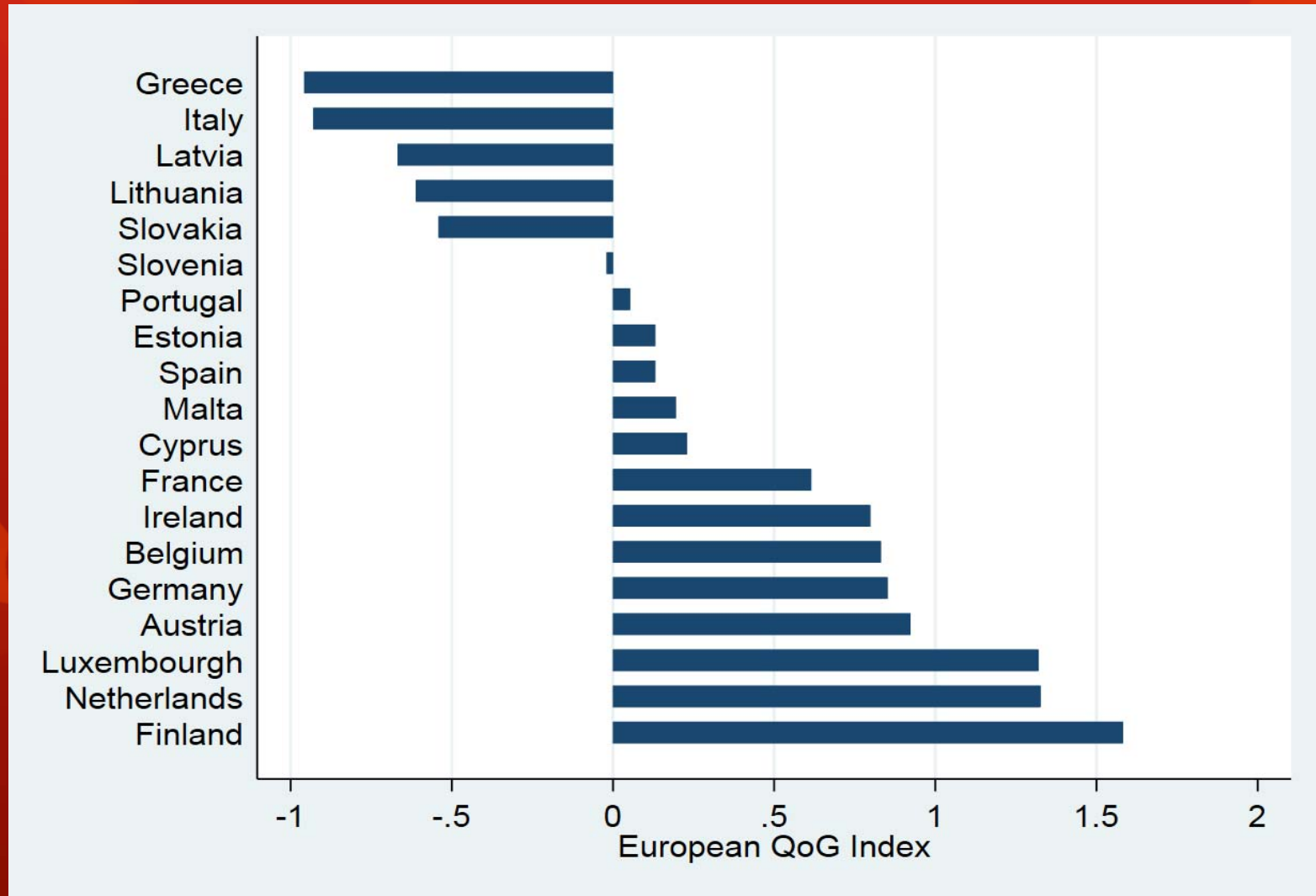
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Why Quality of Government?

- Dani Rodrik at the IMF 1999:
- “The encounter between neo-classical economics and developing societies served to reveal the institutional underpinnings of market economies. A clearly delineated system of property 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...**”

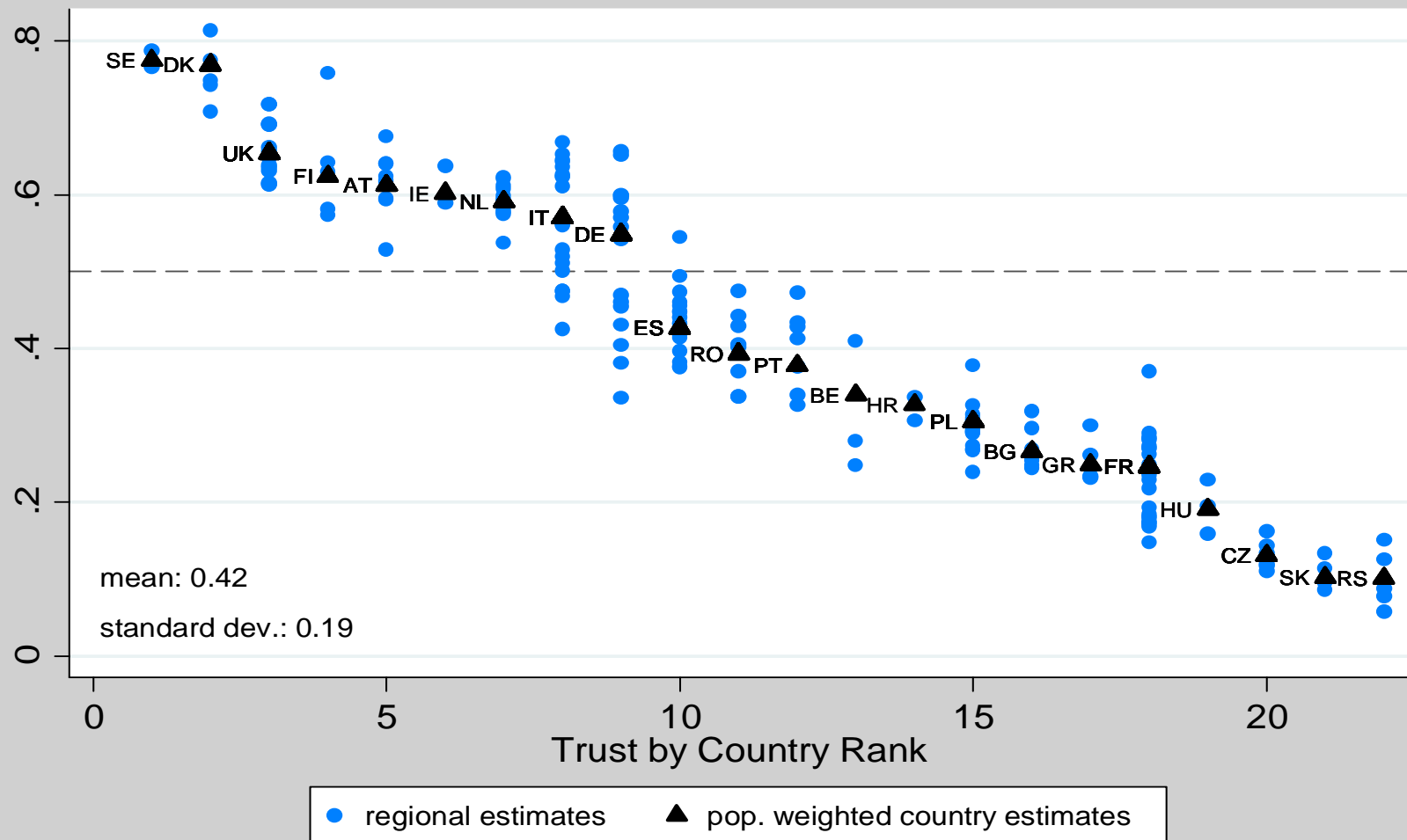
Huge variation in institutional quality in Eurozone countries



Source: "European Quality of Government Index", from the Quality of Government Institute Regional data (www.qog.pol.gu.se)

Huge variation in social trust

Social Trust in 22 European Countries and Regional Variation



Source: "European Quality of Government Index", from the Quality of Government Institute Regional data (www.qog.pol.gu.se)

Causality runs from trust in “delivering institutions” to social trust

- The general trust question should be understood a measure of how people evaluate the general moral standard of their society
- Doing this, people make inferences from the impartiality, competence and honesty of public officials they encounter to “people in general”.
- Quality of Government (QoG) is a highly robust predictor of aggregate levels of social trust at the regional level, both within and across countries.
- Compared with the other “usual suspects” the regional QoG index is the strongest and most robust predictor of individual level social trust
- The effects of ethnic diversity on social trust becomes negligible when controlling for the level QoG

Anti-corruption: What are the results?

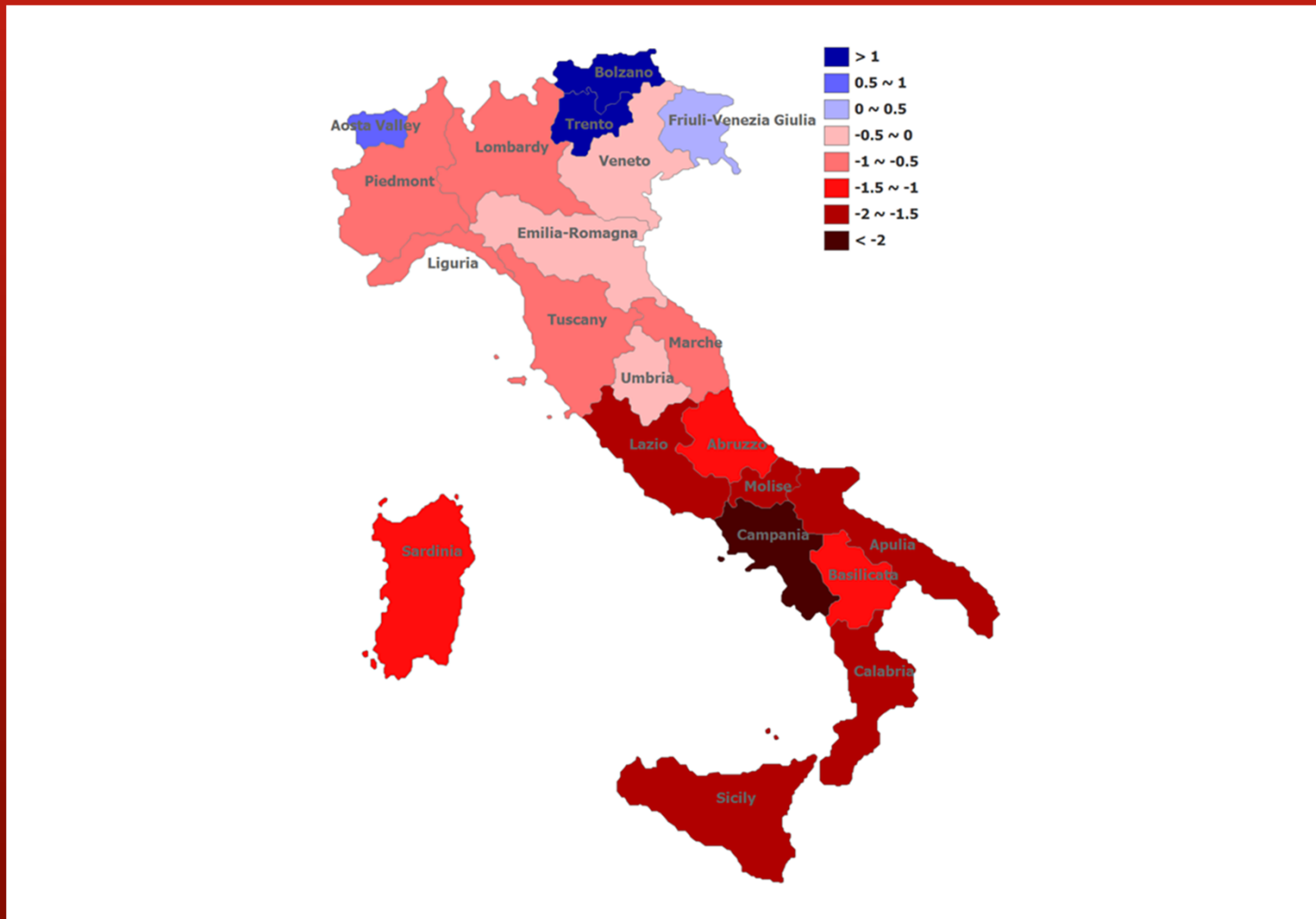
- "By and large, the evaluations piling up after the first fifteen years of anti-corruption work showed great expectations and humble results" - Alina Mungiu-Pippidi (2015)
- the international development and aid community "would like to turn Afghanistan, Somalia, Libya and Haiti into idealized places like 'Denmark' but it doesn't have to slightest idea of how to bring this about" - Francis Fukuyama (2014)
- "success stories are depressingly thin on the ground" (Dan Hough 2017)
- There are countries that have improved (Georgia, South Korea, Taiwan, Indonesia....) but none of these have been initiated by donor organizations
- EU structural funds seems to have increased the problem of corruption in the Czech Republic and Hungary (Mihály Fazekas and Lawrence P. King).

A Theoretical Failure?

The Principal Agent Theory:

- Agents seen as rational self-interested utility maximizers
- Honest Principal need to employ agents that must be given discretionary power. The agents will use their power for their own instead of acting in the principals (public good) interest
- Problem can be fixed by having the Principal carrying out change of incentive structure for the opportunistic agents (more and stricter law)
- When fear of being caught exceeds greed, things will go well
- But then who should be the honest (common good oriented) principal?
- A theory built on “ghost” is an intellectually unhealthy theory

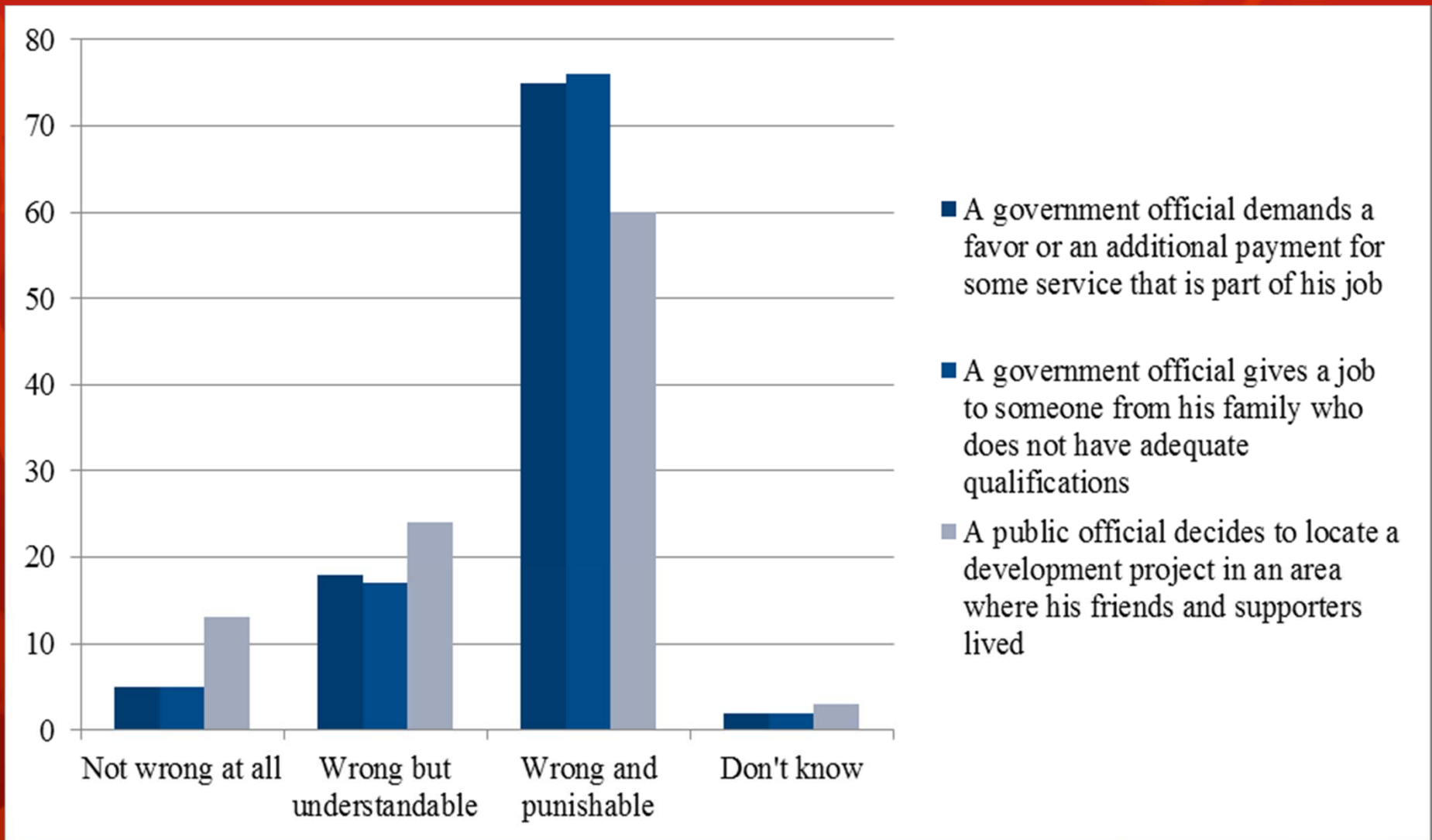
Variations in institutional quality in regions in Italy



An alternative: The Collective Action Approach

- Actors strategies are neither based on self-interest nor on altruism
- Reciprocity is the most common type of behavior
- “What agents do, depends on what they think that most other agents will do”
- Corruption should be seen as a self-reinforcing equilibrium
- Change requires that perceptions about expectations of others must change
- This requires a different type of policies than tinkering with incentives

Are the economists and anthropologists right? Is it in the culture?



If neither formal institutions nor culture,
then where is the problem located?



SOP:s can be changed by strong signals (credible committments)

- Examples with reasonable empirical backing are:
- Universal and free education
- Meritocratic recruitment to the civil service
- Policies for increased gender equality
- Professional auditing of public finances and services
- Impartial and competent administration for tax collection
- Increasing training in critical/ethical thinking in all forms or higher education

The take home message

- The causality is this: No structural reforms can be implemented with low quality of institutions
- To address a social/economic problem like low QoG, you need to have a correct theory
- And you need to have a correct definition of the problem
- And you need to know where the problem is located
- And you need to take the problem seriously
- All this has so far been (for the most part) lacking