Quality of Government: What You Get

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Abstract

In development policy, international organizations have shifted their focus to the importance of good governance and sound institutions. The theory behind this is that only with a high quality of government (QoG) can a country reap the benefits of economic growth and social development. We review the research behind this policy shift and offer a first benchmark statistical analysis. The first section contains a review of the conceptual discussion of what QoG means. Second, we present four salient approaches pertaining to the outcomes of QoG: the debates concerning QoG and democracy, economic growth, corruption, and the rule of law. The third section uses insights gained from these debates to focus on the policy outcomes of QoG—its effects on social well-being, public health, and environmental sustainability. We conclude by discussing possible pitfalls in future research on QoG and development.

INTRODUCTION

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 (QoG) can a country reap the benefits of economic growth and social development. In this article, we present a review of this research as well as a first basic benchmark empirical analysis of the bivariate relationships between three widely used measures of QoG (the World Bank's Government Effectiveness Index, its Rule of Law Index, and Transparency International's Corruption Perceptions Index) and 22 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 (Teorell et al. 2008). Our central question is simple: Does QoG matter?

The 2000 United Nations Millennium Declaration identifies good governance as a requirement for countries to foster economic development and reduce poverty (United Nations 2000, para. 13). The 2002 U.N. Human Development Report singles out democracy as a particularly important feature of good governance. It states, "For politics and political institutions to promote human development and safeguard the freedom and dignity of all people, democracy must widen and deepen" (UNDP 2002, p. 1). However, the report also warns, "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" (UNDP 2002, p. 3). This warning was expanded in the 2003 Human Development Report. Although still championing good governance and the importance of democratic institutions, the 2003 Report states that such reforms on their own are not sufficient for fostering economic growth and equitable development (UNDP 2003, p. 76). A closer look at data from the Human Development Index (HDI) shows that in the 1990s, a time of democratization and reform, 21 countries saw a fall in their HDI ranking (a measure of health, education, and 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 (Economist 2003).

The complex conceptual and empirical relation between QoG and economic and social development is manifest in discussions about whether the effects of good governance are in fact as important as the international policy community presumes. Critics have claimed that the benefits of good governance have been overstated. 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, some studies show that a high QoG leads to greater income inequality (Lopez 2004), whereas other studies show the reverse (Gupta et al. 1998). The differences stem partly from the authors measuring different aspects of good governance. The Lopez study uses the International Country Risk Guide (ICRG) index as a measure of its governance variable; Gupta et al. use six different indexes 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 on the definition of the term.

This article therefore begins by reviewing the conceptual discussion of what QoG means. Next, we present four salient debates within the field of good governance: those concerning democracy, economic growth, corruption, and the rule of law. We then use the insights from that discussion to focus on the policy outcomes of QoG in the fields of social well-being, public health, and environmental sustainability. In addition to reviewing previous studies on these topics, we present our own empirical analysis.

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

We conclude 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. (Kaufmann et al. 1999, p. 1)

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 measurements are used in a large number of studies. Some studies focus on one of these categories while others incorporate them all.

However, one criticism of the World Bank's Governance Database is that the data are largely based on perceptions and thus lack objectivity. This leaves open 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 QoG should be defined according to a set of objective outcomes. Perhaps, for example, a country's QoG should be rated on the basis of such measures as literacy levels, school persistence rates, medical services, state of law and order, and civil society empowerment (Rotberg 2007, p. 154). 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 the concept unworkable. 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 et al. (2006, p. 4) as "the nature and extent of social and economic divisions within society." However, as Persson (2008) has shown, social cohesion may be a (very important) result of QoG and should in that case not be a part of its definition. Another problem with the World Bank's definition is that it gives no indication as to what aspect of governance matters most with regard to both the access to power and the exercise of power. Moreover, the World Bank's definition cannot effectively distinguish good governance from liberal democracy (Rothstein & Teorell 2008).

Thus, in general terms, because researchers and practitioners have not yet arrived at a standard definition of what good governance (or QoG) is, different studies adopt different interpretations, generating a risk that researchers will employ definitions that best support their theory. For instance, studies that show a link between good governance and economic growth may emphasize regulatory quality over other aspects of QoG (Roy 2005). Therefore, when evaluating studies on the real-world effects of QoG, it is important to keep in mind which approach to good governance is in focus.

However, the measurement problem may not be as difficult as the discussion above indicates since three widely used indexes of QoG correlate at the 0.90 level. These three indexes are the World Bank's Government Effectiveness Index, its Rule of Law Index, and Transparency International's Corruption Perceptions Index. For a few countries there are interesting differences, but the general impression is that these variables closely go hand in hand. (See **Supplemental Table 1**: Follow the **Supplemental Material link** from the online version of this article or from **http://www.annualreviews.org/**.)

Supplemental Material

The Democracy Debate

Civil liberties and democracy are often championed as the 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 (Deininger & Mpuga 2005, p. 171). Or to use Hirschman's words, "while markets create managerial discipline and induce efficacy through the exercise of choice, governments are principally disciplined through the exercise of voice" (quoted by Isham et al. 1997, p. 222). Empirical research on this topic, however, is rather mixed.

Several studies show a link between civil liberties and democracy on the one hand, and better development outcomes on the other (Halperin et al. 2004). For example, a World Bank study concludes that the greater respect for civil liberties a country has, the better is the performance in terms of the economic rate of return 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 (Isham et al. 1997, p. 237). 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 & 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 that 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" (Deininger & Mpuga 2005, p. 183). It is thus argued that citizen empowerment is the key to creating effective institutions.

The problem is that empirically, there is no straightforward relationship between establishing 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 & Jackman 2002, Sung 2004). Empirical research indicates that some of the worst cases of corruption have appeared in newly democratized countries, such as Peru under its former president Fujimori (McMillan & Zoido 2004).

This issue—that electoral democracy does not necessarily lead to increased QoG—was raised at a conference held in 2007 to celebrate the twenty-fifth anniversary of the United States-based National Endowment for Democracy. At this conference, the spectacular success of democratization around the world was lauded. However, Larry Diamond, one of the most prominent scholars in the field of democratization studies, stated that democracy today is haunted by the specter of bad governance, which he defined as "governance that is drenched in corruption, patronage, favoritism, and abuse of power" (Diamond 2007, p. 119). Furthermore, he argued 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 clientelism or endemic corruption. If corrupt practices are "deeply embedded in the norms and expectations" of how political and economic exchanges are perceived, improvement will require nothing less than "revolutionary change in institutions" (Diamond 2008, p. 120). Here, Diamond echoes Romanian political scientist Alina Mungiu-Pippidi, who has leveled a similar criticism against, for example, efforts by the European Union to curb corruption in former Eastern European countries. She argues that because bad governance is deeply entrenched in a "particularistic" political culture, the often very technical measures that have been launched do not reach the root of the problem. According to her, the root of the problem is the lack of a "norm of universalism" in political culture (Mungiu-Pippidi 2006, p. 87). Finally, 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 still are not democracies (Uslaner 2008).

The Economic Growth Debate

The argument about the relation between QoG and economic growth comes from a variety of sources. One is what Nobel Laureate economist Douglass C. North has called "the institutional revolution." North has not focused exclusively on the importance of legal or semilegal 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" (North 1998; see North et al. 2006). Thus, North's arguments are closely related to theories that stress the role of the basic political and social culture/norms in a society.

Development scholars in political science and economics have also contributed significantly to the institutional revolution. The idea that efficient markets could be created only by deregulation and/or privatization has not fared well. "Shock-therapy" capitalism has, to put it mildly, run into problems because its proponents did not pay adequate attention to the need for institutions that would hinder fraudulent, anticompetitive, and other similar types of behavior (Kornai et al. 2004). If, for example, public contracts are given only to economic agents that are well-connected, belong to a specific ethnic group, or have paid bribes, the economy is likely to suffer. Similarly, if workers who are threatened by unemployment have no social protection nets (unemployment benefits, opportunities for vocational training, etc.), they or their unions may prevent rationalization and structural change of the economy. This problem has been captured by economist Dani Rodrik (2007, p. 153): "the encounter between neo-classical economics and developing societies served to reveal the institutional underpinnings of market economies." Among such institutional underpinnings, Rodrik lists a well-specified system of property rights, effective regulation that hinders monopolies to dominate markets, uncorrupted governments, the rule of law, and social welfare systems that can accommodate risks. Interestingly, Rodrik also mentions the importance of informal societal institutions that foster social cohesion, social trust, and cooperation. He criticizes neoclassical economics for underestimating the importance of such institutions, which he characterizes as "social arrangements that economists usually take for granted, but which are conspicuous by their absence in poor countries" (Rodrik 2007, p. 153).

Much empirical research in the good-governance field has consequently focused on the economic effects of QoG. Kaufmann et al. (1999, p. 15) report that an improvement in governance by one standard deviation leads to a gain in per capita income that ranges from 2.5-fold ("in the case of voice and accountability") to fourfold ("in the case of political instability and violence"). Similarly, Kaufmann (2004, p. 15) 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 . . . .

According to Kaufmann, similar economic improvements would follow from changes in the level of corruption or protection of civil liberties. Criticism of such findings, however, comes from two directions. Some critics warn of reverse causality. For example, Goldsmith (2007, p. 165) 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." He arrives at this 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, he argues that Mauritius and Jamaica, despite having similar sets of institutions, have had very different development paths (Goldsmith 2007, pp. 170–81). These observations lead him to the conclusion that "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" (Goldsmith 2007, p. 181). He further argues that if other conditions are favorable, economic growth can be accomplished even in countries with low-quality government institutions. Moreover, high-quality institutions are more likely to be established as an effect of an increase in production and income, but governance reforms may be needed in the long run to sustain development (Goldsmith 2007, p. 181).

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 to linking good governance and economic growth. This methodological problem in the research, they claim, has contributed to an overestimation of the effects of good governance (Przeworski 2004, Glaeser et al. 2004). Nevertheless, if we examine nineteenth-century Europe, the historical record can be interpreted to support both cases. The English case seems to demonstrate the importance of the "QoG causes economic growth" hypothesis. The Swedish case also seems to indicate that a large number of institutional reforms in the good-governance direction, implemented just before the start of industrialization, put the country on a path of economic growth (Myhrman 2003; Rothstein 1998, 2007).

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 then watch development ensue as a result. One reason is that, as Grindle (2004) has argued, the full set is a very tall order, including 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. Second, from what we now think we know about how social causation works, we should expect to find things like feedback mechanisms, autocorrelation, and path dependency, making it difficult to tell what is the independent variable in this story and what is the dependent variable (Hall 2003). Third, we are not likely to find pure effects of the formal establishment of institutions; instead, what is important is 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, some scholars argue that the policy implications of QoG tend to emphasize small governments, which could be viewed as being antipoor (Shepherd 2000, p. 270). Shepherd, for example, argues that although reforms of the civil service have successfully reduced the number of government employees, the reforms have failed to fix the problem of low pay. This has resulted in the continuation of "informal payment systems and other forms of corruption" that drain public-sector employees of motivation to fulfill their duties (Shepherd 2000, p. 282). He further argues that the problem is that civil service reforms have not been coordinated with other policies, such as universal primary education or basic health care, which implies that the output side (service-delivery outcomes) has suffered from cuts on the input side. His conclusion is that even though good-governance reforms may be necessary, they are not sufficient to reduce poverty. Rather, universal policies need to be launched, particularly in sectors such as education and health (Shepherd 2000, p. 283).

On the other side, 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, reducing 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 (Shepherd 2000, p. 270). In their cross-country study for the period 1960–1990, Chong & Calderón (2000) 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" (Chong & Calderón 2000, p. 130). The risk of expropriation and the quality of the bureaucracy are shown to matter most for poverty levels, while corruption and law and order play a less significant role. Chong & 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 (Chong & Calderón 2000, pp. 130–31). The authors also posit that institutional reform may at first increase poverty in a country because of high initial transaction costs until the new system has started to function efficiently (Chong & Calderón 2000, p. 125).

These views are in line with the argument made by development economist Hernande de Soto about what can be called the social construction of capital (de Soto 2000). To briefly recapitulate de Soto's well-known argument: Capital is not the same as assets or even property. For an asset or 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. De Soto shows that, in the western world, the transformation of assets into capital required a long and very complex process of legal institutional building that in some cases lasted several hundred years. The feudal idea of what constituted property was very different from the modern/capitalist idea. According to de Soto, an asset cannot be used as capital until it is recognized by "all" others. This requirement, in turn, demands not only a strong legal good-governance framework but also the type of general change in belief-systems that North and others have argued is necessary. Perceptions about the trustworthiness of those who are to be entrusted with responsibilities for securing property rights are perhaps particularly important to change in this regard.

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 for more rigorous theories on how the good-governance agenda can lead to propoor growth (i.e., economic growth that reduces absolute or relative levels of poverty) (Grindle 2004, Resnick & Birner 2006).

The Corruption Debate

In our view, although a high degree of corruption is clearly an antithesis to high-quality governance, the latter encompasses more than merely the absence of corruption. Our definition of good governance would also include the absence of other practices that may or may not be related to corruption, such as clientelism, nepotism, cronyism, patronage, discrimination, and the "capture" of administrative agencies by the interest groups that they are meant to regulate. Still, for many, achieving high QoG is closely connected to anticorruption policies. The opening pages of the U.N. report *Global Program 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" (p. 17). It is difficult to say why this taboo existed for such a long time. One idea is that pointing out the "C-problem" in developing countries could be seen as blaming the victim. Another is that exposing corruption in developing countries would have decreased political support for international aid. Until the mid-1990s, the World Bank also saw corruption as an internal political problem, and because the Bank was forbidden to interfere in a country's internal politics, corruption was deemed outside its scope. 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" (World Bank 2005).

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

Today, the literature on the effects of corruption is vast. Some authors argue that particular types of corruption can have a positive effect on economic development (Nye 1967; Khan 1996, 1998), but most studies point to the negative consequences of corruption (Mauro 1995, Akçay 2006, Transparency International 2008a, Gupta et al. 2002). According to the first view, corruption can take different forms, some of which enhance efficiency and some of which reduce it. Hence, a cost-benefit analysis must be carried out to establish the overall effect of corruption (Nye 1967; Khan 1996, 1998). According to the opposing view, corruption has negative effects on GDP growth (Mo 2001), income inequality and poverty (Gupta et al. 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.

By reviewing the literature on the effects of corruption on human development, Akçay (2006, p. 33) finds that "corruption can indirectly affect human development by lowering economic growth and incentives to invest." Several studies also show that corruption influences what the government spends on education and health (Mauro 1998; Gupta et al. 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) (Akçay 2006, p. 41). Kaufmann similarly finds that a one-standard-deviation improvement in control of corruption would reduce child mortality by 75% and lead to significant gains in literacy (Kaufmann 2004, pp. 15–16). Moreover, as Rose-Ackerman has argued, "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" (quoted by Akçay 2006, pp. 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 seventeenth session of the U.N. Commission on Crime Prevention and Criminal Justice, the Executive Director of the U.N. 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." 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? (Costa 2008)

Empirical studies often support the view that the rule of law is important for economic development. Kaufmann & Kraay (2002, p. 18), 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." 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) (Economist 2008). However, 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 recipe, as it may not be a prerequisite for growth (Economist 2008). Messick (1999) also warns against viewing rule of law as a panacea. He argues that cross-sectional regressions do not satisfactorily answer the question of causality. First, developed countries can spend more on their judicial system. Second, it may be that the same underlying variables that foster economic development also enable a legal system to work better. On this point, Messick makes a connection to the debate about the importance of social capital, which has often been defined as historically established social 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 Mungiu-Pippidi. However, relatively strong empirical indicators show that precisely the opposite may be the case, namely that social trust is caused by high-quality legal institutions (Rothstein & Stolle 2008, Rothstein & Eek 2009).

In keeping with the view that rule of law may be a luxury that is hard for poor countries to attain, Messick 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 with more formal mechanisms. Furthermore, building on Milgrom et al. (1990), Messick shows how the trading system in Europe during the medieval period was based on reputation, so 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 (Messick 1999, p. 130).

However, how such efficient institutions as the rule of law can be created remains somewhat of a mystery, at least from the starting point of 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 people who work in the legal system to gain economic advantages. They will also try to get their confederates in this sort of clientelism and corruption installed in authoritative positions in order to render verdicts in their favor. If the law merchants are also rational utility maximizers, their integrity will be for sale as long as the price is right and the transaction can be kept secret. Such a scenario seems to describe 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 (Glaeser et al. 2003). How "effective" institutions can be created, a question that is fundamental to this discussion, has been addressed by economic historian Avner Greif in a chapter in the *Handbook of Institutional Economics*. His first argument is that effective public institutions that support efficient markets are an investment with high fixed costs, especially if they are going to be seen as both efficient and trustworthy. The implication is that establishing such institutions constitutes a classic "collective action" problem. Second, Greif reminds us that such institutions merely "operate in a few advanced contemporary countries and only in recent times" (Greif 2005, p. 737). Third, he argues that our knowledge, theoretical as well as empirical, about how such successful institutions have been established is surprisingly meager.

Thus, although the empirical evidence points to a relationship between the rule of law and economic development, the causal 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 believed that the rule of law improves human rights and reduces conflicts (Economist 2008). 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 operational logic of street-level bureaucrats. Public employees in these sectors are 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 QoG must be based on a norm that incorporates what takes place in the exercise of public policies where the rule-of-law concept is either insufficient or simply inadequate (Rothstein & Teorell 2008).

POLICY OUTCOMES OF QUALITY OF GOVERNMENT

As the preceding discussion shows, QoG is a broad topic that in recent years has been the focus of much research. Nevertheless, many of the debates in this field are still open owing to 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. Besley & Kudamatsu (2006, p. 313), for instance, argue that "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." Our own results, presented in **Table 1** (correlations) and **Table 2** (regression coefficients) as well as in **Figures 1** and **2**, show that the three QoG variables—rule of law, corruption perception, and government effectiveness—have positive but surprisingly weak correlations with economic growth, whereas the correlation with GDP per capita is very strong. One interpretation of this result could be that the causality between economic growth and QoG resembles a "virtuous circle" in which feedback mechanisms play an important role. As Rodrik (2008, p. 19) 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*)."

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

Social Well-Being

Within the topic of social well-being, we include such indicators as poverty, economic

Table 1 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		
		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
Good Society Index	+0.83	71	+0.84	71	+0.83	64	positive

[1]Less inequality and less unemployment.

Comments*:* The three QoG variables are highly intercorrelated (about 0.90). 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).

inequality, the existence of effective social insurance systems, subjective measures of life satisfaction, and the United Nations' HDI, a measure of human development. As was mentioned above, there is a debate about whether QoG necessarily leads to propoor growth. Kraay (2004) explores this question 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

Table 2 Effects of QoG (government effectiveness) on some 20 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 1000 live births	positive
mortality rate children <5 years	−41.4	0.000	deaths per 1000 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	percent 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	1000 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
Good Society Index	14.9	0.000	composite index (theoretically 1–71)	positive

[1]Minimum and maximum value in the QoG data set.

[2]Less 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 1**).

occur in countries with better institutional quality" (Kraay 2004, p. 20). Nevertheless, he argues that this negative distributional effect on poverty in countries with high QoG is outweighed by the positive effect of institutional quality on economic growth. Using a different methodology, Blaydes & Kayser (2007) arrive at the opposite conclusion when examining the link between democracy and propoor growth. They argue that even though democracy may not promote economic growth, democratic states are more likely than autocratic ones to promote economic redistribution that is beneficial to the poor. Blaydes & Kayser accredit this to democratic countries' investments in human capital development and to the benefits that competitive elections bring to poor voters, who are often marginalized in autocracies.

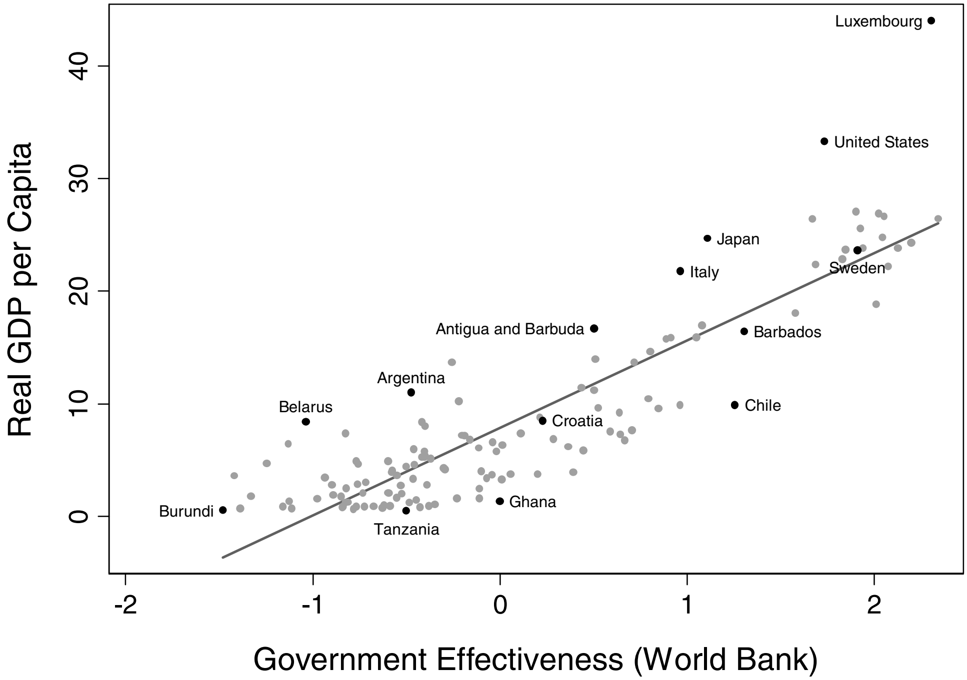

Figure 1

GDP per capita versus 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), Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

The corruption literature makes similar inferences about the link between QoG and poverty. Research shows that corruption affects poverty through its influences 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 Krishna's (2007) study of poverty in developing countries. Based on a vast set of data from 25,000 households from diverse communities in India, Kenya, Uganda, Peru, and North Carolina in the United States, Krishna finds that people in developing areas 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 and they lack access to any publicly funded health care system. The cost of medical treatment for family members often forces them to sell productive assets, so 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. For example, Chong & Gradstein (2004) find that better ranking on the political stability and rule-of-law measures, as well as the International Country Risk Guide (ICRG) index, leads to a decrease in inequality. Lopez (2004) finds the opposite result using the ICRG index (Resnick & Birner 2006, p. 19). However, Chong & Calderón (2000) find a nonlinear relationship: For richer countries, quality of institutions and income equality have a positive relationship, but in poorer countries the relationship is negative. They argue that this may

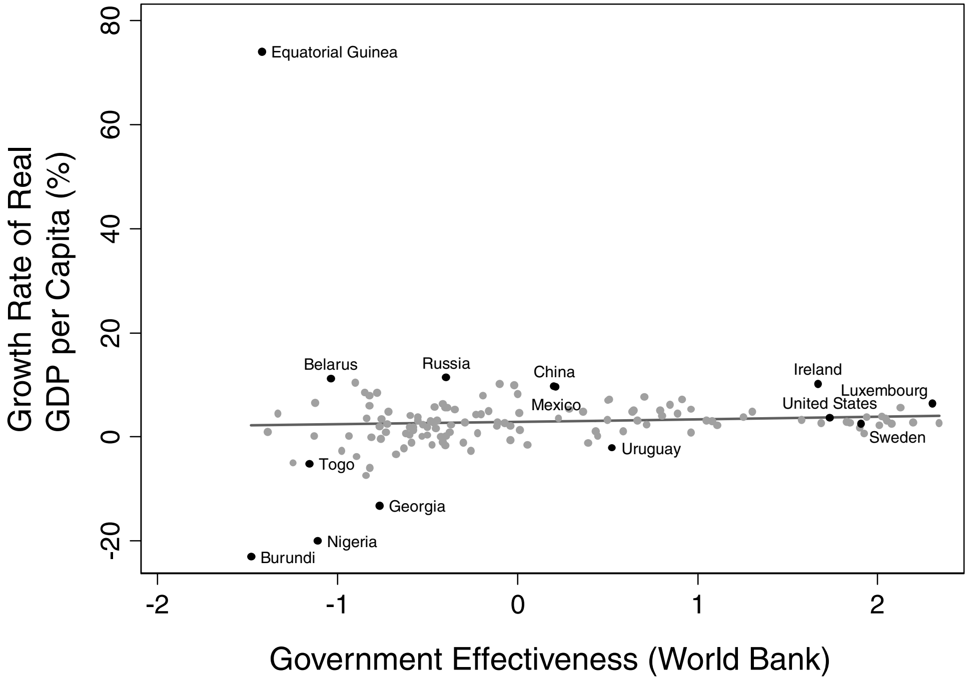

Figure 2

GDP growth versus government effectiveness. $R^2 = 0.00$. Source: The QoG Data Bank, Heston et al. 2002 (the GDP growth data pertains to the year 2000), Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

be because institutional reforms first increase income inequality before decreasing it when institutional efficiency improves. Borrowing from Olson's (1996) theories on 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 (Chong & Calderón 2000, pp. 124–25). As shown in **Tables 1** and **2**, the relationships between the QoG variables and measures of inequality (unemployment and the relative poverty rate; see **Figure 3**) are reasonably strong. **Tables 1** and **2** also show positive correlations between the QoG variables and policy measures for reducing inequality, such as the "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 Sacks & Levi (2007), who show a link between QoG and social welfare/social well-being, which is measured by the level of food security of households. Other measures of social well-being show similar results. For instance, Helliwell (2006), Frey & Stutzer (2000), and Pacek & Radcliff (2008) have observed positive links between QoG and subjective well-being (a measure of an individual's evaluation of his or her quality of life in total). Helliwell reports that QoG—as measured by the averages of six main World Bank indicators—accounts for a large part of the international differences in subjective well-being found through surveys. Frey & 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

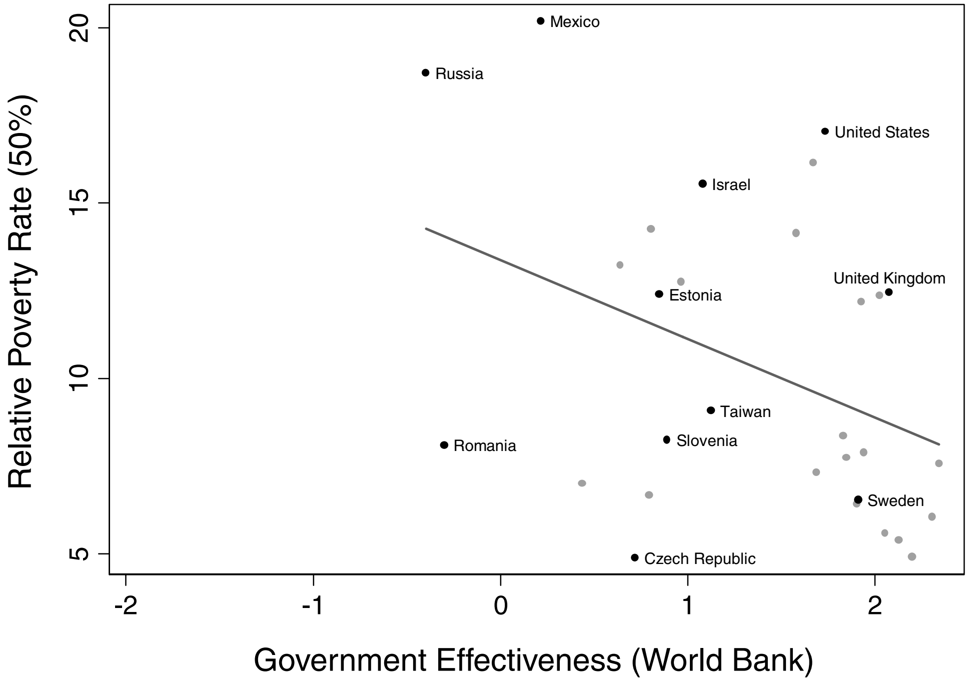

Figure 3

Relative poverty rate (i.e., percentage of population earning <50% of the median income) versus government effectiveness. $R^2 = 0.15$. Most of the data are from OECD countries. Source: The QoG Data Bank, Luxembourg Income Study 1996–2004, Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

that are closer to the voters' preferences as well as the utility obtained from participating in the political process. Finally, Pacek & Radcliff find a positive link between welfare state generosity and subjective well-being when examining survey data from 18 industrial democracies during the years 1981–2000. They conclude 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 more 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.

Overall, 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 policy outcomes of QoG, such as reduced poverty and higher degrees of life satisfaction.

Public Health

A large body of literature attests to the negative consequences of corruption in the health sector. Transparency International's Global Corruption Report 2006, for example, explores why the health sector is particularly prone to corruption and shows how the problem impacts health systems in both developed and developing countries. 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), so reducing corruption in this sector is imperative (Transparency International 2006, p. xii). 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 (Transparency International 2006, p. xviii). Corruption impairs service delivery by 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 (Cockcroft et al. 2008, p. 2).

Empirical studies are made difficult by the diversity of health care systems in the world—with a particularly noticeable difference 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 by reducing corruption in the health sector (Lewis 2006). For example, a study of 89 countries over the period 1985–1997 finds that corruption has adverse consequences for child and infant mortality rates and the percentage of low-birth-weight babies (Gupta et al. 2000, pp. 24–25). Similarly, a study using cross-sectional data of countries over two years finds that in countries with less corruption and better quality of bureaucracy, health spending has a negative correlation with child and infant mortality rates (Swaroop & Rajkumar 2002). In other words, with an improvement in control of corruption, public spending on the health sector becomes more effective in reducing child and infant mortalities (Swaroop & Rajkumar 2002, p. 23). Moreover, inequity in health is higher in countries with more corruption (Eslava-Schmalbach et al. 2008, p. 146).

Using a different methodology, Besley & Kudamatsu (2006) explore 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 in countries that have been democratic from 1956 onward, life expectancy is about five years higher than in countries that have been autocratic in the same period. The democratic countries also have ~17 fewer infants dying before the age of one per 1000 births, compared with countries that have been continuously autocratic since 1956. The authors attribute this to democracies having greater representation and accountability, so that health issues are promoted, and to the ability of voters in democratic countries to elect competent leaders. This study also indicates that democracies prioritize water and sanitation issues, which, according to the Global Corruption Report 2008, are responsible for ~80% 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" (Transparency International 2008b, p. xxiv).

As shown in **Tables 1** and **2** as well as in **Figure 4**, 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). These positive relations may be caused in part by the relatively strong correlations between QoG variables and the measures of water quality (**Tables 1** and **2**; see also **Figure 5**). 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 6**, which combines three quality-of-life variables from the health studies literature (life expectancy, infant mortality, and life satisfaction) in a Good Society Index (GSI), which is strongly related to the QoG variables. The results indicate that high QoG increases our chances of achieving the Good Society (Holmberg 2007).

Environmentmental Sustainability

Whereas most studies find a causal relationship between QoG and public health outcomes, the same cannot be said for environmental outcomes. The debate is complicated by the ambiguity of the concept of environmental sustainability. It is a broad term that encompasses

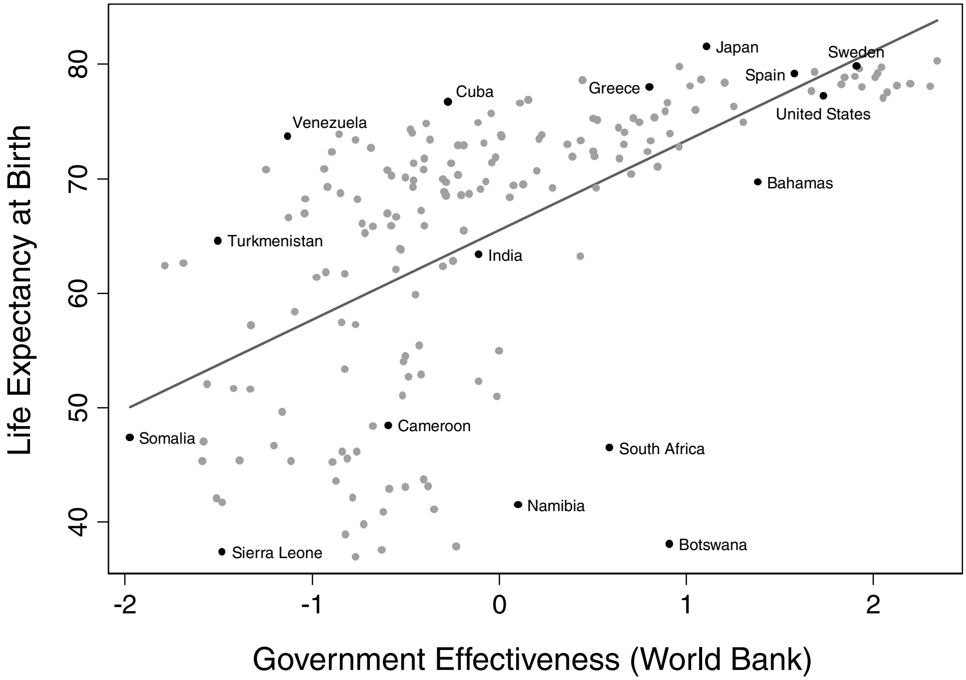

Figure 4

Life expectancy at birth versus government effectiveness. $R^2 = 0.38$. Source: The QoG Data Bank, World Development Indicators 2002, Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

a range of issues, and its various applications have produced a plethora of competing sustainability indexes (Böhringer & Jochem 2007). Consequently, empirical results are largely determined by the choice of the sustainability index used in the study. For instance, Morse (2006) finds that corruption has a negative correlation with environmental sustainability as measured by the Environmental Sustainability Index (ESI), but Ewers & Smith (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 higher significance to ratifications of environmental agreements, technological advances, and reductions in pollution levels, or to a country's total impact on the planet. 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. (Morse & Fraser 2005, p. 633)

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 GDP per capita and subsequently fall when people's preferences

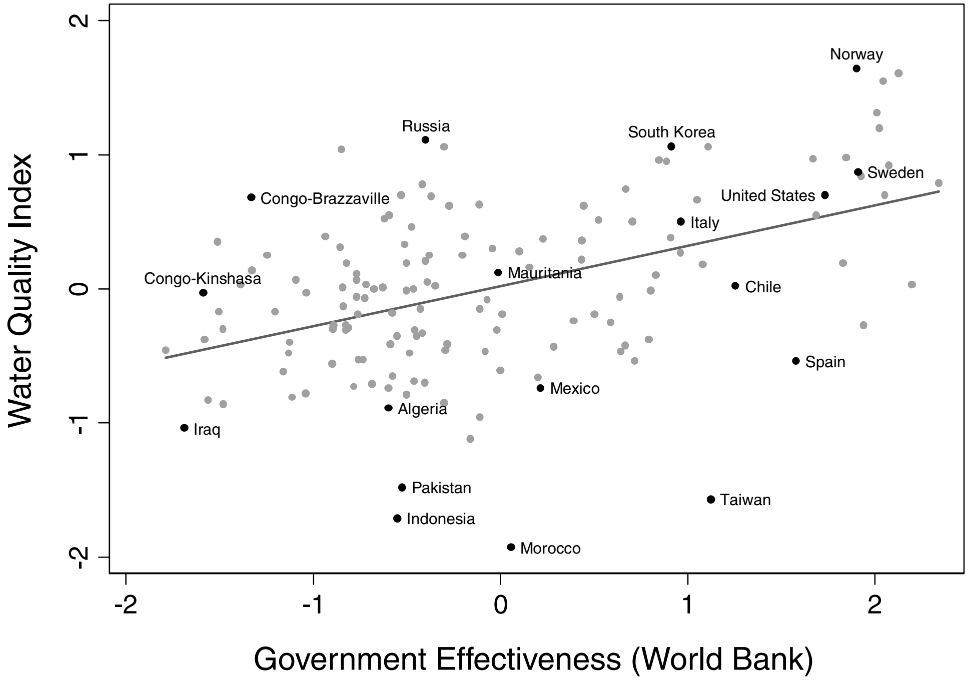

Figure 5

Water quality versus government effectiveness. $R^2 = 0.22$. Source: The QoG Data Bank, Esty et al. 2005 (the water quality data pertain to the years 1994–2003), Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

change in favor of preserving the environment at higher levels of income. This means that corruption can have a direct and an indirect effect on pollution levels. The direct effect is an increase in pollution at any given income level through, for example, the practice of bribing officials to bypass pollution laws. Another example, described in the Global Corruption Report 2008, is the link between corruption and water pollution, which has been associated with the degradation of wetlands and other important ecosystems, desertification, and negative consequences for wildlife preservation. The indirect effect of corruption, however, can be either positive or negative, depending on how pollution interacts with economic development at a certain level of per capita income (Welsch 2004, López & Mitra 2000). Empirical investigations are thus required to determine which effect plays a larger role.

Welsch (2004) uses different indicators of ambient air and water pollution for 106 countries and finds that corruption increases pollution in countries of all income levels. He argues that low-income countries have the most to gain, in terms of air and water quality improvement, 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 have lower levels of lead per gallon of gasoline than developed countries if per capita income is taken into consideration (Damania et al. 2003, p. 505).

Fredriksson & Mani (2002) explore the interaction between rule of law and corruption and demonstrate that environmental policy stringency is lowest in countries with a low degree of rule of law and a high level of corruption.

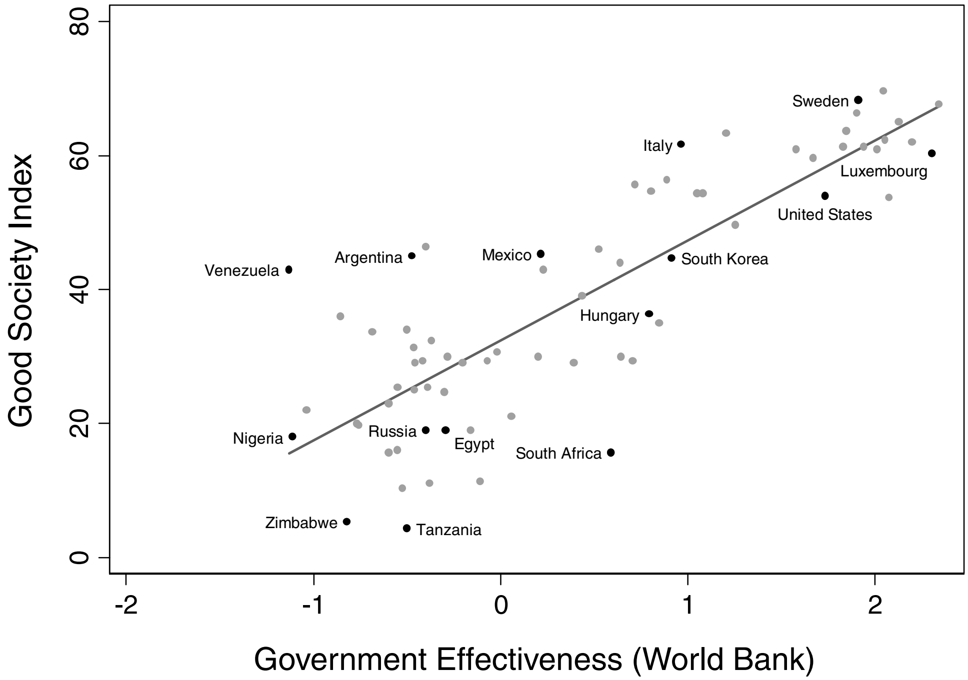

Figure 6

Good Society Index versus government effectiveness. $R^2 = 0.71$. Source: The QoG Data Bank, Holmberg 2007, Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

They also show that with a high degree of rule of law, the negative effect of corruption on environmental stringency grows, owing to the increased incentives to bribe officials in order to circumvent environmental laws. Fredriksson & 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 & Porter (2005) also find that institutional factors play a role in environmental performance as measured by urban particulates and energy efficiency, although income levels appear to be the dominant factor in determining environmental outcome. They conclude that environmental policy makers should prioritize poverty alleviation.

Other studies have focused on the link between democracy and environmental policy. Neumayer (2002) finds evidence of a positive association between democracy and environmental commitment as indicated by the ratification of environmental agreements, participation in international environmental organizations, assignment of protected status to a greater percentage of land area, etc. He warns, however, that this does not necessarily translate into better environmental outcomes. The association between democracy and desired environmental outcomes is weakened when (*a*) outcomes are strongly influenced by factors outside the government's control, (*b*) the lag time between an environmental commitment and its effect on outcomes is long, and (*c*) outcomes are difficult to monitor. "If these conditions hold true," writes Neumayer (2002, p. 145), "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."

Barrett & Graddy (2000) look at the link between civil and political freedoms and environmental quality, focusing on some of the pollutants that have the strongest adverse effects on human health. They find that levels of these pollutants are lower in countries with greater civil and political freedoms. In a study of environmental policy stringency and democracy, Fredriksson & Wollscheid (2007) show that democracies have stricter environmental policies than autocracies. However, they argue that this result appears to be driven primarily by parliamentary democracies; the environmental policies set by presidential-congressional systems often do not significantly differ from those of nondemocracies. They accredit this to the lower degree of separation of powers and greater legislative cohesion in parliamentary systems (Fredriksson & Wollscheid 2007, p. 390). In addition, there appears to be some evidence that the transition from autocracy to democracy results 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 (Matthews & Mock 2003, p. 2).

Tables 1 and **2** show that environmental outcomes correlate positively with QoG, which confirms some of the associations found in the previous literature (see also **Figure 5**). However, 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 7**). 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 ambiguity is due to the broadness of the concept of environmental sustainability, the weakness of some of the data,

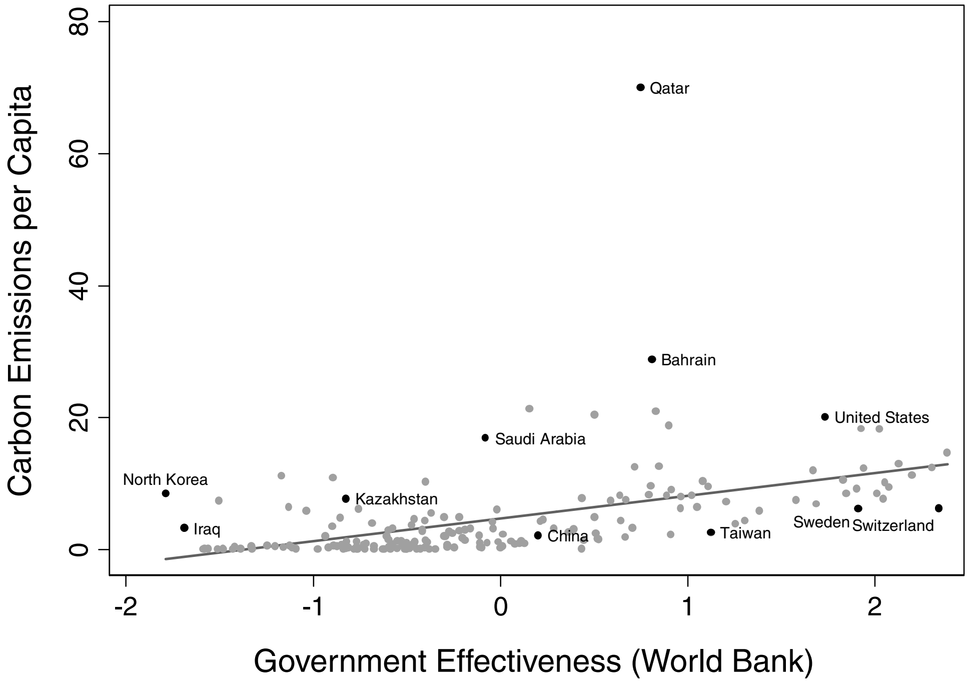

Figure 7

Carbon emissions versus government effectiveness. $R^2 = 0.23$. Source: The QoG Data Bank, Esty et al. 2005 (the carbon emissions data pertain to the year 2001), Kaufmann et al. 2006 (World Bank Governance Indicators 2002).

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 review presents only a small section of the now vast literature on QoG. Nevertheless, some general observations can be made. First, although QoG appears to be a worthy goal to pursue, the research on the topic remains thin in several areas. For example, Resnick & Birner (2006, p. 18) mention the absence of cross-country studies focusing on the political process as an interaction variable. Others point to the weakness of the theoretical foundation in some areas, such as the interdependent nature of institutions. Goldsmith (2007, p. 182), for instance, seeks greater efforts in "capturing nonlinear and lagged relationships in governance." A related criticism is that the research on good governance does not easily translate into simply executed policies. There is little agreement, for example, on what type of rule of law or what form of democracy is required for a country to reap the full effects of high QoG. Some authors employ a "thick" definition of rule of law while others use a "thin" definition, which is more formal. A thick definition considers a state to be ruled by law "if the state's power is constrained and if basic freedoms, such as those of speech and association, are guaranteed." A thin definition, in contrast, focuses more narrowly on "property rights and the efficient administration of justice" (Economist 2008). Similarly, Welzel & 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" (Welzel & Inglehart 2008, pp. 126–27).

In addition, 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, Helliwell & Huang (2005, p. 7) 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."

Given these complexities, several studies emphasize the difficulty of drawing clear-cut policy conclusions from much of the existing research (Grindle 2004, p. 525). Another reason for this difficulty is that the good-governance agenda encompasses virtually anything that is related to the public sector, including institutions, bureaucratic systems, decision-making processes, etc. This breadth creates a problem for developing countries, as there is little information on which reforms should be carried out first so as to make the transformation less overwhelming. Grindle writes about the growing list of demands put on developing states to reform without a clear strategy. Her argument is that the good-governance agenda as presented by the international development community is unrealistic in its scope and continues to grow over time. This "must be done" list of reforms contains very little systematic guidance on what types of reforms are more important than others, which reforms are feasible and realistic to achieve under what conditions, or in which sequence reforms should be undertaken (Grindle 2004, p. 526). 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. For example, "the sudden introduction of a formal mechanism to resolve legal disputes can disrupt informal mechanisms without providing offsetting gains" (Messick 1999, p. 118). Another unintended consequence of focusing on reforms before appropriate independent institutions exist is that elites may take advantage of this—for instance, land-grabbing in response to property-rights reforms—which may result in greater inequalities (Messick 1999, pp. 127–28).

A healthy reminder is that in the 1960s, donors such as the Ford Foundation and the United States Agency for International Development (USAID) set out an ambitious task of reforming the judicial systems in a 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 (Messick 1999, p. 125). Several studies have analyzed this failure, and some key criticisms have emerged. One is that the law-and-development approach did not have a clear theory of how law affected development. This left practitioners with little or no guidance on the type of reforms that should be prioritized and no predictions about the effects of the various changes in the legal systems. A second problem was the lack of participation by lawyers and other legal practitioners in the developing countries who were to implement the reforms and who were going to be affected by them. Third, too much weight was given to changing the formal legal institutions "to the exclusion of customary law and the other informal ways in which many people in developing nations order their lives" (Messick 1999, p. 126).

However, as Trubek & Galanter (1974) have pointed out, the most important reason for the failure may have been the rather "naive belief that the American legal system (and its legal culture generally) . . . could be easily transplanted to developing countries" (Messick 1999, p. 126). 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.

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 a bicameral parliament and some do not. Some have multiparty proportional electoral systems while others have two-party systems. Some established democracies have an extended system of judicial review, whereas in others the political power of the courts is negligible. In some established democracies, grass-roots initiatives for referendums play an important role; in others, such political initiatives do not exist. Some democracies have strong presidential power while others are parliamentarian. The list can go on. The point is that because all these different ways to organize electoral representative democracy are not mutually exclusive, there are innumerable possible variations in the specific institutional configuration of what we call an established democracy. The differences we see between the Swiss and the Danish democracies, for example, must be understood as resulting from each country's specific historical trajectory. The legitimacy that the systems enjoy comes from being anchored in that country-specific history. Still, both systems, with their very different institutional configurations, can be seen as being rooted in one basic norm, which, according to Dahl (1989), is "political equality."

The obvious application to the discussion of QoG is that we should expect the specific institutional configurations of good governance to vary across countries. For example, some rule-of-law systems are based on common law and others are based on civil law. Though clearly different, both systems are compatible with good governance. The same logic should apply to many other government institutions that exercise public power, such as the audit system, the presence or absence of an ombudsman institution, etc. We should expect great variation in the institutional configurations of countries that have a high QoG because, in order to achieve political legitimacy, the specific institutional arrangements have to be anchored in the particular history and culture of the country. If this line of reasoning is correct, then a simple transfer of institutions from high to low QoG countries, as in the law-and-development movement, is not likely to work. Instead, as with the institutional configuration of electoral-representative democracy, we have to find what Dahl might call a basic norm for QoG, similar to the concept of political equality, from which different institutional arrangements anchored in each country's history can be established.

In the literature, we have found three terms that we think describe this basic norm or political culture. Mungiu-Pippidi (2006, p. 88) suggests "universalism," a term that she defines in opposition to a political culture dominated by "particularism." She defines universalism as "equal treatment of citizens." Another suggestion is the "open access orders," which North et al. (2006) 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 a basic norm is impartiality in the exercise of public power. Following Barry (1995) and Strömberg (2000), Rothstein & Teorell (2008, p. 170) define impartiality 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." The differences between these three terms are in fact only terminological since they all point to the same basic norm for the relation between the government and its citizens.

To conclude, although a multitude of studies have shown the value of good governance, research remains to be done on what good governance really entails, what specific institutional forms can follow from the above-mentioned basic norm, and how change from low to high QoG can be obtained. We lack a solid understanding of the causality and essential elements of QoG in different political, economic, and cultural settings. Thus, although research points to the value of achieving high QoG, a "one size fits all" approach is not the way forward. More context-specific and historic time-series studies may aid in resolving the ambiguities in the research on the policy effects of QoG.

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