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QUALITY OF GOVERNMENT

## **Why Do Some Regions in Europe Have Higher Quality of Government?**

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**Abstract**

While most of the quantitative literature on quality of government involving European countries has focused on national differences, sub-national variation has been neglected, mainly due to the lack of data. This paper explores sub-national divergences in quality of government (understood as control of corruption, impartial treatment of citizens and government effectiveness) in three major policy areas (law enforcement, health and education) for more than 70 European regions. We address the question of why regions which share so many formal institutions (e.g. Northern and Southern Italy) do diverge so much in quality of government. We propose two hypotheses to explain such variation. First, similar to recent political economy literature, the paper underlines the importance of informal institutions historically transmitted. Yet, unlike this scholarship, the paper argues that it is not different cultural values (e.g. “generalized trust”) what explains regional path dependencies, but the persistence of patrimonial clientelistic networks created in those regions with historically unconstrained rulers. Second, we test the impact of contemporary political institutions that represent the level to which governments regions share power. The empirical analysis shows strong evidence for our first hypothesis; that those regions that constrained executives’ attempts to build clientelistic networks during the 17<sup>th</sup>-19<sup>th</sup> centuries exhibit significantly higher levels of quality of government today, controlling for standard political, cultural and socio-economic indicators.

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## 1. Introduction

According to a large number of studies, “quality of government” is a key factor for understanding the economic and social development of a country (for a summary, see Holmberg, Rothstein and Nasiritousi 2009). Yet what is understood by “quality of government” in the literature? Empirically, “quality of government” is frequently proxied for outcome indicators (no formal legal codes) regarding the “quality” (no the “quantity”) of the policies delivered by a government: e.g. *control of corruption*, prevalence of *the rule of law*, *government effectiveness* or *protection of property rights*. Since all these cross-country indicators tend to be highly correlated – irrespective of the type of data and the methodology employed to collect them – the literature has noted that “it makes sense to talk about the quality of government as a general feature of countries” (Tabellini 2007). Theoretically, an influential account of what unites lack of corruption, rule of law and government effectiveness is the one posed by Rothstein and Teorell (2008): quality of government (QoG) is when governments treat all individuals in an impartial way irrespective of their social, economic, political, cultural or ethnic position.

A large body of cross-country evidence suggests the (positive) negative effects of an (im)partial government. For instance, corruption, by serving as an illegal tax that distorts the economy, has negative consequences for GDP growth (Mauro 1995, Mo 2001), income inequality and poverty (Gupta et al. 2002), various health and education issues (Mauro 1998; Transparency International 2006; Holmberg, Rothstein and Nasiritousi 2009) and reduces investments both from abroad and from inside the country (Levchenko 2007). When government is partial to particular groups in society, it undermines the trust people have in their government and reduces the well-being of the excluded groups (Rothstein and Eek 2009). Low QoG can also lead to a lower environmental quality by tolerating illegal dumping of toxic waste, producing lower quality water, or merely through environmentally damaging policy decisions (Damania 2003; Welsch 2004). All these can contribute to making a society less economically developed, more dangerous and unhealthy for its residents than it could have been otherwise (Saviano 2008).

As a result of these findings, many “horse races” have taken place amongst multitude of legal, cultural, social, economic and political factors which could explain

why some countries exhibit systematically higher/lower levels of QoG (e.g. La Porta et al. 1997, 1999, Treisman 2000, 2007; Persson, Tabellini and Trebbi 2003; Keefer 2007; Charron and Lapuente 2010). Yet, so far, comparative research in QoG has almost exclusively focused on national differences. Despite the large anecdotic evidence and single-country studies pointing out the importance of within-country differences in quality of government— e.g. between Northern and Southern Italy, across U.S. States or within India –, comparing the levels of quality of government in regions in a multi-country context remains largely unexplored. The few notable exceptions of cross-regional comparisons (e.g. Tabellini 2005) deal theoretically with quality of government issues, but lack empirical indexes at regional level, using instead economic indicators as proxies for regional governmental performance.

This paper aims at bridging that gap by exploring regional differences in QoG – understood, like in the cross-national literature, as control of corruption, impartial treatment of citizens, and government effectiveness – in three major policy areas – law enforcement, health and education – for which data has been gathered. In particular, the paper uses a perception-based indicator of QoG built from a 34,000-respondents survey from 172 regions within 18 EU member states from (reference deleted for anonymity). Section 2 shows how the regional QoG indicator was constructed and the validity tests it was subject to. Section 2 also provides some basic descriptive findings. The data shows, in the first place and in accordance with the cross-national literature (e.g. Besley and Persson 2007), that government performance characteristics are highly correlated. Having a low corrupt government in a particular area (e.g. education) goes hand in hand with having an effective government in another area (e.g. law and enforcement). Thus, similar to the comparative cross-country literature, this paper remarks that, in the light of the data explored here, it makes sense to talk about quality of government as a general feature of European regions.

Secondly, the data shows how cross-regional differences in QoG often trump out cross-national ones – e.g. high quality regions in Northern Italy enjoy levels of QoG as high as regions in Germany or Austria while those in the South most resemble low-performing regions in the New Member States. In addition, one can see how cross-regional differences exist both within decentralized countries, but also within centralized

ones – that is, those in which all regions have the same formal institutions. Although fitting popular and accounts and case-studies, this finding represents a puzzle for the standard institutionalist explanations of quality of government. Why regions like Bolzano and Valle d’Aosta in Northern Italy have a level of quality of government closer to regions with totally different political institutions – in terms of, among many other, electoral systems, veto players, administrative apparatuses, and, both at national and sub-national level – such as Västra Götaland in Sweden, than to regions with similar *de jure* institutions, such as Campania or Calabria? Or, why does Flanders in Belgium perform like a Scandinavian region, while Wallonia ranks similar to regions in Portugal?

Section 3 advances the theoretical proposition of the paper to explain variations in quality of government. Similar to a recent trend in comparative literature, this paper considers that historical factors are major determinants of today’s governmental performance (La Porta et al. 1997, Acemoglu, Johnson and Robinson 2001, Tabellini 2005, 2007). In particular, following Tabellini’s (2005, 2007) pioneering analysis of sub-national variations in economic performance, we argue that past government institutions may have left a legacy in the posterior functioning of government institutions –i.e. not so much in the formal rules of the game, but in the informal rules of the game. Yet, while Tabellini and other earlier culturalist scholars (e.g. Banfield 1958, Putnam 1993) argue that it is through cultural values – that is, by creating individuals with better/worse moral values – that past institutions affect the performance of current government institutions, this paper proposes an alternative mechanism that does not require different – and problematic – assumptions of individual morality. the main proposition of this paper – that the historical absence of executive constraints negatively affects today’s quality of government

Section 4 tests– vis-à-vis the main standard explanations in the literature on cross-regional differences – and, most notably, that it is different cultural values (e.g. “generalized trust”) what matters. The results indicate that the effects of generalized trust disappear when controlling by the number of historical constrains on the executive. Similarly, standard political factors, such as the degree of fragmentation of power at regional level (for those regions having autonomous decision-making units), also lack significant effects when 19<sup>th</sup>-century constraints are taken into account. It is important to note that the analysis shows that it is constraints during the 19<sup>th</sup> century what matters.

When included, constraints in previous (or posterior) historical periods have insignificant – and sometimes even opposite – effects on quality of government. A concluding section discusses the tentative implications of this finding for both future research as well as policy-making.

## **2. The dependent variable: differences in regional quality of government**

While national level QoG data for E.U. states are abundantly available, sub-national assessments are extremely limited. In order to compliment the national assessments, we utilize data collected in a large, E.U. Commission-funded project on measuring quality of government within the E.U. While a more in depth description of the data collection and construction can be found in (reference deleted for anonymity), a survey of approximately 34,000 E.U. citizens was undertaken, (approximately 200 respondents per region) which constitutes the largest survey ever undertaken to measure QoG at the sub-national level to date. A regional-level QoG index score for 172 NUTS 1 and NUTS 2 regions within 18 E.U. countries was built based on survey questions on citizen perception of QoG.<sup>1</sup> 16 separate survey questions went into constructing the QoG index for each region. These QoG questions pertain to three key public services – education, health care and law enforcement. The respondents were asked to rate their public services with respect to three related concepts of QoG – the *quality*, *impartiality* and level of *corruption* of the abovementioned services.<sup>2</sup>

Due to an admittedly limited amount of observations per region and an exclusive focus on only citizen perceptions, the sub-national survey assessment was combined with a national assessment from four of the World Bank's 'World Governance Indicators' (WGI) (Kaufmann, Kraay and Mastruzzi 2009 – henceforth 'KKM'), 'government effectiveness', 'rule of law', 'control of corruption' and 'voice and accountability'. These four indicators were aggregated (simple average) into one QoG index for each country. This national level data accounts for the opinions of international investors and NGO regional experts which compliment the citizen perceptions data and provide a

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<sup>1</sup> NUTS 1 regions are from Germany, U.K., Sweden, Hungary, Greece, Netherlands and Belgium. NUTS 2 countries are Italy, Spain, Portugal, Denmark, Cz. Republic, Poland, Romania, Bulgaria, Slovakia, France, and Austria.

<sup>2</sup> These are related concepts which have come up frequently in the comparative QoG literature, thus we try to include citizens' opinion regarding all three, for more, see Holmberg, Rothstein and Nasturosi (2009).

greater number of observations, thus reducing the uncertainty around the estimates. The use of the WGI also allows the inclusion of the 9 smaller E.U. countries excluded from the sub-national survey. For the best comparison, the WGI were used as the country mean and the regional survey provides the variation around that mean. In some cases, such as Italy, Spain, Romania and Belgium, this variation is substantial, while in others, such as Denmark, Netherlands, Poland or Slovakia, the variation around the WGI estimate is insignificant.

In constructing the regional level data, it was followed the advice of the “*Handbook on Constructing Composite Indicators*” (2008) from the OECD and JRC. After internal consistency checks and tests at both the individual and aggregate regional levels, correlations and factor analysis determined the survey questions on QoG which would be used to build the regional QoG index. Margins of error were constructed for each region (95%) to account for the level of uncertainty of each regional estimate. Extensive sensitivity tests were done on both the WGI and the regional QoG survey index to test for robustness.<sup>3</sup> Therefore, it can confidently be argued that the data is internally consistent and robust to alterations in the weights or aggregation. It is important to note that it was found that the exclusion of any one underlying indicator does not change the results of either the national or regional assessment in any meaningful way (reference deleted for anonymity).

The data is standardized with an EU mean of ‘0’ and a standard deviation of ‘1’ such that higher values equal higher QoG. An examination of figure 1, which displays the descending rank-order of all 27 E.U. countries in QoG, elucidates some puzzles that this paper aims to address. As we know from simply looking at the WGI estimates at the national level, QoG varies substantially within the EU, not only between the New Member States and the rest, but even among the six founding countries. For example, the Netherlands is consistently a top performer in QoG (over two standard deviations above the mean) on most WGI indicators, but Italy ranks below the mean in some cases, in particular with respect to corruption. However, the data at the regional level reveal that the national assessment undervalues the stronger performing regions and overestimates

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<sup>3</sup> For a deeper look at the robustness checks for the WGI data, see Charron (2010) ‘The Quality of the Quality of Government Data.’ For an examination of the regional index robustness checks, see (reference deleted for anonymity).

the weaker performing regions with respect to QoG where within-country regional variation is high.

\*\*\**Figure 1 about here*\*\*\*

At times, the data show clearly that within-country QoG variation is either equally or more important than variation between EU countries themselves. In fact, within-country variation is at times *wider* than cross-country variation. For example, the data show that the gap between Bolzano (IT) to Calabria (IT) is much larger than then the distance between the national averages between Sweden and Spain, or even between Germany and Slovakia. Moreover, the data show that Flanders (BE) is one of the top performing regions throughout the E.U. among the likes of Danish, Swedish or Dutch regions, while Brussels and Wallonia rank much more similarly to an average region in Portugal or Spain. These examples point out the importance in going beyond national level comparisons, which have almost monopolized the comparative literature on QoG.

Additionally, Figure 1 provides further support for those views critical with institutionalism. According to an institutionalist approach, we should see more regional divergences in those countries where regions have more self-governmental capabilities and thus different institutions – such as Germany, Austria or Spain – than in those where there is little or none margin of manoeuvre for regional authorities (if they exist at all) in delivering policies – e.g. Romania, Portugal, Poland or Denmark. Yet, one can see large variations in QoG in highly centralized countries (e.g. Romania) as well as in highly decentralized ones (e.g. Belgium); conversely, there are both highly centralized (e.g. Denmark) and highly decentralized (e.g. Germany) countries with homogeneous regions in terms of QoG.

In other words, the existence of autonomous regional institutions – and, thus, more heterogeneous than in centralized countries – can not explain regional variations in QoG performance. There must be factors other than the type of formal institutions to account for why some regions present higher levels of QoG than others. Figure 1 thus gives further support for a finding pointed out by several scholars. If formal institutions rule, how can one explain the contrasting performance of the *same* type of institutions (e.g. judicial system, basic public services) we see in Southern and Northern Italy (Tabellini 2005: 3), or the differences across Mexican municipalities (Magaloni et al.



2007), or Russian provinces (Hale 2007) Similarly, studies in the private sector have shown significantly different levels of moral hazard in branches of the *same* private corporation situated in different geographical regions (Ichino and Magi 1999). According to several influential social scientists (Tabellini 2005: 3, Kitschelt and Wilkinson 2007:42-43), the existence of these notable sub-national differences shows the limits of institutionalism for explaining QoG-related outcomes. This has led scholars to shift, at least partially, their focus of attention towards non-institutional factors. Generally speaking (and a bit paradoxically), while economists consider institutionalism should be partially replaced or complemented by cultural values (e.g. Tabellini 2005, 2007, e.g. Licht, Goldschmidt and Schwartz 2004), political scientists move towards economic factors, such as interactions with levels of economic development (e.g. Kistchelt and Wilkinson 2007, Wilkinson 2007, Krishna 2007).

On the contrary, this paper argues that institutionalism can mostly explain sub-national differences if we take into account two premises: a broad definition of institutionalism and broad empirical proxies. Firstly, while formal institutions remain frequently the same across sub-national units within a country, informal institutions, such as the patronage networks we describe below (hypothesis 1), may critically change. Secondly, institutionalist explanations recurrently fail empirical contrast because they use a single variable as a proxy and for a short span of time, but using several proxies for the same theoretical mechanism and for an accumulated period of time, as this paper does (hypothesis 2), allows us to detect some slow-moving, yet significant, institutional effects.

### **3. Theory: explaining regional variations in quality of government**

Which variable/s – other than political institutions – can change from region and thus constitute the basis for an explanation of the divergent regional levels of QoG? This section develops two institutionalist hypotheses, one based on past political institutions and the other in current political institutions. These hypotheses are based, but also significantly depart, from existing views on what produces quality of government. Before elaborating on our hypotheses, we disuses two leading alternative explanations of why QoG may vary from region to region.

### *3.1 Historical Institutions Hypotheses*

There are two, yet non-mutually exclusive types of accounts in the existing recent literature that provide not-strictly institutionalist answers to historical differentials across cities, regions or countries in QoG which could be referred to as the “equality theory” and the “culturalist theory.” They offer important insights that are up to certain extent corroborated here. Further, this paper builds upon the insights of both the equality and the culturalist approaches to QoG, but aims at providing a testable proposition with more concrete micro-foundations on *why* individuals within the governmental institutions in a region have more incentives than others to deliver policies, public goods and services in a more impartial way than others.

Both approaches base their analyses on a key empirical finding: that, as increasingly shown by numerous studies, being Robert Putnam’s (1993) probably one of earlier and most influential ones, high performing regions in terms of QoG, democracy or economic development also tend to be high performing in some key social characteristics (Zak and Knack 2001; Rothstein and Uslaner 2005). These regions also exhibit high levels of “social trust” – that is, with levels generalized trust – i.e. trust in strangers or people who do not belong to “your group”. On the contrary, regions in the lower end of the scale in terms of QoG or economic development tend also to show high levels of particularized (in-group) trust and low levels of generalized trust. Not only this, but also anti-social norms, ranging from not poor observation of basic traffic rules to not using properly public bins, are also seen as more prevalent in the latter group of regions, according to the qualitative findings of a report on QoG in the E.U. (Charron, Lapuente, Rothstein 2010). Or, as intuitively, Tabellini (2007, 3) points out, “while blocking traffic in a highway is widely considered a natural and legitimate form of political protest in countries like Italy or France, it would scarcely be tolerated by public opinion in Sweden or the US.” That is, “good” (or “bad”) governmental, economic and social (i.e. “trust”) characteristics cluster together consolidating virtuous or vicious circles. Despite these common features, the equality and the culturalist theories differ in how these clusters emerge, leading to noteworthy different normative prescriptions.

#### *3.1.1 “Equality Theory” Explanations*

In the first place, these clusters have been explained, explicitly or implicitly, with references to what comparativist scholars (e.g. Pierson 2000) call feedback mechanisms or increasing returns between socio-political variables. An early example of the “equality theory” would be Boix and Posner’s (1998: 687) argument that the level of social capital in a region to be the “degree of social and political inequality that the community has experienced over the course of its historical development.” Rothstein and Uslaner (2005) offer a more developed version of the equality argument. They describe how feedback mechanisms among key governmental and social variables make countries enter virtuous (or vicious) cycles in key societal and governmental variables. Government policies, such as universal welfare benefits and impartial polities, would lead to the development of a stronger sense of social solidarity within a community and generalized trust. In turn, this higher social engagement and cohesion would make policy-making and implementation easier through informal norms for contributing to the provision of public goods, such as, for instance, respecting basic rules, paying taxes, protecting public spaces or engaging in social activism to demand the response of public authorities to common problems of the community.

On the contrary, following Rothstein and Uslaner, a vicious cycle would emerge in those polities where corrupt, partial and inefficient governmental policies precludes the sense of social solidarity and spurs particularized trust at the expense of generalized trust. Where “people have faith only in their in-group” – understanding by it either a family, a clan, an ethnic group or other social groupings such as a political party – a society, and thus its politics, is “seen as a zero-sum game between conflicting groups” (Rothstein and Uslaner 2005, 45-46). In these conditions, citizens feel less attached to their political communities than to a particular social group and thus less eager to contribute to the provision of general public goods, such as paying taxes, respecting and protecting public spaces and, very importantly, engaging in social and political mobilizations asking for improvements in quality of government. Generally speaking, free-riding becomes more frequent at all social levels. In turn, public authorities lack both adequate resources and incentives to deliver policies, consolidating a vicious spiral.

Despite the plausibility of its mechanisms and, as we will see below, its relative accuracy in describing what the relationships among these variables in European regions,

this theory of virtuous/vicious spirals or clusters lacks a proper explanation on why historically some polities entered in a positive or negative spiral to start with. We thus seek to fill that theoretical gap. Rothstein and Uslaner (2005) do however offer a tentative answer by pointing out to the relative historically higher levels of both economic equality and equality of opportunity (i.e. an impartial government that does not discriminate among citizens) in those countries (e.g. late 19<sup>th</sup> century Nordic countries) consolidating later on virtuous cycles than in those trapped in vicious ones. Economic equality and an impartial government are the two factors standing at the beginning of their theoretical causal chain (ibid. 44).

However, we lack larger-N studies confirming that it is not a few particular cases (e.g. Scandinavian countries) that are driving the results in Rothstein and Uslaner (2005). More importantly, we lack testable propositions containing precise micro-foundations on why some polities entered one path or the other. Which type of equality and, under which circumstances matters the most for triggering virtuous cycles? The theory of this paper agrees with the importance that Rothstein and Uslaner give to historical factors creating path-dependencies and with their implicit institutions-based (unlike the most prevailing culture-based approaches) view that social trust. It is more appropriate to see better government as leading to high social trust than vice versa. Yet, despite they show the reinforcing effects of these macro-variables – that is, that they have clustered historically and cluster nowadays – the main authors of what we refer to as the “equality theory” cannot disregard why some countries, if it is not as a result of relatively high levels of social trust, were able to provide relatively high levels of quality of government at the end of the 19<sup>th</sup> century.

### *3.1.2 “Cultural Theory” Explanations*

A second strand of accounts on why some regions have historically higher QoG than others is the culturalist view. From a more sociological point of view, highly influential proponents of the importance of some cultural values would include the classic works by Banfield (1958), Putnam (1993) or Fukuyama (1995). Recent works by economists, like Glaeser et al. (2004) and Tabellini (2005, 2007), have also adopted a cultural turn for understanding differentials in economic development. “Culture”, instead

of “institutions”, would be the mechanism through which history affects current performance of either countries (e.g. Licht, Goldschmidt and Schwartz 2004) or sub-national units (Tabellini 2005). Culture is measured through a diverse set of variables in this literature, including genetic and geographic distance understood as proxies for cultural barriers (Spolaore and Wacziarg 2005); religious beliefs (Barro and McCleary 2003); or the possibility of “pronoun drop” in a language – e.g. impossible in English, possible in Spanish – (Licht, Goldschmidt and Schwartz 2007).

Yet the most pervasive cultural variable in these studies, and the one that has already been tested for explaining sub-national differences in Western Europe (Tabellini 2005), is the abovementioned degree of social trust. As a result of a certain historical variables (e.g. political institutions and education levels during the 17<sup>th</sup>-19<sup>th</sup> centuries), some regions (e.g. Northern Italy), saw the consolidation of certain cultural traits: high trust/respect for others and high confidence in the individual. On the contrary, in other regions (e.g. Southern Italy) values of low trust/respect for others and low confidence in the individual prevailed. The novelty of Tabellini’s (2005) is that, unlike the traditional institutionalist approach which considered historical institutions to affect current economic performance was via political institutions (e.g. certain characteristics of the political or electoral system), he claims that historical institutions determine cultural values and these, in turn, determine economic performance. Averaging the individual responses to the World Value Surveys for each of 69 sub-national regions of 8 European countries, Tabellini shows that there is notable effect of proxies for social capital (e.g. level of social trust) for explaining cross-regional difference in economic development. Going backwards, he finds that social capital variables are the result of historically high levels of education in the region and a large number of constraints on the executives governing those regions from 1600 onwards.

Tabellini (2007) broadens the analysis empirically – by looking at worldwide cross-national differences – and offers a more accurate theoretical argument surrounding the idea of morality. The “conceptions of what is right and wrong” vary from a geographical area to another (as a result of historical legacies, and very particularly of the area being subjected to more or less despotic powers historically) and they explain the different functioning of political and bureaucratic organizations, setting better or worse

conditions for economic development. In some areas (i.e. those which exhibit high levels of social trust) what is right is a “generalized morality”: the norms of good conduct apply to all individuals. In other areas (i.e. those which exhibit low levels of social trust) what is right is a “limited morality”: the norms of good conduct apply only to the narrow group with which the individual identifies. While the former morality prevents free riding, the latter fosters it: cheating on taxes if you are a taxpayer, accepting bribes if you are a bureaucrat, or tolerating corrupt elected officials if you are a voter, are all more acceptable behaviours in societies with a prevailing “limited morality” (Tabellini 2007, 8). In turn, these moral values are transmitted across generations, with the accumulated result of higher quality of government in those polities with “generalized morality”.

Despite the use of instrumental variables to control for endogeneity issues and the remarkable empirical findings by Tabellini (2005, 2007) both for explaining national and regional differences, it is difficult to theoretically sustain an explanation of the sort that “better” people leads to a “better” quality of government. It is plausible to suspect the existence of an omitted variable explaining both the consolidation of certain moral values as well as quality of government. To build a more satisfactory theory, one should aim at finding a variable that would not force us to assume (even if implicitly) that that you simply have different types of individuals in different regions or that the utility functions of individuals significantly differ from one region to another. That is the goal of this section and we proceed in two steps: first, a brief empirical visualization of the empirical relationships predicted by the cluster and the culturalist approaches for the regional sample gathered in this paper; and, second, the formulation of our hypothesis.

In Figure 2 we take a broad look at QoG in relation to two of the major social, political and economic variables pointed out in the abovementioned literature. Figure 2 partially validates the accounts by authors of the cluster or the culturalist approaches to QoG. In general, there seems to be a statistical relationship among a major political variable (the EU regional QoG index), a major economic one (regional income) and a major social one (social trust at regional level). Yet there are some noteworthy differences. On the one hand, GDP per capita is strongly correlated with QoG, with GDP per capita (averaged from 1999-2008) explaining 45% of the variation of QoG within the EU regions. Yet, although the bivariate relationship between social trust and QoG is

significant at the 99% level of confidence, the indicator used for social trust explains only 12% of the variation of QoG for the 73 cases for which data is available (see the Data section for detailed information on the data sources).

\*\*\**Figure 2 about here*\*\*\*

Therefore while economic development seems to be substantially correlated with QoG – which, as the literature mentioned in the introduction has noted, could be the result of good government leading to economic growth as much as vice versa – the same does not hold for the close relationship predicted by the cluster and culturalist approaches between individuals with good values (e.g. social trust) and good government. One should expect a stronger correlation between these two variables if QoG is the result of a long historical accumulation of individuals with good morality (as argued by culturalists) or of feedback effects and increasing returns between social trust and good government (as argued by the vicious-virtuous clusters approach). For instance, there are numerous regions with well-below average levels of social trust but well-above QoG, such as Schleswig-Holstein (DE), North East England, Flanders and Alentejo (PT). Conversely, regions like Aragon, Veneto and Lombardia have unusually low levels of QoG despite their above-average levels of social trust.

### *3.2 Our Contribution – ‘Past Executive Constraints and Clientalistic Networks’*

This paper does not argue that worse performing regions have worse (in moral terms) individuals. We assume individuals have similar morality, but they are exposed to different sets of incentives in different regions as a consequence of the network effects created by historical institutions. Following the mostly qualitative works by administrative historians, starting with Shefter’s (1977, 1994) pioneering studies, we focus our attention in the historical process of emergence of patronage and clientelistic networks. The reason is that, once a structure for delivering clientelistic or patronage jobs is in place, it leads to the “pliability of the structures of public-decision making to particularistic considerations” (Piattoni 2001: 17). In other words, early patronage-clientelistic networks set path-dependencies that dissuade off-equilibrium behavior. Using the example of farmers pointed out by Chandra (2007: 87), if politicians have the discretionary power to give certificates of eligibility to farmers in order to apply for a

subsidy, even impartially passed laws – i.e. with objective conditions to grant subsidies – may become instruments of patronage politics.

These clientelistic networks distributed patronage jobs in the public sector and public procurement contracts and, in general, emphasized the delivery of targeted private goods at the expense of non-targeted public policies. For example, a patronage network *per excellence*, like that of the 19<sup>th</sup> century Spanish caciques could control almost all jobs within a given territory, “from night watchman to judge” (Carr, 1980: 11). Once created, these networks set a path dependency which affected the choices not only of those actors initially involved, but of future generations. Namely, if individuals of the current generation see clientelistic contacts to deliver higher payoffs than merit in former generations, they adjust their investments in human capital accordingly: e.g. it is not so important to study hard a subject or how to set up a business as to establish the right (political) connections with the individuals who grant business licenses or distribute jobs in the public sector. An extreme version would be Palermo, as famously depicted by Chubb (1982: 91) as “a city where politics is perceived as the only road to obtaining secure employment.”

Generally speaking, a key characteristic of what Chandra (2007: 86-87) defines as a “patronage democracy” is that the state, by virtue of either direct delivery of jobs or all sort of particularized favors, becomes “the principal means of obtaining both a better livelihood and higher status.” We argue that the individuals in a region dominated by patronage networks face strong incentives to devote significant personal efforts – which are diverted from other investments in human capital – to the two activities which enhance the most the chances of better livelihood and status according to Chandra: in case they possess enough economic and social capital, individuals will enter political careers themselves and, in case they lack those capitals, individuals will try to obtain access to those controlling key state resources. In those societies where “virtually everyone” is recommended to any job by some patron – using Chubb’s (1981: 114) description of Palermo –, being outside a patronage network – either in power or in-waiting – involves too many individual costs for the citizens of the region.

As a result, the region will be dominated by an “overwhelming preoccupation with politics” (ibid). Visual representations of this overwhelming preoccupation would be



the demonstrations of public anger that changes in local government power – as a result of pivotal councilors shifting party – may provoke in some Spanish towns. A high degree of politicization could thus be explained by a Tammany Hall structure of incentives permeating both rulers and voters' incentives (Riordon 1994).

These networks became institutionalized. In some cases, this institutionalization of patronage took place in a more informal manner, through, for instance, local *caciques* structures that were inherited through family links, such as the ones entrenched in Spain during the 19<sup>th</sup> century (Blakeley 2001, Lapuente 2007). As Hale (2007) shows in the analysis of clientelism in post-communist countries, clientelism can also be sustained through “non-party forms of political organization.” In others, the institutionalization of patronage led to the creation of more sophisticated party machines, like the Italian DC (Warner 2001, Hopkin and Mastropaolo 2001). Patronage has also been found as historically transmitted, thanks to a combination of formal and informal mechanisms, from the 19<sup>th</sup> up until now in Greece (Papakostas 2001). Generally speaking, Southern European bureaucracies exhibit the common denominator of a historical path dependency in patronage (Sotiropoulos 2006).

The long-lasting legacy effects of 19<sup>th</sup> century patronage networks in some European countries have been studied in comparative public administration qualitative analyses, being the edited volumes by Piattoni (2001) and Kitschelt and Wilkinson (2007), two of the most encompassing collection of historical cases studies and comparative small-N analysis of clientelism up to date. While patronage dynamics have been set in motion, politicians (or patrons) tend to create associational “pillars” around particular business groups or political parties, such as the cases of post-WWII Austria, Belgium, Italy or Japan could show (Kitschelt and Wilkinson 2007). The inertias of patronage networks determine a path dependency which may trap even political parties willing to curtail patronage, as Müller (2007) argues. A political party willing to move from a highly particularized provision of public services to an impartial delivery would need to fight, first, the opposition of their core constituencies, whose “vested rights” to the share of the spoils would be frustrated; and, second, a credibility problem with the rest of voters, who would remain skeptical of larger reforms after a long history of patronage.

Yet we lack large-N empirical assessments of up to which extent they do affect contemporary government outcomes – especially when controlling for other alternative factors. In order to do so, we need testable propositions that allow us to predict why some regions in Europe ended up creating those enduring patronage networks. As a growing literature is showing, there can be many factors, including legal traditions (e.g. La Porta et al. 1999) or state origins (Charron, Dahlström and Lapuente 2010) affecting the historical prevalence of patronage or corruption. However, the importance of past political institutions has been mostly overlooked in this literature

We argue that the period of consolidation of state structures and of expansion of governmental activities in Europe the executives of all polities – many of them coinciding with the borders of current nation-states, yet many with what nowadays are sub-national units – enjoyed a rapid increase in the level of patronage and clientelistic resources they could distribute. All executives have enjoyed historically periods with significant potential patronage goods to distribute in a particularistic way to core supporters that could allow them to survive longer in power. Yet not all the executives chose that path. This paper argues that those executives who did not face important constraints – either in the form of a strong and independent legislature, judiciary or bureaucracy – enjoyed an unusually broad margin of maneuver to create clientelistic networks in order to increase their probabilities to survive in power.

This argument echoes some historical narratives in the literature on clientelism. Patronage prospers, and consolidates, there where rulers “enjoy significant discretion in the implementation of laws allocating the jobs and services at the disposal of the state” and “vast resources” (Chandra 2007: 86); they become “monopolists with control over critical resources” and thus can exploit their market power to demand compliance from others (Magaloni et al. 2007). The conditions in which patronage flourishes best is when all power – political and even economic – power is concentrated in the same hands without proper external watchdogs in the form of an independent media/judiciary (Müller 2007; 267). The epitome would be the Argentinean “dueño del pueblo” or owner of the town, who controls monopolistically both the local political and economic realms (Medina and Stokes 2007). This relationship between (unconstrained) power and clientelism was already noted by early scholars of the phenomenon. For Scott (1972)

patron-client relationships develop because some individuals accumulate extraordinary levels of power regarding most other members of the community. Our hypothesis is that the closer a region has been historically to that ideal of “dueño del pueblo” – that is, power without external constraints – the more likely an informal institution of “patronage network” to have survived across time, producing a constant deviation of public activity from impartiality to a particularistic delivery of public jobs, goods and services. The hypothesis would thus state as follows:

H1: The more constraints on the executive a region has historically experienced, the less likely patronage networks have consolidated for the distribution of particularized public goods, and, as a result, the higher the current regional level of quality of government.

\*\*\**Figure 3 about here*\*\*\*

Figure 3 demonstrates the bivariate relationship between historical executive constraints and regional levels of QoG for 73 EU regions. As is the case with social trust and economic development in Figure 2, we find a strong and significant positive relationship between the two variables, suggesting initial evidence for H1. Moreover, all but a handful of low-QoG Italian regions fit into the 95% confidence interval around the linear prediction between historical constraints and contemporary regional QoG. What this shows in addition is that contemporary executive constraints is not an appropriate instrument variable for ‘trust’ Tabellini’s QoG-trust model, as he argues is the correct specification, due to the fact that it is so highly correlated with current levels of QoG, thus his model is miss-specified.

### *3.3 Contemporary Institutions Hypothesis*

Despite the fact that we have argued the main hypothesis of the paper regards historical institutions, a full institutionalist explanation should also take into account the importance of contemporary political institutions. For instance, as several authors have noted, how we select (i.e. characteristics of the electoral system) political incumbents may matter (Persson, Tabellini and Trebbi 2003; Kunikova and Rose-Ackerman 2005; Chang and Golden 2006). We will control for these factors in the empirical analysis, but we focus here, symmetrically to the historical and main hypothesis deployed above, on how power is exercised nowadays and how this may marginally affect the path-dependencies

generated historically. In particular, we develop an alternative hypothesis to H1, which covers what Lapuente and Nistotskaya (2009: 433) define as intratemporal fragmentation of political power – i.e. up to which extent the ruling party faces other veto players, such as in a coalition government – and intertemporal fragmentation of power – i.e. up to which extent the same political party has been governing the same polity.

The prevailing view in the literature – specially in large-N studies following an economics perspective – is that fragmentation of political power in democratic settings increases QoG. In the first place, and regarding to synchronic fragmentation of power, “the conventional view that holds that political and institutional checks and balances that constraint policy-makers discretion serve to limit policy volatility and thus encourage investment and economic growth appears as well founded” (Henisz 2004: 18). Similarly, Andrews and Montinola (2004) show that having more veto players, such as a coalition government, leads to lower levels of corruption because of the rising coordination costs among the members of different political parties. Looking at fragmentation of powers diachronically, several economists have traditionally argued that political competition leads to lower levels of clientelism (e.g. Stigler 1972, Persson, Tabellini and Trebbi 2001).

However, the empirical evidence is mixed (Manow 2002). In addition, there are some illustrative cases pointing out in the opposite direction, as Müller (2007: 259) notes. Countries like Sweden or Norway, overwhelmingly ruled by Social Democratic governments in the post-war period, tend to rank at the top in any cross-country indicator of QoG. In the sub-national sample explored here, two regions that excel in perceived levels of QoG, like Pais Vasco or Bayern, have also been mostly governed during the latest decades by hegemonic, in this case Christian Democratic, parties. This paper argues that these cases can be part of a larger pattern: that, the fragmentation of power at regional level, when it takes place within a fully democratic context with proper institutional checks and balances, may have an opposite effect to that predicted by the standard economic literature. Once a country is a democracy, political fragmentation of power may be conductive to lower levels of QoG. We develop this prediction because, unlike the abovementioned prevailing economics perspective, we do not regard QoG as mostly a negative policy outcome: that is, the absence of corruption and a partial delivery

of public goods. Following some recent contributions to the literature (e.g. Charron and Lapuente 2010, Lapuente and Nistotskaya 2009), the premise of this paper is that QoG requires constant and large investments of public resources – e.g. to keep a meritocratic recruitment system, to create politically isolated administrative corps. The costs of those investments are obvious for politicians at short term (e.g. they lose potential patronage jobs), but politicians can only benefit from them at medium-long term: when voters note the improvement in the delivery of public services of a patronage-free administration. Ruling parties with short time horizons or with little power will be unwilling and/or unable to undertake those investments in QoG. That is, when a new governmental agency is created, they will have relatively high incentives to satisfy short-term party goals through it. On the contrary, the higher the accumulation of power a ruling party has – either intertemporally or intratemporally –, the more likely it is that the party finds electorally profitable to marginally invest in good governance instead of marginally satisfy short-term core constituencies’ demands. Therefore, our second hypothesis would thus state as follows:

H2: Within long-established democracies, the less fragmented the political power both inter-temporally – i.e. the same party has been in power for long – as well as intratemporally – i.e. single party government – in a sub-national unit is, the higher its level of quality of government.

## **4. Data, Sample and Methods**

### *4.1 Dependent Variable*

As explained earlier, we employ the E.U. QoG Index variable from (reference deleted for anonymity), which is available for all 27 countries and 172 NUTS 1 and NUTS 2 regions in the European Union for the year of 2009. The variable is standardized within E.U. (mean of ‘0’ and standard deviation of ‘1’), such that higher scores equal higher levels of QoG. Among the regions within the sample employed here (all come from E.U.-15 states), the range is from -2.53 (ITF3 - Campania) up to 1.59 (NL1 - Nord Nederland), thus spanning over three full standard deviations in the data.

### *4.2 Independent Variables*

Our independent variables of note capture three broad aspects of each region: first, the historical levels of executive constraints – capturing hypothesis 1; second, several variables reflecting the current political institutions in place in the European regions – proxies for hypothesis 2; and third, the level of social trust – which, according to the “equality” and “culturalist” theories, reinforces QoG by virtue of having individuals with more generalized instead of particularized values and would be the main mechanism through which past institutions affect contemporary QoG.

As noted in the paper in which this data is presented, “a remarkable feature of European history is that regions now belonging to the same country were ruled by very different political institutions in the distant past” (Tabellini 2005: 17). The key independent variable capturing the historical opportunities to develop patronage networks is the constraints on the executive (*CONSTRAINTS*) from 1600-1850, the last year – for which data is available – before all countries in the sample were unified (measured in 1600, 1700, 1750, 1800 and 1850). This variable is taken from the pioneering study of regional differences by Tabellini (2005).

The variable is based on criteria from POLITY IV and builds on similar work by Acemoglu, Johnson and Robinson (2002).<sup>4</sup> The number of checks on a regional executive is a function of the strength of a representative legislature and/or independent judiciary. *CONSTRAINTS* is available for 72 regions in a limited number of E.U. 15 states and is a limited categorical variable that ranges from 1-7, with higher numbers indicating more constraints on the executive. A value of ‘1’ for example indicates no constraints on the executive, and in which case the rule at this time was more or less an absolutist monarch, while a ‘7’ corresponds to essentially a consolidated democracy, in which “accountability groups have effective authority equal to or greater than the executive in most activity”. Because certain regions in some countries like Italy or Spain for example, experience diachronic variation in executive constraints that is different than other regions of their country today, while other countries, like the Netherlands, have completely homogeneous regional change, we take employ Tabellini’s ‘*pc\_institutions*’ variable, which combines all five data points and takes the first principle component of the five time points on executive constraints. It ranges from -2.09 to 3.58.

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<sup>4</sup> A full description of the coding decisions of this variable is found in: Tabellini (2005).

We control for several alternative explanations – or, to be more precise, complementary – explanations, since the arguments of the “equality”, “culturalist” and our “networks” theories are similar in underlining the role of historical path dependencies. One significant difference is that while our proposal is more institutionalist – i.e. past political institutions, through other mediating institutions between society and the state (e.g. patronage party-machines, *caciques*), affect QoG – both the equality and the culturalist approaches emphasize the mediating role of individual values – in particular, of how prevailing generalized trust is. Therefore, we test whether recent estimates of social trust have a significant impact on QoG, taken also from Tabellini (2005). Social trust (*TRUST*) is measured as the percentage of respondents who answer that “Most people can be trusted” (the other two answers being “Can’t be too careful” and “Don’t know”) to the question “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”, from the World Value Surveys, (Inglehart et al. 2000). Tabellini takes the data from two waves of the survey – 1990-91 and 1995-97 – and assigns each respondent to their corresponding region. The mean number of respondents per region in the sample is 320. The *TRUST* variable ranges from 14.18 to 64.14, with higher values equating to higher levels of social trust.

Next, we test for the effects of a number of current political institutions capturing the across-time and within-time fragmentation of power from hypothesis 2. One, we test for the presence of single party rule in a region *SINGLE PARTY*, which is the proportion of years from 1997-2009 a region has been ruled by a single party (from 0-1). This is the main variable capturing the accumulation of power in the same hands (i.e. the ruling party) in a given period. Two, we test for electoral thresholds (*THRESHOLD*), which ranges from 0-5.7. This variable is an additional proxy for capturing the degree of accumulation of power: the higher the threshold, the more consolidated is the political power of the existing parties. Third, as a further proxy for (lack of) accumulation of power, we test the impact of minority government (*MINORITY*), which is the proportion of years from 1997-2009 that a region has been ruled by a minority government. Minority government implies other veto players have a potentially significant say in policy-making, thus reducing the accumulation of powers. Fourth, the consecutive years in

power (*CONSECUTIVE*) is the number of years that the current party (or government) has been in power (coded as consecutive even if small parties change in and out of the coalition as often the case in Belgium, so long as the largest party remains). This is a proxy for intertemporal accumulation of power around the same political party that has been used in the literature (Lapuente and Nistotskaya 2009) and found as exerting a significant effect on the development of meritocratic bureaucracies across 35 emerging countries.

The paper also controls for other standard political factors prevailing in comparative analyses. First, regarding the type of electoral system, all regions in the sample use proportional representation (PR), thus testing whether various types of electoral formula impact corruption are not possible with this sample. Secondly, the effects of partisanship are tested with three simple dummy variables representing *LEFT*, *CENTER* and *RIGHT* governments. These contemporary political variables were collected (by authors) from data on European Election results from ‘Parties and Elections in Europe’<sup>5</sup> and from individual region or country websites and coded as ‘*LEFT*’, ‘*CENTER*’ or ‘*RIGHT*’ following the coding rules from the Database of Political Institutions (Keefer et al 2005). Table 1 summarizes the availability of each of the variables within the sample.

As far as non-political standard controls, we include an indicator of economic development, as measured by regional PPP per capita (logged) from Eurostat, taken as the ten-year average from 1999-2008. Based on the numerous empirical studies on the correlates of QoG we expect this variable to have a positive effect on our dependent variable. As a matter of fact, regional economic performance is considered by Tabellini (2005) as a partial proxy for the quality of government institutions, a variable for which he lacks a direct measure. Population (logged) is controlled for, and is taken from Eurostat. Based on the findings from (reference deleted for anonymity), we control for whether a region is a capital region or not, as capital regions tend to have systematically lower QoG than non-capital regions.

We are aware of several issues stemming from endogeneity and multicollinearity in the models. First however, we are confident that since the primary independent variable

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<sup>55</sup> <http://www.parties-and-elections.de/>



of interest *CONSTRAINTS* occurred hundreds of years before the measurement of the dependent variable, our analysis is sufficiently protected against a blatant problem of endogeneity. Regarding several other variables, such as the level of regional economic development, we are quite certain, like the vast majority of the literature (see Holmberg, Rothstein and Nasiritousi 2008 for a recent review), that this is endogenous to QoG – with persistent feedback effects between economic development and QoG. On this point, and in order to properly deal with this endogeneity in the sample of available data we work with, we take the ten year average of the level of GDP per capita in the region (1999-2008) before the year the dependent variable was measured (2009). Thus the GDP variable occurs temporally prior to the QoG variable. Second, based on the results of Tabellini (2005), there is also strong empirical evidence to suggest that *CONSTRAINTS* is a significant determinant of present day GDP in a region. On this potential problem of multicollinearity and endogeneity between two independent variables in our analyses, we run models that include and exclude GDP when we test for the effects of *CONSTRAINTS*, as the multicollinearity between these two variables will likely render the standard errors of the estimates of *CONSTRAINTS* (along with GDP) less efficient.

#### 4.3 Sample

Although data is available for QoG in 172 regions in the E.U., the indicator for political constraints in the 19<sup>th</sup> century are available for only 73 regions, all from E.U.-15 countries<sup>6</sup>. In all, regions from eight different countries – Austria, Netherlands, Germany, Italy, Spain, Belgium U.K. and Portugal – are included at times in the sample. However, when testing for the relevance of contemporary political institutions, only the “politically relevant” regions that have regional elections at the NUTS level of interest have such data, therefore, the Netherlands, U.K. and Portugal are excluded from these models (while Austria and former East German Länder are included), reducing the sample size from 73 to 66. When TRUST is included, Austria and former East German

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<sup>6</sup> In Tabellini (2005) there are 69 region presented in his data. In this he combines Bolzano, Trento, Friuli and Veneto into one region, which we separate into four separate regions. Also, Valle d’Aosta and Piemonte are combined into one region, which we divide into two regions, hence the four extra regions in our analysis.

Länder also drop out, reducing the sample size to 51. Table 1 summarizes the availability of data for each set of variables and the regions/countries that are included.

\*\*\*Table 1 about here\*\*\*

## 5. Results

In table 1 we examine the effects of past political institutions on current day QoG in 73 regions, controlling for economic development, population and whether a region is a capital region or not along with *TRUST*. Moreover we test for the country fixed effects in the last two models, which remove the effect of the common, contemporary national institutions shared by regions within a country that are not included in the regression. Thus we test both the effects of historical political constraints on regions on whole throughout the EU-15, and their impact on regions within the countries themselves. Table 2 displays the results.

\*\*\*Table 2 about here\*\*\*

We begin with a simple baseline model of hypothesis 1 that we ran in Figure 1 and add controls in the second model. The initial results seem to corroborate our hypothesis 1 that historical constraints on the executive play a significant role in explaining variance in regional QoG today. For example, the baseline model indicates that *CONSTRAINTS*, significant at the 99% level of confidence, explains about one third of the total variance in the dependent variable ( $R^2$  is 0.33). We find that even when adding the level of economic development, population and whether a region contains the capital city or not, the impact of *CONSTRAINTS* remains highly significant and the coefficient remains largely the same. The estimate show that a one unit increase in *CONSTRAINTS* results in a 0.24 increase in QoG, or about 25% of one full standard deviation of the dependent variable, holding al other variables constant. In the next five models, we take each year of the combined *CONSTRAINTS* variable from models 1 and 2 one at a time. We do this to test whether one or two time periods in particular are driving the results. We find this not too be the case, as each of the five time periods of executive constraints is a significant predictor of contemporary levels of regional QoG. However, the strongest effects seem to be from that latest two time periods - 1800 and 1850.

In the final three models, we test the robustness of the results by including *TRUST* and adding country fixed effects. We find that the effects *CONSTRAINTS* are not at all reduced by adding *TRUST* into the model, yet *TRUST* is insignificant both with and without country fixed effects in the models. In the later two models, the impact of *CONSTRAINTS* on QoG is roughly half (to 0.13 down from 0.24 in model 2) when taking into consideration the fixed country effects, yet the variable of interest remains significant at the 95% and 90% confidence respectively in the last two models in Table 2, demonstrating strong robust evidence that both within and across countries, historical constraints on the executive in European regions play a key role in explaining variation of QoG at the regional level today.

\*\*\**Table 3 about here*\*\*\*

In Table 3 we test the relationship between present day political institutions (hypothesis 2) and QoG. It is important to note that in this sample, only regions that have elected governments are employed. In general, we seek to understand whether the degree of accumulation vs. fragmentation of powers plays a role in determining levels of quality of government. As mentioned above, we proxy accumulation of political power with institutions such as the proportion of years a region has been governed by a single party, a minority government, the electoral threshold, how long the current party/coalition in power has been governing and the electoral threshold. All of these are either direct or indirect measures of accumulation of powers, power-sharing or veto players.

The empirical evidence from models 1-4 suggest that regions with more accumulation of powers – i.e. fewer veto players or less power-sharing – perform, on average, better with respect to QoG. For example, *SINGLE PARTY*, *CONSECUTIVE* and *THRESHOLD*, all significant determinants of levels of QoG, suggest that regions which produce more single party governments on average, have longer tenured governments, and have higher barrier to entry for smaller parties perform better on average. In model 6, when all four institutions are regressed together, we find that *SINGLE PARTY* and *THRESHOLD* still play a significant role, and continue to do so even when accounting for past historical constraints on the executive in model 7. Partisanship however plays no role in explaining levels of QoG across EU regions.

In the final models, we account for fixed country effects. The results here show that differences in modern data political institutions *within countries* do not play a significant role in determining variation in regional QoG. This suggests that certain types of political institutions or patterns in power-sharing/veto players cluster within certain countries. However, the *CONSTRAINTS* variable remains a significant determinant of QoG in all three models where we include it- both with and without country fixed effects and with and without directly accounting for regional GDP levels. Thus we find that while modern day political institutions and power sharing is important across regions throughout the EU, these differences become negligible *within* countries (when taking into account country fixed effects). However, the legacy of power-sharing networks as measured by historical constraints on the executive at the regional level has strong and robust impact on current levels of QoG.

How can one know that the variable “past institutions” acts through a mechanism of “patronage networks”, as claimed in this paper, and not through a mechanism of “trust”, as argued by the culturalist approach to QoG (e.g. Tabellini 2005). We cannot totally rule out the possibility that “trust” is the “missing link” to which Tabellini refers to, connecting past institutions with contemporary ones. However, as shown by the strong and robust empirical relationship between *CONSTRAINTS* and QoG, past executive constraints are not an appropriate instrument for Tabellini’s model. Further, as the material explored in this paper shows – preliminarily in the relatively low correlation between social trust and regional QoG in Figure 2 and more extensively in the analysis presented in this section – recent levels of *TRUST* do not have the same explanatory power as *CONSTRAINTS*. In other words, at least in relation to the value of “generalized trust”, it does not seem that having individuals with better values is what leads to higher levels of QoG in a region.

## **6. Conclusions**

The contribution of this paper to the literature is mostly explanatory, by addressing the question of why some regions perform better than others in terms of QoG. In order to provide an account as encompassing as possible, this paper uses pioneering cross-time dataset in which a large number of political, cultural, socio-economic and historical

variables have been collected for a large number of European regions – that varies between 172 in the broadest analysis to 51 in the narrowest – and for a significant period of time – with historical variables from 1600 onwards and contemporary political factors from 1970s onwards.

Similar to Tabellini (2010), one important finding is that historical factors (e.g. the existence of a historical tradition of “constraints on the executive” in place in the region already in the 18<sup>th</sup>-19<sup>th</sup> centuries) seem to matter for explaining nowadays differences across EU regions. Unlike Tabellini, who explores differences in economic performance, our dependent variable is a (perception-based) measure of QoG. In this regard, this paper provides a new empirical angle to a literature on regional differences which emphasizes qualitative differences between regions – e.g. Northern vs. Southern Italy, Wallonie vs. Flanders – but which lacked quantitative encompassing measures of QoG across both countries and regions. The general map of QoG emerging from this data seems to confirm most of this previous literature, with very important divergences in how citizens in different regions perceive the quality, impartiality and lack of corruption of the public administrations they encounter daily. Based on the theoretical and empirical literature on quality of government, it can be argued that such variation has important implications on the economic and social progress of lesser-developed areas within the Union.

The paper develops two hypotheses, one regarding historical political institutions and the other regarding contemporary. The first hypothesis, on the negative effects of a past of unconstrained executives over contemporary levels of QoG via the survival of “patronage networks” seems to be more firmly corroborated in the empirical analysis. The second hypothesis, on the positive effects of accumulation of powers at sub-national level in democratic settings, is conditional to country effects and thus is only moderately confirmed. We find strong support for H1, and support for H2 across the entire sample. However, when taking country fixed effects into consideration, contemporary power-sharing institutions cannot explain within-country regional variation of QoG. Yet, at the same time, by showing that both synchronic and diachronic accumulation of power has a positive (and sometimes significant) effect over QoG, the paper makes a contribution to a literature that has generally claimed the opposite. The prevailing view has sustained that

both political competition (e.g. Stigler 1972) and multiple veto players (e.g. Andrews and Montinola 2004) should lead to better QoG. In the light of the results presented in this paper, this predictions are not fulfilled for European regions; if any, the opposite.

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**Table 1: Availability of Data**

<i>Dep. Variable (QoG) index &amp; control variables</i>	All 172 regions & 27 E.U. states
<i>Executive constraints (1850)</i>	Bel (3), W. Ger (10), Italy (21), NL (4), Por (7), Spain (17), UK (11)
<i>Social trust</i>	Bel, W. Ger, Italy, NL, Por, Spain, UK
<i>Political Institutional Variables</i>	Austria (9), Bel, Ger (16), Italy, Spain (19),

*note: number of regions per country in parentheses. 'W. Ger' implies only West German Länder. 2 of Spain's overseas regions not included in the Tabellini dataset. Only regions with elected regional governments of political significance contain political-institutional data.*

**Table 2: The Impact of Historical Institutions on Regional Levels of QoG and Robustness Checks**

	<u>Baseline</u>	<u>w/controls</u>	<u>Executive Constraints at Various Time Points</u>					<u>w/Trust</u>	<u>Fixed Effects</u>	<u>F.E. w/Trust</u>
Constraints	0.26*** (6.36)	0.24*** (5.54)						0.24*** (5.12)	0.13** (2.02)	0.11* (1.71)
Constraints 1600			0.18** (2.14)							
Constraints 1700				0.22*** (3.78)						
Constraints 1750					0.21*** (4.78)					
Constraints 1800						0.25*** (6.51)				
Constraints 1850							0.27*** (6.50)			
PPP per cap. (log)		0.87** (2.32)	0.98** (2.28)	0.92** (2.23)	0.99** (2.45)	1.19*** (3.08)	1.23*** (3.66)	0.83** (2.01)	0.87** (2.36)	0.79** (2.03)
Population (log)		-0.05 (-0.49)	0.03 (0.38)	-0.01 (-0.12)	-0.02 (-0.27)	-0.08 (-0.81)	-0.04 (-0.42)	-0.04 (-0.55)	-0.13* (-1.89)	-0.13* (-1.97)
Capital region		-0.51 (-1.59)	-0.59 (-1.61)	-0.51 (-1.43)	-0.51 (-1.44)	-0.59 (-1.47)	-0.72** (-2.13)	-0.47 (-1.55)	-0.51** (-2.16)	-0.48** (-2.11)
Trust							0.002 (0.27)			0.02 (1.38)
Constant	0.12 (1.36)	-8.15** (-2.11)	-10.38** (-2.37)	-9.45** (-2.24)	-10.45** (-2.23)	-11.81*** (-3.02)	-12.75*** (-3.79)	-7.76* (-1.86)	-6.68* (-1.83)	-6.35* (-1.70)
Rsq. countries	0.33 7	0.39 7	0.21 7	0.28 7	0.32 7	0.42 7	0.51 7	0.39 7	0.83 7	0.83 7
Obs.	73	73	73	73	73	73	73	73	73	73

*note: dependent variable is the EU QoG index, (-2.5 to 2.5) with higher scores meaning higher QoG*

*OLS with robust standard errors (t-statistics in parentheses). The final two models are run with country fixed effects (estimates for country dummies not shown here).*

*\*\*\* p>.01, \*\*p>.05, \*p>.10*

**Table 3: The Impact of Present Day Institutions on Regional QoG**

	OLS with Robust Standard Errors						w/ Country Fixed Effects			
	1	2	3	4	Partisanship	Full	No GDP w/ Constraints	9	10	
Singleparty	0.62** (2.15)					0.49* (1.70)	0.74** (2.71)	-0.03 (-0.17)	0.09 (0.53)	0.09 (0.44)
Minority		-0.79 (-1.18)				-0.55 (-0.97)	-0.19 (-0.42)	0.13 (0.55)	-0.09 (-0.34)	0.21 (1.03)
Consecutiveyrs			0.03** (2.07)			0.01 (0.46)	0.01 (0.69)	0.01 (1.18)	0.01 (0.25)	0.01 (0.62)
Threshold				0.22** (2.21)		0.21* (1.91)	0.24** (2.71)	0.03 (0.46)	0.001 (0.02)	0.007 (0.12)
Left					-0.06 (-0.21)					
Center					-0.04 (-0.19)					
PPP per cap. (log)	1.32** (2.56)	1.08** (2.00)	1.13** (2.22)	1.08** (2.01)	1.21** (2.18)	1.08* (1.93)			0.74 (2.25)	1.02 (2.35)
Population (log)	-0.14 (-1.27)	-0.15 (-1.01)	-0.14** (-2.31)	-0.12 (-1.26)	-0.12 (-1.13)	-0.13 (-1.22)	-0.02 (-0.15)	-0.19** (-2.15)	-0.17** (-2.23)	-0.16** (-1.99)
Capital region	-0.61 (-1.14)	-0.43 (-0.95)	-0.46 (-0.92)	-0.59 (-1.27)	-0.52 (-0.99)	-0.58 (-1.18)	-0.56 (-2.42)	-0.34 (-1.24)	-0.44* (-1.71)	-0.87** (-2.31)
Constraints	-	-	-	-	-	-	0.28** (2.37)	0.24*** (3.27)	-	0.12* (1.82)
Constant	-12.22** (-2.27)	-9.7* (-1.77)	-10.25* (-1.93)	-10.56* (-1.97)	-10.85* (-1.90)	-10.63* (-1.95)	-0.99 (-1.23)	0.56 (0.87)	-7.11** (-2.26)	-9.80** (-2.25)
Rsq.	0.19	0.16	0.15	0.21	0.14	0.27	0.33	0.75	0.81	0.78
Countries	5	5	5	5	5	5	4	4	5	4
Obs.	66	66	66	66	66	66	51	51	66	51

*note: dependent variable is the EU QoG index, (-2.5 to 2.5) with higher scores meaning higher QoG*

*OLS with robust standard errors (t-statistics in parenthesis)*

*\*\*\*  $p > .01$*

Figure 1

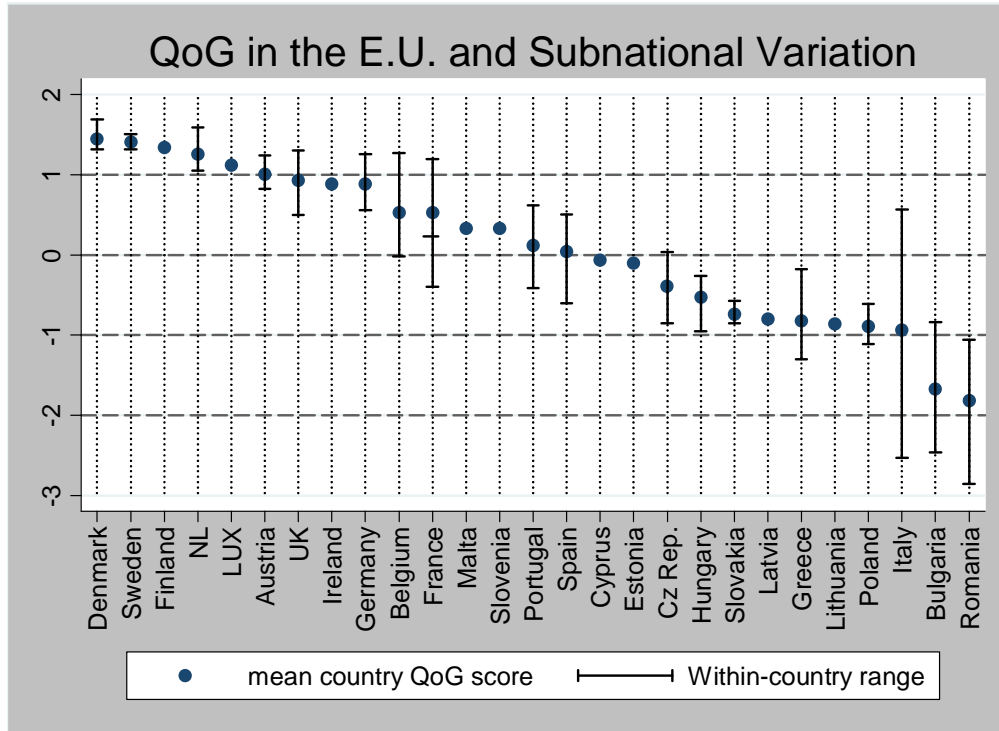
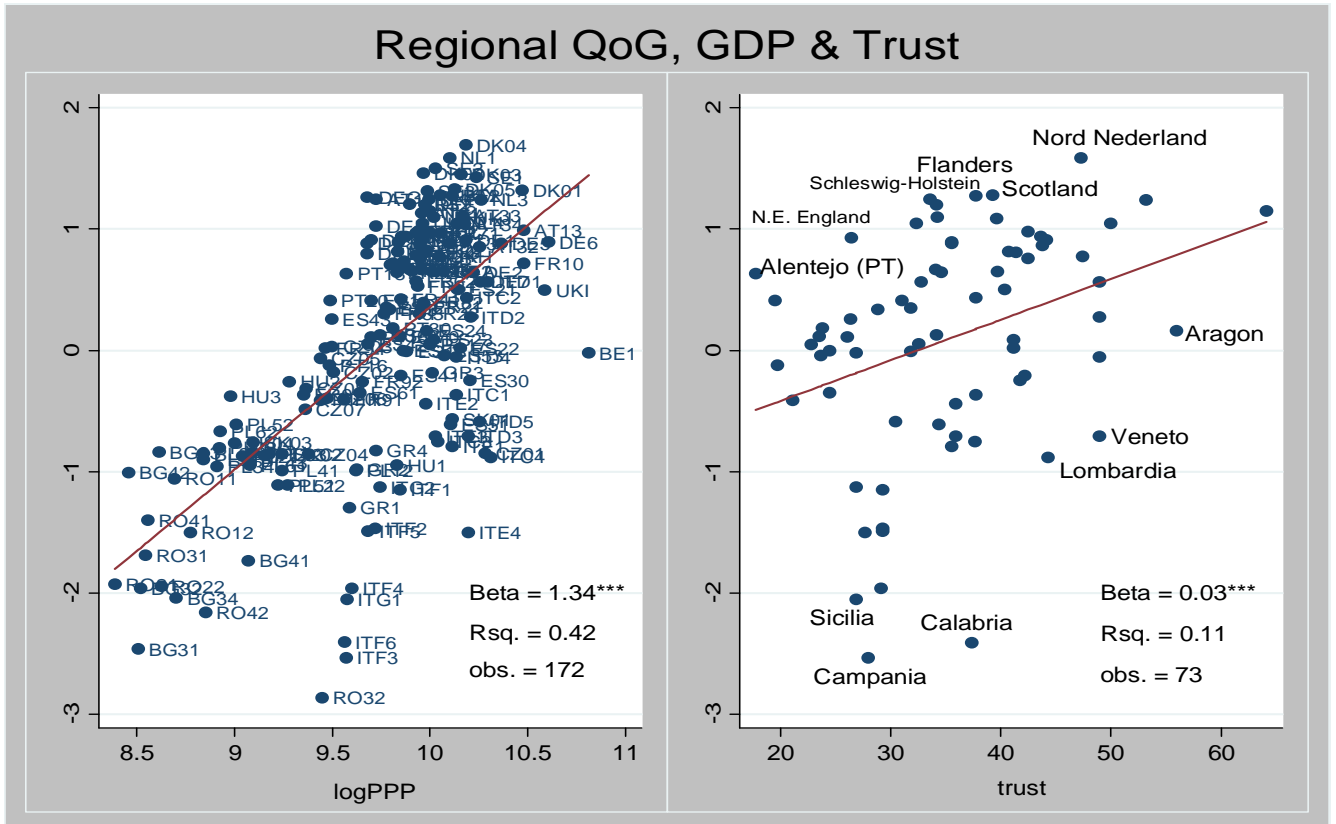
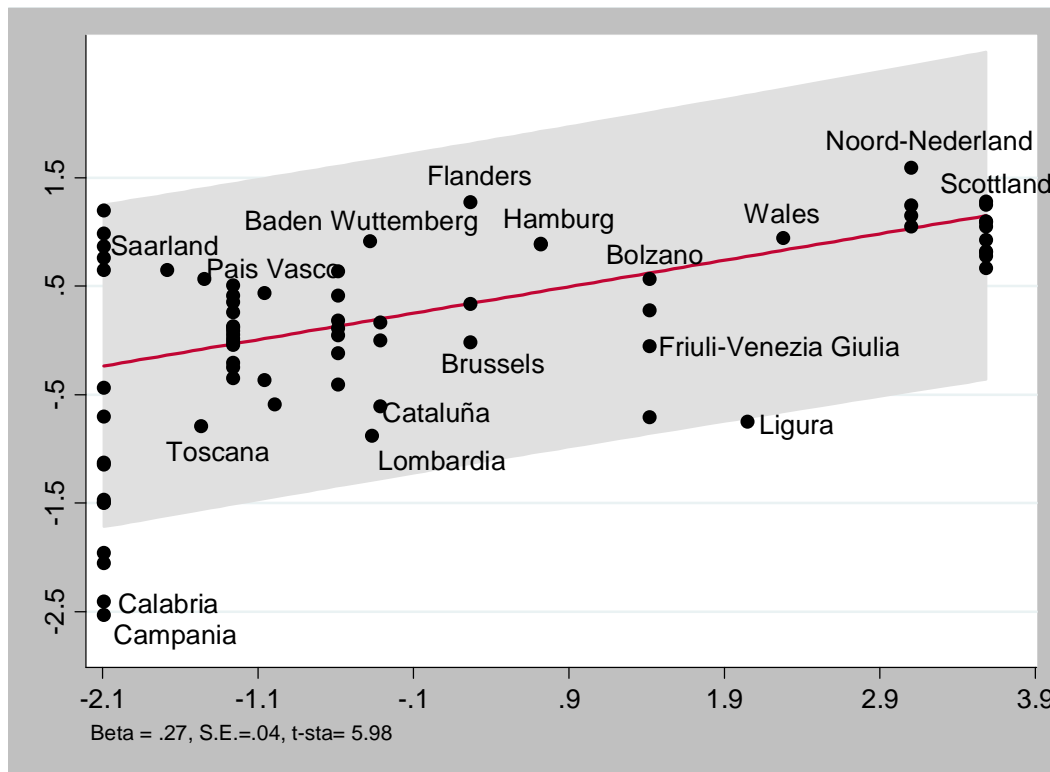


Figure 2



**Figure 3: Historical Constraints on the Executive and Regional QoG**



*Note: shaded area represents the 95% confidence interval around the linear prediction. Number of observations is 73 from Italy, Spain, Netherlands, Germany (West), U.K., Belgium and Portugal*

1. **Electoral Threshold** – the average electoral threshold from 1997-2009 (range: 0 – 5.7)
  2. **Single Party** – proportion of years between 1997-2009 that a single party controlled government (range: 0 – 1)
  3. **Minority Government:** proportion of the year between 1997-2009 that were controlled by a minority government (range: 0 -1)
  4. **Consecutive years in power:** The number of years that the current party (or government) has been in power (coded as consecutive even if small parties change in and out of the coalition as often the case in Belgium, so long as the largest party remains).
- Left government (0/1)** – all partisanship variables follow the DPI (Keefer et al 2005) simple coding rules (authors' construction).
- Center government (0/1)**

**Right government (0/1)**

Control variables:

1. **PPP per capita (logged)** – from Eurostat
2. **Population density (logged)** – from Eurostat
3. **Capital Region** – (0/1)