

## **The Impact of Political Competition and Governance on Economic Growth and Income Distribution: Evidence for Latin American and East Asian Countries**

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**Abstract:** This article investigates the effects of political competition and Governance indicators on economic performance and income distribution for Latin American and East Asian countries, during the period 1996-2019. The majority of the literature considers that the establishment of stable institutions, providing better levels of security of property rights, is the key-factor to improve economic growth and reduce inequality, taking into account the creation of favorable conditions to new investments and technological developments, especially considering an environment of globalization. In this sense, these “good institutions”, or the so-called good governance, are closely related to economic growth. On the other hand, growth requires reforms, therefore, political and economic changes. In a similar logic, one can expect that a lack of political competition may lead to policies that hinder economic growth and that political competition impacts growth positively via economic reforms, but one can also consider that governments with more freedom to make decisions and less threat from opposition political parties are associated with faster economic growth. In sum, in both cases, it will be necessary an empirical analysis to help to elucidate the theoretical dilemmas. We verify, using statistical methods, the positive relevance of variables associated with good governance to economic performance and income distribution as well as significant impacts from political competition.

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### **1. Introduction**

The economic growth has been one of the themes more studied in the social sciences. It is also one of the main objectives pursued by the societies, once the increase of the production level allows all to get better.

Unhappily, not always this happens and the benefits are, a lot of times, distributed unevenly.

In this way, wider studies and extremely correlated, approaching subjects as development, their social impacts and distribution of income also made part of great research projects and intense debates.

It is particularly significant the difference among the economic performances of the countries, being, this way, quite difficult to explain as a country as the United States produce proportionally in one week that takes one year, approximately, to be produced at a country as Nigeria, as they begin commenting on in their article HALL and JONES (1999). As it points out LUCAS (1988), when one begun to think with respect of those facts, it is difficult to think regarding something more.

On the other hand, a long time ago the Political Economy came tending the theme of the economic growth as a fundamental point, as it alerts NETTO (2002): " the Political Economy was born with the pretension of helping the economic growth of the nations. Their origins more retreated to show with clarity the constant concern on the poverty and the opulence of the nations. It is the case, for instance, of Spanish Luiz Ortiz (1558 ), of Italian Antonio Serra ( 1613 ) , of French Antoine de Montchrétien, author of the first Treaty of Political (1615) Economy, of the English mercantilists Thomas Mun (1621), Gerald of Malynes (1601) and Edward Misselden (1622), and of the Germanic cameralists, particularly Johann Joachim Becher (1668) and Joseph R. Von Sonnenfels ( 1763 ). All of them took care, explicitly, of "recipes" that (control, incentive, regulation) would that would take the states to the opulence."

These "recipes", which refers NETTO (2002), bring for our discussion some subject-key: 1) why the economic acting of some countries is so different, with some getting to grow its rate so high and other simply try mediocre rates, when no negatives? 2) Why don't the governments of these last countries adopt the same politics that took the countries of the first group to grow in such an expressive way? and 3) considering this is impossible, why some countries have conditions of adopting success models and others do not?

As it is known, the so-called new growth theory, developed starting from the works of ROMER (1986, 1990) and LUCAS (1988) highlighted in a seminal way the roles of the technology and of the education as the main decisive factors of the growth, appearing, therefore, such factors as main answers to the first question put above.

Contrarily to the neoclassical model of SOLOW (1956), however, the new models, of the also called endogenous growth theory, they don't consider the technological progress as something exogenous, in other words, determined for factors strange to the models, but they try to explain the determinants of this technological progress.

Theoretically, many were the ideas developed, since those which emphasized, besides the aspects already mentioned (technology and education), several others: the importance of external trade, of the inequality level in the distribution of the income, of the role of the infrastructures in the generation of productive activities, of the role of the government expenses, among other several factors, pointed out as decisive importance to the economic growth process. Obviously, without mentioning the traditional factors: physical capital and workforce.

Due to the existence of a great amount of factors, pointed out in the literature, as responsible for the economic growth process, some authors have concerned in trying to systematize their influences in the attempt to explain the phenomenon.

In this direction, RODRIK (2003), summarizes in two groups of factors: the endowments of factors (included in this group, physical capital, human capital and Labor Force) and Productivity, determined endogenously.

Associated to those groups of factors and related among them are the external trade and the institutions, considered partially endogenous (they are partially determined inside of the economic system, having, however, also exogenous conditions), as well as geographic aspects, exogenous to the economic system.

The institutional aspects have fundamental importance above the aspects pointed out, mainly the institutional aspects that concern the participation of the State while enterprising of public policies that can develop the decisive factors to the economic growth process or to create favorable conditions so those factors are developed.

On the enterprising side, we can mention public policies that motivate progress in education (collaborating for the formation of human capital) and technology. While facilitator, we can mention public policies that encourage a favorable atmosphere to stimulate the work and the private investment, in the sense that HALL and JONES (1999) call infrastructure.

For institutions, we will follow the simplifying idea of PRZEWORSKI (2004), that the same mean rules (previously announced or learned inductively), which the people wait that are following for sanctions (centralized or decentralized) in cases of deviations. In our study, the political and economic institutions will be considered as variables to be analyzed, in other words, how the rules that administer the political and economic relationships can improve the performance of the countries.

The fundamental role of the institutions for the good economic performance of the countries was detached by seminal works, with extremely elucidating historical analyses for the possible causes in the different economical performances among the countries, as we can verify in the classic studies of NORTH (1981, 1990).

Corroborating what was said, economist P rsio Arida, for instance, when being interviewed for the book *Conversations with Brazilian Economists*, BIDERMAN, COZAC and DITCH (1997, p. 333) regarding which would be his conception on the subject of economic development, affirmed:

“The subject is, before anything else, institutional. In other words, what is the institutional and legal picture that gives more trust to the agents to accumulate wealth? This is the subject - key. I refer to the removal of impediments to the action freedom and recruiting, to the capacity to create markets and to the suppression of the threats to the wealth accumulation. Reduce transaction costs I also think it is crucial. It is a much more restrictive vision than the usual and certainly more attentive to the institutional and legal picture than most of the economists would like”.

This article presents the following sections: in the next, we will discuss the role of the institutions as the fundamental cause of the process of economic growth, as well as this role to the approaches of the economic and political sciences, trying to bring complementary aspects and possible existence of gaps in the literature. In the third section, we will analyze the importance of the governance for the growth process, still considering the theoretical point of view; in the two followings sections, we will bring an empirical analyses for East Asian and Latin American Countries, using governance and institutional data, the sixth section considers the importance of the veto players, political competition and the governance indicators to the income distribution. Final considerations finalize the work.

## **2. Institutions and Economic Growth**

In relation to the discussion proposed in this article, it is important to try to systematize the interactions between the political and economic institutions and some other variables, as described in ACEMOGLU, JOHNSON and ROBINSON (2004), that in some way allows to try to answer us to the three questions mentioned in the Introduction of this work. The outline below simplifies the interactions between economic variables and politics. We will explain the diagram below, soon afterwards:

POLITICAL INSTITUTIONS  $t \rightarrow$  DE JURE POLITICAL POWER  $t$   
DISTRIBUTION OF RESOURCES  $t \rightarrow$  DE FACTO POLITICAL POWER  $t$

DE JURE POLITICAL POWER  $t \rightarrow$  ECONOMIC INSTITUTIONS  $t$   
DE FACTO POLITICAL POWER  $t \rightarrow$  POLITICAL INSTITUTIONS  $t+1$

ECONOMIC INSTITUTIONS  $t \rightarrow$  DISTRIBUIÇÃO OF RESOURCES  $t+1$   
 $\rightarrow$  ECONOMIC PERFORMANCE  $t$

We can observe that the political institutions in the time  $t$  (present) influence the so-called de jure political power also in the time  $t$ , in other words, the power that comes with the capacity to alter the legislation, changing legal norms, and influenced by the molds of the political institutions.

The distribution of resources in the time  $t$  influences the so-called de facto political power that is the associated power, not to the legal norms, but to the capacity of, for having more resources, to influence the decisions.

Those two types of power, in its turn, will influence the economic institutions in the time  $t$  and the political institutions in the time  $t+1$  (future). For the logic of the outline to conclude is necessary to consider that the economic institutions in the time  $t$  influence the economic performance in the time  $t$  and the distribution of resources in the time  $t+1$ . Thus, to know how the variables of the system can be altered, it is necessary to know how can be altered the behaviors of the political institutions and of the distribution of resources in the present.

In other words, if the *de jure* power depends on the behavior of the political institutions and the facto power depends on the distribution of resources and those two types of power will determine the behavior of the economic institutions, influencing the economic performance, of course the political variables will determine, in its final analysis, the economic performance differentiated among the countries.

To try to establish an example, we can think that a reduction in the public expenses could represent a series of changes in the economic institutions capable to alter the current economic performance and the distribution of resources in the future.

For that reduction in the public expenses to happen, that is, so that it happens that modification in the economic institutions, it will be necessary that modifications occur in the political power, that is, in the *de jure* power, through changes in the political institutions and/or in the de facto power, via modifications in the distribution of resources.

This is the Brazilian case in the current moment, accord with some authors, e.g. RODRIK et. al. (2004), because the lack of saving would be the main factor limiting the Brazilian growth, in such a way that, when the external financing is present, the economy grows, when he ceases, the economy enters in stagnation.

It would be necessary, therefore, a reduction of the public expenses to reduce this dependence of the external financing. What does the crucial question settle down; however, it is how the political institutions could be modified to make possible the changes in the economic institutions, and in our example, to allow a reduction in the public expenses?

The analyses more associated with the economic theory seem to have a lot of limitations to answer this question. Even the most recent developments like the one of ACEMOGLU, JOHNSON and ROBINSON (2004) and RODRIK et al (2004), for instance, as well as the several models built starting from the endogenous growth theory, don't get to explain the mechanisms capable to modify the political institutions.

It fell to the political science to treat better of this subject. Recent Works, however seminal, like the one of TSEBELIS (2002), COX and MACCUBINS (2001) and TOMASSI et al. (2006) bring analyses even certain point associated.

For those authors, it is crucial to notice that the appearance and the maintenance (Decisiveness and Resoluteness, in the concepts of COX and MACCUBINS, 2001) of the government politics addressed for the growth, as well as of their characteristics highly favorable, it depends on the result of the transactions made in the political "game."

The political cooperation is, a lot of times, fundamental to take to the effective government politics in favor to the economic growth. In the political system, however, as show TOMMASI et. Al. (2006), it is more probable, including the Brazilian case, that the political cooperation is happened when: 1) the positive results or gains by the non-cooperation were reduced; 2) the number of political actors is small; 3) those actors have strong intertemporal connections 4) good delegation (an efficient bureaucracy, for instance) techniques exist; 5) the political actions are broadly observable; 6) it exists good coercion techniques so that the intertemporal agreements are honest (an independent judiciary, for instance) and finally 7) the political changes have room in arenas where the properties 1-6 tend to be satisfied.

The political Brazilian system has strong conditions, given its operation structure, of allowing the existence of those conditions, according to MELO et al. (2005).

This allows us to conclude, though, that even with the mentioned favorable conditions, in case there is not cooperation, in other words, if the political forces have a limited capacity to enforce cooperative agreements, rigid (no reagents to the economical atmosphere) political rules will be chosen if the conflict of interests is big compared with to the volatility of economic environment.

Alternatively, in the vision of TSEBELIS (2002), without cooperation, the veto players can impede that extremely important policies for economic growth are implemented. On the other hand, the non - cooperation can also impede those disastrous policies in the point of view of promoting growth, as, for instance, those that harm the safety of the property rights, be put in practice. In the reality, when there is a low capacity to enforce political intertemporal changes, depending on the extension of the distributive conflict in relation to the nature of the economic volatility, we can observe political agreements highly volatile or policies highly inflexible. That, once again, it can be favorable or not to the economic growth.

If the volatile political agreements happen in function of important politics for the growth, as, for instance, structural reforms that improve the education system or improve the deficit of the pension system, the cooperation lack will have been disastrous for the objective of doing the country to grow.

On the other hand, if the politics highly inflexible are established around points considered vital, in its maintenance, to motivate the growth, as, for instance, the fiscal control and the safety of the property rights, the cooperation lack among the political agents, and the eventual conflict among them, it will have been beneficial for the growth process.

It is expected that the lack of political competition may lead to policies that hinder economic growth and that political competition impacts growth and income distribution positively via economic reforms, but one can also consider that governments with more freedom to make decision and less threat from opposition political parties are associated with faster economic growth and better income distribution.

Made that discussion concerning the political and economic theories that associate the operation of the institutions with the growth process, of course empiric evidence is very useful to show which type of political institutions can favor or not to the growth of a country; if more rigid and difficult institutions of changing the status quo or the ones that are more adaptable to the processes of changes and reforms.

### **3. Governance and Economic Growth**

The relationship between governance and institutions has been deserving prominence in several studies. That relationship is particularly important because if the institutions are the rules that determine as the people behave, they then should provide the means (forms of incentives to favor the execution and sanctions for the case of noncompliance) that drive the people if they hold in agreement with those rules.

If all of the institutions are having performances indeed well, the people will be behaving in an appropriate way in what says respect to all the rules of the society. Good governance and appropriate institutions would be, therefore, the same thing.

The governance assures that a series of appropriate institutions is present, whether in the public sphere, or in the private. In relation to the linked institutional factors to Governance, is necessary to look for the own definition in a wider way, as makes KEEFER (2004), for who Governance is associated to two groups of factors.

The first group is linked to the answer reactions before the citizens and the capacity of providing them with certain basic services as safety to the property rights, and more generally, with rules of the legislation (rules of law).

The second is associated to the institutions and the government's processes that supply to the decisions-makers government incentives to generate efficient answers for the citizens' demands and they are related with the democracy, voice of the society, in this kind of situation, and accountability.

Be noticed that the first group represents results, that is, corruption and bureaucratic efficiency are indicative direct of the lack of appropriate answer to the social demands, and only indirect indicators of the lack of government incentives so that those appropriate answers are supplied. On the other hand, the second group represents linked concepts to the causality and, therefore, more important.

Another important point to be stood out is the existence of two currents that come with relative ideas to the process of improvement of Governance: the first, puts that if there are flaws in the state apparatus, giving margin to the appearance of corruption, for instance, reforms in the public administration, such as intensifications of auditing and actions of the public prosecution service, or reforms in the financial administration of the state, can be implemented in the sense of trying to correct the problems.

On the other hand, the second current considers that if the flaws are more taken root in the political actors' incentives, the reforms will have to be more structural, not meaning, evidently, that it cannot and should not be accomplished.

It is very common in the research lines associated to Governance, the systematic use of study and data supplied by the World Bank to point out, through their works, alternatives of politics for the growth, emphasizing the invigoration of the institutional instruments that would favor the international investment, through a larger trust in the respect to the property rights and in the correct execution of the rules of the law.

A subject-key to work in the best way the empiric relationship between governance and economic growth is related with the desegregation of the governance concept. In this sense, KAUFMANN, KRAAY and ZOIDO-LOBATON (1999, 2002) and KAUFMANN, KRAAY and MASTRUZZI (2004, 2005) present works that constituted in great progress in the direction of pointing the governance not as an only concept, but a group of variables that should be considered as a whole.

In the reality, they show 194 governance measures, of 17 sources, and they divide those variables in six categories: voice and accountability, political stability, government efficiency, regulation quality, rules of law, or juridical safety and control of corruption.

It is important to notice that a lot of times the countries have different performances with respect to the related items.

In this way, for instance, we can verify that most of the countries of Latin America is getting better, comparatively to countries with similar per capita income, their results in relation to the subjects related to the voice and transparency and political stability, while they have been worsening in relation to the government efficiency, regulation quality, rules of the law and control of corruption.

Many studies that used the method of cross section (sometimes combined with time series), in other words, the choice of a group of countries to have their united data in statistical regressions, found a positive relationship between the indicators of the so-called good governance and the economic growth. Especially, the works, RODRIK et al. (2004) and ACEMOGLU et al. (2004) found significance of the variables safety of property rights, rule of law and government efficiency.

#### **4. Institutions, Political Competition and Economic Growth: Empirical Evidence for East Asian and Latin American Countries**

Some of the chosen institutional variables concern the so-called agents with power veto (veto players) capable to avoid the modification of the *status quo*. In our analysis, that variable is represented by the variable CHECKS. That variable is equal to 1 when there is a low level of political competition and it receives an additional unitary value when it happens the following events: when a chief of the executive exists, when the executive is chosen competitively and when the opposition controls the legislative.

In the presidential system a unitary value is added for each camera of the legislative, unless the president's party has most in the deputies' camera and the system admits closed lists. In the parliamentary system the value of the variable receives an additional unit for each party, given that each one of those parties is necessary to maintain the majority. Both in the presidential regime as in the parliamentary regime, each party that is part of the government coalition and is closer from the opposition adds a unit.

We also use the variable **POLITICAL COMPETITION - POLCOMP** retrieved from Polity IV dataset (Marshall, Jaggers and Gurr, 2011)

It is important to observe that, although we follow HALL and NISHIKAWA (2014), we do not use the simultaneous equations approach. Instead, we consider the political Competition as an explanatory variable of economic growth.

Our basic equation to analyze the impacts of the institutional variables for the economic growth of countries will be:

$$Y_{it} = a K_{it} + b H_{it} + c A_{it} + \alpha_j I_{j it} + \epsilon_{it}, (1) \text{ where :}$$

Y is the rate of per capita income growth, data from PENN TABLES (2019)

K is the rate of formation of physical capital, data from PENN TABLES (2019)

H is an indicator of human capital, represented in this case for the number of years of study, data from BARRO and LEE (2003) actualized

A is an indicator of the openness of the economy, in this case, the participation of exports and imports in Gross Domestic Production, data from PENN TABLES (2019)

I<sub>j</sub> are the institutional variables, that is, I<sub>1</sub> is the variable CHECKS, I<sub>2</sub> is the variable POL, POLCOM is the Political Competition, retrieved from Polity IV dataset (Marshall, Jaggers and Gurr, 2011) and so on,

i is the number of countries

j is the number of the institutional variables  $\epsilon_{it}$  represents stochastic error

The data on the political variables of the countries, more specifically the related to what was known as checks and balances, try to verify how many and which are the decision-makers concerning the public policies that will be implemented, or put in another way, how many and which are the agents with power veto needed to approve the implementation of these public policies.

That analysis is particularly important because the government policies can harm minorities without representation, or with insufficient representation, in the measure that the number of veto players goes smaller. On the other hand, when increases the number of veto players needed to approve these public policies, it decreases the probability that the policies contrary to the interests of a certain minority can be approved. In other words, the mechanisms known as checks and balance, responsible for analyze and approve the implementation of the public policies can facilitate or to hinder such implementations.

In the reality, the implementation of new policies can represent significant changes in the so-called status quo, in other words, in the current state on which are the conditions of the public policies at a given moment. The changes can happen to benefit the society as a whole and to promote the economic growth, but they can also act just to represent specific gains or damages for some interest groups.

As it is clear in the analysis of TSEBELIS (2002), as larger the number of veto players, more difficult the occurrence of those changes. If the new policies are favorable to the development and to the public benefit, they will have more difficulties to be implemented with the largest number of veto players, and in that case, the largest number of agents to accomplish the checks and balances will end up harming the development process of a country.

On the other hand, if the policies have the objective to harm or to benefit specific groups. On the other hand, if the policies have the objective to harm or to benefit specific groups of interest, the largest number of veto players will avoid that this happens, being in this case beneficial for the general interests of the society, in the measure it avoids that benefits are granted for groups of interest, to the detriment of most of the population or that it harms in an unjust way minority groups without representation in the veto mechanisms. Also is probable that countries with larger number of veto players have larger difficulties of taking measures in response to economic crises.

So much in the presidential as parliamentary regimes, divergences can exist in relation to approval of public policies; in other words, one can has vetoes through the mechanisms of checks and balances. In the case of the presidential countries, the larger difficulties will be in the bargains that the executive power will have to accomplish with the veto players existent in the legislative, while in the parliamentary countries to administer the veto points inside of the coalitions it can be the largest difficulty. The indicators of the World Bank - Database of Political Institutions - DPI, presented in BECK et al (2001) are already capable to measure those aspects and they will be used in this work.

The results regarding the institutional variables will be presented firstly for the Brazilian case, covering the period 1975 -2019. This period is longer than the one that will use for the cases of the countries of Mercosul and East Asian; in other words, cross section with time series, as well as for the governance analyses. In those cases, we will use the period 1996-2012, once the relative data to the indicators of governance of the World Bank only covers the period 1996-2019. In the Brazilian case, however, for treating of a single country, being, therefore, necessary the use of time series to accomplish the statistical regressions, we will use a longer period 1975-2019.

## **Brazil**

**Table 1 – Significance and Signal of the Institutional Variables (Ordinary Least Square – OLS)**

### **Brazil ( 1975-2019 )**

Variable	CHECKS	POL	LTVP	POLCOMP
<b>Significant at 1%</b>	-	+	-	-
<b>Significant at 5%</b>				
<b>Significant at 10%</b>				

Source: Author Calculus

For the Brazilian case, as it can be seen in the table 1, above, the regression with usual control variables, as physical capital (investments), human capital (years of education) and commercial openness (Participation of

the external trade in GDP), as well as a series of institutional variables contained in DPI of the World Bank, it presented the following result:

The investments were positively related with the growth, with a level of significance of 1%, and about the institutional variables it stood out the influences of the variable CHECKS, that represents the number of veto players responsible for the mechanisms of checks and balance, negatively related with the growth level and significant at the level of 2%, also the variable POL, political polarization, that it represents the maximum difference orientation among the pro-government parties, positively related with the growth and significant at the level of 2% and of the variable LTVP, that represents the longest mandate among the veto players, negatively related with the growth and significant at the statistical level of 6%.

What is possible to observe through the results above is the strong negative relationship among the agents with power veto (whether through its number, considering the variable CHECKS, or through its time of mandate duration, considering the variable LTVP) and the level of growth of the Brazilian per capita income, in other words, as larger the number of veto players and larger their mandates, worsen for the growth of the Brazilian per capita income. As for the polarization, we can admit the idea that as larger the difference among the political orientations of the parties of the pro-government base, more easily the government can negotiate with each one of them separately and more easily to implement their policies.

To check the robustness of our results, we made the substitution of the variable CHECKS for the variable developed by HENISZ (2000), for him nominated of POLCONIV. That variable has for objective to verify as one given proposition of government it could be vetoed inside of the political system. He considers the agents with power to veto being the executive, the deputies' camera, senate and judiciary and it adds to the agents mentioned the sub-national (in the Brazilian case, States) units.

Chosen the agents with power veto, Henisz develops a space model that incorporates those agents' preferences amongst themselves and inside of their own structures.

We can observe that the built variable is similar to the variable CHECKS, elaborated by BECK et al (2001). It is worth to point out that Henisz used the variable POLCONIV to show the relationship between this and the level of external investments and the economic growth and he found a direct relationship, in other words, as larger the political stability, measured by the variable POLCONIV, the largest the levels of investment and the growth rates.

We calculated a new regression for the Brazilian case, using the variable built by HENISZ (2010), in other words, the variable POLCONIV as instrumental variable for the variable CHECKS in a regression of 2 stages least squares, in a similar way to that was done by HENISZ (2010) and we showed that there were not significant alterations.

When we substituted the variable CHECKS for the variable developed by HENISZ (2010) as instrumental variable, the same continues being significant at level of 1% and contributing negatively to the Brazilian economic growth, in other words, the idea is reaffirmed that a larger number of agents with power veto (veto Players) contributes negatively to the taxes of growth of the per capita income in Brazil.

The variable LTVP that represents the longest mandate among the veto players continued being significant at the level of 1% and contributing negatively to the growth process, in other words, as larger the duration of the mandates of the veto players existent in the system, worsen for the economic growth of the country.

In the same sense, the variable STVP, that represents the shortest duration of the mandate of the veto players, in that regression in 2 stages, it comes significant at the level of 8 percent and (in the regression done with ordinary least square the variable STVP was not significant statistically when we analyzed the statistics t of Student) it contributes positively to the growth, in other words, the smallest duration of the mandates of the veto players it favored the process of Brazilian economic growth.

The variable POL continues significant at the level of 1% and contributing positively to the growth taxes in Brazil, in other words, as larger the difference of orientation among the parties that are the government's part, better for the growth. That result seems to indicate the larger is the difference among the preferences of the parties that are part of the government coalition and that they would be, at least at first, veto players, more difficult to change the status quo, what could be interpreted as being a point contrary to the argument that has been used to explain the most important results, obtained with the empiric tests accomplished through the regressions, pointed out until this moment, that is, the more difficult to change the status quo (with a larger number of veto players, for instance) worsen for the growth process.

On the other hand, we can think that with the largest fragmentation among the preferences of the parties that give political sustentation to the government, it would be easier for the government to negotiate separately with each one of those parties than have to negotiate with an united block every time it had to try to approve some change in the public policies. That was our reasoning when we analyzed the also positive contribution of the variable POL in the regression done through ordinary least square.

The variable POLCOMP is significant and negatively contributes to economic growth, reassuring the importance of stability to economic development, that is, the political, and, perhaps, economic stability which appears with the lack of political competition is important to improve economic performance.

The table 2, below, resumes the results obtained through the regression with Least Square in 2 Stages:

<b>Table 2 – Significance and Signal of the Institutional Variables (Least Square in 2 Stages – 2QLS) Brazil ( 1975-2019 )</b>					
Variable	POLCONIV	LTVP	STVP	POL	POLCOM
Significant at 1%	-	-		+	-
Significant at 10%			+		
Source: Author Calculus					

### **Mercosur**

In the case of the series composed for Argentina, Brazil and Chile, as shown in the table 2, below, the variable CHECKS presented negative sign and statistical significance at the level of 5 percent, standing out that the larger easiness of changing the status quo is favoring the economic growth of the countries selected.

In the case of the countries of Mercosul, once again, the variable CHECKS, representing the number of veto players, was negatively related with the growth of the countries of Mercosul (added to Chile), the level of statistical significance was 10%, corroborating the previous analysis that as larger the governments' easiness to implement their policies, larger the growth rates. In this case, we can observe the negative influence of the commercial opening, significant at the level of 7%, and the investments in physical capital, statistically significant at the level of 1%. The Political Competition once again is significant and negatively related to growth.

For the case mentioned, the equation to be estimated was:

$$Y_{it} = a + K_{it} + b + H_{it} + c + A_{it} + \alpha_j I_{j_{it}} + \Theta_1 \epsilon_{i,t-1} + \Theta_2 \epsilon_{i,t-2} + \Theta_3 \epsilon_{it} + \delta (2), \text{ where :}$$

Y, K, H and I are the same variables defined in equation (1)

i is the number of the country

j is the number of the institutional variable

and  $\Theta_1 \epsilon_{i,t-1} + \Theta_2 \epsilon_{i,t-2} + \Theta_3 \epsilon_{it} + \delta$  are the MA(1) e MA(2).

### **East Asian Countries**

To the countries of the East Asian, in what it weighs the unavailability of the data for Hong Kong, the results to the other countries (Singapore, South Korea and Taiwan) showed the positive and significant influence at the statistical level of 9% of the human capital and, once again, it repeats the negative influence of the veto players, represented once again by the variable CHECKS, indicating that the smallest number of veto players favored to the growth of the countries of the area, and for the variable VPDROP, that indicates that the small percentile of veto players leaving the government favored the growth of the countries of East Asian. The Political Competition Variable – POLCOM was significant and negatively associated to economic growth for East Asian countries.

<b>Table 3 – Significance and Signal of the Variable CHECKS ( 1996-2019 )</b>			
Variable	CHECKS Argentine, Brazil and Chile	Mercosul and Chile	East Asian
Significant at 1%			
Significant at 5 %	-		
Significant at 10%		-	-
Source: Author Calculus			

<b>Table 4 – Significance and Signal of the Variable POLCOM ( 1996-2019 )</b>		
Variable POLCOM Argentine,Brazil and Chile	Mercosul and Chile	East Asian
Significant at 1%		
Significant at 5 %	-	
Significant at 10%	-	-
Source: Author Calculus		

## 5. Governance and Economic Growth: Empirical Evidence for East Asian and Latin American Countries

The indicators of Governance of the World Bank, compiled in the work Governance Matters IV, presented in KAUFFMAN, KRAAY and MASTRUZZI (2005) were used in this work. To evaluate the impact of the variables of Governance for the growth, we used the following equation to calculate the statistical regressions when we worked with groups of countries, that is, when we have data in panel, which combine cross section data (countries) with time series (years) :

$$Y_{it} = a K_{it} + b H_{it} + c A_{it} + \alpha_j G_{jit} + \epsilon_t \quad (3) \text{ where :}$$

Y is the rate of per capita income growth, data from PENN TABLES ( 2019 )

K is the rate of formation of physical capital, data from PENN TABLES ( 2019 )

H is an indicator of human capital, represented in this case for the number of years of study, data from BARRO and LEE ( 2003 ) actualized

A is an indicator of the openness of the economy, in this case, the participation of exports and imports in Gross Domestic Production, data from PENN TABLES ( 2019 )

Gj are the variables of Governance, that is, G1 is RL ( Rule of Law ), G2 is RQ, (Regulatory Quality ), G3 is PS ( Political Stability ), G4 is GE ( Government Effectiveness ), G5 is CC ( Control of Corruption ) and G6 is VA (Voice and Accountability). The data were obtained from KAUFFMAN et al. (2012)

i is the number of the country

j is the number of the variables of Governance

e represents the stochastic error

For the regressions with the countries of Mercosul and Chile and with those countries and the countries of the East Asian we used an adjustment of first order AR (1), once it is possible that autocorrelation problems can be harming the results. We verified that the adjustment improved the explanatory power of the regressions, increasing R<sup>2</sup>, as well as the levels of significance of the parameters analyzed by the statistics t of Student. The equation used in those cases was:

$$Y_{it} = a Y_{it-1} + b K_{it} + c H_{it} + d A_{it} + \alpha_j G_{jit} + \epsilon_t \quad (4)$$

### Brazil

As it was already explained previously won't be possible to use the governance data just to Brazil, once the historical series is much reduced. In order to have an approximate idea, we used the united data of Brazil, Argentina and Chile, for the period 1996 -2019.

The results showed the positive and significant influences, respectively, to the levels of 1 and 4 percent, respectively, of the variables related to the governance indicators, Government Effectiveness and Voice and Accountability, results that walk in the sense more found in the literature, in other words, indicators of more democracy levels, transparency and government efficiency favor the growth process.

On the other hand, we verified, unlike what it is usually pointed in the works on growth and governance, that the variables Rules of law and Safety and quality of the regulation (regulatory quality) had negative and significant associations, both at the statistical level of 6 percent, with the taxes of growth of the per capita incomes of Brazil, Argentina and Chile.

We considered that it should have a relationship between those results and the results presented previously that showed an association also negative among the veto players and the growth rates. In both cases the variables, so much the institutional ones, as the one of governance, hinder the appearance of reforms, once as larger safety's juridical, larger warranty the certainty that the law won't change, even if are necessary reforms to guarantee the policies returned for improve the growth rates of the economy.

## **Mercosur**

For the case of Mercosur, we made an analysis similar to the previous one, adding Uruguay and Paraguay in the time series with cross section panel. The results were also similar, standing out the fact that the variable rules of the Law, once again is negative and statistically significant related with the growth rates, now at the level of 8 percent. The government (Government Effectiveness) efficiency is, as expected, positively related with the growth rates and significant at the level of 5 percent.

## **East Asian and East Asian with Mercosur**

The results to the countries of East Asian (Singapore, South Korea, Hong Kong and Taiwan) corroborated the negative relationship among the variable Rules of the Law and the rates of growth of the incomes per capita to the countries of the area, this time at a significance level still larger, of the statistical point of view, in other words, to 1 percent.

In this case, the variables associated with the indicators of governance Political Stability and Quality of the regulation; as in most of the literature present a positive and significant relationship at the levels, respectively, of 7 and 1 percent.

When we added the countries of Mercosul to the countries of the East Asian, still forming a time series with cross section, the result continues the same in relation to the variable Rule of, in other words, negative and highly significant (at the level of 1 percent) related with the rates of growth of the incomes per capita of the countries component of the series.

Summarizing, we can present the principal results at the table below:

Table 5 – Significance and Signal of the variables of Governance ( 1996-2019 )

<b>Variable</b>	<b>Argentine, Brazil and Chile</b>	<b>Mercosur and Chile</b>	<b>East Asian</b>	<b>Mercosur and East Asian</b>
<b>RL</b>	- (1%)	- (8%)	- (5%)	- (1%)
<b>RQ</b>	- (5%)		+ (1%)	+ (7%)
<b>GE</b>	+(1%)	+ (5%)		
<b>VA</b>	+(1%)			
<b>PS</b>			+ (7%)	

Source: Author Calculus

It is fundamental to observe that in all regressions of this work the R2 were very high.

## **6. Institutions, Political Competition, Governance and Income Distribution.**

In order to analyze the possible influences of veto players and governance indicators to the income distribution we calculate the OLS regression:

$ID_{it} = a + b \cdot INST_{t-1} + c \cdot ID_{it-1} + \epsilon_{it}$ , where:

ID is a measure of Income Inequality and we used Gini coefficient from the World Income Inequality Database (WIID) and CEDLAS (for Latin American countries).

INST are Veto Players and Governance Indicators.

The independent variables are lagged to avoid putting endogenous variables on the right-hand side of the regression, considering the ideas of ACEMOGLU et al. (2014).

The main results can be found in the table 6, below:

Table 6 – Significance and Signal of the variables of Governance, Veto Players and Political Competition ( 1996-2019 )

<b>Variable</b>	<b>Argentine, Brazil and Chile</b>	<b>Mercosur and Chile</b>	<b>East Asian</b>	<b>Mercosur and East Asian</b>
<b>Veto Players</b>	- (1%)	- (5%)	- (5%)	- (1%)
<b>Political Competition</b>	- (1%)	- (10%)	- (5%)	- (1%)

<b>RL</b>	+ (5%)		+ (1%)	+ (5%)
<b>GE</b>	+(1%)	+ (5%)	+(5%)	+(5%)
<b>VA</b>	+(1%)			+(5%)
<b>PS</b>			+ (1%)	

Source: Author Calculus

As we can see, once again, the number of veto players and the party duration are positively associated to the income inequality, meaning that more veto players and more political competition influenced inequalities in the same way. We can think this result could be explained by the fact that less veto players and less political competition can facilitate reforms which could help to improve the income distribution.

As expected, some governance indicators are positively associated to reduce inequalities, perhaps, showing that good institutions also can improve income inequality in the same way it happened with economic growth.

## 7. Conclusions

The notion of governance has been one of the most discussed and debated issues in recent years in the social sciences and other fields. Governance has also been associated with human and economic development. Economic growth, on the other hand, is a primary concern of nations, even more so during times of crises. Accordingly, the current global economic crisis has influenced all aspects of people's lives, including the relationship between governance and economic growth.

The literature demonstrates the existence of the relationship between governance and economic growth, but says little about the influence of the economic crisis on that relationship. In this sense, this article demonstrates what is accepted by the majority of the literature which considers that the establishment of stable institutions, providing better levels of security of property rights, is the key-factor to economic growth, taking into account the creation of favorable conditions to new investments and technological developments, especially considering an environment of globalization.

In this sense, these "good institutions", or the so-called good governance, are closely related to the maintenance of the status quo, that is, the permanence of political and economic stabilities. On the other hand, economic growth requires, in a large way, political and economic changes to allow reforms, to make it possible. We verify, using statistical methods as Ordinary Least Squares (OLS), Least Square in Two Stages (2QLS), Generalized Method of Moments (GMM), among others, that, despite the relevance of variables associated with good governance, the Brazilian economic growth is related negatively with the large numbers of veto players (agents with veto power) and with the Political Competition and the same happened to South American and East Asian countries.

In some cases, the income growth rate is negatively related to the tenure of the veto players and their drop rate from the government basis. Thus, the weaker capacity to veto political and economic changes were associated to better economic growth rates, which does not mean one must not have institutional stability, but points out that the capacity to change the status quo is fundamental to generate conditions to economic growth in developing countries.

We also found support to consider that both veto players, Political Competition and governance indicators had contributed significantly to improvements in income distribution.

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