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Mapping the Quality of Government in Europe

An analysis at the national and regional level within the EU member states

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Preface

Quality of government is an imperative feature among advanced democracies and economies. Furthermore, corruption and mismanagement of public funds have obstructive effects on growth, welfare systems, and trust among citizens. The reliability of public institutions among the citizenry has been known to vary widely among the countries of the European Union. In 2011, Sieps published a report by Charron, Lapuente, and Rothstein which systematically mapped out citizens' perceptions of the quality of government among the regions of the EU. Ten years after the outbreak of the financial crisis and the subsequent eurocrisis that brought mass unemployment and extensive social despair among large sectors of the populations across Europe, it is even more pertinent to study the realities of quality of government and corruption practices in order to stabilize the trust of citizens in public institutions.

In this report, the authors build on the material from 2011 with additional data, thus strengthening the descriptive image of how the quality of government manifests itself in different regions of the EU. Furthermore, the authors connect the levels of quality of government to the governance and efficiency of public institutions. Also, a series of policy measures and directions for decision makers are discussed.

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Director

About the authors

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Victor Lapuente is a Senior Lecturer and an Associate Professor at the Department of Political Science as well as a Research Fellow at the QoG Institute. Lapuente's research mostly deals with comparative public administration and corruption.

Bo Rothstein is Professor and Senior Advisor at the QoG Institute. Rothstein's research revolves around public policy and institutions, governance, welfare state, social trust, inequality and corruption.

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Executive summary

In this report, the authors revisit the issue of corruption in the European Union, a 'ghost' that has been haunting modern democracies and undermining citizens' well-being around the world. Over the past decades, the EU has witnessed parallel processes of convergence and divergence. On the one hand, peripheral regions have caught up with core regions. On the other hand, there are rising disparities between better-off and worse-off regions, and there are indications that these socio-economic disparities among regions (sometimes within the same country) are due to differences in the governance of public institutions.

In line with recent findings in comparative politics and economics, the authors argue that geography matters for economic and social development. The evidence indicates that the quality of government – defined as control of corruption, impartial treatment of citizens, prevalence of the rule of law, and government effectiveness – plays an important role in supporting regional development.

This report builds on and adds further data to a previous research project (Charron, Lapuente and Rothstein 2011) showing the existence of large variations of the quality of government across European regions. Herein, the authors start by presenting the methodology and results of a second and largest survey at a sub-national level in Europe, which includes 206 regions and 84,000 citizens, and was produced by the Quality of Government Institute at the University of Gothenburg in 2013. Together with governance indicators provided by the World Bank Research Institute, the data enables the building of a more extensive and robust European Quality of Government Index (EQI).

Subsequently, the authors present the theoretical arguments and the empirical evidence supporting the hypothesis that the quality of government is a crucial factor for explaining asymmetric socio-economic performance across EU regions. They also explore how good government is linked to three central EU policy goals – i.e. to ensure smart, sustainable, and inclusive growth. An important caveat is that the causal arrow can go in both directions: from good governance to smart, sustainable, and inclusive growth, and vice versa. It is in fact likely that there are feedback effects between these variables. Consequently, the authors disentangle challenges with improving institutional and government quality and discuss how regions may be caught in a self-reinforcing equilibrium of either vicious or virtuous circles of government quality.

The conclusions point out the policy implications emerging from this research, in particular, the need for meritocratic reforms in those regions with lower levels of quality of government. Meritocratic reforms are relatively costless in economic terms, and highly effective in curbing corruption and improving governance. Yet

meritocratic reforms are politically costly for political incumbents, as their power largely rests on the existence of pervasive patronage networks. To the very least, the European actors interested in good government should put these reforms on the public agenda, to make public these contradictions of good government.

1   Introduction: The importance of quality of government

Regional convergence has long been, and still is, a policy priority in the EU. Since the territorial enlargement in the 1980s with the accession of Greece, Spain, and Portugal, cohesion has been made a key strategy for supporting regional development (European Union 2014a). Today, the Regional Policy – also referred to as the Cohesion Policy – is the EU's main investment policy, seeking to foster economic, social, and territorial cohesion, and to reduce disparities between regions (European Union 2014a; 2014b; 2010).

Even so, there are pieces of evidence pointing out that regional divergence has actually increased over time, at least in terms of economic growth, productivity, and employment (Farole, Rodríguez-Pose and Storper 2011:1090). To a certain extent, growing differences between countries and between regions within countries are due to the asymmetric impact of the financial crisis (Berkowitz, Von Breska, Pienkowski and Rubianes 2015). Yet researchers note that the different regional performances are also the result of the formal and informal institutions prevailing in a region either now (Farole, Rodríguez-Pose and Storper 2011) or historically (Tabellini 2005). In particular, as we will see in this report, a crucial factor for explaining this asymmetric socio-economic performance of the EU regions is their remarkable differences in quality of government.

Nicholas Charron, Victor Lapuente, and Bo Rothstein wrote the SIEPS report (Charron, Lapuente and Rothstein 2011) where they showed the existence of a large variation in the quality of government – understood as control of corruption, the rule of law, government effectiveness, and the degree to which citizens are treated fairly and impartially by government agencies – across 172 European regions. Data came from a 2010 survey of approximately 34,000 individuals, which asked about both their perceptions as well as personal experiences in public service areas such as health care, education, and law enforcement.

The main result was that the survey allowed us to create the *European Quality of Government Index* (EQI), where we ranked the EU regions from the top performers to the bottom regions in quality of government. The top performing regions were Midtjylland (DK), North Netherlands (NL), Sjælland (DK), Syddanmark (DK), and South Sweden (SE). Conversely, the lowest performing regions were Vest (RO), Calabria (IT), Campania (IT), Severozapaden (BU), and Bucureşti-Ilfov (RO).

An interesting finding was that within some countries, such as Italy, Romania, Belgium, or Spain, the differences between regions were remarkable. In other words, regarding the quality of institutions, it does not seem to matter so much in which European country you live, but in which region. For instance, a citizen of the Basque Country in Spain or Alentejo in Portugal perceived a level of quality of government similar to that of a French citizen living in Limousin or Auvergne, a British citizen from Yorkshire, or an Italian from Valle d'Aosta, while a citizen living in Spain's capital region of Madrid experiences a quality of government below the average of Western Europe and equivalent to that of high-performing new EU members, such as Estonia or Slovenia. And, at the same time, a citizen from Catalonia (ES) – or, for that matter, Brussels (BE) or Liguria (IT) – evaluates her institutions similar to a citizen from an average Czech Republic region.

We replicated this survey in 2013, but covered more regions (206) and more individuals (85,000). The 2013 survey has allowed us to build a more robust EQI with which we can more properly map the quality of government across Europe. As we will see, the new EQI provides further evidence on the remarkable regional and country differences in the quality of public institutions across Europe.

In this report, we will present the main descriptive information on this survey: which are the regions with the highest level of quality of government and which countries present the largest differences within their own borders? We will discuss the consequences of having higher or lower levels of quality of government, exploring the high correlations between EQI and a large set of social outcomes, ranging from economic inequality and gender inequality, to unemployment and educational levels, infant mortality, and social trust. At the same time, we will explore alternative factors that could explain the regional differences in EQI – with a special focus on the organization of the public sector, particularly the dominance of a merit system (or, its opposite, a politicized administration). We will see both reasons to be pessimistic – because low-performing regions may be trapped in a bad spiral or a "vicious" cycle of low expectations and low quality of government – as well as to be optimistic – because relatively meritocratic reforms could foster the quality of institutions within a region.

These meritocratic reforms are, on paper, relatively costless from an economic point of view and easy to implement. Yet, in practice, these reforms are costly, i.e. in political terms. Elected officials who owe their own political career to the distribution of patronage jobs to political supporters or entrenched interest groups will be reluctant to undertake administrative reforms that tie their hands in the management of the public workforce.

1.1 The geography of government matters
A central argument of this report is that the geography of government matters. This perspective is in line with the latest findings in both comparative politics

and economics. In recent years, numerous studies have shown that geography plays a crucial role for economic and social development (Farole, Rodríguez-Pose and Storper 2011; Pike, Rodríguez-Pose and Tomaney 2007; Rodríguez-Pose and Garcilazo 2015). Developmental processes are shaped by a variety of factors and forces – economic, political, environmental, cultural – that are not evenly distributed across space (Farole, Rodríguez-Pose and Storper 2011; Pike, Rodríguez-Pose and Tomaney 2007). Scholars have detected "conspicuous gaps" in income, density of population and economic activity across and within national economies (Farole, Rodríguez-Pose and Storper 2011:1090).

On the one hand, the winners and losers from particular varieties of development are "geographically differentiated" (Pike, Rodríguez-Pose and Tomaney 2007:1261). On the other, they change over time (Pike, Rodríguez-Pose and Tomaney 2007:1261). Take Belgium, for example. Wallonia was one of the earliest regions in Europe to industrialize thanks to a dynamic economy and coal reserves. In contrast, Flanders was lagging behind, with a mostly agrarian economy. Yet, after World War II, Flanders experienced a period of strong industrial modernization while Wallonia suffered the decline of its coal and steel industry. Consequently, these two regions changed their roles by the mid-1960s, when the income per capita in Flanders surpassed that of Wallonia (Euwema and Verberke 2009). The unemployment rate in Wallonia is currently more than twice that of Flanders (Charron, Dijkstra and Lapuente 2015).

In general, the EU has, on the one hand, witnessed a process of peripheral regions catching up with core regions; and on the other, seen that some differences between well-off and worse-off regions within the same country have risen (Farole, Rodríguez-Pose and Storper 2011:1090). We thus see convergence as well as divergence in the EU.

1.2 The concept of quality of government
In particular, the concept of quality of government (QoG) has recently emerged as "a key factor" for understanding gaps in regional development (Charron and Lapuente 2013:567, see also Holmberg, Rothstein and Nasiritousi 2009). The core idea of quality of government has been theorized to be that of impartiality in the exercise of power (Rothstein and Teorell 2008). That is, the idea that a government ought to treat its citizens equally. Similarly, one could argue that a high quality of government refers to those which provide "ethical universalism" (Mungiu-Pippidi 2013) or that guarantee an "open access order" (North, Weingast and Wallis 2009) within a society.

To measure "quality of government", scholars employ outcome indicators of government activity (in contrast to the production of formal legislation) that are related to the quality of government intervention (in contrast to the "quantity" of government activity, e.g. public expenditure as a percentage of the GDP). Thus the quality of government is understood as the capacity of governments to deliver

quality policies, and not a large quantity of legislation or public expenditure. Quality policies are those characterized by the absence of corruption and the upholding of an impartial treatment of citizens, provided through effective administrative machineries (Charron and Lapuente 2013). Corruption – or, to be more precise, its absence – is a fundamental pillar of quality of government. Again, corruption is obviously a very broad concept: anything we do not like we can call corruption. Consequently, in order to scientifically work with it, we need to narrow our definition. We do so by following both international organizations and academics who define corruption as "the abuse of an entrusted power for private gain" (Rose-Ackerman and Palifka 2016:9).

The proxies for quality of government used in the literature include the following: low levels of corruption in the public sector, prevalence of the rule of law, government effectiveness, and protection of property rights (Charron and Lapuente 2013). Interestingly, these cross-indicators tend to be highly correlated. Irrespective of the type of data – e.g. subjective perceptions or objective measurements; surveys to citizens or to experts – and the methodology employed to collect them, the same territories tend to be at the top or at the bottom of the rankings. Countries with low levels of corruption – e.g. Denmark or New Zealand on a global scale – tend to be the ones with the most effective governments, where property rights and the rule of law are better protected. That is, these different indicators of government performance do seem to capture a latent variable that pervades the governmental activities within a territory. Consequently, as some authors have argued, "it makes sense to talk about the quality of government as a general feature of countries" (Tabellini 2008:263). In other words, we can say that some territories (countries, but also regions or municipalities) have a systematically higher quality of government than others.

Not only that, but these indicators of quality of government that highly correlate to each other do seem to matter. Less corrupt and effective governments that respect the rule of law – i.e. governments with a high QoG – deliver essential public goods and facilitate processes that are conducive to economic growth and social development (Charron and Lapuente 2013; Pike, Rodríguez-Pose and Tomaney 2007; Rodríguez-Pose and Garcilazo 2015). There is a growing consensus within both policy and academic circles that the quality of institutions and governments makes "an important difference for economic development" (Rodríguez-Pose and Garcilazo 2015:1275).

Conversely, researchers in development economics, comparative politics, and public administration have found robust evidence that low-QoG governments – e.g. those with dysfunctional and corrupt public organizations – suffer a wide range of economic and social problems (Kaufmann et al. 2011; Rothstein and Teorell 2008; Holmberg, Rothstein and Nasiritousi 2009). Low-QoG countries endure lower levels of economic development (Mauro 2004), higher income inequality (Gupta et al. 2002), and worse environmental outcomes (Welsch

2004). Additionally, their citizens have poorer health (Holmberg and Rothstein 2012) as well as lower levels of happiness (Veenhoven 2010) and subjective well-being (Samanni and Holmberg 2010; Helliwell and Huang 2008). There is ample evidence that government institutions "shape the incentives and disincentives driving economic interactions" (Rodríguez-Pose and Garcilazo 2015:1276) and are "the strongest determinant of regional variations in trust within countries" (Charron and Rothstein 2014:2). All in all, societies with impartial, effective, and accountable institutions tend to have higher levels of social capital with citizens exhibiting greater degrees of social trust, well-being, and individual happiness than countries that do not (Holmberg and Rothstein 2014).

1.3 The European puzzle

Differences in quality of government may be behind some of the stark socio-economic differences we find across regions within the same EU countries. In Italy, the per capita income of Bolzano is about two-and-a-half times greater than that of Campania (Charron, Dijkstra and Lapuente 2015). In Romania, the Bucureşti-Ilfov region has a per capita income over three-and-a-half times that of Nord-Est. Or, take the asymmetric effects within the same national borders of the financial crisis. For instance, the unemployment rate in five Spanish regions (e.g. Andalucia or Extremadura) jumped above 33 percent in 2013, while in other regions (e.g. Basque Country, Navarra, and La Rioja) it stayed below 20 percent. In Slovakia, the poorest region, Vychodne Slovensko, has suffered an unemployment rate almost four times that of the Bratislava region. That is, citizens across territories within the same country may experience differences in quality of life more so than citizens across different countries.

These differences across territories that enjoy similar democratic institutions have challenged some conventional wisdom. For a long time, policy-makers and academics alike have equated the quality of government to democracy. Yet, even if democracy at all levels of government may be an essential component of QoG, currently it seems insufficient to provide QoG (Charron, Lapuente and Rothstein 2011). Scholars have reached the conclusion that democracy alone cannot explain the notable gaps in levels of QoG and that levels of economic and social development between regions cannot solely be explained by an alleged lack of democracy. Likewise, policy-makers have shifted the focus from democratic institutions to take into account other institutional factors. For instance, the EU has increasingly adopted the view that institutional quality and government quality matter for regional development. In the Fifth Cohesion Report it is stated that "poor institutions can, in particular, hinder the effectiveness of regional development strategies" (European Union 2010:65). This view is even more pronounced in the Sixth Cohesion Report – paving way for the policy period 2014-20 – where the EU has explicitly shifted focus to "good governance" as a means for promoting stronger economic, social, and territorial cohesion across regions:
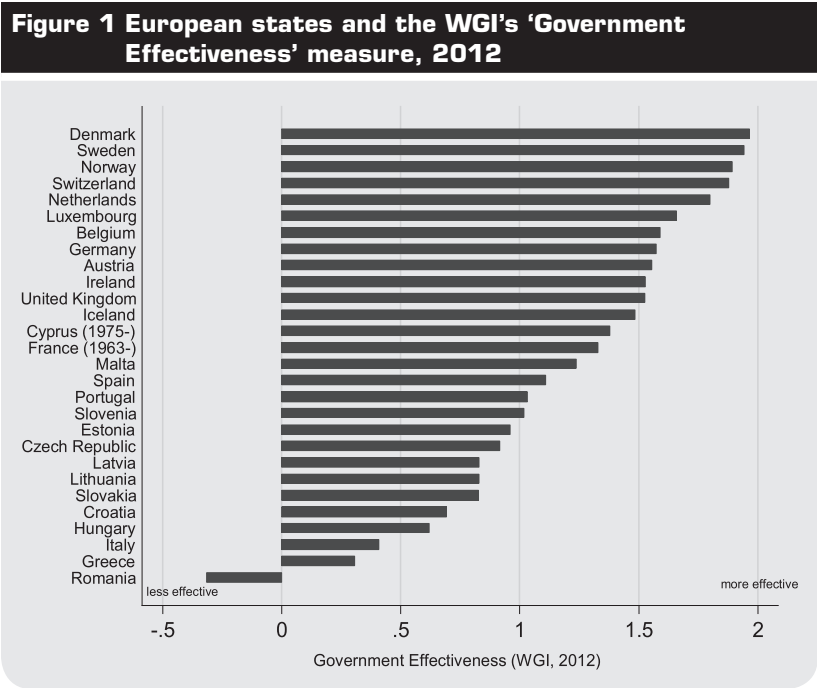
A lower standard of governance can affect the impact of Cohesion Policy both directly and indirectly. In the first place, it can reduce expenditure if programmes fail to invest all the funding available. Secondly, it can lead to a less coherent or appropriate strategy for a country or region. Thirdly, it may lead to lower quality projects being selected for funding or to the best projects not applying for support at all. Fourthly, it may result in a lower leverage effect because the private sector is less willing to co-finance investment. (European Union 2014b:172)

In total, almost a third of the EU's entire budget – €351.8 billion – is allocated to the Cohesion Policy. Targeting all regions and cities in the Union, the policy period for 2014–20 is explicitly geared toward promoting "smart, sustainable and inclusive growth" (European Union 2014b: xvii). These are precisely the three main subjects of analysis in this report: how can smart, sustainable, and inclusive growth be promoted by public action? As we will show, there are many indications that smart, sustainable, and inclusive growth depend critically on the quality of government of the European regions.

The remainder of the report is structured as follows. Section 2 draws a map of the quality of government in Europe. We explain how the regional indicator of quality of government (EQI) is built, and how regions have moved from the first picture, taken in 2010, to the latest one in 2013. Section 3 presents the relevance that the quality of government – i.e. the EQI – has for understanding regional differences in several dimensions: competitiveness, business investment, and innovation (i.e. in "smart" growth); environmental performance and public health management (i.e. "sustainable" growth); and social equality and social trust (i.e. "inclusive" growth). After discussing the effects of having high or low levels of quality of government, one poignant question is addressed: why, despite all the evidence pointing out the importance of good institutions, has it turned out to be so difficult to improve institutions? Section 5 concludes with a note of optimism, and some notes for caution: certain reforms – in particular, meritocratic reforms in the civil service – do seem to make a difference, and they may be implemented under certain circumstances. All in all, we hope this report contributes to the general debate on how can we change public institutions for the better in Europe.
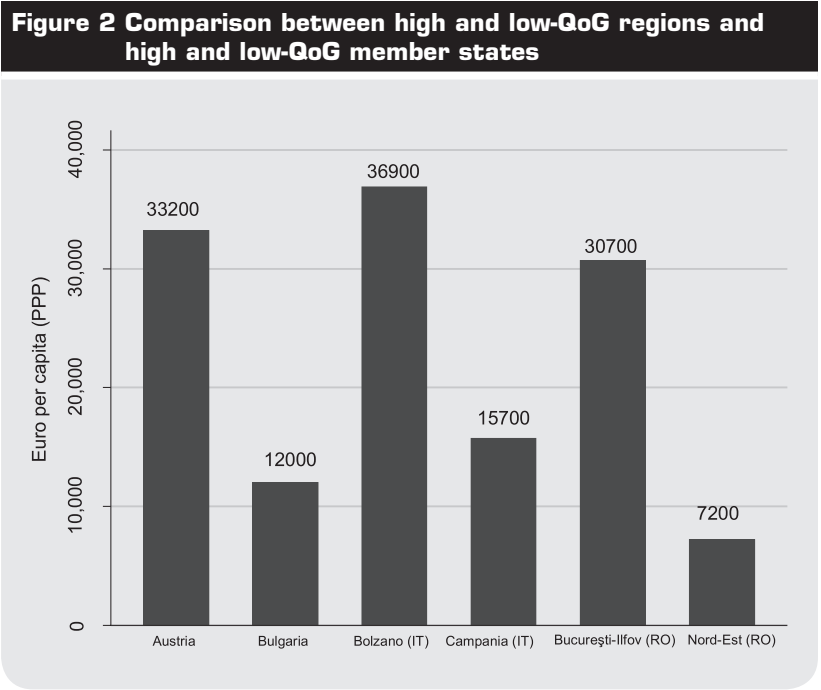
2 Mapping the quality of government in Europe

According to available data on quality of government (QoG) across countries, Europe as a region has the highest level of collective QoG in the world. There is however considerable variation within the European Union. Figure 1 shows a distribution of the Word Bank's 'Government Effectiveness' measure for European countries. The data is standardized so the world average is '0', and countries fall in a range between roughly 2.5 (the top performers) and -2.5 (the bottom performers). On the one hand, Europe has some of the top performers in the world according to the *World Bank's Worldwide Governance Indicators* (WGI), such as Sweden, Denmark, and the Netherlands. On the other hand, countries such as Italy and Greece rank near the world average, equivalent to countries such as Botswana, Costa Rica, and Bhutan, while Romania rank below world average on most governance measures, at the level of Bolivia or the Philippines. Thus, the continent offers rich variation for researchers to explore and test theoretical mechanisms of what leads to higher (or lower) quality of government.

Figure 1 European states and the WGI's 'Government Effectiveness' measure, 2012

This country-level variation is indeed interesting and can explain much of the variation in Europe with respect to socio-economic development, such as GDP per capita, income inequality, and levels of unemployment. However, to the extent that we believe that institutional quality is related to such features of socio-economic development, Figure 2 shows that spatial variation below the country level cannot be ignored. For example, if we look at a standard measure of economic development from 2012, euro per capita (PPP, from Eurostat) we observe large spatial variation that is at times wider than country level ones. Aside from Luxembourg (an extreme outlier in terms of wealth), Austria was Europe's wealthiest country per capita (PPP) in 2012, while Bulgaria was the poorest, with a difference of €21,100 per capita. However, the absolute difference between Bolzano and Campania – Italy's wealthiest and poorest regions per capita respectively – was slightly larger (€21,200 per head). Moreover, even in a highly politically centralized country such as Romania, the gap between the wealthiest region (Bucureşti-Ilfov) and the poorest (Nord-Est) is more than four-fold.

We observe the same type of within-country differences in a large number of EU countries on many other important measures of well-being, such as unemployment rates, social trust, or income inequality. To the extent we believe

Figure 2 Comparison between high and low-QoG regions and high and low-QoG member states

Source: Eurostat (2012).

that quality institutions lead to higher levels of social well-being, then we of course need measures for institutional quality below the national level. In 2010, the *European Quality of Government Index* (EQI) was created for this purpose (see Charron, Dijkstra and Lapuente 2014). In subsequent sections, we discuss this measure in more detail.

2.1 Constructing the European Quality of Government Index (EQI)

In order to build an indicator of quality of government for European regions, we began by taking the country average from the World Bank's WGI data for four indicators: '*control of corruption', 'government effectiveness', 'rule of law'* and *'voice and accountability'* and combine the four into one composite index (equal weighting).[1] The data was taken for the most recent year of publication (2011). Then, the combined WGI data was standardized for the EU sample. This figure was used as the countries' mean score in the EQI for all countries in the sample so as to combine those countries outside the survey with those in it as well as to 'anchor' the regional QoG estimates in a national context that was not captured by the regionally-based survey questions.[2]

Table 1 shows the results of the latest national level WGI scores by country and indicator. The countries were ranked in order and grouped together based on the result of a cluster analysis[3] of those grouped-together countries that were most similar on the four individual WGI indicators. The scores were then added together (equal weighting) and then standardized within the sample of 30 European countries. As a point of reference, we also provide the rank-change from the 2010 EQI (which used the latest published WGI data at that time from 2008).

We see five cluster groups in the data. The most difficult state to place was Croatia, as it could also belong to group 4, yet in the end was placed in group 5. We observe that the rank order of countries has not changed for most of the states in the sample, and most changes are only 1–2 places. Notable exceptions are Greece and Ireland, which fell four and three places respectively since the EQI 2010, and Belgium and Poland, which climbed three places each in the rankings. We then took the standardized sample mean for 2011 WGI data and set each country's national average as such.

Subsequently, we moved to explore the regional data. We administered a survey in spring 2013 to over 85,000 respondents encompassing 206 regions in 24 European countries, consisting of all the medium and large EU countries plus

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[1]   In addition, we underwent extensive sensitivity testing of each of these four pillars of QoG from the World Bank and found the data to be highly robust. For a closer look at the sensitivity tests and results for the EU sample of countries, see Charron (2010).

[2]   Charron (2013) provides more information on this point.

[3]   More specifically including the methods of Ward's linkage and squared Euclidean distancing.

Overall rank	Country	VA	GE	RL	CC	Combined QoG	ST.QoG	Previous rank (08)	Δ rank
	Table 1 Quality of government in Europe: National scores in rank order and five cluster groups								
1	Denmark	1.61	2.17	1.92	2.42	2.03	1.61	1	0
2	Finland	1.54	2.25	1.96	2.19	1.98	1.53	2	0
3	Sweden	1.59	1.96	1.95	2.22	1.93	1.45	3	0
4	Netherlands	1.52	1.79	1.82	2.17	1.83	1.28	4	0
5	Luxembourg	1.57	1.73	1.81	2.17	1.82	1.28	6	1
6	Austria	1.41	1.66	1.81	1.44	1.58	0.89	5	-1
7	Germany	1.31	1.53	1.62	1.69	1.54	0.82	8	1
8	Belgium	1.4	1.67	1.45	1.58	1.52	0.8	11	3
9	United Kingdom	1.27	1.55	1.67	1.54	1.51	0.78	9	0
10	Ireland	1.32	1.42	1.77	1.5	1.5	0.77	7	-3
11	France	1.2	1.36	1.5	1.51	1.39	0.59	10	-1
12	Cyprus	1.08	1.53	1.06	0.96	1.16	0.22	13	1
13	Malta	1.12	1.16	1.35	0.91	1.14	0.18	12	-1
14	Spain	1.1	1.02	1.2	1.06	1.1	0.12	15	1
15	Estonia	1.09	1.2	1.18	0.91	1.1	0.12	14	-1
16	Portugal	1.12	0.97	1.01	1.09	1.05	0.05	16	0
17	Slovenia	1.03	0.99	1.07	0.93	1	-0.03	17	0
18	Czech Republic	0.98	1.02	1.01	0.32	0.83	-0.3	18	0
19	Poland	1.04	0.68	0.73	0.51	0.74	-0.45	22	3
20	Slovakia	0.95	0.86	0.65	0.29	0.69	-0.53	20	0
21	Hungary	0.85	0.71	0.77	0.34	0.67	-0.56	19	-2
22	Lithuania	0.84	0.68	0.77	0.29	0.64	-0.6	24	2
23	Latvia	0.74	0.68	0.8	0.21	0.61	-0.66	23	0
24	Italy	0.94	0.45	0.41	-0.01	0.45	-0.91	25	1
25	Greece	0.82	0.48	0.57	-0.15	0.43	-0.94	21	-4
26	Croatia	0.42	0.55	0.18	0.02	0.29	-1.15	26	0
27	Turkey	-0.17	0.41	0.08	0.1	0.1	-1.46	27	0
28	Bulgaria	0.47	0.01	-0.09	-0.17	0.05	-1.54	29	1
29	Romania	0.41	-0.22	0.04	-0.2	0.01	-1.61	28	-1
30	Serbia	0.29	-0.15	-0.33	-0.2	-0.1	-1.78	30	0

Note: VA, GE, RL and CC stand for Voice and Accountability, Government Effectiveness, Rule of Law, and Control of Corruption respectively. The five shaded colors represent the results of a cluster analysis, with lighter shades equating to higher QoG.

Turkey and Serbia. We created a random sample of between 400 and 450 individuals per NUTS (Nomenclature of Units for Territorial Statistics) region at level 1 or 2.[4] We asked the respondents the extent to which they perceived and experienced corruption, quality, and impartiality in education, health care services, and law enforcement, among other public-sector functions. We combined 16 survey questions about QoG in the region. In building the regional index, we aggregated the 16 questions/indicators to three pillars based on factor analyses labeled '*quality*', '*impartiality*', and '*corruption*', then we averaged these three pillars together to form the final index figure for each region. After each stage of aggregation, the data were standardized. For the seven EU-28 countries outside of the regional survey, there was nothing to add to the WGI country score, thus the WGI data was used as the QoG estimate alone, as regional variation was unobserved. With respect to countries *with* the regional data, we set the national average as the WGI and explained the within-country variance using the regional-level data.

The 'roadmap' of the aggregation process can be seen in Figure 3 below.

To begin, we aggregated the individual scores ('survey question') to the corresponding regional level, so that each of the 16 questions in the index has become a regional 'indicator'. By means of a factor analysis, we then grouped

Figure 3 Methodological 'roadmap' to the European Quality of Government Index

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4   The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for classifying the economic territory of the EU for the purpose of the collection, development and harmonisation of European regional statistics. NUTS 1: major socio-economic regions. NUTS 2: basic regions for the application of regional policies. NUTS 3: small regions for specific diagnoses. Source: Eurostat.

the 16 indictors into more similar groupings, of which we found three. After normalizing each of the 16 indicators (through standardization) so that they share a common range, the 16 indicators were aggregated into the three groupings 'pillars'. The pillars were then aggregated into the regional index.[5] After each step of aggregation, the data was standardized.

Next, we aggregated the regional QoG score for each of the countries included in the 2013 regional survey, weighting each region's score by their share of the national population. We then subtracted this mean score from each region's individual QoG score from the regional study, which shows if the region is above or below its national average and by how much. This figure was then added to the national level, WGI data, so that each region has an adjusted score, centered on the WGI. It is worth mentioning that none of the regional variation from the regional index was lost during this merging process. The formula employed is the following:

$$EQI_{regionX\ in\ countryY} = WGI_{countryY} + \left(Rqog_{regionX\ in\ countryY} - CRqog_{countryY} \right)$$

where 'EQI' is the final score from each region or country in the EQI, 'WGI' is the World Bank's national average for each country, 'Rqog' is each region's score from the regional survey and 'CRqog' is the country average (weighted by regional population) of all regions within the country from the regional survey. The EQI is standardized so that the mean is '0' with a standard deviation of '1'. As in the results for 2010, we found that in several cases, the data show significant and wide variations in QoG within countries (Italy, Belgium, Turkey, Spain for example), while others show little to no variation in regional QoG (Denmark, Sweden, Netherlands, Slovakia).

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[5] Nardo et al. (2008) point out that when combining multiple indicators into a single index, the underlying data should be significantly correlated. We found that 98.5% of the pair wise correlations among the variables are significant and in the expected direction at the 99% level of confidence.

Figures 4 and 5 show the results of the first and second rounds of the EQI below.

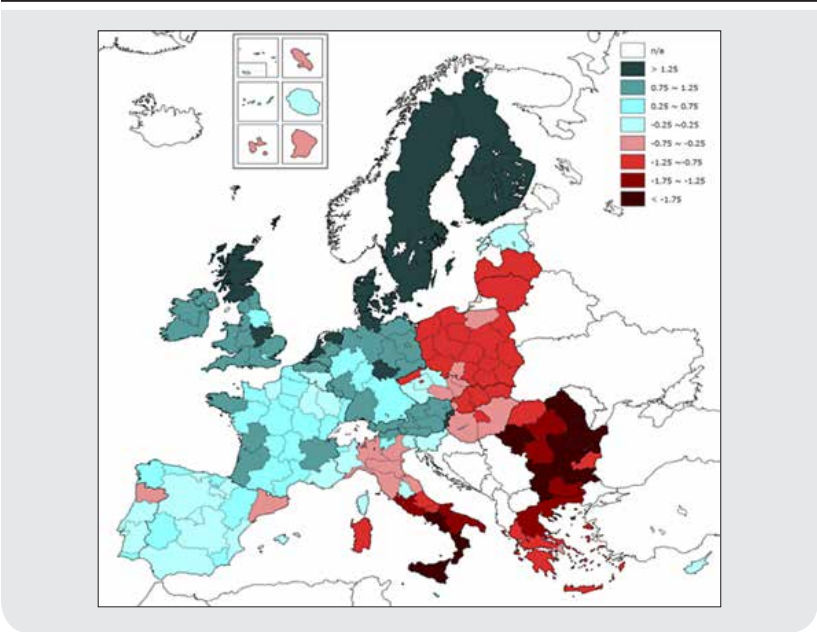**Figure 4 European Quality of Government Index by region, 2010**
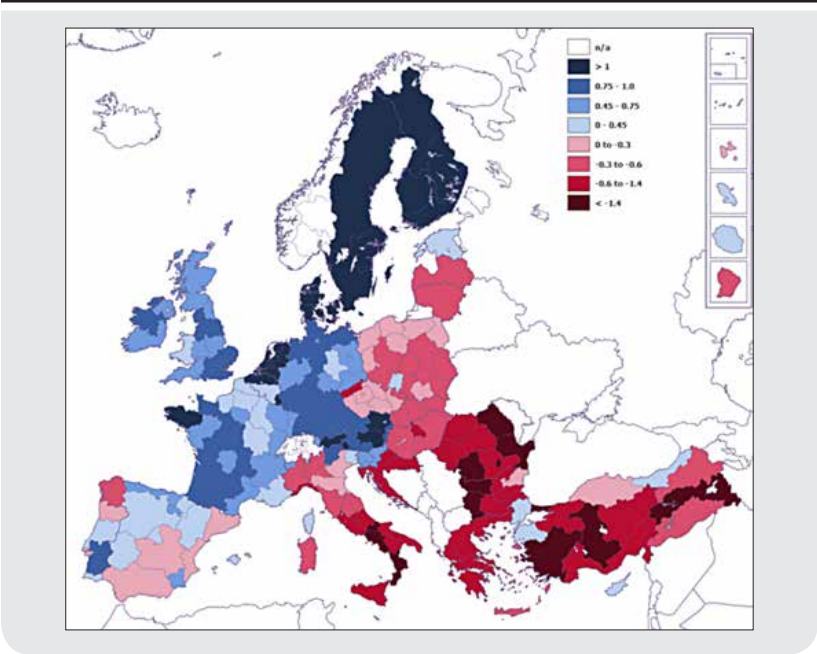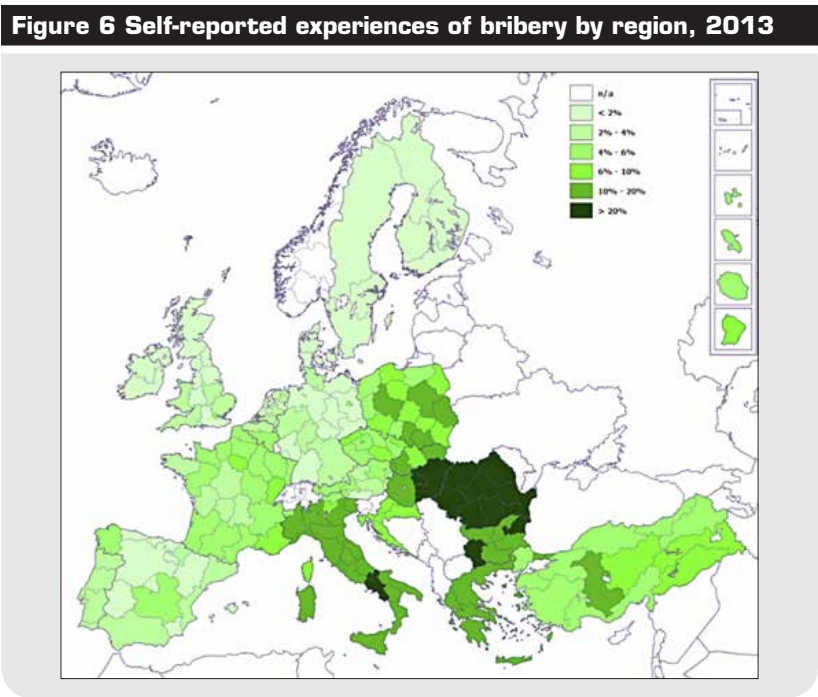

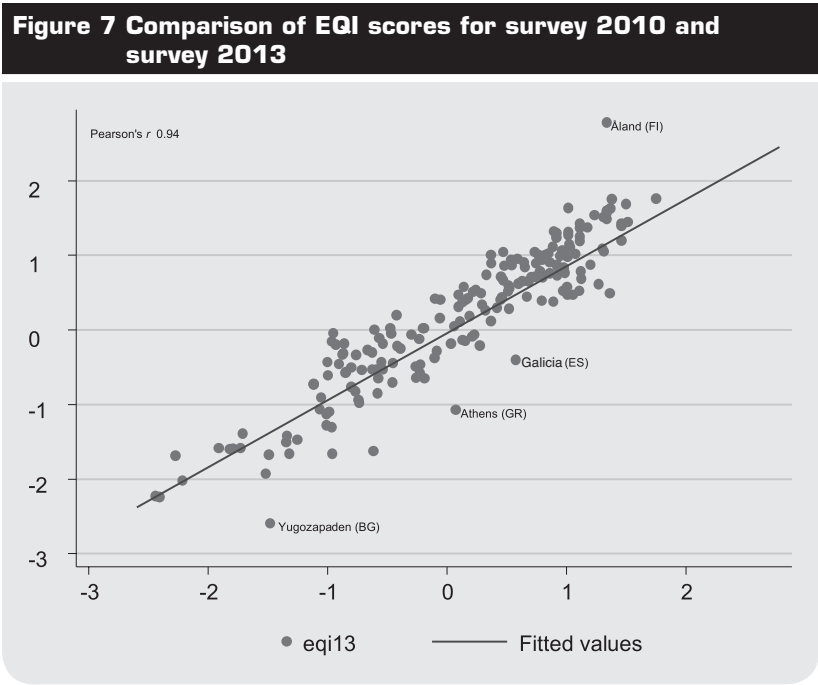**Figure 5 European Quality of Government Index by region, 2013**

As we were interested in the three underlying concepts relative to QoG – quality of services, impartiality, and corruption – we see that the respondents in the Finnish and Dutch regions rank their services of highest quality on average, along with several regions in Northern Italy and Flanders in Belgium. Several regions in Bulgaria and Turkey are rated as having the worst quality in terms of education, while regions in Greece and Bulgaria, along with a few regions in Southern Italy and Poland rate their health care of the lowest quality. With respect to impartiality of services, we find that in education and health care, several regions in Turkey, along with Finland, Northern Italy, and the Netherlands, rate their services as the most impartial on the first set of questions. Several Danish and Swedish regions, along with Rhineland-Palatinate in Germany, rate their law enforcement as the most impartial, while respondents from regions in Bulgaria, Serbia, and Croatia believe their services strongly favor certain individuals.

With regards to corruption, we find that the Danish, Finnish, and Irish respondents, along with the Northern Italians and Dutch, report their services to be least corrupt, while Serbian, Greek, Romanian, and Southern Italian respondents tended to perceive their services as the most corrupt. In general, Europeans perceive their services to be fairly 'clean', in that the averages responses are under '5' on a scale of 0–10, with 10 being 'clean from corruption'. However, there are notable differences across the three sectors – education services are perceived to be the least corrupt, while health care and law enforcement are

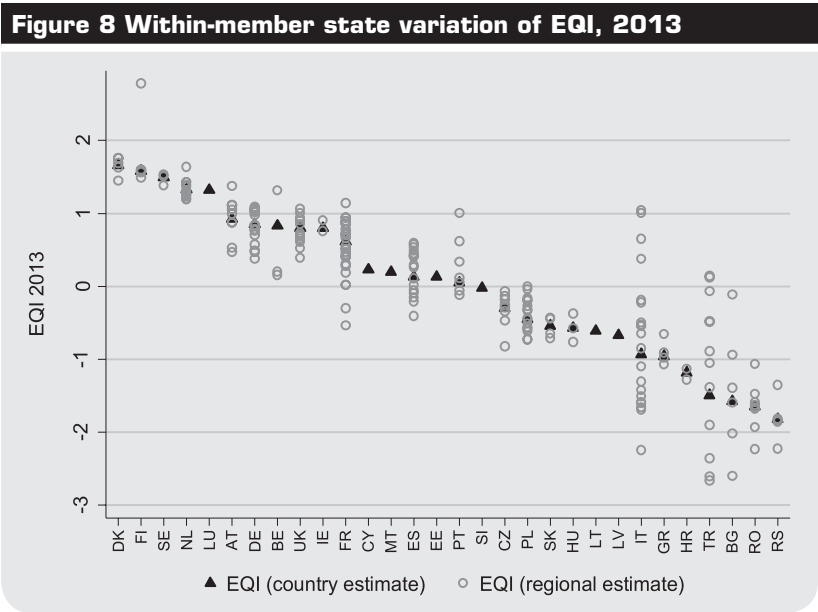**Figure 6 Self-reported experiences of bribery by region, 2013**

perceived as more so. In addition to perceived corruption, we also asked citizens about their personal experiences with corruption in education, the health sector, and law enforcement. We find wide spatial variation across Europe, with many regions, such as the Scandinavian countries, Germany, Ireland, Austria, and Spain having very little, if any, reported petty corruption. However, we observe high rates of petty corruption in Romania, Hungary, Greece, Bulgaria, and parts of Southern Italy. Figure 6 shows the variation of self-reported experience with petty corruption for the 2013 EQI data.

As to be expected with a slow moving variable such as 'institutional quality', the two rounds of the EQI show fairly consistent results across the two years. Figure 7 shows a scatterplot of two years of the EQI data. We find that the correlation between the two years is 0.94, which is quite high. Most regions remain within their respective margins of error, and thus a 'significant' change is not found in most places despite some change in rank order. However, a handful of regions appeared to make significant downward or upward moves between 2010 and 2013. Athens (GR), Galicia (ES), Piemonte (IT), and Thuringia (DE) saw a significant drop from the 2010 to 2013 round, while the London region (UK) and Kujawsko-Pomorskie (PL) saw statistically significant increases in QoG according to the data. Although several reasons could explain this, it is beyond the scope of this section to explain the moves of these individual regions, yet this would certainly be fruitful for case study research in the future.

Figure 7 Comparison of EQI scores for survey 2010 and survey 2013

Finally, in Figure 8, we look at the within-country variation across the countries in the sample for the 2013 data. The dots represent the regional estimates, while the triangles are the national level estimates. Small countries with only one NUTS 2 region, like Malta or Luxembourg have only country-level estimates. Surprisingly, we do not see that federalism or decentralization is necessarily associated with a larger regional variation within countries, as Austria and Germany have closely clustered regions, while highly centralized countries like Bulgaria, Romania, and Portugal have variation that spans well over a standard deviation in the data. What seems to be apparent however, is that as QoG increases at the country level, regions become more homogenous with respect to QoG, while as the level of QoG in a country declines, the likelihood of regional-level variance increases.

Yet even in EU-15 countries, there are a few countries with noteworthy regional variation where a few standout regions have shown up in both years of the data. For example, the region of Flanders in Belgium was significantly stronger than the other two Belgian regions in both years, while the Basque Country in Spain stands out as a strong performer both in Spain and across Europe. The Bolzano region of Italy is also a stand out region in both years. Interestingly, all of these regions are highly autonomous, have stable and long-serving government parties, have a distinct language from other regions in their country, and have unique public sectors that reflect the dimensions and needs of the local population. More can be found about some of these interesting within-country cases in Charron, Lapuente, and Rothstein (2013).

Figure 8 Within-member state variation of EQI, 2013

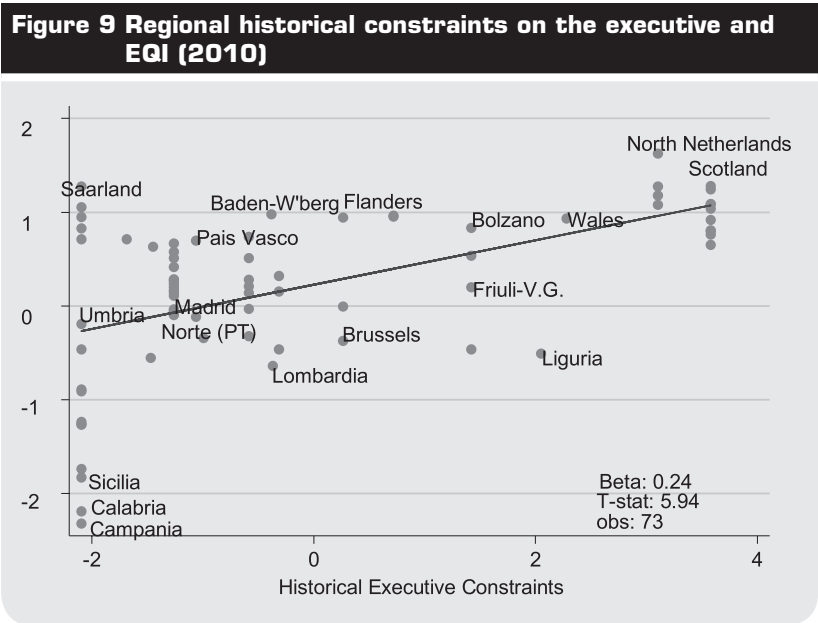# 3   Economic and social consequences of good government

Good government leads to, and is not only the result of, a good society. A large number of empirical studies have shown the consequences of having good government – e.g. low levels of corruption – for the well-being of a society. The starting point for such conclusion in many studies was the creation, during the latest decades of the 20th century and very particularly from the 1990s onwards, of perception-based indicators comparing countries in different aspects of quality of government. They allowed us to see the strong association of the position a country had in the *Transparency International's Corruption Perception Index* or in some of the *World Bank's Worldwide Governance Indicators* with the position the same country had in any indicator of socio-economic development. The more corrupt a country is, the more a society seemed to suffer in a large variety of socio-economic dimensions, ranging from slow growth to poor health conditions.

Those findings were obviously indicative, but one could not extract from them robust scientific generalizations. First, by simply comparing countries, we have low certainty that the quality of government is a cause or, on the contrary, a mere consequence of the level of socio-economic development of a country. Second, potentially notable within-country differences may be blurred. Nevertheless, in recent years more sophisticated microanalyses have confirmed the cross-country findings with more fine-tuned regional or even local data. In other words, with all the caution one must take in social sciences, it seems that the quality of government in a particular geographical area does have an effect on a numerous set of variables. Focusing on the most known indicator of quality of government – i.e. (absence of) corruption – Rose-Ackerman and Palifka (2016:28) note that the scholarship has found significant effects of corruption on the following: low economic growth, low investment, inflation, monetary devaluation, tax evasion, high inequality, low trust, poor education, low-quality infrastructure, high crime rates, trafficking, greater environmental harms, and increased health and safety risks.

Clearly, the relationship between QoG and its many correlates is complex. It is therefore challenging to determine a causal direction in order to establish the factors behind high or low levels of government quality. In many cases the arrow may go both ways. Low quality of government encourages drug, weapons and human traffickers; and, in turn, these criminal activities also undermine the quality of government. Quality of government is both an outcome of long-lasting historical factors as well as a driving force in history.

On the one hand, a set of historical, institutional, and socio-economic variables may produce a climate conducive to good government. For instance, it has been noted that the European regions that currently exhibit higher levels of quality of government were regions that, in the 17th–19th centuries, had a relatively larger number on constraints on the executive (Tabellini 2010; Charron and Lapuente 2013). In other words, they were more proto-democratic than the regions that now show worse records of quality of government. As we can see in Figure 9, there seems to be a relationship between the political history of European regions and the current performance of their governments. Those regions, like Scotland (UK) or Noord-Holland (North Netherlands) (NL), where historically the executives were constrained (e.g. by judiciary and parliamentary powers) do seem more likely to have a high level of quality of government now. And the lowest performing regions – Sicily, Calabria, and Campania (IT) – were regions where their rulers historically faced very few constraints. They were used to using, and probably abusing, their powers. This historical legacy of governmental abuse may have simply been inherited from generation to generation.

Yet the relationship is far from being very strong. There are notable exceptions. Take Saarland (DE), a region where, historically, rulers accumulated powers similar to those of their Sicilian counterparts. And, nevertheless, now Saarland is one of the regions with the highest quality of government in this sample.

Figure 9 Regional historical constraints on the executive and EQI (2010)

Source: Charron and Lapuente (2013). Number of observations is 73 from Italy, Spain, Netherlands, Germany (West), U.K., Belgium and Portugal. Data on executive constraints from Tabellini (2010).

Conversely, Liguria (IT) enjoyed a system of strong constraints on the executive, but it does not seem to have paid-off centuries later. In other words, history does seem to influence current levels of quality of government, but it is far from determining them.

At the same time, as the reviews of studies show (Holmberg, Rothstein and Nasiritousi 2009, Rose-Ackerman and Palifka 2016), there are reasons to consider that socio-economic variables are contingent upon the existence of government quality. And, in that sense, the conventional view among policy-makers and experts has changed quite notably during the latest decades. For a long time, many considered corruption to be either a by-product of economic modernization or instrumental to it, since, as the famous expression indicated, corruption was "greasing the wheels of an ineffective political and administrative system". Corruption was seen as an incentive for motivating otherwise incompetent or lazy public officials to act in favor of business. Similarly, in countries with medium-to-high levels of corruption, there are varieties of the Brazilian expression "*Rouba mas faz*" (s/he steals but gets it done) used to praise politicians for their ability to deliver particularly valuable goods to their constituencies, such as jobs or public infrastructure. Yet, the conventional view has shifted away from the idea of corruption "greasing the wheels", to that of the corruption as "sanding the wheels" (Rose-Ackerman and Palifka 2016).

The potentially negative effects of corruption were pointed out many years ago by voices (e.g. Bayley 1966) who had observed the negative impact systematic corruption had on developing countries, but mainstream social scientists continued to overlook corruption for decades. It was not until the turn of the century when it was discovered that there were problems posed by bad governance in democratic countries that scholars started to shift their attention to the workings of government: to the quality of its "outputs" (e.g. level of effectiveness, corruption, impartiality in the treatment of its citizens) and not only on the quality of its "inputs" (e.g. free and fair elections). One can have a political system with good democratic inputs, where governments are accountable to their voters; and yet deficient outputs, in terms of low quality of government. As a matter of fact, many democratic countries suffer from bad government and endemic corruption. As Diamond (2007:119) noted, nowadays democracy worldwide is haunted by the ghost of bad governance.

And that ghost is undermining citizens' well-being. In particular, scholars note that quality of government – measured by absence of corruption – has a very strong effect on what the United Nations refer to as human development – i.e. the combination of gross national income per capita, education and health levels of a population (Johnston 2005). A bad government discourages legitimate business and encourages rent-seeking, pushes individuals in the informal sector, and lowers the tax base as a result. It can be seen in the strong negative association found between corruption and levels of investment as a share of the

GDP (Mauro 1995). Not only is money more scarce in highly corrupt societies, but death and disease are also more prevalent. Out of all earthquake-related deaths in the latest decades, an outstanding 83% took place in extremely highly corrupt countries (Ambraseys and Bilham 2011). Deaths in areas with poorly constructed roads and with lack of access to potable water have also been linked to high levels of corruption (Rose-Ackerman and Palifka 2016).

In this section we will illustrate the consequences of quality of government for regional development across Europe. We will see how quality of government – measured by the *European Quality of Government Index* (EQI) we built – benefits three essential goals of development, the three goals stated in the Cohesion Policy for the period 2014–2020, namely to ensure *smart, sustainable,* and *inclusive* growth.

3.1 Competitiveness, entrepreneurship, and unemployment

What makes a European region competitive? Over the past decades, a large share of the Cohesion Policy funding has been allocated to enhancing the overall economic performance of regions in terms of public expenditure, business investment, and innovation (European Union 2014b; 2015). In order to measure
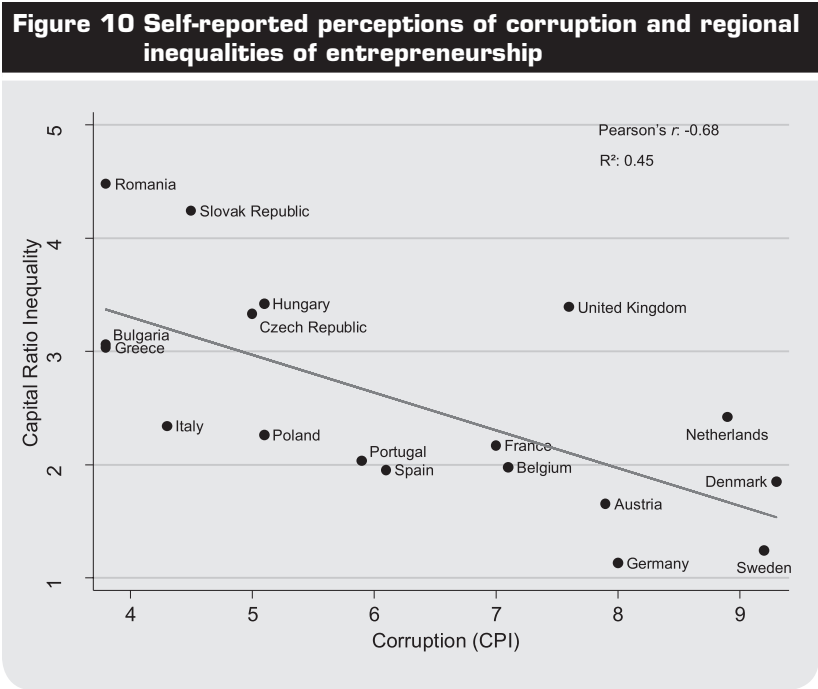
	Region	NUTS 2 code	RCI 2013	EQI 2013
Table 2 Regional Competitiveness Index: Top 10 regions				
1	Utrecht	NL31	100	1.426
2	Region of London:			
	Inner London	UKI*	94	1.003
	Outer London	UKI*	94	1.003*
	Bedfordshire and Hertfordshire	UKH2	94	0.907*
	Essex	UKH3	94	0.907*
3	Berkshire, Buckinghamshire and Oxfordshire	UKH3	94	0.907*
4	Stockholm	SE11	93	1.536*
5	Surrey, East and West Sussex	UKJ2	91	1.062*
6	Region of Amsterdam:			
	Flevoland	NL23	90	1.277
	Noord-Holland	NL32	90	1.196
7	Darmstadt	DE71	89	0.840*
8	Ile de France	FR10*	89	0.552
9	Hovedstaden	DK01	89	1.631
10	Zuid-Holland	NL33	88	1.368

*only available at NUTS 1 level

it, the European Commission has developed the EU Regional Competitiveness Index (RCI) with the aim of capturing the territorial competitiveness at the regional level (Annoni and Dijkstra 2013). It collects 73 indicators, covering a wide range of issues related to competitiveness, such as infrastructure (physical and digital) or measures of health and human capital. The RCI also includes the quality of institutions; this can partly explain the high correlation between the RCI and EQI discussed in this report. And, yet, it is interesting to see how the most competitive regions from an economic point of view exhibit also high levels of quality of government. The most competitive regions are, in this order, the Dutch region Utrecht, the regions of London, the regions around and of Oxford, Stockholm, Surrey, East and West Sussex, the regions around Amsterdam, Frankfurt, Paris, and Copenhagen, and the Dutch region Zuid-Holland (South Netherlands). As Table 2 shows, these regions – seven of which are either capital regions or regions including large cities – do exhibit a high level of quality of government.

In general, and similar to the indicator of quality of government (EQI), the RCI shows a great variability within several EU countries – in particular in France, the United Kingdom, Slovakia, Romania, Spain, Sweden, and Greece. A great deal of this within-country variation is due to the capital effect. With the exception

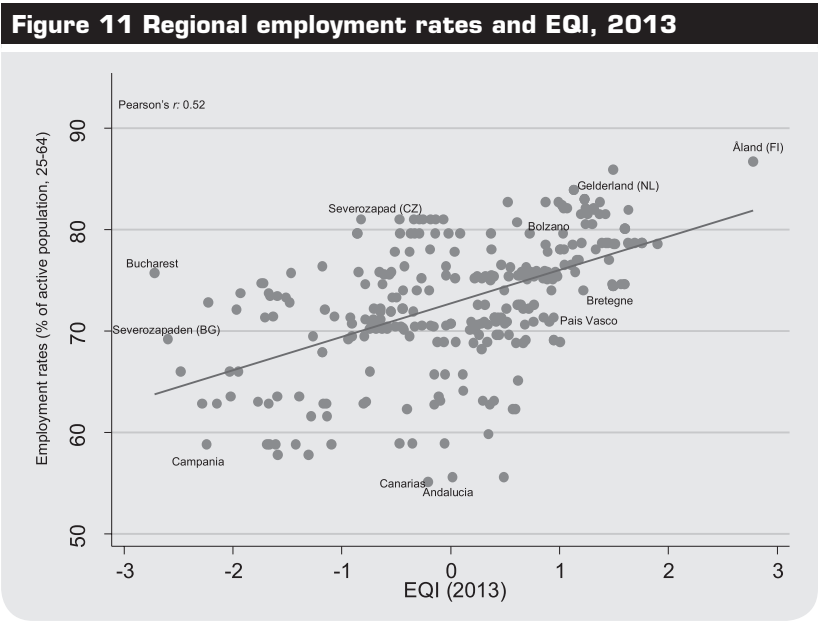Figure 10 Self-reported perceptions of corruption and regional inequalities of entrepreneurship

Source: Nistotskaya, Charron and Lapuente (2015).

of Germany and Italy, whose most competitive region is not the capital, in the other EU member states, the capital region coincides with the most competitive. Nevertheless, there seems to be factors related to the quality of the institutions, as the difference between the relatively more competitive regions of Northern Italy and the less competitive South indicate.

Research has shown a connection between the regional quality of government and their entrepreneurship, measured by the number of small and medium-sized firms per capita (Nistotskaya, Charron and Lapuente 2015). In particular, regions with lower levels of perceived corruption are associated with the higher rates of small and medium entrepreneurship. Conversely, those EU regions in which government institutions are seen as more partial have significantly lower levels of entrepreneurship. This finding is robust even when controlling for the usual explanatory factors of entrepreneurship, such as social diversity, human capital, or the relative importance of tourist activities. The effect of good government over entrepreneurship is especially strong in those regions where local authorities enjoy autonomy over important policy areas – which is an indication that government-related factors do seem to substantially drive the results.

Another interesting connection between quality of government and entrepreneurship relates to the location of business created in a country. The extent to which corruption is perceived to be high in a country not only determines the level of entrepreneurship, but also its territorial distribution.

Figure 11 Regional employment rates and EQI, 2013

Source: Eurostat (2013) and Charron, Dijkstra and Lapuente (2015).

Intriguingly, researchers have found that when corruption is high, businesses tend to be overwhelmingly created in the capital city. Figure 10, which comes from Nistotskaya, Charron, and Lapuente (2015), shows how in the most corrupt countries, such as Romania and the Slovak Republic, there is a huge inequality between the high number of firms created in the capital city and the low level of entrepreneurship in the rest of the country. One hypothesis that could explain this strong association is that, unlike what happens in countries with low levels of corruption, such as Denmark, Sweden, and the Netherlands, would-be entrepreneurs in highly corrupt countries need to be physically closer to the capital, where they can probably rely on political connections to set up their businesses.

Consequently, it is expected that the regional level of quality of government is related to the economic performance of a region. It has been noted that a standard measure of economic development (PPP per capita, logged) is correlated at 0.68 and 0.69 with our EQI indicators of quality of government from the 2013 survey and the 2010 survey respectively. In addition, the EQI does also seem to be related to some pervasive economic problems, such as the level of unemployment in the regions. This is what Figure 11 indicates. As we can see, those regions with higher unemployment are also regions with poor-perceived levels of quality of government.

3.2 Environmental performance and public health management

Growth must not only be smart, but also sustainable. Environmental degradation and climate change pose global threats to public health and the sustainability of the planet at large. Environmental performance is a somewhat vague concept and can refer to activities ranging from sustaining biological diversity and preserving ecosystems to refining environmentally sustainable energy sources and optimizing energy-efficient technology. In view of the EU's dependence on fossil fuels – contributing not only to climate change and exhaustion of natural resources but leaving EU consumers and companies vulnerable to market volatilities – sustainable growth has been identified as another major goal of the Cohesion Policy (European Union 2014b). Sustainable growth refers to efforts at reducing the environmental impact on the economy while simultaneously improving competitiveness throughout EU regions.

A vast array of research has explored the relationship between environmental performance and different forms of governance, i.e. how environmental outcomes are affected by different sets of institutional and constitutional arrangements (Halkos, Sundström and Tzeremes 2015, see also Bernauer, Bömelt and Kobi 2013; Li and Reuveny 2006; Mainers and Yandle 1998). In addition, Halkos et al. (2015) note that a great number of studies have been devoted to the impact of the quality of government on various measures of environmental performance. Even as the environmental measures differ substantially and scholars are

far from reaching a consensus, it is widely recognized that corruption and partiality generally hampers efforts at environmental improvements (Halkos, Sundström and Tzeremes 2015). As Transparency International (2006) points out, environmental corruption is most prevalent in places with low economic development, where democratic transparency is low and governance structures are weak. Closed economies and monopolies also appear to be more susceptible to environmental corruption, as the lack of transparency opens up opportunities for shadowy or illegal activities in the public as well as private sectors of the economy (Transparency International 2006).
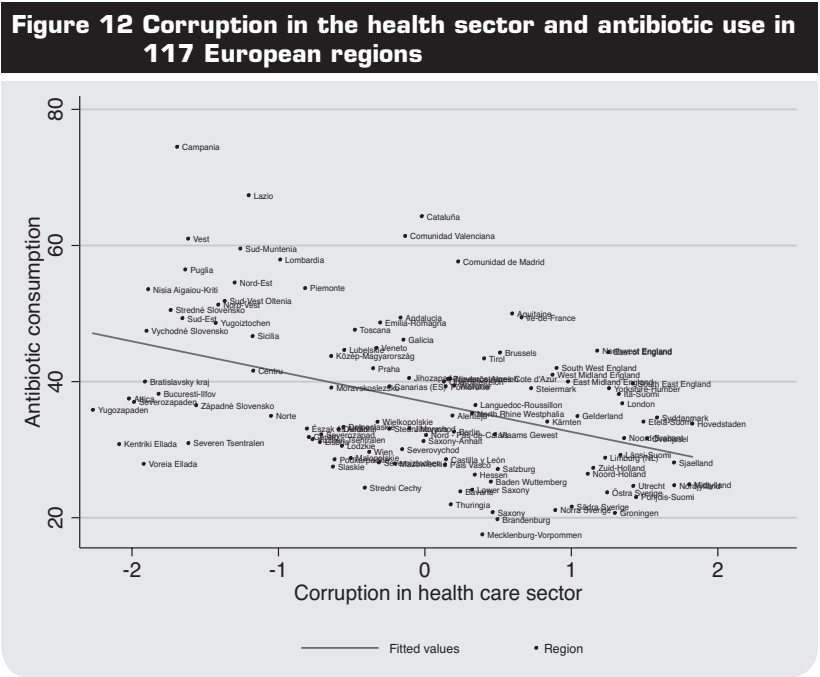
According to Halkos et al. (2015), the theoretical argument that accounts for the negative effects of corruption for environmental performance has developed along two lines. The first is that of environmental policy stringency, which is substantially delayed in policy settings infested with corruption. Rather than putting emphasis on policy formulation, the second argues that corruption – through bribery and extortion – hampers compliance with and enforcement of the law and "thus tend[s] to encourage pollution or overexploitation" (2015:624).

Unfortunately, most research only exists at a country level and the important regional differences in quality of government have not been explored much in terms of the effects on the environment. Along with other authors (see for instance Barrett et al. 2006), Halkos et al. (2015) note that the lion's share of studies that have focused on the implications of government quality for environmental performance are largely located at the national level of analysis. Only a few studies focus on the sub-national level, and little comparative evidence at the regional level exists, mainly due to limited data. In the effort to fill this gap in the literature, Halkos et al. (2015) conducted a non-parametric analysis at NUTS 1 level for three EU member states, Germany, France, and the UK, using the 2010 EQI. Somewhat surprisingly, the results indicate a non-linear and non-uniform relationship between the quality of government and regional environmental performance, measured by three different pollutants. QoG appears to matter to a certain extent, which could be interpreted as an interaction between QoG and other "more influential" drivers (2015:639). Such drivers, it is suggested, could relate to national differences in terms of institutional and corporate structures that, in turn, affect environmental policy implementation. Environmental policies, as Costantini et al. show, could also be affected by factors at the regional levels, such as their productive specialization and innovation capabilities (2013:101).

Another aspect of sustainability is that of broader public health, and particularly antibiotics consumption, which appears to be closely linked with bad government and corruption in the health care sector also at the European regional level (Rönnerstrand and Lapuente 2015). Bacterial resistance – caused by overwhelming consumption of various antibiotics – constitutes a major threat to modern medicine around the world. Antimicrobial resistance is estimated

to cause 25,000 deaths each year in Europe alone, and the related costs of antibiotics abuse could be over €1.5 billion in health care expenses and reduced productivity (WHO 2014). Things do not seem better in other world regions. Antibiotics abuse could be related to 2 million illnesses and 23,000 deaths a year. If resistance is left unchecked, and unless public authorities do take serious action against the abuse of antibiotics, no less than 10 million more people are expected to die every year by 2050 (O'Neill 2014).

Rönnerstrand and Lapuente (2015) find strong correlations between two critical components of the EQI Index – i.e. the existence of corruption in the health sector and prevalence of bribes in the region at large – and consumption of antibiotics in the European regions. Figure 12 reports the relationship between the level of corruption and the consumption of antibiotics from a Special Eurobarometer survey to EU citizens. The association seems quite strong. As we can see, it is not the poorest regions, but regions with pervasive problems of government, such as Campania and Lazio, whose citizens consume more antibiotics. Since there is no medical reason to think why one individual in Campania needs more antibiotics than one in, let's say, Germany's Brandenburg, Portugal's Alentejo, or the Netherlands's Utrecht, there are reasons to suspect a causal relationship between corruption levels and antibiotics (ab)use.

Figure 12 Corruption in the health sector and antibiotic use in 117 European regions

Source: Rönnerstrand and Lapuente (2015). European Quality of Government Index 2013 and Special Eurobarometer 338. Regions with fewer than 50 respondents were excluded.

In general, the negative effects of corruption on the health care of a given population have previously been demonstrated, also at regional level in Europe. Lagravinese and Paradiso (2014) find that corruption – measured by ISAT (Italian National Institute of Statistics) – influences health expenditure in Italian regions. Their analysis reveals that corruption in Italian regions particularly affects contracted-out private hospital expenditure and pharmaceutical expenditure, which, in turn, could be one of the reasons why in corrupt regions individuals tend to abuse antibiotics: the pharmaceutical companies may have an easier time convincing doctors of the importance of prescribing antibiotics.

3.3 Social equality and social trust

Yet, growth needs to not only be smart and sustainable, but also inclusive – i.e. large chunks of citizens cannot feel excluded. Here, research has also shown that institutional quality strengthens social equality and social trust. At the request of the European Commission, Hardeman and Dijkstra (2014) developed the *EU Regional Development Index* (RHDI), which captures three aspects of human development: income, education, and health. The RHDI is based on similar indicators to the *United Nations' Human Development Index*, but takes regions rather than nations as the primary units of analysis. The RHDI incorporates infant mortality and healthy life expectancy of the population, the percentage of citizens aged 18–24 that are not employed nor involved in education or training, and the percentage with tertiary education, together with two important economic indicators: disposable household income and employment rate.

Table 3 collects the 20 EU regions with the highest human development. As we can see, all of them score very high in terms of quality of government. In analyzing all EU regions, it has been noted that an increase in the EQI is associated with a significant increase in the regional human development index (Charron, Dijkstra and Lapuente 2014).

Another aspect of social inclusion is gender equality: do women in a region feel included in the social, economic, and political life? Across the EU, there are notable gender gaps where women remain disproportionately disadvantaged in terms of higher education, employment, and political power (European Union 2015). And research has noted that corruption does seem to be an important obstacle to women's integration. Sundström and Wängnerud (2016) find that both across EU countries, as well as across regions within those countries, high levels of corruption are associated with a low proportion of women elected in local councils. These findings are robust even after controlling for many explanatory factors: more women in politics is linked to better government.

As the authors admit (Sundström and Wängnerud 2016), the strong relationship between quality of government and women's participation in politics is uncontroversial, but still research has not sorted out the question of causality: does corruption hinder women from entering politics? Or is it that low levels

Table 3 Regional Human Development Index: Top 20 regions

	Region	NUTS 2 code	RHDI 2012	EQI 2013
1	Åland	FI20	0.75	2.781
2	Stockholm	SE11	0.75	1.536*
3	Inner London	UKI1	0.74	1.003*
4	Utrecht	NL31	0.73	1.426
5	Helsinki-Uusimaa	FI1B	0.73	1.493**
6	Oberbayern	DE21	0.72	1.045*
7	North-Eastern Scotland	UKM5	0.72	0.615*
8	Luxembourg	LU00	0.71	1.320**
9	Berkshire, Buckinghamshire and Oxfordshire	UKJ1	0.71	1.062*
10	Surrey, East and West Sussex	UKJ2	0.70	1.062*
11	Västsverige	SE23	0.70	1.509*
12	Noord-Holland	NL32	0.60	1.196
13	Tübingen	DE14	0.69	0.980*
14	Freiburg	DE13	0.68	0.980*
15	Mittelfranken	DE25	0.68	1.045*
16	Stuttgart	DE11	0.68	1.045*
17	Bedfordshire and Hertfordshire	UKH2	0.68	0.907*
18	North Yorkshire	UKE2	0.68	9.936*
19	Hovedstaden	DK01	0.68	1.631
20	Provincie Vlaams-Brabant	BE24	0.69	1.318*

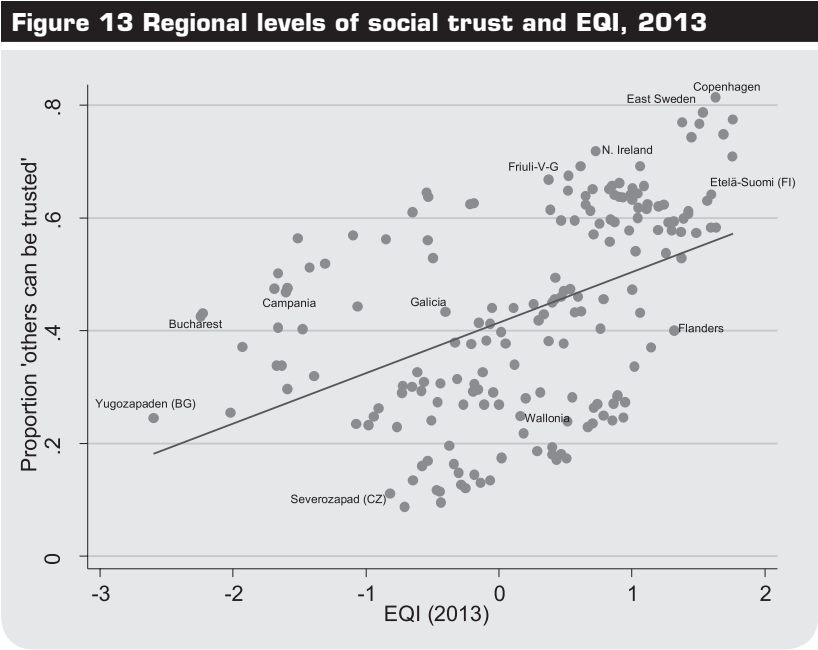*only available at NUTS 1 level.
**only available at national level.

of corruption are the result of more women in political positions? On the one hand, informal institutions tend to play a larger role in settings where formal institutions are weak, paving way for clientelist behavior that is gendered (2016:355–356, see also Bjarnegård 2013; Stockemer 2011). Consequently, women may be excluded from the traditional male-dominated corrupt networks, and may be more dependent on impartial institutions. On the other hand, it seems that a larger share of women in political institutions leads to lower levels of corruption. So, it is not unlikely that the causal arrow goes in both directions. And, again, what matters is the fact that quality of government does seem to be connected to yet another important social variable.

Let's move now to the effects of quality of government over a crucial variable: the level of social trust. A large number of studies have pointed to the importance of social trust for a society's general well-being. Societies where the generalized trust (i.e. the extent to which individuals trust others) is high are also generally

characterized by a more well-functioning democracy, higher economic prosperity, higher economic and social equality, as well as greater population health than in societies where the generalized trust among individuals is low (Charron and Rothstein 2015). Against this backdrop, it is notable that the level of generalized trust differs substantially across regions of the EU.

Charron and Rothstein investigate the existence of a relationship between the remarkable differences in social trust across EU regions and the also remarkable divergences in quality of government. They argue that impartial and uncorrupt institutions "create social trust and social capital" (Charron and Rothstein 2014:8). The reason is that, after interacting with public officials, citizens make inferences on whether the people in general in that society can be trusted or not. Charron and Rothstein (2014; 2015) examine the relationship between regional patterns of social trust and the quality of regional government as well as the following variables. As we can see in Figure 13, there seems to be a strong relationship between the level of social trust and the regional indicator of quality of government (EQI).

QoG appears to be a "highly robust predicator" of trust at an aggregate regional level, between as well as within EU member states (Charron and Rothstein 2014:25). Interestingly, voluntary participation in societies and networks – a common explanation for high levels of trust – is insignificant for individuals' propensity of trust. Rather surprisingly, Charron and Rothstein note that

Figure 13 Regional levels of social trust and EQI, 2013

neither social inequality – measured as the wage inequalities and as gender wage inequalities – nor ethnic-linguistic diversity have substantial effects on trust patterns when the level of QoG is controlled for (2014). This signals the existence of two circles, one vicious and the other virtuous. In the virtuous circle, high-quality institutions could have historically been produced and sustained by generalized trust, which in turn was produced by the same high-quality institutions. In the vicious one, it is low trust and low QoG that reinforce each other.

4   Why it will be difficult to improve regions' quality of government

From the body of evidence presented above, one should expect institutional reforms to improve quality of government to become a priority for regional and national governments. Corruption, good governance, and quality of government have been high on the agenda in EU policy circles and in the international aid and development community for close to two decades. Yet the results are largely discouraging. While there have been some remarkable changes in corruption levels in, for example, Chile, Uruguay, Estonia, Singapore, Taiwan, and Botswana, these have primarily been in settings where corruption levels were high but not systemic. How then can we have reasonable expectations that the lowest performing European regions in QoG will converge with the highest performing in the near future?

Worldwide, among the developing nations that experienced systemic corruption 20 years ago, most still suffer from pervasively dysfunctional governments. Successful cases are rare. Despite having undertaken a set of prescribed anti-corruption reforms, most countries remain systemically corrupt, and in some cases it seems as if the problem have worsened in the efforts to curb it (Lawson 2009; Johnston 2005). We still know too little regarding the institutional development required to have good governments (Greif 2005). Many countries have attempted to become 'Denmark', but have not found the way (Fukuyama 2014). And, in fact, we have not given enough attention to explore how the current 'Denmarks' became 'Denmarks', since we know that these countries, like the Nordic ones, suffered ample clientelism and corruption at some point (Teorell and Rothstein 2015, Rothstein and Teorell 2015).

For a long time, academics and policy-makers thought that good governance programs should be directed at the political elites, such as by supporting ministries, establishing control agencies and anti-corruption bodies, and enacting legal anti-corruption frameworks aimed at strengthening control over the bureaucracy and getting their civil servants "in line" (Mungiu-Pippidi 2013). The implicit assumption was that governments are led by benevolent rulers, genuinely concerned with the economic and social development of the people in their countries. Yet a look at the world's history in recent decades, from Mobotu in Zaire to Yanukovich in Ukraine, indicates that this assumption is clearly naïve. The ones who accumulate enough power to fight corruption are precisely the ones who benefit the most from a corrupt government, and thus lack the incentives to reform the system.

Not surprisingly, the reforms aimed at improving QoG following this philosophy have failed. For instance, international organizations have recommended politicians to establish anti-corruption agencies or ombudsman offices to curb corruption. Yet, when carefully examined, these institutions have no significant impact on control of corruption (Mungiu-Pippidi 2011). Similarly, other programs devised to improve QoG following this perspective, such as citizen participation, voice and empowerment programs, and community monitoring of public services, have not fulfilled expectations. This is likely because if politicians and their representatives, and many of their core constituencies, benefit from corruption, they will bend these institutions to their favor instead of society's at large (Andvig et al., 2001; Teorell and Rothstein 2012). Even those politicians who seize power on an anti-corruption platform find that it is more politically costly than they thought to "clean house". They may rethink their strategy and conclude that distributing public resources through patronage and nepotism may be a safer course for staying in power.

Translated into the problems of regional governance in Europe explored in this report, this means that we cannot trust regional (in politically decentralized EU countries) or national (in centralized ones) to implement QoG-improving reforms without altering their system of incentives.

Another approach for how to improve QoG that does not yield promising results is the public ethics theory. According to it, the crux of the problem does not depend on the incentive structures but on the cultural values prevailing in a society. Their proposed solution is thus the enactment of large-scale "sensitizing" programs. All members of the community should be aware of how unethical and morally deplorable the abuse of public office is for private gain. Again, the empirical evidence does not support this approach. Sensitizing programs may merely condemn those who have few options to act differently (Bracking, 2007).

A more fruitful perspective for improving governance is one derived from the collective action theory of corruption (Rothstein 2005; Persson et al. 2013). According to this theory, whether or not actors (citizens, politicians, civil servants, businesses) participate in corruption ultimately depends on their perception of what other actors will do. If they believe that most others in society are dishonest, they will be dishonest. Individuals in a society are neither merely self-interested "homo economicus" nor totally altruistic good Samaritans, but act strategically depending on what others do. We base our actions on the principle of reciprocity (Bowles and Cooper 2012; Ostrom and Walker 2003). As Fehr and Fischbacher (2005:167) note, "If people believe that cheating on taxes, corruption, and abuses of the welfare state are wide-spread, they themselves are more likely to cheat on taxes, take bribes, or abuse welfare state institutions". One (think of a politician who must choose between improving QoG or taking opportunistic actions for her own advantage) will do the right thing – even if one

may lose materially from this action – when, and only when, one believes that most others will also do the right thing (Bicchieri and Xiao 2007).

This insight points out the path that reformers aimed at improving QoG in Europe should take. The institutional changes should be strong enough as to alter the perception of what "most others" in society will do. Based on the intense reform zeal of Swedish policy-makers in the second half of the 19th century, which transformed a relatively corrupt political system into a relatively clean one, Rothstein (2011) suggests that successful governance reforms need to have a "big bang" component. In particular, this "big bang" should imply a profound reshaping of the whole administrative apparatus, similar to the reforms of the Swedish civil service system that, between 1855 and 1875, introduced the skeleton of a Weberian-style administration. Fixed salaries were introduced, the purchase of positions in the public sector was banned, and the knowledge and skills requirements for the recruitment and promotion of public officials increased significantly.

It is obviously not easy to replicate "big bang" reforms in contemporary low-QoG European regions similar to those of 19th-century Sweden. As a matter of fact, many European countries and regional governments do have, on paper, many of the reforms successfully implemented in Sweden; and, still, they do not seem to work. Nevertheless, to address the functioning of such reforms it may be helpful to understand that some of the current problems of public abuse are similar to the historical troubles of current high-QoG countries, and that corruption – for instance, in some Eastern and Southern European regions – could also form a self-reinforcing equilibrium.

Change of this magnitude is not an easy thing to accomplish or to write out policy recommendations for. If agents need to trust that most other agents will cooperate for a common good, such as achieving QoG, we need to know how such generalized trust can be manufactured. The problem is that to the best of our knowledge, it is produced by people's perception of the quality of their public institutions that (are supposed to) deliver public services. We thus have a perfect circular theory. High-quality institutions are most likely to be produced and sustained by generalized trust, which in its turn is produced by the very same (high-quality) institutions. In ordinary language, we are speaking of two circles, one vicious and the other virtuous. However, this is also what we see in "the real world" as we have hoped to show above. Corruption and other forms of low QoG are both very pressing and very difficult problems, precisely because they have the form of a self-reinforcing equilibrium. Given the detrimental effects on most forms of human well-being of low QoG, if there were an easy "quick-fix", the problem would have been solved long ago. In sum, we should not be surprised by the disappointing results from importing anti-corruption legislation and instruments form contexts where corruption is the exception, to countries where corruption is the expected behavior.

Although the collective action theory is powerful in explaining a status quo of corrupt equilibria, its main weakness is that it has difficulty explaining how change can occur (Teorell and Rothstein 2015). If both state actors and citizens are stuck in the social trap of low trust and bad institutions, which make them continue to accept and pay bribes, siphon away state resources, etc., as long as they believe that most others are corrupt, then what is it that offers a way out of this corrupt equilibrium?

5 Conclusions: Some reasons for optimism

What are the implications for policy-making of the results presented in this report? The first one is that, following what prominent social scientists have been arguing for some time, institutions matter. Those European regions with the best performing public institutions – in terms of efficiency in service delivery, low corruption, and high impartiality – outperform regions with poor institutions in all sorts of quality of life indicators. Life is much worse where public institutions systematically favor entrenched interests and politically connected and privileged groups at the expense of the general public.

The second implication is that national factors – including political institutions (e.g. electoral system, bicameralism, political regime) as well as national culture, language, and traditions – do not seem to be as relevant as generally argued. We have extremely good governments that speak Italian (in some Northern regions); and we also have extremely poor governments speaking Italian (in many Southern regions). Many differences in quality of government do not follow national borders. As a matter of fact, on numerous occasions, neighboring regions of two countries may share more, in terms of institutional quality, with each other than with other regions in their respective countries.

We would like to close this report with an optimistic note. It comes from recent research that has noted an overlooked factor in the literature that may help to explain why some governments have consolidated high-quality institutions. From the pioneering works of Max Weber (1978 [1922]) and Woodrow Wilson (1887), scholars have noted that creating what is known as a Weberian bureaucracy – that is, a public administration where public employees are not recruited according to their political connections, but on the basis of merit and capabilities – was associated with lower levels of corruption. Bureaucrats whose careers do not depend on the will of their political superiors may be better motivated and put more weight on long-term rather than short-sighted goals. These bureaucrats may also socialize in a public ethos and develop an *esprit de corps.*

During recent years empirical analysis (Rauch and Evans 2000, Dahlström, Lapuente and Teorell 2012) has corroborated this idea for cross-country comparisons. Recently, we also have evidence for regional levels. Using a survey with more than 18,000 public sector employees included in the EQI survey, and a new objective corruption-risk measure including over 1.4 million procurement contracts, Charron, Dahlström, Fazekas and Lapuente (2016) find that corruption risks are significantly lower in those EU regions where bureaucrats' careers do

not depend on political connections. The results have also economic effects. As *The Economist* (2016) noted when summarizing this research, "if every region were as meritocratic as Baden-Württemberg, in Germany, EU governments could save €13 billion–20 billion ($14 billion–22 billion) a year". These results are robust to the inclusion of other factors such as regional level growth, economic development, social trust, ethnic diversity, and gender equality in parliament. From this research it is obvious how those EU regions where jobs in the public sector are assigned on a meritocratic basis do present lower corruption risks than regions where public employees owe their careers to political connections.

This is, in our view, the best way to proceed in order to improve governance across European regions. We should devise mechanisms to increase the importance of merit – and thus decrease the importance of political connections – in the careers of public officials.

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List of abbreviations

EQI – European Quality of Government Index

EU – European Union

QoG – Quality of Government

RCI – Regional Competitiveness Index

RHDI – Regional Human Development Index

WGI – Worldwide Governance Indicators

Svensk sammanfattning

I denna rapport lyfter författarna upp frågan om korruption i EU – det "spöke" som hemsöker moderna demokratier och undergräver välfärden, inte bara i Europa utan i hela världen. Som rapporten visar är bristande styrning av samhället i själva verket en avgörande faktor för socioekonomiska skillnader mellan regioner, såväl mellan som inom länder.

När det gäller välfärd har EU:s regioner både närmat och fjärmat sig från varandra under de senaste decennierna. Å ena sidan har perifera regioner kommit i fatt centrala regioner. Å andra sidan ökar skillnaderna mellan välmående och mindre välmående regioner. Det finns tecken på att dessa socioekonomiska skillnader mellan regioner (och ibland inom samma land) beror på skillnader i styrningen av offentliga institutioner.

Med ledning av de senaste forskningsresultaten inom statsvetenskap och ekonomi hävdar författarna att geografi spelar roll för ekonomisk och social utveckling. Resultaten pekar på att samhällsstyrningens kvalitet (Quality of Government, QoG) beträffande kontroll av korruption, opartisk behandling av medborgare, utbredningen av rättsstatens principer och effektiviteten i samhällsstyrningen spelar en viktig roll för den regionala utvecklingen.

Rapporten bygger vidare på ett tidigare forskningsprojekt (Charron, Lapuente och Rothstein 2011) och tillför nya data som visar stora variationer i QoG mellan Europas regioner. Inledningsvis presenteras metodologin och resultaten från en andra undersökning: den största undersökningen på subnationell nivå i Europa som inkluderar 206 regioner och 84 000 medborgare. Undersökningen producerades av Quality of Government-institutet vid Göteborgs universitet 2013. Med hjälp av World Bank Research Institutes samhällsstyrningsindikatorer har dataunderlaget gjort det möjligt att bygga ett mer omfattande och robust European Quality of Government Index (EQI), ett index för hur europeiska regioner presterar i fråga om samhällsstyrningens kvalitet.

Vidare presenteras teoretiska argument och empirisk evidens som stöder hypotesen att samhällsstyrningens kvalitet (QoG) är en avgörande faktor för att förklara asymmetriska socioekonomiska utfall i EU:s regioner. Här utforskas även hur god samhällsstyrning är kopplad till tre centrala EU-policymål: att trygga en smart, hållbar och inkluderande tillväxt. Det är viktigt att ha i åtanke att orsakssambanden kan gå i båda riktningarna: från god samhällsstyrning till smart, hållbar och inkluderande tillväxt, och vice versa. Det är snarare sannolikt att det sker en rundgång mellan dessa variabler. Författarna reder följaktligen ut svårigheterna med att förbättra kvaliteten på institutioner och samhällsstyrning och diskuterar hur regioner kan fastna i onda eller goda cirklar, det vill säga att

låg respektive hög tillit och låg respektive hög kvalitet på samhällsstyrningen förstärker varandra.

Slutsatserna ringar in de politiska implikationerna av dessa forskningsresultat. Det handlar särskilt om behovet av meritokratiska reformer i regionerna med låg kvalitet på samhällsstyrningen. Meritokratiska reformer är relativt kostnadsfria i ekonomiska termer och mycket effektiva när det gäller att stävja korruption och förbättra samhällsstyrningen. Meritokratiska reformer är dock politiskt kostsamma för folkvalda politiker, eftersom deras maktpositioner i hög grad vilar på genomgripande skyddsnätverk. Europeiska aktörer med intresse för god samhällsstyrning bör åtminstone sätta dessa reformer på den offentliga agendan, för att på så sätt öppet tydliggöra de motstridiga intressena bakom god samhällsstyrning.

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"Differences in quality of government may be behind some of the stark socio-economic differences we find across regions within the same EU countries."

Nicholas Charron, Victor Lapuente and Bo Rothstein