Quality of Government and Regional Development in Brazil: a preliminary analysis

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EXTENDED ABSTRACT

Since the 2000s there has been a growing interest in the quality of government amongst academics and policy makers. This concern stems from the perception that the quality of government institutions can produce different social and economic impacts on societies (Rothstein & Teorell, 2008). In general, the quality of government is understood as impartiality in the exercise of power, high quality in the delivery of public services and low corruption. Most studies on quality of government have focused on the national level. Nevertheless, recently a growing set of research has increasingly sought to investigate how sub-national governments affect geographical differences in economic output and development, using new indicators to measure sub-national government quality (Charron & Lapuente, 2013; Charron, Dijkstra & Lapuente, 2014). The shift in focus has given rise to a series of empirical studies that set up links between the quality of government and regional development, in which innovation, economic growth, entrepreneurship and decentralisation have been examined. However, this growing body of studies has centred, to a large extent, their attention on European countries. This implies that the rest of the world, particularly developing countries, remains a black box (Iddawela et al., 2021).

Bearing in mind this gap in the literature, a regional quality of government index for Brazil, named BR-QoG, was developed. This effort is a novelty in Brazil and, at the same time, represents an important step towards a better understanding of regional realities and, as a consequence, of the country itself, which has some key particularities: it is the largest country in South America; the ninth economy in the world; a regional power in Latin America; and a highly unequal country. Furthermore, this effort is also a contribution to the existing literature insofar as the discussion on the quality of government, as mentioned above, has been largely directed towards the European context.

Brazil is the fifth-largest country in the world in terms of surface area - after Canada, China, Russia and the United States - and home to just over 214 million people. The country is a federal republic, and its subnational political structure comprises the federal district (the Brazilian capital), 27 states and 5.568 municipalities. For merely statistical purposes, Brazil has set up additional territorial classifications consisting of five macro-regions (North, Northeast, Centre-West, South and Southeast), 510 immediate geographic regions and 133 intermediate geographic

regions. However, this geographic macro-division of the Brazilian territory points out to a relevant aspect: the existing interregional disparity. In fact, the Southeast is by far the richest and most populated region in the country, having a highly diversified economy and accounting for one third of the Brazilian GDP, while the Northeast is the poorest region, with the lowest GDP per capita and the second largest population contingent of Brazil. This means that population and economic activity are highly concentrated in the country. It should be noted that the phenomenon of spatial concentration in Brazil has produced substantial pockets of dense settlement and economic activity, in which some attraction forces associated with benefits of agglomeration economies are the main vectors. Nonetheless, these benefits are far from linear or even permanent inasmuch as many negative externalities related to large populated cities can undermine efficiencies connected with agglomeration economies.

It is worth underlining here that Brazilian federalism ascribes wide spending responsibilities to municipalities. Despite having an important role in the development process of their regions, municipalities often have serious difficulties in performing their role efficiently. One of the main bottlenecks for the elaboration and implementation of regional public policies, especially in backward regions, is the insufficient capacity verified at the municipal level. Moreover, this lack of capacity is responsible for both poor public investment and the problems in generating endogenous growth in those regional. Within this context, developing human capital is an essential factor in promoting growth and development. Undoubtedly, investment in human capital needs to be accompanied by investments in infrastructure and other critical areas such as health and safety (including the fight against corruption) to produce the hoped-for positive effects in the regions. Although the difficulties are clear, progress has been made by municipalities that are located in both rich and poor macro-regions. This suggests that an explanatory factor for the success or failure of municipalities may lie in the quality of their governments, which is the focus of attention of this paper.

Inspired by Charron and Lapuente's work (2013), the BR-QoG measures the quality of the outputs generated by a regional government in both positive aspects, such as the existence of impartial policies that do not favour particular interests, and a negative one, such as the presence of corruption. In this way, the index attempts to measure the quality of local institutions (Rodríguez-Pose & Ketterer, 2020). The BR-QoG is based on four dimensions that can express the quality of government: corruption, crime, education, and health. For each dimension, a specific index, which is combined through factor analysis to compose the BR-QoG, was created. It is important to mention that while the European quality of government index (EQI) is based on surveys, the BR-QoG is developed from secondary data available on each of the dimensions of the index.

This paper aims at analysing the main effects of the quality of government in Brazilian regions, with particular interest in its effects on the regional growth. Therefore, a correlation was established between each of the BR-QoG dimensions and economic indicators of Brazilian regions, such as the regional GDP and the economic growth. This correlation makes it possible to clearly identify those governments that have contributed to promoting the development of their regions. Furthermore, this identification is crucial to show the role of the quality of government in boosting regional development in an emerging country like Brazil. Another point to be highlighted here is that the methodology carried out in this paper denotes precisely to which BR-QoG dimensions helped most to the economic performance of Brazilian regions.

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