

Democracy, governance and economic productivity

Jun Nagayasu (Tohoku University), Lamia Bazzaoui (Tohoku University)

We study the relationship between productivity, governance and democracy using a sample of 90 countries. Given various countries' backgrounds, we attempt to uncover the institutional and political factors that influence their level of productivity. First, a Bayesian Model Averaging approach allows us to identify egalitarian democracy and regulatory quality as the most significant institutional variables that explain TFP. A regression analysis that includes various determinants of productivity shows a positive impact of these selected institutional variables on TFP.

Granger causality tests show the presence of a two-way Granger causality between governance and democracy. Thereby, a VAR approach that considers both variables as endogenous is adopted. A general estimation confirms the positive relationship between democracy, governance and TFP. However, in a subsequent step, when the heterogeneity across countries is accounted for through country groupings and Pedroni (2013) structural panel VAR, the relationship between the selected institutional variables and TFP appears to be weak. It varies depending on country groupings and across countries within each group.