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National Morality and Government Openness: The Panacea to Government Effectiveness

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Abstract
This paper proposes that more openness in government and higher levels of national morality are both favorable forces for attaining greater government effectiveness. Regression analysis is a powerful statistical tool for estimating and examining relationships between variables. The paper tests these notions using cross-country regression analysis on one hundred different countries. The results of the empirical work provide support for the contention that government performance is directly related to government openness and to national morality. Based on the findings, the paper recommends cultivating morality and openness to enhance government performance.

Keywords: morality, government openness, sources of government effectiveness

Introduction

Identifying the determinants of government performance is extremely important. Government is responsible for so many of the critical functions of a nation, including public investment in infrastructure, policy formation and implementation, education, and overall leadership. Because government behavior is so highly consequential, a corrupt, an inefficient, a poorly managed, or an unstable government is almost certain to lower a country's economic growth way below its long run potential. Bad government is generally identified by development economists as one of the major obstacles that developing countries need to be overcome in order to successfully move on the path from being poor to being rich.

Two factors that may be relevant in shaping the extent of government effectiveness in a country are national morality, and the degree of government openness. National morality is likely to enhance government performance for two major reasons. First, more morally-minded citizens are more disposed to hold the government accountable, and more accountable, for its actions. Second, in a society with high moral standards, government officials, administrators, and workers are likely themselves to be more moral, internalizing civic mindedness, defining themselves as civil servants, and basing their behavior on what is good for the society as a whole, and, not on their own interests.

The second factor, government openness, is also apt to improve government performance. In the accounting profession, transparency is consistently touted as a means to reduce fraud, the

manipulation of the books, and other illegal activity. In the Netherlands, there is a cultural tradition to keep the front windows of houses open so that others feel safe that their neighbors are not engaging in any threatening activities.

This paper empirically investigates whether government openness and national morality are indeed important for government performance.

The paper is composed of six parts. The first section reviews some of the recent empirical literature regarding government performance. This section provides a flavor of some of the variables that have already been used in the literature to explain government quality. The next section presents a formal model of government effectiveness, highlighting transparency in government and national morality as key its determinants. The next section, section three, identifies the data sources for the variables. The fourth section presents the findings from regressions of government effectiveness on government openness and national morality. The fifth section provides a short discussion on the regression results, and the sixth section concludes, by summarily reviewing the findings of the paper, and by offering a few policy suggestions.

I. A Review of Some Recent Literature

In their cross country empirics, Lee and Whitford investigate potential reasons for differences in country government effectiveness (Lee and Whitford 2009). Some of the potential explanatory variables they consider include country legal origin, country income classification, type of governmental system (presidential, assembly elected presidential, or parliamentary), having a military or non-military president, existence or non- existence of election fraud, and country classification based on the kind of federalism. They find, In their multiple regression, that brings into play all of their explanatory variables, that only two of their variables, income classification, and French legal origin, are statistically significant determinants of government effectiveness. In addition, country income classification is found to be responsible for almost all of the explained cross country variation in government effectiveness.

In his regression analysis, Al-Marhubi considers a variety of political, cultural, and economic variables as potential determinants of governance (Al-Marhubi 2004). Using averages of various combinations of Kaufmann's six governance as measures of governance, and employing a cross country data set consisting of eighty six countries, he finds that greater Western European influence, English common law origin, trade openness, and per capita GDP have a significant positive effect on country governance.

In their investigation for reasons for differences in institutional quality between nations, Alonso and Garcimartin select variables for consideration by using four different criteria (Alonso and Garcimartin 2013). Their criteria are whether a variable might contribute to static institutional efficiency, to dynamic institutional efficiency, to institutional legitimacy, or to a reduction in uncertainty in human affairs from institutions (Alonso and Garcimartin 2013). Using the World Bank's governance indicators as a basis for an overall measure and other measures of institutional quality, and treating the level of economic development, income inequality, the soundness of the tax system, and trade openness as endogenous variables, while treating education alternatively as an endogenous and exogenous variable, they employ instrumental variables estimation on a sample of seventy eight countries to look at potential determinants of institutional quality. Their findings suggest that greater development, greater income equality, a sounder tax system, and better education are favorable for institutional quality, but that differences in trade openness are not consequential.

In their article, Garcia-Sanchez and Cuadrado-Ballesteros propose a model in which government effectiveness is determined by organizational environment, organizational

characteristics, and political characteristics (Garcia-Sanchez and Cuadrado-Ballesteros 2013). In their empirics, they employ generalized method of moment's estimation on a panel of two hundred and two countries for the years 2002 through 2008. Using the government effectiveness variable of the Word Bank's Governance Indicators as the their dependent variable, they run government effectiveness on the proportion of seats occupied by women in national parliaments, population density, literacy, GDP per capita, and a political constraint variable. They find that each of the variables is significant at the ten percent level of significance or better, with diversity, literacy, and GDP per capita, having a positive effect on government effectiveness, and density, and reduced political constraint a negative effect.

Guedes de Oliveira regresses three different objective measures of government efficiency, a hundred less the infant mortality rate divided by the percentage of public health expenditures to GDP, a hundred less the school dropout rate divided by the percentage of public expenditure to GDP, and a hundred less the illiteracy rate divided by the percentage of public education expenditures to GDP, on various economic, political, and cultural variables using a sample consisting of two hundred and eight countries (Guedes de Oliveira 2012). His findings show that GDP per capita, government size, and trade openness are consistently relevant in a positive way for all three of his measures of government efficiency, that ethnic fractionalization and the urbanization are significantly positive for two of the three measures, and that income inequality has a negative and significant effect for two of the three measures.

Kalona-Kanyama and Kodila-Tedika propose that national intelligence may be of consequence for national institutional quality, theorizing that national institutional quality depends directly on national intelligence (Kalonda-Kanyama and Kodila-Tedika 2012). Employing a cross-country sample composed of one hundred and thirteen countries for the year 2006, and controlling for some of the common variables used to explain institutional quality in the literature (trade openness, GDP per capita, legal origin, and natural resource exports), Kalonda-Kanyama and Kodila-Tedika run ordinary least squares regressions for each of the five World Bank's Governance Indicators (government effectiveness, voice and accountability, political stability, regulatory quality, and rule of law) on national average IQ. Right In line with their hypothesis, they find that average national IQ is positive and statistically important for each and every one of the five dimensions of institutional quality.

It appears that the segregation may be pertinent for the quality of government. In their article, Alesina and Zhuravskaya develop indexes for ethnic, linguistic, and religious segregation for countries (Alesina and Zhuravskaya 2011). They employ each of their indexes as a potential explanatory variable for each and every one of the six World Bank governance indicators in cross country regressions, adjusting for the extent of fractionalization, and for a whole host of other variables (GDP per capita, population size, democratic tradition, latitude, mountain coverage, legal origin, and shares of major religions). They run their regressions for their entire sample, and also when restricting their sample to democratic countries, first using OLS, and then using two stage least squares. For their entire sample, when using OLS, their results show that ethnic segregation has a negative and significant effect on all of the six government indicators except for voice that language segregation has a negative and significant effect on four of the six indicators, but that religious segregation is not statistically relevant for any of the governance indicators. When the sample is restricted to democratic countries and either OLS or two stage least squares is employed, both ethnic segregation and linguistic segregation are negative and statistically significant for every single one of the six governance indicators, while religious segregation continues to be statistically unimportant.

There may be a nonlinear relationship between the quality of government and democracy. Within a theoretical framework that considers both the supply of good government, in terms of rulers incentives for providing better government, and the demand for quality government in terms of citizens demands for better government, citizens demands that are expected to change with the level of economic development as perceived future discount rates fall with greater economic development, Charron and Lapuente posit that greater levels of democracy have a negative effect on government quality at lower levels of economic development, but have a positive effect on government quality at higher levels of economic development (Charron and Lapuente 2010). They test their hypothesis by running regressions of government quality on democracy and on an interaction term between democracy and the level of economic development, adjusting for various control variables such as trade openness and British colonization, using a cross country, time series panel data set, and employing panel corrected standard errors estimation. In support of their hypothesis, they find, in their regressions, just as would be expected on the basis of their theory, that democracy is consistently negative and significant, but, at the same time, that interaction term between the level of economic development and democracy is consistently positive and significant.

II. The Model

The model considers government effectiveness as a function of two key arguments, openness and national morality. The model is as follows.

$$E = f(O, M, \mathbf{C}) \quad \delta E/\delta O > 0, \delta E/\delta M > 0$$

In the model, E stands for government effectiveness, O for government openness, M for national morality, and **C** for a set of control variables. As indicated by the partial derivatives, both government openness and national morality are expected to have a positive effect on government performance.

Government performance is predicted to be directly related to national morality for a number of reasons. First, greater national morality means that the people in government are more moral, and, even without any outside pressures, will strive on their own to perform well. Second, the citizens in a country with greater national morality are more disposed to expect the government to perform appropriately, and to feel it to be their duty to take appropriate action if it does not. Third, more moral government personal in a country with greater national morality are apt to be more sensitive to how they are viewed by the public, and as a consequence of this, have a greater incentive to work well and do a good job in order to avoid negative public censure.

The reason government openness is anticipated to be a positive force for improved government performance is that greater openness allows the general public, and professional people in various walks of life outside the government such as the news media, to better see what is going on within the government, and, by doing so, better enable them to monitor the government, to offer informed criticism, and to bring pressure to bear for change in unwanted government behavior. In addition, the awareness by individuals working in the government of potential public reaction and potential consequences for ineffective or inappropriate government behavior in a more open regime is also a strong preemptive deterrent to poor performance by individuals employed in government.

Two control variables will be considered. The first is the level of economic development and the second is the percentage of natural resource rents to GDP. Not surprisingly, government effectiveness is expected to be positively related to the level of economic development. For one

thing, countries with higher levels of economic development are able to pull form a far wider field of highly educated and technologically skilled people for employment in government.

Government effectiveness, on the other hand, is expected to be negatively related to the percentage of natural resource rents to GDP. The government, instead of serving the public by providing public goods and operating efficiently, may alternatively be used as a prime vehicle by the elites to redistribute income toward themselves by creating and extracting rents. The percentage of natural rents to GDP is a gauge of the extent of rent seeking behavior by elites and, more importantly, the degree to which they involve government in setting conditions to obtain these rents.

III. Variable Sources

The measure of government effectiveness that is employed is one of the six World Bank governance Indicators, the government effectiveness indicator, for the year 2010 (World Bank 2014). The World Bank governance effectiveness indicator tries to capture the perceptions of the quality of government services and of quality government policy. The government effectiveness indicator has a potential range between negative 2.5 and positive 2.5 with higher values indicating greater government effectiveness.

The openness of the government to the public is quantified by using the numbers for the open budget index for the year 2012 of the Open Budget Survey of the International Budget Partnership (International Budget Partnership 2012). The open budget index assesses the extent that government budget information is open to the public, and the degree that public is able to participate in the government budget process. The index has a potential range between zero and one hundred. It is available for one hundred countries.

The measure of national moral character employed in the paper is the 2013 Crabtree' s index of morality, conscience, and the good life(Crabtree 2013). The Crabtree index is a compilation based on eighteen different criteria. These include such things as life satisfaction, economic freedom, gay rights, life expectancy, economic freedom, and press freedom. For the year considered, the low country value for the index is 27.4 and the high country value for the index is 90.7.

GDP per capita for 2010 is used as a measure of economic development. Just as for the data on the government effectiveness index, the data come from the World Bank (World Bank 2014).

Finally, the percentage of natural resource rents to GDP for 2010 is used as a proxy to measure the extent that government may by captured by elites and used as a vehicle to obtain rents. Natural resource rents are obtained summing the rents for all natural resources (oil, natural gas, coal, minerals, and forests). For each commodity, rents are obtained by taking the difference between the prices of the commodity less the average cost (including normal profits) of producing the commodity. The numbers for the variable, the percentage of rents to GDP for 2010, once again, come from the World Bank.

IV. Empirical Results

Table I provides the outcomes for estimated cross-country regressions of government effectiveness on government openness and national morality.

The table consists of four regressions equations. The first is a simple regression of government effectiveness on government openness alone. The second equation is a multiple regression of government effectiveness on both government openness and on national morality.

The third equation is an equation of government effectiveness on the two major potential explanatory variables of interest, government openness and national morality, adjusting for the level of economic development, using per capita GDP as a measure of economic Development. Lastly, the fourth equation adds one additional control variable as an explanatory variable to the third equation, the percentage of natural resource rents to GDP.

The organization of the table is as follows. With the exception of the first column, which lists the potential explanatory variables that can enter the equations, each column shows the results of a individual regression run. These equations are labeled in the first row of the table. The cells in the body of the table contain the estimated coefficients and their individual t-statistics. For any given explanatory variable, the top number in the cell for that variable in an equation is the estimated coefficient for that variable in that equation. Beneath the estimated coefficient is the individual t-statistic. It is in parenthesis. An asterisk indicates that a variable is significant at the one percent level of significance or higher in an equation. Lastly, for each equation, the r-squared value and sample size are shown in the last two rows of the table.

Table I
Cross-Country Regressions of Government Performance On Government Openness And On National Morality

	(1)	(2)	(3)	(4)
CONSTANT	-1.1217 (-8.29) *	-2.8967 (13.27)	-2.5439 (-12.46) *	-2.1315 (-8.78) *
BUDGETOPENNESS	.0219 (7.94) *	.0074 (2.85) *	.0089 (3.79) *	.0078 (3.43) *
MORALITY		.0420 (9.12) *	.0311 (6.740) *	.0263 (5.53) *
PERCAPITAGDP			.000015 (5.23) *	.000018 (6.02) *
%RENTSTOGDP				-.0105 (-2.90) *
RSQ	.392	.673	.748	.769
N	100	100	98	98

The results provide support for the notion that both government openness and national morality are relevant for government performance. Government openness, as measured by the government budget openness index, is positive and significant at the one percent level of significance or better in each and every one of the four equations in table I. National morality is positive and significant at the one percent level of significance the three equations that it appears (equations (2), (3), & (4)). Whether used together without adjusting for any control variables as in the second equation, or when adjusting for one or more control variables as in the third and fourth equation, the coefficients on both government openness and national morality continue to be positive and highly significant. On its own, government openness explains over thirty nine percent of the cross country variation in government effectiveness (equation (1)). The two main explanatory variables of interest, government openness and national morality, taken together, on

their own, in a sample of one hundred countries, explain, over sixty seven percent of the cross country variation in government effectiveness (equation (2)).

The two control variables, also work quite well. Economic development, measured by GDP per capita, is positive and significant at the one percent level of significance in the two equations in which it appears (Equations (3) & (4)). This suggests, just as theoretically anticipated, that higher levels of economic development are associated with greater government effectiveness. Right in line with theoretical expectations, in the single equation that that the percentage of natural resource rents to GDP appears (equation (4)), its estimated coefficient is negative and significant at the one percent level of significance, suggesting that greater rent seeking behavior is unfavorable for government performance.

V. Discussion

While many people have considered a lot of other factors that may be important for government effectiveness, it appears, at least from the findings of the paper, that national morality and government openness should not be ignored when considering the underlying reasons for good government. In the old days of the classical economists, when economics was known as political economy, this position would come as no surprise. Adam Smith, the father of economics, saw morality as the necessary underpinning of both the operation of the market economy and of government. Today, economists are coming to see that morality, the willingness of people to live by the rules of the game, is indispensable for effective institutional operation. Of course, future studies, using different measures of national morality, of government openness, and employing alternative methodologies need to be undertaken to confirm the findings of the present study, and to provide greater insights into the relationship between government and morality.

VI. Conclusion

The cross country regressions in the paper, National Morality, Government Openness, and Government Effectiveness: The Panacea to Government Effectiveness, indicate that both government openness and national morality matter for government performance. Each of the two key variables, government openness and national morality, are positive and highly significant when used as explanatory variables in cross country regressions to explain government effectiveness.

The obvious policy implication is that in order to increase government effectiveness policy makers need to implement policies that are designed to increase national morality and to achieve greater openness in government. This means citizens need to be bought up with a desire to provide for the common good, with a greater willingness to sacrifice their own interest for the public good, to do the right thing, and to really want to do positive things for their fellow citizens. Selection of politicians and of people for government employment, to act as decision makers, administrators, or as plain ordinary government workers, must be made, not just on the basis of their skills and qualifications, but also on their public spiritedness, with their real sincerity in identifying themselves as public servants, and with their perceiving their personal status as a function, not of the money they make, nor of the position they hold, but of how well they serve the public.

Openness combined with morality is likely to have a powerful synergistic effect on government quality. More moral citizens will feel greater responsibility to monitor their government for poor performance, for corruption, and for abuses, and to take actions to rectify these problems. Enhanced government openness provides them with greater monitoring ability, thereby better enabling them to effectively perceive problems, and to act on them. With greater openness, politicians and government workers who deviate from the correct path run a greater risk of being

found out and being shamed, both in their own eyes and in the public's eye, and, thus, have a greater incentive to act professionally and uprightly. In addition, politicians and government employees who are more moral are more innately prone to do positive things of their own accord, more predisposed to do things for the public good even in the absence of third party oversight, and more sensitive to failure to do right because of greater pain of conscious.

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