

# Economic Growth and Changes in Policies: The Role of Veto Players in Latin American and East Asian Countries

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## ABSTRACT

The majority of the literature considers that the establishment of stable institutions, providing better levels of security of property rights, is the key-factor to economic growth, taking into account the creation of favorable conditions to new investments and technological developments, especially considering an environment of globalization. In this sense, these “good institutions”, or the so-called good governance, are closely related to the maintenance of the status quo, that is, the permanence of political and economic stabilities. On the other hand, economic growth requires, in a large way, political and economic changes to allow reforms, to make it possible. We verify, using statistical methods as Ordinary Least Squares ( OLS ), Least Square in Two-Stages ( 2QLS ), Generalized Method of Moments ( GMM ), among others, that, despite the relevance of variables associated with good governance, the Brazilian economic growth is related negatively with the large numbers of veto players ( agents with power veto) and the same happened to South American and East Asian countries. In some cases, the income growth rate is negatively related to the tenure of the veto players and their drop rate from the government basis. Thus, the weaker capacity to veto political and economic changes were associated to better economic growth rates, which does not mean one must not have institutional stability, but points out that the capacity to change the status quo is fundamental to generate conditions to economic growth in developing countries.

Key-Words: Economic Growth. Institutions .Governance.Veto Players.

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## 1 – Introduction

The economic growth has been one of the themes more studied in the social sciences. It is also one of the main objectives pursued by the societies, once the increase of the production level allows all to get better. Unhappily, not always this happens and the benefits are, a lot of times, distributed unevenly.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

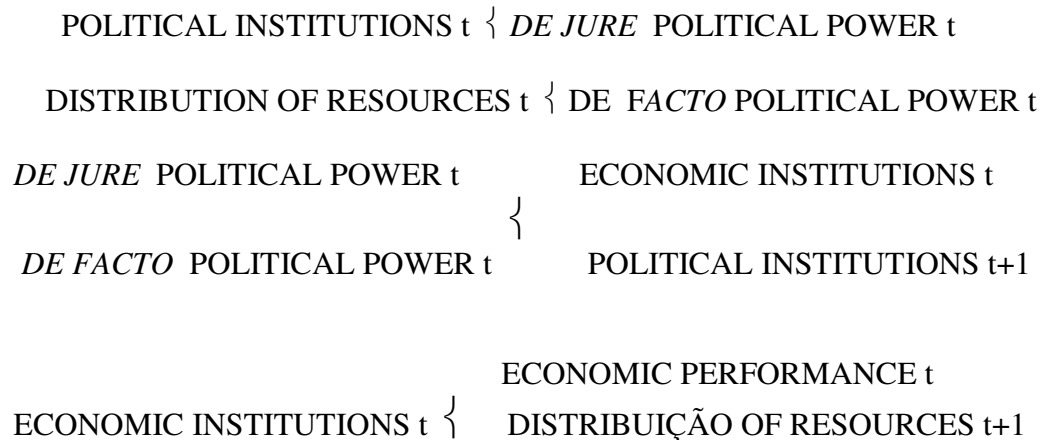
“The subject is, before anything else, institutional. In other words, what is the institutional and legal picture that gives more trust to the agents to accumulate wealth? This is the subject - key. I refer to the removal of impediments to the action freedom and recruiting, to the capacity to create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

This article presents the following sections: in the next, we will discuss the role of the institutions as the fundamental cause of the process of economic growth, as well as this role to the approaches of the economic and political sciences, trying to bring complementary aspects and possible existence of gaps in the

literature. In the second section, we will analyze the importance of the governance for the growth process, still considering the theoretical point of view, and, in the two followings sections, we will bring empiric analyses for the Brazilian case, comparing it with countries of Mercosul and of the East Asian, using governance and institutional data. Final considerations finalize the work.

## 2 – Institutions and Economic Growth

In relation to the discussion proposed in this article, it is important try to systematize the interactions between the political and economical institutions and some other variables, as described in ACEMOGLU, JOHNSON and ROBINSON (2004), that in some way allows to try to answer us to the three questions mentioned in the Introduction of this work and still make possible to look for the development of an analysis for the Brazilian case, larger objective of the article. The outline below simplifies the interactions between economical variables and politics. We will explain the diagram below, soon afterwards:



We can observe that the political institutions in the time t (present) influence the so-called de jure political power also in the time t, in other words, the power that comes with the capacity to alter the legislation, changing legal norms, and influenced by the molds of the political institutions. The distribution of resources in the time t influences the so-called de facto political power that is the associated power, not to the legal norms, but to the capacity of, for having more resources, to influence the decisions.

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

In other words, if the *de jure* power depends on the behavior of the political institutions and the facto power depends on the distribution of resources and those two types of power will determine the behavior of

the economical institutions, influencing the economical performance, of course the political variables will determine, in its final analysis, the economic performance differentiated among the countries.

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

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

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

What does the crucial question settle down, however, it is how the political institutions could be modified to make possible the changes in the economical institutions, and in our example, to allow a reduction in the public expenses?

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

It fell to the political science to treat better of this subject. Recent Works, however seminal, like the one of TSEBELIS (2002), COX and MACCUBINS (2001) and TOMASSI et al. (2006) bring analyses even certain point associated. For those authors, it is crucial to notice that the appearance and the maintenance (decisiveness and resoluteness, in the concepts of COX and MACCUBINS, 2001) of the government politics addressed for the growth, as well as of their characteristics highly favorable, it depends on the result of the transactions made in the political "game."

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

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

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

Alternatively, in the vision of TSEBELIS (2002), without cooperation, the veto players can impede that extremely important policies for economic growth are implemented. On the other hand, the non-cooperation can also impede those disastrous policies in the point of view of promoting growth, as, for instance, those that harm the safety of the property rights, be put in practice.

In the reality, when there is a low capacity to enforce political intertemporal changes, depending on the extension of the distributive conflict in relation to the nature of the economic volatility, we can observe political agreements highly volatile or policies highly inflexible. That, once again, it can be favorable or not to the economic growth.

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

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

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

### **3 – Governance and Economic Growth**

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

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

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

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

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

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

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

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

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

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

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

It is important to notice that a lot of times the countries have different performances with respect to the related items. This way, for instance, we can verify that most of the countries of Latin America is getting better, comparatively to countries with similar per capita income, their results in relation to the subjects related to the voice and transparency and political stability, while they have been worsening in relation to the government efficiency, regulation quality, rules of the law and control of corruption.

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

## 4 – Institutions and Economic Growth: Empirical Evidence for Brazil, Mercosul and East Asian

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

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

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

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

$Y$  is the rate of per capita income growth, data from PENN TABLES ( 2004 )

$K$  is the rate of formation of physical capital, data from PENN TABLES ( 2004 )

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

$A$  is an indicator of the openness of the economy, in this case, the participation of exports and imports in Gross Domestic Production, data from PENN TABLES ( 2004 )

$I_j$  are the institutional variables, that is,  $I_1$  is the variable CHECKS,  $I_2$  is the variable POL, and so on, data from de BECK et al. ( 2001 )

$i$  is the number of countries

$j$  is the number of the institutional variables

$\varepsilon$  represents stochastic error

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

That analysis is particularly important because the government policies can harm minorities without representation, or with insufficient representation, in the measure that the number of veto players goes



smaller. On the other hand, when increases the number of veto players needed to approve these public policies, it decreases the probability that the policies contrary to the interests of a certain minority can be approved. In other words, the mechanisms known as checks and balance, responsible for analyze and approve the implementation of the public policies can facilitate or to hinder such implementations.

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

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

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

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

The results regarding the institutional variables will be presented firstly for the Brazilian case, covering the period 1975 -2004. This period is longer than the one that will use for the cases of the countries of Mercosul and Asian East; in other words, cross section with time series, as well as for the governance analyses. In those cases, we will use the period 1996-2004, once the relative data to the indicators of governance of the World bank only cover the period 1996 -2004. In the Brazilian case, however, for treating of a single country, being, therefore, necessary the use of time series to accomplish the statistical regressions, we will use a longer period 1975-2004.

## Brasil

**Table 1 – Significance and Signal of the Institutional Variables ( Ordinary Least Square – OLS )  
Brazil ( 1975-2004 )**

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

Source : see appendix

For the Brazilian case, as it can be seen in the table 1, above, the regression with usual control variables, as physical capital (investments), human capital (years of education) and commercial openness (participation of the external trade in GDP), as well as a series of institutional variables contained in DPI of the World Bank, it presented the following result:

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

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

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

Chosen the agents with power veto, Henisz develops a space model that incorporates those agents' preferences amongst themselves and inside of their own structures. We can observe that the built variable is similar to the variable CHECKS, elaborated by BECK et al (2001). It is worth to point out that Henisz used the variable POLCONIV to show the relationship between this and the level of external investments and the economic growth and he found a direct relationship, in other words, as larger the political stability, measured by the variable POLCONIV, the largest the levels of investment and the growth rates.

We calculated a new regression for the Brazilian case, using the variable built by HENISZ (2000), in other words, the variable POLCONIV as instrumental variable for the variable CHECKS in a regression of 2 stages least squares, in a similar way to that was done by HENISZ(2000) and we showed that there were not significant alterations. When we substituted the variable CHECKS for the variable developed by HENISZ (2000) as instrumental variable, the same continues being significant at level of 1% and contributing negatively to the Brazilian economical growth, in other words, the idea is reaffirmed that a larger number of agents with power veto (veto Players) contributes negatively to the taxes of growth of the per capita income in Brazil.

The variable LTVP that represents the longest mandate among the veto players continued being significant at the level of 1% and contributing negatively to the growth process, in other words, as larger the duration of the mandates of the veto players existent in the system, worsen for the economical growth of the country. In the same sense, the variable STVP, that represents the shortest duration of the mandate of the veto players, in that regression in 2 stages, it comes significant at the level of 8 percent and (in the regression done with ordinary least square the variable STVP was not significant statistically when we analyzed the statistics t of Student) it contributes positively to the growth, in other words, the smallest duration of the mandates of the veto players it favored the process of Brazilian economic growth.

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

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

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

**Table 2 – Significance and Signal of the Institutional Variables ( Least Square in 2 Stages – 2QLS ) Brazil ( 1975-2004 )**

Variable	POLCONIV	LTVP	STVP	POL
Significant at 1%	-	-		+
Significant at 10%			+	

Source: see Appendix

**Mercosul**

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

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

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

$$Y_{it} = a K_{it} + b H_{it} + c A_{it} + \alpha_j I_{jt} + \theta_1 \epsilon_{it-1} + \theta_2 \epsilon_{it-2} + \theta_3 \epsilon_{it} + \delta \quad (2), \text{ where :}$$

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

i is the number of the country

j is the number of the institutional variable

$\theta_1 \epsilon_{it-1} + \theta_2 \epsilon_{it-2} + \theta_3 \epsilon_{it} + \delta$  are the MA(1) e MA(2).

**Table 3 – Significance and Signal of the Variable CHECKS ( 1996-2004 )**

Variable CHECKS	Argentine,Brazil and Chile	Mercosul and Chile	East Asian
Significant at 1%			
Significant at 5 %	–		
Significant at 10%		–	–

Source: see appendix

**East Asian**

To the countries of the East Asian, in what it weighs the unavailability of the data for Hong Kong, the results to the other countries (Singapore, South Korea and Taiwan) showed the positive and significant influence at the statistical level of 9% of the human capital and, once again, it repeats the negative influence of the veto players, represented once again by the variable CHECKS, indicating that the smallest number of veto players favored to the growth of the countries of the area, and for the variable VPDROP, that indicates

that the small percentile of veto players leaving the government favored the growth of the countries of East Asian.

## 5 – Governance and Economic Growth : Empirical Evidence for Brasil, Mercosul and East Asian

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

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

$Y$  is the rate of per capita income growth, data from PENN TABLES ( 2004 )

$K$  is the rate of formation of physical capital, data from PENN TABLES ( 2004 )

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

$A$  is an indicator of the openness of the economy, in this case, the participation of exports and imports in Gross Domestic Production, data from PENN TABLES ( 2004 )

$G_j$  are the variables of Governance, that is,  $G_1$  is RL ( Rule of Law ),  $G_2$  is RQ, ( Regulatory Quality ),  $G_3$  is PS ( Political Stability ),  $G_4$  is GE ( Government Effectiveness ),  $G_5$  is CC ( Control of Corruption ) and  $G_6$  is VA ( Voice and Accountability ). The data were obtained from KAUFFMAN et al. ( 2005 )

$i$  is the number of the country

$j$  is the number of the variables of Governance

$\varepsilon$  represents the stochastic error

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

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

## **Brazil**

As it was already explained previously won't be possible to use the governance data just to Brazil, once the historical series is much reduced. In order to have an approximate idea, we used the united data of Brazil, Argentina and Chile, for the period 1996 -2004. The results showed the positive and significant influences, respectively, to the levels of 1 and 4 percent, respectively, of the variables related to the governance indicators, Government Effectiveness and Voice and Accountability, results that walk in the sense more found in the literature, in other words, indicators of more democracy levels, transparency and government efficiency favor the growth process.

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

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

## **Mercosul**

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

## **East Asian and East Asian with Mercosul**

The results to the countries of East Asian (Singapore, South Korea, Hong Kong and Taiwan) corroborated the negative relationship among the variable Rules of the Law and the rates of growth of the incomes per capita to the countries of the area, this time at a significance level still larger, of the statistical point of view, in other words, to 1 percent. In this case, the variables associated with the indicators of governance Political Stability and Quality of the regulation, as in most of the literature present a positive and significant relationship at the levels, respectively, of 7 and 1 percent.

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

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

**Table 4 – Significance and Signal of the variables of Governance ( 1996-2004 )**

Variable	Argentine, Brazil and Chile	Mercosul and Chile	East Asian	Mercosul and East Asian
RL	– ( 1% )	– ( 8% )	– ( 5% )	– ( 1% )
RQ	– ( 5% )		+ ( 1% )	+ ( 7% )
GE	+ ( 1% )	+ ( 5% )		
VA	+ ( 1% )			
PS			+ ( 7% )	

Source: see Appendix

It is fundamental to observe that in all regressions of this work the R2 were very high, as can be seen in the appendix.

## 6 – Conclusions

Most of the literature considers that the establishment of stable institutions that supply larger levels of safety to the property rights is the key-factor for the growth, in the measure that creates favorable conditions for new investments and technological developments. In that sense, those good institutions, or the so-called good governance, would be associated to the maintenance of the political and economical stability. On the other hand, the economic growth requests, in great measure, those political and economical changes happen, so in this form, the reforms to make possible the increases in the growth rates are will be implemented. In this point we have a deadlock.

To try to solve it, the empiric help is very important. It was what we did in this work. We verified, that, in spite of the relevance of the variables associated with the good governance, the Brazilian economic growth, as well as of some countries of South America and of the East Asian, were associated negatively with the largest number of veto players (agents with power to veto). In some cases, we observed a negative relationship between the growth rates and the largest duration of their mandates and their largest percentile of the government's exit.

It also deserves importance the negative relationship among the governance variable, Rule of Law with the rates of growth of the per capita incomes, which, in a certain way, it confirms the idea that the more difficult it will accomplish the reforms (including the juridical ones), due to the influence of the veto players, worsen to implement the necessary policies for the growth. This way, the smallest capacity of vetoing

political and economical changes was associated with better growth rates, what doesn't mean that it should not have institutional stability, but it points out that the capacity to change the status quo is fundamental to create growth conditions for the developing countries.

Our results, therefore, corroborate the statement of STEPAN (2004) that "as larger the number of veto players in a political system, more difficult will be to reduce the poverty and the inequality through a wide system of social well-being." Or, still, the idea of HANSON (2006) that considers important the mechanisms of checks and balance, specially to the developed countries, but, considers that those mechanisms that constrain the government action has smaller importance for the developing countries than the role that the state should carry out while coordinator of the economical process and agent corrector of the flaws of that process.

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## APPENDIX

### Regression Argentine, Brazil and Chile

Dependent Variable: Y  
 Method: Least Squares  
 Date: 05/22/06 Time: 13:37  
 Sample: 1 15  
 Included observations: 14  
 Excluded observations: 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A	-0.213074	0.086226	-2.471106	0.0900
H	-0.977049	0.487335	-2.004882	0.1387
INV	1.241210	0.295887	4.194874	0.0247
CHECKS	-3.420816	1.074645	-3.183206	0.0500
FRACOT	12.83359	20.80913	0.616729	0.5811
LTVP	0.682567	0.531794	1.283516	0.2895
STVP	0.311342	0.685736	0.454026	0.6806
POL	-3.096908	3.129274	-0.989657	0.3953
TS	-0.346805	0.179155	-1.935778	0.1483
VPDROP	-17.52043	8.093055	-2.164873	0.1190
VPDROP1	23.69062	7.744731	3.058934	0.0550
R-squared	0.962546	Mean dependent var	2.032857	
Adjusted R-squared	0.837697	S.D. dependent var	4.927365	
S.E. of regression	1.985079	Akaike info criterion	4.240178	
Sum squared resid	11.82161	Schwarz criterion	4.742294	
Log likelihood	-18.68124	F-statistic	7.709722	
Durbin-Watson stat	3.208240	Prob(F-statistic)	0.059759	

Program e-views

### Regression for Brazil

Dependent Variable: Y75  
 Method: Least Squares  
 Date: 07/23/06 Time: 14:27  
 Sample(adjusted): 2 30  
 Included observations: 27  
 Excluded observations: 2 after adjusting endpoints  
 Convergence achieved after 11 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A75	-0.860292	0.524366	-1.640632	0.1268
CHECKS	-2.342771	0.808332	-2.898277	0.0134

FRACGOV	-0.460115	9.414949	-0.048871	0.9618
FRACOP	-1.792330	5.546959	-0.323119	0.7522
FRACOTOT	-26.68806	16.10163	-1.657476	0.1233
H75	0.452257	2.001867	0.225917	0.8251
IDPART	-0.199232	0.222908	-0.893785	0.3890
INV75	1.174287	0.325481	3.607850	0.0036
LTVP	-1.224728	0.409457	-2.991104	0.0113
POL	5.440978	1.539126	3.535109	0.0041
STVP	1.802062	1.057888	1.703452	0.1142
TS	0.974055	0.628726	1.549253	0.1473
VPDROP	-5.792838	9.208367	-0.629084	0.5411
VPDROP1	8.825393	7.248534	1.217542	0.2468
AR(1)	-0.373223	0.249262	-1.497313	0.1601
R-squared	0.720035	Mean dependent var	1.790000	
Adjusted R-squared	0.393409	S.D. dependent var	3.581717	
S.E. of regression	2.789583	Akaike info criterion	5.189842	
Sum squared resid	93.38126	Schwarz criterion	5.909751	
Log likelihood	-55.06287	F-statistic	2.204464	
Durbin-Watson stat	2.612563	Prob(F-statistic)	0.088666	
Inverted AR Roots	-.37			

Program e-views

### – Regression for Brazil with AR(1)

Dependent Variable: Y75

Method: Least Squares

Date: 05/23/06 Time: 11:29

Sample(adjusted): 1 30

Included observations: 29

Excluded observations: 1 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A75	-0.713654	0.622347	-1.146714	0.2695
H75	0.378090	2.333000	0.162062	0.8734
INV75	1.008334	0.376831	2.675824	0.0173
POL	4.269720	1.740082	2.453747	0.0268
CHECKS	-1.819021	1.019415	-1.784376	0.0946
TS	0.988960	0.620675	1.593363	0.1319
VPDROP	-8.264979	7.274279	-1.136192	0.2737
VPDROP1	4.536705	6.613450	0.685982	0.5032
FRACGOV	-4.465083	10.53632	-0.423780	0.6777
FRACOTOT	-20.71447	17.89878	-1.157312	0.2652
FRACOP	-1.523886	7.029299	-0.216791	0.8313
IDPART	-0.181839	0.298824	-0.608515	0.5520
LTVP	-0.946170	0.483704	-1.956094	0.0693
STVP	0.399264	0.972209	0.410678	0.6871
R-squared	0.530784	Mean dependent var	1.664138	
Adjusted R-squared	0.124129	S.D. dependent var	3.539300	
S.E. of regression	3.312359	Akaike info criterion	5.539470	
Sum squared resid	164.5758	Schwarz criterion	6.199544	
Log likelihood	-66.32231	F-statistic	1.305246	
Durbin-Watson stat	2.589862	Prob(F-statistic)	0.307832	

Program e-views

## Regression for Mercosul e Chile

Dependent Variable: YMERC

Method: Least Squares

Date: 10/08/06 Time: 06:21

Sample(adjusted): 1 25

Included observations: 25 after adjusting endpoints

Convergence achieved after 12 iterations

Backcast: -1 0

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AMERC	-0.137015	0.070921	-1.931947	0.0713
HMERC	0.150238	0.457415	0.328450	0.7468
INVMERC	0.821196	0.283717	2.894422	0.0106
VPDROPMERC	4.372032	7.216425	0.605845	0.5531
LTVPMERC	-0.378554	0.247453	-1.529805	0.1456
CHECKSMERC	-1.827712	1.048160	-1.743734	0.1004
VPDROPM1MERC	-6.360039	8.152789	-0.780106	0.4467
MA(1)	-0.407954	0.351753	-1.159774	0.2632
MA(2)	-0.575510	0.421018	-1.366951	0.1905
R-squared	0.525359	Mean dependent var	1.391600	
Adjusted R-squared	0.288039	S.D. dependent var	5.465857	
S.E. of regression	4.611969	Akaike info criterion	6.168900	
Sum squared resid	340.3242	Schwarz criterion	6.607695	
Log likelihood	-68.11125	F-statistic	2.213713	
Durbin-Watson stat	2.270043	Prob(F-statistic)	0.083816	
Inverted MA Roots	.99	-.58		

Program e-views

## Regression East Asian

Dependent Variable: YLA

Method: Least Squares

Date: 08/28/06 Time: 03:48

Sample(adjusted): 4 15

Included observations: 8

Excluded observations: 4 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ALA	-0.001584	0.019674	-0.080501	0.9432
HLA	1.339419	0.443092	3.022889	0.0942
INVLA	0.321727	0.153708	2.093110	0.1714
CHECKSLA	-4.173829	1.604145	-2.601902	0.1214
POLLA	0.352499	3.545168	0.099431	0.9299
VPDROPLA	-22.60609	4.561799	-4.955521	0.0384
R-squared	0.958691	Mean dependent var	4.495000	
Adjusted R-squared	0.855419	S.D. dependent var	5.827673	
S.E. of regression	2.215903	Akaike info criterion	4.542902	
Sum squared resid	9.820450	Schwarz criterion	4.602484	
Log likelihood	-12.17161	F-statistic	9.283157	
Durbin-Watson stat	2.313020	Prob(F-statistic)	0.100095	

Program e-views

## Regression in 2 Stages using the Variable POLCON1 as Instrumental Variable for Brazil (1975-2004)

Dependent Variable: Y75

Method: Two-Stage Least Squares

Date: 10/06/06 Time: 03:56

Sample(adjusted): 2 30

Included observations: 27

Excluded observations: 2 after adjusting endpoints

Convergence achieved after 16 iterations

Instrument list: A75 H75 INV75 POLCON1 FRACGOV FRACTOT  
FRACOP LTVP STVP TS VPDROP VPDROP1 POL IDPART

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A75	-0.911216	0.544149	-1.674573	0.1199
H75	0.543567	2.120094	0.256388	0.8020
INV75	1.239722	0.347249	3.570128	0.0039
CHECKS	-3.102895	1.096489	-2.829847	0.0152
FRACGOV	-3.351583	10.15861	-0.329925	0.7471
FRACTOT	-24.39179	17.16064	-1.421380	0.1807
FRACOP	0.246647	6.100328	0.040432	0.9684
LTVP	-1.315863	0.432915	-3.039539	0.0103
STVP	2.165012	1.131956	1.912629	0.0800
TS	0.927880	0.670392	1.384084	0.1915
VPDROP	-2.326287	10.23281	-0.227336	0.8240
VPDROP1	7.123702	7.097113	1.003746	0.3353
POL	6.112958	1.723296	3.547248	0.0040
IDPART	-0.153949	0.244105	-0.630667	0.5401
AR(1)	-0.262298	0.241744	-1.085023	0.2992
R-squared	0.701329	Mean dependent var	1.790000	
Adjusted R-squared	0.352880	S.D. dependent var	3.581717	
S.E. of regression	2.881267	Sum squared resid	99.62043	
F-statistic	2.112709	Durbin-Watson stat	2.567592	
Prob(F-statistic)	0.100635			
Inverted AR Roots	- .26			

Program e-views

### Regression for Brazil ( 1975-2004 ) using Generalized Method of Moments

Dependent Variable: Y75

Method: Generalized Method of Moments

Date: 10/06/06 Time: 04:17

Sample(adjusted): 2 30

Included observations: 27

Excluded observations: 2 after adjusting endpoints

No prewhitening

Bandwidth: Fixed (3)

Kernel: Bartlett

Convergence achieved after: 5 weight matrices, 6 total coef iterations

Instrument list: A75 H75 INV75 LTVP STVP POL IDPART TS

FRACTOT FRACGOV FRACOP VPDROP VPDROP1 POLCON

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A75	-0.927893	0.292378	-3.173611	0.0080
H75	1.642784	4.454051	0.368829	0.7187
INV75	1.195880	0.241944	4.942785	0.0003
LTVP	-1.166680	0.487130	-2.395007	0.0338
STVP	2.324919	0.577851	4.023386	0.0017
POL	7.576409	9.523376	0.795559	0.4417
IDPART	0.016411	0.922469	0.017790	0.9861
TS	0.252464	4.049136	0.062350	0.9513
FRACTOT	-23.05477	17.97685	-1.282470	0.2239
FRACGOV	1.160682	28.76806	0.040346	0.9685
FRACOP	4.217904	24.11792	0.174887	0.8641
VPDROP	5.136185	21.05720	0.243916	0.8114
VPDROP1	2.099609	14.31714	0.146650	0.8858
CHECKS	-3.471746	2.434774	-1.425901	0.1794
AR(1)	0.095209	1.802556	0.052819	0.9587
R-squared	0.647131	Mean dependent var		1.790000
Adjusted R-squared	0.235450	S.D. dependent var		3.581717
S.E. of regression	3.131801	Sum squared resid		117.6982
Durbin-Watson stat	2.841022	J-statistic		6.67E-12
Inverted AR Roots	.10			

Source : Program e-views

### Regression for Argentina, Brasil e Chile ( 1996-2004 ) - Governance

Dependent Variable: Y

Method: Least Squares

Date: 05/18/06 Time: 23:19

Sample(adjusted): 1 15

Included observations: 15 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A	-0.587682	0.275770	-2.131061	0.0771
CC	16.04544	8.564838	1.873409	0.1102
GE	39.95361	11.09259	3.601828	0.0113
H	0.088982	1.487837	0.059806	0.9543
INV	0.558957	0.194494	2.873900	0.0283
PS	4.470144	7.778375	0.574689	0.5864
RL	-38.15884	11.25165	-3.391399	0.0147
RQ	-10.37638	4.623289	-2.244372	0.0659
VA	13.79541	5.620347	2.454549	0.0495
R-squared	0.860471	Mean dependent var		2.029333
Adjusted R-squared	0.674432	S.D. dependent var		4.695699
S.E. of regression	2.679300	Akaike info criterion		5.092697
Sum squared resid	43.07190	Schwarz criterion		5.517528
Log likelihood	-29.19523	F-statistic		4.625216
Durbin-Watson stat	2.668913	Prob(F-statistic)		0.039102

Program e-views

### Regression for Mercosul e Chile ( 1996-2004 ) - Governance

Dependent Variable: YMERC

Method: Least Squares

Date: 07/23/06 Time: 15:52

Sample(adjusted): 2 25

Included observations: 24 after adjusting endpoints

Convergence achieved after 72 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AMERC	0.091145	0.066761	1.365253	0.1937
CCMERC	-0.222279	5.062446	-0.043907	0.9656
GEMERC	14.66657	7.028746	2.086655	0.0557
HMERC	-1.267803	0.858779	-1.476285	0.1620
INVMERC	0.145832	0.243753	0.598276	0.5592
PSMERC	-0.395705	6.473741	-0.061125	0.9521
RLMERC	-16.07234	8.630555	-1.862260	0.0837
RQMERC	4.500541	5.629758	0.799420	0.4374
VAMERC	-1.032798	4.092785	-0.252346	0.8044
AR(1)	-0.516159	0.226889	-2.274937	0.0392
R-squared	0.536861	Mean dependent var		1.078333
Adjusted R-squared	0.239128	S.D. dependent var		5.342143
S.E. of regression	4.659843	Akaike info criterion		6.210177
Sum squared resid	303.9979	Schwarz criterion		6.701033
Log likelihood	-64.52213	F-statistic		1.803165
Durbin-Watson stat	2.270578	Prob(F-statistic)		0.155673

Inverted AR Roots

Program e-views



### Regression for East Asian ( 1996-2004 ) – Governance

Dependent Variable: Y

Method: Least Squares

Date: 09/13/06 Time: 02:32

Sample(adjusted): 29 45

Included observations: 13

Excluded observations: 4 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A	-0.033757	0.042505	-0.794185	0.4715
H	-0.640136	0.649251	-0.985962	0.3800
INV	0.473454	0.217532	2.176475	0.0951
CC	-3.277540	12.14604	-0.269844	0.8006
VA	1.115364	7.094750	0.157210	0.8827
RL	-24.23404	8.841174	-2.741043	0.0518
RQ	28.21399	7.244910	3.894319	0.0176
GE	-8.953087	9.461710	-0.946244	0.3976
PS	12.78684	5.404987	2.365748	0.0772
R-squared	0.878116	Mean dependent var	3.768462	
Adjusted R-squared	0.634349	S.D. dependent var	6.135263	
S.E. of regression	3.709938	Akaike info criterion	5.665868	
Sum squared resid	55.05455	Schwarz criterion	6.056986	
Log likelihood	-27.82814	F-statistic	3.602271	
Durbin-Watson stat	2.197228	Prob(F-statistic)	0.115546	

Program e-views

### Regression for Mercosul and East Asian ( 1996-2004 ) – Governance

Dependent Variable: Y

Method: Least Squares

Date: 10/08/06 Time: 10:18

Sample(adjusted): 2 45

Included observations: 35

Excluded observations: 9 after adjusting endpoints

Convergence achieved after 42 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
A	-0.013906	0.016536	-0.840929	0.4087
C	-11.74435	4.912714	-2.390603	0.0250
H	0.453085	0.624988	0.724949	0.4755
INV	0.440615	0.143531	3.069825	0.0053
CC	1.563118	3.099078	0.504382	0.6186
RL	-13.14792	4.937986	-2.662608	0.0136
RQ	7.754340	4.025397	1.926354	0.0660
PS	4.710781	3.787784	1.243677	0.2256
VA	-0.745034	3.132729	-0.237823	0.8140
GE	2.265289	4.101403	0.552320	0.5858
AR(1)	-0.382725	0.215666	-1.774613	0.0886
R-squared	0.493565	Mean dependent var	1.741143	
Adjusted R-squared	0.282551	S.D. dependent var	5.681026	
S.E. of regression	4.811964	Akaike info criterion	6.231365	
Sum squared resid	555.7200	Schwarz criterion	6.720189	
Log likelihood	-98.04889	F-statistic	2.339011	
Durbin-Watson stat	2.216501	Prob(F-statistic)	0.042892	
Inverted AR Roots	-0.38			