

## The Effect of the Quality of Governance on Income Distribution: With an Emphasis on Iran and Selected Countries Neighboring Turkey and Pakistan

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**Abstract:** Considering the trend of increasing income inequality and lack of economic justice, particularly in developing countries and with highlighted the role of governments in carrying out their duties to achieve better distribution of income, the researcher strongly felt the need for good governance so the main objective of the study were to evaluate the effect of governance quality indicators on income distribution over a period of 1999-2013 for the neighboring countries of Iran and Turkey and Pakistan using panel data. The results showed that the index of governance quality and a significant negative impact was found on the reduction of inequality which in turn could reflect the impact of the measure was improving the distribution of income.

**Key words:** Quality of governance, income distribution and Iran, income, distribution, reduction

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### INTRODUCTION

Depth study of the transition from state to state minimum and maximum good governance theory suggests that before the end of the second world war some what Keynesian view that government intervention should be prescribed among countries prevailed. However, the trend of increasing state intervention in the economy and economic problems and continuing failures of economic policies once again caused the classical theory (the minimum) to surpass competing theories. But according to the state by the end of the 80s, problems had led government following the theory at least since the mid-90s, dissatisfaction with the new government was formed and the end of the decade at least, good governance approach welcomed was widespread, so that good governance which included cooperation and coordination of government, private sector and civil society, caused all levels to work together and strengthen each other and ultimately more efficient government and improved economic performance and social help (Bashiri and Shaghaghishahri, 2011). However, due to problems such as poverty, inequality, discrimination, corruption, environmental degradation, high inflation rates that were among the challenges facing developing countries, including Iran which according to these conditions, according to good governance is necessary, given the importance of good governance and a vacuum especially in developing countries and its impact on income distribution is one of the main objectives of the government pedagogic, the purpose of this study was to explore the effect of governance quality indicators on income distribution using panel data within 1999-2013 for the some developing countries such as Iran, Turkey and Pakistan.

### Theoretical foundations and literature

**Studies:** One of the first empirical studies on the impact of institutions on economic performance by Nack and Kiefer has been carried. Also other studies in this area are as follow: Zhang *et al.* (2004), Sumarto *et al.* (2004), Shafique and Haq (2006) and Akram *et al.* (2011) examined the impact of good governance measures on macroeconomic variables such as income distribution. Although, the impact of good governance measures on income distribution in the country of study is not done directly, indirectly the impact of macro-economic indicators of good governance including the distribution of income various studies carried out including Meydry (2006), Komijani and Salatine (2008), Sabbagh and Baskha (2009), Shah and Porjvan (2010), Sameti *et al.* (2011) and Shah *et al.* (2013), respectively.

Since the 90s, the quality of the attention had been what they care about the same quantity of government or core functions of the government such as order, security and defense interest but due to the dissatisfaction of the 90s onward, a model of good governance has been welcomed by communities. In this model, the decisive factor is that the quality of governance provide efficient and effective public goods and services considered basic to the goods by the government through cooperation with the private sector are considered as government expenditure. To calculate the costs of government investment in public goods such as the product of the ratio (the ratio of government expenditure to GDP) in gross fixed capital formation is used. Also, Good Governance Index (GGI) is used as a criterion for the institutional structure and governance. Given the purpose of the present research, the effect of governance quality indicators on income distribution using the social welfare function of age, social welfare function of age  $w = \mu (1-G)$

which is based on changes in the index  $\mu$  income (per capita income)  $G$  and income distribution (Gini coefficient) were simultaneously considered.

In compliance with the most research in the social welfare function, social welfare under the influence of income and consumption can be divided into two parts, the use of public and private goods, can thus be written as:

$$W = f(y) = f(c)$$

Social welfare function with respect to the above is written as follows:

$$w = f(c_1, c_2) \rightarrow w = f(c_1, G_2, GGI, \mu)$$

Finally, according to the Gini coefficient to be age adjusted well written as follows:

$$G = 1 - \frac{f(c_1, c_2)}{\mu} \rightarrow G = 1 - \frac{f(c_1, G_2, GGI)}{\mu}$$

## MATERIALS AND METHODS

**Pattern research:** Due to restrictions in the use of time series model in short periods of time due to the limitations of available data, using panel data for data integration sections for different groups in a limited time is a useful way. Overall, the panel is as follows:

$$Y_{it} = \alpha + \beta X_{it} + U_{it}$$

**Stipulates model:** According to what was mentioned in the theoretical foundations of the model, after adjustments to a model based on the quality of governance will be evaluated to enter the 3-variable control, model studies are as follows:

$$Gini_{it} = B_0 + B_1 C_{1it} + B_2 G_{2it} + B_3 Gqi_{it} + B_4 \mu_{it} + B_5 UP_{it} + B_6 Eii_{it} + B_7 Demo_{it} + \varepsilon_{it}$$

Where:

- $i$  = Denote the observed period units
- $t$  = Represents time and shows the estimation error as pooled
- Gini = Gini coefficient as a measure of inequality index is used as the dependent variable
- Gqi = Good governance quality is index's
- $G_2$  = Government investment expenditure in public goods and services with constant prices 2005
- $C_1$  = spending the final consumer with constant prices 2005
- $\mu$  = Per capita income with constant prices 2005 (the estimate instead  $y$  is used)
- UP = Urbanization rate
- Eii = Institute heritage foundation index of economic freedom which data was taken
- Demo = Freedom house democracy index for which data was taken. Also,  $U$  is also the error

## RESULTS AND DISCUSSION

### The results of the unit root test for all the variables:

The results of the unit root test for the three countries show that all variables are stationary and the probability of being caught in the false regression is minimal (Table 1).

### The results of stipulated models for the three countries:

The estimation results of the models are shown in Table 2 which estimates quality index rule in income inequality.

**Researcher computing:** The results show that the index of governance quality in all three countries has a significant negative impact on the models. So, that if the country's governance quality index increased one percent, inequality is reduced by as much as 0.45 units to the country. But for Turkey this coefficient is negative and significant, hence that has to be improved if the index is a percentage of 1.13%, better income distribution as well as for Pakistan this coefficient is negative and significant.

Table 1: Results of unit root test for Iran, Turkey and Pakistan

	Pakistan		Turkey		Iran	
	Augmented Dickey-Fuller test		Augmented Dickey-Fuller test		Augmented Dickey-Fuller test	
Variables	Probability	Quantity	Probability	Quantity	Probability	Quantity
IGini	0.0130	-4.073	0.0100	-4.07	0.0030	-3.51
IGqi	0.0500	-3.450	0.0020	-3.70	0.0020	-3.69
ly	0.0200	-3.610	0.0020	-3.45	0.0080	-2.94
Lg2	0.0020	-3.410	0.0200	-3.50	0.0100	-2.65
IDemo	0.0005	-4.140	0.0005	-4.10	0.0100	-3.09
IEii	0.0070	-4.190	0.0070	-4.20	0.0050	-4.60
lup	0.0001	-13.700	0.0003	-7.30	0.0001	-4.86

Researcher computing

Table 2: The results of the quality of good governance (the dependent variable: the Gini coefficient)

Country Coefficient	Iran		Turkey		Pakistan	
	Coefficients	Probability	Coefficients	Probability	Coefficients	Probability
C	19.32	0.020	8.3500	0.015	8.50	0.18
IGqi	-0.45	0.070	-1.1300	0.060	-0.33	0.07
ly	-0.55	0.050	-0.7700	0.080	1.06	0.01
Lg2	-0.39	0.030	0.3400	0.090	-0.05	0.80
IDemo	-0.07	0.110	-0.3000	0.027	-0.21	0.03
IEii	0.13	0.120	-	-	-0.19	0.86
lup	-	-	-	-	-2.33	0.21
R <sup>2</sup>	0.99		0.975		0.77	
F-statistic	692.00		15.770		-	
Wald F-statistic	-		-		22.40	
DW	1.5		2.060		2.30	

Researcher computing

The per capita income variable for Iran and Turkey has a significant negative impact, so that has increased as a percentage of income, the Gini coefficient for Turkey and Iran respectively 0.55 and 0.77% reduced. However, in Pakistan this is positive, so that has to be improved if a variable percentage of the income distribution is reduced by >1%.

The share of government spending in production and deliver goods and services for Iran negatively. However, in Turkey, the relationship between these two variables positive and significant although, a significant positive correlation with the Gini coefficient is negative it is not significant. In this study, three control variable indicators of democracy, economic freedom index and the rate of urbanization have been used to influence the Gini coefficient. For the two countries Turkey and Pakistan democracy index has significant and negative impact. So, that which the index of governance quality if increases, the coefficient gini for Turkey to Pakistan 0.3 and 0.21% declines, respectively. But for Iran, although the relationship is negative it is not significant. Index democracy in Turkey because of a disturbing trend model has been deleted.

Urbanization rate table for two countries including Iran and Turkey to disrupt the process of estimating models has been removed but for Pakistan, although the relationship is negative this is not significant. As well as the calculated values for the coefficient of determination R<sup>2</sup> in the country as a whole has a high value. So that for the country (the first model) based on the calculated values for the coefficient of determination, the coefficient of determination is 0.99 so that the variables included in the model explains 99% of changes in the gini coefficient. The statistic F (to 692) on the model implies significant Durbin Watson and statistics (1.5) and the lack of serial correlation between regression error statements and other models has to be interpreted accordingly.

## CONCLUSION

According to a survey conducted by the survey results it can be stated that: studying the parameters of good governance in the economy during the period 1999-2013 indicate so that due to the ups and downs taking place in the governance index, the total index of the quality of governance in Iran is worse, the way in which the lowest-ranked of the voice and accountability indicator which from 21.15 in 2000-4.27 in 2012 declined.

Also according to the results it can be said that during this period, governance quality indicator for Turkey, according to the 6 criteria's in better condition than Iran and Pakistan to Turkey where the figure of 45.3 units in 2000 to 50.15 in 2013 arrives.

Quality of governance indicator for each of the three countries has a significant negative relationship. This hypothesis that the negative relationship between income inequality confirms the quality indicators of good governance.

## RECOMMENDATIONS

Given that the main objective of the study was to evaluate the effect of governance quality indicators on income distribution in three groups of countries, Iran, Turkey and Pakistan and the results of the forecast models showed that the quality of governance has a significant negative impact on the Gini coefficient and given that good governance factor driving economic growth, wealth creation and ultimately improving income distribution and the fact that the indicators of good governance in developing countries including Iran were inappropriate, some suggestions to improve this component in these countries will be presented.

Given the significant negative impact on the quality of governance Gini coefficient for these countries it is

recommended that a policy package to achieve good governance measures to implement economic reforms, judicial, administrative and management and to improve policies and develop civil institutions reducing inequality in society which in turn provides.

Given that one of the assumptions of the social welfare functions, the sum of which sent the social welfare functions in different countries together and considered as a limitation to the functions herself a new research it would pay to study a new social welfare function is recommended not provide such restrictions.

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