

# STUDIES ON ECONOMIC DEVELOPMENT

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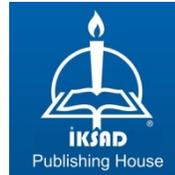
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## **From editors,**

The proliferation of knowledge can only occur with its propagation. In this study, the concept of development was evaluated from different perspectives and information was given about the studies in the field.

*Transition from Carbon-Based to Low-Carbon Development: A Brief Assessment* headed study sustained the paying attention on the using of energy usages in economic growth processes in countries and also gave information on the usage of energy in economic development policies.

*The Role of Private Credits to Finance Women's Self-Employment: Evidence from Latin American Integration Association – LAIA* named study is about studying the role of women in economic development via looking at the participation in working life, and the joining of private credits in employment power of women was also questioned.

*Effect of Liberalization on Economic Development* titled work questioned the development policies in neoliberal period, and the effects of foreign commerce and capital investments on economic development are also investigated.

*Interaction Between Corruption and Economic Development: An Application for Mena Countries* headed study questioned the relationship between the economic development and institutional quality's indicators such as the poverty level.

*Municipalities and Current Ties in with Economic and Social Development Policies and Aim* titled studied the role of municipalities in social development policies.

*The concept as Progress and Its Relation with Economic Development* named study questioned the concept as progress in development sphere, the interaction between the economic development driving institutions and social progress was also investigated.

This book is a preliminary study of the economic development book that will be presented later. We thank our colleagues who contributed to the study

Assoc Prof. Cemil Serhat AKIN  
Assoc. Prof. Cengiz AYTUN

# CHAPTER 1:

## Transition from Carbon-Based to Low-Carbon Development: A Brief Assessment

*Cengiz AYTUN<sup>1</sup>*

*All things are exchanged for fire, and fire for all things, just as goods are for gold, gold for goods.- Heraclitus<sup>2</sup>*

### 1. Introduction

Our planet has a complex and multidimensional ecological system. From the past to the present, there have been various transformations in this ecosystem. The transformations that took place in the ecosystem of our planet played an important role in the existence and extinction of living things. All living things are mainly energy machines. Since the first day on earth, human beings are no different from other living things. We take our energy from our sun and use it

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<sup>2</sup> A Greek philosopher of the late 6th century BCE. Heraclitus lived in Ephesus, an important city on the Ionian coast of Asia Minor, not far from Miletus, the birthplace of philosophy (Graham, 2018).

to reach future generations. We need the energy to live and maintain our generation. Energy is a unique currency unit in the universe. Although we use various currencies in our daily lives, the fundamental unit of our ecosystem is energy. Changes in the way we utilize it has led to significant transformations in our quality of life.

During the carbon cycle, carbon is released into the atmosphere. It is then captured by plants or chemical processes and then released back into the air. In this process, minor changes in the earth's orbit, volcanic eruptions or tectonic movements lead to fluctuations in the carbon cycle (Hook, 2015, p. 110). But, we have damaged the carbon cycle with the industrial revolution. After the 80s, the global warming problem started to come up. The effects of economic growth on the environment have become the focus of academic studies and public opinion. This situation led to a rapid increase in the number of studies. Studies show that instead of renewable energy sources, the use of fossil fuels such as oil, natural gas, forest fires, smoke from houses and facilities cause global warming(Aytun, Akin, & Algan, 2017, p. 1). The use of fossil fuels as the primary energy source causes CO<sub>2</sub> emissions. CO<sub>2</sub> emissions account for 60% of total greenhouse gas emissions

(IEA, 2013). The main reason for the increase in CO<sub>2</sub> level is the increase in the amount of energy used in the production process.

The analysis of air bubbles trapped in the glaciers of the South Pole yielded findings that reached 800,000 years ago (Figure 1). These findings show that there have been fluctuations in the carbon dioxide level throughout history. These fluctuations are accompanied by fluctuations in air temperature. Global warming has also been experienced in past times. However, these warming periods were realized with the slow increase of carbon dioxide in long periods. The difference of the last global warming process from the previous ones is mainly due to anthropogenic activities.

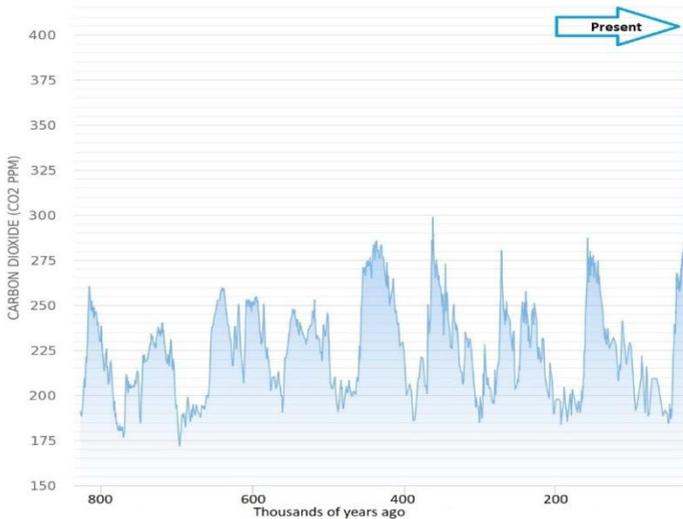


Figure 1. Historical Atmospheric Carbon Dioxide and Temperature Levels

Source: 2 Degree Institute (“Current&HistoricalCarbon Dioxide (CO2) Levels Graph,” 2018)

The gradual 0.88C increase in global temperature over the last 125 years cannot be explained by natural forcing operating at tectonic, orbital, or millennial time scales, nor is it the result of short-term forcing from volcanic explosions or El Niño events. Up to 10% of the warming (0.078C) could result from changes in solar irradiance. It is accepted that current warming is primarily caused by anthropogenic activities in addition to natural causes. The greenhouse gases carbon

dioxide and methane, chlorine-bearing chemicals of various kinds, and sulfate and carbon aerosols produced by humans are the most important reasons for global warming (Ruddiman, 2014, p. 378).

Recently, global warming has begun to emerge as a fact that we do not want to face. The fact that we cause global warming requires us to revise our development mentality. If serious measures are not taken, it is assumed that climate change will lead to enormous economic losses and extensive damage (Stern et al., 2006).

## **2. Energy Usage in Historical Perspective**

Throughout the long prehistoric time, humanity sought a reliable source of energy. At that time, in order to meet basic needs, muscle strength was primarily used. The quest of secure energy source has always faced biological restrictions. Until the modern industrial age, the slave or free manpower and the burning of biomass remained the two main sources of energy. Unlike the prehistoric period, these two resources were increasingly used effectively. The living standards of human communities and individuals have always been associated with diversifying energy resources and increasing energy

efficiency. Ancient civilizations were also able to partially utilize non-living energy resources, except for the burning of biomass and the use of pack animals in transportation. The use of winds in maritime transport led to many opportunities. The transportation of goods and people in this way allowed many civilizations to spread and develop their culture. However, it was not suitable for the oceans to sail with the simple square or triangular route that was tracked along the coast. A reliable energy source and a compass were needed to open the oceans. Cattle were the first animals used for rough power in agriculture. Cattle were used for lifting water, plowing, harvesting crops and transport. In later periods, horses were used instead of cattle due to their size and anatomical advantages. In the ninth century, the harness developed in China reached Europe. In this way, horses kept their importance for 700 years until the machines take their places (Smil, 2001, pp. 623–624). Biomass was the primary source of energy until the beginning of the industrial revolution (Figure 2). Until the beginning of the twentieth century, biomass remained important. A great deal of energy was obtained by burning wood or other organic materials. Coal became a global energy source after the 1900s. One of the three

or four important transitions in the life of mankind was the beginning of industrialization. After the Enlightenment era, the transition of energy, which historians have associated with many reasons, began in England(Steffen, Crutzen, &McNeill, 2007, p. 616).

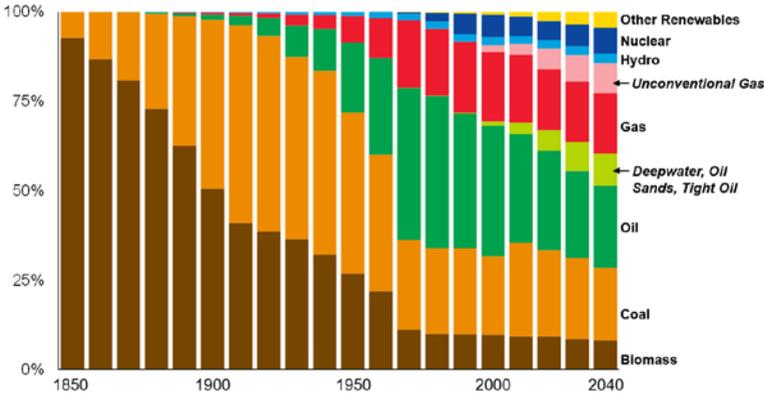


Figure 2. Global Fuel Mix

Source: Smil(2010, p. 155) for the period 1800-1960 & 2040 projection by ExxonMobile.

In the pre-industrial period, population and deforestation have increased continuously. More land was deforested every year to meet the growing need of the industry. However, the economic order based on biomass was unsustainable. As a result of the crises in the supply of wood-fuel, this transformation accelerated. The increase in wood-fuel prices

encouraged the transition of the industry to mineral fuels. In this sense, coal in England was a good energy alternative (Fouquet, 2011, pp. 5–6). The industrial revolution created the need for an uninterrupted energy supply. Initially, coal was used to remedy this need. The use of steam power has also played an important role in the use of coal as a useful energy source. Newcomen's inefficient steam engine was used to commercialize the coal previously used as household fuel. This steam engine was used to drain the groundwater in the mines. In this way, miners could reach deeper. The steam engine's fuel was coal. The cost of transporting coal from the mine to the engine was very low. In 1770, James Watt's redesign of the steam engine accelerated the transition to coal. Even though the improved design was still inefficient, average engine power had reached twenty kilowatts. Watt's steam engine was five times stronger than the water mill, three times the windmill, twenty-five times more than a good horse. During the nineteenth century, the size and efficiency of the steam engine increased rapidly. Efficiency increased up to ten times more than Watt's engine. The speed and capacity of international transport increased with locomotives and steamships (Smil, 2001, pp. 624–625). The rapid increase in the demand for coal

in the nineteenth century has also raised various concerns. However, there has been no downturn in supply due to technological advances. In this way, the coal price remained low (Fouquet&Pearson, 2006). With the development of refining technologies and the invention of the internal combustion engine, the oil era began. Nevertheless, coal remained the most important energy source until the 1960s. In the 1960s, Petroleum was the most important source of energy rather than coal. Oil use by 1970 rapidly grows more than other sources. Although gradually decreasing since the 1970s, it is still the most important source of energy. Natural gas has emerged as an important energy source and gradually increased its share. Finally, the use of hydro, nuclear and other renewable resources is increasing. However, their share in total is relatively low.

Energy is the basis of our society. Especially cheap energy is the basis of our high standards of living and expectations. (Hagens, 2015, p. 44). From 1850 to 2010, the world population increased by 5 times, energy use by 20 times, and fossil fuel consumption increased by 150 times. Eighty percent of the nitrogen in our bodies and half of the protein come from petrochemical fertilizers and fossil energy sources.

People who lived two centuries ago were formed by the energy from the sun. Today, the source of our existence is fossil hydrocarbons(Hagens, 2015, p. 29).

### **3. The Results of Recent Development Mentality**

Over the past two centuries, fossil-based energy has played a central role in our economic development. Of course, there are also heavy costs of creating miracles of economic growth. One of these heavy costs was harm to the environment. Dramatic increases in atmospheric carbon dioxide levels have occurred. One of the main reasons for this increase was the cutting and burning of forests in order to open agricultural land. Another reason was the use of coal, oil, and gas fossil fuels. Measurements made in the ice cores indicate that (Figure 3) over the last 150 years, atmospheric carbon dioxide has increased by forty percent. Because greenhouse gases trap outgoing radiation from Earth's surface, the rising CO<sub>2</sub> level has warmed the planet (Ruddiman, 2014, pp. 379–380).

To sum up, we first provided our energy from biomass and harness animals. Then we took advantage of the wind and waterpower. Ultimately, the carbon fossil became the basis of our energy resources. Our energy development path has

increased dramatically in economic output per capita (Hagens, 2015, p. 29). According to the calculations, the amount of carbon dioxide in the atmosphere has increased by about one third since the industrial revolution that occurred 250 years ago (Hook, 2015, p. 111; Keeling et al., 2005; “Primary Mauna Loa CO2 Record,” 2018). Our challenge during the twenty-first century will be fourfold: avoiding nuclear conflict; extending the benefits of high-energy society to billions of people in low-income countries; decoupling the development of rich societies from continuous growth of energy consumption, and preserving the integrity of the biosphere (Smil, 2001, p. 629). Despite all these problems that threaten human life, unfortunately, positive developments are limited. There is no evidence that the global primary energy transition has been accelerating during the recent decades, and the carbon intensity of commercial energy supply remains high (Smil, 2016, p. 196). The lack of institutional quality is another important obstacle for developing countries (Akin, 2014; Aytun & Akin, 2014).

#### **4. Conclusion**

Today, the source of our wealth is largely the energy from fossil fuels. This requires us to leave our understanding of carbon-based development at a rapid pace. Developed countries have risen in the past by using pollutant technologies. In these countries, after the quality of life of their citizens increased, the quality of the environment began to gain importance for people. However, this fact raised several questions. Will the developed countries create a low-carbon economy without reducing their living standards? On the other hand, how fair is it that developed countries impose the use of expensive technologies from developing countries? Can decisions and measures taken by a limited number of countries reduce global warming? Countries competing with each other. On the other hand, all countries expect the costs to be paid by other countries. As humanity, will we be able to overcome these problems in the future?

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## CHAPTER 2:

### **The Role of Private Credits to Finance Women's Self-Employment: Evidence from Latin American Integration Association – LAIA\***

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*Cemil Serhat AKIN<sup>2</sup>*

*İpek Tekin<sup>3</sup>*

*Okyay UÇAN<sup>4</sup>*

#### **ABSTRACT**

The current study aims to address the factors related to female self-employment both theoretically and empirically. The relationship between private credits, income level, labor force participation rate and female self-employment was analyzed by means of using panel data method for the countries constituting Latin American Integration Association (LAIA). A significant relationship was found between the relevant variables in the study which covers the years of 1990-2012 and

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in which Panel co-integration and Granger causality tests were performed. While there is a negative relationship between gross domestic product (GDP) per capita and self-employment, it was found that an increase in the private credits and female labor force participation rate has a positive impact on female self-employment.

## **1. Introduction**

Considering that employment is one of the most important links in an economy, it is inevitable to focus on the main dynamics of this impetus. Even though employment has so many macroeconomic determinants, a financial need is becoming unavoidable when the issue is related to self-employment. One of the closest options for solving this problem is the credits provided by the bank. In this regard, it is noteworthy that various studies focus on the question about how these credits fulfill the need (Kneiding and Kritikos, 2013; Boustanifar, 2014; Treichel and Scott, 2006; Feldmann, 2006).

When considering the impact of entrepreneurship on an economy, the contribution of current enterprise to the growth is an expected result in case of its success. However, the presumption that any failure may affect the second financier in

a negative way is regarded as another result. One of the reasons affecting it is the size of the firm. There is a difference between the owners of a large firm and those having small firm in terms of the risks they have. This means that small firms bear more risk and thus, have more difficulty in the availability of credits (Berger and Udell, 1998; Kneiding and Kritikos, 2013).

Besides, the impact of various socio-economic and demographic factors such as the income level, education, health, age and marital status of the business owners and their households on self-employment cannot be ignored (Aytun and Akın, 2014). However, if you have your own business, all the factors may change the situation a bit more depending on your gender. The most noticeable impact of this difference is observed on women. We live in such a world where women have more constraints than men regarding self-employment. Although the intensity of these constraints varies depending upon the development level of economy, men provide finance easier compared to women (Riding and Swift, 1990; Coleman, 2000; Haines et al, 1999; Treichel and Scott, 2006).

The present study is primarily based upon the influencing factors of self-employment. The issue is to be discussed in terms of women entrepreneurs and the determinants of female

self-employment will be evaluated. In this regard, once theoretical explanations and relevant studies in the literature are observed, an empirical analysis covering Latin American Integration Association (LAIA) founder countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay and Peru) will be conducted. In this study, female self-employment is examined in terms of not only the financial dimension but also with a broader economic context. For this purpose, panel data methods are used for the period of 1990-2012. In addition to the domestic credits provided to private sector, the impacts of per capita income and female labor force participation rate on female self-employment also are investigated.

## **2. Theoretical Background**

Creating employment opportunities are of great importance as well as employees are the driving force on this issue once employment is evaluated in the context of economic growth. The contribution of the private sector to the emergence of this opportunity is evident. Self-employment which provides both enterprise and employment is an important issue to focus on. In this sense, it is clear that such enterprises should be

encouraged. Hence, financing of these enterprises is highly significant.

Despite the fact that credit types (individual or commercial) vary in respect to the current circumstances, obtaining financial resources is a very significant step for any entrepreneur who are willing to do their own job. Not only well-functioning of credit markets but also characteristics of those who demand credit has a direct effect on access to credit. Even if the degree of the need for credit is very high, gender differences along with the sectorial, regional and economic conditions are highly significant to cause positive or negative effects on employment level. What is emphasized here is that female self-employment is a little more difficult compared to men. One of the most important reasons is related to the availability of credit as a financing source (Acemoğlu, 2000; Benmelech et al, 2011; Bruhn and Love, 2011; Malapit, 2012). On the other hand, the determinants of self-employment do not only include financing. Education, income, employment conditions in the labor market and similar measures are also among the distinctive factors concerning self-employment. However, it also appears that these factors have different effects depending on the gender of job owner. This situation

varies across countries and regions as well (Asiedu et al, 2013). It is probable to add countries' development level to this variability.

Besides, it was observed that a rise in the income level reduces gender gap (Martin and Garvi, 2009). However, even if inequality between men and women reduces, its contribution to the female self-employment is limited in terms of the scale of business. The level of profitability also remains low in such a case. An increase in access to credit markets precisely brings about a significant effect at this point. Women doing their own business will be able to attempt to a larger scale and more profitable jobs with a facility for financing. By this means, integration of women to the contemporary market economy will be possible (Aterido et al, 2013; Menon and Rodgers, 2011).

### **3. Literature Review**

Feldmann (2006) examines the relationship between credit market regulations and labor market performance for 74 countries representing industrialized, the developing and transition economies. The diversity of the variables in the world-wide study draws great attention. The study performed

within the context of economic, geographical and demographic variables is also significant in terms of addressing the women employment. Based on the findings, tighter credit market regulations increase unemployment rate in total labor force in addition to women and young population. Besides, tighter credit market regulations affect long-term unemployment rate negatively. In other words, the more inflexible the credit market regulations the lower the employment rate. Kneiding and Kritikos (2013) find a positive relationship between self-employment and consumer credit in Germany. As a reason for this result, it is emphasized that by using consumer credit rather than corporate credits, entrepreneurs protect their entrepreneurial identity in case of any failure. In addition, consumer credit is more advantageous in terms of maturity, amount and installment. Treichel and Scott (2006) analyze the impact of corporate credits rather than consumer credits on self-employment. According to the results of the research conducted for women business owners in US economy regarding their use of credits, credit applications and the amount of credit are relevant to the gender. Accordingly, women business owners have more rejection compared to men in the credit applications; moreover, they borrow to a lesser

extent than men. As a decisive factor, women-owned firms are more immature and smaller. Additionally, the significance of the industry differences is highlighted. Similar results are obtained in the study performed by Asiedu et.al. (2013) for the Sub-Saharan Africa; furthermore, women-owned firms are more restricted than men regarding credits. Moreover, the regional differences were also revealed to be effective in this regard. Compared to Latin America and the Caribbean, East Asia and Pacific, East and Central Europe, women-owned firms are highly likely to have more credit constraint financially in that region.

Similarly, another study conducted for Sub-Saharan Africa (Aterido et.al., 2013) reveals that women who have their own businesses remain at lower levels compared to men concerning access to credit; however, it is associated with the characteristics of the firm. In a study performed for two urban slum communities in Philippines, Malapit (2012) reveals that the problem about the female access to credit may be partially explained by credibility. The supply side of the issue argues that women may come across with lower credit limit than men as lenders discriminate against women of whom social and

economic roles are limited as well. Fletschner (2009) found that under the same socio-economic conditions women are more likely to be in a credit constraint compared to men in the rural areas of Paraguay. Thus, government intervention is essential so as to increase the credit access of women living in eastern Paraguay. The necessity for their access to such financial resources must be understood properly and some efforts should be made on this issue. Fletschner (2009), in this sense, draws attention to the significance of women-targeted credit programs.

Boustanifar (2014) found a positive relationship between credit market developments and employment for US banking system. Moreover the effect of credit market reforms on employment is especially observed to be higher in labor-intensive industries. The study conducted by Bruhnoxley and Love (2011) for Mexico reveals a similar following result: The positive impact of a new financial resource on employment is explained through an effect of a newly opened bank. At first, an increase in the financial options for low-income individuals may bring a positive impact on economic activities of women and men. Then, it is found that newly opened bank increases the number of informal business owners. Similarly, an increase

in the total female employment is observed due to this new funding source. Menon and Rodgers (2011) examined the effect of a rural banking reform in India upon self-employment. Findings reveal the availability of credit having a supportive effect on female self-employment.

Correspondingly, Rybczynski (2015) investigated the determinants of self employment for men and women separately. According to results, credit usage of women could be enhanced in case their accessibility has been improved although self financing is rather strong. Social aid and micro credit programmes provide greater convenience both for external financing of women and decreasing of restrictions.

## **4. Model, data and methodology**

### **4.1. Model**

A model of Rybczynski (2015) -in which driving forces of men and women self employment has been investigated- is used as a sample model in the empirical analysis. Proportional hazard rate model of Cox (1972) has been preferred by Rybczynski (2015) for the period of 1993-1998. Unlike Rybczynski (2015), a different methodology is employed by taking into consideration the variables he has used. Here, one

of the variables as a proxy of liquidity constraint are the credits. Besides, other explanatory variables are income and labor force. The greatest factor for using per capita income to represent income is a study of Beck & Kunt (2006) in which they have examined self employment issue with the dimension of small and medium enterprises. In this study, access to sources of financing are investigated as a constraint for growth and per capita income is preferred as a proxy for income. Since per capita income is a more realistic choice in terms of distribution of income. Per capita income has been also preferred in some similar studies (Beck et al., 2005, Ayyagari et al., 2005).

In order to capture the impact of determinants of female self-employment, consider the following regression model:

$$LSEMP_{i,t} = \alpha_i + \beta_1 LGDP_{i,t} + \beta_2 LFIN_{i,t} + \beta_3 LLFP_{i,t} + \varepsilon_i \quad (1)$$

Where t refers to time period,  $LSEMP_{i,t}$  is female self-employment as a percent of total employment. Those workers are working on their own account or with one or a few partners or in cooperative, hold the type of jobs.  $LGDP_{i,t}$  per capita income,  $LFIN_{i,t}$  domestic credit to private sector as a percent of GDP,  $LLFP_{i,t}$  is female labor force participation rate as a

percent of total female population. Letter “L” indicate that all the variables are expressed in natural logarithms.

## 4.2. Data

The balanced panel data are collected for the period of 1990-2012 for 9 Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru) and obtained from World Bank (2014). The definitions of the data are presented in Table I.

**Table I: Data Definitions and Sources**

<b>Code</b>	<b>Name</b>	<b>Source</b>
LSEMP	Self-employed, female (% of females employed)	WDI <sup>a</sup>
LGDP	GDP per capita (constant 2005 US\$)	WDI <sup>a</sup>
LFIN	Domestic credit to private sector (% of GDP)	WDI <sup>a</sup>
LLFP	Labor force participation rate, female (% of female population ages 15+)	WDI <sup>a</sup>

<sup>a</sup>World Bank World Development Indicators

## 4.3. Methodology

Within the scope of empirical analysis, we test for the existence of a long-run relationship among the variables (estimation of Eq.1) and utilize an error-correction model (ECM) to capture the short run dynamics among the variables. The analysis is done in four steps (Pao and Tsai, 2011). The first step consists of unit root tests. Co-integration tests may be used only if the variables have the same order of integration. For the second step, once all series are integrated in the same order, Pedroni (1999, 2004), Kao (1999) and the Johansen Fisher (Maddala and Wu, 1999) methods which are based on the estimated residuals of Eq. (1) are used to test the panel co-integration relationships (Aytun, 2014).

#### **4.3.1. Panel Cointegration Tests**

Pedroni (1999) extends his residual-based panel co-integration tests (Pedroni, 1995) for the models in which there are more than one independent variable. Pedroni developed seven co-integration statistics to test under the null of no co-integration among the variables. The four statistics – within-dimension panel co-integration tests pool the autoregressive coefficients ( $\phi_i$ ) across different members for the unit root tests on the residuals. The next three between-dimension panel co-

integration tests take the average of the individually estimated coefficients for each cross-section in the panel (Nazlıoğlu, 2013).

In Pedroni co-integration test, firstly Eq. (1) is estimated for each country by using the ordinary least squares (OLS) method. Then, the following auxiliary regression on the residuals is estimated by OLS.

$$\varepsilon_{it} = \phi_i \varepsilon_{it-1} + v_{it} \quad (2)$$

The null hypothesis of no co-integration  $H_0: \phi_i = 1$  for all  $i$  is tested against the alternative of  $H_1: \phi_i = \phi_i < 1$  for all “ $i$ ” in the within-dimension approach and of  $H1: \phi_i < 1$  for all  $i$  in between-dimension approach. So, an additional source of potential heterogeneity across cross-sections can be adequately captured by the between-dimension approach. Pedroni and Kao’s tests are based on the Engle-Granger (1987) two-step (residual-based) co-integration tests. The Kao (1999) follows the same basic approach as Pedroni tests but specifies cross section intercepts and homogeneous coefficients during the first stage. Additionally, Fisher test is a combination of Johansen and Juselius (1990) tests. If co-integration exists among the variables, OLS method is applied to estimate Eq. (1)

which does not lead to a spurious regression. Furthermore, the parameters estimated by OLS are super-consistent (Alves and Bueno, 2003) The  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are respectively elasticity of long-run real per capita GDP, elasticity of domestic credit to private sector, and elasticity of female labor force participation rate.

#### **4.3.2. Panel Co-integration Estimators: FMOLS and DOLS**

The third step consists of estimation of panel co-integration. In order to test long run co-integration vector, Fully Modified Ordinary Least Squares (FMOLS) (McCoskey and Kao, 1998; Phillips and Moon, 1999; Pedroni, 2000) and the Panel Dynamic Ordinary Least Squares (DOLS) (McCoskey and Kao, 1998; Kao and Chiang, 2000) methods are used. Selection of methods to test long run co-integration vector is discussed by some researchers (e.g. McCoskey and Kao, 1998; Kao and Chiang, 2000). It is mentioned that DOLS is less biased than FMOLS estimator in small samples using Monte Carlo simulations and has better sample properties than FMOLS (Kao and Chiang, 2000). Both methods are used in this study for robustness check.

### 4.3.3. Granger Causality Test and VECM

In the fourth step, the direction of causality among variables is analyzed. The existence of co-integration indicates that there are long-run equilibrium relationships among the variables and thereby Granger causality exists among them at least in one direction (Engle and Granger, 1987; Oxley and Greasley, 2008). The vector error-correction model (VECM) is used for correcting disequilibrium in the co-integration relationship, captured by the Error Correction Term (ECT) as well as to test for long- and short-run causality among co-integrated variables. The panel-based VECM is specified as followed (Pao and Tsai, 2011; Belloumi M. 2009):

$$\begin{bmatrix} \Delta LCO2_{it} \\ \Delta LGDP_{it} \\ \Delta LEN_{it} \\ \Delta LTRD_{it} \\ \Delta LTRD_{it}^2 \end{bmatrix} = \begin{bmatrix} \alpha_1 \\ \alpha_2 \\ \alpha_3 \\ \alpha_4 \\ \alpha_5 \end{bmatrix} + \sum_{p=1}^p \begin{bmatrix} \beta_{11p} & \beta_{12p} & \beta_{13p} & \beta_{14p} & \beta_{15p} \\ \beta_{21p} & \beta_{22p} & \beta_{23p} & \beta_{24p} & \beta_{25p} \\ \beta_{31p} & \beta_{32p} & \beta_{33p} & \beta_{34p} & \beta_{35p} \\ \beta_{41p} & \beta_{42p} & \beta_{43p} & \beta_{44p} & \beta_{45p} \\ \beta_{51p} & \beta_{52p} & \beta_{53p} & \beta_{54p} & \beta_{55p} \end{bmatrix} \begin{bmatrix} \Delta LCO2_{it-p} \\ \Delta LGDP_{it-p} \\ \Delta LEN_{it-p} \\ \Delta LTRD_{it-p} \\ \Delta LTRD_{it-p}^2 \end{bmatrix} + \begin{bmatrix} \theta_1 \\ \theta_2 \\ \theta_3 \\ \theta_4 \\ \theta_5 \end{bmatrix} ECT_{it-1} + \begin{bmatrix} \varepsilon_{1it} \\ \varepsilon_{2it} \\ \varepsilon_{3it} \\ \varepsilon_{4it} \\ \varepsilon_{5it} \end{bmatrix} \quad (3)$$

where  $i = 1, \dots, N$  denotes the country;  $t = 1, \dots, T$  denotes the time period;  $\varepsilon_{it}$  is assumed to be serially uncorrelated error terms; ECT is lagged error-correction term derived from the long-run co-integration relationship. Following Abdalla and

Murinde (1997) and Pao and Tsai (2011) the optimal lag length in each equation for linear system (3) is selected through maximizing the value of the  $R^2$  and Akaike Information Criteria (AIC).

## **5. Empirical results**

### **5.1. Panel unit root test results**

In order to examine the relationships among the variables in question, unit root tests and co-integration methods are applied. To ensure robustness for the common components of (LSEMP), (LGDP), (LFIN), (LLFP), Levin, Lin and Chu (2002), Im, Pesaran and Shin (2003) and Fisher ADF unit root tests are employed. Unit root test results are presented in Table II. According to the test results, all the series are stationary in their first differences.

**Table II.** Panel Unit Root Test Results

Variables	LLC		IPS		F-ADF	
	Level	First dif.	Level	First dif.	Level	First dif.
LSEMP	0.03	- 23.7***	0.15	- 11.2***	14.0	314.0***
LGDP	1.30	- 4.61***	4.67	- 2.55***	5.51	35.93***
LFIN	-0.73	- 2.78***	-0.10	- 2.42***	16.6	34.56***
LLFP	-3.36	-2.15**	-0.72	-2.28**	25.0	34.73***

**Notes:**

\*\*\*and \*\* denotes statistical significance at the 1% and % 5 level respectively.

All variables are tested with intercept

Automatic lag length selection is based on Modified Akaike Information Criteria.

**5.2. Panel Co-integration Test Results**

Having verified that the series are non-stationary and have the same order integration as I(1), it is applicable to test whether there exist any long run equilibrium relationship among the variables using Pedroni and Kao and Fisher Panel Co-integration tests. Results are presented in Table III and Table IV.

Except for panel v-statistics, panel rho- statistics, and group rho-statistics, four out of seven statistics reject the null

hypothesis of no co-integration at 5% significance level with intercept. That is, there is a long run relationship between the variables.

**Table III.** Pedroni Panel Cointegration Test Results

<b>Within-dimension</b>		
	<b>Test Statistic</b>	<b>Prob.</b>
Panel v-Statistic	-1.5729	0.9421
Panel rho-Statistic	0.9193	0.8210
Panel PP-Statistic	-1.5387*	0.0419
Panel ADF-Statistic	-2.6122*	0.0045
<b>Between-dimension</b>		
	<b>Test Statistic</b>	<b>Prob.</b>
Group rho-Statistic	0.9914	0.8392
Group PP-Statistic	-2.4805*	0.0066
Group ADF-Statistic	-2.2598*	0.0119

**Notes:**

- a)The 1%, 5%, and 10% critical values are respectively 1.28, 1.645, and 2.33 for the panel-v statistic and - 1.28, -1.645, and -2.33 for other statistics.
- b)Automatic lag length selection based on MAIC with a max lag of 4
- c)Newey-West automatic bandwidth selection and Bartlett kernel
- d)All variables are tested with intercept

According to Kao and Fisher panel co-integration test results, there is a long run co-integration between variables. The Kao test suggests panel co-integration at 5% level of significance. In addition, the Johansen Fisher test suggests the existence of five co-integrating vectors at 1% level of significance. Overall, there is strong statistical evidence in

favor of panel co-integration among LSEMP, LGDP, LFIN and LLFP.

**Table IV: Kao and Fisher Panel Co-Integration Test Results**

<b>Kao test</b>		
	<i>t-Statistic</i>	<i>Prob.</i>
ADF	-3.599628	0.00002
Hypo.	Fisher Stat.	Fisher Stat.
<b>Fisher Test</b>		
<i>No. of CE(s)</i>	<i>Trace test</i>	<i>Max-eigen test</i>
None	103.20*** (0.000)	70.190*** (0.000)
At most 1	49.40 0*** (0.000)	37.420*** (0.000)
At most 2	26.080* (0.098)	27.510* (0.070)

**Notes:**

- 1- User specified with a max lag of 1
- 2- Newey-West automatic bandwidth selection and Bartlett kernel
- 3- Lag intervals for fisher test:11
- 4- The numbers in parentheses denote p values.

### 5.3. Panel co-integration estimation results

In the next step, FMOLS technique is used for heterogeneous co-integrated panels (Pedroni, 2000). Table V shows FMOLS and DOLS results. The estimated  $R^2$  value is 0.865. The estimation results for Eq. (1) show that all variables have the expected sign and are statistically significant at % 5 level.

**Table V.** Panel DOLS and FMOLS Estimation Results

FMOLS				DOLS			
Dep.variable LSEMP							
Var.	Coeff	t-st	Prob.	Var	Coeff	t-st	Prob.
<b>LGDP</b>	0.4***	2.71	0.00	<b>LGDP</b>	-0.4**	2.13	0.03
<b>LFIN</b>	0.1***	2.90	0.00	<b>LFIN</b>	0.1**	2.25	0.02
<b>LLFP</b>	0.7***	4.12	0.00	<b>LLFP</b>	1.1***	4.49	0.00
R-sq			0.86	R-s			0.94
Adj. R-			0.85	Adj. R			0.90
S.E.			0.14	S.E			0.11
Meandep			3.66	Meandep			3.65
S.D.				S.D.			
Dep.			0.37	Dep.			0.37
Sumsqu			3.67	Sumsqu			1.49
L-run				L-run			
var.			0.04	var.			0.01

\*\*\*, \*\* indicate statistical significance at the 1% and 5% level, respectively. All variables are estimated in natural logarithms.

The long-run panel elasticity of female self-employment to per capita income is -0.418, indicating that for every 1% increase in per capita income, female self-employment decrease by 0.418%. In addition, the long run panel elasticity of female self-employment to domestic credit to private sector is 0.168 means that 1% increase in domestic credit to private sector increases female self-employment by 0.168%. Lastly, the long run elasticity of female self-employment to female labor force participation rate is 0.792. This indicates that % 1

increase in female labor force participation rate increases female self-employment by 0.792%.

#### **5.4. Panel causality tests results**

Panel long-run co-integration relationship between LSEMP and LGDP, LFIN, LSF suggests that there must be Granger causality at least one direction. Granger causality test results are presented in Table VI. The short-run dynamics suggest unidirectional causality from LFIN to LGDP. There exists a long-run relationship among the variables in the form of Eq. (1), as the ECT is statistically significant. The coefficient of ECT is significant in LSEMP implying that there is a long-run panel causality links that run from LGDP, LFIN and LLFP, to LSEMP. Short and long run causality results are presented in Table VI.

**Table VI.** Panel causality tests results

Variables	Short run causality [Chi-sq]				Long run causality
	$\Delta$ LSEMP	$\Delta$ LGDP	$\Delta$ FIN	$\Delta$ LLFP	ECT (I)
$\Delta$ LSEMP	-	0.240 (0.886)	0.265 (0.875)	3.501 (0.173)	-0.483*** (0.000)
$\Delta$ LGDP	0.808 (0.667)	-	0.494 (0.780)	0.751 (0.686)	0.006 (0.833)
$\Delta$ FIN	1.485 (0.475)	10.98*** (0.004)	-	0.268 (0.874)	-0.091 (0.465)
$\Delta$ LLFP	0.763 (0.682)	1.815 (0.403)	0.413 (0.813)	-	-0.005 (0.825)

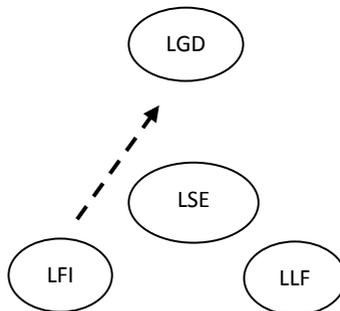
Notes: a) The null hypothesis defines no causal relationship between variables.

b)The values in parentheses denote p values.

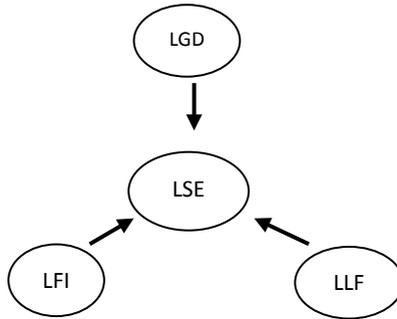
c)  $\Delta$  is the first difference operator.

d)\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Fig. 1 and Fig. 2 summarize Granger short run and long run causality relations respectively.



**Figure 1.** Short run panel causality relations



**Figure 2. Long run panel causality relations**

## 6. Conclusion

This paper analyzes main determinants of LSEMP for 9 countries by employing annual balanced panel data over the period 1990–2012. Pedroni, Kao and Fisher panel co-integration techniques are applied before estimating the magnitude of relationship between LSEMP, LGDP, LFIN and LLFP by OLS, FMOLS and DOLS estimation methods. Lastly error correction model is estimated to capture the short run and long run dynamics for variables. According to the results obtained, an increase in LFIN and LLFP enhance the LSEMP. On the other hand, an increase in LGDP affects LSEMP negatively. Causality tests' findings indicate that there is a

unidirectional causality from LFIN to LGDP. Credit to private sector promotes income. Besides, there is long run relationship between LSEMP and other variables. Long run elasticity of LSEMP is statistically significant at 1% for all countries which implies that after a short run shock, LSEMP turns back to its long term equilibrium.

## **7. Discussion and policy recommendations**

One of the most reasonable argument concerning the positive relationship between female labor force participation and self employment is that female self-employees may earn more than wage earners. Evans and Leighton (1989) state that people who tend to deal with their own business while working as an employee as well are the ones who are being paid lower relatively.

Besides, attraction of self-employed person and independency are the factors accounting for the self-employment of whom working as an employee. In case of being employed hierarchy occurs whereas self-employment allows for being a boss and free (Benz and Frey, 2008). Lee (1999) supports this finding. Self-employment may indicate a better status as well as much more independency. This situation

provides a meaningful reason for why workers conduct their own business. At this point job satisfaction plays an important role. Aguilar et al (2013) has a result that self employees are more satisfied than workers in Latin American countries in terms of job satisfaction. It is not implausible to expect for the next step that female workers will set up their own businesses. Another explanation for the positive relationship between labor force participation and self-employment is that female self-employees are more qualified than wage earners as Devine (1994) also suggested. The qualification difference leads women to self-employment while less qualified ones continue to stay on the labor market. Eventually more qualified female employee not only have a motivation for self-employment but also may start to work on a larger scale. In here, another driver is related to temporary employment opportunities when development level of countries is taken into consideration. If workers worry about being unemployed, then they are expected to change their roles in the labor market as being self employers. Individuals looking for a job while working or starting a business who already have are enabled to make decisions much more properly. In addition to that, existing

employment process can provide a basis in terms of self-employment for a female worker with no capital. The capital which will be gained by working should not be considered only as financial. Individuals may prefer to take part in production as human capital by using earnings for a better education. At this point the emphasis is the value of human capital rather than the scale of business. In this sense, education level generates an indirect effect on self-employment beyond its direct effect thereby simplifying to get credit (Manrique and Ojah (2004). Rees and Shah (1986) demonstrate the existence of that kind of effect directly in UK. The study confirms the positive relationship between education and self-employment. This relationship is a significant reason also for the negative correlation between self-employment and GDP. An increase in GDP may not be able to increase female self-employment since the quality of business, physical and human capital are the potential determinants as well. An increase in income might be expected to effect self-employment positively in next period within the process of having these features (Cravo et.al., 2012). Chen (2014) reveals that the impact of an increase in real GDP on employment occurs in following period. According to findings, entrepreneurship effects economic growth with one

period of lag in a similar way. On the other hand, these lags are related to current economic conditions.

The period (1990-2012) discussed in this paper represents a recession process. Hence, realization and adoption of a rise in GDP may take much longer time (Koellinger and Thurik, 2012). A different study on Latin American countries handles the subject with the productivity dimension. Despite the high levels of entrepreneurship, Larroulet and Couyoumdjian (2009) attribute the negative relationship to the productivity level of enterprises. In other words, contrary to developed countries, the enterprises in these countries are less productive. So this can be a reasonable cause to explain the negative relationship between self-employment and economic growth. At this point the effect of regional differences on institutional development can not be ignored. In addition, it is possible to emphasise the result as: decreases in GDP impact the rises in self-employment by ruling out the significance of institutional development and productivity. An important reason of that case may be the unemployment because of a decrease in growth and so individuals who tend to set up their own businesses. However, it is seen that when social, economic

and psychological burdens of such an enterprise are evaluated, an increase in GDP may also have a deterrent effect on self-employment. Blanchflower (2004) considers some factors as disadvantages for self-employment such as low profit, stressful work-environment, limited time for the family, being tired and sleepless for the activities after work and unhappiness. Particularly in perspective of women who work on their own account, the negative impact of increase in income on self-employment is more comprehensible. Additionally, structural and demographic factors such as age, education, health, marital status, region, race and population are also crucial determinants of self-employment (Blanchflower, 2000; Rupasingha and Goetz, 2013). Private sector credits which are the main drivers of female self-employment should be evaluated separately. Nowadays the most significant constraint on self-employment is the difficulty in finance. Particularly women are one step behind the men and for some countries and regions even far more behind them in terms of accessibility to finance. Thus a problem occurs when women can not be able to have their own business or able to have small-scaled businesses. Current study tries to indicate that a positive outcome may be obtained both socially and economically in case of overcoming that paradox.

As a result of the empirical analysis, private sector credits cause an increase in female self-employment in nine founder countries of LAIA. It is also possible to take this result further by paying attention to the increases in credits that have an impact on scale, nature and efficiency of a business as well as are able to provide female self-employment. Another expectation is that it affects the quality of a business positively by the accessibility to and acquiring of large amounts of financial resources

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## CHAPTER 3:

### Effect of Liberalization on Economic Development

*Gizem BAŞ<sup>1</sup>*

#### **Abstract:**

Development has become quite significant for countries in the world. Thus, evaluation of development has a remarkable role in countries to understand their level of development. In this research study, it is focused on the relation between the level of development, foreign direct inflow to the country, government expenditure and trade openness in Turkey, India, Ukraine, Indonesia and Pakistan from 1996 to 2015 by conducting panel data analysis for extensive econometric results. This paper aims to achieve two purposes. Firstly, although the determinants of development are examined, the association between these variables are not investigated in the literature. Hence, one of the objectives of this study is to analyse the interaction among the factors affecting development. The second objective is to detect the effects of liberalization on development. According to the

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results of the analysis, a weak positive relationship was found between foreign direct investments and trade openness. Also could not be found any causality relationship between economic development and foreign direct investment and trade openness in short term and long term. When the causality relationship between other variables is examined, it is concluded that trade openness is the cause of foreign capital investments only in the short term.

## **1. Introduction**

Development economics is one of the latest topics in economics, and it became more significant after the 2nd World War. In this frame, the notions of modernization, industrialization and growth are often confused with each other in the scope of economic development. (Akin, Aktakas, Aytun, 2014) Particularly, growth and development are used interchangeably. However, the increase in national income may not always be an increase in prosperity. Growth can be defined as an increase in the real gross domestic product of a country while development means the change and renewal of the economic and socio-cultural structure in an underdeveloped society. Thus, growth refers to quantitative increase in the

factors of production or production capacity in the country. On the contrary, development provides the establishment of a new structure in a positive sense, which is more related to the standards of living and prosperity of the people(Akın,2014).It can be considered that development does not only mean the production and increase of per capita national income. The main difference between growth and development is that development is an issue for only underdeveloped economies whereas the growth is a target that both developing and developed countries are trying to achieve (Onur, 2005: 128)

It is quite important to consider liberalization since an increase in the national income does not always lead to an increase in prosperity. However, there are controversial views about the effects of liberalization on development. It is stated that liberalization, especially financial liberalization, has enhanced development, opening liberalized markets to competition, reducing capital cost and increasing financial institutions. Hence, developments in the economy, the growth of investments and the decrease of stagnation provide output growth. In contrast, there are opposite arguments that liberalization causes disintegration in the market structure and

leads to a decline in output because of the increased fragility of the markets.

In this paper, countries-Turkey, India, Ukraine, Indonesia and Pakistan-that entered the liberalization period after the 1980s, and indicated as middle income are selected. Although these countries have experienced an increase in income, there are disputes about whether prosperity and living standards are improved or not. Therefore, the study searches for the effects of liberalization on development in these middle income countries. Moreover, foreign direct investment (FDI) inflow is employed. The increase in foreign direct investments increases the countries' income but the influence on development may not be always positive. If the investments do not improve the country's technology instead causes use of the resources of the country, the country is affected negatively from these investments (Akin, 2014). In other words, when investments are not technological but polluting investments, they cause environmental pollution in the country. Also, in the study, domestic credit to private sector is applied as an indicator of financial liberalization. Financial liberalization takes place in two directions. The first is the liberalization of banks and stock markets as a financial intermediary, market and bank-based

system; the second is the liberalization of the capital account, which appears in the balance of payments of the country(Duman ve Lee, 2000:7). In this context, the banks become more important for financial liberalization. Another variable included in the study is government spending because it is expected that government spending leads quality of life to increase, and it improves the development levels of the countries.

This research study includes four stages. The second section of this study includes a literature review. In the third section the data and methodology of this study to analyze the association between liberalization and development is presented and the last section is the conclusion of this study.

## **2. Related literature**

In the table below, the studies about the relationship between liberalization and economic growth are summarized.

**Table 1.** Literature Review on the Relationship between Liberalization and Economic Growth

Author(s)	Period/Country	Method	Results
Alguacil et al.(2002)	1980:1-1996:4/ Mexico	Toda-Yamamoto and Dolado-Lukepohl Causality Tests	There is a one-way relationship from FDI to economic growth.
Choe (2003)	1971-1995/ 80 countries	Panel VAR Model	Accordingly to the analysis results, two-way causality found between FDI and economic growth.
Pradhan (2009)	1970-1997/ ASIAN countries	Panel Causality Test	In the countries except Malaysia, there is two-way relation between FDI and economic growth.
Ericson and Irandoust (2010)	1990-1997/ Denmark, Finland, Norway and Sweden	Toda-Yamamoto (1995), Yama and Toda (1988) Causality Tests	It is detected that there is a one-way causality relationship from FDI to economic growth for Norway and Sweden; however, there is no causality for Finland and Denmark.
Yilmaz et al. (2011)	1980-2008/ Turkey	Granger Causality Test	In the study, it is indicated that there is a one-way causality from FDI to economic growth, and also,

			FDI affects economic growth in a positive way.
Göçer (2013)	1992:1 -2012:3/ Turkey	Bound Test Approach and Granger Causality Test	It is concluded that FDI weakly causes economic growth.
Abbes et al. (2015)	1980-2010/ 65 countries	Panel Causality Test	One-way causality is found from FDI to economic growth in Asia and Pacific, Middle East, North America, North Africa and Central American countries
Topallı (2016)	1982-2013/ BRICS countries and Turkey	Panel Granger Causality Test	In South Africa, India and Turkey, there is one-way relation from economic growth to FDI; in contrast, in Brazil and China, there is no causal relationship.
Temelli and Şahin (2018)	1990-2014/ 12 APEC countries	Panel Data Analysis	In the study, it is concluded that there is cointegration relationship between the variables.

### **3. DATA and MODEL**

In the analysis of the study, the countries in the middle income group are included in compliance with the World Bank criteria. The reason for this the majority of middle-income countries are developing countries. Thus, in this process, the interaction between the variables are expected to be more distinct. The economic development levels of the countries started to be measured in the 1990s whereby Human development index formed by UNDP. This limits the time interval of the study and the methods that can be used. The data used in the study are obtained from the World Governance Indicator database generated by the World Bank. The other variables involved in the study are foreign trade deficit and foreign direct investments, which are the indicators of liberalization. Also, in the study, the share of public expenditures in income is employed to represent the size of the public sector in the economy. The explanations and sources of the data between 1996 and 2015 are presented in Table 1.

**Table 1:** The Variables in the Study

<b>VAR</b>	<b>Explanation of the Variables</b>
<b>HDI</b>	Human development index
<b>FDI</b>	The share of foreign direct investment coming to the country in income (% GDP)
<b>GOV</b>	The share of public expenditures in income (% GDP)
<b>TRD</b>	The share of sum of import and export in income (% GDP)

\*The World Bank World Development Indicators: <http://databank.worldbank.org>

Panel data analysis method is applied to investigate the association between economic development and liberalization. Panel data analysis is considered as stronger analysis compared time series analysis since it observes both time-specific effect and country-specific effects.

The determinants of human development are estimated in the following model. In the Equation 1, “i” implies the countries included in the analysis, “t” refers the time period and “L” stands for that all the variables are analyzed in logarithmic form.

$$LHDI_{i,t} = \alpha_i + \beta_1 LTRD_{i,t} + \beta_2 LFDI_{i,t} + \beta_3 GOV_{i,t} + \varepsilon_{i,t} \quad (1)$$

#### **4. METHODOLOGY**

Within the scope of the analysis performed, the estimation of long-term relationships between variables and the use of error correction (ECM) model take place in four stages (Paove Tsai, 2011). The first stage is the unit root test. In order to apply cointegration tests between the variables, the series must be stationary at the same degree. In this context, three different unit root tests are performed in the analysis. These tests are Im, Pesaran Shin (IPS) (2003), Breitung (2000) and Levin Lin Chu (2002) unit root tests. In the second stage, cointegration tests is applied if the series are stationary at the same degree. Cointegration analysis is used to examine the existence of long-term equilibrium relations between series. Engle and Granger (1987) stated in their study that linear combinations of two or more degree non-stationary series could be stationary in the long term. The most preferred method for the cointegration analysis of series constituted in panel data analysis is the method developed by Pedroni (1999, 2004).

#### 4.1. Panel Cointegration Test

Pedroni panel cointegration test is a two-step test based on Engle-Granger (1987). In Pedroni (1999) cointegration analysis, whether there is a long-term cointegration relationship between the variables is tested by looking at the stability of the  $\varepsilon_{it}$  residual in the Equation (1). The error terms obtained in the second stage are estimated by the least squares method in Equation (2)  $\varepsilon_{it} = \phi_i \varepsilon_{it-1} + v_{it}$  (2)

The tests formed by Pedroni have some advantages. These tests allow multiple explanatory variables to be included in the analysis. In addition, these tests allow the diversification of estimated cointegration vector along different parts of the panel and the heterogeneity of errors along the section units. Pedroni has developed seven test statistics about  $H_0$  hypothesis that there is no cointegration. These tests are divided into two different groups and these are the tests of “within” and “between”. The first category includes four tests pooled "within" dimension; on the other hand, the second category includes other three tests pooled "between" dimension (Asteriouve Hall, 2007). The first three of the four tests in the “within” test group are nonparametric test. The first of these tests is variance rate type statistic. The second statistics is

similar to Phillips-Perron (PP) (rho) statistics, and the third statistics is similar to PP (t) statistics. The last statistics in the “within” group is a parametric statistics that is similar to the Augmented Dickey Fuller (ADF) (t) statistics. The three statistics in the “between” group use the averages of the estimated individual coefficients of each country. The first of the three tests in the second category is similar to the PP (rho) statistics, while the other two were similar to the PP (t) and ADF (t) statistics (Nazlıoglu, 2012).

#### **4.2. Panel Cointegration Estimation (FMOLS)**

The third phase to be applied after cointegration relation is detected is the estimation of the Panel Cointegration model. In the panel analysis, Fully Modified OLS (FMOLS) is applied mostly for the estimation of cointegrated heterogeneous series (Pedroni, 2000). Panel FMOLS estimator obtains for each time series that  $\hat{\beta}_{GFM}^* = N^{-1} \sum_{i=1}^N \beta_{FMi}^*$  by using  $\beta_{FMi}^*$  that are the results from Equation 1 each time series Results from Equation 1

### **4.3. Granger Causality Test**

The sign of the coefficients obtained from the cointegration tests does not give information about the direction of the causality relationship when giving information about the direction of the relationship between the series. Causality analyses are needed to determine the causality (Nazlioglu ve Soytas, 2012). Therefore, at the fourth stage, causality analysis is performed. The existence of a cointegration relationship between variables also indicates the presence of at least one directional Granger causality (Engle RF, Granger CWJ. 1987; Oxley L, Greasley D., 2008). In the study of Engle and Granger (1987), it is stated that in causality tests, while there is a cointegration relationship between the two non-stationary variables, the VAR process applied by taking the differences of the series can produce inaccurate results. Hence, it is recommended to use the vector error correction model (VECM), which is estimated by the adapted VAR model, which becomes dynamic through the delayed error correction term (Narayan ve Smyth, 2009; Aytun, 2014).

## 5. FINDINGS

### 5.1. The Results of Panel Unit Root Test

Firstly, in order to be able to investigate the association between the variables, unit root tests are employed. The series have unit root on the basis of Levin Lin ve Chu (2002), Breitung (2000) and Im Peseran and Shin (2003) unit root tests. When the first difference of the series is taken, unit root is not detected. In this case, (LHDI), (LFDI), (LGOVS), (LTRD) series are stationary at first degree. The unit root test results are presented at Table 2.

**Table 2:** Panel UnitRoot Test Results

Değişken	Levin, Lin & Chu		Breitung t-stat		Im, PesaranandShin W-stat	
	Level	firstdif.	Level	firstdif.	Level	firstdif.
<b>HDI</b>	1,59	-5,79***	0,87	2,69***	1,15	4,31***
<b>LFDI</b>	1,11	-4,87***	-2,60	3,52***	-0,08	-4,28***
<b>LGOVS</b>	-1,38	-4,79***	1,05	4,81***	-0,12	-6,23***
<b>LTRD</b>	-2,05	-6,66***	0,76	3,08***	-1,91	-6,66***

\*\*\* Denotes statistical significance at the 1% level.

Automatic selection of maximum lags

Automatic lag length selection based on SIC: 0 to 3

## 5.2. Panel Cointegration Test Results

Findings from the unit root test results applied to balanced panel data enable for cointegration testing. The long-run equilibrium relations of the series that are stationary at the same level and first degree are investigated by the Pedroni cointegration test. Accordingly the results of Pedroni cointegration test,  $H_0$  hypothesis is rejected that there is no cointegration of the in four of the seven test statistics and it is concluded that there is cointegration. Thus, it can be considered that there is a relationship between the variables in the long-term. Pedroni cointegration test results are shown in Table 3.

**Table 3. Pedroni(1999,2004)'s Panel Cointegration Test Results**

<b>Within-dimension</b>		
	<b>Test Statistic</b>	<b>Prob.</b>
Panel v-Statistic	60.10***	0.0000
Panel rho-Statistic	-0.658	0.2552
Panel PP-Statistic	-2.897***	0.0019
Panel ADF-Statistic	-2.972***	0.0015
<b>Between-dimensio</b>		
	<b>Test Statistic</b>	<b>Prob.</b>
Grouprho-Statistic	0.480	0.6845
Group PP-Statistic	-2.271**	0.0116
Group ADF-Statistic	-2.967***	0.0015

\*\*\* indicates statistical significance at the 1% level. The null hypothesis is that there is no cointegration Lag length selection based on SIC (automatically) with a max lag of 5.

### **5.3. Panel FMOLS Estimation Results**

After determining the cointegration relationship between the variables, cointegrated series are estimated. Considering the FMOLS estimation results presented in Table 4, Human Development index, foreign direct investments and trade openness are positively related. In panel regression analysis, the sign of the coefficient is more significant than estimation of the coefficient. The main purpose of this analysis is that more comprehensive examination and interpretation of short and long-term causality relationships. DOLS results applied to strengthen the analysis are similar to FMOLS results. Unlike FMOLS results, there is no statistical significant relationship between trade openness and human development in DOLS results. Panel regression estimation results are demonstrated in Table 4.

**Table 4.** Panel FMOLS and DOLS long –run estimates results

FMOLS				DMOLS			
Var	Coef	t-st	Prb	Var	Coef	t-st	Prb
<b>LFDI</b>	0.003***	2.86	0.00	<b>LFDI</b>	0.003**	2.17	0.037
<b>LGOVS</b>	0.013	0.22	0.82	<b>LGOVS</b>	0.120	1.37	0.178
<b>LTRD</b>	0.159***	2.70	0.00	<b>LTRD</b>	-0.027	-0.22	0.826
R-squared	0.83			R-squa	0.938		
Adj. R-	0.82			Adj. R	0.838		
S.E. of	0.06			S.E.	0.060		
LR var.	0.08			LR var.	0.002		

\*\*\*, \*\* indicate statistical significance at the 1% and 5% level, respectively. All variables are estimated in natural logarithms.

#### 5.4. Panel VECM Causality Analysis Results

If the short and long-term causality between the variables are examined (Table 5), there is no causal relationship in the short or long-term between human development and the variables included in the analysis. In the short-term, trade openness is the cause of foreign direct investments; in contrast, in the long-term, this relation is not observed.

**Table 5. Panel VECM Causality Results**

	Short Run Causality				Longruncausality
DEĚ	$\Delta$ LHDI	$\Delta$ LFDI	$\Delta$ LGVO	$\Delta$ LTRDOP	ECT ( I )
$\Delta$ LHDI		1.388	2.118	4.267	0.662
$\Delta$ LFDI	0.826		0.720	23.15***	0.640
$\Delta$ LGVO	6.158	2.148		2.539	0.191
$\Delta$ LTRDOP	3.741	7.042	0.820		0.486

\*\*\*, \*\* indicate statistical significance at the 1% level.

## 6. CONCLUSION

There is a great number of studies investigating economic liberalization and economic growth but in these studies income growth is considered as increase in welfare. Therefore, the other elements of development such as education, health, environmental quality have been neglected and the effects of the liberalization process on economic development have not been fully understood. Particularly with the 1990s, the concept of development is defined more comprehensively with the contributions of UNDP and HDI is formed which provides the opportunity to make comparison among the countries. With the formation of HDI, numerous

studies have been performed to detect the determinants of economic development.

It is an important question investigated in the development literature that if the economic development occurs through the market or the institutions created by the state (Aytun,Akın, 2014).The pro-state development policies of the structuralist school have been replaced by pro-market policies in the neo-liberal process after 1980 and liberal development policies have been implemented in many countries.In the simplest definition, it is significant to determine economic development, which is defined as increase in welfare, is performed easier by which mechanism.For this reason,in the study, especially middle-income countries implementing liberal policies after the post-1990 period is analysedand five middle-income countries areidentified as the sample.

According to the results of the analysis, there is no statistical significant causality relationship in both short and long-term between foreign direct investments,trade openness and economic development.

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## **CHAPTER 4:**

### **Interaction Between Corruption and Economic Development: An Application For Mena Countries**

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*Gizem BAŞ<sup>2</sup>*

#### **Abstract:**

Corruption has an important role in the development process of countries since it affects the efficient use of resources in the economy. This case becomes more crucial particularly for the countries that are in a shortage of resources during economic growth and development process. In addition, corruption can affect life quality negatively as well as economic growth. Hence, the objective of this study is to examine the association between economic development and the level of corruption in institutional quality indicators. In the study, the relationship between development levels and corruption of 19 MENA countries under the constraint of access to data is investigated by panel data analysis for the period of 2003-2015. The rule of law and accountability, which

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are related to corruption, are employed as explanatory variables. Accordingly the results of the analysis, there is a one-way causality from corruption to human development. Furthermore, a two-way causality is found between accountability and human development.

## **1. Introduction**

The notion of development has become more significant after the Second World War. It can be defined as qualitative recovery in addition to the increase in the level of production and per capita income. Development refers to the rise in the output level in the country and also the change in society's economic and socio-cultural structure and also. Hence, development provides reorganization for the country. It involves technical and institutional arrangements and some changes in the production procedure. It is more related to the quality of life and wealth level of people. Moreover, it is about the expectations of people from their lives, or the freedom they have such as political. On the other hand, there is misinterpretation between development and economic growth because they have been used in the same meaning. In order to evaluate countries' development levels, income per capita is

applied instead of using some indicators related to development such as human development index. Economic growth implies the quantitative rise in real income. It means that there is an increase in the production capacity on account of the increase in the factors of production. It is very important to distinguish between these two concepts since there are some difficulties if the development level of a country is measured by using the income or per capita income which is related to the economic growth. First of all, economic growth does not involve resource allocation or productivity in the economy. It does not reflect structural differences in the sector. Secondly, the existence of economic growth does not always require the development of the country. Although the country's output level is very high, it might not have the characteristics of developed countries. Particularly, if the increase in the production is not generated by industrial or technological improvement. Most importantly, there is no representation of freedoms in economic growth calculations. Therefore, in order to be able to evaluate the level of development properly, it is necessary to use a criterion that considers both economic and social development.

The first section of this study includes an explanation of development. In the second part, corruption is defined. Thirdly, there is a literature review. In the second section, the data and methodology of this study to analyze the relationship between health expenditures and economic growth is presented and the last section is the conclusion of this study.

## **2. Development**

There are several definitions for development of a country. First of all, United Nations Development Programme (UNDP) explains development as human freedom. There is no discrimination among people, and also it has such extensive time period that involves past and today as well. In this case, it can be said that development is a comprehensive and universal concept that is associated with having the freedom to realize the potential. There are some important factors that have an influence on this freedom such as civil liberty, personal security, and right to speak. Furthermore, if some issues are overcome, the progress of human development becomes achievable and the development process is accelerated. Inequality, discrimination, prejudice, and intolerance affects human development in a negative way because these issues

cause that all people cannot have the same opportunity to realize their potential. Human development occurs when people actively participate in the processes that shape their own lives; thus, they increase their human abilities.

Secondly, World Bank states that development provides better lives for people, particularly in poor countries. More importantly, it does not only require economic growth but also requires health, nutrition, education and a clean environment that leads to human development. Aytun, 2014) In the global world, because of the development trends, the wealth levels of poor countries have been increased. Last but not least, World Bank recognizes the notion of development as extensive and environmental growth in order to be able to reduce the poverty, to promote wealth for today and to cover the needs of next generations. Therefore, it is focused on energy efficiency, productivity and decreasing poverty.

Last but not least, Amartya Sen has a Nobel Prize in 1998, clearly pointed out that human development is quite significant for the level of development for the countries. For human development, he emphasizes income distribution, education, and health status. Even though income is a remarkable factor for development, it is not adequate to

evaluate the living standards of the population. Freedoms are indicated as the most important tool for development. In fact, the expansion of freedoms is both the aim and the tool of development. His arguments about development are mostly focused on freedom. He claimed that freedoms are based on the concept of the capability of individuals. And, capability refers to the choices and values of an individual. It is about individual's wishes in the life. Thus, individuals have the freedom of choosing the lifestyle. In addition, the capability is linked with functioning. According to Sen (1992), the scope of functionality is so wide that includes both basic functions like good nutrition, not dying from preventable illnesses and more complex and sophisticated achievements like self-esteem. On the other hand, the countries, having development issues, are not suitable for the democratic environment that allows people to choose their lifestyle in terms of social, political and cultural status. In this case, public policies about education, health and nutrition are needed. These policies must be implemented transparently and democratically.

### **3. Corruption**

Corruption is one of the main problems of both developed and developing countries, which has destructive outcomes in the economies and societies because if there exists corruption in a country, development cannot exist as well for this country. Although this issue is so common, there does not exist generally accepted definition for the concept of corruption by taking into consideration socio-economic conditions, political and institutional infrastructure. In criminal law, corruption means that the violation of the security and functioning of the public and the public administration, which are unregistered and not included in the tax revenues of the state, obtained by means of criminal offenses such as bribery, extortion, embezzlement, unjust gain or unfair profit; money, rights, receivables, goods in the form of all kinds of assets. The notion of corruption involves the rule of law, property rights, issues related to the activity of the judiciary process.

World Bank expresses corruption as the abuse of the public service to provide private benefits. United Nations Interregional Crime and Justice Research Institute implies that corruption is deterioration in decision-making mechanisms of public and private institutions. Transparency International

describe corruption as the abuse of entrusted power for private gain. And also, it categorized corruption accordingly the sector and sum of money. Corruption can be grand, petty and political. Petty corruption occurs when low- and mid-level public officials make contact with ordinary citizens, and if the officials access the basic goods and services. In contrast, grand corruption is relevant to the high level of government officials. It occurs when the officials can get benefit from the public goods and manipulation of policies and state's functioning. Moreover, political corruption is about allocation of resources and abuse of the status in order to be able to maintain power, assets and position.

#### **4. Literature Review**

Corruption and development level are closely related to each other in the economics literature. Treisman (2000) analyzed several indexes of corruption perception between the 1980s and 1990s. Countries are divided into categories accordingly their cultures, and these categories are Protestant traditions, histories of British rule, more developed economies, and federal states. Accordingly, to the findings, it can be said that federal states are more corrupt. Additionally, the current

degree of democracy is not effective for the level of corruption but long exposure to democracy promoted lower corruption.

Gani (2007) argued that the interaction between the rule of law, control of corruption, regulatory quality, government effectiveness and political stability and foreign direct investment by employing panel data analysis of 17 Asian and Latin American countries for the period 1996-2002. Accordingly panel data analysis results, it can be stated that foreign direct investment is strongly correlated with the rule of law, control of corruption; regulatory quality; government effectiveness and political stability.

Haggard and Tiede (2010) asserted that there is a connection between rule of law and economic growth. Furthermore, corruption and property rights are included in the components of the rule of law notion. They suggested that the rule of law and economic growth are closely related to property rights and the institutions; hence, it is needed to enforce them for the developing countries. As economic growth is not promoted, it is considered that development is not promoted as well.

Lindstedt and Naurin (2010) asserted that transparency leads corruption to decrease. In their study, transparency refers

to a free media that reveals secret information in order to inform the public. It means that freedom- press freedom indicates transparency. They applied an econometric analysis which investigates the correlation between corruption and supervised electoral democracy, which is a measure of accountability. They used corruption perception index as the dependent variable and economic development- per capita income and British colonial heritage as control variables since it is considered that these control variables are main causes of corruption in the countries. The results represented that transparency can decrease corruption.

Croix and Delavallade (2011) searched the relationship between growth and corruption. In this paper, corruption is divided into two categories, technology of corruption and concentration of political power. The extent of these categories for different countries is examined empirically. They found that if there is highly concentrate political power in the country, the negative effects of corruption on growth is also so high that it can be destructive.

Sapkota (2011) claimed that in developing countries, globalization has an effect on human development, gender development, and human poverty by performing the GLS

random effect. The scope of data consists of 124 developing countries' annual panel data between 1997 and 2006. It is found that globalization affects negatively human poverty; in contrast, it affects human development and gender development of the countries in a positive way.

Sims, Gong and Ruppel (2012) studied that corruption, human development and national culture with the collected of 68 countries' measures- corruption perception index, human development index, power distance, individualism masculinity over femininity and uncertainty avoidance. Their findings refer that power distance and individualism moderate the association between human development and corruption. Also, the results indicate that human development and corruption have a strong relationship in cultures that are weaker in power distance. It can be said that the link between development and corruption is stronger in national cultures that are higher on the individualism dimension.

Yilmaz and Nasih (2016) analyzed level human development indicators of a country. They employed the human development index to measure human development. The efficiency of government policies is examined with regard to human development. Government efficiency is indicated

with government expenditures and economic freedom. There is strong evidence that economic freedom affects human development in a positive way. On the contrary, government expenditures and human development are not related.

**Table 1: Summary of earlier studies related to corruption and development**

Author	Period	Variables	Methodology	Conclusion
Treisman	1980-1990	CPI, common law system, colonial tradition, religious, affiliation, ethnolinguistic division, and natural resource endowments, political rights	OLS regression	federal states are more corrupt, democracy is not related to corruption
Gani	1996-2002	GDP growth, CPI and rule of law	Panel data analysis	rule of law, corruption, contributed and development
Haggard and Tiede	1985-2004	GDP growth, rule of law, property rights	Panel data analysis, correlation matrix	rule of law is highly correlated for industrial states
Lindstedt and Naurin	1972-2004	CPI, political transparency index expected number of years	OLS regression	Transparency can reduce corruption

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Croix and Delavallade	1998-2008	of formal schooling, electoral democracy, gdp per capita CPI, PPP GDP per capita growth, rule of law, political rights, pop growth,	Least-squares	Political rights affect corruption and GDP per capita
Sapkota	1997-2006	HDI, GDI, HPI-1, KOF index of globalization, GDP per capita, pop growth	GLS random effect model	Globalization affects human development
Sims, Gong and Ruppel	2007,2008	CPI, HDI, power distance, individualism, masculinity, uncertainty avoidance	mean-centered; standardized coefficient	Power distance, individualism moderate the relation between human development and corruption.
Yilmaz and Nasih	2000,2005,2008 and 2013	HDI, Economic freedom, rule of law, government expenditures	Quantile regression	The quality of institutions influences development positively.

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## **5.Data and Methodology**

The development data has begun to be formed regularly after the 1990s with the contributions of UNDP.Hence, one of the most important constraints for the studies about human development is the lack of a long-term data set.The Human Development Index (HDI), which is developed by Amartya SEN and also used in the study, has been the main variable applied in the studies on this subject.

All variables in this research study are expressed logarithmically (Table 2).In the literature, related to corruption, the most commonly used variables are the Corruption Index and Corruption Perception Index which are included in the World Governance Indicator generated by World Bank.To increase the robustness of the study, both variables are included separately in the model and analyzed.Moreover, in the study, the variables of rule of law and accountability, which are asserted to be the determinants of corruption in the related literature, are involved in the model and the association between corruption and economic development is investigated.

**Table 2: The Explanations of Variables**

Code	Explanation	Source
LHDI	Human Development Index	UNDP
LCOR	Corruption Index	World Bank
LRLAW	Rule of Law	World Bank
LVOI	Voice and accountability	World Bank
LCPI	Corruption Perception Ind.	Transparency Int.

The data used in the analysis are obtained from the database of World Bank (WB) and Transparency International.<sup>19</sup> MENA countries, which are selected due to the fact that the institutional transformation is not fully occurred, is determined under the constraint of accessing their data and the data between 2003-2018 which is the longest time period is analyzed econometrically. The model constructed to examine the relationship between corruption and human development is expressed in Equation (1) and Equation (2).

$$LHDI_{i,t} = \alpha_i + \beta_{1i}LCOR_{i,t} + \beta_{2i}LRLAW_{i,t} + \beta_{3i}LVOI_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$LHDI_{i,t} = \alpha_i + \beta_{1i}LCPI_{i,t} + \beta_{2i}LRLAW_{i,t} + \beta_{3i}LVOI_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$(i=1,2,3, \dots, N) ; (t=1,2,3, \dots, T)$$

In this study, the causality test developed by Dumitrescu and Hurlin (2012) for heterogeneous panel data models is

applied. The test is a version of the causality test performed by Granger (1969) to heterogeneous panel data. The performed Monte Carlo experiments indicate that the test statistics can be used in small samples and in the case of cross-sectional dependence (Aytun, Akın, 2014). The null hypothesis is that there is no causality relationship for any unit in the panel. This hypothesis is called HNC (homogenous noncausality). On the other hand, the alternative hypothesis assumes that the causality, peculiar to the units in the panel, is heterogeneous. In the analysis, the  $H_0: \beta_i = 0$  hypothesis is respectively tested for each cross-section. Then, by averaging  $N$  unit sizes of standard Wald statistics ( $W_{i,T}$ ), the  $W_N$  and  $W_{HNC}$  statistics (Equation 3) are calculated for the panel (Aytun, 2014, Dumitrescu ve Hurlin, 2012).

$$W_{N,T}^{HNC} = \frac{1}{N} \sum_{i=1}^N W_{i,T} \quad (3)$$

$$Z_{N,T}^{HNC} = \sqrt{\frac{N}{2K}} (W_{N,T}^{HNC} - K) \rightarrow N(0,1) \quad (4)$$

The Wald statistical values obtained for each unit under the null hypothesis that causality does not exist converge to the chi-square distribution at the  $K$  degree of freedom. Equation 4

is obtained by using the  $W_{N,T}^{HNC}$  statistic when T and N statistics of the standardized  $Z_{N,T}^{HNC}$  of the panel goes to infinity respectively (Dumitrescu ve Hurlin, 2012).

## 5. Findings

In the study, firstly, unit root test is employed. On the basis of the test results, the null hypothesis that series have a unit root can be rejected at their level values. Therefore, it can be stated that all series are stationary at the level.

In the table below, the Dumitrescu and Hurlin (2012) tests results are represented that examine the causal relationships between stationary series at level.

**Table 3: Panel Unit Root Test Results**

Variables	Levin, Lin & Chu	
	Level	Prob.
<b>LHDI</b>	-1,57	0,05
<b>LCPI</b>	-2,06	0,01
<b>LCOR</b>	-3,00	0.00
<b>LRLAW</b>	-2,85	0.00
<b>LVOI</b>	-8,25	0.00

\*\*\* Denotes statistical significance at the 1% level.

Automatic selection of maximum lags

Automatic lag length selection based on SIC: 0 to 3

Accordingly to the test results, while the  $H_0$  hypothesis that there is no causal relationship from LCPI to LHDI is

rejected at 1% significance level, the  $H_0$  hypothesis that there is no causal relationship from LHDI to LCPI cannot be rejected. In this case, it can be said that there is a one-way causality from corruption to human development.

If the relationship between the rule of law and human development is examined, there is a one-way causality relationship from the rule of law to human development. In the study, it is found that there is two-sided two causality relationships. While accountability appears to be the cause of human development, human development is also the cause of accountability. Although accountability is the cause of human development, human development is also the cause of accountability. Additionally, there is a two-way causality relationship between the rule of law and corruption. The results obtained are presented in Table 4.

In order to be able to increase the robustness of the study, the COR variable, which is the second indicator of corruption, is taken from the world bank database and included in the analysis.

The findings obtained are consistent with the analysis results performed with Corruption International data.

**Table 4: Granger Causality Test Results with CPI variable**

Null Hypothesis	F-Stat	Prob.	Results
LCPI does not Granger Cause LHDI	489,46	0,03	<b>LCPI =&gt;LHDI</b>
LHDI does not Granger Cause LCPI	272,69	0,10	
LRLAW does not Granger Cause LHDI	544,52	0,02	<b>LRLAW =&gt; LHDI</b>
LHDI does not Granger Cause LRLAW	0,75	0,39	
LVOI does not Granger Cause LHDI	584,96	0,02	<b>LVOI &lt;=&gt; LHDI</b>
LHDI does not Granger Cause LVOI	437,76	0,04	
LCPI does not Granger Cause LRLAW	601,24	0,01	<b>LCPI &lt;=&gt; LRLAW</b>
LRLAW does not Granger Cause LCPI	115,01	0,00	

There is a one-way causality relationship from the corruption index, expressed as LCOR, to human development index. Two-way causality is found between accountability and human development index while the rule of law is the cause of human development. In the analysis, unlike the previous analysis, the relationship between corruption and the rule of law is one way. Overall, it can be stated that there is a strong

one-way strong relationship between corruption level and human development.

**Table 5: Granger Causality Test Results with COR variable**

Null Hypothesis	F-Stat. Prob.		Results
LCOR does not Granger Cause LHDI	186,49	0,00	<b>LCOR =&gt;LHDI</b>
LHDI does not Granger Cause LCOR	0,01	0,92	
LRLAW does not Granger Cause LHDI	544,52	0,02	<b>LRLAW =&gt; LHDI</b>
LHDI does not Granger Cause LRLAW	0,75	0,39	
LVOI does not Granger Cause LHDI	584,96	0,02	<b>LVOI &lt;=&gt;LHDI</b>
LHDI does not Granger Cause LVOI	437,76	0,04	
LCPI does not Granger Cause LRLAW	262,83	0,00	<b>LCOR =&gt; LRLAW</b>
LRLAW does not Granger Cause LCPI	0,00	0,97	

## 6. Conclusion

Priority is given to income growth in implemented policies in order underdeveloped countries to be able to develop. It is aimed to fulfill the requirements of social state

concept such as health and education by using effectively the small amount of production factor with the policies produced, directing the income obtained to social policies. The failure of this process in underdeveloped countries is mainly due to inefficient resource allocation.

In political decision-making processes, decision-makers can be effective on the process and shape decisions in line with their own interests. The decision-makers' desire to benefit from public sources leads to certain corruption. On the other hand, the market actors' directing the public policies in line with their own benefits, and avoiding their responsibilities to bring about the public, likewise brings about degeneration and corruption. These corruption activities can cause significant impacts that prevent development. Thus, in this research paper, that is performed to investigate the relationship between corruption and human development, a strong causality relationship between human development and corruption is found. The direction of causality relation is from corruption to human development. While the rule of law is the cause of human development, there is a two-way causal relationship between accountability and human development.

Increase in accountability leads the efficiency of the public sector to increase. In particular, accountability in public policies prevents the transfer of resources to non-productive areas and to use by rent groups, and increases the efficiency with more timely, consistent actions related to performance. Especially in the countries that have a resource shortage in development, the implementation of accountable anti-corruption policies should be at the center of development policies.

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## CHAPTER 5:

### **Municipalities and Current Ties in with Economic and Social Development Policies and Aims**

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At the local level, economic development is one of the issues that states are most interested in today. In this study, municipalities and local politics, which are important actors for this objective, are considered at the local level. In a report submitted to the United Nations in 1987, sustainable development, which excludes local governments, is defined as meeting today's needs without compromising the possibility of future generations meeting their own needs. This development model, which was initially built on environmental sensitivity, has also been on the agenda in social, cultural and political fields. In these models, contributions and impacts of local governments.

The relationship between bureaucracy and politics has been shaped according to the same purpose, with the same values and means, as a service to the society, on a harmonious

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basis. Political power takes decisions on country administration in a political process and implements these decisions by the relevant bureaucracy. In general, politics emerges as an area where the responsibilities, goals and decisions dominated by politicians are taken. The bureaucracy is the field of activity of civil servants with certain responsibilities at the local level. When we look at the relationship between bureaucracy and local politics, it is seen that they are in a network of relationships, which sometimes complement each other, sometimes contradictory, sometimes under the influence of one another. This network of relations and possible harms national and local development might have been ignored (Bulutvd., 2016).

By referring to the current definition and perception of cultural policies and sustainable development approach locally, the possible social spatial impacts of the approach and implementation process and the spatial impacts of the approach and implementation process in the light of the experiences acquired by some of the sample practices developed and developed by the local structures referred to above. Today, a discussion framework for evaluation should be developed (Bulutvd. 2017)

The rights of the social state to be granted to its citizens are the rights of family protection, the right to work, the right to just pay, the right to social security, the right to housing, the right to health, the right to environment, the right to education. But it is understood that the state responsible for providing social equality, social justice and social equilibrium by protecting the socially disadvantaged segments against the strong, rather than the social state. Helping the poor and needy people in the society, providing them with a level of living that is worthy of human dignity, thus creating an environment conducive to the realization of social justice with the help of municipalities, is considered among the basic duties of the social state (Gülvd. 2016)

A healthy city within development; it is defined not only by the results obtained but by the process of the city. The healthy city is not a city that has reached a certain level of health, it is aware of the healthy city and strives to improve health. Therefore, every city can be a healthy city, regardless of the current level of health, the need to be a healthy city is to be committed to health and to have a structure and process to achieve it (Yıldırımvd. 2016).

After the transition to the wild capitalist period in the West, the period of establishing the first municipalities in the modern sense began to make cities livable (Yıldırım vd., 2015). Considering the policies in the history of the Middle East, for example, in the Ottoman period, the urban population is exempted from military service rather than the economic attractiveness of the city. For this reason, the search for democracy and modern life may not have always supported development. Although Ankara was built as a capital city, it was important for Istanbul to be the economic center of the country because of its geographical and historical advantages. However, the city, which has become an import port, has had an impact on the rural population in terms of employment, and for this reason, the population has turned almost all of the villages outside Istanbul into metropolitan centers (Kaypakve Akin 2017).

Local authorities are considered autonomous because of different characteristics such as being responsible for local services, providing services close to the public, having decision-making bodies with elections, and having a separate public entity other than a state legal entity. According to the prevailing local government concept, local administrations

should be able to self-determination in a certain freedom, local governments should be consulted and the opinion of the local authorities should be consulted on the local authority in the composition of politics and administration (Zengin, 2014).

It is now widely accepted that the competition of countries continues in general terms, but because of the different characteristics and potential of the regions, regions and cities, the main race has shifted. For this reason, the period of defining the regions, regions and cities within the framework of the nation state is also passing. In addition, the concept of the region is no longer just defined by physical boundaries. Likewise, although the city has physical boundaries, settlements are now considered together with their environment and the policies and projects produced are considered as a whole. Today, when physical boundaries are eroded, governments, firms, institutions and organizations in a region or city can enter into a relationship of cooperation, partnership and competition with organizations in the same city and region as well as in any part of the world in various organizations and networks.

There is an interesting feature of global public goods for local development based common view. Unlike most social

products, they do not have a diminishing or even increased quality as they are consumed. Concepts and values such as human rights, peace, environmentalism, sustainability, equality of opportunity, equality of sexes; prevention of epidemics, fight against drugs, fight against natural and man-made disasters, headquarters and local administrations and stakeholders need to remain in their agendas in cooperation with other countries and international organizations.

The metropolitan municipalities are obliged to carry out and develop all kinds of social and cultural services for young people and children and to establish and operate social facilities for this purpose and praxes. In addition, district municipalities will be able to provide social and cultural services for young people and children. Each type of law in this field in the country, municipalities in the provision of services, disabled, old, fond and narrow income in accordance with the conditions of the appropriate methods to take into account the socioeconomic and socio-cultural characteristics of the municipality; orders to ensure that services are provided in the closest places to the citizens and in the most appropriate ways.

In the British model, strong regional development agencies in addition to attracting foreign investors to the

region, regional economic and business life development, regional urbanization, landscaping, employment creation agencies. In the Japanese model, local policies have taken the state into a form that has always been in the arms of the industrial sector after having established some basic industries and transferring it to the private sector. The state played an important role by investing in development or supporting the private sector. Private finance organizations have been able to provide adequate funding for investments. German and French social municipality; the inclusion of municipalities in the social policy of the social state (Gunlicks, 1986). Social municipalities is not an instrument of the elimination of the social state, but an approach that defends the social rights concept that fulfills the burden of the social state.

There is also an uniformization of the European Union (Martins, 1995) The tasks given to local governments are in two ways. It can be summarized as the duties of provincial and regional administrations at regional level. Public health and medical services, cultural institutions, public transport services, regional development. The mandatory tasks of municipalities at the local level are many. Transportation, local roads, public transport, social welfare and economic development,

education, planning and development, emergency and rescue, preventive health services, environmental, waste and water management are some. When the overall distribution of expenditures in Sweden is analyzed, it is seen that the ratio of local government expenditures to total public expenditures is 40%. Local government expenditures account for 25% of gross national product. The vast majority of health, education and social protection expenditures in Sweden are carried out by local authorities. 97.3% of health expenditures, 75.1% of education expenditures and 28.5% of social protection expenditures are made by local authorities (ŞatafveMermer, 2017).

The welfare state understanding has taken its place in the traditions of European countries. However, the institutional and legal structure of welfare state practices vary significantly between countries. However, although the development of welfare regulations has been realized in this way on the basis of individual countries, certain countries have shown common features in these arrangements and thus, welfare models have emerged in the present sense. Interregional imbalance is not only a problem of poor countries. It is a problem in all countries of the world with different sizes. If we consider the

problem of regional imbalance which is socially underdeveloped and poor in terms of geographic and historical conditions, high and mountainous and hard climate in the Middle East, agricultural livestock in the region and so on. This situation causes the region to be removed from other regions. The same problem is valid in Central Asia and the Far East, and the water problem in the region is another reason for the backwardness.

Local economic development planning, which will enable local resources to be used more effectively and efficiently, will enable cooperation and coordination, is not an approach that excludes local or regional planning. Local economic development planning is capable of bringing new perspectives and perspectives to the centralism that exists in planning. However, developing countries, countries with high scarcity and interregional development disparities need to realize economic development planning at national level and ensure efficient and efficient use of all resources of the society. Planning at national level should also include the redistribution of resources to address imbalances between regions. However, it should be ensured that this planning, which should be carried out at central level, should not be an obstacle to local economic

development planning by eliminating the extremely centralized and mixer dimensions.

In line with the development process of societies, the concept of development gained different contents in different periods, and it was also used in different contents in the same period. The concept is sometimes intertwined with concepts such as industrialization, modernization, progress, growth and structural change, which sometimes have its own meaning. Today, the content of the concept is not clear and understandable. As in scientific studies, it is used instead of concepts such as industrialization, growth and modernization in daily conversations.

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## CHAPTER 6:

### **The concept as Progress and Its Relation with Economic Development**

*Vahit BEHZETOĞLU<sup>1</sup>*

*Progress or advocacy* is political philosophy that advocates social reform. It refers to the ideas of the advocates of innovation against the advocates of systems of social oppression, which are generally opposed to change, on social, political and economic issues and the ideas they advocate. Science, technology, economic development and social organization are based on the *Progress Idea*, which states that advances in human life are of great importance in improving living conditions. Progression, which believes that Europe can demonstrate a society's access to civilization from barbaric conditions by strengthening the experimental information that it sees as the foundation of society, has gained importance in Europe in the Age of Enlightenment. The Enlightenment figures believed that progress was a universal practice for all societies, and that these ideas would spread from Europe to the

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world. Although the concept is used as an abbreviation representing the left view, it is defined in different ways depending on the period and viewpoints (Portelli, 1996).

*Economic development* is the concept which includes the production and change of per capita income in an economy as well as the change and renewal of socio-cultural structure. The term development, which is used for less developed countries, cannot be explained in this respect only by changes in the numerical magnitude, such as the growth rate of national income. The development process is a very comprehensive process including national income and the numerical increase of production over time, including the radical changes in institutions, the reorganization of the economic and social structure, the value judgments of the people, the changes in the world view and behavior patterns (Gutierrez, 1978). It is known as the economic and social criteria that can be used as a measure of development. First, *economic criteria* can be, for example, the real increase in national income, real national income per capita, income distribution. The relevant criteria for *social criteria* include literacy rate, infant mortality rate, number of doctors per person, amount of protein per capita,

schooling rate, newspaper, and magazine reading rates, paper consumption per person (Stone and Sanders, 1987).

Progressivism has been identified with development in various areas of policy. In other words, the development goals in politics are identical to progressives. Education is the first to come to mind among these policy headings. Active learning in education should be brought to the fore and learning should be shaped according to the interests of the child. Progressives accept that the learning person must be seen as a whole. Based on this, they adopt an educational system in which people are at the center. The learner should be educated in a training program in accordance with his/her interests, capacities and characteristics. For example, a policy based on problem solving method in learning will serve economic development. In the view of progressive education, the idea is not to have abstract knowledge and to fill the minds of the students into the minds of the students. If information is important and meaningful, people should be able to do something with that knowledge. Information should be actively acquired in the interaction and learned based on the learner's interests. In a model of progress towards economic development, problem-solving is essential in acquiring knowledge. Knowledge is a tool in gaining

experience, developing and reorganizing lives. This includes problem solving, critical thinking, and redevelopment of previously learned (Thelen, 1969).

It should be life itself rather than preparation for school. The school should be a place where children live using their critical powers. While preparing appropriate teaching environments for the child at school, the situations to be encountered in life should be included. The task of the teacher is not to manage, but to guide. Students should plan their own development and the teacher should guide them. The teacher is the organizer, guide and coordinator of the teaching environment. It should not be seen as the sole source of authority. The school for economic and social development should encourage and direct the students rather than the competition. For a civilized life, education should be a group life. Democratic education environment at school for it, directing themselves to their students, to discuss ideas freely, the facility should be planned with students to participate in school activities and educational experiences to everyone in the process. Progressives attach importance to the dynamic aspect of the individual and attaches importance to self-actualization

by participating in group process and using scientific methods (Schulumberger, 2008).

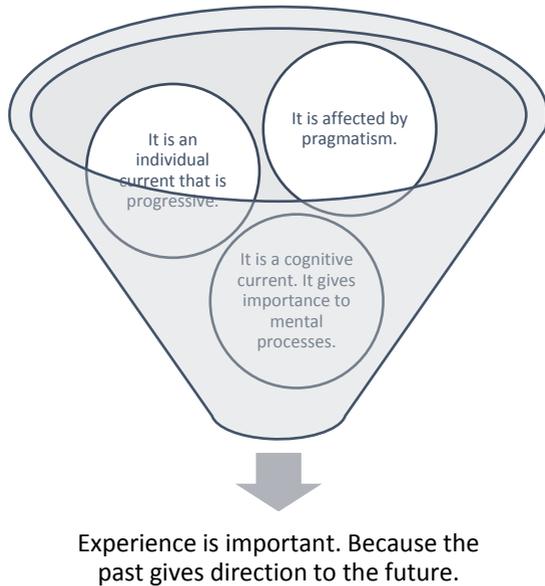


Figure-1: Progressive development in a society with related items

Economic growth refers to both the *growth of economic activity* and the growth of per capita income. Economic growth problem is generally considered to be a long-term problem, as these increases can only occur in the long run by the expansion or more efficient use of production potential. Unlike progressivism, economic development is that everyone in a country has a higher level of prosperity than a certain level of

welfare, and that each segment of activity has a balanced yield increase. In this sense, as the measure of welfare in economic development, in contrast to economic growth average education level, child mortality rate, life expectancy, income distribution, nutrition criteria are also used. NGOs are as much a part of this social development process as the least educational institutions (Bulutvd., 2017). For analyzes, the relationship between economic growth and economic development arises from the strong correlation between real gross domestic product per capita growth and welfare criteria (Harlow et. al, 2013)

Today a hybrid policy sphere as the social policy is also concerned with issues such as race, ethnicity, gender and poverty that create social disadvantage. In fact, in fact, social policy covers all these areas and aims at the individual's well-being. However, while aiming at individual well-being, areas that require collective intervention are the subject of social policy. Only the problems experienced in the individual dimension and that size remain the intervention area of the social policy. It is also one of the problematic areas of social policy whether social services reach people in need, and whether people reach these services equally. In this respect,

social policy emphasizes the social aspect of development and prioritizes the works for this field (Hood, 1996).

In such countries, the importance of CSOs in quantitative and qualitative social life has increased and become important institutions for the development of countries. The level of development of CSOs in a country, for example, not as much as in Europe, however, as in all liberal democracies, a civil area has become more evident in time and NGOs, which have taken important functions in our history, have become popular today and their contributions to social development activities have begun to increase.

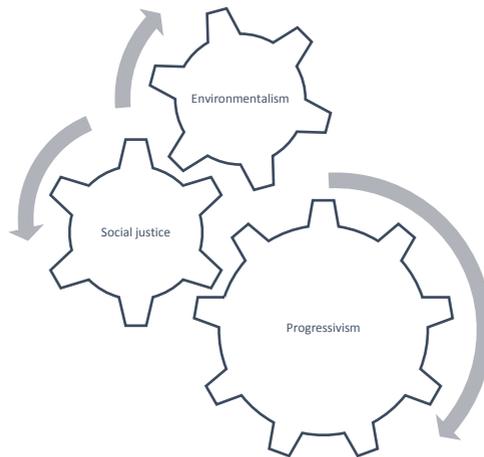


Figure 2: Two pillars in progressivism on politics

Social justice is also called the balance between social classes in terms of folding the benefits of development and benefiting from its blessings. The relationship between environment and development is one of the controversial issues that have long occupied the agenda of the world and our country (Paehlke, 1989). There are those who argue that these two objectives cannot be reconciled in a balance, but that they can be integrated within the framework of a new concept of development called sustainable and sustainable development, as well as those who argue that they can be harmonized (Pepper, 2002).

Since the primary goal is not to create a modern, scientific and educational system that protects the child's best interests, different identities are ignored in the education system. In a country, governments are doing the same thing in every field of life. If there is no social progress, politicians either ignore the different identities and develop policies according to the characteristics and needs of the majority, or worse, they try to assimilate different identities. Today, environmental issues are among the most important issues affecting the daily life of individuals around the world. In cultural development, efforts are made to increase the level of

education in order to make a breakthrough in technology, to get a higher share of the world welfare and to give appropriate training to all individuals in their society. It also focuses on the development of cultural development, the social security and primary health care of the whole community, the improvement of the quality of health services, the protection and development of the environment (Bulutvd., 2016)

In the history of the world, very little has affected the world as much as the industrial revolution. Along with the industrial revolution, the world triggered changes on a global scale (Imbrosgio,1997). Thanks to the French revolution, change was not only political. Social, economic and legal developments in the field, changed a whole life. States have changed the way they govern, the empires have been replaced by smaller nation-states. Locality has lost more positions than the global one. It is necessary to develop institutional capacity, participation and governance at the local level in order to determine the priorities for development in the local area, to increase efficiency in quality and resource utilization in practice, and to strengthen the development efforts (Yıldırımvd, 2015). The private area has lost many of its castles to the public space. As a whole world became a village,

international cultural, economic, political and religious interaction made a great change inevitable (Rodgers, 1982).

Progress or advocacy is the promotion or advocacy of social reform. The progressive worldview rationality had placed itself in the highland of its own tradition. The tradition of rationality has shaken the foundations of the traditional structure based on the legacy of the past. The rational tradition was so advanced in the imaginative world imagination that it led to the emergence of irrational traditions. The rationality of rationalism led to the emergence of irrational traditions, which rationalist tradition was more irrational than other traditions it did not want to work with. It is often possible to use some expressions, such as radical, fundamentalist, which the exchangers use for the conservatives, for the changers. Fundamentalist, radical and radical progressive thought structures have an absolute perception of change. They want change for change. Whether change is good is not important. What matters is only change itself. This logic of change does not give any tradition the right to life. Some of the former nationalists and conservatives also took part in this formation. So much so that these nationalist-social democrat-conservatives are now the most pressing social pressure

element. In the past, only conservatives were running horses in a nationalist race. Concepts such as economic freedom, privatization and change remained in the liberals, a simple minority. Social democracy, progressivism, change, change the attitude of the mind to put forward, conservatism, became the political spokesman of an ideological regime (Grantham, 1983)

Economic development heartfelt thinkers say that the only thing that doesn't change in this progressive process, as well as postmodernism, is a modest paradigm of the age. This paradigm forces all previous times and the existence of the human heritage. Because purpose was his presence. The economists considered it to be a compelling result of progress, making it a reinforcing and validating material (Hahnel, 2013). Migration should be discussed as well as the progress of education. When the current studies are examined, it is emphasized that the migration-development relationship focuses on the remittances of migrants such as remittances, diaspora, brain-drain or brain transfer, information and technology transfer, cyclical migration, and migration from developing countries to developed countries (Güneşvd, 2017). For example, their interaction with associations in the EU constitutes an information and communication network in

migration governance. Therefore, it is vital for the EU to ensure that the information and communication network is well coordinated and functional in the governance of migration (Bulutve Akin, 2017). In this context, the legitimacy and effectiveness of the actors, institutions and agencies active in the EU's migration governance should be increased at the supranational level according to the EU law system (Eren and Akin, 2017).

As you see, economics deliberately avoids using this to refer to progressivists as it relates to progressive modernists. Because there is nothing in the liberal ideology that will attract the progressive segment and give up or encourage projects. But on the other hand and unfortunately, we can see that the progressive forces do not give the necessary importance to the powerful organization and intra-party discipline characteristics that constitute the power point of the developmental movements. I think that this is the strongest reason behind the divide and the confusion of modernists. It is a requirement of human-oriented development approach. Individual initiatives should be supported to implement Human-Oriented development policies; but social policies should be put in place to improve the entrepreneurial capacity of individuals

(Yıldırımvd, 2016). Although progressive modernists do not benefit from developmentists, liberals have benefited from their competitors in recent years. Their ideological skills; they gained extra points and led them to gain some power in modern democratic discourse.

To many scientists, we have to pay particular attention to this particular data. Because this knowledge coming from world history shows that liberals have a special ability to manage ideological wars and understand the general thought environment. Owing to the ability of liberal movements, it affects the same battle and competition between its rivals and its structural texture. Because although these movements advocate the immutable of the old and the predecessor period and operate in this direction for many years, they are applying a new ideological action plan to preserve their existence as well.

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