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# GOVERNANCE, PUBLIC POLICY, AND SOCIAL TRANSFORMATION: AN INTERDISCIPLINARY ANALYSIS OF POLITICAL ECONOMY AND INSTITUTIONAL CHANGE

Dr. Nisikant Nayak<sup>1\*</sup>, Dr. Gunjan Sharma<sup>2</sup>, Prof Manisha A Mehrotra<sup>3</sup>, Murat Coşkun<sup>4</sup>,  
Dr. Ahmet Niyazi Özker<sup>5</sup>, Madan Mohan Laddunuri<sup>6</sup> Dr. Pooja Singh<sup>7</sup>,

<sup>1\*</sup>Assistant Professor, School of Governance and Public Affairs, XIM University, Bhubaneswar, India  
Email: nisikant11@gmail.com Orcid Id: 0000-0001-7026-7219

<sup>2</sup>Associate Professor, Department of Journalism and Mass Communication, Centre for Distance and Online  
Education, Manipal University Jaipur, Rajasthan  
Email: journalism.gunjan@gmail.com Orcid Id: 0009-0008-0969-6055

<sup>3</sup>Professor, Department of Economics, Banaras Hindu University, Varanasi, UP, India, 221005  
Email: manueco@bhu.ac.in Orcid Id: 0000-0001-5814-6772

<sup>4</sup>Kocaeli University, Turkey

Email: murat.coskuner@kocaeli.edu.tr, Orcid Id: 0000-0003-1144-6342

<sup>5</sup>Faculty of Economics and Administrative Sciences, Public Finance Department, Dr. Bandirma Onyedi Eylül  
University, 10200-Türkiye

Email: niyaziozker@gmail.com, Orcid Id: 0000-0001-5313-246X

<sup>6</sup>Professor, School of Allied Health Sciences, Malla Reddy University,  
Email ID: madan.socio@gmail.com

<sup>7</sup>Assistant Professor, Department of Economics, Chhatrapati Shahu Ji Maharaj Kanpur -U.P. India, 208026,  
Email: poojasingh@csjmu.ac.in Orcid id: 0009-0000-8946-890X

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Corresponding Author: Dr. Nisikant Nayak  
(nisikant11@gmail.com)

## ABSTRACT

*The assumption that governance can bring about social change is often based on the idea that better capacity to make public policy and institutional responsibility. However, the circumstances in which the quality of governance can be converted into quantifiable developmental effects are still disputed. Based on the institutional political economy theory, this paper will discuss the issue of whether governance impacts on human development are structural, dynamic, or regime-constitution conditioned. Based on the longitudinal country-year data, 2000-2022, the measurement of governance quality is through the Liberal Democracy Index and social transformation through the Human Development Index (HDI). The cross-sectional analysis shows that there is a positive strong relationship between governance and HDI in the countries. But panel and long-run change models suggest that within-country improvements in governance are not systematically related to short-run or cumulative gains in HDI. A moderation analysis shows that governance effects are much stronger in situations of more democratic regimes, which implies that institutional structure qualifies developmental*

*returns. These results refute the assumptions of linear reforms and emphasize the role of embedding at the regime level, the consistency of policies, and institutionalization. Social transformation is a path-dependent and systemic process instead of an automatic consequence of incremental governance reform.*

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**KEYWORDS:** Governance; Institutional Change; Political Economy; Public Policy; Social Transformation; Human Development Index.

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## 1. Introduction

The institutions of governance and the public policy are at the center of the modern discourse of social change. In politics, governments are supposed to plan and execute policies that have the potential to alleviate poverty, increase human potential and the inclusive development. However, empirical studies indicate that there is a large disparity in the developmental achievements of different countries which share similar formal policy commitments. This difference brings up a basic question at the border of political economy and institutional analysis: in what circumstances can the quality of governance be converted into quantifiable social change? The institutional change academic focuses on the fact that formal rules and organizational forms change slowly and inequitably, and that they do so sometimes by stratified adaptations and not by systemic change (Streeck and Thelen, 2009). In this sense, governmental reforms do not necessarily produce transformative effects, unless they are incorporated into larger institutional structures. Political economy perspectives go even further to state that institutional complementarities define the ability of states to coordinate markets, control redistribution, and long-term investment in social welfare (Hall & Soskice, 2015). As a result, one should not think of governance as a policy-specific attribute but rather as a component of an organized institutional ecosystem. The connection between governance and development has been frequently put in the context of incentives to reform and constraints to implementation. According to the political economy theory, power structures, elite bargaining and legitimacy of regimes condition reform trajectories (Khemani, 2020). These dynamics determine whether the improvement of governance results in plausible policy undertaking and sustainable institutionalization. Formal reforms can generate low returns to development in situations where accountability mechanisms are weak or disjointed. Public policy scholarship also emphasizes that the way of governance is multi-level multi-actor in which policy design, implementation, and evaluation interact (Peters and Zittoun, 2016). Social change is thus not only based on the policy innovations but also on the institutional coherence and administrative capacity. This macro-level approach is consistent with interdisciplinary sustainability studies that highlight how societal change is an institutional adjustment process with value changes and inter-sectoral coordination (Loorbach et al., 2017). In this perception, developmental change is one of cumulative restructuring of institutions and

not short-term policy impacts. Concurrently, the transnational policy diffusion and globalization has transformed domestic institutional environments, occasionally with nuanced or gradual dynamics of norm replacement and reorganization (Kentikelenis and Babb, 2019). These changes make it difficult to make linear assumptions on governance and development. The countries can be improved in terms of social indicators regardless of the democratic deepening, and there are countries that may be developing democratic institutions without the developmental convergence.

The article develops an interdisciplinary approach to the governance, public policy, and social transformation through the combination of the institutional political economy theory and longitudinal empirical data. The Human Development Index (HDI) is a social transformation operationalized to reflect multidimensional human capability expansion. The quality of governance is determined by the Liberal Democracy Index, which is a measure of institutionalized constraints, accountability, and civil liberties. The study differentiates between structural and within-country institutional dynamics by using cross-sectional analysis and panel as well as long-run change models between 2000 and 2022. Notably, the analysis will test the assumption that the effects of governance are conditional on regime type, thus testing whether the institutional structure mediates the governance development relationship. This strategy enables the test of one key hypothesis in political economy, namely that governance reforms yield dissimilar developmental payoffs based on the overall institutional structure within which they are instituted. The study provides insights into the interdisciplinary debates about the role of institutional architecture in transforming the society through bridging the gap between governance measurement, institutional change theory, and development outcomes. Instead of taking a homogenous governance elasticity, it questions the conditional and structural aspects of governance in the formation of human development pathways.

## 2. Literature Review

The modern literature on governance and social change is becoming increasingly focused on the idea that institutional structures, not individual policy changes, determine the developmental patterns in the long term. Interdisciplinary studies point to the fact that the social change is not only the result of the economic growth but the process that occurs due to the interaction of governance frameworks, policy

development, and institutional adjustments (Imran et al., 2024). Such an expanded framing confronts linear thinking that any advancement in formal governance indicators can be directly translated into quantifiable social improvements. Rather, governance should be perceived as engrained within the multi-faceted institutional settings that predetermine the efficacy of the public policy. These dynamics have an institutional change theory that offers a foundational point of view. Institutions are dynamic and contested, and can be incremental in nature, where actors conduct institutional work intentionally to transform rules, norms, and policy frameworks (Beunen & Patterson, 2019). These processes are hardly sudden; they develop over a long period and are determined by the current power structure and political limitations. Governance reforms can thus indicate formal institutional changes without any fundamental structural changes that can affect development outcomes. Such a view makes simplistic causal accounts of social transformation that attribute quality of governance as a direct cause of social change difficult.

The systemic character of institutional change is further brought to the fore by adaptive governance research. The ability of the governance structures to learn, coordinate, and respond to the changing socio-economic demands is what determines institutional resilience (Arnold et al., 2017). This meaning of governance is not limited to the procedural accountability but has the capacity of integrating the domains of policies and addressing complex issues in society. Value commitments and normative orientations also have a major influence on the development of institutional change. The change of the institution is often accompanied by the change in the values of the society that redefines the priorities of policies and legitimacy structures (Milchram et al., 2019). Consequently, the governance enhancements can only lead to the sustained development when they are matched with the wider normative and institutional changes. Reform paths are also further conditionalized by political context. According to the literature on policy entrepreneurship, the change in institutions is conditional on the political opportunity structures and strategies of actors (Bakir and Jarvis, 2017). The success of reforms in governance does not just lie in the contents of the governance reforms, but also the political environment in which reforms are presented. Gradual institutional changes in public organizations and policy structures can add up over time, and only in the long-term perspectives can they result in structural change (Dedeurwaerdere, 2013). The

gradualist view is especially applicable to the results of development, which are a manifestation of long-term investments in health, education, and income systems, but not a short-term change in administration.

The issues of political economy support the significance of systemic alignment in institutional change. Significant social changes need to be coordinated between institutional forms and economic systems, and the quality of governance interacts with the wider political-economic forms (Kern and Markard, 2016). The politics of transition are also political in nature and are influenced by distributive struggles, institutional complementarities, and the ability of the states to maintain reform alliances. The massive societal changes such as energy and sustainability transitions prove that the effectiveness of governance is tied to the unity of institutional architecture and no single policy efforts (Arent et al., 2017). According to this systemic perspective, reforms in governance can have varied developmental effects based on the regime structure and institutionalization. The complexity of institutional environments is also displayed in multi-level governance research. Governance systems exist on interconnected levels with various actors, areas of policy, and jurisdiction (Chou et al., 2017). This institutional stratification can create coordination problems that moderate the efficiency of reforms. Specifically, project-based forms of governance, such as the ones, can trigger incremental change in institutions without necessarily leading to an overhaul of the system (Munck af Rosenschöld, 2019). The implication of these dynamics is that the quality of governance should be viewed through the prism of larger institutional ecologies that can affect the ability to implement policies.

The gap between policy development and policy outcomes is also noted in the research of the public policy intervention. The strategic plans that target poverty and unemployment reduction accentuate the significance of clear institutional execution procedures (Giwah et al., 2021). Policy reforms will not necessarily have a long-term social impact in the absence of institutional stability and accountability. The scholarship of transition economics offers additional proof that the institutional restructuring delivers heterogeneous development paths relying on the arrangements of political economies and the process of governance consolidation (Gevorkyan, 2018). Different institutional coherence and regime structure can also result in divergent social outcomes

in countries in systemic transformation despite similar reform agendas.

Through these threads of scholarship, a number of shared insights come out. The governance works within institutional structures that pre-condition the effectiveness of policies. The process of institutional change is slow and situational. The ways in which governance reforms are translated into developmental outcomes are determined by political economy structures. Social change is cumulative institutional restructuring and not immediate policy change. Although these theoretical developments have been made, little empirical studies have combined longitudinal governance information with multidimensional development indicators to examine whether institutional regime structure mediates the governance development relationship across time. The current research fills this gap by focusing on the study of governance, public policy and social change in terms of political economy which directly integrates institutional conditioning. The analysis integrates cross-sectional, panel and long-run change models to assess the homogenous nature of the effects of governance on human development or whether these effects are contingent upon the regime configuration. By so doing, it brings the institutional change literature into the field of quantitative development research and adds to the interdisciplinary discussion of the influence of institutional structures on the pathways of societal transformation.

### 3. Methodology

#### 3.1 Research Design

The quantitative research design applied in this paper is longitudinal because it needs to establish whether the quality of governance can lead to social change which can be measured and whether these effects can be predetermined by the institutional regime structure. The empirical strategy is obviously constructed to distinguish cross-sectional institutional variation and institutional change inside nations. This distinction is necessary because cross-

country structural differences may be reflective of deeper historical, geographic or cultural predisposition, and within-country variation may be utilized to better understand institutional reform dynamics.

The analysis is then carried out in stages. First, cross-sectional specification is a between-country structural specifications. Second, panel specifications exploit the within country time variance. Third, lagged and long-run change models assess the time-adjustment and persistence of institutions. Finally, an interaction model identifies the systematic differences in the regime categories in the effects of governance. The stratified modelling methodology allows the research study to disaggregate the structural association, dynamics of institutional transformation and the conditional political economy effect in a single framework.

#### 3.2 Data Sources and Panel Construction

The source of governance indicators is the Varieties of Democracy dataset (Coppedge et al., 2025), whereas the development outcomes are sourced at the Human Development Report Office of the United Nations Development Programme (UNDP, 2024). The country-year is the unit of analysis. The time frame is between 2000 and 2022, which is rich enough in terms of time to study both short-term institutional adaptation and long-run structural change.

The governance data and HDI time series are merged with merge identifiers of ISO3 country codes and calendar year. The HDI data, which was initially in the wide format is re-formatted into the long format to suit panel estimation. The main HDI series is only retained; rank variables and gender-specific variants are not included to make the dependent variable conceptually consistent. After harmonization and deletion of observations with missing values of the necessary regressors in each model specification, the final analytical panel is 3,863 country-year observation in over 160 countries. The summary of the structural features of the analytical dataset is presented in Table 1.

**Table 1. Structure of the Analytical Dataset (2000–2022)**

Characteristic	Description
Unit of analysis	Country-year
Time period	2000–2022
Final panel size	3,863 observations
Key outcome	Human Development Index (HDI)
Core predictor	Liberal Democracy Index
Moderator	Regime category (0–3)
Inference correction	Country-clustered standard errors

### 3.3 Variable Operationalization

Social transformation is operationalized as the Human Development Index:

$$HDI_{it} \in [0,1] \quad (1)$$

where  $HDI_{it}$  denotes the level of human development in country  $i$  during year  $t$ . HDI is a composite measure capturing life expectancy, educational attainment, and gross national income per capita (UNDP, 2024). Its bounded scale allows interpretation as proportional development attainment.

Governance quality is measured using the Liberal Democracy Index:

$$G_{it} = v2x\_libdem_{it} \in [0,1] \quad (2)$$

where  $G_{it}$  reflects the institutionalization of electoral integrity, civil liberties, judicial constraints, and legislative oversight (Coppedge et al., 2025). Higher values represent stronger liberal democratic governance.

Institutional structure is captured by regime type:

$$R_{it} = v2x\_regime_{it} \in \{0,1,2,3\} \quad (3)$$

where high values are associated with more democratic forms of regimes, closed autocracy to liberal democracy. Table 2 gives formal operational definitions and measurement scales of the main analytic variables.

**Table 2. Operational Definitions of Core Variables**

Concept	Symbol	Measurement Range	Interpretation
Human Development	$HDI_{it}$	0-1	Higher values indicate greater human development
Governance Quality	$G_{it}$	0-1	Higher values indicate stronger liberal democracy
Regime Type	$R_{it}$	0-3	Higher values indicate more democratic regime category

### 3.4 Econometric Specifications

#### 3.4.1 Cross-Sectional Structural Model

To capture between-country structural associations, the following model is estimated for a single cross-sectional year:

$$HDI_i = \alpha + \beta G_i + \varepsilon_i \quad (4)$$

In this specification,  $HDI_i$  represents the human development level of country  $i$ ,  $G_i$  represents governance quality in that same year,  $\alpha$  is the intercept term,  $\beta$  measures the expected change in HDI associated with a one-unit increase in governance, and  $\varepsilon_i$  captures unobserved country-specific determinants of development not explained by governance.

Because governance is scaled from 0 to 1, the coefficient  $\beta$  represents the full-range marginal association between minimum and maximum governance quality.

#### 3.4.2 Panel Model for Within-Country Institutional Change

To isolate the effect of governance changes within countries over time, a panel specification is estimated:

$$HDI_{it} = \alpha_i + \gamma_t + \beta G_{it} + u_{it} \quad (5)$$

Here,  $\alpha_i$  denotes country-specific fixed effects capturing all time-invariant structural characteristics of country  $i$ , including geography, colonial legacy, deep institutional path dependence, and baseline development structure. The term  $\gamma_t$  represents year-specific effects common across all countries, such as

global economic shocks or technological diffusion. The coefficient  $\beta$  measures the within-country association between governance and development after removing cross-sectional heterogeneity. The disturbance term  $u_{it}$  captures idiosyncratic shocks. This specification ensures that identification derives from temporal variation within countries rather than cross-national structural differences.

#### 3.4.3 Lagged Governance Specification

Given the slow-moving nature of development indicators, a lagged specification evaluates delayed institutional effects:

$$HDI_{it} = \alpha_i + \gamma_t + \beta G_{i,t-1} + u_{it} \quad (6)$$

The lagged governance variable  $G_{i,t-1}$  captures governance quality in the previous year. The parameter  $\beta$  thus measures whether governance reforms exert influence on development outcomes after a one-year adjustment period.

#### 3.4.4 Long-Run Institutional Transformation Model

To assess cumulative institutional transformation, long-run changes between 2000 and 2022 are calculated:

$$\Delta HDI_i = HDI_{i,2022} - HDI_{i,2000} \quad (7)$$

$$\Delta G_i = G_{i,2022} - G_{i,2000} \quad (8)$$

The change model is specified as:

$$\Delta HDI_i = \alpha + \beta \Delta G_i + \eta_i \quad (9)$$

In this equation,  $\Delta HDI_i$  represents the cumulative development change over two decades,  $\Delta G_i$  represents cumulative governance change,

$\alpha$  captures average long-run development growth independent of governance reform,  $\beta$  measures whether institutional reform predicts long-run development transformation, and  $\eta_i$  captures unobserved structural influences.

### 3.4.5 Regime-Conditioned Governance Effects

To test whether governance effects vary by institutional regime type, an interaction model is estimated:

$$HDI_{it} = \alpha + \beta_1 G_{it} + \beta_2 R_{it} + \beta_3 (G_{it} \times R_{it}) + e_{it} \quad (10)$$

The coefficient  $\beta_1$  represents the governance effect in the baseline regime category. The parameter  $\beta_2$  captures level differences in HDI across regime categories. The interaction coefficient  $\beta_3$  measures how the marginal effect of governance changes as regime type increases.

The conditional marginal effect of governance is therefore:

$$\frac{\partial HDI_{it}}{\partial G_{it}} = \beta_1 + \beta_3 R_{it} \quad (11)$$

A statistically significant  $\beta_3$  indicates institutional conditioning, meaning governance returns differ depending on regime structure.

### 3.5 Estimation and Inference

The heteroskedasticity-robust (HC3) standard errors are used to estimate cross-sectional and change models to take into consideration the possibility of variance heterogeneity among countries. The model used by the panel is the country-clustered standard

errors, which correct for both serial correlation and dependence within a country over time. All the models are approximated with ordinary least squares, which is in line with linear scale and limited range of HDI outcome. The method of analysis focuses on transparency, reproducibility and separation of structural and dynamic effects, and the findings about the conditioning of institutions are not artifacts of cross-sectional heterogeneity.

## 4. Results

### 4.1 Descriptive Associations and Structural Covariation

The combined panel (2000-2022) indicates a high level of cross-national heterogeneity in governance and human development. The HDI scores are low to very high, and the Liberal Democracy Index is a very wide scale between the authoritarian governments to unified democracies. This heterogeneity is indicative of the different governance forms and their developmental results as it should have been according to institutional political economy theories. Table 3 shows the pairwise correlations of the core variables. It is interesting to note that HDI has a positive relationship with governance ( $r = 0.573$ ) and governance has a strong association with policy and institutional indices ( $r = 0.869$  and  $r = 0.941$  respectively). This correlation is high enough to indicate that the quality of governance is inherently connected with institutional characteristics.

**Table 3. Pairwise Correlations Among Key Variables (Panel, 2000–2022)**

Variable	HDI	Liberal Democracy	Policy Index	Institution Index
HDI	1.000	0.573	0.648	0.453
Liberal Democracy	0.573	1.000	0.869	0.941
Policy Index	0.648	0.869	1.000	0.825
Institution Index	0.453	0.941	0.825	1.000

### 4.2 Cross-Sectional Structural Relationship: Governance and HDI (2000–2022)

The initial empirical test is the study of whether there is a close relationship between governance and human development by comparing the countries at a point in time. The cross-sectional regression of 2022 has a positive and statistically significant governance coefficient, meaning that the higher the liberal democracy score of a country, the higher the level of HDI is. Substantively, the coefficient suggests that significant variations in the governance quality correlate with significant variations in human development, which is consistent with the

institutional political economy perspective that rule-based accountability and democratic restrictions generate the environment in which it is possible to maintain long-term investment in health, education, and welfare.

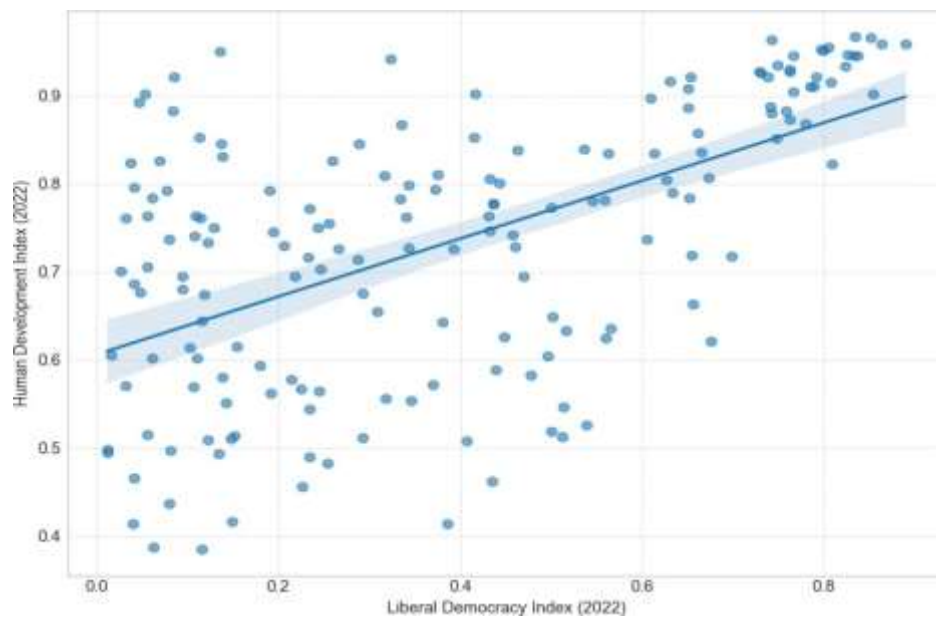
The cross-sectional model is reported in table 4. The model fit is moderate ( $R^2 = 0.344$ ) and this indicates that governance explains a significant source of cross-national variation in HDI, but not all, which is natural since the process of development is determined by a range of structural factors, not just governance.

**Table 4. Cross-Sectional OLS Model Predicting HDI (2022)**

Predictor	Estimate (B)	Robust SE (HC3)	Test Statistic	p-value
Intercept	0.582	0.021	z = 28.060	< .001
Liberal Democracy Index	0.354	0.036	z = 9.892	< .001
Model fit	R <sup>2</sup> = 0.344		N = 165	

The regression evidence is supported visually in Figure 1: the countries are clustered on an upward slope, which means that governance and

development are closely aligned on the structural cross-national level.

**Figure 1. Governance and Human Development**

#### 4.3 Panel Evidence: Within-Country Change and the Governance–Development Link

The cross-sectional findings however can exaggerate the effects of governance when they are mainly based on long-term country features. In order to determine whether governance reforms are associated with development gains in countries, panel models are estimated between 2000 and 2022 with country-clustered standard errors. In these specifications, identification is based on within country changes over time as opposed to cross country differences.

As indicated in Table 5, the coefficient of governance is not significant in the panel model. This means that the changes in governance in a particular country in a year-to-year basis are not linearly proportional to the changes in the HDI in a year-to-year basis. This result is conceptually compatible with the sluggishness of HDI and with the existing theory of

political economy that focuses on institutional path dependence: changes in governance in the short/medium run may not be immediately reflected in better health, education, and income results, especially when policy implementation capacity, fiscal institutions, or long-run investments in human capital take paths that cannot be easily changed by small institutional adjustments.

Since the governance reforms may be delayed, a lagged model of governance is also estimated. The lagged coefficient is not statistically significant, which indicates that one-year adjustment window does not produce any governance effects on HDI. It does not mean that governance is irrelevant, but it implies that the relationship between governance and development is not well represented as the within-country linear effect in annual data.

**Table 5. Panel Models Predicting HDI with Country-Clustered Standard Errors (2000–2022)**

Model	Governance Term	Estimate (B)	p-value	N
Contemporary panel	$G_{it}$	0.0058	.699	3,863
Lagged panel	$G_{i,t-1}$	0.0057	.716	3,690

Figures 2 and 3 offer some complementary data to the panel estimates, which underscores a significant empirical regularity: HDI tends to have stable growth over time, even when governance is either stagnant or deteriorating (Figure 2). In the same way, Figure 3 shows the change in the governance

trajectories of countries with some countries stagnating or even decreasing in governance scores. These findings highlight why in-country yearly associations amid governance and development can be feeble, even though there is a high level of cross-sectional variations.

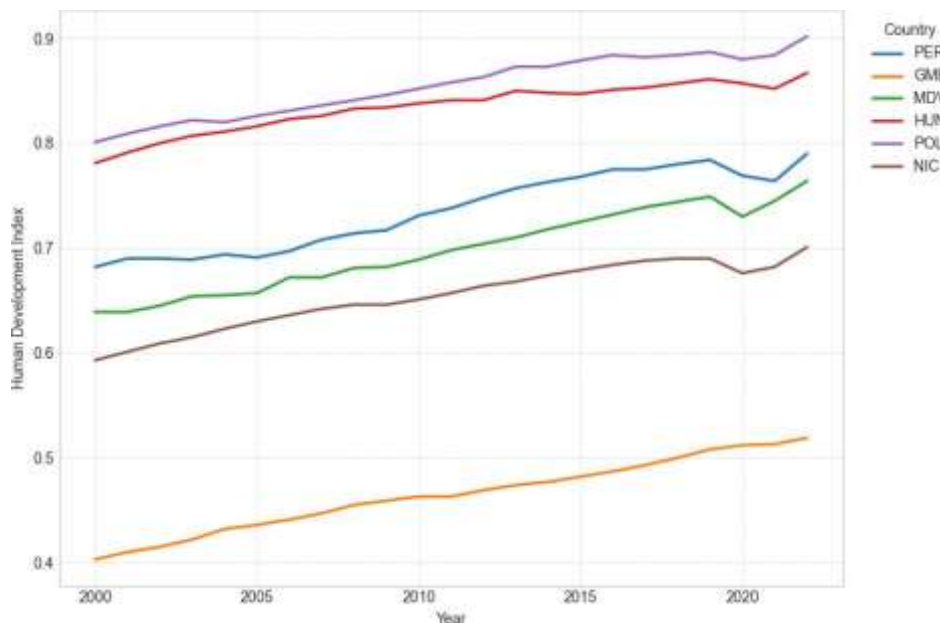


Figure 2. HDI trajectories for selected countries (2000–2022).

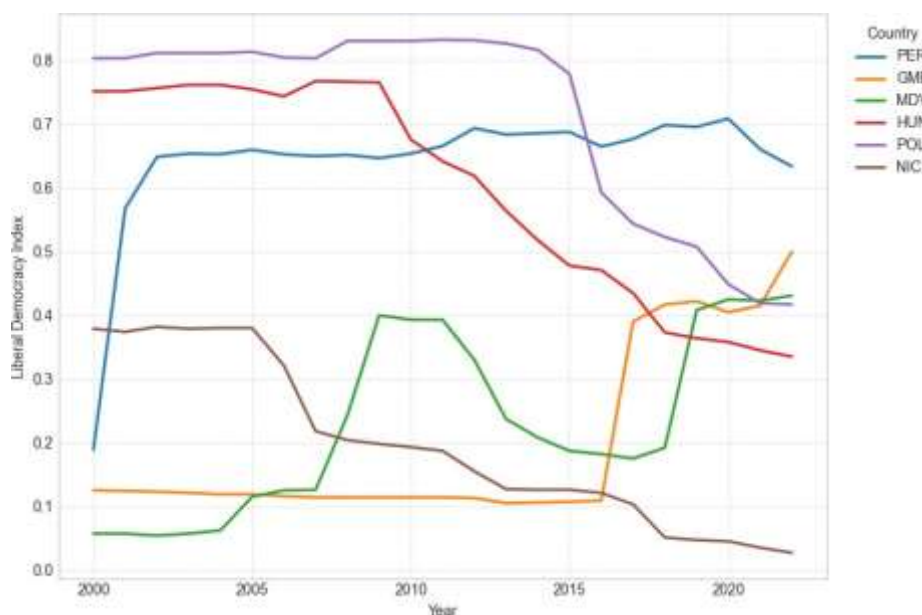


Figure 3. Governance trajectories for the same countries (2000–2022).

#### 4.4 Long-Run Transformation: Does Governance Change Predict HDI Change (2000–2022)?

To assess institutional change as a process of transformation and not a process of short run adjustment, the analysis estimates the predictive value of cumulative change in governance over

2000–2022 on cumulative change in HDI over 2000–2022. This long-horizon test is based on a hypothesis of a central social transformation: when governance reform is a source of development, countries that achieve significant improvement in

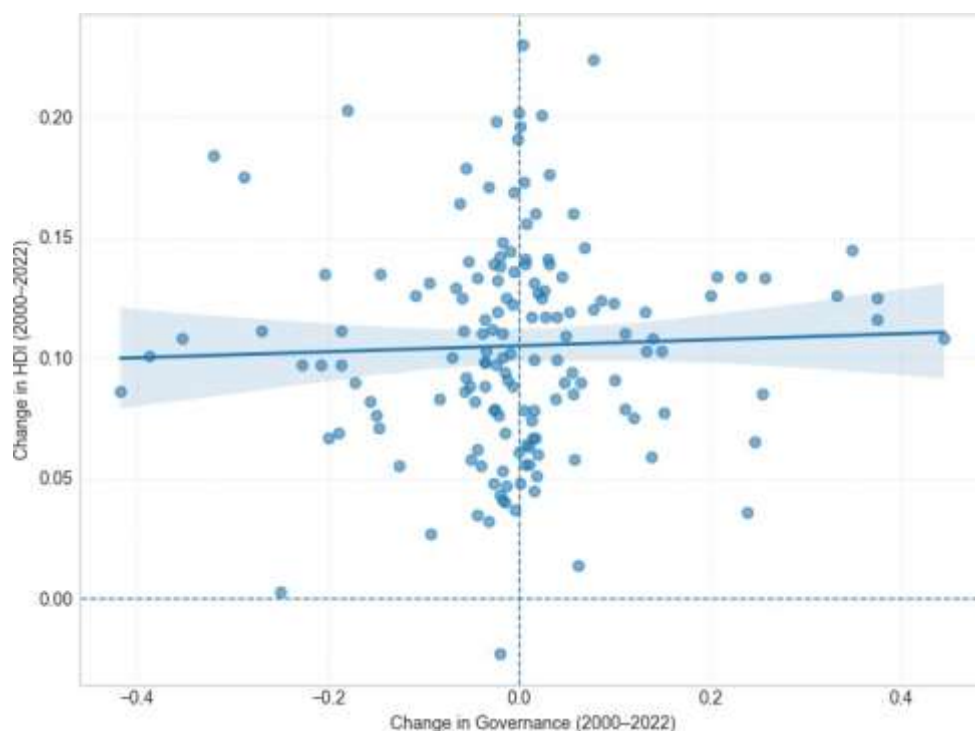
governance over 20 years should gain HDI systematically greater returns.

Table 6 reveals that the change in governance is not statistically significant, and the variance explained is insignificant ( $R^2 = 0.001$ ). This reflects, empirically, that HDI gains in the long run are experienced in numerous countries regardless of whether

governance gains, does not gain, or decays. Substantively, this trend is in line with development processes that are propelled by larger global dispersion (technology, public health interventions, education expansion) and domestic structural forces that can be independent of quantifiable changes in liberal democracy.

**Table 6. Long-Run Change Model: Change in HDI Regressed on Change in Governance (2000–2022)**

Predictor	Estimate (B)	Robust SE (HC3)	Test Statistic	p-value
Intercept	0.105	0.004	$z = 29.344$	$< .001$
Governance change	0.0125	0.023	$z = 0.538$	.591
Model fit	$R^2 = 0.001$		$N = 155$	



**Figure 3. Long-run governance change and HDI change (2000–2022).**

Figure 3 shows a high dispersion around nearly horizontal slope: numerous countries gain HDI significantly even when there is little improvement in governance or even governance deterioration. This is visually supported by the insignificant long-run coefficient.

#### 4.5 Institutional Conditioning: Regime Type as a Political Economy Moderator

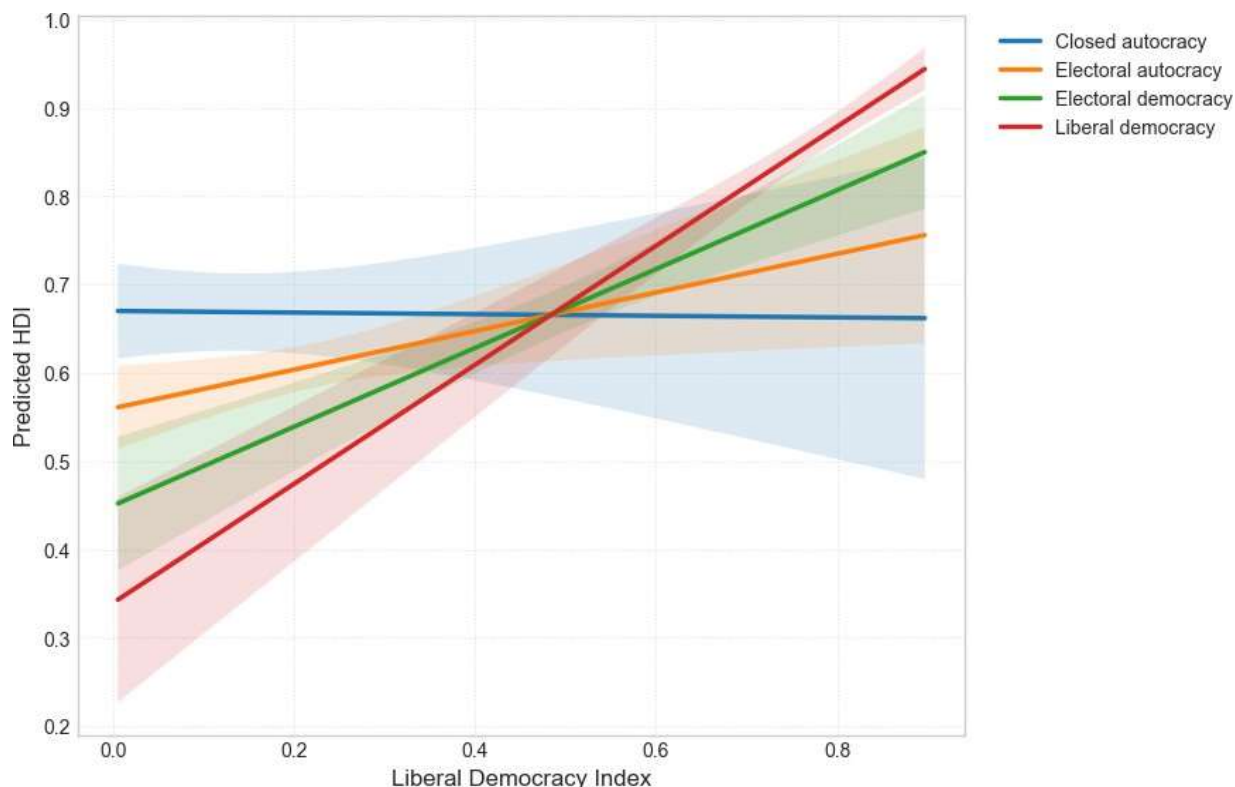
The institutional conditioning analysis is driven by the fact that a strong within-country or long-run linear governance effect is absent. According to the theory of political economy, governance reforms bring about development returns when the institutional structures are in place to facilitate accountability, credible commitment and capacity to

implement policies. To test this, a moderate model is estimated where the regime type is the moderating factor of the effect of governance on the HDI by an interaction term.

The results of the interaction are displayed in Table 7. The effect of governance is not significant at the baseline regime level, but the interaction term is positive and significant. This implies that the marginal association between governance and HDI grows as the countries shift between autocratic and democratic institutional structures. This substantively means that governance is not equally productive in all political regimes; instead, there seems to be a greater payoff of governance-development in democratic institutional frameworks.

**Table 7. Moderation Model: Governance, Regime Type, and Their Interaction Predicting HDI (Clustered SE)**

Predictor	Estimate (B)	Clustered SE	Test Statistic	p-value
Intercept	0.670	0.028	z = 24.147	< .001
Liberal Democracy Index	-0.009	0.119	z = -0.077	.939
Regime category	-0.110	0.023	z = -4.688	< .001
Governance × Regime	0.228	0.039	z = 5.881	< .001
Model fit	R <sup>2</sup> = 0.425		N = 3,863	



**Figure 4. Conditional effect of governance on HDI by regime type (95% CI).**

The substantive interpretation is given in Figure 4: governance is less marginally related to HDI in the case of closed autocracy, but the slope becomes steeper as one move through electoral autocracy, electoral democracy, and liberal democracy. That is, the better the institutional structure is in terms of human development is the stronger the association of the same governance improvement.

**4.6 Institutional Embedding: Governance and Institutional Strength**

To put the moderation results into perspective, an

additional regression is conducted to determine whether governance is empirically entrenched in institutional strength. Table 8 indicates a positive and strong relationship between governance and institutional index, and the explained variance is very high. This means that the quality of governance is closely associated with the wider institutional constraint and accountability frameworks which offers empirical evidence to the interpretation that governance is not a policy variable but a part of institutional architecture.

**Table 8. Institutional Embedding Model: Institutional Strength Regressed on Governance (Robust SE)**

Predictor	Estimate (B)	Robust SE (HC3)	Test Statistic	p-value
Intercept	-1.354	0.056	z = -24.302	< .001
Liberal Democracy Index	3.403	0.095	z = 35.941	< .001
Model fit	R <sup>2</sup> = 0.886		N = 162	

#### 4.7 Additional Governance Channels: Policy Capacity and Institutional Architecture

A multi-predictor model is applied to test the governance effects based on policy and institutional channels by using the 2022 snapshot with governance and the policy index. In this specification, the policy index is statistically

significant, and the term governance is statistically weak. This trend is in line with the explanation that governance can be indirect by institutionalized policy capacity, and not as a direct input into development outcomes. Table 9 presents the estimated governance-policy model of 2022.

**Table 9. Cross-Sectional Model with Policy Channel**

Predictor	Estimate (B)	Robust SE (HC3)	Test Statistic	p-value
Intercept	0.709	0.037	z = 19.019	< .001
Liberal Democracy Index	0.034	0.084	z = 0.407	.684
Policy Index	0.100	0.023	z = 4.394	< .001
Model fit	R <sup>2</sup> = 0.433		N = 165	

#### Discussion

This paper has investigated whether the quality of governance can be converted to social change and whether institutional regime structure preconditions this association. The results provide a multi-faceted explanation of the processes of governance-development. The cross-sectional analysis shows that there is a strong and significant connection between liberal democratic governance and human development. The higher the institutional accountability, rule of law, and civil liberties, the higher the HDI levels are observed in the countries. This structural connection aids in the field of public policy research that highlights the fact that institutionalized governance capacity offers the procedural basis behind the successful policy formulation and implementation (Fischer and Miller, 2017). Governance is therefore seen to be a facilitating institutional architecture that supports long term social investment.

This structural association is however complicated by panel fixed-effects results. The long-term changes in governance within a country do not substantially predict the short-term changes in HDI. This observation indicates that social change cannot be immediately sensitive to gradual changes in governance. The development of human beings is a cumulative investment in education, health and income generating capacity, which is progressive and is found in institutional pathways over time. The yearly gains in governance indicators might not thus have the time dimension that can affect the multidimensional development indicators. The lagged governance model supports this reading, which states that even delayed institutional changes do not necessarily produce quantifiable development benefits.

The change model in the long run further works against the assumptions of linear reform. Improvements in governance between 2000 and 2022

are not significantly related to cross-national differences in HDI change. The implication of this finding is that governance reform is not enough to spur a prolonged developmental change. The theory of social investment highlights that coordinated welfare regimes, redistributive coalitions, and institutional complementarities are the key elements of sustainable human development results (Garritzmann *et al.*, 2022). Governance reforms can introduce procedural changes without radical policy regime or redistributive framework changes that would be required in the long term to support social investment.

The most theoretically revealing finding is the result of the moderation analysis. In high regime categories, governance has a more positive impact on human development. This interplay is an indication that institutional structure conditions the returns to quality of governance. In more consolidated regimes, the enhancement of governance is better transformed into social results. Reforms in lower regime situations might not be structuralized, which constrains their transformative capacity. This contingency is consistent with the political contingency arguments in the governance literature, that point to the fact that institution effectiveness is contingent on larger political contexts and systemic consistency (Kuzemko *et al.*, 2016). Governance is thus inculcated in political economies that determine sustainability of reform. Taken together, the findings suggest that governance issues are structural and dynamic because they are institutionalized and no single reform instances. The systemic consolidation becomes the cause of social transformation as opposed to incremental procedural adjustments. The result of this finding is relevant to interdisciplinary discussions in that it shows that the elasticity of governance is conditional, regime-dependent, and mediated over time.

Directly there are policy implications. Reform policies must not presuppose automatic developmental payoffs of governance improvements. The institutional strengthening should be supported by long-term social investment and consolidation at the regime level. The political circumstances should be considered in the design of governance interventions in international development initiatives because the same reform can produce heterogeneous effects in different regimes. There are a few limitations that should be mentioned. Although HDI is multidimensional, intra-country inequality is not reflected in HDI. The endogeneity of governance and development cannot be totally ruled out. Regime classification simplifies the complicated institutional realities. Further studies should break down HDI elements, introduce fiscal capacity and state effectiveness, and use the latest methods of causal identification to better understand the mechanisms of governance-development. To conclude, governance is not a single variable that has a social transformative impact but rather a component of an institutional ecosystem. The benefits of development are contingent on regime organization, system coherence and compatibility between long-term policy and single-hand reform of governance.

### Conclusion

This paper is an interdisciplinary investigation of the governance, public policy, and social change through the combination of institutional political economy

theory and longitudinal empirical studies in 2000-2022. The results show that the quality of governance is closely linked with the increased degrees of human development in cross-sectional view, which proves that institutional accountability and rule-based political regimes offer structural premises to social development. But panel and long-run change models demonstrate that gradual governance reforms in countries do not necessarily lead to immediate developmental benefits. Human development can be seen to be based on cumulative institutionalization as opposed to short-term reform processes. Above all, the interaction analysis reveals that the governance effects are conditional on the regime structure, meaning that the institutional structure influences the developmental returns to the quality of governance. Governance thus exists within a wider political and institutional ecosystem which either supports or limits the results of reforms. These findings undermine accounts of linear reform and emphasize the significance of embedding reforms at the regime level, policy coherence, and social investment in the long term to achieve sustainable transformation. Social change does not come because of single procedural change but through long-term institutional coordination and systemic convergence. This study fills the gap between governance measurement and political economy conditioning and development analysis to provide interdisciplinary insight into institutional change and a more realistic approach to assessing governance reforms in comparative global settings.

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