
# Are Central or Regional Institutions the fundamental driver of Growth? A Response by Multilevel Modeling

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**Abstract**

*Institutions have been proved as the fundamental driver of long-run growth (Acemoglu et al., 2005) and, therefore, the functioning of these institutions, i.e., their quality of governance, is a well-known theoretical fact in the literature on economic growth, which has been widely studied at country and regional level. Nevertheless, there is a lack of literature on how this relationship behaves when considering the hierarchical structure that regions and countries present. To solve this problem, we propose a novel approximation to the question, relying on multilevel econometric techniques, highly applied in other fields such as education or psychology, but much less employed in economics. These methodologies are based on hierarchical data structures assuming that the data variability is produced by two sources: the within variability i.e a level 1 variable (regions) that varies between and within its belonging units (countries), and the between variability i.e a level 2 variable (countries) that varies only between its level units. We empirically analyze how much of the effect shown by the quality of government on the economic growth of a given region can be attributed to the quality of government of its belonging cluster i.e the country. We argue that ignoring the multilevel logic may lead to over-weighting the real influence of regional governance quality and, conversely, under-weighting the effect of the country's governance quality on the economic development of a given region.*

**Keywords**: economic growth; Europe; quality of government; regions

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