**Economic Aspect of Good Governance:** Numbers of economists of development consider that good governance, defined as the quality management and orientation of development policies has a positive influence on economic performance. The question is what content the literature gives to the concept of governance? According to the World Bank, good governance is evaluated by the implementation capacity of governance principles of a country, providing a framework for market development and economic growth.

However a good governance policy allows developing countries to achieve minimum economic growth and political reforms in order to reach a level of development similar to that of industrialized countries?

1.The first thesis (market Enhancing governance) defended by neo-institutionalist authors consider the state as a sovereign role and welfare state. Economically, the proper functioning of markets is correlated to the proper functioning of institutions through efficient practice of state governance, what is commonly called ”good governance”. Therefore, underdevelopment and low economic growth performance of countries could be explained by a ”state failure” and the components of good governance with the increase in corruption, instability of property rights, market distortions, and lack of democracy.

2. The second thesis (growth Enhancing governance) concerns the ability of the state to implement social change and a voluntary policy of economic development: The transition of developing countries towards a capitalist system comparable to that of developed countries, cannot operate without the establishment of efficient institutions in relation with distribution of political power in these countries.

3. Conversely, those countries would face a state failure, as a result of a mismatch between institutions and economic policy for development. Our research consists first to present the results of an empirical model that we have done based on a panel of developing countries chosen by region (MENA, Latin America, and Asia) and due to their natural resource endowment. The aim is to check if growth rate may or may not be correlated with good governance indicators as defined by the World Bank. The goal is to lead in a second time an analysis of criticism made by Mushtaq Khan on the definition of governance, the causes of state failure and barriers to economic development. Our contribution is to discuss the concept of good governance and the failure of states that take into account the level of development and governance capacity that is based on a structure and distribution of political power that evolves in time and may or may not be positive for growth. The assumption we make here is that the so-called good governance policies are relevant if countries reach a sound level of economic and social development that enable institutions of good governance to boost growth.

**International Monetary Fund (IMF)**

The [International Monetary Fund](https://en.wikipedia.org/wiki/International_Monetary_Fund) (IMF) was created at a United Nations (UN) conference in Bretton Woods, New Hampshire. In 1996, the IMF declared "promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper".[[17]](https://en.wikipedia.org/wiki/Good_governance#cite_note-IMF-17) The IMF feels that corruption within economies is caused by the ineffective governance of the economy, either too much regulation or too little regulation.[[17]](https://en.wikipedia.org/wiki/Good_governance#cite_note-IMF-17) To receive loans from the IMF, countries must have certain good governance policies, as determined by the IMF, in place.[[17]](https://en.wikipedia.org/wiki/Good_governance#cite_note-IMF-17)

**World Bank**

The World Bank introduced the concept in its 1992 report entitled “Governance and Development”. According to the document, good governance is an essential complement to sound economic policies and is central to creating and sustaining an environment which fosters strong and equitable development. For the World Bank, good governance consists of the following components: capacity and efficiency in public sector management, accountability, legal framework for development, and information and transparency.[[18]](https://en.wikipedia.org/wiki/Good_governance#cite_note-18)

Worldwide Governance Indicators

The Worldwide Governance Indicators is a program funded by the World Bank to measure the quality of governance of over 200 countries. It uses six dimensions of governance for their measurements, Voice & Accountability, Political Stability and Lack of Violence, [Government](https://en.wikipedia.org/wiki/Government) Effectiveness, Regulatory Quality, [Rule of Law](https://en.wikipedia.org/wiki/Rule_of_law), and Control of [Corruption](https://en.wikipedia.org/wiki/Political_corruption). They have been studying countries since 1996.[[19]](https://en.wikipedia.org/wiki/Good_governance#cite_note-Kaufman-19)

**International humanitarian funding**

Good governance defines an ideal that is difficult to achieve in full, though it is something development supporters consider donating to causes.[[20]](https://en.wikipedia.org/wiki/Good_governance#cite_note-Agere2-20) Major donors and international financial institutions, like the [International Monetary Fund](https://en.wikipedia.org/wiki/International_Monetary_Fund) (IMF) or World Bank, are basing their [aid](https://en.wikipedia.org/wiki/Foreign_aid) and loans on the condition that the recipient undertake reforms ensuring good governance.[[1]](https://en.wikipedia.org/wiki/Good_governance#cite_note-UNESCAP-1) This is mostly due to the close link between poor governance and corruption.[[21]](https://en.wikipedia.org/wiki/Good_governance#cite_note-21)

**Good governance and economic development:** The presence of good governance at both the public and private sectors in a country has been viewed as a positive contributor to sustained economic growth.   
At the private sector level, practising good governance principles will enable the stakeholders of a private venture to get the best out of their deals with such ventures. If a private venture does not practice good governance principles, it amounts to an unequal exchange and the stakeholders are destined to a substandard choice in their transactions with it. The economy-wide presence of such substandard choices will reduce the welfare of a nation, though it may have attained high economic growth for a number of years.

As compared to private ventures, government organisations are in an advantageous position, since they could use the sovereign power of the state to extract resources from society at will. Since economic development entails the use of scarce resources of a society to get the maximum out of the least, governmental organisations should practice good governance by observing both the spirit and the letter of the principles of good governance. It gives confidence to investors that the moneys they invest are safe from improper expropriation which is a necessary condition for a society to ensure sustained economic growth.

Empirical studies have shown that countries which have established good governance regimes have been able to attain a faster economic growth and sustain it in the long run. Countries with poor governance have not only been laggards[[1]](#footnote-1) in the race, but also failures to sustain high economic growth continuously. This paper will concentrate on good governance in governmental organisations and how it would contribute to the development. The responsibility for introducing and practicing good governance principles in the government sector of a country exclusively devolves on its political leaders.   
 Governance means how an individual, an organisation or a government would relate itself to its stakeholders in a responsible manner in delivering its promises to them. In politics, it relates to the manner in which elected politicians would perform their duties toward citizens who have elected them to power.

In ancient times, kings and rulers of countries are said to have performed these duties by observing Ten Royal Qualities consisting of the qualities of

*1. gifting, 2.sacrifice, 3.virtue, 4.austerity, 5 .uprightness, 6. softness, 7. non-harmfulness, 8. Having non-ill will, 9. forbearance and 10. non*-conflict.   
  
These ancient 10 principles are so comprehensive that if any political leader follows them today, then, there is no need for enforcing governance on them externally. But, as remarked by James Madison, the fourth President of USA, ‘if men were angels, no government would be necessary’. This quote could be extended to governance as well: ‘since political leaders are not angels, enforcement of governance from outside is necessary’.  
 Actions taken by a government do not necessarily benefit all. Some in society are made better off by government action, while some others are made worse off. Hence, the practice of governance by political leaders is necessary in order to avoid harms and enhance the benefits to citizens. For instance, in the case of a government, trying to attain the highest growth, while damaging the environment by a nation is not considered a good governance practice. Similarly, in the case of a company, it is not good governance if it seeks to maximise profits, while displeasing employees or cheating customers.

Governance is, therefore, a matter that is concerned with every area of human relationships, though in most cases, reference is made only to political governance or corporate governance. Within the system of political governance, there are sub-governance aspects concerning economic policy governance, monetary policy governance and so on. The proper observation of all these aspects of governance is necessary for a political cum economic system to function properly. This paper will look at these aspects in detail and argue that it is the responsibility of the political leadership to establish proper governance systems within a society.

**Matters that give rise to governance issues:**  
 Issues relating to governance arise due to two reasons, both connected to each other. The first is the division of labour which we have seen in the modern economies. Accordingly, to do things better, people have to depend on a large number of others whom they engage as servants.   
 For instance, since not everyone is competent to teach his or her own children, he or she has to depend on a profession called teachers. Similarly, since each one of them cannot treat his or her own illnesses, once again he or she has to depend on another profession called physicians to do so. Economists have branded those servants as agents and those who hire them as principals. That is at an individual level. At a company level, owners of a company hire managers to do the job and at the national level, citizens hand over the task of governing to elected politicians.   
 The second reason relates to the normal human nature. Man is by nature a selfish creature and, therefore, bent on satisfying his own self-interest over anything else. According to the evolutionary biologist, Richard Dawkins, who wrote the book ‘The Selfish Gene,’ the selfish nature is embodied in the very genetic constitution of species. This was noted by Adam Smith in relation to economic relationships more than two centuries ago when he argued that one should expect his dinner not from the benevolence of brewers, bakers or butchers, but from their regard to their own interest.  
 Thus, according to economists, the selfish servant or agent does not always act in the best of interest of the master or the principal for whom he works. Since the master has only two eyes and not ‘four eyes’, he cannot effectively control or see what the servant actually does. This has given rise to what is now known as the *‘Principal-Agent Problem’* in economics and it is this problem that has contributed to the governance issues in the society.  
 PAP is simply the existence of conflicting objectives between the principal and the agent whom he hires. The principal wants to gain the best for himself and that is why he pays the agent to do the job. But the agent, acting in his own interest may do things which are injurious to the principal. Thus, professionals whom an individual hires or the managers whom the shareholders engage or the politicians whom the citizens elect will not satisfy the needs of their respective principals, but try to satisfy their own desires which are different from those of the principles.   
 PAP had been known quite for some time and even measures to alleviate its harmful effects have been suggested. Kautilya, the Indian Economist in the 4th century BC, wrote in his economic text, The Arthashastra, that just like a person with honey or poison on the tip of his tongue cannot resist tasting some of it, public servants too cannot resist misappropriating the funds entrusted to them. Worse, the king cannot see it just like he cannot say whether a fish in the water is drinking water or not. Kautilya prescribed both the carrot and the stick to minimise its occurrence.   
 In the modern era, William A Niskanen, formerly an official of the US Budget Management Office and later an economist attached to the University of California, Los Angeles, in a path breaking publication titled ‘Bureaucracy and Representative Government’ in 1971, talked about PAP between the community represented by the government and its civil servants represented by public bureaus.   
 Drawing on the previous studies on the subject by economists like Ludwig von Mises and Gordon Tullock, Niskanen presented a new theory called ‘Economic Theory of Bureaucracy’ in which the community as the principal tries to maximise welfare of the members through public expenditure programmes and the civil servants as agents try to maximise their salaries and perks. Accordingly, government expenditure programmes tend to be overestimated and the community has to bear bigger and bigger burdens as tax payers if tax rates are raised or as victims of inflation if new money is printed to fund such programmes.   
 PAP is most prevalent in joint stock companies where owners and managers are two separate groups. Owners work with the support of the board of directors which has the responsibility for deciding on policy and exercising general oversight on the management. Managers, on the other hand, manage the company to attain its goals. If the Board is passive and cannot exercise its controlling functions effectively, it gives ample opportunities for managers to do everything in their way: rob from the principals, drive them to unwarranted risks, involve them in costly legal battles and make them lose reputation through the displeasure of employees and customers. At the end of the day, managers can leave the place, having soiled it, but the shareholders and board members who represent them have to break their necks to clean it.   
Thus, the effective resolution of PAP is the solution to the governance issues in any place.

**Good governance in politics leads to improvements in quality of life**  
The presence of good governance in politics as well as in economic policy making contributes to quality of life of people and sustainable economic growth. In a paper presented to the 5th Economic Panel Meeting at Harvard University in April 2002, under the title ‘Growth without Governance’ World Bank economists Daniel Kaufmann and Aart Kraay have argued that the quality of governance has a very strong positive impact on the per capita income across the countries.   
  
Using a set of Worldwide Governance Indicators or WGIs, a good governance template prepared by them for the World Bank, in 175 countries for the period 2001/2, the two economists have also found two other important relationships.

The first is relating to the theme of their paper that good governance contributes immensely to a sustainable high growth in PCI in countries. The second is that the growth in PCI does not contribute to improve the quality of governance in the same tempo. Their finding was that growth in PCI has either a weak or a negative impact on the improvement of the quality of governance if good governance had been absent in society initially. In other words, good governance certainly leads to economic growth but economic growth does not necessarily bring in quality governance in society.  
  
 In a Working Paper released by the Department of Economics and Finance of the Middle Tennessee State University in USA in December 2010, Bichaka Fayissa and Christian Nsiah have found that in African countries the gaps in economic growth between the richer and the poorer countries have been mainly due to the differences in the quality of governance in the respective countries. For their empirical study covering 28 African countries, the two economists have used the same WGIs relating to the relevant countries between 1995 and 2005.   
  
Thus, the general consensus among economists is that good governance is a pre-requisite for sustaining economic growth and improving the quality of life of people. However, there are a few economists like Columbia University’s Jeffrey Sachs who believe that emphasis on good governance for sustaining economic growth has been a misguided policy drive.   
In an article written to the magazine Foreign Affairs in October, 2012 Sachs has countered the argument by Daron Acemoglu and James Robinson in their book ‘Why Nations Fail’ that superior political institutions protect property rights and through such protections, incentivise the process of invention and the diffusion – distribution of such knowledge among prospective entrepreneurs – helping the countries to sustain economic growth.   
 Sachs has argued that what is more important is diffusion and therefore, without getting involved in inventions, if a country can cause diffusion to happen, that country can ensure continued economic growth as has been shown by many authoritarian countries in East Asia. His reference was to countries like South Korea, Taiwan and Singapore. Yet, in all these countries, people dissatisfied with the quality of life delivered by the authoritarian governments have agitated for democratic institutions which the authorities have delivered to them eventually. Thus, these countries were able to sustain economic growth. However, the other authoritarian countries were not so fortunate and had to go through bloody revolutions which have taken them back for many centuries.

**Good governance contributes to economic growth**; How does governance promote economic growth or in a different way, misgovernance impede growth? The six governance dimensions which the World Bank has included in its WGIs provide the answer to this question. The six are the following:  
1. Voice and Accountability: capturing perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.  
2. Political Stability and Absence of Violence and Terrorism: capturing perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.  
3. Government Effectiveness: capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.  
4. Regulatory Quality: capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.  
  
5. Rule of law: capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.  
6. Control of corruption: capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.  
 Governance therefore makes people feel that they are included in the running of the affairs of society. This inclusiveness is an important policy goal of modern societies so that people will become the designers, executers and judges of their own destinies. They collectively ensure the property rights – right to life, physical and financial wealth and human intellect. When the above mentioned dimensions, at least as a minimum, are present in society, people have the ability to benefit from their own labour and efforts. It gives incentives for them to develop their human and physical capital, invent new things and use such inventions in market based productions. The continued market production ensures sustainable growth.   
 Misgovernance reduces the quality of life of people in society. For instance, suppose that the government is ineffective, public service is inefficient and corrupt and the system works under the pressure of politicians, elite power groups and extreme ethnic, religious or racialist social sects. Then, the law enforcement agencies, namely, the police and courts of law, will become dead ducks. As a result, people have no mechanism to get redress when they have been harmed simply by other members of society. They have to live in eternal fear for their life, property and wealth.   
 In society, per capita income may have increased to record levels. But what use of that income if it can be robbed by those who can claim impunity from the system? Property can be robbed by other fellow citizens, those supported by politicians in power or governments themselves. This last type of robbery had been a common situation even in the past. That was why the Buddha had to advise his lay followers, according to Pattakamma Sutra canonised in Anguttara Nikaya, to protect the wealth earned through one’s labour from, among others, the greedy kings.   
This is similar to the expropriation of private property by modern governments whatever the justification attributed to such expropriations. It is the observance of the rule of law, control of corruption, independent and impartial law enforcement agencies and effective government that will protect the property rights of people.

1. person who makes slow progress and falls behind others. [↑](#footnote-ref-1)