GOOD GOVERNANCE AND ECONOMIC GROWTH: TRACING THE PATH

Wilson C. Nabua
Northwestern Mindanao State College of Science and Technology
Labuyo, Tangub City

ABSTRACT

This paper explored on the paths that link good governance and GDP of 16 regions in the Philippines. Both the direct link and the indirect path were measured. Tracing the indirect links utilized human development indicators to include literacy rate, poverty incidence, health index, and employment rate. The 2008 NSCB data were used in the path analysis conducted. Results showed that good governance directly accounted for 40% of the national income. The percentage contribution was tantamount to the regions' inclusion in the top five high and bottom ranking of GGI and GDP. The indirect effects, on the other hand, contributed 33% of the GDP. As a whole, three-fourths of the country's domestic output could be explained by good governance. The local chief executive is significant reformers to augment regional and national income and is proven in this study that good governance has a causative effect towards economic growth.

Keywords: good governance, gross domestic products, economic growth, path analysis

Introduction

A country's economic growth is a product of political stability, the effectiveness of resource management and transparency of government accounts. These characteristics are the manifestations of good governance. Good governance is always a tagline or agendum of many politicians in most underdeveloped countries when soliciting for votes during elections. Politicians make promises to develop their respective places if given a chance to govern their people. They believe that livelihood enhancement and improved social and infrastructure services are the pillars of good governance. Most often, superior governance in the public service reflects on the city's or municipality's successes in its programs and projects. This triumph leads to an economic growth, which is measured by the Gross Domestic Product.

Available literature reveals amongst researchers that the quality of governance can matter in terms of aiding economic growth and development. Some researchers revealed that an increase in the income of a country is a product of good governance. Governance has two dimensions. One is the aspect of the way the nation or city is governed and the cultural and ideological setting for governance (Chibba, 2009). Good governance induces private investment decisions in developing countries which the latter enhances gross national income and would eventually reduce poverty incidence (Aysan, Ersoy and Varoudakis, 2008). The weak public administration is tantamount to political instability that would lead to high corruption that has direct consequences of economic and governance factors, intermediaries that in turn produce poverty (Chetwynd, Chetwynd and Spector 2003).

The Philippines as one of the developing countries is still experiencing havoc in governance. Political leaders sometimes failed to make the economy in their respective places ascend in the peak of the economic cycle. They have different priorities during their terms, but the most common are the service to the constituents. Their unwavering efforts can sometimes be replaced with self-interest thus, making the communities dormant. This attitude (self-interest) hinders these leaders to formulate and implement pro-economic growth and pro-poor policies. However, generalizing on the judgment of the country's governance brings biases to some regions or groups who also have contributed much to economic development. There are places which can be considered well-governed, but are economically poor and others which are also judged unsatisfactorily managed but are economically viable. Good governance may indirectly affect economic growth.

Thus, this paper scrutinizes the path of good governance to economic development through human development in all the 16 regions of the country. This can be done through the path analysis of the Good Governance Index via literacy rate, poverty and health indices and the unemployment rate for the Regional Gross Domestic Product.

Conceptual Framework

The NSCB framework to measure governance is the Good Governance Index (GGI). The GGI 2008 data was used in this study. The GGI includes the three major areas of governance. These are Economic Governance Index (EGI), the Administrative Governance Index (AGI) and the Political

Governance Index (PGI). The dimensions included in the computations are sustainable management of resources through the generation of adequate financial resources and responsiveness to alleviation of poverty (through EGI), rule of law through improvement of internal and external security, law enforcement and administration of justice (through PGI, the efficiency of the delivery of services in health, education, and power supply (through AGI) and people's empowerment and participation (through PGI). The dimensions not included in the computations of GGI in the NSCB framework include elimination of graft and corruption, improved transparency and accountability (through EGI), ICT readiness and improvement of technology, continuous building of LGU capacities which are common projects of the local executives and the infrastructure index that comprise construction of roads and bridges.

There are two paths hypothesized in this study that relates good governance to economic growth. The direct path reflects a straight alley from good governance to economic growth. Using the *ceteris paribus assumption*, any manifestation of good leadership in a country or province would mean economic growth. Otherwise a community or country suffers when inefficient political leaders are given the chance to manage.

The indirect path is that economic growth is not a direct outcome of good governance. There are still factors to consider in attaining growth. One is a human development which good governance is a prerequisite. Human development focused in this study are considered the endogenous variables to include literacy rates, poverty and health indices. Health index assumes death rates in the framework of analysis. These intervening endogenous variables affect employment rates. Employment rate as one of the macroeconomic targets is assumed as also an outcome of good governance that directly affects economy's output.

Figure 1 represents the path diagram that models the hypothesized causality of good governance, employment and ultimately Regional GDP. To illustrate, consider the hypothesis that the Gross Domestic Product is directly affected by both good governance and employment rate. The employment of human resources is affected by their literacy, health, and economic conditions. The aforementioned three exogenous variables are interrelated such that, literacy and health are the identified causes of poverty.

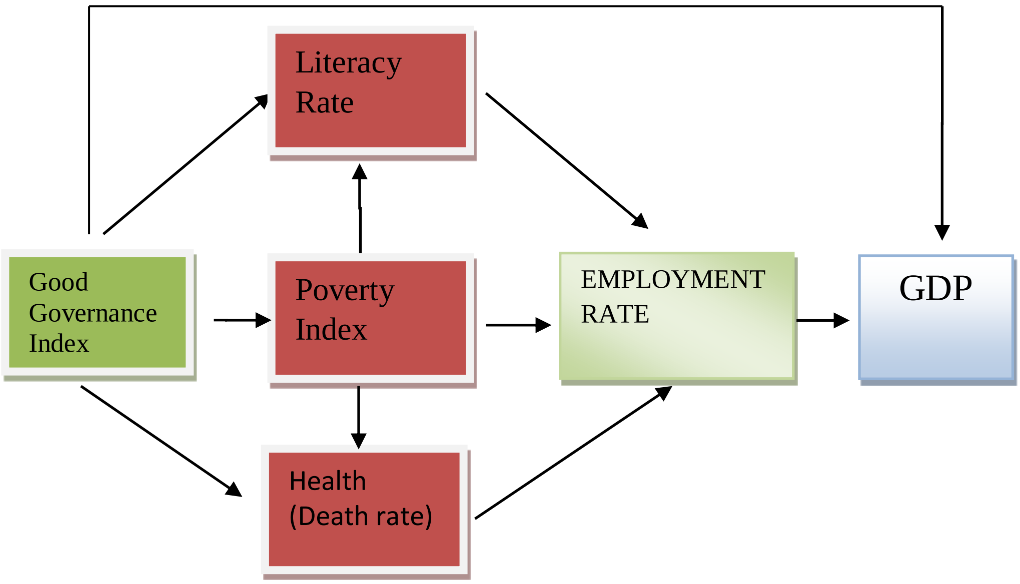

Figure1. The two-path approach from governance to economic progress

Research Design and Methods

The 2008 NSCB data on GGI and Regional GDP in 16 regions of the Philippines were considered in the computations of the path coefficients of this study. The study used the Exploratory Data Analysis (EDA) through data mining. Data on Good Governance Index, Gross Domestic Products, poverty incidence, literacy rates, unemployment rates and death rates were obtained for 16 regions in the Philippines through published electronic information from the web.

The study employed path analysis where the variables were standardized to zero out the intercept value. Regression was used to determine the effect of an independent variable on a dependent variable. The beta weights are then used as the path coefficients which then determined the direct and indirect effects desired. Both the direct and indirect causal effects of good governance (GGI) on the Regional Gross Domestic Products are compared. The net causal effect is inferred from the total path coefficients.

Results

Figure 2 below shows the direct and indirect paths from good governance to economic growth. The direct path registered a beta weight of 0.394. For the indirect impacts, good governance via literacy and unemployment to the economic growth posted a beta weight of 0.167.

The good governance has a negative relationship (β= -0.655) to poverty which is then inversely proportional with the employment (β = -0.59). Poverty also traversed to literacy with (β = -0.576) to unemployment (β = 0.537), and it also passed through health (β=0.544) to unemployment (β = -0.511). The connection between employment rate and GDP posted the highest beta weight of 0.863. The indirect effects of good governance via some variables registered a beta weight of 0.343. The total impact indicates 0.737 (Table 1).

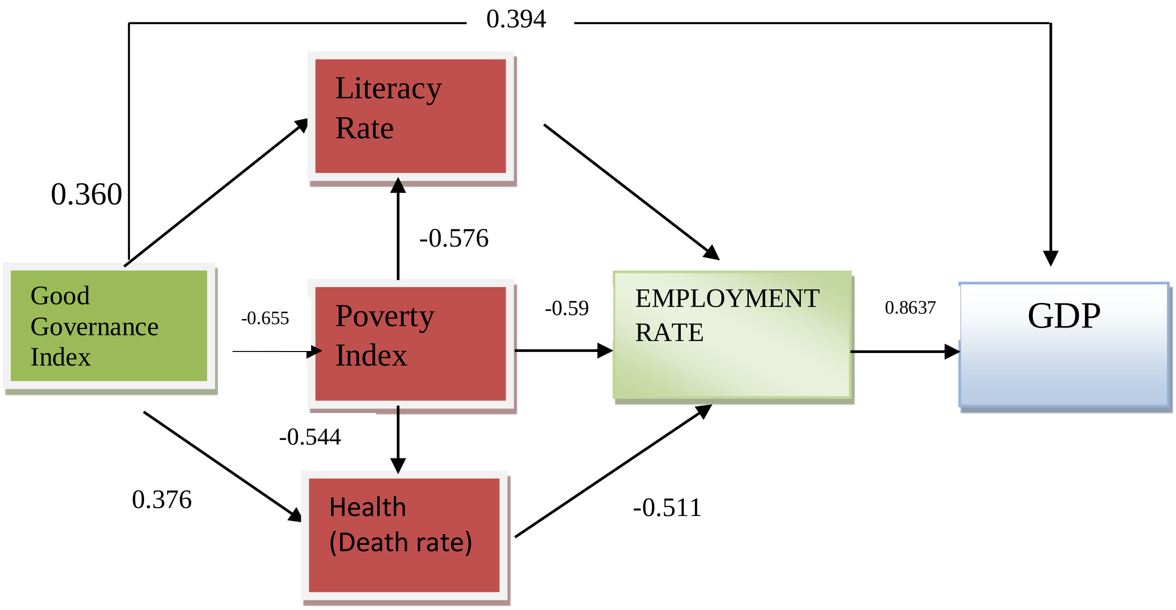

Figure 2. Direct and Indirect paths from Good Governance to Economic Growth

Table 1. Beta Weights between Variables

Paths	**Beta Weights**
Direct Path 214	
Good Governance to Gross Domestic Product	**0.394**
Indirect Paths	
Good Governance – Literacy-Employment-GDP	0.167
Good Governance –Poverty-Employment-GDP	0.334
Good Governance – Poverty-Literacy-Employment-GDP	0.165
Good Governance – Poverty-Health-Employment-GDP	-0.157
Good Governance –Health-Employment-GDP	-0.166
Total Indirect Effects	**0.343**
Total Impact	**0.737**

Discussion

Direct Path (GGI to GDP). The Good Governance of the 16 regions in the Philippines has accounted for 40% of the GDP. The results indicate that the economic, political and administrative governance as stipulated in the country's GGI framework, play a very significant role in developing the country's economy. The result suggests that those regions that are well-governed have a moderate probability of acquiring more revenues.

The top five regions with high GGI were Cagayan Valley, Davao, CALABARZON, Cordillera Administrative Region and Central Visayas. The bottom five was Bicol, SOCSARGEN, ARMM, Caraga and Western Visayas. However, among the top five regions with high GGI, only 2 (CALABARZON and Central Visayas) had higher GDP. Unswervingly, only two (ARMM and CARAGA) of five regions with low GDP that are also low in GGI. This figure is consistent with the regression result (beta weights of 0.394) which indicates that 40% of the regions' revenues are effects of good governance (Table 2).

Table 2. Top and bottom five regions of GGI and GDP (2008).

Good Governance Index		Gross Domestic Product	
Top 5 Regions	*Index*	*Top 5 Regions*	*Index*
Cagayan Valley	138.44	CALABAR ZONE	168,197
Davao Region	137.41	Central Luzon	117,622
Calabar Zone	136.22	Western Visayas	103,145
CAR	134.26	Central Visayas	101,292
Central Visayas	132.38	Northern Mindanao	71,133
Bottom Five Regions	*Index*	*Bottom Five Regions*	*Index*
Bicol Region	103.75	ARMM	12,099
SOCSARGEN	106.79	CARAGA	18,466
ARMM	109.97	Cagayan Valley	27,639
CARAGA	110.28	Eastern Visayas	29,940
Western Visayas	112.72	CAR	30,921

Regions with both high in GGI and GDP are mostly in Luzon and Visayas area. Many of the bottom five regions in governance and revenues are in Mindanao. Based on the criteria on Good Governance; the governance principles of transparency, accountability, and participatory leadership could be highly practiced by most Luzon and Visayas regions because of the normal peace and order condition and their proximity to the government's head offices. However, some parts of the Mindanao regions are conflict areas where governance is widely affected. The existence of political conflict exhibits non-participatory leadership over the years. As a whole, the general organization and management in most areas are weak. The generally accepted dogmas of efficiency, effectiveness, and economy in the management of public affairs may not be fully observed.

It is a fact that the top five regions with high Regional GDP have very rich in natural resources and are peaceful that millions of incomes are poured to the provinces. The geographical areas are agriculturally productive and are beginning to be industrialized.

There are places in the Philippines, which have limited economic activities, but are good in public administration. This might be due to the credible commitment of the leaders, despite the limited understanding of how politics and social process mediate the relationship between the formal institutions and outcomes (Avellaneda, 2006). But there are still other factors to be considered in good governance. Trakulmututa and

Chaijareonwattana (2013) stressed that the causal factors which had the direct effects on the achievement of good governance were fairness of awareness, the characteristics of the implementing agencies and the acceptance of implementing while the causal factors which had the indirect effect on the achievement of good governance were policy standard and objectives, resources, the organizational communication, economic, social and political conditions. On the other hand, Mohammad, Bidabad, and Sherfati (2014) pointed out that political stability had the highest positive effect on economic growth where the destructive effects of political stability, the efficacy of government and quality of laws on human resource development factor are noticeable. The stable political institutions are increasing important for human development (ADC, 2006).

Indirect Paths. Poverty incidence and rates of literacy, health, and employment were the indirect paths that mediate good governance and output.

The first indirect path (*Good Governance - Literacy-Employment-GDP*) connotes that the literacy and employment intervene good governance and regional gross domestic product. Good governance is accounted for 36% increase in literacy rate, which every percent increase in literacy leads to more than 50% rise in employment. Literatures provide the multiplier effect of literacy and further investments in human capital that leads to augment the national output.

The second indirect path (*Good Governance -Poverty-Employment-GDP*) indicates that good governance is inversely related to poverty. Poverty is also inversely proportional with the rate of employment. Hull (2009) pointed out the growth in one sector of the economy will not automatically translate into benefits for the poor: much will depend on the profile of growth (its employment - or productivity - intensity), the sectoral location of the poor, and the extent of mobility across sectors.

The path from poverty may not directly affect employment; it may traverse first to literacy. When the poverty incidence is high, the literacy rate would be low which would lead to lower employment. This path's total contribution to GDP was only 16%. However, when the lanes of poverty, health, and employment were considered as intervening variables of the GGI and GDP's path, it gave a negative contribution to the national income by 16%. The last indirect path (*Good Governance -Health-Employment-GDP*) lessened the Gross Domestic Product by 17%. Any increase in the number of unhealthy people would affect the employment rate. In fact, Fonseca

(2011) stressed that healthy people have 2.85% more chance to join the labor force than unhealthy people and employees have 0.07% more chance of being healthier than non-employees. In addition, Johansson (2011) said that the HIV prevalence is significantly associated with poor governance.

The total indirect impact of good governance of the national income was only 33 percent, 7% lower than the direct effects. The combination of the direct and indirect effects points out that both the direct and indirect variables the same effects of the national income.

Conclusion

Major issues were raised in the computed path coefficients of the study both in the direct relations of good governance-economy link and good governance via programs on the human development link to increase regional output. Empowered local executives to bring about economic growth remained a major contributing link to progress. Successful LGUs to benchmarks in terms of leadership strategies must be studied, considered and integrated by the low performing LGUs.

In the aspect of spending, support to education and health must remain fundamental programs and projects of low-performing LGUs than any other functional sectors. Human development should be their core considerations in the present bottom-up approach for economic reforms towards poverty alleviation.

References

ADC (2006). *Good Governance Policy Document.* Australian De elopement Corporation. Federal Ministry for European and Internationa Affairs. www. Entwicklung

Avellaneda, S D., (2006) *Good Governance,Institutions and Economic Development: Beyond the Conventional Wisdom*. Presented at the Forum de Recerca, Departament de Ciencies Politiques i Socials, Universitat Pompeu Fabra, Barcelona

Aysan, A. F., Z. Ersoy and M.V. Varoudakis. (2008). *What Types of Perceived Governance Indicators Matter the Most for Private Investment in the Middle East and North Africa*. CERDI, Etudes et

Documents.

Chetwynd, E., F. Chetwynd, and B. Spector. (2003). *Corruption and Poverty: A Review of Recent Literature.* Management Systems International, Washington., D.C.

Chibba, M. (2009). *Governance and Development, The current role of theory, policy and practice*. World Economics. Vol. 10, No. 2.

Hull, K. (2009).*Understanding the Relationship between Economic Growth, Employment and Poverty Reduction*.OECD 2009

Fonseca, D.A. (2011). *The Relationship Between Health and Employment Empirical Study for USA.* Master Thesis. Erasmus University of Rotterdam.Netherlands

Johansson, A. S. (2011). *Good governance and good health: The role of societal structures in the human immunodeficiency virus pandemic*. http://www.biomedcentral.com/1472-698X/5/4

Mohammad, R., B. Bidabad and M. Sherfati (2014). *Good Governance Economic Growth And Human Resource Development In Iran*. Indian J.Sci.Res. 5 (1): 321-326, ISSN: 0976-2876 (Print) ISSN: 2250-0138(Online)

National Statistics Coordinating Board (NSCB). (2014). Nscb.gov.ph

Trakulmututa, J. And B. Chaijareonwattana (2013). *Factors Affecting the Achievement of Good Governance in HRM: The Empirical Study of Local Governments in Southern Part of Thailand*. International Journal of Business and Social Science. Vol. 4. No. 7