Good governance and human development: Evidence form Indian States

*Rudra P. Pradhan[1] and G. S. Sanyal[2]
[1,2]Vinod Gupta School of Management, Indian Institute of Technology Kharagpur, West Bengal, India
*rudrap@vgsom.iitkgp.ernet.in

Abstract: The paper explores the impact of good governance on human development in India during the last two decades. Using panel data analysis, it finds the evidence that good governance and past human development determines present human development in India. That means good governance can be considered as the policy variables through which we can obtain high economic growth and human development in the country. The paper accordingly suggests that with better institutional mechanism and good governance the country can put its development process in the higher ladder of growth and human development. The lack of same may affect the development process, particularly to achieve sustainable economic growth and human development. Hence governments should have aim to increase the status of good governance and can maintain the same with greater caution. This is not a daunting task, if there is adequate political will in the economy.

Keywords: *Human Development, Good Governance, India*

1. Introduction

The objective of an economy, in general, is to increase the level of wellbeing of its people. Traditionally, per capita GDP has been used to measure the wellbeing of the people. This is, however, increasingly being questioned in the recent era, since pure economic indicators cannot capture the wellbeing of people in its broad perspectives, such as economic, social and cultural (Despotis, 2005; Pradhan, 2007). In fact, per capita GDP is neither the quality of life nor an end in itself. It is only considered as a means but the end of development is the welfare of human beings. So the emphasis has now shifted to multidimensionality of human development, which ensures an overall development of human beings and the society and plays a key role in the development process (Clarke et al., 2006: World Bank, 2004; Clarke and Islam, 2004; Stiglitz, 2002; Nussbaum, 2000; Dodds, 1997; Daly, 1996; McGillivray, 1991; Doyal and Gough, 1991).

Figure 1: The Structure of Human Development Index
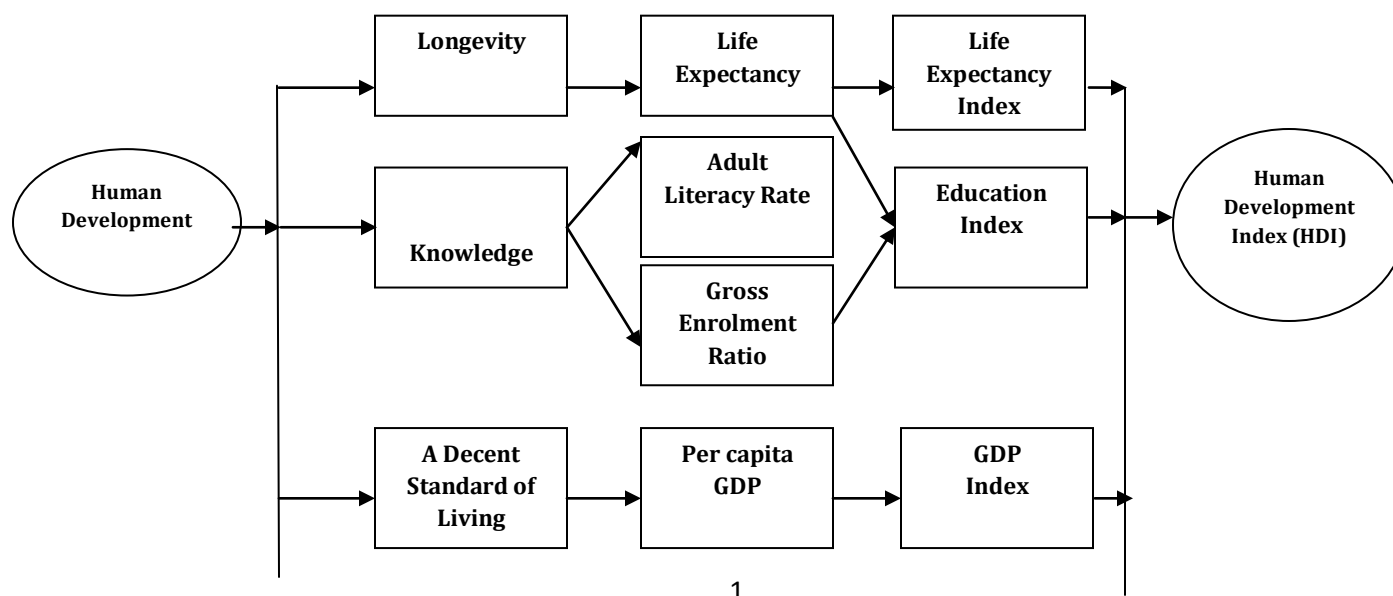
Human development affirms that development must be woven around the people, not people around development. Hence, development should be participatory and for this, people must have an opportunity to invest in the improvement of their capabilities in health, education, and training. They must have an opportunity to put their capabilities to use by participating fully in community decisions and to enjoy human, economic and political freedom (Sen, 2000; Diener and Biswas-Diener, 2000; Helliwell, 2002; Clark, 2005; Stroup, 2007). Human development is usually captured by a composite index (UNDP, 1998), called Human Development Index (see Figure 1). The index inspired by the capabilities approach to development, pioneered by Amartya Sen, was created as part of UNDP under the leadership of Mahbub Ul Haq. Rather than concentrating on a commodity based measure of human welfare, the capabilities approach concentrates on functioning in terms of educational attainment and longevity, and views the main goal of development as the enhancement of the capability to live a long, healthy and active life (Annand and Ravallion, 1993; Haq, 2003; Sen, 1999, 2001; Rannis et al., 2000; Komlos and Snowdon, 2005).

An achievement of high human development depends upon a substantial set up in all the dimensions simultaneously. This is because they are very interrelated to each other. The lack of one leads to lack of others, resulting in overall degradation of human development. However, to maintain the balanced development of all the dimensions, government intervention or quality of government is very essential. The absence of the same leads to low human development in the economy. According to Fukuda- Parr (2003), democratic governance through political institutions that expand the power and voice of the people, and ensure the accountability of decision maker, is an important condition for promoting human development. In the last decade of the 20th century, the need for good governance has been an impact and recurring theme in the literature dealing with human development- both research and popular. There is now a growing body of evidence, which shows that the quality of governance is related to differentials in growth and development (Ramachandran, 2002; Dwivedi and Mishra, 2005; Moore, 2006; Rayp and Van de Sijpe, 2007). This is because government can efficiently deliver the resources to the public so as to improve the well being of people. The paper, therefore, seeks to examine the impact of good governance on human development in India.

The rest of the paper is organized as follows. Section II highlights the concept and measurement of good governance. Section III reflects the linkage between human development and good governance. Section IV finally concludes with policy implications thereof.

2. Good Governance: Concept and Measurement

Good governance is one of the fundamental prerequisites for the successful socio-economic development in a country. Governance usually plays a key role in the area like health, education, infrastructure, capital market regulation, macroeconomic stability, safety net provision, the legal system, creation of a good business environment, and the environment protection, all of which are preconditions and basic features of the developed economy (Brautigam, 1991; Landell-Mills and Seragedin, 1991; Boeninger, 1992; Obadan, 1997; Frugoni, 1988). If government does these things well, the economy is likely to prosper. If government does them poorly- or makes matters worse through inefficiency and corruption- development is much more difficult to achieve and sustain (Evans, 1997; Coolidege and Ackerman, 1997; World Bank, 1997; Kankwanda et al. (2000). Good governance is about how the state and other social organizations interact, how they relate to the citizens, how they take decisions, and how they render account (Ijaiya, 2006). In other words, it is a system or a framework within which the state and the other players operate.

Good governance covers a very wide canvass. As a concept, it is an evolving one and varies with social context. It is understood as defining the platform of administrative reforms covering areas like rightsizing of the state, professional management, citizen centric government, outsourcing, relations between different centres of power, and management of public and private service delivery networks (Rhodes, 1997). Good governance should be conceptualized as a goal and as a process that accelerates growth, equity, and human development potential for the people and the society. The linkage of good governance to development may be

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understood in three senses. The first relates to democratic governance, which implies legitimacy, accountability, and human rights. This forms the basic tenet of development aid by multilateral and bilateral donors and it promotes participatory development. The report of the Development Assistance Committee of OECD asserts that investment of resources in democratic governance will contribute to progress in development goals (OECD, 1997). The second concerns effective governance, which relates more to the ability to govern rather than the form of government (Leftwich, 1993). The third sense relates to the coordination function, which leads to order as a result of the interplay of actions and interactions between the state and other players. Order is usually secured through various models of governance consisting of hierarchical rules, market exchanges and shared values (Larmour, 1998). The context determines their use and modes of governance and their deployment may differ in a policy or a programme or an organization. The context of governance has been changing over the years. People all over the world become more and more aware of their rights and has been demanding better services. The conceptual framework of "good governance" is characterized by features such as participatory, rule of law, transparency, responsiveness, equity and inclusiveness, effectiveness and efficiency and accountability, which are represented in Figure 2.

Figure 2: Characteristics of Good Governance
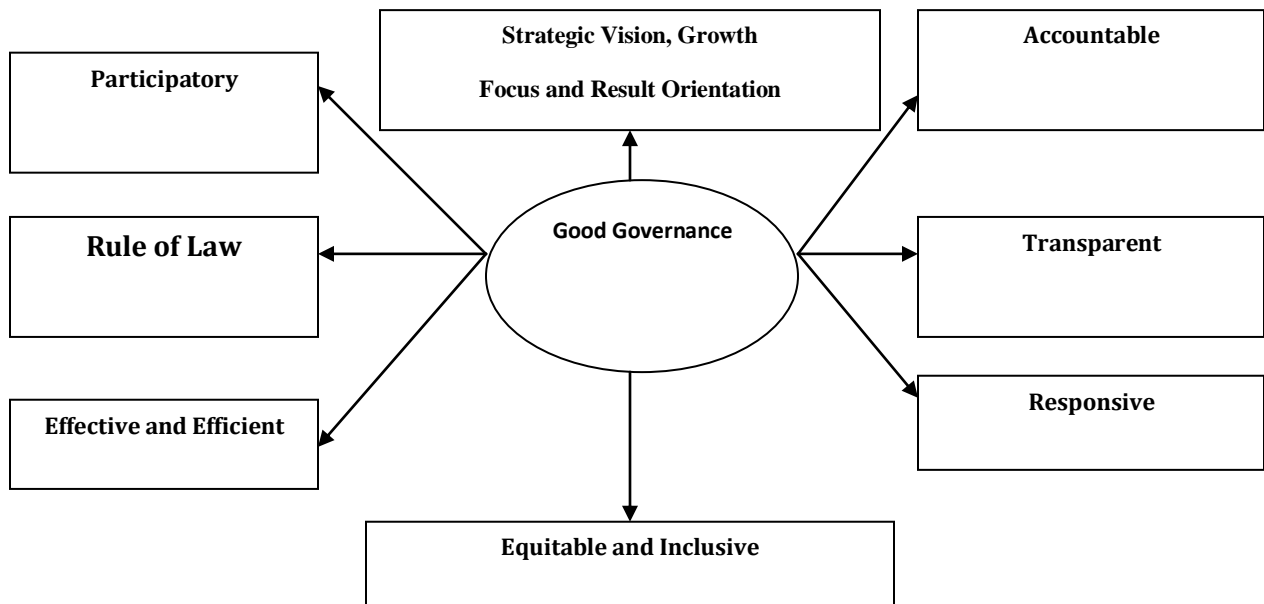
Source: Lakshminarayanan and Sharma (2006)

Good governance is synonymous with the sound development management. According to UNDP (1997), the result of good governance is that 'which gives priority to poor, advances the cause of women, sustains the environment, and creates needed opportunities for employment and other livelihoods'. In other words, it is a manner in which power is exercised in the management of a country's social and economic resources for development (ADB, 1998). The issue of good governance and its impact on development is the heart of all policy debates among the policy markers and researchers. It is believed that through all the institutional arrangements, the government should be able to efficiently deliver the resources to the public so as to improve well being of the people. The World Bank (1992) also indicated about the urgent need to look comprehensively at the institutional environment in order to pursue a constant effort for all round development in the economy.

According to IMF (1996), good governance, which is in the form of rule of law, improving the efficiency and accountability of public sector, and tackling corruption is the key for economic efficiency and growth. IMF's issue on good governance is based on two aspects:

1. Improving the management of public resources through covering public sector institutions (e.g., the treasury, central bank, public enterprises, civil service, etc and also includes administrative procedures such as expenditure control, budget management, revenue collection, etc.).

2. Supporting the development and maintenance of as transparent and stable economic and regulatory environment conducive to efficient private sector activities (i.e., price systems, exchange and trade regime, and banking systems and their related regulations).

Good governance is a multifaceted concept. It can be examined along different dimensions. The ability to provide basic law and order, ability to provide social services to build up human capital, provide physical infrastructure, or economic management are all within the framework of governance (Basu, 2002; Kaufmann et al., 1999). In this paper, we have categorically divided this into four broad groups, which are as follows:

1. Peace and stability: This is measured by crime rate in the economy, which includes total number of cases that reported in the form of murder, robbery, burglary, theft and other types of crimes, like kidnapping, extortion etc.

2. People's sensibility: It is measured by industrial disputes in the economy and this is used as a proxy for the workers' dissatisfaction towards the labour laws and other labour related policies, which adversely affect their working conditions and livelihood.

3. Social equality: This is measured by Gini index, which represents the degree of economic inequality that exists in the economy.

4. Management of government: It is measured by debt-SDP ratio. And that indicates the efficiency of the government in delivering public goods. If, however, it is measured by large amount of borrowing, then the government is considered as inefficient and vice versa.

3. Interface between Good Governance and Human Development

Let HDI_{it} be the human development index (as represented in the NHDR, 2001) for state i at year t. It is designed as follows:

$$HDI_i = \frac{1}{3}\sum_{i=1}^{3} X_i \qquad\qquad \text{……………. (1)}$$

Where X_i = (Actual Value – Minimum Value)/ (Maximum Value – Minimum Value); HDI = Human Development Index; i = {Income, Longevity, Education}. For each variable, a minimum and a maximum are defined and then an individual index is calculated. The idea of HDI is to rank all the states on a scale of zero to one, representing lower human development to higher human development, based on three goals and end products of development such as longevity, knowledge and a decent standard of living.

Let $QGGI_i$ be the good governance index for state I at year t. It is designed as follows:

$$QGGI_i = \sum_{i=1}^{n} a_i \frac{X_i}{s_{Xi}} \qquad\qquad \text{……………. (2)}$$

Where, QGGI is Quality of good governance index; a_i is factor loadings and is calculated on the basis of Principal Component Analysis (see Koutsoyiannis, 2001); i represents state. We normalize the QGGI value by the following formula:

RQGGI = (QGGI – Minimum of QGGI) / (Maximum of QGGI – Minimum of QGGI)

Where, RQGGI is re-scaled value of QGGI and its value lies between 0 - 10. While 0 indicates best performing state, 10 indicate worst performing state (see Basu, 2002).

An econometric model has been designed to explore the interface between HDI and QGGI. This is as follows:

$$HDI_{it} = \beta_0 + \beta_1 QGGI_{it} + \beta_2 QGGI_{it}D_{it} + \beta_3 HDI_{it-1} + \zeta_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Where, $D_{it} = 1$ if $HDI_{it} < MeanHDI_{it}; and\, 0, otherwise$

The data used under this study have been collected from National Human Development Report (NHDR, 2001), Statistical Abstract of India and Census of India. The empirical analysis is based on three cross sectional years (viz. 1981, 1991 and 2001), where state represents the unit of analysis. The pooled data analysis has been used to study the interface between good governance and human development. The figures 3 & 4 summarizes the empirical results of HDI and QGGI, while Table 1 summarizes the results of interface between HDI and QGGI.

Table 1: Descriptive Statistics on HDI and QGGI

	Mean	Median	Tr Mean	St Dev	SE Mean	Min	Max	Q_1	Q_4
				HDI					
1981	0.321	0.305	0.314	0.073	0.019	0.237	0.50	0.256	0.36
1991	0.403	0.404	0.396	0.077	0.200	0.308	0.591	0.345	0.452
2001	0.463	0.472	0.457	0.076	0.020	0.367	0.638	0.394	0.523
				QGGI					
1981	0.383	0.334	0.363	0.279	0.072	0.000	1.000	0.159	0.633
1991	0.270	0.146	0.235	0.302	0.078	0.000	1.000	0.058	0.392
2001	0.371	0.376	0.352	0.273	0.071	0.000	1.000	0.136	0.467

Note: QGGI: Quality of Good Governance Index; HDI: Human Development Index.

The results indicate that the best performing states on the basis of HDI are Kerala, Punjab, Haryana, Maharashtra, Tamil Nadu and Gujarat and the low performing states are Bihar, Orissa, Madhya Pradesh, Uttar Pradesh and Assam (see Figure 3).

Figure 3: State-wise Human Development in India
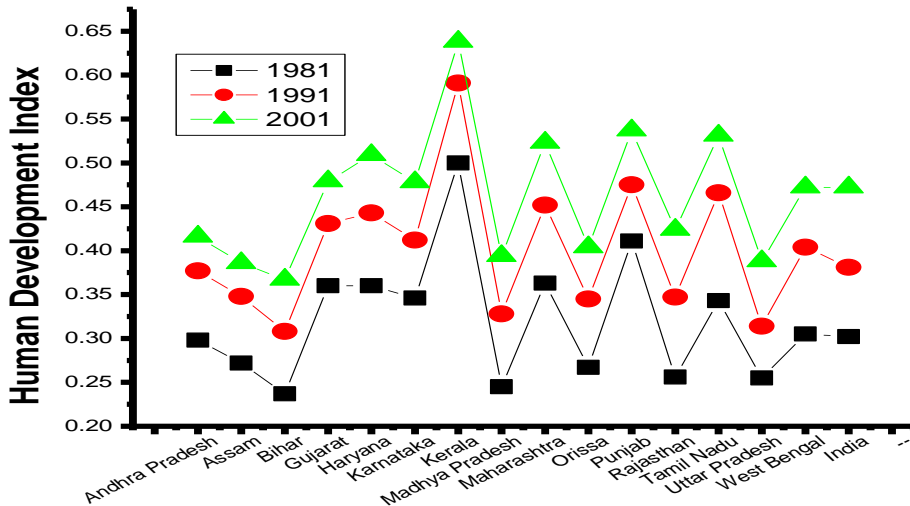
Source: NHDR, 2001

The trend is very similar in all the three cross sectional years. That means the relative position of the states have not changed much during the last two decades. The results also indicate that there is improvement of HDI in all the states since 1981. As a result, there is overall increase of Mean, Median, and Standard Deviation

(see Table 1). Kerala is all time favourite state, while Bihar is all time worst state in terms of HDI. In the similar fashion, the best performing states in terms of QGGI are Kerala, Punjab, Tamil Nadu, Karnataka and Maharashtra and the low performing states are Bihar, Madhya Pradesh, Uttar Pradesh, Orissa and Assam (see Figure 4). The results also show that there is overall increase in the quality of good governance across Indian states, but that increase is divergent in nature (see Table 1). We now seek to investigate the interface between good governance and human development. The estimated results confirm that the present human development of a state is get affected by quality of good governance and past human development. In fact, the past human development is much attractive factor that influences the current human development. The results clearly satisfy the goodness of fit criteria, as the value of coefficient determination is quite high in the estimated model (see Table 2). That means better the level of good governance better is the level of human development.

Table 2: Impacts of Good Governance on HDI

	β_0	β_1	β_2	β_3
$HDI_{it} = \beta_0 + \beta_1 QGGI_t + \beta_2 QGGI_{it} D_{it} + \beta_3 HDI_{it-1} + \zeta_{it}$				
Estimate	0.127	0.188	0.056	0.829
Standard Error	0.015	0.018	0.019	0.042
P-Value	0.000	0.003	0.006	0.000
$R^2 = 0.969$	F = 303 (P < 0.000)			

Note: QGGI: Quality of Good Governance Index; HDI: Human Development Index.

Figure 4: State-wise QGGI in India
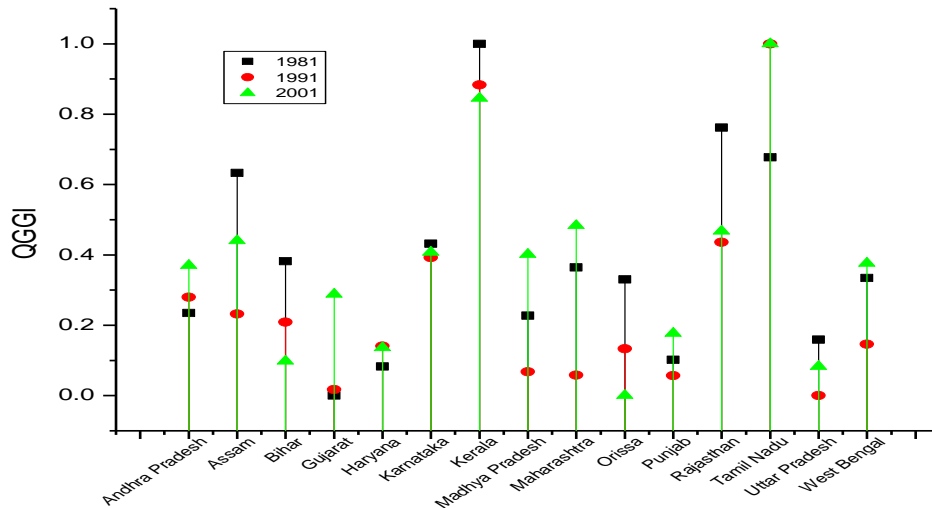
4. Conclusion

The paper develops a conceptual framework to study the interface between good governance and human development in India. It first examines the status of human development and quality of good governance for 15 major Indian states and then examines the impact of good governance on human development. The empirical evidence clarifies that India's improvement on human development and quality of good governance is very satisfactory, as their mean have been increasing since the last two decades. This clarifies that there has been substantial improvement in governance efficiency that actually helped the states to improve their human development. The paper also finds that good governance is the potential factor through which human development can be improved in the Indian economy. That means good governance can be considered as the policy variables through which we can obtain high economic growth and human development in the country.

The paper accordingly suggests that with better institutional mechanism and good governance the country can put its development process in the higher ladder of growth and human development. The lack of same may affect the development process, particularly to achieve sustainable economic growth and human development. Hence governments should have aim to increase the status of good governance and can maintain the same with greater caution. This is not a daunting task, if there is adequate political will in the economy.

Acknowledgement

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