



How Good Government Governance Affect the Economic Growth? An Investigation on Selected Country around the World

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Author's contribution

The sole author designed, analyzed, interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/AJEBA/2021/v21i730405

Editor(s):

(1) Dr. Fang Xiang, University of International and Business Economics, China.

Reviewers:

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Complete Peer review History: <http://www.sdiarticle4.com/review-history/69245>

Original Research Article

Received 28 March 2021

Accepted 08 June 2021

Published 11 June 2021

ABSTRACT

Good governance has become an important factor in economic growth. Good governance will become one of the UN's Millennium Development Goals. This study aims to show whether indicators of good government governance can affect the economic growth of a country so that the country can control economic growth through its governance. The Economic Growth and The governance indicators which drawn by Worldwide Governance Indicators for 2015-2019. The study covered 73 countries and it adopted the panel data framework the fixed effect, the random effect and the maximum likelihood estimation techniques for the analyses. The results shows that the voice and accountability have negative effect. Variable government effectiveness and rule of law have positive effect. Meanwhile, the political stability, regulatory quality, and control of corruption variables had no effect on economic growth. The study suggest for further researchers to provide other variables and expand research time.

Keywords: Good government governance; economic growth; government effectiveness.

1. INTRODUCTION

Global income distribution shows uneven distribution patterns. For example, in 2015, the GDP per head from North America was at least 34 times higher than GDP per head in South Asia and Sub-Saharan Africa [1]. Many political and economic scholars have argued that good governance is a major factor, not only for the democratic development of the country, but also a major factor for economic growth [2]. Economic growth can be interpreted as production capacity of goods and services increasement [3]. Typically, economic growth is measured by Gross Domestic Product (GDP), Gross Regional Domestic Product (GRDP), and other measures of aggregate income. Economic growth only occurs when people are able to manage resources, both goods and services, into something more valuable [4]. Economic growth is commonly used as an indicator of the success of a country's economic performance in meeting the needs of its people. The government as the party that has the authority to implement policies to maintain economic stability and has the authority to implement policies that can boost the economy. Government policies in order to increase economic growth cannot be separated from the quality of the government itself. The success of implementing good governance is determined by the involvement and synergy of 3 main roles, namely government officials, the community and the private sector [5].

Good governance can also support the United Nations Sustainable Development Goals as an effective management behaviour to strengthen the rule of law. In addition, good governance can promote sustainable economic growth through high levels of productivity and innovation [6,3]. This study aims to determine whether the quality of good governance will affect economic growth. The hypothesis was built to estimate the effect of the six dimensions of good governance on economic growth. Many economists postulate that good governance, defined as the quality control and direction of development policy, has a positive effect on economic performance [7]. Worldwide Governance Indicators used to measure good governance include six dimensions which are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Previous research by Badun [8] shows that the quality of government has a positive effect on economic growth. This is followed by research by Resnik and Birner [9] which shows that Political Stability and Rule of

Law has a positive relationship to economic growth. Reinforced by Hyunh and Chavez [10] where accountability, political stability, and the rule of law have a significant effect on economic growth. However, indicators of regulatory control, control of corruption, and government effectiveness have no significant effect on economic growth. This is followed by research by Resnik and Birner [9] which shows that Political Stability and Rule of Law have a positive relationship to economic growth.

2. MATERIAL AND METHODS

2.1 Material Review

The agency problem was initially stated by Ross [11], while detailed theoretical exploration of agency theory was first stated by Jensen and Mecking [12] who stated that the manager of a company acts as an "agent" and a "principal" shareholder. In the context of a state, the relationship between the people and the executive government can be referred to as the relationship between principal and agent. The executive government as an agent, acts to allocate resources through the budgetary instrument of income and expenditure and the people as the principal entrusts the taxes it pays to be managed by the executive government as an agent. According to Sadono [13], a tool to measure the success of a region's economy is the economic growth of the region itself. The regional economy will experience an increase from year to year due to the addition of production factors. In addition to production factors, the number of the workforce working will also increase from year to year so that if it is maximally utilized it will increase economic growth. Economic growth is a process of increasing per capita output in the long run. The emphasis is on three aspects, namely: process, per capita output, and long term. Each aspect has a different emphasis [14]. According to Dwi Payana [15] Good governance is something that is difficult to define because there is an ethical meaning in it. In the sense that something that is considered good in one society, but for other communities does not necessarily get the same assessment. According to Arndt and Oman [16], an index that measures the quality of governance needs to be built. During its development, several indexes were built based on different structures and calculations. Some indices are built on regional characteristics, such as the index used to measure governance in African countries, while other indices can be used across years covering many countries. The Worldwide

Governance Indicators (WGI) has tried to present a more comprehensive index that covers more countries. The WGI index tries to assess every aspect of the governance process so that researchers and policy makers have a better understanding of the existing political process [17]. The nature of WGI that aggregates all relevant single indicators from various sources can also reduce the effect of measurement errors that exist on each single measurement [18]. WGI is built on the research of Kaufmann, Kraay, and Mastruzzi [19], where governance is described into three groups of indicators. First, the process of how government is selected, monitored and replaced. This first group consists of two indicators, namely Voice and Accountability (VA) and Political Stability (PS). Second, the government's capacity to formulate and implement good policies effectively. Government Effectiveness (GE) and Regulatory Quality (RQ) indicators belong to this group. Finally, respect for citizens and government institutions that regulate economic and social interactions. This group contains indicators of Rule of Law (RL) and Control of Corruption (CC).

2.2 Methodology

There are 73 countries that meet the criteria and will be the sample of this study. the dependent variable used in this study is economic growth. economic growth in this study is obtained from the world governance indicator in the world bank using gdp growth annual data (%). WGI includes indicators that represent aspects of the governance process, which are voice and accountability (VA), political stability (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC) [17]. The governance score for each indicator was originally on a scale of -2.5–2.5. and control of corruption (CC) [17].

$$Y_{it} = \beta_0 i + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \epsilon_{it}$$

- Where:
 Y = Economic Growth
 X1 = Voice and Accountability
 X2 = Political Stability
 X3 = Government Effectiveness
 X4 = Regulatory Quality
 X5 = Rule of Law
 X6 = Control of Corruption
 i = Country
 t = Time
 ε = error term

3. RESULTS AND DISCUSSION

Based on the results of the panel data regression model analysis, it was found that the best model to analyze the influence of the quality of good governance on economic growth is the Random Effect model. The results of the estimation of the economic growth function can be seen in Table 1 below:

$$G_{it} = 3,18 - 1,50VA_{it} + 0,02PS_{it} + 0,50GE_{it} + 0,20RQ_{it} - 1,26RL_{it} - 0,48CC_{it} + \epsilon_{it}$$

The results of the estimation of the economic growth function model gave a coefficient of determination (R2) of 65.20% with a correlated coefficient of determination (R2 adj) of 55.46%. The R2 value indicates that 65.20% of the diversity of economic growth variables can be explained together by 6 variables the quality of governance (good government governance) and the level of tax revenue. While the remaining 34.80% is explained by other factors outside the model that were not examined in this study. Furthermore, the F-statistic in the regression results above shows the validity of the estimated model, because the p-value of the t-stat is 0.000039 which indicates significance at the 95% probability level (α = 5%).

Table 1. Estimation Results of the Economic Growth Function Equation

| Variable | Coefficient | Std, Error | t-Statistic | Prob, |
|--------------------|-------------|------------|-------------|---------|
| Constant | 3.18 | 0.41 | 7.79 | 0.00 ** |
| VA | -1.50 | 0.47 | -3.20 | 0.00 ** |
| PS | 0.02 | 0.36 | 0.04 | 0.96 |
| GE | 0.50 | 0.79 | 0.64 | 0.02 * |
| RQ | 0.50 | 0.67 | 0.75 | 0.45 |
| RL | 0.26 | 0.84 | -0.31 | 0.03 * |
| CC | -0.48 | 0.67 | -0.71 | 0.48 |
| R-squared | | 0.6520 | | |
| Adjusted R-squared | | 0.5546 | | |
| F-Statistic | | 0.000039 | | |

Source: Panel Data Eviews Regression Output 6

Note: ** (Significant at 99% real level)

* (Significant at 95% real level)

3.1 Variable Voice and Accountability (VA)

The significance test carried out on the independent variable can be seen from the p-value t-stat. The regression results in Table 1 show that the Voice and Accountability (VA) variable has a significant p-value of 0.0015 at the 5% level. So it can be concluded that the VA variable is a variable that affects economic growth in countries in the world region that are sampled. Through the directional test it is known that the VA variable negatively affects economic growth with a coefficient value of -1.499569. From these figures it can be interpreted that the variable VA affects variable G negatively (opposite). If a country's VA index increases by 1 point, the country's economic growth will decrease by 1.499569%. Voice and Accountability describe public participation in governance. This dimension of governance is directly related to democracy and transparency. Democracy in any country allows people to elect their rulers by voting [20]. The higher the Voice and Accountability, the more open democracy and transparency will be, so that it will suppress corruption and increase the rate of economic growth.

3.2 Variable Political Stability (PS)

The regression results in Table 1 show that the Political Stability (PS) variable has a p-value t-stat of 0.9644. Because the value is > 0.05 , the PS variable is a variable that does not affect economic growth in countries in the world region that are sampled. Through the directional test it was found that the PS variable had a positive effect on economic growth with a coefficient value of 0.015994. This indicates that an increase in the PS index by 1 point will increase economic growth by 0.015994%. However, the relationship between the two variables is not significant, so the analysis of the actual directional test is no longer necessary. Political stability affects only the amount of budget allocated by the government to maintain political stability. Therefore, whatever the value of the state's quality indicator, it will not affect economic growth.

3.3 Variable Government Effectiveness (GE)

The significance test carried out on the independent variable can be seen from the p-

value t-stat. The regression results in Table 1 show that the Government Effectiveness (GE) variable has a significant p-value t-stat of 0.0221 at the 5% level. So it can be concluded that the GE variable is a variable that affects economic growth in countries in the world region that are sampled. Through the directional test it is known that the GE variable affects economic growth positively with a coefficient value of 0.504995 which can be seen from the regression output in Table 1. From these figures it can be interpreted that the GE variable affects the variable G positively (unidirectional). If a country's GE index increases by 1 point, the country's economic growth will also increase by 0.504995%. Research by Badun [8] has shown that the Government Effectiveness, has a significant impact on economic growth. This happened because the better and more effective a country's public services are, the better public spending is used to implement policies and provide public services. The results themselves show that the variable efficiency of government has a positive effect on the dependent variable of economic growth. The simpler and more direct the bureaucracy, the more appropriate it is to be funded by either the government or society. Thus, with a good distribution of expenditures on the implementation of public policies and services by both parties, this will undoubtedly improve the quality of government performance in a country.

3.4 Variable Regulatory Quality (RQ)

The next hypothesis testing is the effect of the RQ variable on G. Based on the results of the significance test carried out on the independent variable, it can be seen from the p-value t-stat. The regression results in Table 1 show that the Regulatory Quality (RQ) variable has a p-value t-stat 0.4541 that is insignificant at the 5% level. So it can be concluded that the RQ variable is a variable that does not affect economic growth in countries in the world region that are sampled. Furthermore, because the relationship between the two variables is not significant, the analysis of the direction test is no longer needed. There are lease searches conducted by individuals who want to make a profit and abuse distribution grants when regulatory quality changes. Therefore, as politicians and tenants continue to ignore the interests of society, which has the right to benefit and benefit from the implementation of policy, this quality of regulation cannot still be used to increase economic growth.

3.5 Variable Rule of Law (RL)

In Table 1, the regression results issued by the RL variable have a p-value t-stat of 0.0359. Because the value is <0.05, the RL variable is a variable that affects economic growth in countries in the world region that are sampled. The directional test conducted showed that the RL variable had a negative (opposite) effect on G. The regression output results in Table 1 show that the RL coefficient is -0.257140. This value indicates that economic growth will decrease by 0.257140% if a country's RL index increases by 1 point. The rule of law is also important to improve the security of a country, as the rule of law is not just about the right of people to work, the right to start a business and the right to live in dignity. Basically, the rule of law is about building the foundations. An economy that can withstand the crisis and drive economic growth.

3.6 Variable Control of Corruption (CC)

Furthermore, testing the hypothesis on the effect of the CC variable on G. Based on the regression output in Table 1, the CC variable has a t-stat p-value of 0.477. It can be interpreted that the CC variable does not affect the economic growth of the countries sampled because the value is > 0.05 because the variable is not significant, so the analysis of the directional test is no longer needed. In this study, the sample of countries used is mostly in the Americas and the European continent with many developed countries, so it is concluded that the anti-corruption index in this study has no effect on economic growth.

4. CONCLUSION

The variable Government Effectiveness (GE) has a positive and significant effect on economic growth (G) in countries in the world region. Countries with a high GE index tend to have a high level of economic growth compared to countries with a lower GE index. The variable Rule of Law (RL) has a positive and significant effect on economic growth (G) in countries in the world region. Countries with a high RL index tend to have a high rate of economic growth compared to countries with a lower RL index. The tax revenue rate variable (TR) has a positive and significant effect on economic growth (G) in countries in the world region. Countries with a high TR index tend to have a high rate of economic growth compared to countries with a lower TR index. The variable Voice and Accountability (VA) has a negative and

significant effect on economic growth (G) in countries in the world region. Countries with a high VA index tend to have lower levels of economic growth than countries with a lower VA index. Political Stability (PS), Regulatory Quality (RQ), and Control of Corruption (CC) variables have no effect on economic growth (G) in countries in the world region.

Future research can further explore the use of other variables that may be more sensitive to economic growth. This is because the R-squared panel data model in this study remains 34.80% as other variables outside the research model. Future research can extend the research time so that it is expected to increase the level of accuracy of the research results.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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Peer-review history:

*The peer review history for this paper can be accessed here:
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