Vol. 5, Issue: 5, May : 2017
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

Governance and Development in Major States of India

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Abstract:
Since early nineties, there has been a growing interest among the international institutions and more importantly among the developing countries to strengthen the efficiency of the institutional arrangements and practices in the economy. It is believed through all 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 concepts of governance and development are interrelated with each other. Economic development includes economic growth and social welfare of the economy. Governance evaluation should be focused on standardized principles of administration that are believed to be fundamental to the development of effective public administration. Once these principles have been identified, the second step involves the compiling of necessary measures from quantifiable inputs, processes and outputs that manifest these desired dimensions. The main dimensions of governance such as efficiency, transparency and participation should be taken into account to measure the quality of governance. The present paper tries to find out state of governance and development in major Indian states and notice how these major states representing more than 90% of Indian population have performed on development indicators and governance indicators. The quality of governance is found to be significantly and positively affecting three of the four development aspects namely life expectancy at birth, infant mortality rate and literacy rate. While, per capita income is negatively but insignificantly related to quality of governance.

Introduction

Classical economists assume that market works efficiently and government intervention creates barriers in the process of resource allocation. But today situation is different. Modern economists assume that there is strong positive relation between governance and development outcomes. Since early nineties, there has been a growing interest among the international institutions and more importantly among the developing countries to strengthen the efficiency of the institutional arrangements and practices in the economy. It is believed through all institutional arrangements, the government should be able to efficiently deliver the resources to the public so as to improve well-being of the people. Governance means: the process of decision-making and the process by which decisions are implemented (or not implemented). More simply governance means the way in which power is used i.e. effective managements. Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance.[1]

Governance is good when it allocates and manages resources to respond to collective problems; in other words, when a state efficiently provides public goods of necessary quality to its citizens. Good governance is a democratic existence, in order to ‘rid societies of corruption, give people the rights, the means and the capacity to participate in the decisions that affect their lives and to hold their governments accountable for what they do’. It promotes gender equality, sustains the environment, enables citizens to exercise personal freedoms, and provides tools to reduce poverty, deprivation, fear, and violence. The United Nations has considered ‘good’ governance as an essential component of the *Millennium Development Goals* (MDGs), because ‘good’ governance establishes a framework for

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ISSN:(P) 2347-5404 ISSN:(O)2320 771X

fighting poverty, inequality, and many of humanities' other shortcomings.[2] The notion of 'good governance' should be conceptualized as a goal and as a process that accelerates growth, equity and human development potential for the people and societies. Asian Development Bank[3] defines good governance 'the manner in which power is exercised in the management of a country's economic and social resources for development.

Economic development includes economic growth and social welfare of the economy. It means that the term 'economic development' refers to increase in output (economic growth) and provision of social welfare service such as health, education and employment as well as alleviation of poverty. "Development concerns not only man's material needs, but also the important in social conditions of his life. [4]

The concepts of governance and development are interrelated with each other. Different dimensions of governance e.g. participation, rule of law, transparency and responsiveness affect the development of the economy.[5] Good governance assures that corruption is minimized, the views of minorities are taken into account and that the voices of most vulnerable in society are heard in decision- making. Security of property rights encourages investment and increases income. Predictability of governance is regarded as good for public policy. Efficiency and honesty of government is must for economic development. All the variables of governance affect development to greater or smaller extent. Good governance promotes development.[5]

The evaluation of good governance is important for a number of reasons. First, donors and reformers take it into consideration when assessing the impact of policies and determining future development projects. Second 'good governance' evaluation determine the investment climate. It is well established that aid flows have greater impacts on development in countries with 'good governance'. Governance can be examined at three levels. First, global level, governance can be compared across countries and over time. Second, on a national level governance can be analyzed more comprehensively. And third, on a local level, governance assessment is targeted in a geographical region.

There are several variables which are used for the evaluation of governance. Gross Domestic Product (GDP) per head is most commonly used measure of a country's success and its economic welfare which may result from good governance among other factors.

Governance evaluation should be focused on standardized principles of administration that are believed to be fundamental to the development of effective public administration. Once these principles have been identified, the second step involves the compiling of necessary measures from quantifiable inputs, processes and outputs that manifest these desired dimensions. The main dimensions of governance such as efficiency, transparency and participation should be taken into account to measure the quality of governance.[6]

Efficiency should be understood as a government ability to establish predictability in the institutional and policy environment. This is brought about by an economically efficient system of production and distribution as well as a fair and consistent legal system. Efficiency is also a question of correctly prioritizing government services to correspond with citizen's needs. This includes the provision of services such as security, healthcare and education.[7]

Transparency is the availability and clarity of information provided to the general public about government activity. Government must not only provide information, but also ensure that as many citizens as possible have access to this information with the goal of increasing citizens participation. A lack of transparency creates opportunities for government corruption and reduces public sector efficiency. Linked with transparency is the issue of accountability. Accountability rests on the establishment of criteria for evaluating the performance of public sector institutions. This includes economic and financial accountability brought about by efficiency in resource use, expenditure control, and internal and external audits. Accountability improves a government's legitimacy. Transparency and participation are essential ingredients in establishing accountability. Participation is an essential element for an engaged civil society. The public sector can promote participation by enacting legislation that strengthens the freedom and plurality of media, establishing an independent electoral management body, and encouraging public input into decision making on government plans and budgeting. Participation requires enhanced capacity and skilled stakeholders and sustainable policies support by institutions of public administration.

Literature review

Brautigam (1991)[8] review the literature on political science, development management, and institutional economies. She finds some support for a positive link between economic performance and all the variables of governance (accountability, participation, predictability and transparency). According to her, arbitrary law enforcement and failure to uphold the constitution lead to unpredictability, instability and a poor climate for growth. The lack of accountability, combined with opaque and highly discretionary regulatory procedures can provide greater opportunities for economic corruption and waste. Her study provides some important lessons for the technical aspects of better governance and the elements of a framework for viewing the relationship between politics and economics over the long term. She concludes that models and plans will work differently in each country, depending on its institutional base.

The IMF (1996)[9] suggest that promoting good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of public sector and tackling corruption is the key for economic efficiency and growth. The IMF's involvement in bringing about good governance can be looked into following two spheres:

- Improving the management of public resources through covering public sector institutions including administrative procedures; and
- Supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities.

Huther and Shah (1998)[10] try to construct an index of quality of governance for a sample of 80 countries. They use several components related to citizens' participation, government orientation, social development and economic management to construct the index for ranking and grouping the countries into good governance, fair governance and poor governance categories. They find that better governed countries grow more rapidly as compare to poor governed countries.

Kiely (1998)[11] examines recent World Bank's reports on the role of the state in development process with special reference to the rise of the role of governance in the development of newly industrialized East Asian countries and crisis of 'governance' in sub-Saharan Africa. He says that the World Bank shows a continued reluctance in recognizing the key role of the state in capitalist development, dismissing intervention as insignificant or irrelevant and reducing governance to purely technical question of policy making. Although technical policy making is an important factor in promoting economic growth, but in case of the World Bank's interpretation, it is far too narrow. He finds that states are not necessarily inefficient. Markets, on the other hand are unequal, hierarchical and incapable of working.

Olson, Sarna and Swamy (1998)[12] examine the relationship between productivity growth and governance. They find that a subset of developing countries is growing very rapidly, taking advantage

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ISSN:(P) 2347-5404 ISSN:(O)2320 771X

of opportunities to 'catch up'. And at the same time, the other developing countries are growing slowly. They argue that this is due to differences in the quality of governance. In particular they show that productivity growth is higher in better governed countries. They find that the larger gap in per capita incomes, technologies, capital stock per worker, between an underdeveloped area and the developing area at the time, the greater the marginal product of capital and the larger the inflow of capital and the rate of catch up growth, if the undeveloped area is adequately governed.

Kaufmann, Kraay and Zoido-Lobaton. (1999)[13] aggregate the different dimensions of governance on the basis of six aggregate indicators corresponding to six basic governance concepts: voice and accountability, political stability and violence, governance effectiveness, regulatory burden, rule of law, and graft. Then they examine the associationship between each of the six aggregate governance indicators and three development outcomes: per capita income, infant mortality and adult literacy. Their empirical result shows a strong positive relationship from improved governance to better outcomes. They conclude that improvements in governance have very large pay off in terms of development outcomes.

Compos and Nugent (1999)[14], try to assess the extent to which the institutional characteristics of governance can be captured by available data. They also try to evaluate the stability of such measures to explain development performance across regions, countries and time. They find that all governance characteristics have the expected effects on development performance and both the relative importance of these characteristics and the degree of complementarily among them vary by region. They found some positive support for all aspects of governance.

The ADB (1999)[15] examines the effect of four characteristics of good governance namely accountability, participation, predictability and transparency on the development of various countries. The Bank noted that there is a vital connection between sound and responsive systems of public administration and the effective and equitable operation of the economy. The Bank emphasized that 'participatory and democratic frameworks' and 'the legal system and regulatory agencies' should be strengthen for better development outcomes. The characteristics and situation of individual countries should be considered while promoting the elements of good governance.

Hussain (2000)[16] studies the role of governance in poverty reduction in South Asia. He finds that economic policies have significant implications with respect to improving the quality of human capital for economic growth. He finds that the nature of governance currently being practiced in South Asia precludes certain resource allocation and economic policy initiatives. He suggests two initiatives for poverty alleviation, one, building participatory development at the grass root level and two, 417/*89

47158policies for restructuring economic growth at the macroeconomic level to both accelerate economic growth and make it a more potent instrument of poverty reduction.

Doornbos (2000)[17], finds that notions of 'good governance' have formed the corner stone for a series of interlocking policy criteria and initiatives that have been prominent on the international aid front. Notions of governance and 'good governance' are likely to remain part of donor parlance, but no longer with the high expectations about the scope for intervention and political restructuring attached to them. Within the donor discourse, the notion of good governance has quite a remarkable succession of connotations: at first representing a key objective in donor development and foreign policy in its own right, one or more donors would like to treat it as a selection criterion for aid recipient countries, while more broadly it appears to be evolving into a general figure of speech without too much practical consequence.

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Vijayraghavan and Ward (2001)[18] examine the relationship between institutional infrastructure and economic growth rates across 43 nations for the period 1975 to 1990. Security of property rights, governance, political freedom and size of government were the indicators used in the study, facilitating the identification of the most important institutions that account for the observed variations in the economic growth rates among nations. Results from their empirical analysis suggest that there is a positive relationship between economic growth and quality of institutions, but statistical support is not uniform across all indicators of institutional quality.

Neumayler (2002)[19] examines the role played by various aspects of governance in the development of various countries. These various aspects of governance have a statistically significant influence on development only to the extent to which governments are accountable, respect democratic rights as well as refrain from imposing burdens on business. The result indicates that the countries need a powerful institutional arrangement to promote growth and development.

Keefer (2004)[20] analyses the progress made in understanding the effects of different dimensions of governance on economic development and discuss the possible sources of 'good governance'. He says that economic growth depends on explicitly linking problems of governance to the overarching political environment and the intensives of governments to correct those problems. He concludes that in many cases, neither the components of governance bear the same causal relationship to development, nor one component is necessarily a good proxy for other components. He also concludes that evidence and theory better support the influence of some components of governance on development than others.

Eicher and Leukert (2006)[21] study the impact of economic institutions on economic performance across OECD and Non-OECD countries. They examine the relationship between economic institutions and economic outcomes. They examine parameter heterogeneity in prominent approaches to institutions and economic performance. They find that parameter heterogeneity is so strong that it requires a new set of instruments to control for endogeneity. At the same time, they confirm that a common set of economically important institutions does exist among advanced and developing nations. The impact of these institutions is shown to vary substantially across sub samples; they are about three times important in developing countries as in OECD countries.

Quibria (2006)[22] seeks to explore the relationship between economic growth and governance performance in Asian developing economies. Quibria's study yield some conclusions. First, notwithstanding its tremendous economic achievements, the state of governance in Asia is not comparable by international standards. Indeed, a majority of these countries seem to suffer from a governance deficit. Second, contrary to the expectations, data do not suggest any positive link between governance and growth: paradoxically, countries that exhibit surpluses in governance on average grow much slower than those with deficit in governance. The study ends with some conjecture about this apparent paradox.

Resnick and Birner (2006)[23] study how and to which extent good governance contributes to pro-poor growth. They review a range of quantitative cross-country studies that included measures of governance as independent variables and focused on the dependent variables of pro-poor growth: poverty, inequality and growth. The review shows that governance indicators that capture a sound decision-making environment for investment and policy implementation, such as political stability and rule of law are associated with growth but provide mixed results with regard to poverty reduction. On-the other hand, governance indicators that refer to transparent political systems, such as civil liberties and political freedom, tend to be conducive for poverty reduction but the evidence is rather mixed and the relationship of these variables with growth remains unclear.

Marjit (2006)[24], in a simple model based on political support approach tries to find out the suitable tax policy of government. Through her empirical study she shows that poor and less egalitarian societies should impose lower tax contrary to the prediction of the median voter approach. She concludes that the 'governance' has been conceptualized essentially as security of taxpayer's right over property and public life. She finds that the improvement in the governance level has a positive impact on the formal sector income and a negative impact on the informal sector income.

Gamber and Scott (2006)[25] investigate whether the quality of governance matters equally across all levels of economic development using a threshold technique by assuming that quality of governance is a significant determinant of economic growth. They find that the quality of governance is most significant for only a subset of relatively poor countries, while education is significant for poorest countries and region is most significant for the wealthiest countries. They found that government institutions are crucial to growth and investment especially in poor countries where coefficients of quality of governance were found roughly twice as large as the coefficients for the entire sample.

Joshi (2007)[26] examines the relative impacts of economic growth and good governance on human development (HD) performance in the sub-national states of India from the 1980s to the early 2000s, to test whether the strong and positive impact good governance has had on HD. He begins with a bounded and theoretically developed concept of good governance to cover the three core dimensions of leadership priorities, state capacity, and policy implementation. Measures of these three core dimensions taken from recent field study in India are then compiled into a good governance index suited to the specific context of federal India's sub-national states over the last three decades. Employing cross-sectional regression analysis and incorporating checks for robustness, he find that in almost every case good governance explains more of human development outcomes (in education, health, and longevity) than does economic growth, per capita investment, or per capita incomes.

Studies Related to India

Singh (1996)[27] discusses the governance issue in the light of India's experience with reforms. He finds that there is a need for more attention on institutional reforms, such as in the legal system and judiciary for obtaining better outcome through reform process in India. He also says that states' policies affect the pattern of growth. The government for positive results on development should adopt so better policies. He discusses policy implications within the context of India's evolving federal polity.

As a part of World Governance Survey (WGS) project, a comprehensive assessment of government at a national level in India is conducted by Court[28] in 2001. He finds that it is feasible and valuable to carry out governance assessment. Due to some methodological challenges, findings were indicative rather than conclusive. More specifically the survey find out that corruption was the most important governance challenge in the country. He concluded that attempting systematic, comprehensive, empirical assessment of national governance is relatively most important aspect of development.

Basu (2002)[29] combined different dimensions of governance into a composite index. The governance index is computed as the weighted average of principal components of the standardized governance indicators, where weights are variances of successive principal components. Since the notion of good governance is multi-dimensional, it is conceptualized as a goal and as a process that accelerates growth, equity and human development potential. He estimates the governance index on the basis of five indicators, namely crime rates, riots, industrial disputes and strikes, Gini index and debt-income ratio. Then he tries to explore whether the quality of good governance determines development outcomes such as life expectancy, literacy, infant mortality rate and per capita income, within the panel data model framework. The evidence from 16 major Indian states strongly suggest that better quality of governance leads to better development.

Basu (2004)[30] reexamines the influence of good governance on development from the study of sixteen major Indian states. He provides some empirical evidence that under economic reform process, the better institutional mechanism could actually help economies to grow faster with higher level of economic well-being. He says that economies have undergone changes in terms of structures and other factors, which could actually help economies to overcome underutilization and also to use the available resources efficiently. Evidence shows that the adoption of different economic policies is critical in explaining the uneven level of economic performance. He concludes that there has been a substantial rise in governance efficiency after economic reforms that actually helped states to improve their well-being level substantially.

Objectives of the proposed study:

The objectives of the present study to examine the state of governance and development in major Indian states and to notice how the major states representing more than 90% of Indian population have performed on development indicators and governance indicators. The study examine the relationship between governance and various indicators of development and also examine how well governance indicators reflect the state of development on the chosen aspects.

METHODOLOGY AND DATA ANALYSIS

The main purpose of this study is to examine the relevance of quality of governance in the development of Indian states. For that purpose 15 major states have been taken on the basis of size of population. These states are, in descending order of the size of population – Uttar Pradesh, Maharashtra, Bihar, West Bengal, Andhra Pradesh, Tamilnadu, Madhya Pradesh, Rajasthan, Karnataka, Gujarat, Orissa, Kerala, Assam, Punjab and Haryana.

Secondary data from reliable sources has been used to examine the relationship between governance and development. Some highly reputed international institutions such as Asian Development Bank, United Nations Development Program (UNDP), World Bank and many eminent economists have identified a number of measures of governance and development. In the proposed study an effort has been made to identify those measures of governance which have high degree of significance for development performance. Based on these measures the relationship between governance and development indicators has been analyzed. To analyze the relationship between governance and development, data has been used from highly reliable and reputed sources such as Handbook of Statistics on Indian Economy, the Reserve Bank of India; State Finance-A Study of Budgets, the Reserve Bank of India; Economic Survey, the Government of India; Census of India, the Government of India; Statistical Abstract of India, Central Statistical Organization; Election Commission of India; and Transparency International etc.

Major concepts to be used in the study has been defined at both levels- conceptual as well as operational. Appropriate statistical tool like correlation or regression has been used to conduct data analysis.

To analyse the role of governance in the development of major Indian states, data on the aspects of governance and development have been taken from various reputed sources such as the Reserve Bank of India, Central Statistical organization (C.S.O.). Census of India and Economic Survey, the Government of India. For governance data have been taken on four aspects such as Total Capital Expenditure as percentage of Net State Domestic Product (NSDP), Total Expenditure on Public Health as percentage of NSDP, Total Expenditure on Education[31] as percentage of NSDP and Voter

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ISSN:(P) 2347-5404 ISSN:(O)2320 771X

Turn-out Ratio. While for development, data on four aspects such as Per Capita NSDP, Life Expectancy at Birth, Infant Mortality Rate (IMR) and Literacy Rate have been taken.
Data on total capital expenditure, education expenditure and health expenditure have been taken from ‘State Finances-A Study of

Budgets’, a publication of the Reserve Bank of India. While the data on percentage of votes polled have been taken from the Election commission of India. Data on NSDP and Per Capita NSDP have been from Handbook of Statistics on Indian Economy, the Reserve bank of India. Data on Life Expectancy at Birth have been taken from Statistical Abstract of India, Central Statistical Organization (CSO). Data on infant mortality rate have been taken from Economic Survey, Government of India.

The period of the present study is from 1991-92 to 2006-07. For most of the variables data is available for all the years of the study. But in case of three variables namely life expectancy at birth, literacy rate and voter turn-out ratio, it is not available for some years of the study period. In case of life expectancy, data for the years 1991 to 2003 is available with the statistical Abstract of India, CSO. The data for the remaining period of the study have been constructed on the basis of compounds annual growth rate (CAGR) calculated for the period 1991 to 2003.

For literacy rate, data for the years 1991 and 2001 are provided by the Census of India. While the estimates of literacy rate for the years 1995, 1996, 1997 and 2000 are available with National Sample Survey Organization (NSSO). In the present study, data from Census of India have been used for the two years 1991 and 2001. And for the remaining period of the study, data have been constructed on the basis of CAGR calculated for the period 1991 to 2001.

In case of voter turn-out ratio, data is available for all the elections, both parliamentary as well as assembly elections, held during the period of study. Since elections are held at an interval of five years (normally) while the rest of the data is annual, for the period upto the next elections, previous election voter turn-out rate has been taken on the basis of average of the two types of elections.

Data Analysis

To study the relationship between governance and development, an index of quality of governance is constructed. For the construction of the index of quality of governance, the data on governance aspects is divided in two categories – first, developmental expenditure, and second, peoples’ participation. Capital expenditure as percentage of NSDP, education expenditure as percent of NSDP and health expenditure as percentage of NSDP have been included in the category of Development Expenditure. While, peoples’ participation is measured as an average of votes polled in both the parliamentary and the assembly elections. The index of the quality of governance is measured as an arithmetic average of all the four variables divided into two categories i.e. development expenditure and peoples’ participation.

Development aspects namely per capita income, literacy rate, infant mortality rate and life expectancy at birth are individually regressed on the quality of governance by using simple regression on panel data.

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Regression Results

S. No.	Dependent Variable	Independent Variable	coefficient	R^2
1.	Per Capita Income	Quality of Governance	- 138.009 (-0.59)	0.001
2.	Infant Mortality Rate	Quality of Governance	-1.92* (-4.05)	0.06
3.	Life Expectancy	Quality of Governance	0.217** (2.09)	0.18
4.	Literacy Rate	Quality of Governance	1.236* (4.618)	0.082

Note : Figure in the parenthesis are the t-statistics
* Significant at 1% level
** Significant at 5% level

Findings

The quality of governance is found to be significantly and positively affecting three of the four development aspects namely life expectancy at birth, infant mortality rate and literacy rate. While, per capita income is negatively but insignificantly related to quality of governance.

Concluding Remarks

In our Review of Literature, we had noticed that governance is definitely one of the most important variables to explain the state of development across the economies and the development is normally set to be expressed by the quality of human resources source reflected by knowledge and the average health conditions in an economy. And these two are mostly captured by literacy rate, life expectancy at birth and infant mortality rate. Some of the studies consider per capita income to be equally important. The finding of the present study suggests that governance and its quality influence the knowledge and health related development aspects more than the per capita income related aspects. Since per capita income is a result of many factors, the capital stock being one of the most important factors behind it, it is why it is less reflected by the quality of governance for the Indian states under consideration. Since the absolute level of the per capita income may affect the ratios of developmental expenditures (normal assumption) which might be one of the important reasons that the regressions done explain the variations in developmental aspects to the lesser extent. To look into the details of that an extended study is desired compare to what has been done here.

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