

## GOOD GOVERNANCE, ECONOMIC GROWTH AND HUMAN RESOURCE DEVELOPMENT IN IRAN

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### ABSTRACT

**Good governance as an independent variable is expressed in terms of six indicators according to the World Bank's model (opinion expression, responsiveness, political stability, government efficacy, rule of law and corruption control); and economic development is expressed in terms of economic growth rate and human resource development selected among economic development indicators introduced by Central Bank of Iran. Interview and review of documents were used in this research for collecting statistical data and information on governance and growth. Relationships among variables were analyzed using structural equations method with using Lisrel software. Based on the empirical results, political stability had the highest positive effect on economic growth of Iran and also the destructive effects of political stability, efficacy of government and quality of laws on human resource development factor are noticeable.**

**KEYWORDS:** Good Governance, Economic Growth, Human Resource Development

Good governance is a new perspective was introduced in mid 1990s after failure of government-oriented and market-oriented growth theories. This perspective challenged that government and private sector are not held to be on the opposite ends of the continuum, but are considered to play complementary roles. Therefore, government is a social institution with institutionalization function which can in turn create efficient and capable institutions and is a suitable basis for adjusting economic relations of the society in a low-cost and simple way with low time wastage and act as a market lubricator to achieve economic growth (Compos and Nugent, 1999).

Accordingly, economic development is not just affected by access to human, physical and financial capitals, but there is a close correlation between good governance and economic growth as the complete concept of growth surpasses accumulation of wealth and growth of GNI and other income-dependent variables Aristotle says "income and wealth are only useful to get other things"; thus, they are not to be held targets by themselves and development must be appraised in terms of improvement of peoples' life (Martya, 1999).

Along this concept, during the last decade international institutions have defined some indicators to measure governance quality in different countries to evaluate good governance effects on economic growth. Based on this approach economic growth process is

affected by the performance and interaction of three large institutions namely, government, private sector and civil society. These institutions have their own duties and thus, their duties are to be identified and categorized correctly to have suitable performances for the society to burgeon politically, culturally, socially and economically; otherwise, economic, social, cultural and political development will be disturbed.

Regarding the fact that governance as an important factor in achieving sustainable development, in Iran in comparison with other countries and internally, during the past years, has been basically weak; and also regarding the Iran's prospective plan to turn her into the most developed regional country by 2025. This paper is going to study the relationship between good governance indicators (introduced by the World Bank) and the most important economic development indicators in Iran (derived from economic experts' opinions).

### LITERATURE REVIEW

The modern concept of good governance is a reply to the new world conditions and is a pattern to achieve sustainable development with emphasis on individual rights and ensuring private space against extensive public or political domains. Although this concept was accompanied with inauguration of the United Nations cooperation plans in Human Rights in 1955 with the aim to boost sovereign institutions; in practice, the word governance became widespread in 1980s with

influence of some international powerful institutions and during the process of granting economic aids such as financial and technical aids in form of loans, projects and bilateral and multilateral collaborations by international institutions of Northern (developed) to Southern Countries (developing).

The first authority that discussed this concept was the World Bank report (1989) that defined good governance as a provision of efficient public services, reliable judicial system and responsive administrative system. It held good governance as a good model for structural reform in order to develop aid-recipient countries. After execution of structural adjustment

policies and encouraging developing countries for privatization, deregulation, and other reforms, which were mostly economic, and their failure in target countries; other perspective were proposed from which good governance is the most important one.

Since then, comprehensive measures have been taken in this realm globally. In the beginning of 1990s the scholars and policymakers became interested in the results of World Bank policies and good governance became more attractive and relationship between democracy and economic growth was discussed. Governance theories can be categorized historically as the following table pronounces:

**Table 1: Theories on government per historical period**

Approach	Period	Specifications
Classics	1870-1920	- Limited interference of government (defense, security, legislation, public affairs) - Private sector as the main axle of economic activities - Government can only establish institutions within its limited scope of activities
Keynesians	1920-1970	- Government is not only a producer of public goods, but also is an economic actor - Government's interference in economic affairs through financial and monetary policies is necessary
Bureaucracy	1900-1970	- Using bureaucratic principles improves organization's efficiency. - Huge governmental organizations are only useful and justifiable when they follow bureaucratic principles
Marxism	1915-1990 In some countries	- No private ownership - Fully planned governmental economy - Necessity of voluminous governmental organizations for fulfilling governmental duties
Neoclassicism	Beginning of 1970s up to now	- In addition to classical duties, government has other duties related to interfere in and supervision on market mechanism - Free competition maximizes economic welfare in the society - Governmental organizations should be kept as small as possible
Institutionalism	Second half of 20 <sup>th</sup> Century	- Government has fundamental role in producing public goods - Government's interference in society's affairs is necessary to achieve social balance - The necessity of governmental organizations for supervision on economic performance of other sectors
Modern Governmental Management	1980 up to now	- Use of professional management - Performance-oriented management - Emphasis on results - Use of ordinary management techniques in private and government sector
Good Governance	1990 up to now	- Government, private and civil sectors are main institutions in exercising authority. Sustainable development depends on strengthening and effective interactions of these institutions. - Finding suitable mechanisms for engaging civil society in making decisions and managing affairs. - Limiting government duties to control, supervision and adjustment.

The concept of governance is an old concept as human civilization. Philologically, the word governance comes from the Greek words of Kybernan and Kybernetes and means to lead and guide and also to keep aside. While the concept of government refers to an institution to make police, the word and concept of governance refers to

responsiveness and accountability both in policy and execution. McCarney et al described governance as "The relation between civil society and state, between the government and the governed" (McCarney et al, 1995).

World Bank defines governance as “a method on which the power of economic management of a country and social resources are exercised to achieve development (Lateef,1992). Boeninger defines governance as “the desirable government of the society” (Boeninger ,1991). Landel-Mills and Serageldin defined governance as how to rule and govern over people and how to administer and regulate governmental affairs. This refers to the political system of a nation and how it operates in terms of public and legal affairs administration (Landel-Mills and Serageldin ,1992). In one of the reports of the World Bank on Africa, governance is defined as “exercising political power in order to manage the affairs of a nation (World Bank, 1989).

The most exact definition of governance is cited in the report of World Governance Commission (1995) as: governance is a set of individual and institutional, public and private methods that administer common people’s affairs. Governance is a continuous process that coordinates contradictory and miscellany benefits and adopts collaborative measures. Governance includes official institutions and systems empowered for guaranteeing to observe law as well as unofficial contracts on which the people and institutions agreed or understood they are beneficiary for them (Midery and Kheirkhahan ,2004).

**METHODOLOGY AND DATA**

The procedures of this research is descriptive and it concentrates on the existing condition and notices the existing conditions or relations, widespread beliefs, current processes, well-known effects or developing processes. The emphasis is on present though past events and effects that relate to existing conditions are studied as well (Best, 1959). We try to find a significant relationship between good governance indicators and economic growth in this research. Two hypotheses are to be examined as:

**Hypothesis 1:** There is a significant correlation between good governance and economic growth.

**Hypothesis 2:** There is a significant correlation between good governance and human resource development indicator.

The statistical population of the present research consists of development economists and politicians. Also, the sampling attribute is education, that is to say, the only Ph.D. degree holders in economics, preferably with

development field were elected. The sample consists of 350 persons. Random-classification sampling method was used. 50 participants were selected randomly according to the following formula:

$$n = \frac{Z_{\frac{\alpha}{2}}^2 * \sigma^2}{d^2}$$

$Z_{\frac{\alpha}{2}}$  is the normal quantity corresponding to 1- $\alpha$  level of significance that is equal to 1.96 at 95% level of significance.  $\sigma^2$  is the standard deviation related to the questionnaire items and was calculated as 0.56 from an auxiliary sample. d is amount of allowed sampling error and is considered as 0.1. Thus:

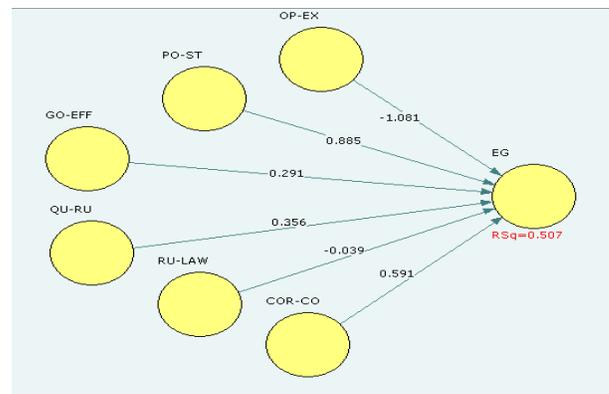
$$n = \frac{(1.96)^2 * (0.36)^2}{0.1^2} = 50$$

Data was collected through: documentary method i.e. predetermined published statistics by the World Bank, UN Development Program Statistics, Central Bank of Iran and Good Governance Indicators Information Center was used. Direct interview with 50 economists and collecting their viewpoints on selecting the most appropriate economic development indices for Iran’s economy is another part of data collection stage.

Structural equations model was used for analysis of data. It is a multivariate method to show causality among variables on the basis of path analysis with latent variables structure (MacDonald and Ho, 2002).

**Empirical Analysis**

Relations of the variables were analyzed and their causalities were studied. The following figure and table show the results:



**Figure 1: Relations of good governance indicators and economic growth**

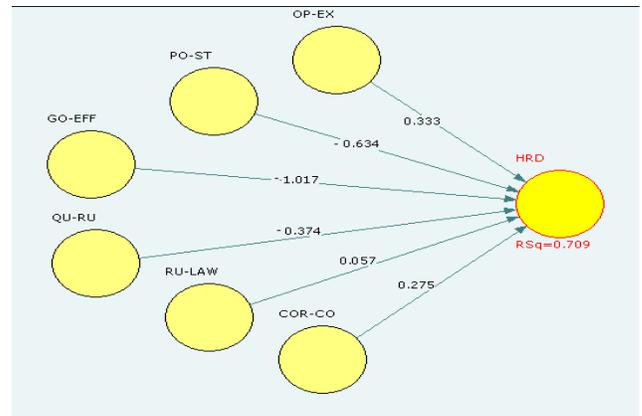
**Table 2: Coefficients of direct effects path of good governance and economic growth**

Path	Path Coefficient	t-value	p-level	R <sup>2</sup>
Opinion Expression → Economic growth	-1.081	-4.808	0.01	0.507
Political stability → Economic growth	0.885	3.390	0.01	
Government efficacy → Economic growth	-0.291	-1.981	0.05	
Quality of rules → Economic growth	0.356	3.791	0.01	
Rule of law → Economic growth	-0.039	-0.824	Insignificant	
Corruption control → Economic growth	0.591	2.852	0.01	

It can be observed that among the 6 factors of good governance only the rule of law effect on economic growth is not statistically significant. Corruption control, quality of rules and political stability are significant at level of 99%, and show positive effects on economic growth in the past 8 years. On the other words, status of corruption control, quality of rules and political stability during the 8 years caused economic growth. The variables of opinion expression at 99% significance level and efficacy of government at 195% significance level show deterrent effects on economic growth. During the sample period the two factors were managed in such a way that economic growth was not positively -even was destructively- affected; calling for reform and revision in future planning. Rule of law and form of management can positively affect economic growth, but they were managed badly and their constructive effects on economic growth were not statistically significant. There is also a significant negative correlation between opinion expression and economic growth. In other words, it seems that opinion expression did not cause economic growth; that is, opinion expression had a severely negative effect in economic growth of Iran. This is probably caused by the fact that the authorities were not in executive positions to express their opinions and make final decisions in economic affairs of Iran and other entities made decisions. The high value of path coefficient of political stability shows the significance of political stability in Iran's economic growth. Quality of laws and corruption

control had significant positive effects on economic growth. Corruption control surpassed the quality of laws in affecting economic growth. Among the constituents of good governance, political stability, corruption control and quality of laws had the highest positive effects on economic growth respectively. On the basis of exogenous independent variables, i.e. good governance variables, 28% of changes in dependent variables, i.e. economic growth, is due to the positive effects of political stability, quality of laws and corruption control and the negative effects of opinion expression and efficacy of government.

According to the model, 72% of the changes in economic growth is due to other variables not included in the model that are suggested for further research.



**Figure 2: Relationship between good governance and human resource development**

**Table 3: Coefficients of direct effects path of good governance and human resource development**

Route	Path Coefficient	t-value	p-level	R <sup>2</sup>
Opinion expression → Human resource development	0.333	3.243	0.03	0.709
Political stability → Human resource development	-0.634	-5.536	0.00	
Government efficacy → Human resource development	-1.017	-6.219	0.00	
Quality of rules → Human resource development	-0.057	-0.476	Insignificant	
Rule of law → Human resource development	0.957	7.534	0.00	
Corruption control → Human resource development	0.275	2.743	0.01	

On the basis of the above model, among the good governance variables only quality of laws is not significant in terms of human resource development. Right of opinion expression has a positive significant effect on human resource development. Social participations, freedom of speech and civil rights have been in such a way that wishes of individual members of the society and educational needs had positively affected the human resource development. Political stability has a destructive and deterrent effect on human resource development. That is to say it seems that creation of suitable intellectual background and establishment of relative stability are necessary for human resource development revision to make various economic and social investments reforms. Efficacy of government had a significant deterrent effect on human resource development. It seems that suitable government strategies along the purpose of optimal allocation and management of resources and also use of suitable transnational communication are the musts of human resource development promotion. Rule of law has a positive and constructive effect on human resource development. Accordingly, suitable leverages in passing suitable rules and procedures had positive effects on human resource development variable. On the basis of the model, corruption control had a positive and constructive effect on human resource development as well. That is to say corruption control, as a good governance factor develops human resource and prevents waste of human capital and un-optimal use of scientific intellects and potentials. In other words, use of corruption control leverage improves income distribution, optimal allocation of subsidies and results to increase of government investment capacity in education along human resource development. However, 93% of the changes in human resource development variable are due to the positive effects of opinion expression, rule of law and corruption control and the negative effects of political stability and efficacy of the government. Moreover, 7% of the changes in human resource development are due to other factors not covered in this research.

## DISCUSSION AND CONCLUSION

Relationship between good governance and economic growth, political stability had the highest positive effect on economic growth. It is evident when political stability is achieved, the environment for absorbing foreign capital will be ready and foreign investors will be interested to invest and finally economic

growth will be achieved. Therefore, authorities are advised to promote political stability to achieve economic growth. Next, corruption control shows the effect of good governance on development. World Bank experiences show that the most underdeveloped countries are the most corrupted ones. In such countries, organizations are complicated and mal-organized and bribery is widespread. Cultural and economic poverty cause prevalence of corruption and fraud.

The third place belongs to the quality of laws. Undoubtedly, the developed countries promote rule of law and observance of law as the most important guarantee for development and growth. This is not possible unless the cultural background were provided.

Regarding the relationship between good governance and human resource development in Iran during 1996-2008, the deterrent and destructive effect of three variables of political stability, efficacy of government and quality of laws on human resource development factor is noticeable. Thus, in order to improve human resource development and achieve sustainable economic growth, first, with regard to the most destructive effect of political stability, creating a safe environment to form low-risk economic activities and investment, and second, to take suitable policies to improve efficacy of government organs to succeed good policies, and finally to remove harassing impediments to entrepreneurs to be willing to work are of most recommended policies.

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