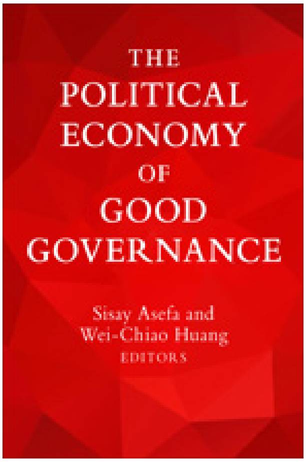
W.E.
UPJOHN INSTITUTE
FOR EMPLOYMENT RESEARCH

Upjohn Institute Press

Introduction



Sisay Asefa
Wei-Chiao Huang
Western Michigan University

Chapter 1 (pp. 1-14) in:
The Political Economy of Good Governance
Sisay Asefa and Wei-Chiao Huang, Editors
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2015

1
Introduction

Sisay Asefa
Wei-Chiao Huang
Western Michigan University

Governance is a multidimensional concept that involves the traditions and institutions under which political authority in a country is exercised. Governance includes the process by which rulers are selected, monitored, and replaced, and it entails the capacity of governments to effectively formulate and implement sound and inclusive policies. Through these means, good governance fosters the ability of a government to earn the respect of its citizens as well as the cooperation of the institutions that determine its economic and social policies, which influence interaction among citizens. Sustainable development requires good governance that is predictable, open, enlightened, accountable, inclusive of all citizens, and operates under the rule of law. Good governance is desirable as a goal in its own right, beyond being an important means of sustainable development. According to the World Bank, good governance involves six aspects: 1) voice and accountability, 2) political stability and the absence of violence, 3) government effectiveness, 4) regulatory quality, 5) rule of law, and 6) control of corruption. The data the World Bank generates for indicators of governance for all countries around the world are available at www.govindicators.org. The criteria the World Bank uses include consideration of the aforementioned processes in good governance (Kaufmann 2010).

CHAPTER HIGHLIGHTS

This introductory chapter outlines the general points of good governance and its challenges, which will be explored in further detail throughout the book. Subsequent chapters consider how governance relates to performance management, the influence of political parties, education and health issues in developing countries, and the effects of climate on poverty. Key examples will be drawn from countries in eastern Europe, Asia, and Africa.

Chapter 2, titled "The Role of Performance Management in Good Governance," comes from Carolyn J. Heinrich, Sid Richardson Professor of Public Affairs and director of the Center for Health and Social Policy at the Lyndon B. Johnson School of Public Affairs, University of Texas at Austin. She defines "governance" as consisting of "regimes of laws, rules, judicial decisions and administrative practices that constrain, prescribe and enable the provision of publicly supported goods and services." Her focus is on performance management originating from public administration and policy.

Heinrich notes that the twenty-first century is an era of governance by performance management. This approach has long roots in economics and business management, with a focus on four issues: 1) performance management, its origin, and how it contributes to good governance; 2) the challenges and complexity of designing appropriate performance management in a democracy; 3) application of agency theory, or the notion that seeks to align citizens' objectives with agent incentives to achieve principled results; and 4) lessons that have been learned for improving future performance management.

Agency theory, which is rooted in economics and management, is difficult to implement in practice because of the complexity of values and goals among citizens and legislators. Heinrich gives the example of the Patient Protection and Affordable Care Act of 2010 (commonly called the Affordable Care Act [ACA] or Obamacare), which has several goals and tries to achieve potentially conflicting objectives such as affordable health care for all Americans, increased quality and efficiency of providing health care, and improved access to innovative medical therapies. But once the law has been fully implemented, it may have unintended consequences that distort its performance. She gives another example, from Michigan's Wayne County (i.e., metro Detroit), of children's service agencies that use performance-based contracts: children in this system were less likely to be reunited with their families and more likely to enter foster homes. The end result was that children and families received fewer in-agency health services. Performance-based contract agencies may also influence the way workers deliver services:

rather than drawing motivation from an ethos of public service, workers may find that their self-interest in such cases does not square with the priorities of the services they are delivering. Conversely, employees are more likely to take principled actions if they feel their agency and employment goals are aligned with the best interests of the public.

In another example of the relation of performance management to good governance in the United States, Heinrich asserts that poor-quality public education can jeopardize economic progress, even in a developed nation. Her case study of performance management in education, which starts with the 1983 K–12 report titled "A Nation at Risk" and continues to the present, shows that dropout rates remain high and achievement has not kept pace with other nations. Neither the nearly $600 billion spent annually on K–12 nor three decades of program reform have kept the United States from lagging further behind, she notes.

The author questions how spending, research, and reform could fail to improve education. She notes there are many factors contributing to this, one of which is that there are too many cooks in the kitchen, including the federal government, the statehouse, the local district, the individual, and the school itself, and of course parents or guardians. National monitoring of education through testing and standards has been controversial. The No Child Left Behind Act (NCLB), implemented by Congress in 2001, defines school success based on snapshots of student proficiency through standardized tests. Many have called this a factory-model approach, traced its roots to early twentieth-century manufacturing policies, and criticized its lack of emphasis on overall growth in student achievement. In fact, some argue that implementing such rigid definitions of accountability has backfired, in that it has led to a narrow emphasis on test preparation at the expense of deeper learning. Withdrawal and lower graduation rates leave behind some of the neediest students the law was designed to help. More-value-added models have since been proposed to account for factors outside the control of teachers and schools. Heinrich relates the experiments of others who sought to improve performance management through the use of multiple measures. These measures consist of diagnostic performance tools in which resources and rewards follow improved incremental outcomes. One such tool would be to reward measured outcomes determined by clearly defined learning goals tailored to the students' current performance and future employment needs.

In summary, there is no magic bullet. Neither more monetary investment nor strict adherence to testing performance has cured the ailments of the school systems in the United States. Heinrich notes the complexities of achieving a good performance outcome even in a wealthy nation, and she cautions that better guidance through governing systems can only be attained through confronting these complexities, with the goals of achieving desired learning outcomes and teaching effectiveness.

In Chapter 3, "Political Parties, Democracy, and 'Good Governance,'" by John Ishiyama, University Distinguished Research Professor of Political Science at the University of North Texas, Ishiyama offers an analysis of the influence of political parties on democratization in developing countries. He begins by acknowledging the historically negative public sentiments directed toward the very existence of political parties. He points out that none other than George Washington, the nation's first president, considered political parties to be factions motivated by self-promotion at the expense of the public good. However, most scholars have described political parties in a representative democracy as a necessary feature of that system, since parties offer political choices. On the other hand, a one-party state, while it cannot be a democracy, may still have good governance in specific areas. China, for example, succeeded in dramatically reducing poverty in the relatively short time span of about 30 years, or since reforms began in 1978. Yet China's one-party rule, and hence its lack of political competition, has made it difficult to solve problems in other areas, such as environmental maintenance, pollution control, and concern for human rights.

In Ishiyama's view, political parties are necessary to perform vital functions in the practice of democracy, such as interest articulation, political communication, candidate nomination, and stimulation of political participation. Encouraging these factors increases the potential for sustainable and accountable governments, including checks and balances. However, political parties can be so divisive that good governance is compromised; in developing countries this may even lead to violence. The shutdown of the U.S. federal government in 2013 by Republicans in the House of Representatives in defiance of the Obama administration is one example of political gridlock and extremism.

One-party dominance can cause an increase in corruption, since the dominant party attempts to maintain power by distributing patronage and using manipulation. Ishiyama holds that one can measure quality of governance, including levels of effectiveness and corruption. "Effectiveness" refers to the quality of public service and policy formation, implementation, credibility, and legitimacy of governments, used to promote inclusive polices. "Corruption" reflects the extent to which political power is used for private gain. It comprises both petty and grand corruption, as well as overall "capture" of the state by private interests. Both "effectiveness" and "corruption" utilize a scale ranging from −2.5 to +2.5. The World Bank makes the data available for parties in countries around the world, thus providing comparative data on levels of corruption. Using the same scale, political stability is also assessed. "Stability" is determined by the perception of the likelihood that a government will be overthrown through violent or unconstitutional means.

A recent case of a political uprising occurred during the Arab Spring of 2011, with the removal of President Hosni Mubarak of Egypt after 30 years of rule and the subsequent election of the Islamic Brotherhood party, which put Mohamed Morsi in power as president. This was not a stable environment, as demonstrated by Morsi's subsequent ousting by opposition leaders and the military because Egyptians perceived his regime as being exclusive of other groups. Many Egyptians were upset by his party's undermining of the role of women in Egyptian society as well as the injection of religion into politics. Egyptians may have been afraid that Morsi would create a religious autocracy analogous to the Iranian religious autocracy that emerged in 1979 when a popular uprising removed the monarchial form of government headed by Shah Mohammad Reza Pahlavi.

Ishiyama discusses the use of an empirical study that takes into account gross domestic product (GDP) per capita and ethnolinguistic fractionalization (a measure of ethnic diversity). He employs several measures—party fractionalization, number of parties, party volatility, control variables such as GDP, and other aspects—to attempt to quantify an average for how well corruption is under control, especially as it relates to political-party attributes.

The author stresses the importance of future research that explores what party characteristics can be determined to promote better understanding of governance. He also cites the need for better use of panel data, as well as improved model specification, to create more effective research assessments.

While the research into how to measure the effects of political parties continues, it remains clear that those parties created along the lines of ethnic and/or religious divisions cannot promote democratic good governance. By failing to be inclusive, they highlight divisions, exacerbate ethnic and religious tensions, and risk continued political instability. A mature, liberal, pluralistic representative democracy that respects individual human rights has the best chance of managing ethnic and religious diversity, compared to an autocratic regime. Social science studies of the relationship between governance and ethnic diversity show that multiparty democracies outperform autocratic regimes in the long run, especially in promoting citizens' rights, human rights, and the rights of minority groups.

Chapter 4, "Good Governance in Transition Economies: A Comparative Analysis," comes from Susan J. Linz, professor of economics at Michigan State University. Her contribution looks at metrics that draw a connection between governance and economic growth in the transition economies that emerged from the collapse of the Soviet Union in 1991. She discusses issues relating to the process of transition and to the measures of governance. Linz compares central and eastern European transition economies from the perspectives of both experts and business firms. She views governance as the traditions and institutions by which authority is exercised at the local, regional, national, and international levels. As such, she says, governance possesses political, economic, and social dimensions.

According to Linz, a state with good governance is participatory, consensus-oriented, accountable, transparent, responsive, politically stable, effective, efficient, inclusive, and equitable. It also follows the rule of law, controls corruption, enforces regulatory quality, and offers its citizens not only a choice but a voice. Linz identifies several measures of governance beyond the six indicators of the World Bank, such as Freedom House's country ratings of political rights and civil liberties, the Corruption Perceptions Index (CPI) produced by Transparency International, and the indicators of the Business Environment and Enterprise Performance Survey (BEEPS).

Linz considers these measures in comparing several factors that have affected variation across former Soviet Union (FSU) and central and eastern European (CEE) transition economies following the collapse of the former Soviet state in 1991.

These variations include culture, kinship, path dependency, financial and legal institutions, regulatory differences, and the role of foreign direct investment (FDI) on governance in each transition state. The FSU countries studied comprised Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan (15 states). Among the CEE nations discussed were Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Kosovo, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia (14 states), for a total of 29 states. For those states, governance indicators such as CPI and the Freedom House Index (FHI) were used to assess political stability, accountability, and rule of law. From a business firm's perspective, she describes the influence of both macro- and microlevel policies on corruption, state capture and intervention, bribery, and kickbacks. She further discusses the effects of what are called "time taxes," a term that refers to time costs spent on bureaucracy—for instance, the amount of time that management personnel spend dealing with regulations, or, say, the average number of days it takes to complete business services such as import licenses, electrical and water connections, operating licenses, or construction permits.

Linz's general conclusions are that these transition states, with some variation, are plagued by persistent bad governance and corruption at levels from business firms to local and national governments. These indicators of bad governance were higher for FSU countries than for CEE countries. However, the perception of how many firms are tainted by corruption is higher in CEE than in FSU countries, even though transaction costs or time taxes are lower in CEE countries compared to FSU countries.

Chapter 5, "Governance Challenges in Education and Health Care in Developing Countries," comes from Seema Jayachandran, associate professor of economics and director of the Center for the Study of Development Economics at Northwestern University. Jayachandran's focus concerns the impact of governance on human capital in developing countries, with an emphasis on education and health issues. She argues that good governance is more critical in developing states than in mature democracies like the United States. For example, in Uganda, it is estimated that ruling politicians steal 20 percent of the money intended for education and health, which has a corresponding detrimental effect on the population. Teachers are compelled because of their low salaries to extract bribes and other services in kind from students and parents. In Bangalore, India, it is estimated that approximately 51 percent of community members have paid bribes, with some bribes for health services amounting to as much as 89 percent of the nominal service costs for hospitals and doctors. In addition, staff absenteeism in clinics and other health facilities runs as high as 56 percent. Worse, she notes, about 82 percent of health care workers do not have the appropriate documented training in the areas in which they serve.

The education sector makes up another area that does not offer much hope for success in developing nations with poor governance. In these nations, low-quality schools and universities abound. In some cases, teachers may be present for teaching duties only about 45 percent of the time. Eighteen percent of teachers are absent from class simply because of a lack of monitoring and supervision. Perversely, the low wages they are paid can provide teachers with an incentive to take on tutoring jobs while neglecting their regular teaching duties. A combination of lack of effective management and low teacher salaries prevents students in these areas from receiving the education the state claims to provide. In short, the educational problems of poorly governed countries cannot be alleviated without addressing the limited resources of local communities, insufficient school infrastructure, and the large, ill-equipped classes that result.

Jayachandran concludes by offering general recommendations for how to improve both health care and education. She proposes the following three remedies: 1) link pay and bonuses to real performance; 2) use digital technology such as cameras to monitor teaching and to supervise staff, including using cell phones and radio to improve monitoring and supervision; 3) empower local citizens, especially women, who are culturally more connected to children. Countries like Uganda and Kenya can use positive incentives such as hiring teachers through contracts that provide rewards and bonuses for positively monitored performance.

Chapter 6 is titled “Governance Problems and Priorities for Local Climate Adaptation and Poverty Alleviation”; its author, Stephen C. Smith, is a professor of economics and international affairs and directs the Research Program in Poverty, Development, and Globalization at George Washington University. Smith's concern is the interaction between poverty, the environment, and climate change.

Smith maintains that while there have been encouraging signs of reduction in poverty globally, much work remains to be done. Although improvements have been made, poverty traps persist, making it impossible to eliminate absolute and chronic poverty. He argues that climate change has the potential to exacerbate some causes of poverty cycles and that the negative consequences of climate change are carried disproportionately by the poorest two billion people on the global income ladder. As natural resources such as land, forests, and access to water become more scarce, the poor use more resources in an effort to survive. In doing so they often increase degradation of the land, resources, and soil, and they contribute to deforestation and water depletion. However, it is possible to instill planned and autonomous adaptation in local communities to alleviate natural resource depletion. Smith asserts that good governance can assist communities in climate adaptation and minimize the risk of environmental decline as climate change continues to alter weather cycles. Climate change is driven by both human and natural factors, and the human factors stem in large part from policies of unsustainable development rooted in a lack of good governance. Moreover, high-quality governance may prevent some climate-driven conflict that arises in impoverished areas.

On a positive note, Smith does point to some recent progress being made on poverty reduction. For example, since 1980, the fraction of the population earning below $1 a day (adjusted to $1.25 a day for inflation) has fallen from about 40 percent to just above 20 percent worldwide, and the World Bank reports that the goal of halving overall poverty by 2015 is being met in some countries of Asia. Even in Africa, 6 of the 10 fastest-growing economies have experienced impressive improvement in most health and education indicators, even though quality remains a concern.

In addition, there has been progress in the spread of democracy and transparency globally, even though all of the eight Millennium Development Goals (MDGs) outlined by the United Nations may not have been achieved. Unfortunately, climate change may jeopardize some of this progress. Challenges remain, as there is a growing concentration of poverty in fragile and failing states. These fragile economies tend to occur in environments where threats to the natural resource–based livelihoods of the poor are most dire.

Smith quotes the former U.N. Secretary General Kofi Annan, who characterized extreme poverty as "a poverty that kills." While there has been much progress, Annan says, the scale of preventable loss of human life driven by human actions remains horrifying in some countries such as Afghanistan, Chad, the Congo, Guinea-Bissau, Mali, Niger, and Sierra Leone, where about one-fifth of all children die before age five from preventable causes.

Indeed, despite improvement in some measures of poverty, health outcomes in impoverished nations continue to lag. At present, life expectancy in sub-Saharan Africa is only 53 years. In South Asia, nearly 1 child in 12 dies before age five. In low-income countries, the under-five mortality rate is 118 per 1,000. In middle-income states, the rate is 51 per 1,000, while in high-income countries, the under-five mortality rate is only 7 per 1,000 (Todaro and Smith 2014). Every day, nearly 21,000 children in developing countries die from preventable causes—over seven million in 2013 alone. There are many other severe health deprivations. Women with nutritional deficiencies are more likely to deliver smaller babies at risk of poor growth and development. Malnutrition alone affects nearly two billion people. Many children face lifelong disabilities. In many poor countries, parasites are pervasive and a woman dies during childbirth nearly every minute. It has been estimated that nearly 3,000 children in Africa die from malaria each day. Smith poses the question of why it is so difficult for the poorest of the poor to make further progress.

He determines that poverty traps, exacerbated by poor governance, make it difficult to break the cycle of poverty and hunger. Poverty traps include malnutrition, poor health, inadequate housing, high fertility, illiteracy, low skills, and low capital. Smith proposes further research on multidimensional areas of good governance for reducing poverty and promoting environmental progress.

Chapter 7, the final chapter, titled "The Challenges of Good Governance and Leadership in Developing Countries: Cases from Africa and China," comes from my coeditor, Wei-Chiao Huang, and me, Sisay Asefa; both of us are professors of economics at Western Michigan University. We explore the following five topics: 1) understanding and measuring good governance for sustainable development; 2) governance, development, and multidimensional poverty index (MPI) relationships; 3) the role of governance in sustainable development and poverty reduction; 4) methods of addressing poverty traps; and 5) poor governance as the driver of conflict, poverty, and corruption traps. We also discuss how regional and global engagement can assist states in achieving goals through monetary policy, global investment, and foreign aid. By considering such policies, political and economic institutions can be encouraged to use good governance practices to fight the effects of endemic poverty.

We define sustainable development as a multidimensional process of socioeconomic and political transformation aimed at enhancing human progress in all its dimensions, including the freedom of political and economic choice. We propose that a program on good governance, peace, political education, and conflict transformation should be instituted across schools, colleges, and universities to teach citizenship, civil society, and responsible ethical conduct. Without good governance and its guiding principles, the well-being of a country's citizens is at risk.

In the book, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, written by Massachusetts Institute of Technology economics professors Daron Acemoglu and James A. Robinson, the authors illustrate how exclusive political and economic institutions drive inequality and conflict, leading to the failure of nations. For instance, although the two Koreas contain populations, cultures, and environments that are homogenous in many attributes, the people of North Korea experience a very different governance outcome from those in South Korea.

The people of North Korea are among the poorest on earth, near starvation, while South Korea is among the richest and most dynamic states in Asia. On the one hand, South Korea forged a society that created positive incentives, rewarded effort and innovation, and allowed freedom for its citizens to participate in economic opportunities. At the same time, North Korea endured decades of famine under repressive rulers from one family assisted by institutional repression, with no end in sight (Acemoglu and Robinson 2011). Along with other such examples from history, the MIT authors' research yields explanations for collapses of the Roman Empire, Ottoman Empire, Soviet Union, and other historic empires. The book also offers insights as to why an African state like Botswana can succeed while its neighbor Zimbabwe is failing. For example, in the 1980s, a decade in which most African economies were failing, Botswana scored economic growth that surpassed Asian tiger economies such as Hong Kong and Taiwan, while other African states experienced negative growth.

Moving forward, policymakers can learn from historic and present-day examples both of nations with good governance and of those with failed and failing states. With better institutional planning, as well as more effective domestic and foreign relations, the implementation of good governance can be encouraged worldwide.

For instance, the book imparts suggestions for the United States and China on how to build sustainable, inclusive, more equitable and egalitarian political and economic institutions. This objective would also have strong policy implications for Ethiopia and other African states (Asefa 2013).

In this regard, Huang and I consider the case of China and reconcile a puzzling contradiction between China's impressive governance outcomes and its one-party authoritarian system, a mode of government that seems to violate the commonly perceived recipe for good governance, especially in the areas of voice, accountability, and the rule of law. But a closer examination of China's governance model reveals that China actually practices economic, political, and legal accountability (and, to that extent, rule of law).

In addition, China's *neodemocratic centralism* and collective decision-making process may have some advantage in enhancing efficiency and good governance—as a case in point, there is the Third Plenum's decision in 2013 to deepen reforms. However, it is important to consider that China has a long history of civilization and a relatively less diverse population ethnically and linguistically compared to African states, which comprise over a thousand languages and ethnic groups scattered among 54 states. Most of these states were formed by European colonial powers, primarily Britain and France. The exceptions are Ethiopia and Egypt, both of which, like China, have a long history of civilization (Asefa 2013).

Economic development does not have a secret formula, Huang and I posit: success in economic development requires only good and accountable governance of a country's citizens. Examples where good governance leads to better outcomes for citizens include countries in Europe, North America, East Asia, and a few in Africa. Nevertheless, many countries in Africa have failed to fully utilize their natural-resource and human potential. Most African states that suffer from poverty have made intended or unintended governance choices to continue long-ruling repressive regimes and to prevent honest dialogue and freedom of expression, including peaceful constitutional transition of power. They refuse to learn from positive lessons illustrated both from their own past and from comparative experiences of well-governed countries around the world. We conclude by expressing the hope that African political leaders and governments will make a different, positive choice toward building inclusive economic, political, and social institutions in the twenty-first century. This inclusive, democratic approach to good governance can take Africa and other regions, such as the Middle East and South Asia, out of poverty and conflict. Democratic good governance would positively affect all sectors of the economy and lead to progress for the twenty-first century.

CONCLUSION

In this volume, *The Political Economy of Good Governance*, the six chapters that follow this introduction capture several of the key dimensions of good governance, as well as what deleterious and negative consequences may arise in its absence. The authors draw analysis and solutions from diverse sectors such as economics, public administration, management, and political science, in order to treat some of the most pressing societal issues of our time. They connect the importance of education, health, climate change, and poverty to address the challenges of creating a world where more countries embrace good governance policies to benefit their peoples. We invite readers to further explore the authors' ideas in the following chapters.

References

Acemoglu, Daron, and James A. Robinson. 2011. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty.* New York: Crown Business.

Asefa, Sisay. 2013. “The Challenges of Good Governance and Leadership for Sustainable Development of Ethiopia: What Can Ethiopians Do to Overcome the Challenges?” Paper presented at the conference “Development in Ethiopia: Changing Trends, Sustainability, and Challenges,” held in Addis Ababa, Ethiopia, September 19–20.

Kaufmann, Daniel. 2010. “Governance Matters 2010: Worldwide Governance Indicators Highlight Governance Successes, Reversals, and Failures.” Opinion piece, September 24. Washington, DC: Brookings Institution.

Todaro, Michael P., and Stephen C. Smith. 2014. *Economic Development*. 12th ed. Pearson Series in Economics. Upper Saddle River, NJ: Prentice-Hall.

The Political Economy of Good Governance

Sisay Asefa
Wei-Chiao Huang

2015

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

The political economy of good governance / Sisay Asefa and Wei-Chiao Huang, editors.
ISBN 978-0-88099-496-5 (pbk. : alk. paper) — ISBN 0-88099-496-7 (pbk. : alk. paper) — ISBN 978-0-88099-497-2 (hardcover : alk. paper) — ISBN 0-88099-497-5 (hardcover : alk. paper)
2015940597

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

Cover design by Alcorn Publication Design.
Index prepared by Diane Worden.
Printed in the United States of America.
Printed on recycled paper.