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Good Governance, Economic Growth and Well-Being: An Econometrics Investigation of Nigeria

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ABSTRACT

Growth and welfare effects of good governance rest on the capacity of the state to deploy its core functions and processes to establish an environment favourable to growth and distribution of the gains of growth for a sustained increase in citizens' welfare. While some authors held that the correlation between good governance and economic growth is only theoretical and there is not enough evidence to support it, others see good governance as fundamental to the economic development of developing countries, in particular. This paper examines the verdict of evidence on the correlation between good governance, economic growth, and economic welfare in Nigeria. Data from Worldwide Governance Indicators and the Heritage Foundation were reduced to two principal components; institutional transformation and efficiency, and peaceful transition of power and security. These and macroeconomic variables from the World Development Indicators and Central Bank of Nigeria passed through autoregressive distributed lag tests, after preliminary econometrics checks. The two good governance components are significant for economic growth but do not translate automatically into welfare gains. The macroeconomic variables- expenditure on human health and security, and education expenditure are significant for economic welfare but reflect in their signs the need for alignment between political intentions and their implementation.

Keywords: Governance, Economic Growth, Economic Welfare, Gross Domestic Product, Nigeria.

Aims Research Journal Reference Format:
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1. INTRODUCTION

The main thrust of macroeconomic goal in most developing countries over the last several decades has been achieving economic progress, as measured by continued increase in Gross Domestic Product (GDP). However, in the last two decades, there has been increasing concern about the impact of economic growth on the natural and social environments, inequality and poverty, and more generally on the quality of life of citizens. Underlying the pursuit of continued economic growth is the assumption that the totality of economic activities in a country contributes to the citizens' quality of life, thus establishing a direct positive relationship between economic growth and well-being. From the mid-1990s, strong evidence has been emerging to support the view that governance and institutions matter in promoting economic growth, reducing poverty and increasing living standards. Today, there is a large body of literature and a broad consensus among policy and development experts that good governance is a necessary condition for sustained increases in living standards (Knack, 2003). Thus, recent years have witnessed governance reforms in both developing and developed countries often mediated by global and regional development institutions.

The effectiveness of synergy among the economic, political and administrative institutions of a country is an important determinant of the outcomes of government policies and strategies, which ultimately affects the living standard of citizens. A poor institutional and human capacity to manage economic policies, regulatory framework and adherence to rule of law undermine public trust in government, threatens market integrity, distorts competition, and endangers economic development. Good governance makes the State effective by establishing an enabling environment for the delivery of high quality and cost-effective public services and the eradication of poverty in a manner that involves accountability to citizens through both core state functions and mechanisms[1].

This paper proceeds from the well-established premise that institutional and governance frameworks are essential to translating economic growth and economic welfare into a sustainable process. The specific objective of the paper is to examine whether and if changes in institutional framework and governance structure in Nigeria translates into economic growth and increased economic welfare for the people. For this objective, we specify two models for estimation. The study covers 1996 to 2015.

The period covers sixteen years of the current 4th democratic dispensation and only three years of military rule preceding a return to democracy in 1999. The rest of the paper is organised as follows. In section two we review extant literature on the interplay among governance, economic growth, and economic welfare. Section three elaborate on the data and their sources, variables contained in the models, the specification of models, as well as, the choice of estimation techniques. Analysis of data and interpretation of results are contained in section four. Section five concludes the paper.

2. REVIEW OF LITERATURE

2.1 **Governance: Conceptual clarification and important trends**

The concept of governance is multidimensional having both economic and political dimensions. The wide array of issues covered by the concept makes the articulation of an unambiguous and operational definition difficult. Thus, a wide range of definitions greatly differing in scope, rationale, and objectives have been advanced (Santiso, 2001). The Institute on Governance cited in Santiso (2001) provides a very broad definition according to which governance is the interplay of a country's traditions, institutions and processes that determine; (1) how power is exercised (2) how citizens are given a voice, and (3) how decisions are made on issues of public concern. Kaufmann, Kraay, and Zoido-Lobaton (1999) are inclined more to the political dimensions of governance in defining governance as 'the traditions and institutions by which authority in a country is exercised'. These traditions and institutions encompass (1) the process by which governments are selected, monitored and replaced (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.

To the Committee of Experts on Public Administration (2006), governance is essentially a political issue and refers to the exercise of political and administrative authority at all levels to manage a country's affairs. It comprises the mechanisms and processes through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences. Though, the World Bank recognised the importance of the political dimension of governance focused mainly on the economic dimension. According to the Bank, governance is the process by which authority is exercised in the management of a country's economic and social resources for development; and the capacity of governments to design, formulate and implement policies and discharge functions (World Bank 1991, 1992, 1994 and 2000). In the view of the Bank, governance is concerned directly with the sound management of the development process, which is equated with the effective functioning and capability of the public and private sectors as well as the rules and institutions that create the framework for the conduct of public and private businesses, and accountability for economic and financial performance.

The shift from the concept of governance to good governance addresses the quality of governance. Emphasis is shifted beyond the process of decision-making and the framework for the conduct of public policy and centred on what makes institutions and rules more effective and efficient for the attainment of equity, transparency, participation, responsiveness, accountability, and the rule of law (Sentiso, 2001; UNDESA, UNDP and UNESCO, 2012). Thus, good governance is usually understood as including some form of democratic government that requires the existence of checks and balances (horizontal accountability), participation and elections (vertical accountability), and respect for basic human rights, which include political rights (Amundsen, 2010). The promotion of good governance stemmed from a heightened awareness that poor governance offers greater incentives and opportunities for corruption which threatens market integrity, distorts competition, endangers economic development, and detrimental to welfare (IMF, 2017). Thus, remedying the devastating patterns of inefficient, corrupt, and unaccountable governance, especially in developing countries, will unlock developmental progress (Carothers and de Gramont, 2011). The quality, therefore, of a country's governance system is vital to its ability to pursue sustainable economic and social development.

Having identified good governance as a common concern, International Finance Institutions (IFIs) and donor agencies have devised various programmes to mainstream aspects of good governance into their operations. Efforts by the World Bank include the development good governance indicators by the World Bank Institute. The Institute advanced six main dimensions of good governance, namely (1) voice and accountability, (2) political stability and absence of violence and terrorism, (3) rule of law, (4) control of corruption, (5) regulatory quality, and (6) government effectiveness (Kaufmann, Kraay and Mastruzzi (2010). The operational guidelines of the Bank give greater importance to good governance in its adjustment and investment lending operations. The Bank's Country Assistance Strategies (CAS) and the World Bank/IMF Poverty Reduction Strategy Papers (PRSP) integrate considerations for the quality of governance. Since 1999, the Bank has been conducting Institutional and Governance Reviews (IGR). The relief of debt burden of least developed countries is also linked to policy reforms (Santino, 2001). Likewise, many of the structural conditions in IMF-supported programmes focus on improving governance through better public expenditure control, streamlined and less discretionary revenue administration, and better enforcement of banking supervision, among others (IMF, 2017).

According to Moktar and Nicoll (2008), the Asian Development Bank (ADB) in 1995 became the first multilateral bank to adopt formally a governance policy to promote sound development management. The policy set out four basic elements of good governance as accountability, predictability, participation, and transparency. In 2004, ADB accepted capacity development as a good governance priority and approved the Capacity Development Medium-Term Framework Action Plan in 2007. In 2008, ADB launched the Long-Term Strategic Framework for 2008-2020. Although the idea of good governance came to the fore in the characterisation of the development failures of the African continent in the 1980s, no formal governance policy was developed for the continent until 1999 when the African Development Bank (AfDB) launched the first governance policy. The policy was premised on the consensus that the absence of good governance has proved damaging to the corrective intervention of governments with particular reference to the debilitating effects of corruption on government efficiency and investment flows. The first AfDB governance policy stands on three pivots of effective states, mobilised civil societies, and efficient private sector (AfDB/ADF, 1999). The Governance Strategic Direction and Action Plan, 2008-2012 (GAP 1) and the Capacity Development Strategy were launched in 2008 and 2010, respectively (OPEV, 2013). Following economic and social transformation, sustained economic growth, increasing peaceful transition of power through democratic elections, and increased inflow of Foreign Direct Investment (FDI) in many African Countries, AfDB launched in 2013 a new African Development Bank Group Strategy for 2013-2022.

The ten-year strategic plan (TYS) is built around two objectives of achieving inclusive growth and transition to green growth, and five operational priorities comprising (1) infrastructure development, (2) regional integration, (3) governance and accountability, (4) private sector development, and (5) skills and technology. TYS subsequently provide the strategic platform for the Governance Strategic Direction and Action Plan, 2014-2018 (GAP II) designed to operationalise the governance and accountability agenda of the TYS (AfDB Group, 2013). On another front, the good governance drive of AfDB Group was complemented by the launch of the New Partnership for Africa's Development (NEPAD) in Abuja, Nigeria, in 2001. NEPAD placed peace, security, democracy, good governance, human rights, and sound economic management as conditions for sustainable development in Africa, and also, made provisions for reviewing progress and addressing problems and delays, which led to the adoption of the African Peer Review Mechanism (APRM) in 2002. The European Union (EU) embraced NEPAD, and particularly the APRM, as an expression of Africa's commitment to democracy and good governance and, since then, has remained high on the EU's external relations agenda (Ottose, 2010).

The evaluation of effectiveness of the various good governance programmes implemented by IFIs, governments, and donors in the last two decades have come up with mixed results prompting the call for improvement. Development experts and policy-makers are recognizing that engaging citizens and civil society can complement government efforts to promote good governance, and hence the growing movement for Open Government. To Bhargava (2015), the main driver of the Open Government movement is the emerging evidence that citizen engagement improves development outcomes, reduces poverty, and encourages peace by promoting social inclusion. Citizen-led good governance is enabled by the provision of information and capacity development support to citizens and the civil society leading to increased awareness, capability, willingness to participate, monitor government functioning, voice concerns, and promote accountability. All of these leads to increased public pressure on authorities to respond, change behaviour, and reduce corruption. Authorities' response, on the other hand, creates improved governance outcomes and development effectiveness. The emergence of the information society (the Internet, mobile, and social networking technologies) also has enabled the transformation of public administration in some countries and contributed to an alteration of the balance of power between citizens and the state promoting accountability, transparency, and participation (UNDESA, UNDP, UNESCO, 2012).

2.1 Good governance, economic growth, and well-being

Economic development is an inherently a political process so much that the fundamental obstacles to promoting inclusive economic growth and human well-being are primarily political in nature. According to Green (2015), economic transformation often comes with a strong disruptive effect on political governance giving rise, for example, to interest groups that push for accountable leaders and effective institutions. The perception of a serious deficit in welfare and happiness over the years has been a major trigger, among others, for the transformation of totalitarian systems into democratic systems that are coordinated predominantly by markets and competition (Wagener, 2004). Paradoxically, African democracies have witnessed appreciable economic progress whereas the gains of the progress have not translated into mass prosperity (Mbodo, 2013). Largely, the literature appears to support the view that, over time, the need for economic transformation can advance core governance objectives with governance and growth objectives becoming mutually reinforcing. Owing to the political dimension of the growth process, governments and societies are now looking beyond economic growth, and are increasingly concerned about inequality, poverty, and more generally about the quality of life of citizens - children, the elderly and individuals, and groups confronting economic and social disadvantages (OECD, 2001).

In the developing countries, especially, it is implicitly assumed that achieving the target of economic growth automatically cascade the benefits of growth to the poor and the vulnerable. However, continued economic growth with rising inequality has disproved this assumption (Shafique and Haq, 2006). Thus, the goal of economic growth as measured by an increase in Gross Domestic Product (GDP) has been contrasted with enhanced human well-being for individuals and the society which is the goal of every economic system (Bleys, 2012). There is a common acceptance that good governance is a key element in the economic development of countries, particularly the developing countries. Hall and Jones (1999), Kaufmann (2003), and Roll and Talbott (2003) stress that the difference between countries in such aggregates as economic growth, gross national income (GNI) par capital, productivity, and capital accumulation can be explained by the difference in the quality of governance. While some authors argue for a substantial correlation between good governance and economic growth, some others are critical of this conclusion, showing that this correlation can only be theoretical and there is no enough evidence to support it (Kurtz and Shrank, 2007). Pere (2015) examined the relation of good governance to the economic development of Balkan countries and concluded that not all aspects of good governance have the same effect on economic growth. While some affect the growth of the same period, others can be better identified for their impact on growth, displaced in time. Overall, the impact of good governance on economic development can be better interpreted only in the long run.

If good governance is vital to economic development measured as continued growth of the GDP, it follows that good governance is good for individual and societal well-being. However, GDP is only a measure of the market value of all finished goods and services produced within an economy without making any distinction between factors that contribute to social progress and those that may actually impair it or reflect its decline (Jacobs and Slaus, 2010). Consequently, GDP has several limitations that restrict its use as a measure of well-being. First, it takes into account categories of expenditure such as military spending, general administration and reconstruction efforts following a natural disaster that is not directly related to household income and expenditure. The second drawback is that GDP measures income produced in a country and takes no account of how the income is distributed. Therefore, average per capita GDP figures can disguise great inequality in income distribution. Third, GDP fails to distinguish between speculative gains in financial markets during a bubble economy and real gains from increasing employment, production, and personal consumption. Fourth, GDP includes the replacement of depreciated capital. However, depreciation does not boost welfare as the replacement of old capital just returns the economy back to its initial position. Finally, GDP ignores the non-market household and community economy like caring for children or elderly at home. It assigns zero value to household work and voluntary services while attributing a positive value to the very same activities when they are performed for pay. Thus, GDP and other price-based indices grossly understate real improvements in living standards and quality of life, because they ignore real and often substantial improvements in product quality and quality of life (Bergheim, 2006; Van den Bergh, 2009; Chiripanhura, 2010; Jacobs and Slaus, 2010, Fox, 2012; Marone, 2012).

Giving the weaknesses of GDP as a measure of well-being, policy-makers need alternative measures for well-being. Well-being is a multi-dimensional concept that is difficult, if not impossible, to capture in a single number like GDP. It is, however, possible to monitor and analyse different aspects of well-being separately. The concept of economic welfare better approximates the need of policy-makers as it provides useful information that can be used in the development of effective policy (Bleys, 2012). Economic welfare focused on the impact of economic growth on the material living standards of households and individual citizens. For an alternative measure of progress to be efficacious, it must relate to policies specifically designed to promote such dimensions of progress from poverty alleviation to gender equality. Marone (2012) outlined the policy areas that are of interest to an efficacious measure of well-being to include: (1) taxation and redistributive policies, (2) sector-specific policies that may support economic activity with especially great poverty alleviation potential, (3) wage and labour legislation, (4) subsidies, supports, and safety nets, (5) educational strategies, (6) environmental regulation and standards.

In the early 1970s, James Tobin and William Nordhaus proposed the Measure of Economic Welfare (MEW) that adds to Gross National Product (GNP) the value of household services and leisure and subtracts depreciation and other expenditures that contribute nothing to or impairs improvements in living standard and quality of life. The best known, but rather narrow measure of economic welfare is the United Nation's Human Development Index (HDI). Other alternative measures include the Genuine Progress Indicator (GPI), Index of Sustainable Economic Welfare (ISEW), Weighted Index of Social Indicators (WISP), and Human Economic Welfare Index (HEWI). Other alternative measures include those that are not rooted in measures of national income but reflect household income and consumption. Such measures include Household Disposable Income (HHDI), Household Final Consumption Expenditure (HHFCE), and Household Actual Final Consumption Expenditure (HHAFCE) (Chiripanhura, 2010; Jacobs and Slaus, 2010). If good governance is vital to GDP growth, is it also good for the promotion of non-market activities, leisure and other factors that directly contribute to increasing standard of living and quality of life?

3. DATA, VARIABLES, AND ESTIMATION

3.1 Data source and variables

Statistical analysis in this paper relied on governance and macroeconomic data. Governance data came from two sources- the World Bank's Worldwide Governance Indicators (WGI), which provide aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2015. The database offers six dimensions of governance as (1) Voice and Accountability, (2) Political Stability and Absence of Violence, (3) Government Effectiveness, (4) Regulatory Quality, (5) Rule of Law, and (6) Control of Corruption.

These aggregate indicators produced by Daniel Kaufmann and Aart Kraay are based on over 30 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The second source of governance data is Index of Economic Freedom (IEF) compiled by the Heritage Foundation. IEF contained twelve indicators grouped under four broad aggregates of rule of law, government size, regulatory efficiency, and open markets. The table below shows the variables identified for our analysis and their corresponding sources of data.

Table1: Variables and sources of data

Variable	Data sources
Governance	Worldwide Governance Indicators (WGI) & Heritage Foundation
Household final consumption expenditure	World Development Indicators (WDI) (2016)
GDP growth rate	WDI (2016)
Expenditure on human health and social security	CBN Bulletin (2016)
Expenditure on education	CBN Bulletin (2016)

Following Chiripanhura (2010), we chose household final consumption expenditure (HHFCE) as the measure of economic welfare to be predicted by government expenditure on human health and social security and government expenditure on education. Both expenditures approximates the value of social transfers in kind that bears directly on economic welfare. Two governance indicators aggregated from the two governance data sources completes the list of predictors.

3.2 Estimation

3.2.1 Principal Components Analysis (PCA)

Governance indicators from WGI and IEF comprise 18 variables. PCA reduced these variables into two principal components for further analysis. Prior to the PCA, we inspect the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA) for pairs of variables that share variance with each other but not with other variables. Such variables have small values of MSA. A benchmark of MSA greater than .6 was set for each variable and for the overall MSA. All variables with MSA smaller than .6 were dropped before the PCA. [1]Using the eigenvalue-one criterion, we retain and interpret two components with an eigenvalue greater than 1.00. The first component extracted accounts for 50.21% of total variance in the observed variables. The second component has two important characteristics. First, it accounts for 20.57% of the variance in the data set not accounted for by component 1. Second, it correlates with some of the observed variables that did not display strong correlations with component 1.

The two components retained also satisfy the conditions of interpretability, and the number of variables with significant loading on each retained component. A PCA solution is satisfactory if a given component is measured by at least three variables, and interpreting the substantive meaning of the retained components makes sense in terms of what is known about the constructs under investigation. The paper considered a variable loading as large and meaningful if its absolute value exceeds .50. If a given variable has a meaningful loading on more than one component, researchers in many situations drop that variable because it is not a pure measure of any one construct. Accordingly, in interpreting component 1, we drop Trade Freedom and Financial Freedom and interpret component 1 as *Institutional Transformation and Efficiency* (ITE) and component 2 as *Peaceful Transition of Power and Security* (PPS).

Table 2: Results of Principal Components Analysis

PANEL 1: Rotated Component Matrix & Communalities			
	Component		**Communalities**
	1	**2**	
Regulatory Quality	.839	.101	.717
Rule of Law	.800	.279	.636
Control of Corruption	.797	.020	.715
Trade Freedom	***.721***	***.606***	***.262***
Financial Freedom	***.680***	***.554***	***.901***
Government Effectiveness	-.509	.050	.751
Political Stability and Absence of Violence Terrorism	-.193	-.930	.887
Voice and Accountability	-.213	.840	.732
Investment Freedom	-.258	-.816	.769
Rotation Method: Varimax with Kaiser Normalization.			
Rotation converged in 3 iterations.			
PANEL 2: KMO and Bartlett's Test			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			.687
Bartlett's Test of Sphericity	Approx. Chi-Square		90.292
	df		36
	Sig.		.000

3.2.2 Models

The paper specified two models to achieve its objectives. The first model tests the notion that good governance is directly and positively related to economic growth, while the second model test the relation between good governance and economic welfare. We state *a priori* that if good governance is vital for economic growth and positively influences economic welfare, policy-makers, therefore, can expect that targeted good governance policies such as government expenditure on human health and social security, and government expenditure on education can translate economic growth into sustainable economic welfare. The models are:

Model 1

$gGDP = \varphi_0 + \varphi_1 ITE + \varphi_2 PPS + e$

where:
gGDP = GDP growth rate
ITE = Institutional transformation and efficiency
PPS = Peaceful transition of power and security
Φ = Parameters to be estimated, and
e = error term

Model 2

$HHC = \eta_0 + \eta_1 ITE + \eta_2 PPS + \eta_3 EHS + \eta_4 EED + \varepsilon$

where:
HHC = Household final consumption expenditure
ITE = Institutional transformation and efficiency
PPS = Peaceful transition of power and security
EHS = Expenditure on human health & social security
EED = Expenditure on education
η = Parameters to be estimated, and
ε = error term

Finally, the paper tests all variables in the models for stationarity using the Augmented Dickey-Fuller (ADF) at 5%., following which the ARDL bounds test, short-run coefficients, cointegrating form, and long-run coefficients of the models were carried out. Diagnostic tests conducted to test the reliability of regressions results turn out good to interpret the result of our regressions.

4. RESULTS AND DISCUSSION

4.1 Unit root tests

Results of the ADF tests for unit root are as shown in Table 3. The variables are stationary either at level or after first difference. The combinations of level and first difference stationarity dictate the use of ARDL for the regressions.

Table 3: Results of Augmented Dickey-Fuller (ADF) Test

Variables	Level		First Difference		Order of Integration
	ADF Statistics	*5% Critical value*	*ADF Statistics*	*5% Critical value*	
gGDP	-3.658897	-3.065585	-	-	I(0)
HHC	-3.276485	-3.098896	-	-	I(0)
ITE	-2.133385	-3.065585	-5.156902	-3.081002	I(1)
PPS	-2.767523	-3.119910	-4.641087	-3.098896	I(1)
EHS	-3.973865	-3.791172	-	-	I(0)
EED	-0.736047	-3.759743	-6.821405	-3.759743	I(1)

4.2 Good governance and economic growth relation

Table 4. Model 1 Regression Results

PANEL 1. ARDL COINTEGRATING AND LONG RUN FORM		
Variable	**Coefficient**	**Probability**
CointEq(-1)	-2.403933	0.0000*
ITE	0.097518	0.0260**
PPS	-0.680329	0.0001*
C	-1.597842	0.0001*
PANEL 2. ARDL BOUNDS TEST		
F-statistic	7.446352	-
Upper critical value bound @ 1%	6.36	-
PANEL 3. DIAGNOSTIC TESTS		
Jarque-Bera	0.594471	0.742869
Breusch-Godfrey Serial Correlation LM Test	2.301082	0.1705
Breusch-Pagan-Godfrey: Heteroscedasticity Test	2.652322	0.0965

Note: *, ** coefficient significant at 1% and 5% respectively

The cointegration equation is negative and positive reinforcing the bounds test of cointegration. The results suggest a long-run correlation between good governance and economic growth in Nigeria. Thus, economic, social and political institutions and government policies fundamentally affect long-run economic performance. However, not all the elements of good governance positively affect growth rate in the long-run. Panel 1 of Table 4 showed that institutional transformation and efficiency (ITE) is an essential determinant of long-run performance. The long-run coefficient of ITE comprising regulatory quality, rule of law, control of corruption and government efficiency is positive and significant at 5%. Long-run economic growth in Nigeria is positively responsive to the presence of a more effective government with the ability to formulate and implement sound policies and regulations, as well as, a high quality, free and independent public service that promotes respect for the rule of law and abridge tendencies to exercise powers of public office for private gains. It is generally accepted that where citizens have both the freedom of expression and association, and their electoral vote is the basis for selecting their government, the transition of power is peaceful and less likelihood that the government will be destabilised.

A peaceful and secure environment speed up free market initiatives, attracts new investments and raise production (Khan, 2007). The variable, peaceful transition of power and security (PPS) is negative but significant. That PPS is significant submits that peace and security are germane to long-run economic development in Nigeria. The negative coefficient does not necessarily imply an inverse relationship between PPS and economic growth; rather it suggests that political instability and violence, unconstitutional conduct, and political terrorism posed a grave danger to economic growth in the long-run. Thus, economic growth is better enhanced when good government is both effective, credible and democratically legitimised (Wagener, 2011).

4.3 Good Governance and Economic Welfare Relation

Both the cointegration equation and the bounds test results reported in Table 5 support a long-run co-evolution of good governance and economic welfare. This co-evolution, however, does not automatically translate into economic welfare as policies and programmes promoted by good governance need must correctly target economic welfare. In Table 5, both ITE and PPS (two composite measures of good governance or political intentions) are negative with only ITE significant in explaining economic welfare. Whereas institutional transformation and efficiency is positive and significant for economic growth, its effect does not spontaneously translate into increased economic welfare.

Table 5. Model 2 Regression Results

PANEL 1. ARDL COINTEGRATING AND LONG RUN FORM		
Variable	**Coefficient**	**Probability**
CointEq(-1)	-1.764863	0.0004*
ITE	-0.453913	0.0181**
PPS	-.0216721	0.1695
EHS	1.242061	0.0245**
EED	-0.594389	0.0855***
C	13.787148	0.0005*
PANEL 2. ARDL BONDS TEST		
F-Statistic	5.699128	-
Upper critical value @ 1%	5.06	-
PANEL 3. DIAGNOSTIC TESTS		
Jarque-Bera	0.442650	0.801456
Breusch-Godfrey Serial Correlation LM Test	1.330798	0.4290
Breusch-Pagan-Godfrey: Heteroscedasticity Test	0.0815754	0.6192

Note: *, **, *** coefficient significant at 1%, 5%, and 10% respectively.

The result suggests that as institutions become more effective in formulating and implementing policies, enforces the rule of law, and fight corruption households' final consumption expenditure on goods and services as a measure of economic welfare declines. Similarly, economic welfare decreases with increase in government expenditure on education (EED). At 5% level of significance, economic welfare increases with increase in government expenditure on human health and social security.

In explaining the above result, effective government in Nigeria is not antithetical to economic welfare. The result reflects the effect of pervasive corruption at all levels of the polity that keeps the society awash with unearned monies thus increasing final consumption. The 'false' economic welfare increase gradually recedes as institutions that are more effective tighten the noose on corruption at all levels. High level of graduate unemployment often, among other factors, largely attributed to a mismatch between higher education curricula and job placement skills, and the very unfriendly business environment for start-ups may partly be responsible for the inverse relationship between government expenditure on education and economic welfare. Expenditure on human health and social security (EHH), on the other hand, is both positive and significant in predicting economic welfare. Several studies have linked investments in health to aggregate economic performance and economic welfare. According to WHO (2009), good health is instrumental to an individual's or community's capability to undertake desired activities or functions. Without good health, economic objectives, such as producing income that allows people to consume market goods, stand compromised. Studies like Bloom, Canning, and Sevilla (2004) and Bloom, Canning and Jamison (2004) well established the fact that the initial health of a population is one of the most robust and potent drivers of economic growth as healthy workers are more productive than unhealthy workers. Better health also raises per capita income by encouraging foreign direct investment. The authors posit that investors tend to avoid environments where the labour force suffers a heavy disease burden.

Wagener (2011) advanced that the effect of good governance on economic welfare depends on the congruence or otherwise between political intentions and their implementation. If programmes and policies consequent upon good governance are badly conceived, perhaps, due to lack of knowledge and appropriate information, the intended objective of enhancing economic welfare is compromised. Going by Wagener (2011), the inverse relationship between government expenditure on education and economic welfare could be the result of misalignment between political intention and implementation.

5. CONCLUSION

Good governance is essentially a political issue that develops over a long time depending on the stage of economic and political development of a country. Being a political phenomenal, its effects on economic growth and welfare is contingent on the congruence between political intentions and their implementation. These two factors may have bear directly on the outcome of this paper. First, the period covered in the study (1996 to 2015), which was constrained by the availability of data on good governance cannot be considered long enough for a better regression results than we obtained. The results, meanwhile, showed that the two components of good governance are significant for economic growth in Nigeria with institutional transformation and efficiency (ITE) positively related to long-term growth. The component of peaceful transition of power and security (PPS) is significant but negative. Thus, while the government continues to strengthen the capacity of institutions to make and implement sound policies as well as the readiness of the state and citizens to observe the rule of law, it is equally important that the process of selecting and removing governments be democratically legitimised, effective and credible. These attributes take root and become perpetuated when engrained in formal and informal institutions, attitudes, and culture. The relation between good governance and economic welfare, even in the long-run, is not empirically clear. Although, the two components of good governance turned out negative ITE was significant to economic welfare. In terms of the alignment of political intentions with their implementation, government expenditure on human health and security is significant and relates positively to economic welfare.

In sum, Nigeria's match to good governance has achieved appreciable progress in the narrow sense of the economic, institutional, and social programmes pursued and implemented as defined by the variable ITE. The broader aspect measured by PPS involves some form of democratic government which requires the existence of checks and balances (horizontal accountability), participation and elections (vertical accountability), and respect for basic human rights (which include political rights). Much reform is needed in this area to legitimised democratic principles and processes for development.

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