AN ANALYSIS OF THE ROMANIAN GOOD GOVERNANCE INDICATORS AND THEIR INFLUENCE ON THE ECONOMY COMPETITIVENESS

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Virtually all government decisions carry economic implications thus the quality of those decisions is vital for the well being of the general population. We see today an increased implication of the State in the day to day management decisions of the economy, not only in Romania but worldwide. Many companies, while not undertaking business with the State, are thriving or contracting due to its actions. The link between the government competence and economy's competitiveness is thus established. This paper looks at the Romanian government track record for the most recent years and suggests a composite metric of governance evaluation.

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JEL classification: O38, H11

Good governance aspects

There are several aspects that contribute to a good practice in governing, either at the company's level, or at national echelon.

We begin with the definition specified by the World Bank[86] to the Good Governance concept, as being the government's aptitude to:

- ensure political transparency and voice for all citizens;
- provide efficient and effective public services;
- promote the health and well-being of its citizens, and
- create a favourable climate for stable economic growth.

On the same note, we define through the same organism that strives to clarify the facets of the concept, the Demand for Good Governance[87] (DFGG), which refers to the extent and ability of citizens, civil society organizations, and other non-state actors to hold the state accountable and to make it responsive to their needs. In return, this DFGG enhances the capability of the state to become transparent, accountable, and participatory in order to respond to these demands.

Many authors strive to identify those indicators of good practices in governance, in order to achieve essential meaning in analysis, thus enabling an accurate breakdown of the situation.

We will refer to a few characteristics that, in our view synthesise the most important lines of the broader picture presenting Romanian economy. The indicators are not new as such, but combined in a different manner than usual, enabling an interpretation of their influence on the mechanism of one of the aspects of performance, the good governance.

Good governance indicators for Romania

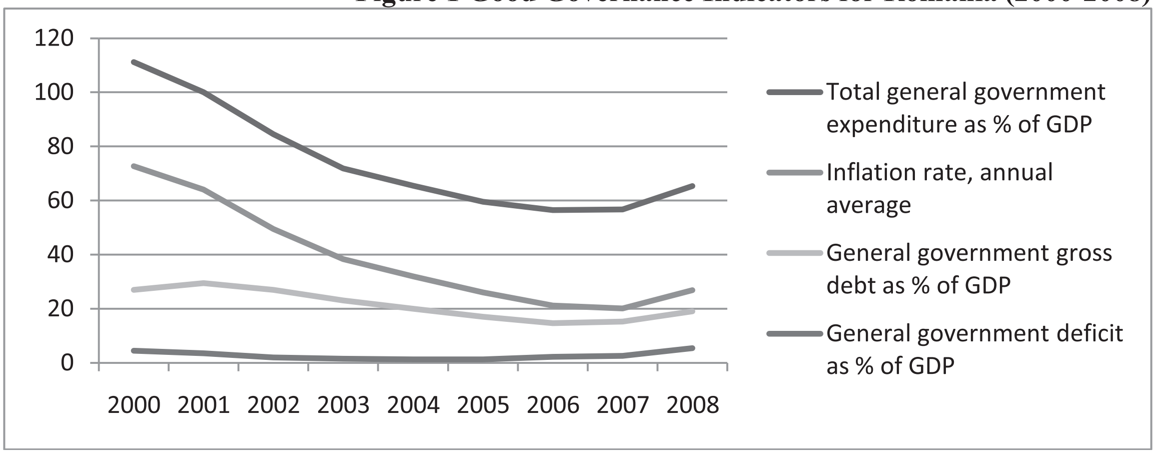
First of all, on *predictability*; a search on the representative archive of the government official journal found more than 12 thousand post factum alterations published since 1990, in other words, more than two changes per working day in the last 18 years. This is concerning in terms of strict manipulation of data, plus in terms of good understanding and transmitting information. It has also a relevant influence on the construction of the aggregated indicators that quantify

86 http://www.worldbank.org., reference to PECSA Programme (The Program to Enhance Capacity in Social Accountability.

87 http://www.worldbank.org.kh/pecsa/page_en.php?page=21, reference to Glossary.

general and specific situations in official reports. We consider this factor as indicating a poor predictability of the Romanian system, with business depressing consequences.
A second aspect refers to a series of *four indicators measuring public interference with business and household*: tax level, inflation, account deficit, public debt. Romania applied several tax levels and systems since 1990. The current rate of 16% for both corporate and individual revenues was recently modified by adding a fixed tax which affects mainly small companies that were more or less exempted. The immediate consequence of the latter is a contracting economy in terms of businesses closing or being put on stand-by. As a midterm perspective, it is expected that companies would be relocated outside borders in more tax friendly environments, such as immediate vicinity of Bulgarian or Hungarian economies.

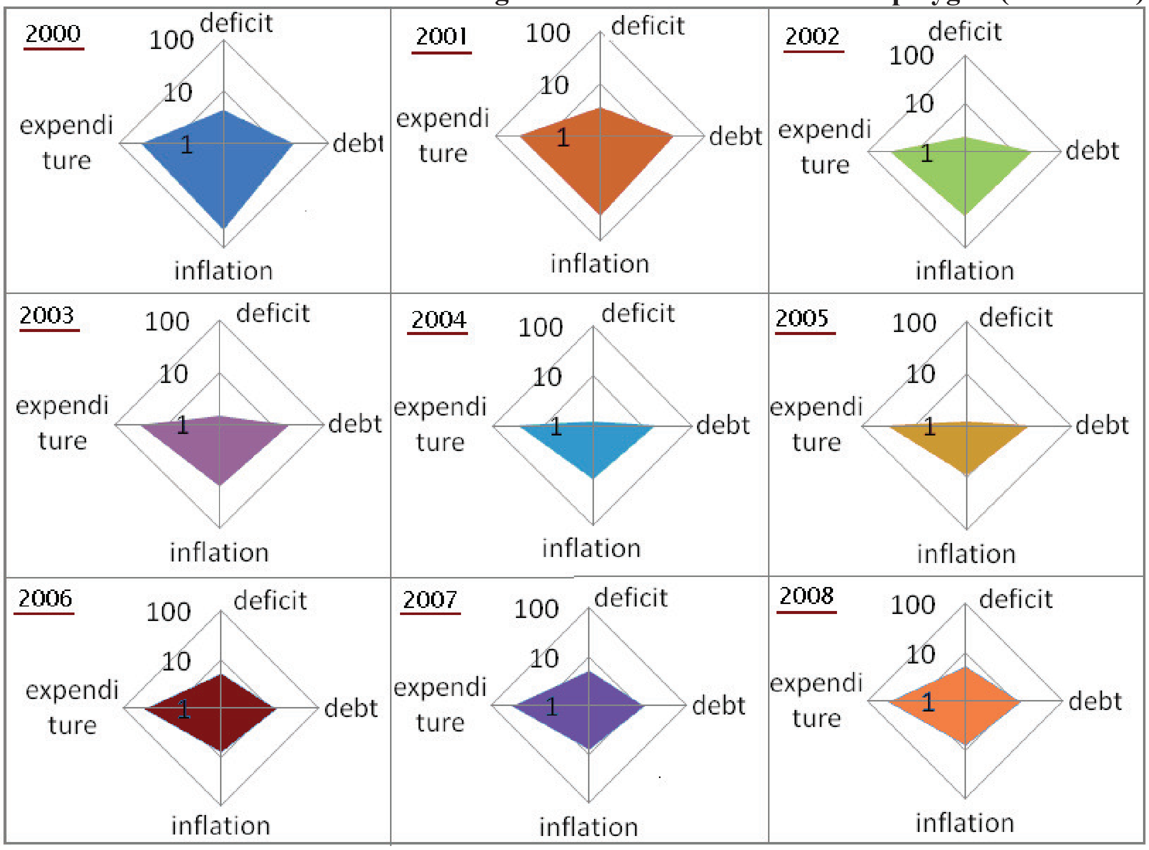
Figure 1 Good Governance Indicators for Romania (2000-2008)



Sources of data: Eurostat, INSSE

The account deficit, public debt and inflation are depicted in the first table. We would make a different representation of these indicators, in order to illustrate the evolution of the polygon created between the four main indicators (general government Expenditure, general government Deficit, Inflation rate and government's Gross Debt) and we will label this the EDIGD Polygon. As we can see in Figure 2, the polygon's evolution gives an image of the link between the four indicators, thus enabling us to consider that *the performance of the government is improving as the area of the polygon decreases*.
The graphic representation is more illustrative for the combined indicators, showing an improvement of the quality of the governance between 2003 and 2006, at least in terms of the specific aspects taken into consideration.

Figure 2 Evolution of the EDIGD polygon (2000-2008)



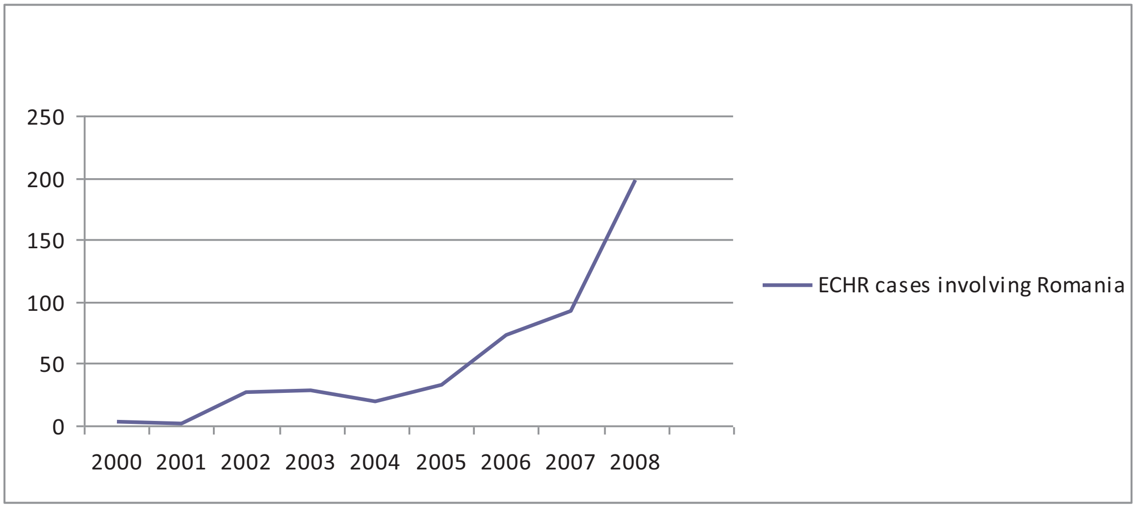
Sources of data: Eurostat, INSSE

A third facet of the problem refers to the *absorption of EU Funds* by the Romanian economy. The inherent difficulties to access the funds due to stringent demands and format of the projects are understandable due to lack of experience in meeting the requirements of the EU in the proposals. However, this is a direct assistance on the competitiveness alignment of the new members to the dynamics of the EU environment. Not being able to access a direct factor in competitiveness improvement is to ignore the very first rule of entering in a new environment: know your competitors and learn how to act in order to create a competitive advantage.

For Romania, there is a significant percentage (not aggregated data available) of funds returned to the EU due to failure to absorb. This metric follows the capability of the Romanian institutions to create projects and to allot funding according to the EU regulations. An improvement in governance would be evidently indicated by a reduction in this figure.

Lastly we would discuss the number and volume of cases lost by Romania at ECHR (European Court of Human Rights). We consider the dynamic increase of cases involving Romania (as shown in figure 3) as being indicative of the issues in the *Romanian justice system.* Actually, this indicator is similar in intention and interpretation with the aggregate indicator Rule of Law, used by the World Bank in its Annual Report [2].

Figure 3 Evolution of ECHR cases involving Romania (2000-2008)



Source of data: ECHR

On the same line, we refer to the number and volume of cases opened by OLAF (The European Anti Fraud Office). In fact, OLAF reported that in 2007 the most cases it dealt with were involving Romania. This is particularly impressive, in a negative sense, as Romania had just joined the EU. This is indicative of the struggle uphill for the law enforcement agencies. Unfortunately, the Romanian government seems quite unable to moderate the situation and OLAF had to step in. The 2008 activity report is expected for soon.
Infringement procedures opened against Romania: As part of the feedback mechanism established in the EU, the infringement procedures are indicative of the capacity to follow the European directives. We associate a lower number of infringement cases with better governance.
All these aspects of the same concept join up a broader picture, connecting the good practices in governance and the competitiveness. We believe there is an undoubted connection between the two and an alteration of the governance indicators, as well as an improvement can bring significant mutations in the global competitiveness.

Conclusion

The good governance is a mosaic of State actions. Currently, the metrics we have examined are showing an important gap between Romania and most European states.
We consider that while the Romanian governance improved since 2000, some indicators are screening worsening performance which is taking its toll on the Romanian economic competitiveness.

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