THE ECONOMIC GOVERNANCE: CONCEPT, INSTRUMENTS OF MEASURMENT AND EVOLUTIONS ACROSS EUROPEAN UNION MEMBER STATES

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Abstract: *The literature in the field identified over time a series of economic and non-economic factors that trigger the process of economic growth and convergence. Despite the fact that most of the theoretical as well as the empirical studies address the determinants of the economic growth process only from an economic perspective, a series of recent debates draw the attention upon a neglected category of factors until now, namely the quality of the economic growth process and the role of institutions as important tools in promoting convergence/divergence between economies. This new area of research, named institutional economics, highlights the role of institutions in protecting the property rights and the contracts (Han, X., et all 2014). Although these factors were often ignored as explicative variables of the economic growth process, in comparison to factors such as human capital, physical capital or technological progress, recently economists, researches or other participants in the market became highly aware of their importance. The primary objective of the current paper is to analyze the concept of economic governance as detailed within a series of studies in the field, or as perceived by international organizations. In addition to this objective we present some main indicators used to measure the quality and efficiency of the economic governance process with precise data and evolutions for the member states of the European Union. The main conclusions of our study reveal the fact that in order to achieve high levels of economic growth and convergence across European Union member states there is a strong need for enforcing the legal framework of EU along with the transfer of the power regarding the development, management and implementation of the economic stability policies from the national to the supra-national level. Also a harmonization of the institutional structure is required as a measure for supporting economic performance.*

Keywords: economic governance**,** economic growth, economic convergence, European Union

JEL classification: H11, O38, O43

1. Introduction

The importance of the economic governance process proves to be of real interest taking into consideration the fact that the markets, the economies and the transactions between different economic actors cannot develop without its presence. Despite that, there are states were the process of economic governance develops within optimum parameters and on the other hand there are states where this is characterized my major shortcomings. The question that arises in this situation may be summarized such us: Which are the responsible factors for the efficiency of the economic governance process within a certain economy? The answer to this question may rely in the fact that in some states there is no competent regulatory framework or the imposed rules are situated at a sub-optimal level.

The process of economic governance influence nowadays a multitude of areas, including the economic field, the political one, anthropology, triggering an harmonization in what concerns the development of the social sciences. The agricultural area is another important sector where the economic governance process determines significant transformations (Pop, 2015). This embodies a series of dimensions and, concentrating the analysis of the economic governance quality on a single instrument seems useless in estimating the economic contribution of different economic governance categories (Givens, 2013).

Acknowledging the role attributed to the economic governance in stimulating the economic growth and convergence trends was in a certain degree limited. The current interest in this category of indicators is due to the actual economic and political framework and may be a consequence of the economic circumstances experienced over time. Santiso (2001) argues that across the current emerging economies achieving a sustainable level of economic governance constitute an objective and at the same time a basic requirement in promoting economic development. Despite all that, interconnecting these elements seems a real challenge for the institutions that operate across the states (Santinso, 2001).

The remainder of this paper is organized as follows: section 2 highlights some major contributions in defining the economic governance concept; section 3 details certain key instruments used by several international organization in quantifying the economic governance indicators as well as presenting the evolution of these indicators across the European Union member states and section 4 summarize the main conclusions and policy implications of the current study.

2. The economic governance concept – short literature review

Even though the role of the economic governance process is extremely important in ensuring economic stability and enhancing the economic growth trends, developing a precise definition regarding this concept constitute a real challenge taking into consideration the wide spectrum of meaning it incorporates. It embodies the process of decision making by the institutions, their manner of operating and implementing policies as well as the ethical norms characteristic to the process of governance (Delors, J., 2013).

According to the view expressed by the World Bank, the process of governance is defined as:"*Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them*". Moreover the Anti-Corruption and Governance Strategy of the World Bank attributes the following definition to the economic governance process:" *the manner in which the public authorities and the institutions acquire and exercise their authority in developing public policies and providing goods and services". (World Bank, 2006)*.

Kooiman (1993: 2) approach to the economic governance concept may be summarized such as:" *the total amount of activities with social, political and administrative characteristics conducted by different individuals that may be regarded as joint efforts to guide, control and manage the society*". From this point of view the economic governance embodies an interconnected action between the members of a society and implies a cumulative participation in order to achieve the established objectives. On the other hand Rosenau (1995: 14) develops the definition of the economic governance concept in terms of the activities of the national governments including in this category: changes of the

norms, issuing new directives and pursuing policies. In this case the economic governance is viewed as a responsibility attributed only to the legal authorities of the state without any intervention from other players in the market.

Another important definition of the economic governance concept is the one elaborated by Huther and Shah (1996, 1998) that states:"*the aspects thorough which the authority is exercised including formal and informal institutions that have the role to manage the resources of one state".* The authors bring into light the dichotomy concerning the level of institutions that have a decisive role in coordinating the economic governance process.

In the study entitled "*Governance institutions and economic activity*", Dixit (2009: 5) refers to the economic governance concept taking into consideration the fact that: " *the functioning and organization of the social and legal institutions that support the economic activity and transactions by protecting the property rights, implementing arrangements and the collective work with the purpose of developing a physical and organizational infrastructure that would allow the interconnection between economic actors, individuals and companies*". During time worldwide economies used different types of institutions in order to achieve their established goals, that depending on the existing circumstances proved to be successful or not. Therefore, the study of the economic governance concept refers to these institutions, to the models developed theoretically and empirically, or to the manner in which these institutions interconnect or develop in order to assure economic stability and high levels of performance.

Also Oxford Advanced Learners Dictionary (2010: 672) defines economic governance as being:"*the governing activity exercised at the level of a country or of a company*". This definition extends the research area on what the specialists name corporate governance. Corporate governance analysis the internal management of a company, its organizational structures and the manner in which the company relates to the shareholders or stakeholders. Although there is a clear dependence between economic and corporate governance, given the fact that companies operate taking into account the norms and rules established by the state, this study will concentrate only on what economic governance aspects.

Even thought there was a significant progress in defining and interpreting the economic governance process in the last three decades, we have to keep in mind that many times there is a confusion between the term governance and government. For example in the American Heritage, Random House and Merriam Webster dictionaries the term of government and governance are presented as synonymous and defined such as: *" the process of exerting authority or control*", "*a method or a system of governing*", " *the act, the process, the power to govern*".

We consider that the government constitute in this case just a component of the economic governance process that requires a series of other social institutions in order to develop and improve the economic performance of a certain state.

Based on this short introspection in the literature in the field, we consider necessary to express our point of view upon the meaning of the economic governance concept that will constitute the main approach of the current research. Therefore the economic governance embodies: "*the set of norms, rules, operating principles and measures, developed across a certain economy by the formal along with the informal institutions with the purpose of assuring economic, political and social discipline, promoting economic progress and convergence without limiting/affecting the interests of other states/individuals/companies*.

3. Instruments to measure governance

Over time a number of studies and international organizations tried based upon the existing data, to develop a set of indicators that would incorporate accurately all the transformations within this system.

These indicators include different elements that relate to the process of economic governance. Their different structure, depending on the issuing institutions, is a strong indicator in favour of the multiple perspectives one may analyze and quantify economic governance. The main objective of this section is to shortly inventory the literature in the field of economic governance indicators as well as presenting their evolution across European Union member states.

Transparency International is an organization developed in 1993 whose primary objective is to reduce the level of corruption across world economies. With over 100 headquarters globally, this organization aims at developing a complex analysis that would embody useful information regarding the level of corruption for more than 190 economies, but also to investigate the cause and effects of the corruption in different types of states. The main categories of indicators used by the Transparency Index are:

- Corruption Perception Index
- Global Corruption Barometer
- Bribe Payers Index

Corruption Perception Index was firstly established in 1995 and constitutes one of the most important instruments used by the Transparency Index in modelling the data concerning this aspect. This composite index requires at least three different sources in order to be validated. This index is calculated for 175 world economies (according to the most recent report published by the organization) and concerns the manner of which corruption is perceived by officials or politicians. The value for this indicator ranges between 0 (the highest perceived value of corruption) and 100 (the lowest perceived value of corruption). According to the data published in 2014, 75% of the world economies obtained a score below 50, the country with the lowest value associated to this index being Denmark (92), at the opposite pole being situated North Correa and Somalia with 8 points.

The values for the member states of the European Union as well as the global rank regarding the corruption perception index are listed in table 1.

Table 1: Corruption Perception Index across European Union Member states in 2014

Country	Index value in 2014	Evolution in comparison to 2013	Global rank
European Union	66/100	Increase	43/175
Austria	72/100	Increase	23/175
Belgium	76/100	Increase	15/175
Bulgaria	43/100	Increase	69/175
Czech Republic	51/100	Constant	53/175
Croatia	48/100	Increase	61/175
Cyprus	63/100	Constant	31/175
Denmark	92/100	Increase	1/175
Estonia	69/100	Increase	26/175
Finland	89/100	Constant	3/175
France	69/100	Decrease	26/175

Germany	79/100	Increase	12/175
Greece	43/100	Increase	69/175
Hungary	54/100	Constant	47/175
Ireland	74/100	Increase	17/175
Italy	43/100	Constant	69/175
Latvia	55/100	Increase	43/175
Lithuania	58/100	Increase	39/175
Luxemburg	82/100	Increase	9/175
Malta	55/100	Decrease	43/175
Netherlands	83/100	Constant	8/175
Poland	61/100	Increase	35/175
Portugal	63/100	Increase	31/175
Romania	43/100	Constant	69/175
Slovakia	50/100	Increase	54/175
Slovenia	58/100	Increase	39/175
Spain	60/100	Increase	37/175
Sweden	87/100	Decrease	4/175
United Kingdom	79/100	Increase	12/175

Source: Global Report on Corruption Perception Index 2014 available at: http://issuu.com/transparencyinternational/docs/2014_cpibrochure_en?e=2496456/10375881

In what concerns the evolution of the corruption perception index across European Union member states we may notice that there is an increasing tendency of this index in the majority of the countries which means an increase of the confidence level on the capacity of the authorities to coordinate and implement public policies that would suits the interests of all members of the society. Regarding the relatives scores Denmark is the country that is situated on the first rank with the lowest perceived level of corruption, followed by Finland (89/100) and Sweden (87/100). The states with the highest perceived level of corruption are Greece and Bulgaria with a score of 43/100, these states being the ones that confronted with the most accentuated instabilities associated to the political environment in the recent period.

The second indicator used by Transparency International in the analysis of the corruption process, constitute a survey that embodies the perception of the society upon the level of corruption. The minimum age of respondents is 15 years old and for each state is selected a representative sample that may be both national and urban. According to the Global Corruption Barometer report from 2013, almost 52% of the interviewed citizens across European Union member states consider that the level of corruption increased in the last two years, while 12% agree that this level has decreased. Respondents from Portugal (78%), France (72%) or Cyprus (71%) are the ones who believe that there is currently a high level of corruption within their national states, while at the opposite pole are situated economies like Denmark (27%), Croatia (21%) or Belgium (11%). In what concerns the corruption issue only Denmark agrees that is not a warning signal for its society, while Greece, Portugal, Spain, Lithuania or Romania consider it a problem of great interest. Regarding the level of corruption across institutions, the most affected sector is the one corresponding to the political parties (score 4 of 5), followed by the parliament (score 3,7 of 5) and business (3,5 of 5), the least affected being the military sector (score 2,7 of 5). Table no. 2 details the institutions considered by the population to be the most corrupted at European Union level.

Table 2: The most corrupt institutions according to the data published by Transparency International in 2013

Countries	Institution considered corrupted
European Union	Political parties
Belgium	Political parties
Bulgaria	Judicial system
Croatia	Political parties, Judicial system
Cyprus	Political parties
Denmark	Religious groups
Estonia	Political parties
France	Political parties
Germany	Political parties
Greece	Political parties
Hungary	Political parties
Italy	Political parties
Latvia	Political parties
Lithuania	Judicial system and the Parliament
Luxemburg	Political parties
Portugal	Political parties
Romania	Political parties
Slovakia	Political parties
Slovenia	Political parties
Spain	Political parties
United Kingdom	Political parties and the Media

Source: Transparency International (2013) http://www.transparency.org.ro/politici_si_studii/indici/bgc/2013/GCB2013ReportRo.pdf

With respect to the third indicators analyzed by Transparency International, namely Bribe Payers Index, its main objective is to classify a number of 30 exporting countries regarding their disposal to give bride outside the state borders in order to obtain preferential services. The data provided by the most recent report from 2011 show that the best results in this sectors are achieved by Netherlands (8,8), and Belgium (8,7) in the European Union, at the opposite pole being situated China (6,5) and Russia (6,1).

Another important data source used by economists, analysts and researchers in investigating the economic governance process is The Freedom House Index. Freedom House is an independent organization whose mission is to promote global freedom. This organization was founded in 1941 and was the first American organization which acted as a catalyst for freedom and achieving a democratic environment. The indicators published by this database cover more than 195 economies including 44 economies from Europe. There are two main areas of economic governance process analyzed: political rights and civil liberties. The indicators are grouped as follows:

- Electoral process
- Political pluralism and participation
- Functioning of government

} Political rights

- Freedom of expresion and belief
- Rule of law
- Associational and organizational rights
- Personal autonomy and individual rights

} Civil liberties

According to the 2014 Freedom House index, 45 % of the global economies are considered free, 30% partial free and 25% not-free. The available data for Europe reveal the fact that 88% of the economies are free, while only 12% are partly free, these values being higher than the global average. Moreover the report states that the European countries have a relatively high interest in maintaining the democratic standards and civil liberties at a higher level.

The World Bank is a global institution that has shown a constant concern for developing a set of indicators that would allow providing more complex information upon what sustainable governance implies. Kaufman et all. are the authors that based upon a multitude of reports on firms and individuals across 200 states elaborated a set of six indicators that incorporate all the characteristics of the economic governance concept. These indicators embody over 340 variables collected from 32 different sources including: commercial information providers, study on companies and individuals, non-governmental organizations and public organizations. The authors mentioned three main elements that are considered of high importance in sustaining the viability of these indicators: 1) The used aggregation methodology enables the incorporation of individual information higher than any other existing source; 2) They allow the calculation of the marginal errors of the estimated indicators; 3) Enable the creation of a database with global coverage.

The six indicators used by the World Bank in analysing economic governance are (Kaufmann et all., 2010):

1. *Voice and accountability (VA)*: freedom of expression, freedom of media, freedom of the citizens to elect their government;
2. *Political stability and absence of violence (PV)*: military risk, terrorism, political attacks;
3. *Government effectiveness (GE)*: quality of public and civil services, government capacity in formulating and implementing certain categories of policies;
4. *Regulatory quality (RQ):* capacity of the legal authorities in developing regulations that stimulate the development of the private sector;
5. *Rule of law (RL)*: the enforceability of contract, property rights, the quality of judicial system;
6. *Control of corruption (CC)*: effects and costs of corruption, the degree of confidence of the individuals in the public institutions, the effects of the instability of the political system.

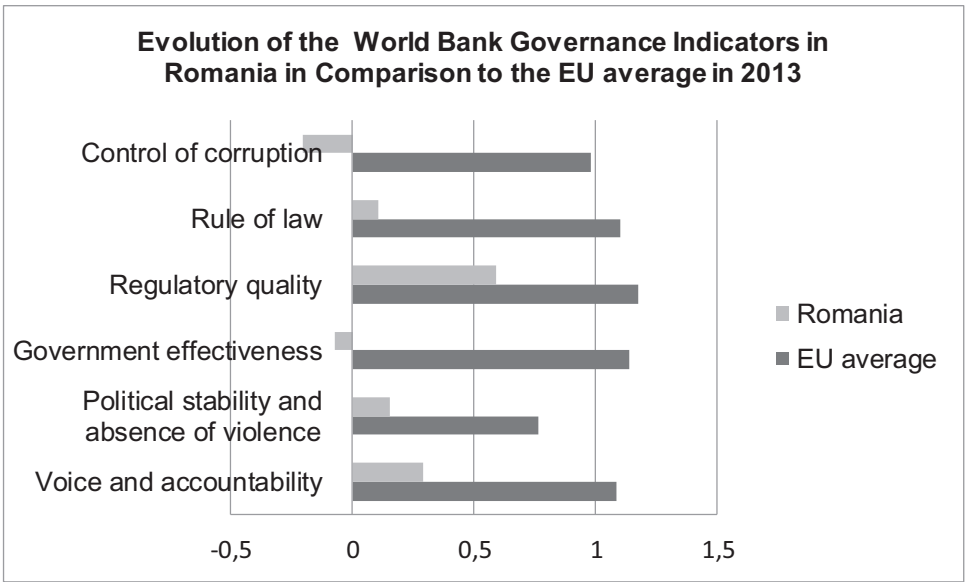

Figure 1: Evolution of the World Bank Governance Indicators in Romania in Comparison to the EU average in 2013
Source: Authors calculation based on World Bank Governance Indicators.

By analyzing the data from the figure above we may conclude the fact that Romanian economic governance indicators are situated below the EU average regarding all six aspects, the area were Romania register even negative values is in respect to the control of corruption and government effectiveness,

4. Conclusions and policy implications

According to the definitions detailed in the previous sections we may notice the fact that the process of economic governance constitute a priority and at the same time a characteristic for many domains stating with markets, communities, state and covering a wide range of institutions that operate at regional, national or supra-national level. The EU economic governance embodies a special feature, namely in this case the decisions are made as a result of an interconnected action between a complex network involving different levels of government.

Even though it is a real challenge to establish a set of indicators that quantify correctly the process of economic governance, world-wide institutions concentrated their efforts in developing complex methodologies that capture the transformation and properties of this debated subject. The Freedom House, Transparency International or World Bank use the most relevant indicators considered by the literature in the field in measuring global economic governance.

The European Union architecture in terms of economic governance differs from the one promoted by other systems and the impact of the recent financial crisis triggered an alarm signal upon the need to reconfigure the institutional and political framework (Deceanu, L., 2015).

Taking all these points into consideration we may conclude that there are strong arguments in favour of transferring the power of elaborating, implementing and managing the economic stability policies from national to supra-national level. Furthermore assuring

an institutional convergence across European Union member states is an important requirement for achieving political integration. Pasini (2013) considered that "*the fight of the European elites in developing a concrete answer from the institutions to the recent economic crisis was not a failure of the modern theories to elaborate feedbacks regarding the coordination of the macroeconomic problems, but rather a refuse to accept the transfer of the political and democratic control over European economic policies*". Also strengthening the existing regulatory framework and developing a normative set of rules that promote fiscal discipline for an early signal of economic, fiscal and monetary deficiency should became primary objective of the economic governance architecture.

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