NEW IMPLICATIONS OF THE ECONOMIC GOVERNANCE PROCESS ACROSS THE EUROPEAN UNION MEMBER STATES

Ioana-Sorina Mihuţ
"Babes-Bolyai" University of Cluj-Napoca, Faculty of Economics and Business Administration, Cluj-Napoca, Romania
ioana.mihut@econ.ubbcluj.ro

Abstract: *The debate concerning the triggering factors of economic growth and development process across economies have been at the centre of interest of the economic studies. The literature in the field divides the determinants of growth into a wide range of categories from economic to non-economic factors. The recent events across the European Union Member States, including the Brexit, the threat generated by immigration and terrorism moved the centre of interest from the financial crisis to the risks associated with the instabilities from the political sector. The economic risk that the European Union Member States had to face during the last years was replaced by the political one. The correct management of this category of risks is attributed to the institutions of the European Union, that are responsible for taking decisions that target the interest of all the Member States. A decisive component in this process is the economic governance. The main purpose of this article is to detail the meaning and implications of the concept of economic governance and at the same time to highlight the channels of transmission between this process and the economic output.*

Keywords: *European Union; Economic governance indicators; Sustainable convergence; Economic disparities; Macroeconomic policies.*

JEL Classification: *H11; O38; O41.*

1. Introduction

The concept of governance has been in the centre of debates regarding the triggering factors and determinants of economic growth from the last years. The adjustment capacity of the national institutions to the multitude of external shocks is considered by the experts in the field to be a strong indicator in favour of what they generally appreciate as *„good governance*". Prior to understand the impact that *„good governance*" has upon the European Union economies, we should focus on defining what governance means. Although a disputed concept, governance can be analysed from a multitude of perspectives and during time a series of institutions, international organizations, policy makers, academics and economists tried to elaborate the most comprehensive interpretations of this term. In 1997 the United Nation Development Programme referred to the concept of governance as "*any organization, including a nation, is run. It includes all the processes, systems, and controls that are used to safeguard and grow assets*". The essence of this definition consists in the fact that governance cannot be perceived as an isolated process, requiring joints efforts between various components of the economy, and the success of the outcomes is strictly dictated by the interconnected actions.
The USAID, Office of Democracy & Governance considers that there are certain conditions that must be fulfilled in order for the governance process to be

characterized as an efficient one:” *in governance, citizens are rightly concerned with a government’s responsiveness to their needs and protection of their rights. In general, governance issues pertain to the ability of government to develop an efficient, effective, and accountable public management process that is open to citizen participation and that strengthens rather than weakens a democratic system of government*”. This definitions highlights the fact that governance should respond to the needs of a society and more importantly to assure citizens of a country the protection of their rights. At the same time the governmental policy goals should be aligned to the goals of the society and the common interests of the citizens should have precedence upon the individual interest of the members of the governmental bodies.

Acemologu (2008), includes the economic performance as an explanatory variable for the concept of governance ”*as a part of a ‘broad cluster of institutions’ – political institutions in his typology”*. Performance in terms of governance is commonly associated with strategic development and implementation of policies as well as the continuous monitoring of the obtained results.

When adding the ”*good”* dimension to the governance process, the complexity of the phenomenon is even more accentuated. In a report from 1992, entitled ”Governance and Development”, the World Bank established the key determinants of what good governance implies, namely ”*the manner in which power is exercised in the management of a country’s economic and social resources for development*”. The World Bank's involvement in the area of good economic governance resides from its main objective of promoting a sustainable economic development across worldwide nations. This objective is closely related to the reduction of the extreme poverty rates across developing and under-developed countries and requires the exclusive participation of the economic governance components namely: the managements of the public sector, transparency or accountability.

The multitude of challenges faced by the Member States of the European Union since the beginning of the 21st century, including immigration, terrorism, the economic financial crisis followed by the debt crisis, confronted its governance framework to a series of problems, its founders didn’t anticipate.

The main purpose of this article is to detail the meaning and implications of the concept of economic governance across the European Union Members States, and also to determine whether the EU institutions are concentrating all their efforts in maintaining the European integration at its highest level.

The structure of the paper is detailed as follows: section 2 describes the implications of the good governance for the case of the European Union, section 3 analysis the instruments used in order to quantify the dimension of good governance across the EU as well as highlighting the differences in levels across the Member States and section 4 present the main conclusions and policy implications of this study.

2. Good economic governance in the European Union

Good economic governance is a key area on the European Union agenda due to the fact that it contributes to the economic growth of the Member States, stimulates foreign direct investments, may create a favourable environment for the creation of new jobs and reduces the poverty rates. The pillars of the European economic governance are not different than the ones established by any other international institution with focus on this topic, including elements such as rule of law,

transparency, accountability or efficiency and equity. Therefore, economic governance is a necessary and mandatory condition for the correct functioning of both the private and the public sector.
When analysing the good governance implications on the performance of the Member States, there are two different dimensions that should be taken under consideration. Firstly, as we already mentioned in the section before, governance as an interconnected process that implies a strong partnership between the main institutions of the EU and the Member States, the benefit by a large number of programs supported through the common European budget. This budget allocates a high percentage for the cohesion and convergence component, as key objectives of this structure. Secondly, the correct assessment of the quality of governance may be a precondition required when allocating certain amounts of financial resources that have the purpose to stimulate the economic growth across these countries.
In a study from 2016, Papajoannou states that ” *in the countries of the European core (e.g., Germany, Netherlands, Austria), legal institutions are well-functioning, adequately protecting investors from managerial fraud; property rights are well-defined; public bureaucracies are professional and public goods- provision is decent; red tape and corruption, while not absent, are not huge issues. In contrast, in the European periphery (Greece, Italy, Portugal, and Spain), legal protection of shareholders and creditors is weak, both because laws are conflicting, ill-designed and not-well- thought-out, and because courts are slow, inefficient, and often produce conflicting rulings. Public administration and national bureaucracies are largely inefficient, characterized by political interference, graft, and lack of professionalism. And states' fiscal capacity is not particularly strong, as tax evasion is sizable and it is challenging for the government to enforce its decision”.*
Therefore despite the core objective of the European Union established by the Treaty of Maastricht and aiming at achieving high levels of convergence across the Member States, continuing divergences arise in the area of governance. When it comes to identify the main causes that explain these divergent trends, factors such as differences in national legal institutions, the ineffectiveness in the public administration or poor quality of the national programs are seen as the most common ones.
Ritzen and Haas (2016), concluded that one of the major threats for the cohesion of the European Union Member States is the decrease registered in respect to the rule of law and the control of corruption. ”*The present institutional structure of the EU has failed to bring about an upward spiral in governance throughout the EU member states*”.
Grzeszczak, R. (2015) attributes to the capacity of the good governance to fulfil the social needs of the EU individuals a primary role. ”*Good governance and the quality of public administration is a key aspect in ensuring a country's long-term competitiveness and well-being*”.
Another interesting discussion regarding the process of governance across the European Union Members States is concerning the efficiency or inefficiency of it.
The first use of the concept of efficient economic governance was in an official document of the European Union Council in 1991 that focused on the implication of the Union in the support of the emerging economies.
The developed economies of the European Union such as Luxembourg or Germany, the founder states of this community, incorporated within their national development policies elements such as the protection of human rights, democracy or rule of law

even since 1989. On the other hand, the emerging economies from the Central and Eastern Europe were facing a series of vicissitudes regarding these issues. One explanation for this delay can also be found in the political regimes these two groups of countries were experiencing. Due to these divergent paths across the countries and awareness of the importance of this area, the European Union decided to include them within the Copenhagen criteria for accessing the EU. The elements related to the framework of economic governance are detailed in two sections of the Treaty, namely the political criterion and the criterion on the compliance of the acquis-communautaire.
The structure of the governance profile of the European Union includes nine main components, each of it targeting specific elements. The components are: 1) Political/democratic governance; 2) Rule of law); 3) Control of corruption; 4) Governmental effectiveness; 5) Economic governance; 6) Internal or external security; 7) Social governance; 8) International and regional context; 9) The quality of partnership. Only the last three ones are novelty instruments developed by the members of the European Commission, the first six ones being previously included in the structure of other international institutions, mainly the World Bank.
These indicators are taking into consideration both the political component of the governance process as well as the progress level in the development of the emerging economies. More importantly, there is much consideration for the existence of legal instruments, a required condition for the implementation of different economic and social policies.

3. Measuring good economic governance in the European Union

Taking into consideration the fact that the concept of governance is a multidimensional one, the set of index used to measure it include data regarding the control of corruption, government effectiveness, rule of law, political freedom or economic and political risks. If we perform an overall analyse of the literature in the field, we can identify a wide range on indicators that are used by different international organizations to measure and capture all the characteristics of what the process of good governance implies. Regarding the correct evaluation of the concept of *„goodness*”, Gerring's (1999) identifies eight different criteria that should be used in the formation of the social indicators: 1) Familiarity; 2) Resonance; 3) Parsimony; 4) Coherence; 5) Differentiation; 6) Depth; 7) Theoretical Utility – 8) Field Utility.
If we were to mention some of the most common measures of governance, it should be brought into attention the World Bank's Worldwide Governance Indicators (WGI) developed by Kaufamnn et al., The Freedom House Index, The Social Justice Index, The Competitiveness Index published by World Economic Forum or the indicators published by Transparency International.
By performing a broad examination of the structure of these indicators, we may identify one frequent component in the assessment of the governance process considered to be relevant by the vast majority of them, and namely the corruption issue.
Corruption is defined by the OECD as ”*the abuse of public office for private (economic) gain”. This excludes corrupt practices that occur exclusively among private sector agents, and purely “political” corruption, which focuses on the allocation of political power, rather than economic resources (although in practice the two frequently overlap*.”

The European Commission defines corruption as ”*the abuse of power for private gain. Corruption takes many forms, such as bribery, trading in influence, abuse of functions, but can also hide behind nepotism, conflicts of interest, or revolving doors between the public and the private sectors*”.

The use of ”*abusive*” practices is in both of the cases assimilated with the corruption aspect, and political corruption is at the heart of the interpretation.

The control of corruption and the anti-corruption measures were at the centre of the dialogue on economic governance between the EU and national authorities. The European Semester country report incorporates a comprehensive investigation of the corruption risks and the recommendations each country should undertake in order to face the challenges addressed by this phenomenon.

According to the latest data provided by the European Semester country report (2018), economies like Belgium, Luxembourg, Germany or Netherlands received no recommendations for improving their anti-corruption policies and the corruption issues are not considered to be a problematic issue that threats the economic development of these countries. In contrast, Member States like Romania, Bulgaria or Italy experience severe downturns in the fight against corruption. Furthermore, corruption remains an important obstacle when it comes to the business environment. As detailed by the data published by the World Economic Forum corruption along with the governance issues, remains strong matters of concerns for the business environment in Romania. In 2017, the topic of corruption and patronage or nepotism were identified as major obstacles by approx. 85% of the interviewed citizens, while the EU average sets around 37%. Bribery is appreciated by 86% as one of the most used way to obtain certain public advantages, while 70 % consider that the success of their business is strictly correlated to their political connection. The interpretation of this data reveal the fact that, in Romania the private sector is heavily affected by the high rates of the political corruption, and investors from the business environment include this risks at the top of the list when evaluating the opportunity to state a new business within this country.

In Bulgaria 62 % of the people from the business environment agreed that corruption is an explanatory factor for the reduced performances of their companies, and police and customs are the most corrupt public institutions.

Although, Italy managed to improve its score concerning the control of corruption indicators, this country remains on the top of the rank when we discuss about favouritism (95 %, compared to the EU average of 74 %).

The control of corruption indicator composed by the World Bank captures ”*the perceptions of the extent to which public power is exercised for private gain*”. The control of corruption is perceived by the World Bank as one of the major challenges in achieving their goals related to the issue of poverty. One paradox identified by the World Bank experts within their empirical studies is that citizens from poor and developing countries are more willing to pay bribes, in comparison to individuals from rich economies. One explanation to this phenomenon may be the difference experienced by these group of countries in terms of education or cultural background.

According to the latest data published by this institution, the best performances in terms of the corruption control are experienced by countries like Denmark, Luxembourg, Sweden, Finland and Netherlands both in terms of estimated results as in terms of ranks. At the opposite pole there are situated countries like Italy,

Romania, Greece and Bulgaria, the last two countries being the only ones that registered negative values for the year 2016.
These countries have a long history of weak governance and weak control of the corruption indicators, therefore the national authorities should establish clearer benchmarks and fix targets when dealing with these aspects. Moreover, understanding the causes of poor governance may lead to strong improvements in this sector. Also reducing the opportunities for corruption in these countries by promoting transparency, fair competition among economic agents and avoiding complex financial structures may constitute a firm response in the fight against corruption.

Table 1: The Worlds Bank control of corruption indicator in EU Members States (2016)

No.	Country	Estimate	Rank	No.	Country	Estimate	Rank
1	Belgium	1,60	92,31	15	Hungary	0,08	61,06
2	Bulgaria	-0,16	51,44	16	Italy	0,05	59,62
3	Cyprus	0,82	77,88	17	Lithuania	0,67	73,08
4	Czech Republic	0,51	67,79	18	Luxembourg	2,08	97,60
5	Germany	1,83	93,75	19	Latvia	0,49	67,31
6	Denmark	2,24	99,04	20	Netherlands	1,95	94,71
7	Spain	0,52	68,75	21	Poland	0,75	76,44
8	Estonia	1,21	84,62	22	Romania	0,00	58,17
9	Finland	2,28	99,52	23	Slovak Republic	0,24	63,46
10	France	1,37	90,38	24	Slovenia	0,80	77,40
11	United Kingdom	1,88	94,23	25	Malta	0,72	75,96
12	Greece	-0,05	56,73	26	Portugal	0,96	80,77
13	Sweden	2,22	98,56	27	Ireland	1,63	92,79
14	Croatia	0,19	62,50	28	Austria	1,54	91,35

Source: World Bank, Worldwide governance indicators, retrieve from http://info.worldbank.org/governance/wgi/#home. Legend: Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance; Rank - Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank), accessed at 11.04.2018.

The Corruption perception index (CPI) is published by the Transparency International Agency since 1995, the primary objective of this agency being the fight against corruption. This index is calculated for a number of 180 worldwide economies, at the values associated to it range between 0 (the highest perceived value of corruption) and 100 (the lowest perceived value of corruption).
Table 2 incorporates the data for the perceived levels of corruption in all the 28 Member States of the European Union. From the analysis of the index, we may conclude that there is a low perceived level of corruption in countries like Denmark, Finland, Netherlands or Luxembourg, these countries being at the same time the

countries with the best values for this indicator in the global ranking. On the other side, in countries like Romania, Bulgaria, Greece or Hungary the corruption is perceived as a common phenomenon, being situated below the regional score of the area. The data obtained by the Transparency International agency are consistent with the ones delivered by the World Bank or included in the European Semester country report. If we look at the evolution of other indicators we notice the fact that across these countries (Denmark, Finland, Netherlands or Luxembourg) there is a high level of the GDP/capita, high labour productivity, high rates of tertiary gross enrolment and the percentage of the GDP that the national government allocates to research and development is situated far above the EU average.

Table 2: Corruption perception index published by Transparency International 2017

No.	Country	CPI 2017	Rank 2017	No.	Country	CPI 2017	Rank 2017
1	Denmark	88	2	15	Poland	60	36
2	Finland	85	3	16	Lithuania	59	38
3	Sweden	84	6	17	Latvia	58	40
4	Luxembourg	82	8	18	Cyprus	57	42
5	Netherlands	82	8	19	Czech Republic	57	42
6	United Kingdom	82	8	20	Spain	57	42
7	Germany	81	12	21	Malta	56	46
8	Austria	75	16	22	Italy	50	54
9	Belgium	75	16	23	Slovakia	50	54
10	Ireland	74	19	24	Croatia	49	57
11	Estonia	71	21	25	Greece	48	59
12	France	70	23	26	Romania	48	59
13	Portugal	63	29	27	Hungary	45	66
14	Slovenia	61	34	28	Bulgaria	43	71
	Regional score	64,64					

Source: Transparency International, retrieve from: https://www.transparency.org/news/feature/corruption_perceptions_index_2017, accessed at 11.04.2018.

The obtained results are driven by the fact that individuals from these countries believe that their national institutions are failing to deliver sound policies that are based on pillars such as prosperity and equal opportunities and therefore the level of confidence in the ability of this institutions to succeed is considerably low.

Conclusions and policy implications

Whether we talk in terms of economic growth rates, productivity or level of investments, the assumption that there is a gap between the European Union Member States is highly confirmed by the official statistical data. The institutional gap confirms even with more strong arguments the assumed hypothesis. If we were to summarize the main research question of the present study, it can be summarized as: *What trends in terms of governance define the European Union Members States paths in the current economic and political context*? As the study details thought its content, the factors that are responsible for these divergent trends can be found in the historical and cultural background. These existing difference are not the only objective explanation we may identify and going further into the topic, the fact that these countries adopted heterogeneous models of economic and institutional development are considered to be strong evidence in recognizing the divergent trends.

There is a wide range of literature in the field that support with empirical evidence that there is a direct and positive link between the quality of the governance process and the general output of an economy. As we detailed in this study, governance may be quantified in numerous way, but one common measure used by the institutions preoccupied with this aspect is the corruption variable. Data revealed that corruption is perceived and experienced differently between the Member States. While in countries like Denmark, Finland or Netherlands corruption is not a major obstacle for achieving high rates of economic growth, in countries like Romania, Bulgaria or Greece the problem of corruption and the solutions that the governments developed to counteract the effects of it, are seen ineffective by the citizens. Moreover, bribery and political connections are seen by the citizens of these last countries as the easiest method to obtain public gains. Specialist in the field agreed that there is a strong correlation between the level of democracy and rule of law and the risk of corruption.

A mechanism to assess the efforts undertaken by the authorities of the Member States to improve the corruption shortcomings in their countries was established by the European Commission since June 2011.

The general recommendations designed by the institutional framework of the European Union and directed to the Member States, relate to the area of transparency and the standards each country attributes to it and also the strengthen of the control used mechanisms. Since corruption affects at a different degree all the members of a country, whether they work in the business environment or the public sector, raising the awareness about the preventions tools and mechanisms, may be seen as a long term commitment in the fight against

Bibliography

1. Acemoglu, D. (2008) *Interaction between Governance and Growth: What World Bank Economists Need to Know*. In: North et al. Governance, Growth and Development Decision-making. Washington D.C.: The World Bank.
2. European Commission (2018), *European Semester country reports*, [Online], available: https://ec.europa.eu/info/publications/2018-european-semester-country-reports_en.

3. European Ombudsman *The Concept & Theories of Governance,* [Online], available: http://www.ombudsman.gov.ph/UNDP4/wp-content/uploads/2013/01/Module_I.pdf
4. European Parliament (2015) *Costs of corruption in developing countries – how effectively is aid being spend*, [Online], available http://www.europarl.europa.eu/meetdocs/2014_2019/documents/acp/dv/stu549042/stu549042en.pdf.
5. Gerring, J. (1999). "What Makes a Concept Good? A Criterial Framework for Understanding Concept Formation in the Social Sciences", *Polity*, 31(3): pp. 357-93.
6. Grzeszczak, R. (2015) "The Concept and Practice of Good Governance in the European Union", *International Journal of Law and Political Sciences,* Vol.9, No.2, pp. 449-453.
7. OECD (2015) *Issues paper on corruption and economic growth,* [Online], available: https://www.oecd.org/g20/topics/anti-corruption/Issue-Paper-Corruption-and-Economic-Growth.pdf.
8. Papajoannou, Elias (2016) *Needed A European Institutional Union,* VOX CEPR's Policy Porta.
9. Ritzen, Jo, Haas, Jasmina (2016) "In Europe we trust?" , *IZA Policy Paper*, No. 112, Institute for the Study of Labor (IZA), Bonn.
10. Transparency International (2017) *Global Corruption Barometer, People and Corruption, Europe and Central Africa*, [Online], available: https://www.transparency.org/whatwedo/publication/7493.
11. United Nations Economic and Social Council (2006*) Definition of basic concepts and terminologies in governance and public administration,* available: http://unpan1.un.org/intradoc/groups/public/documents/un/unpan022332.pdf.
12. United Nations Development Program (1997) *Governance & Sustainable Human Development. A UNDP Policy Documen*t.
13. World Bank (2018) *Worldwide governance indicators*, [Online], available: http://info.worldbank.org/governance/wgi/#home.