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Good governance as prerequisite for a sound economy

The issue of good governance is continually gaining momentum, although it is not new. The reason for that is quite obvious and refers to the search for greater economic efficiency and effectiveness, particularly at this time of crisis when traditional economic theories fail to come up with workable solutions to problems plaguing the economies of most countries. To some governance, and particularly good governance appears equal, if not more important than effectiveness and efficiency. There are even those who claim that most governments, even in some traditional democracies, are no longer capable of delivering on what is their principle responsibility: proper management of the national economy.

What is then governance and what constitutes good governance? Why can some countries come close to it while the others fail to apply even the most fundamental conditions for good governance? These questions and some other issues constitute the focus of the present paper.

Definition of good governance

While the term is widely used in both economic and political enunciations, it is far from being unequivocal. Without entering into an unnecessary semantic discussion we shall use a definition provided by UNESCAP which reads: governance is *the process of decision-making and the process by which decisions are implemented (or not implemented)*. The term governance can apply to corporate, international, national, local governance or to the interactions between other sectors of society[13)].

The main difference between good governance and governance is the one of accountability[1, 3)]. Even if a country possesses relatively viable instruments for practicing good governance but these are not applied, such a country cannot be considered a case of good governance. Good governance, such as the one that is attributed to mature democracies, is usually perceived as a model for those whose institutions are not yet able to ensure it. This is the case of the majority of developing nations.

Such a definition of good governance as presented above fails to relate it to socio-political and cultural background of a particular country or a group of countries, such as those in the developing world. People of the Western culture all too often tend to judge the latter by their own standards and criteria and comparisons made may be misleading, to say the least. People in the developing world often perceive such attempts to impose the Western standards on them as meddling into their internal affairs and simply believe they are counterproductive[9)].

This implies that there are no universal standards as regards the application of good governance to each and every country or society. What is good governance in one type of a country may simply be perceived as a bad in another, particularly when it disregards the reality of the latter. Consequently, one has to adopt a certain degree of flexibility when assessing particular countries according the level of good governance they practice.

What constitutes good governance

The definition of good governance would be meaningless without some details relating to its nature, scope and implications for the society. If the term means a process of decision-making then governance affects all people. But even good governance affects people in different ways because there are no classless societies, even in the so-called post-communist nations. Quite the opposite, inequality in these post-communist states may be even more pronounced than in most post-industrial, mature democracies.

One aspect of the definition of governance provided in the previous section deserves emphasizing, namely that it is a process of making decisions and implementing (or not implementing) them and not the act of decision-making itself. A process designates something that is evolutionary which means that it can be modified, accelerated (or slowed-down) or suppressed altogether. Thus governance is an evolving, dynamic process. What could be good governance a generation or two ago is not necessarily the same today.

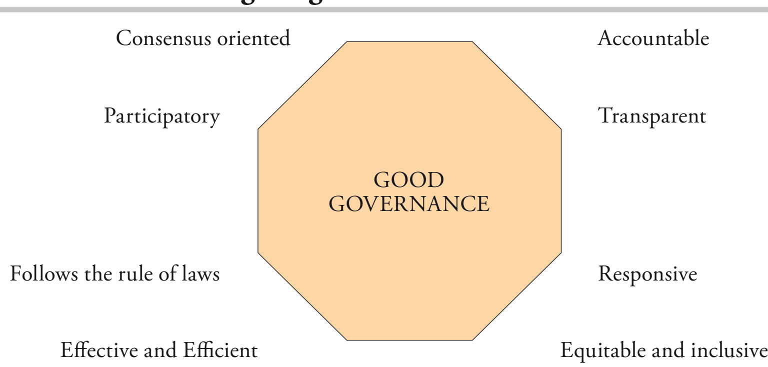
While the definitions of good governance provided by UN, World Bank or IMF differ in methodology and scope they invariably emphasize certain common points, such as: consensus, accountability, participation and inclusiveness, respect of the rule of law, transparency and responsiveness (see figure 1). These are the very basic conditions for good governance but even in the mature democracies these are not easy to ensure. Not to mention the majority of the less developed or the post-communist countries.

Good governance can be analyzed at a local, national or international level, and may include the following relationships[1)]:

- those occurring between governments and markets,
- between governments and citizens,
- between governments and the private or voluntary sector,
- between elected officials and appointed officials,
- between local institutions and urban and rural dwellers,
- between legislature and executive branches,
- between nation states and institutions.

Regardless of the type or level of relationships, good governance requires that they be based on the principles enunciated in figure 1. Accountability and transparency are of paramount importance because good governance will not be possible without them. However, even in some mature democracies accountability and transparency will not be sufficient to ensure good governance if proper links between legislative and executive power are not guaranteed. This seems to be the

Figure 1 **Characteristics of good governance**



Source: UNESCAP 2009.

case of some newly enfranchised former communist states where the judiciary branch is sometimes prone to bow to political pressures.

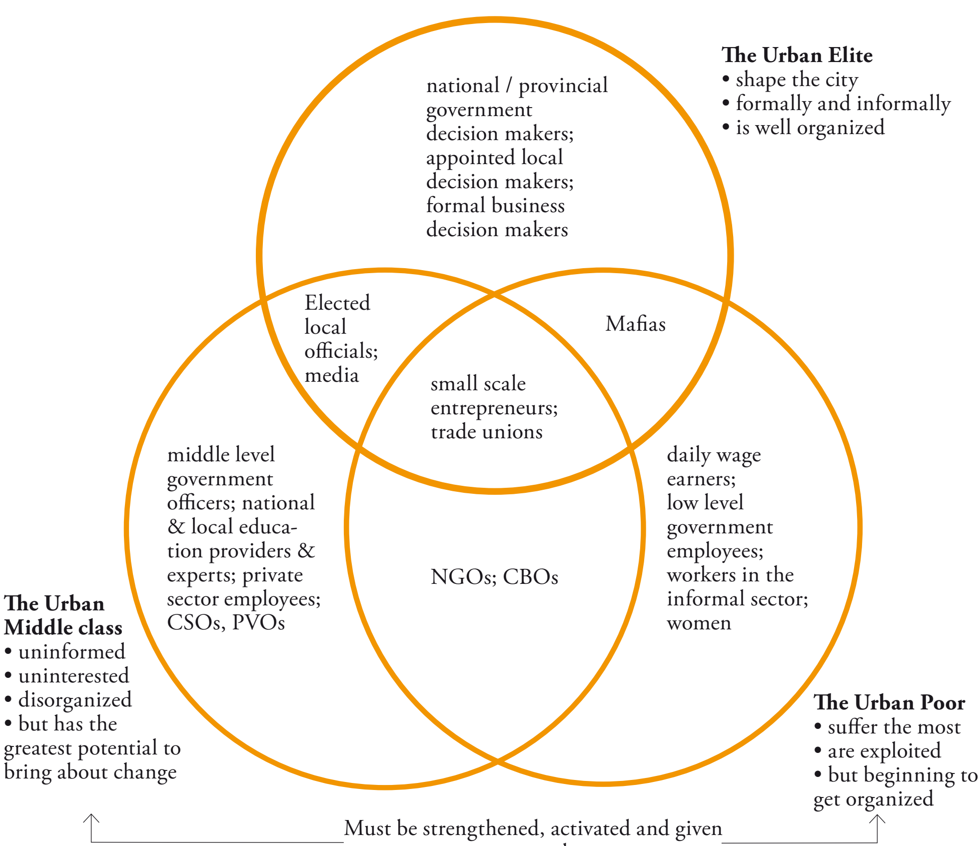
From among the definitions provided by the three international institutions mentioned above (UN, World Bank and IMF) the one provided by the World Bank deserves special mention in the context of the present paper. It underlines three aspects of society which affect the nature of a country's governance[1)]:

- type of political regime,
- process by which authority is exercised in the management of the economic and social resources, with a view to development,
- capacity of governments to formulate policies and have them effectively implemented.

It would be, however, difficult to attach any measurable degree of significance to all the three elements above and make them quantifiable. While the type of a political regime is universally believed to have direct impact on governance, and democracies are more likely to practice good governance than, for examples, autocracies, it does not, however, have to be always the case. Furthermore, even mature democracies, as mentioned earlier, may see their capacities to practice good governance restrained, for some definite reasons. One of the areas where such limitations may and usually do appear is the domain of the management of public finances.

The second and the third point on the World Bank's list seem to have equal, if not greater significance than the type of political regime alone. Again, the main reason for that may be the fact that between declarations by a political power (government) and the political and the

Figure 2 **Urban actors in governance**



Source: as in figure 1.

economic reality of a given country may exist a considerable hiatus. It is one thing to declare government's intentions to the public, particularly during an electoral campaign, and quite another to keep up to them. Most governments will always find an excuse for such a divergence and put blame on a vaguely identified "objective difficulties". The core of the problem seems to lie in *the process by which authority is exercised in the management of economic and social resources with a view to development*, to use the Bank's own words. Governments may have conflicting views of what constitutes a *development* and consequently would adapt their policies in the process of policy implementation accordingly. These policies may not be exactly what the populace expects and often are derailed by the social opposition to them. In mature democracies good governance is inseparably connected to the rule of law which is not easy to safeguard in the majority of the developing world.

The capacity of governments to formulate policies and have them effectively realized (the third point on the World Bank's list) is a major challenge for the process of practicing good governance. Many governments simply lack sufficient managerial skills to confront such challenges, particularly at this time of globalization and inability of political power to avoid its vagaries and direct impact on national economies. Added to this is an insufficient degree of accountability of particular levels of government. The November 2013 municipal election in Montreal, or the scandals surrounding the mayor of Toronto, are good examples of infringements to the principles of good governance. It was estimated that the taxpayers in Canada lost close to $ 200 billion attributed to mismanagement of public money by several consecutive liberal and conservative governments[10)].

This lack of sufficient managerial skills of governments in mature democracies should not be taken literally, and one should be rather talking of their shortage, especially at the time of internationalization of most managerial processes. A possible solution to the above problems of a reduced capacity of elected bodies to ensure that good governance is a norm is outsourcing of certain activities, similar to the practice by the private sector which delegates some of its managerial tasks to specialized firms. This practice may yet need some time to be implemented but it seems inevitable that governments which are confronted with the ever-increasing load of managerial responsibilities will be forced to release some of their powers to independent professional organizations, domestically and perhaps even internationally.

That is not, however, a solution that can be envisaged for the immediate future. Two main reasons can be identified for such a delay. Firstly, the public opinion in the U.S. or Canada, for example, is rather unsympathetic towards out-

Table 1 **Least corrupted nations in 2013**

Rank	Country	Score
1	Denmark	91
1	New Zealand	91
3	Finland	89
3	Sweden	89
5	Norway	86
5	Singapore	86
7	Switzerland	85
8	Netherlands	83
9	Australia	81
9	Canada	81
11	Luxembourg	80
12	Germany	78
12	Iceland	78
14	United Kingdom	76
15	Barbados	75
15	Belgium	75
15	Hong-Kong	75

Note: The fact that two or more countries have obtained the same rank simple means that they scored the same number of points.

Source: *Corruption Perception Index 2013,*Transparency International.

sourcing and regards it with suspicion, particularly in terms of its impact on employment. Secondly, delegating some governmental tasks to the private sector will inevitably stress the necessity of greater accountability and control. As a result what can be saved in terms of the number of civil servants in a definite area of public management may be compensated by an increased number of controllers. The net result will be nil.

One must not forget either, that the existing bureaucracy in the public sector is strongly opposed to any attempts to cut the number of civil servants and will do anything it takes to preserve the jobs. This is understandable as these jobs in certain countries, such as Canada for example, are well paid and include numerous fringe benefits. In certain post-communist countries, such as Poland, this has led to important pathologies that to a large extent are responsible for the slow progress of necessary reforms or even the lack thereof. We shall return to this question further in this paper.

Overview of good governance issues in selected countries

The main purpose of the present paper is not to provide a detailed discussion of the nature of and conditions for good governance but rather an overview of the situation in various countries. We shall divide these countries into three main groups, i.e. developed mature democracies, developing countries and the former communist states which have recently introduced market economy rules.

Understandably, such a classification bears some serious shortcomings, like the fact that even within each of these groups there exist considerable differences between countries as to how good governance is perceived and practiced, what mechanisms are used to ensure it and how it impacts on the economy. Nonetheless, such a classification is justifiable, because each and every of these groups possess similarities which differ it from another group. Thus, with all the deficiencies of such a classification of countries that will constitute the aforementioned three main groups, this classification seems to be justified from the perspective of the present paper.

Developed market economies

It is widely accepted that the developed market economies which for the most part include mature democracies, constitute a sort of a benchmark in-so-much as good governance is concerned. If any measures of good governance could be thought of, the position of a given country on the list of the least corrupted nations could be one (see tab. 1).

The Corruption Perception Index (CPI) is based on data from 177 countries and territories and extends over a scale from 0 to 100, where 0 designates a highly corrupt country while 100 means that a given country is perceived as non corrupt. The high position of Barbados, a country that does not belong to the group of developed market economies, is an exception while the same score by Hong-Kong is the result of the special status of this territory within the People's Republic of China, itself perceived as rather corrupt.

While of paramount importance the CPI cannot be used as the only measure to determine the quality of governance in a given country, although a positive correlation has been found between the index and GDP. Two other measures are used, viz. black market activity and overabundance of regulation and other forms of restriction to business activity[15)].

There is a wealth of contributions on the negative impact of both black market and restrictive regulations on business activity in various countries, and the limited scope of this paper does not allow for even a concise overview of these sources[4, 7, 11, 14)].

While corruption, black market and restrictive regulations pertaining to business activity are widely believed to be the domain of the developing world, they are nonetheless present also in the developed market economies. Some authors in the latter nations even point to the inevitable nature of various forms of corruption, particularly the procedure of bribing officials in many developing countries as a *cost of doing business*[12]. Less known is the fact that such "business costs" may amount to billions of dollars which otherwise could be used to encourage home industries and contribute to a reduction of unemployment in the host countries.

In strict economic terms corruption reduces growth and research has documented a strict correlation between a higher CPI and GDP. An increase in GDP of 1.7 percent is attributed to every unit of increase in a given country's CPI score[8]. If only European economies were taken into account this incidence would be even higher and reach 2.4 percent.

Such a correlation appears easy to understand. Investors prefer to spend their money in countries which are reputed to be corruption-free simply because rules for doing business there are rather easy to foresee and unpleasant surprises with corrupt officials are not such a problem as the one that exists in more corrupt nations.

The black market in the countries that belong to the developed market economies is of much lesser importance compared to the two other groups analyzed in this paper, viz. developing nations and former communist states, and involves mostly illegal drugs, alcohol, arms, etc. For the most part these are predominantly goods that are smuggled into these countries, like the large scale marijuana shipments from Canada into the U.S. or cocaine from Mexico. Since this is a separate topic it will not be discussed in this paper.

Table 2 **Most corrupt nations in 2013**

Rank	Country	Score
175	Somalia	8
175	North Korea	8
175	Afghanistan	8
174	Sudan	11
173	South Sudan	14
172	Libya	15
171	Iraq	16
168	Uzbekistan	17
168	Turkmenistan	17
167	Yemen	18
163	Haiti	19
163	Guinea Bissau	19
163	Equatorial Guinea	19
163	Chad	19
160	Venezuela	20
160	Eritrea	20
157	Zimbabwe	21

Note: Countries are shown in a reversed order according to their corruption rank.

Source: as in Table 1.

It would be then justifiable to state that the question of good governance in the developed market economies is not of the same degree of importance as in the case of the two remaining groups of countries. This does not mean, however, it could be ignored. The developed market economies have problems of their own as far as good governance is concerned and they concern principally the relationships between various levels of government, increasing urban violence, as well as all the types of socio-economic malaise of the post-industrial era. Each of these phenomena exerts a direct impact on the management of public resources and most governments in these countries are confronted with considerable difficulties in ensuring that these resources are used to the benefit of their societies as a whole.

Developing countries

It would be wrong to treat all the developing nations alike as far as good governance is concerned. As we have already seen in Table 1, some of the developing nations score better in terms of corruption indicators than certain traditional democracies. Many factors contribute to this; type of a political regime, tradition, education, etc. Table 2 includes some of the most corrupt nations in the world according to Transparency International.

But on the whole, most developing nations, including some newly-industrialized nations, are confronted with great difficulties to ensure good governance at practically all levels of public administration and management of the economy. Some of the barriers to good governance in the developed world are of historical and cultural nature, others have mostly economic background. As a rule the most corrupt nations usually belong to the poorest ones, like Somalia, South Sudan or Afghanistan. South Sudan is the youngest country in the world that has only recently been shaped out of Sudan. While South Sudan is oil-rich it is prevented from using its oil resources by the North who closed the pipeline used for export of crude oil from South Sudan. Ethnicity and religion are the main factors that contributed to the separation. The unexpectedly high ranking of Libya on the list of the most corrupt nations in the world (6th place) is not the result of her poverty (Libya is one of the major oil exporters) but of the nature of its previous regime under Colonel M. Ghadafi, one of the most corrupt leaders in the world. Similar reasons are responsible for the high position of Iraq on the above list.

Corruption in the developing countries, as seen by Transparency International, believed to be the main factor acting against the postulate of good governance, cannot and should not be taken at its face value. What can be seen as an actual act of corruption in a democratically ruled country, can be a way of life in a poor, underdeveloped country of Africa, Asia or South America. Needless to say, it is also a matter of the *ordre de grandeur* or the order of magnitude. It would be hard to argue that a $ 1-2 tip can be regarded as a bribe in a developed country, but it would be seen as such in Singapore and bluntly refused. But such an amount in a Sub-Saharan country can mean a difference between hunger and survival, so the whole issue of bribery must be treated with caution.

In certain societies a refusal of a gift, regardless of its actual value, would be treated as an affront and could ruin the prospects of a business deal. It should be remembered that the British Prime Minister W. Churchill, on his way from the Teheran Conference, was presented with a brand new Rolls-Royce by the King of Saudi Arabia. However, upon his return to London he gave the car to the Treasury. The message that we want to convey here is that the issue of corruption, bribery, etc. has to be perceived in the right context and not treated with inflexibility. By no means should that be regarded as a tolerance for acceptance of bribery. In a democratic system there are few difficulties to distinguish between a bribe and a present, but in some of the developing nations this can be a problem.

Black market is, however, much more spread in the developing countries compared to the industrial nations, and it is fed mostly by the cross-border smuggling. An interesting case was found in the cocoa trade in West Africa. During the height of civil war in Cote d'Ivoire considerable quantities of the Ivorian cocoa beans found their way into Ghana (second producer of cocoa) and to the overseas markets. Arms trade is another example while more difficult to assess as it usually involves illegal operations.

But the greatest obstacle to good governance in the developing world is probably overregulation of business. It takes months, if not years, to register a business in many developing countries, countless forms, fees and gratifications (bribes) to corrupt officials. In some West African countries, for instance, shipments from the seaports to landlocked countries, such as Niger, Mali or Burkina Faso are delayed by countless police barrages, official and fake, and goods are "taxed" many times over. Needless to say, economic losses due to delays and such extra charges are enormous. Fighting such irregularities is extremely difficult and no amount of effort by international organizations such as the U.N. will solve this problem overnight until its roots are eradicated. While many proposals in this direction have been submitted none seems to have worked satisfactorily and the problem still persists.

It seems that bureaucracy and overregulation are not so much the cause as the result of underdevelopment. People in the developing world are prone to bribery and other forms of corruption simply because they have few opportunities to improve their lives being absolutely honest and satisfied with their level of remuneration. This does not mean that such people cannot be found but they have little chance to break out of the vicious circle of misery in their own country and often seek to emigrate with the hope to find a better life for themselves and their families. Few succeed, however. And when they do they are rather unlikely to return to their homeland and then they are lost for their country. The only way to keep them home is to offer them a better life there and this can be best done through economic development.

There has been little research to show an exact correlation between emigration and economic development or between the level of corruption and GDP. It is so because this is a very sensitive issue in both political and socio-cultural terms and it would imply that unless people emigrate or take bribes or are otherwise corrupted, they will never be able to have a decent life in such areas as sub-Saharan Africa or certain regions of Asia and South and Central America. What that would mean in terms of the job markets in the developed world is hard to imagine. But the problem is already present, for instance, the illegal immigration of Africans into the EU, particularly its Southern parts (Italy, Spain, etc).

Table 3 **Former communist nations – new members of the EU – on the "corruption list" 2013**

Rank	Country	Score
77	Bulgaria	41
57	Czech Republic	48
57	Croatia	48
28	Estonia	68
47	Hungary	54
49	Latvia	53
43	Lithuania	57
38	Poland	60
69	Romania	43
61	Slovakia	47
43	Slovenia	57

Note: The above countries are shown in alphabetic order. The lower the rank the less corrupt is the country.

Source: as in Tables 1, 2.

Good governance cannot be imposed on the developing countries by the developed world, the very same way democracy and respect for human rights in the former cannot constitute a condition for economic contacts between both groups of countries. Progress in this area will be a sort of a by-product of development. How to make this process the least painful remains one of the greatest challenges to international economic relationships.

Former socialist states

The last groups of countries that constitute the interest for this paper are the former socialist states of Europe and Asia which at the end of the Cold War in late 1980s and early 1990s chose to introduce the rules of a market economy and break away from the rigidity of a centrally-planned economy. Some of them have done it quite well. Others are still struggling with the remnants of their socialist past.

Good governance in these countries still remains a big issue. On the list of the most corrupted nations the countries belonging to this group occupy the following positions (see tab. 3).

A closer look at data in table 3 provides some interesting conclusions. Estonia occupies the 28th position amongst the least corrupt countries in the world, while Poland is no. 38. None of the remaining former socialist states finds itself amongst the first 40 least corrupt nations in the world, but some of the developing nations do. The question is why? Furthermore, Poland is no. 38, ten places behind Estonia, but ahead of Slovenia which has a much higher GDP per capita compared with the latter country. Thus, in the case of the last two former socialist states the theory that development is the main factor shaping good governance (see the previous paragraph) does not hold. What causes the rather poor overall performance of these countries in terms of corruption, itself an obstacle to good governance?

Newly enfranchised former socialist nations of East and Central Europe find it difficult to get rid of corruption because corruption was a way of life during the previous regime. Few things could be done normally, via the market system, simply because the market as it was known elsewhere did not exist. In economic terms the time of "real socialism" was known as the "economy of shortages". It is therefore understandable that this way of life will not disappear overnight but may take years or the life of a generation or two.

The fight against corruption is difficult, even in some mature democracies. "Money talks" people would say there. But corruption is not limited to a monetary form. Lying in court, discriminating against some people while favoring others are also forms of corruption. It takes more than strong anti-corruption laws to get rid of it. The fact that New Zealand, Denmark and other Scandinavian countries score so highly on the least corrupt nations' list is embodied in their culture, tradition, believes as well as their economic status.

The former socialist states may represent most of the afore- mentioned values separately, but overall they are still far from the leaders of anti-corruption that are listed in table 1. The question that automatically comes to mind is why? Corruption, fraud and overly poor governance in the majority of the former socialist nations, despite spectacular progress made, is not the result of one specific cause but of many different factors combined. One of them is the disparity between the purchasing power of most citizens and the newly emerged consumerism, particularly among the younger people who are oblivious to the hardship suffered by their parents or grand-parents. Young people in these newly enfranchised countries want to get rich and quickly. Most of them would do anything it takes to attain their objectives, even if this means bending some rules. Work ethics, respect for law, solidarity is not of primary importance and as long as one can get away from the consequences of not abiding by the law, it seems to be all right.

But fighting against such attitudes would be as hopeless as ignoring them altogether. The political power has to understand the ambitions and striving for a better life among young people who see few opportunities for themselves and their families at home, even if they are equipped with a university diploma. Emigration seems to be the only alternative, despite its price tag in terms of the young people' s personal and family life. To keep the best and brightest at home is a great challenge for the governments.

All that does not help the goal to construe a system of good governance. Corruption, fraud, bureaucracy will not go by themselves. To do that governments will have to create solid incentives that will reward good governance while penalizing corruption and fraud.

An interesting initiative has recently appeared in Poland, the country where unemployment among young and educated people has reached alarming proportions. The government will try to keep them from unemployment, and an inevitable rush to emigration, by offering a system of deferred taxation for young entrepreneurs. What could be an interesting initiative under other circumstances would be rather a non-starter in Poland, or a trap for those people, who would probably rush for new businesses only to find out that a few years later they would not only have to pay back the amount of unpaid business taxes but would suffer the consequences of wrong business decisions. The rate of failure among SMEs in that country is staggering and the enthusiasm of new entrepreneurs quickly wears thin when they do not possess solid financial basis at the start. So this desperate move by the current government in Poland augurs rather poor chances for success.

Poland is a very instructive case to study the problem of good governance. While the achievements of the system transformations there are often quoted as an example for the others, in the opinion of some scholars they were obtained at an unjustifiably high cost. Professor W. Kieżun is one of the most ardent critics of Poland's experience with system transformation and his latest book[5)] which caused uproar amongst Polish (but not only) economists reveals some disturbing facts.

Kieżun's theory of the *Four riders of Apocalypse* is worth quoting in the context of this article. Understandably, only a concise overview can be provided within the space constraints of this paper[5)]. He claims that transformations of the public administration in Poland after 1989 had been accompanied by huge increases in employment in the public sector. Between 1989 and 2010 employment in the central administration alone grew almost threefold, from 46,000 to over 133,000. To Kieżun this huge increase represents the trend to gigantism, *the first rider of Apocalypse*. It should be stressed, that such a gigantic increase in the size of employment related to the central administration alone. To provide a whole picture of this phenomenon all the other administrative levels (regional, local etc.,) should also be accounted for. One should also remember that these increases took place during the period of transforming the centrally planned economy into a market one, whereby the number of civil servants should be decreasing. Instead it kept growing uninterruptedly (see tab. 4)

Table 4 **Poland: employment in central administration 1990-2010**

Year	No. of persons in thousand	1990=100
1990	156.6	100
1995	283.6	181
2000	315.3	201
2005	367.7	235
2007	379.8	243
2009	428.3	274
2010	440.6	287

Source: Compiled from *Statistical Yearbook of the Republic of Poland,* Warsaw 2011, tab. 19 (62), p. 132.

What the above statistics reveal is that bureaucracy in Poland's central administration, but also the one at the lower levels, is not diminishing but growing instead. Needless to repeat that bureaucracy and good governance are not compatible, and that it is probably one of the main reasons why good governance is so difficult to be practiced in many of the former communist countries. The main effect of such a gigantic bureaucracy is the inflation of legal acts and frequent changes of their contents. According to J. Kochanowski[6)], the number of legal acts, some hastily prepared and promulgated, is stunning (see tab. 5).

It should be noted that many of the new legal acts were obsolete even before their passing through the Parliament. Consequently they had to be modified, sometimes many times over.

To Kieżun, love for luxury and high salaries is *the second rider of Apocalypse* of the transformations in Poland and the feature of governance in that country. New institutions, numerous levels of administration, reform of education, health and other public domains, all those were accompanied by substantial salary increases, luxurious offices and fancy cars. Meetings, conferences, lectures, etc. usually end with sumptuous banquets, while delegations to foreign countries include many officials some of whom could hardly justify their presence there. All this sucks away public money which could be better used for education or health care.

Corruption is the *third rider of Apocalypse* according to Kieżun. This issue was treated with some detail in one of the earlier sections of this paper so it will not be brought back here. Horror stories can be told about corruption in Poland and this country occupies a rather remote position on the list of the least corrupt nations in the world (see tab. 3).

The *fourth* and final *rider of Apocalypse* of Poland's bureaucracy, but also of other former communist states as well, is the arrogance of power. Kieżun quotes one very symptomatic case of this arrogance, which relates to the statement in 1993 by the then chief of the PMO on the establishment of the powiats (counties), an unnecessary level of public administration in Poland. He said the government would not encourage any public hearings on that matter and rather act by the policy of *faits accomplis.*

Kieżun's *four riders of Apocalypse* can only seemingly appear irrelevant for the main focus of this paper which is the issue of good governance. In fact these are closely related. Good governance and bureaucracy simply do not go hand in hand. Actually they are mutually exclusive. Excessive bureaucracy leads straight to inefficiency. When you have too many levels of administration, too many civil servants, you encourage mismanagement and inefficiency. And what these bureaucrats are worried about is to justify their existence. The only way they can do it is to create even more bureaucracy. Had they been more effective and efficient they would simply prove they are not necessary.

The omnipresent threat of rampant unemployment is a major disincentive to fight bureaucracy and improve governance. So subsequent governments in the post-communist countries had no other choice but to tolerate this bureaucracy and employ rather more than fewer bureaucrats. And while this is not the malaise of those countries alone, this malaise has reached worrisome proportions. As such governance in the former communist states represents a serious barrier to growth. And good governance cannot be implemented without first removing the remnants of the old system with its inefficiencies, fraudulent practices and establishing proper work ethics.

Administration in the former communist states, at its every level, seems to live in its own world. In those countries it is not the public service that has been created for the people but the other way round. Such a set-up runs counter to the requirements of good governance. It effectively blocks it.

One of the main causes of poor governance in these countries is almost invariably the rush for money. People who only one generation ago saw the highly attractive power of consumerism after decades of privation are not likely to relinquish their grip on unlimited and to a large extent unjustified consumption. They enjoy it to the fullest. Money is the only limiting factor in that pursuit. Thus money has to be obtained by any means; legally and not so much legally. And that is the main driving force behind corruption, fraud and other hindrances to a system of good governance.

Few people in those countries actually see the linkages between good governance and improvements in their everyday life. For instance, the relationship between good governance and attraction of foreign investment, one of the principle engines of economic growth. FDI will rather go to the areas with good governance and less corruption. It is not a coincidence that mature democracies are amongst the largest recipients of FDI which prefer stability, accountability and less corruption over unpredictability of emerging industrial powers. This should be one of the best indicators for the former socialist states of the direction their governance practices should go.

Some conclusions

The issue of governance is one of the main conditions for a sound economic system of a given country or groups of countries. It defines the way power is carried out and decisions are made or not made as one of the definitions states. Without a good governance no reform will succeed and no economic system will properly work. Good governance is a condition *sine qua non* for a sound economy. The review of main issues relating to good governance presented in this paper provides several conclusions.

Firstly, good governance is strictly dependent on a corruption-free society. Countries with little or no corruption are usually well run by their administration. Conversely, countries that score low on an anti-corruption list are not well managed.

Secondly, governance is closely related to the type of a political regime. Democracies are more likely to have a good governance system than autocracies. It is no coincidence that the least corrupt nations are mature democracies, particularly the social-democracies of the Scandinavian type, while autocratic, one-party political systems in many developing countries are among the most corrupt ones.

Table 5 **Number of legal acts issued and gazetted by selected Ministries in Poland in the years 1989-2008**

Institution of central administration	Number of acts
Ministry of Finance	2,075
Ministry of Health	1,180
Ministry of Justice	914
Ministry of the Interior and Administration	1,165
Ministry of Culture	591
Ministry of Foreign Affairs	985
Ministry of the Environment	422

Source: Kochanowski J., *Quo vadis Polonia?, W drodze do demokratycznego państwa prawa. Polska 1989–2009*, Biuro RPO, Warszawa 2010.

Thirdly, good governance helps economic growth[2)]. It is estimated that a 1% increase in a country's CPI (Corruption Perception Index) may produce between 1.7% to 2.4% growth of GDP, depending on a country. Thus, good governance is undeniably correlated with economic progress.

Fourthly, good governance, and particularly lack of corruption, helps in building good business reputation of a given country. Investors are more likely to go to the countries with good governance and transparency in conducting business activity. For less developed countries this is of paramount importance as they depend to a large extent on FDI. Countries with volatile business legislation, high degree of corruption and lack of stability have rather poor chances to attract substantial FDI and develop their economies.

Fifthly, good governance is of great significance for the former socialist states where corruption, bribery and lack of transparency in managing business are still present. Estonia is by far the least corrupted nation in this group of countries, many of which score worse than some developing countries like Barbados, the 15th nation on the list of least corrupted nations. Needless to say, the former communist states bear the burden of their past where good governance was almost non-existent. Great effort is necessary to change that but there are positive signs that this process is taking place although great differences in the CPI values for these countries exist (see tab. 3).

Good governance cannot be created immediately. It takes time and requires a concerted action by all the parties involved: central and local administration, business firms, public and semi-public institutions and even individuals.

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