

Good Governance and Civil Society

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Volume 3

Good Governance and Civil Society:
Selected Issues on the Relations between State,
Economy and Society

Edited by

Adam Jarosz

CAMBRIDGE
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P U B L I S H I N G

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Selected Issues on the Relations between State, Economy and Society
Edited by Adam Jarosz

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INTRODUCTION

ADAM JAROSZ

The concept of governance is a key issue for public sector work at all possible levels. In the times of globalization and the growing significance of communication and participatory managing methods, public service provision and dialog with citizens have to be developed. The concept of governance seems to be an answer to these challenges. It combines cooperative forms of governing, involving private sector and social partners which can form networks to develop policies in different fields, good governance as an outcome of transparent and efficient way of governing, as well as multi-level governance where not only state but also other institutions (supranational institutions and organisations, local and regional governments) participate in the process of governing.

The political dimension is moving into a coordinative—instead of a hierarchical and ruling—mode of work. The private sector gains a much stronger position in the field of solving public issues than ever before due to its capacity to deliver services of high value at lower costs than the public subjects. It also has the necessary capital to invest in and maintain public infrastructure without increasing the public debt. The third party—society—becomes not only more conscious but also better organised as the concepts of civil society and self-organisation spread rapidly, together with the expectations for participation on different levels of decision-making. Nowadays, the demands for deliberative forms of democracy occur not only in the well-established Western democracies but also in the post-socialist and other countries facing democratic transition.

Democratic systems and the necessity of debate and deliberative forms push the political and other actors towards the development of communication on different levels, so that the cooperative forms have a chance to exist. In this context, the communication between different groups can have a regulatory character for the internationalizing and open societies, and the economic sector has an influence on the relations between society and state.

This book is the third volume of the Copernicus Graduate School Studies, and is devoted to these questions and research problems. Mostly

young scientists examine different examples, issues and case studies considering different elements and aspects of the governance concept. This broad term needs interdisciplinary and multidimensional research to cover all the important issues related to it. The representatives of different disciplines develop various issues in the fields of politics, economy, society and communication on international, state and local levels.

The aim of the editors and authors, and the main objective of the volume, is to contribute to the discussion about governance, pointing out innovative fields of research which uncover interesting explanations and impulses regarding the formulation of innovative research questions on the matter. The concept of governance is very broad and refers to numerous spheres of public life. Therefore, a great deal of research is needed to uncover all of its aspects and interpretations.

INITIAL REMARKS

GOOD GOVERNANCE AND CIVIL SOCIETY: DEFINITIONS AND THE POLITICAL DIMENSION

RALPH SCHATTKOWSKY

The dynamics of changes resulting from globalization and the demise of a bipolar world order have been influencing every aspect of human existence. Taking into consideration the existential problems of humanity and consciously shaping the future for the general interest, one needs to pose fundamental questions on social functionality and state order once again. Traditional beliefs are more and more at one's disposal. As a central subject of this drive to change the relation between state and society appears, and an awareness of the need to newly arrange the relation between masses and authorities has been developing. This process involves the search for effective forms of social participation in decision-making as well as for adequate mechanisms of a transparent exercise of the state power. Nowadays, this process is expressed in the best way by the notions of Civil Society and Good Governance.

Good Governance is neither thinkable nor feasible without an adequate societal development, and depends on the existence and quality of Civil Society. It is a product of the arrangement for relations between state and society as a dynamic and permanent process of reciprocal influence meant as cooperation. Here is the essential new quality of governance. This connection is undisputable; however, it is rarely considered in research. One of the biggest potentials of this connection is that it describes both principal elements of a future-oriented organisation of human life, and above all examines where the fields of crucial dependence and coincidence are and how the communication between state and society is shaped.

Good Governance and Civil Society are not new in their characters; indeed, they are two of the great constants in the development of civilization in the European millennium. The search for and the claim on a merciful monarch has been a golden thread in the history of states, and has found its echo both in the education of princes in the Renaissance and

Romantic periods and in the belief in the “good father tsar.” Since the discovery of the individual and the recognition of the existence of society in the modern European times, an appropriate form of organisation has been searched for. It is supposed to represent the interests of people in front of the authorities and to protect the individual from the authorities, the sovereign or the state, as well as to partner the authorities. This organisation form found its strongest articulation in the great European revolutions, whose most mature products are the parliamentary democracies of the nineteenth and twentieth centuries. However, something new that subjects these achievements to negotiation is that there has been a consensus about the notion of globalization in order to embrace those processes that have a transnational and worldwide impact, and they describe the powers that neither individual national states nor the existing, already widely eroded international systems are able to handle (such as capital flows, climate change and terror). In order to create a new international order, national forms of governance are also needed. Good Governance has the potential to implement international tasks on the national level. It also develops appropriate communication forms of a new international networking that combines the continuing national requirements with those of an international community and creates a bearable balance.

We have now come to the long-discussed point, the starting point of which seems to be the activity of the Club of Rome as well as Dennis Meadows’ 1972 book *Beyond the Limits: Global Collapse or a Sustainable Future*. Even if Meadows concluded after 40 years of writing that “we are prisoners of the system” (“Süddeutsche Zeitung,” January 2, 2013), one should not agree with him. The solution is found within the system in a proper combination of market and state. As a consequence, the state must play a greater role again which can be achieved in the interest of a functional democracy only by an arrangement of the state-society relation and by strengthening the Civil Society. A question that is crucial in reshaping that relation is “self-restraint,” whereas to find a brand new approach to growth we are committed to a “revolutionary evolution.”

In his 2011 book *Consumptionomics*, Chandran Nair, the founder of the Global Institute for Tomorrow, described the state of affairs and the tasks very consistently, following the logic of “the party is over!” The West has still not understood that economic liberalism, excessive consumption and accelerated urbanization are not solutions to upcoming problems. Nair refers to the necessity of setting new priorities in the twenty-first century. The right to individual freedom needs to give way to the provision of masses of population to secure their base of existence,

which can be done only by a strong central power. It is an extremely risky assumption that needs to be thought about so that the notion of freedom is redefined.

Certainly, modernization processes are, first of all, always processes that increase the complexity and emergence of confusion known collectively in sociology as “functional differentiation.” As we talk about limits of growth, we must accept that complexity can take a dimension that overcharges a community and creates uncontrollability out of confusion. This leads to a new order in terms of unbundling and distribution, possibly connected with a loss of a main societal perspective. The control of the society can no longer be comprehended by a simple nation-state model of the primacy of economy or politics, only by a qualitatively new ordered society. For this purpose, the concept of Civil Society was developed. The digital age, metaphorically paraphrased as the information and knowledge society, shows that the time has come. If we consider the realities of this world, it is a euphemism in its positive interpretation and is consciously used to calm us.

When we talk about Civil Society it is not about a self-organisation that exists outside the state but about an organisation other than that of the state. In this respect, Friedrich von Hayek gave the decisive hint that, exactly in a spontaneous appearance of order, the distributed knowledge of all people is implemented in a way that no planned construction would be able to achieve. He drew on the thinking model introduced by Adam Smith in his famous book *The Wealth of Nations* (1776), according to which the individual participant of the market is led by an “invisible hand” that promotes unintended societal objectives. That thinking model is based on a “system of natural freedom.” If we translated it into present-day problems, it would lead us exactly towards the efforts aiming at an economic order beyond supply and demand.

To describe the relation between state and society, the German expert in constitutional law Ernst-Wolfgang Böckenförde’s 1967 theory, known as the Böckenförde paradox, seems to be particularly appropriate: “The liberal secularized state lives on premises that it cannot guarantee by itself.” These premises are “internal bonding forces” such as nation and religion that are increasingly being lost. Anyway, a community does not integrate itself solely out of the freedom of its members. It is exactly here that the Civil Society intervenes and defines its tasks out of this paradox.

The attitude of expectation built around Civil Society is very high, and is about nothing less than a search for and the determination of adequate forms of existence of modern society. They are supposed to live up to their emancipation character and their dynamics as well as be oriented towards

the participation of the individual in decision-making. That participation establishes itself as a secure and enduring counterpart to the power of the state as well as a societal reassurance. This alone already marks the Civil Society as logical and necessary debate of the “century of the extreme” (Hobsbawm). The tendency to use Civil Society as a universal pebble tool in sociological research speaks undoubtedly in favour of a comprehensive effort aiming at a certain unambiguity of historical analysis and social findings about the nature of modern society. It assigned Europe a key role in world history and moreover is able to reveal social and political perspectives. The use of this “political signal concept” should not only distinguish between “good” and “bad” societies but also provide explanations about the relations between masses and authorities, state and society, as well as individual and group. Those explanations shall amount to the identification of the role of the individual in the societal process, and the individual’s behaviour, motivations and perceptions. The individual is in fact reinvented as a motor of the history and his or her communication activity is examined in terms of virtues and core values of common human life. In search of a determining idea based on a functionality of the society, the Western canon of values—which includes democracy, freedom and a middle-class way of life labelling of society and separating it from the state and the exercise of power—is critically scrutinized as a blueprint for a future-oriented applicability. Thereby, the concept of Civil Society serves a double objective: “It helps us understand how in fact a certain society works and how it distinguishes itself from alternative forms of society. At the same time, the concept helps us come to a more clear conscience about our social norms, our values and reasons why they appeal to us” (Ernest Gellner).

The term “Good Governance” originally comes from the field of development aid and was used as a criterion of distribution of funds. In the last twenty years it has developed very dynamically. The questions of functionality and efficacy of traditional and proven Western government systems became subjects of wide debates, and influenced by the heavily changing world, the concept has significantly widened. Thus, it serves to describe effective, transparent and humane forms of government in general. Thereby, it is used both as a valuation standard for existing authority systems and as a claim for its creation or modification. In recent years, various concepts of Good Governance have been presented. In science, the notion has been considered from different perspectives according to interests, specialist focus or research paradigms. The basic content of Good Governance includes functioning state institutions, rule of law, respect for human rights and the principle of solidarity. It is a

classical set of tools for the achievement of modern state objectives and not necessarily innovative elements of state policy. The actual impact is made by the universal usage of the concept. The question about the influence of the state is answered by the creation of its functionality with the help from stronger social participation. The penetration of national law standards by international law is regarded as indispensable. The creation of Good Governance is described as a common task that does not export any models, but that adapts itself to concrete circumstances (ownership). Related to the fact that the exercise of state power must be internationally credible, a market economy order is inherent to the logic of Good Governance. At the same time, an economic “recharge” of the concept related to the appearance of a new kind of “political economy” and the demand for an “economic statecraft” has taken place, further putting the economy into the commission of the state and its presence abroad (as requested by Hillary Clinton).

However, as a result of the processes of generalisation and widening, the concept has become less tangible and more abstract as an outline of statehood, or even an eschatological objective meant as a completeness of government. It ceased to be a concrete tool of state orientation for reshaping the relation between state and society. Thus, the concept is now subject to a heavy arbitrariness and serious doubts on its applicability and reasonableness are expressed (thus, the concept shares the fate of the term “Civil Society”). A comprehensive examination of its efficacy and implementation is therefore an important and so far unfulfilled task. Undoubtedly, we are now on the cusp of a re-evaluation of the concept, in which questions of its applicability and understanding are posed connected with the formulation of practical tasks for organisation of the relation between state and society in a global and transnational dimension.

The understanding of the concept of Good Governance is therefore a scientific desideratum. Not only it is worth considering and interesting as a research topic (regarding how the concept established oneself and became a paradigm of a basic orientation in politics and economy), but it is also worth asking how the concept redefines the relation between state and society, or else how it attempts to arrange the relation between the notions of “national” and “international” under conditions of globalization. Those questions can be answered successfully only with consideration of interdisciplinary approaches, in which political, sociological and economic premises have priority. Not to a lesser degree, the work on the subject should also include historical experience and interpretation models. A particular challenge is to compare theoretical premises and arguments with their practical implementation or to examine their mutual

influence and effects. The objectives of scientific cognition cannot be reached if relations between theory and practice are not taken into consideration. The cognition demands research which is close to the society and provides the practice with direct added value.

Therefore, we need to ask which processes or insights underlie the creation of the concept, in which degree its politicization has taken place, and which state and social powers have been working on the widening of the concept and if they draw direct consequences for their practical action. Furthermore, one needs to ask if a unification of perceptions can be derived from the development of the concept and the establishment of Good Governance on the international level, whether there are any reliable tendencies of practicing Good Governance, and finally if there are any truly practical conclusions for shaping Good Governance and Civil Society out of the endangerment of the civilization.

Certainly, the acceptance of this diagnosis is astonishingly large, and in any case what we have encountered so far in the analytical processing or the constructive showing of the right way is terrifying poor, oscillating between a flat criticism of capitalism, which is remote from the established analysis of society of the nineteenth century, and fatalistic expertise, which assumes that we will manage it because we have always managed it (i.e. the market will adjust everything). The society reacts with the “Attack” or “Occupy” movements as well as with the slogan “*Indignez-vous!*” (Stephane Hessel), ultimately a relatively helpless and disoriented one. Also, certainly well-meant appeals for a limitation of growth and a conscious living in the achieved welfare (as presented recently in Robert and Edward Skidelsky’s *How Much is Enough?*) seem to be very naive in the face of dramatic problems. Notions such as post-modernity, late modernity or late capitalism are supposed to offer consolation and confirm vague expectations. However, they only point out the fact that the classical modern diagnoses no longer stand the test. Maybe the job of the scientist must be (again) to work up the courage to work in a less palatable way, to follow political correctness less and to serve the mainstream less, and should not confront the danger of being incomprehensible, awkward and working asymmetrically.

Most of all, the scientists should escape from the principle of general approval.

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PART ONE

**INTERNATIONALIZATION OF GOVERNANCE
AND SOCIETY**

CHAPTER ONE

THE SIGNIFICANCE OF GOOD GOVERNANCE FOR SUSTAINABLE DEVELOPMENT: A THEORETICAL APPROACH

ROBERTA KAREIVAITĖ

Introduction

In many developed countries good governance becomes an engine of the public management development, which empowers institutions to achieve a higher level of public services provided and satisfaction of citizens with the activity of the management system. The increase in economic problems under the influence of social groups, associations, the increasing of environmental requirements, the formation of global institutional networks, and the deepening of tensions between different interest groups have constituted assumptions for establishing other trends of compatibility of economic, social and environmental objectives—i.e. the concept of sustainable development, which has become an integral attribute of the contemporary democratic society and particularly a subject for scientific research.

The state and public administration should actively employ principles and techniques of good governance because they make an impact on sustainable development. Sustainable development is seen as a process of long-term economic growth, gradual social growth and rational use of environmental resources in the institutional-based system in a democratic society. Good governance should be perceived as an appropriate and necessary aspect of sustainability implementation based on institutions forming social, environmental and economic access and equal rights to public goods and resources, affecting different social groups and their interests.

The aim of this chapter is to reveal the significance of good governance for sustainable development from the theoretical approach. In this regard

the following tasks were formulated: (1) present the concept of good governance, (2) identify sustainable development and its dimensions, (3) reveal the indicators of good governance, showing their impact on sustainable development. The following qualitative research methods were used: literature analysis, systematization, comparison generalization and synthesis.

The Concept of Good Governance

The good governance concept is based on the position of international organisations (e.g. the World Bank, the International Monetary Fund, the United Nations Organisation), which say that “developing countries are facing economic and social problems due to the lack of good governance.”¹ “Good governance is considered as synonymous for democratic governance, which stresses the interaction of governmental, private sector’s and civil society’s organisations in economic, political and administrative management areas.”²

There are three key organisations which have promoted the refinement of the good governance idea. The World Bank represented the concept of good governance in 1992, identifying four aspects: accountability, rule of law, accessibility of a government’s information, and transparency.³ The Asian Development Bank identified the strategic objectives of good governance as poverty reduction and the effective ensuring of public financial resources (these are closely linked with objectives of sustainable development). Four elements—accountability, participation, predictability and transparency⁴—can also be adapted for the objective of sustainability. The International Monetary Fund specializes in three key areas of public management related to its role under the supervision of the macroeconomic management. Therefore, the focus is on the transparency of government accounts, the efficiency of public resource management,

¹ S. Pivoras, E. Visockytė, “Public Governance Concepts and their Use in Civil Service Reform Research,” *Public Policy and Administration* 1 (10) (2011): 27–40.

² V. Domarkas, “Reflections on the Public Administration Paradigm Change in the Last Decade’s Publications,” *Public Policy and Administration* 1 (10) (2011): 9–16.

³ V. Chhotray, G. Stoker, *Governance Theory and Practice* (Palgrave Macmillan, 2009), 312.

⁴ *Asian Development Bank*, <http://www.adb.org/themes/governance/overview> (accessed May 7, 2013).

and the stability and transparency of the economic and legal environment in the private sector.⁵

Those three international organisations not only led to the emergence of the good governance concept, but also to its clarification. The evolution of the modern public management concept tolerated the changes of essential institutions' objectives, priorities and operating principles (working in the field of sustainable development). However, in view of the fact that good governance could ensure justification for the political, social and economic priorities using the inclusive public consensus, the good governance concept has to be directly linked to the principles declared in sustainable development.⁶

Good governance can be defined as one dimension of sustainable development. In the scientific literature it is mentioned that it has three main dimensions: economic, social and environmental. There are also many discussions about the fourth dimension, institutional, because institutions regulate economic, social and environmental dimensions and these have an impact on institutions. Therefore, it is very important to present the definition of sustainable development and its dimensions.

Sustainable Development and its Dimensions

Since ancient times people have noticed that larger territories better provide people with work, income and welfare. However, many economists evaluated economic development differently, taking into account its beneficial and harmful consequences, amongst other things.

Some scientists are against further economic growth, basing their views on the fact that constantly growing populations and consumption are damaging ecosystems, depleting resources and destroying the basis of humanity's survival.⁷ As a representative of Classical Economic Theory, A. Smith views progress as the constant insurance of continuous economic growth. Meanwhile, J. S. Mill in *Principles of Political Economy with*

⁵ *Good Governance: The IMF's Role*

<http://www.imf.org/external/pubs/ft/exrp/govern/govern.pdf> (accessed May 7, 2013).

⁶ V. Juknevičienė, R. Kareivaitė, "Good Governance as the Instrument for the Implementation of the Sustainable Development's Conception," *Social Research* 3 (28) (2012): 28–42.

⁷ A. Šileika, S. Žičkienė, "Sustainable Development: Conception and Debate" [in Lithuanian], *Environmental Research, Engineering and Management* 3 (17) (2001): 3–10.

some of their Applications to Social Philosophy (1848)⁸ argues that the stationary state of economy is a natural state, because economic growth is possible only in a limited part of the world, and this is inevitably followed by stagnation. So, economic growth has not only physical but also moral restrictions, and the general macroeconomic goal must be oriented towards environmentally-friendly development, while at the same time achieving harmony between economic, environmental and social development.

While planning economic growth in the future, it is essential to assess the harm that our decisions can cause for current and future generations and to overcome the threats rising from stable development in a responsible and economical manner.⁹ The management of such risks using progressive economic methods is currently becoming as important as the creation of new development opportunities.

After conducting the analysis of the scientific literature it can be noticed that economic development should be sustainable. Only then can the society achieve well-being, and the conditions for the economic development be created. Sustainable development can be defined as a process of developing land, cities, businesses and communities meeting our current needs without compromising the ability of future generations to meet theirs. It recognizes that social, economic and environmental issues are interconnected and that decisions must incorporate each of these aspects to be successful over the long term.¹⁰

Although the essence of the concept of sustainable development is clear enough, its exact interpretation and definition have caused broad discussions. It is possible that the terminology problem arises from the dual nature of the concept, covering development as well as sustainability.¹¹ Economic literature offers over one hundred definitions of sustainable development, mostly oriented towards separate sectors. We should take into consideration the fact that the concept of sustainable development may be difficult to understand and may have different meanings depending on the literature in which it is used.

⁸ J. S. Mill, *Principles of Political Economy with some of their Applications to Social Philosophy*, W. J. Ashley (ed.), (London: Longmans, Green and Co., 1909, 7th ed.), 808.

⁹ R. Čiegis, *Sustainable Economic Development* [in Lithuanian] (Šiauliai: Šiauliai University Publishing House, 2008), 206.

¹⁰ *Environment Canada: Sustainability*, <http://www.ec.gc.ca/default.asp?lang=En&n=354F26A4-> (accessed May 7, 2013).

¹¹ R. Čiegis, *Economics and Environment: Sustainable Development Management* [in Lithuanian] (Kaunas: Vytautas Magnis University Publishing House, 2004), 551.

Sustainable development is a new term invented during the environmental movement development of 1970, at which time questions were raised concerning the Earth's resources and how to preserve them, considering how human decisions will influence the Earth's environment.¹²

The principles of sustainability require objective assessments on how society's actions in one of the three areas of economics, social life and the environment will potentially influence others in the long term. It is necessary to think and act in every direction, cautiously planning actions, seeking an optimal inter-balance and, most importantly, weighing intentions. The search for sustainability starts not only from environmental but also from social and economic concerns, and in their interaction and common impacts on the society.¹³

The definition of sustainable development requires that society sees the world as a system which connects both time and space.¹⁴ When one thinks of the world above ground, one understands that the population of air space influences air quality, and that this in turn influences various things, e.g. people, fish and farming. Sustainable development can be characterized as economic development and growth which have environmental limits and ensure good health for the citizens. This kind of insurance is conducted through good administration and the responsible use of science.¹⁵

The concept of sustainable development is not only divided into three main dimensions (economic, social and environmental)—there is an additional dimension which is very important for achieving sustainability in a country and which is equal to the other main dimensions. This is the institutional dimension, and it is considered to be an equally important objective for implementing sustainability because it acts not only as a separate segment, but also runs deep into the other three parts of sustainable development as a policy or an implementation tool in strategic management, regulation, monitoring or control. Institutional aspects can

¹² R. W. Kates et al. "What is Sustainable Development? Goals, Indicators, Values and Practice," *Environment: Science and Policy for Sustainable Development* 3 (47) (2005): 8–21.

¹³ *Regional Policy and Sustainable Development Principles* [in Lithuanian], <http://svetikas.home.mruni.lt/wp-content/uploads/2008/11/21rp6.ppt> (accessed May 7, 2013).

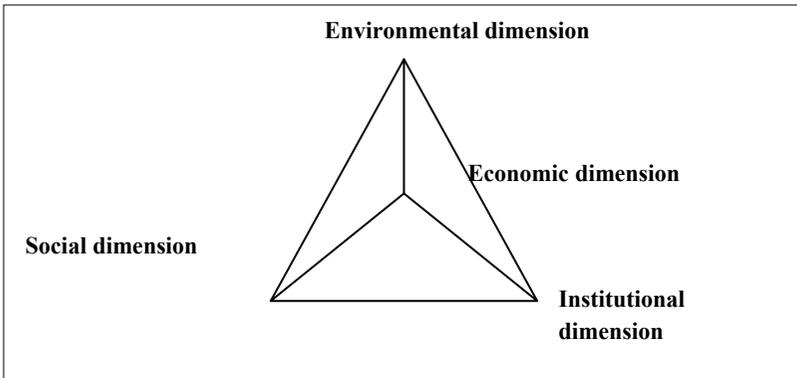
¹⁴ D. Gagnier, *Guest View: Daniel Gagnier*, http://www.iisd.org/pdf/2009/com_guest_view_dan_gagnier.pdf (accessed May 7, 2013).

¹⁵ O. Tahvonen, J. Kuuluvainen, "Economic Growth, Pollution and Renewable Resources," *Journal of Environmental Economics and Management* 2 (24) (1993): 101–118.

have an effect on stimulating or limiting the economic, natural and human resources. Institutional factors, such as corruption, property rights and rule of law can affect investment and production level. Similarly, financial institutions may have an impact on interest rates, investments or capital accumulation. All four dimensions are under the influence of good governance principles. It is evident that the biggest impact of good governance on sustainability is in the institutional dimension (and its development), which is using all available means for solving the various (economic, social, environmental and institutional) development issues. Thus, it becomes a major scientific research object in the context of sustainable development and good governance as an instrument to achieve sustainability.¹⁶

There are two opinions on the interaction between the institutional dimension and other sustainable development dimensions (economic, social and environmental). Some authors measure the institutional dimension as equal to others, while some consider that it cannot be equal because its regulation aspect makes it more important than the other dimensions (institutions regulate three sustainable development dimensions). Therefore, one direction of thinking we can call a “tetragon,” and the other an “egg.”

Fig 1.1. The “tetragon” principle of sustainable development



Source: Author’s own research.

The framework objectives of sustainable development are to reconcile economic, social and environmental objectives so that development would

¹⁶ V. Juknevičienė, R. Kareivaitė, *Good Governance as the Instrument*, 28–42.

not take place in any dimension, and to accept the equilateral “tetragon” formation which shows that there should be equal attention for all dimensions, emphasizing that development should not be based on an individual approach but on the whole system, i.e. an integrated system. If we give more attention to one dimension (e.g. institutional, economic, environmental or social), in this case it would only cover specific sustainability issues, and other areas of development would remain very weak.

Communication from the European Commission¹⁷ on Rio+20 provides that there “is a need to reinforce and mainstream sustainable development governance within the UN system, *inter alia* by enhancing coherence and policy integration between the activities carried out under the economic, social and environmental pillars.” Thus, the conception of sustainable development on four axes (dimensions) should give equal attention and weight to each of them. The United Nations¹⁸ also states that sustainable development emphasizes a holistic, equitable and insightful approach to decision making at all levels.

Indicators of Good Governance and their Impact on Sustainable Development

Every year the World Bank Group calculates and estimates the Worldwide Government Indicators, which comprise a long-standing research project to develop cross-country indicators of governance. They are based on several hundred variables obtained from thirty-one different data sources, capturing governance perceptions as reported by survey respondents, non-governmental organisations, commercial business information providers, and public sector organisations worldwide. Those indicators are:¹⁹

- (1) Voice and Accountability (capture perceptions of the extent to which a country’s citizens are able to participate in electing their government, as well as freedom of expression, association and media)

¹⁷ *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0363:FIN:EN:PDF> (accessed April 20, 2013).

¹⁸ *Rio+20*, <http://www.uncsd2012.org/rio20/index.html> (accessed April 20, 2013).

¹⁹ *Worldwide Governance Indicators*, <http://info.worldbank.org/governance/wgi/index.asp> (accessed May 2, 2013).

- (2) Political Stability and Absence of Violence/Terrorism (measure perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism)
- (3) Government Effectiveness (captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies)
- (4) Regulatory Quality (captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development)
- (5) Rule of Law (captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence)
- (6) Control of Corruption (capture perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests).

The first two indicators present the process by which governments are selected, monitored and replaced, the third and the fourth discover the capacity of the government to effectively formulate and implement sound policies, and the final two indicators show the respect of citizens and the state for the institutions that govern economic and social interactions among them. The analysis of those six indicators is the most significant task for the research of the institutional dimension in the concept of sustainable development.²⁰ However, to reveal a more comprehensive view of the institutional development, another important indicator has been analyzed. This is the economic freedom index, calculated by the Fraser Institute.

The economic freedom index shows the country's political institutional and policy compatibility with the freedom of choice and exchange, free entry, competition and property rights protection. The country's economic freedom index consists of 42 indicators in five areas (these aspects are

²⁰ V. Juknevičienė, R. Kareivaitė, *Good Governance as the Instrument*, 28–42.

closely linked with all eight principles of good governance). Within the five major areas, there are 23 components in the index.²¹

- (1) Size of Government—Expenditures, Taxes, and Enterprises (general government consumption spending as a percentage of total consumption; transfers and subsidies as a percentage of GDP; government enterprises and investment; top marginal tax rate).
- (2) Legal Structure and Security of Property Rights (judicial independence; impartial courts; protection of property rights; military interference in the rule of law and the political process; integrity of the legal system; legal enforcement of contracts; regulatory restrictions on the sale of real property).
- (3) Access to Sound Money (money growth; standard deviation of inflation; freedom to own foreign currency bank accounts).
- (4) Freedom to Trade Internationally (taxes on international trade; regulatory trade barriers; size of trade sector related to expected; black-market exchange rates; international capital market controls).
- (5) Regulation of Credit, Labour, and Business (credit market regulations; labour market regulations; business regulations).

Many of those components are themselves made up of several sub-components. In total, the index comprises 42 distinct variables. Table 1.1 below shows the relations between indicators from the institutional dimension of sustainable development (or good governance) and determinants of sustainable development.

Table 1.1. Relationship between indicators of good governance and sustainable development

Result	Institutional aspect	The determinants of sustainable development
There is correlation	Institutions (in general)	Capital accumulation ²²
		Foreign direct investment ²³

²¹ J. D. Gwartney et al., *Economic Freedom of the World: 2011 Annual Report*, http://www.freetheworld.com/2011/reports/world/EFW2011_complete.pdf (accessed April 20, 2013).

²² S. Claessens et al., “Financial Frictions, Investment, and Institutions,” *IMF Working Paper* 10 (231) (2010): 1–45.

		Labour market ²⁴
	Corruption	The level of production ²⁵
		Investment and government spending ²⁶
	Corruption	Environment, pollution levels ²⁷
	Protection of property rights	The level of production ²⁸
	Political freedom and Economic freedom	Productivity, human and physical capital accumulation, labour force growth ²⁹
	Freedom of investment and the size of government	Foreign direct investment ³⁰

²³ A. Masron, H. Abdullah, “Institutional Quality as a Determinant for FDI Inflows: Evidence from ASEAN,” *World Journal of Management* 2 (3) (2010): 115–128.

²⁴ O. Blanchard, J. Wolfers, “The Role of Shocks and Institutions in the Rise of European Unemployment: the Aggregate Evidence,” *The Economic Journal* 110 (2000): C1–C33.

²⁵ H. Welsch, *Corruption, Growth, and the Environment: A Cross – Country Analysis*, <http://econstor.eu/dspace/bitstream/10419/18117/1/dp357.pdf> (accessed April 20, 2013).

²⁶ P. Mauro, *The Effects of Corruption on Growth, Investment, and Government Expenditure: A Cross Country Analysis*, <http://www.adelinotorres.com/economia/Os%20efeitos%20da%20corrup%C3%A7%C3%A3o%20no%20mundo.pdf> (accessed April 20, 2013).

²⁷ R. Damania et al., “Trade Liberalization, Corruption, and Environmental Policy Formation: Theory and Evidence,” *Journal of Environmental Economics and Management* 46 (3) (2003): 490–512.

²⁸ K. Sonin, *Why the Rich May Favor Poor Protection of Property Rights*, <http://deepblue.lib.umich.edu/bitstream/2027.42/39929/2/wp544.pdf> (accessed April 20, 2013).

²⁹ M. Ulubasoglu, C. Doucouliagos, *Institutions and Economic Growth: A Systems Approach*, <http://repec.org/esAUSM04/up.29323.1076501864.pdf> (accessed April 20, 2013).

³⁰ J. Caetano, A. Galego, *FDI in European Union and Mena Countries: Institutional and Economic Determinants*, http://www.cefage.uevora.pt/en/content/download/1727/22514/version/1/file/2009_09.pdf (accessed April 20, 2013).