

**GOVERNANCE, GOOD GOVERNANCE, AND GOVERNMENT:  
THE CASE FOR ESTONIAN ADMINISTRATIVE CAPACITY**

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**Abstract.** After a short case study of (Good) Governance in Estonia, this article focuses on one of the key shortcomings in Estonian government, especially after EU accession: the administrative capacity problem. This is intimately linked with the New Public Management (NPM), upon which, in turn, Good Governance as a world view largely rests. The problems and fate of the NPM paradigm are traced and then applied to the Estonian situation. After outlining the Estonian priorities of following the Lisbon strategy and an Innovation-based economic policy, the direction necessary for public administration reform plans, and thus for the enabling of Estonian administrative capacity, is identified.

**Keywords:** Governance, Good Governance, government, New Public Management, Estonia, administrative capacity, Lisbon strategy, innovation, economic growth

The Hatter ... had taken his watch out of his pocket, and was looking at it uneasily.... “Two days wrong! ... I told you butter wouldn’t suit the works!” he added, looking angrily at the March Hare.  
“It was the *best* butter,” the March Hare meekly replied.  
Lewis Carroll, *Alice in Wonderland* (1865)

### **1. Governance vs. Good Governance**

By and large, the term “Governance” has become a more or less neutral concept that focuses on steering mechanisms in a certain political unit, emphasizing the interaction of State (First), Business (Second), and Society (Third Sector) players. “Good Governance”, on the other hand, is not at all neutral; rather, it is a normative concept that embodies a strong value judgment in favor of the retrenchment of the State, which is supposed to yield to Business standards, principles, and – not least – interests. In that sense, “Good Governance” privileges the Second

over the First Sector, even in First Sector areas (see Knill in this volume; König 2001a, 2001b).

The concept of “Good Governance” arose in the 1980s in the International Finance Institutions (IFI’s) such as the World Bank, the IMF, UNDP, and OECD, as a positive extrapolation from the negative experiences that these organizations had had in the “developing countries” by observing that their financial aid seemed to have had no effect cf. Easterly 2002). From this, they deduced an absence of institutions, principles, and structures, the entirety of which was called “Governance” – and “Good Governance” when they worked well (see Doornbos in this volume; König and Adam 2001).

As the motto to this article implies, however,

*‘Good’, like its superlative, is often a relative term, meaning ‘good of its kind’, or for its standard purpose, whatever that may be. Failing such a reference, the judgment of goodness is indeterminate, and cannot be applied or debated without risk of confusion. [Thus, the March Hare’s statement is right in that the butter was best] as butter goes, no doubt, but not as a mechanical lubricant (Heath 1974, 68 N5).*

The same is true, of course, regarding the “Good” in “Good Governance”: It is not good in any general or generalizable sense, but as pertains to what most of the IFI’s in the 1980s thought was good – a perspective that these days is not shared by many experts anymore, including those within the IFI’s themselves. And indeed, what the respective IFI’s thought as good in the 1980s was neo-liberalism, the Free Market as a world view, and thus the retrenchment of the State.

Within the State sector itself, many of the principles of “Good Governance” were identical with the Public Administration (PA) reform concept of the “New Public Management” (NPM). And while a unitary definition of the concept “Good Governance” never existed, not even within the respective individual IFI’s (König and Adam 2001, Doornbos in this volume), “good” principles usually encompassed such concepts as transparency, efficiency, participation, responsibility, and market economy, state of law, democracy, and justice. Many of them are indubitably “good” as such, but all of them – except the last one – are heavily context-dependent, dependent not only on definition and interpretation, but also on time and place. Critics from the “Third World” thus often saw or see the demand for “Good Governance” as a form of Neo-Colonialist Imperialism and as part of negative Globalization, since it demands the creation of institutions and structures *before* economic development, while all wealthy countries of the “West” had established them only afterwards (Chang 2002, Reinert 1999, cf. König and Adam 2001).

Inspired by, but in the end independently from, that discourse, the terms “Governance” and – to a lesser degree – “Good Governance” soon traveled into the parlance of general social science and policy discussions, as well as to our region of Central and Eastern Europe (CEE). The problem in the region, but certainly not only there, is that quite frequently, the concepts and especially the underlying ideologies have not yet been fully understood. “Good Governance” is often still thought to be good Governance. This is usually overlooked by even

otherwise quite sophisticated “Good Governance” protagonist from the Third Sector, especially from activist NGO’s, who view the concept as one that integrates them into First Sector processes. It is probably fair to say that this is the Estonian perspective as well.

## 2. Estonia

If we speak just about Governance and its weaknesses in Estonia, the Natura 2000 negotiations and implementation (Habitats) in the context of European Union (EU) accession are a nice case study, as they show some typical problems:

lack of administrative capacity

- bad assessment of the present situation (which led to a negotiation problem in Brussels)
- strong non-transparent, non-institutional Second and Third Sector influence (hunters, powerful landowners, and developers); as a result, their main concern – large mammals (lynxes and bears) – was focused upon
- bad information policy towards normal landowners (legitimate stakeholders)<sup>1</sup>

As one can see, and as is true generally, although there are also problems of sector-interaction and participation/representation, the main Governance problem in Estonia is actually a government problem; indeed, a PA problem – and thus one that puts the focus on the NPM reforms of PA. The concept of Governance must not obscure that fact, because no good Governance is possible without a well-working government to begin with, the latter being a *conditio sine qua non* (see generally Knill in this volume).

And in this respect, the Estonian situation is anything but good. The most recent SIGMA report even states that “the Estonian administrative system may be considered to be on the brink of falling apart ... due to an Estonian politico-administrative ideology that is inimical to strengthening badly needed coordination and control mechanisms” (2003b:19, cf. Vanagunas 1997 on the “deep seated cynicism ... toward public servants, a major inhibition to Civil Service reform”).

Although the SIGMA report is in the end overly alarmist, Estonia has indeed an Administrative Capacity problem that, after EU accession, is even more serious than it ever has been. The EU, paradigm for times to come for Estonia, is a State structure. There is a complex discussion about the legal “stateness” of the EU, but it certainly is such a structure if one uses our functional definition, which is what matters for PA (see Drechsler 2001b). What is more, the EU is a Continental “State”, organized and working along Continental, *viz.* French and/or German, lines. It is not an Anglo-American structure, not least as regards its most powerful

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<sup>1</sup> This was the clear result of a workshop in Pärnu, Estonia, 21–22 May 2004, “Bear and Lynx after Accession: The Habitats Directive as Paradigm and Challenge for Post-Accession Estonia”, chaired by the author, in the context of the EU Fifth Framework Programme, “Organizing for Enlargement: National Governance and the EU”, results of which will be published in due course.

feature, the Civil Service. To participate and to compete in the EU, and to deliver what has been promised during accession negotiations, is the greatest challenge for Estonia right now. But is Estonia up to this?

The honest reality does not look too promising. Estonia is a classic case for the general CEE complaint that “The aim has been to establish rules rather than to achieve results and plan efficient ways of doing so” (Randma 2001a:124). “The development of Public Administration has been neither rational nor consistent as political will for structural administrative reforms has been deficient” (Randma 2001b:43). Estonia has produced a veritable cottage industry of PA reform; there have been many announcements and many PA reform commissions but so far, very few coordinated results (Viks and Randma 2004). The different commissions are ineffective to the extreme. This, however, is almost something like an Estonian tradition (and a Governance problem!): advisory panels and the like are mainly employed to keep stakeholders busy talking and thus not influence policy.<sup>2</sup>

Fortunately – and this is very ironic –, as regards PA reform, so far, hardly anything has worked out. There has, for instance, always been a strong downsizing rhetoric, based in part on neo-liberal ideology and in part on budget constraints. Nevertheless, the Civil Service has, if anything, slightly increased in Estonia. It is strongly to be hoped that the same is true with the current Civil Service Law draft.<sup>3</sup>

### 3. The new public management<sup>4</sup>

This brings us to NPM again, which the aforementioned Civil Service Law draft widely embodies, if – as usual – intermixed with vestiges of other systems as well. If the Estonian government and thus Governance problem is an Administrative Capacity problem, something that – with all due respect to the civil servants currently employed – needs to be acknowledged rather than obscured,<sup>5</sup> then it must be noted that even most of NPM’s protagonists would not claim that it increases Administrative Capacity, let alone on a sustainable level. And Estonia is already one of the CEE countries closest to NPM models; this development was possible because a large segment of the politico-administrative elite is neo-liberal or technocratic in outlook – some radically so –, and those administrators (with a German legal background) who promote the career system still share this basic ideology. In addition, the physical and ethnic proximity of Finland, a country with

<sup>2</sup> Since 1991, PA reform has usually focused on Local Government unit reform, a genuine worst practice in its field, as it is purely ideology-driven, without any previous calculation of real effects, pilot projects, analyses, or the like. Fortunately for Estonia, hardly any of these reforms have actually been implemented (see Drechsler 1999).

<sup>3</sup> See *Avaliku teenistuse arendamise kontseptsioon 2004*.

<sup>4</sup> Drechsler 2005 deals with the theory of NPM and its problems in Estonia in detail; meanwhile, see Drechsler 2003c, *passim*. On the specifics of Estonia as a Small State, which are not addressed in this essay, see Randma 2001a.

<sup>5</sup> The workshop mentioned in note 2 above brought that out, in closed session, for almost every single ministry and agency represented.

a strong NPM rhetoric prevailing during the early Estonian transition times, and famously successful in such areas as ethics, education, and economic development, aided this tendency. Yet, Finland also spends radically more money in such fields than Estonia would ever consider, and the context is radically different there otherwise as well, including the pre-existence of strong units, rather than the need to build new ones (see Ahonen 2002).

For a reminder, NPM is the transfer of business principles and management techniques from the private into the public sector, symbiotic with and based on a neo-liberal understanding of State and economy (on the definition, see Drechsler 2003; also König 1997b:219). In advanced PA scholarship, this view is completely on the defensive by now, if taken as a world view (i.e. an ideology), rather than as one of several useful perspectives for PA reform. The question is more whether one favors post-NPM (anti-NPM) or post-post-NPM, because what was an option 10 years ago is not an option anymore today. I would say that

- In 1994, it was still possible to believe in NPM, although there were first strong and substantial critiques
- In 1999, NPM was on the defensive, empirical findings spoke clearly against it
- In 2004, NPM is not a viable concept anymore<sup>6</sup>

NPM has led to very negative consequences, especially but not only in CEE, “perhaps going as far as creating roadblocks in the development of individuals, communities, societies and the global community as a whole” (Debicki 2003:2; already Hesse 1998, Drechsler 2001a, 2003b). Therefore, already on the Administrative Capacity level as such, NPM is the wrong way for Estonia to go.

The ideal-typical alternative to NPM is Classical, or “Weberian” PA. Very briefly put, for Max Weber, the most efficient PA was a set of offices in which appointed civil servants operated under the principles of merit selection (im-personality), hierarchy, the division of labor, exclusive employment, career advancement, the written form, and legality. This increase of rationality – his key term – would increase speed, scope, predictability, and cost-effectiveness, as needed for an advanced mass-industrial society (Weber 1922, see esp. 124–130). This set of criteria is exceedingly close to almost all of the recent principles of PA reform agendas worldwide, including the European Administrative Space’s main standards of reliability and predictability, openness and transparency, accountability, and efficiency and effectiveness (SIGMA 1998:8–14). Naturally, there is a difference between pre-NPM, post-NPM, and post-post-NPM Weberian-based PA, the last being the most advanced, and the most sophisticated (see Edeling et al. 1998). The key, however, is that one retains the Weberian base.<sup>7</sup>

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<sup>6</sup> Just for some scholarly treatments along these lines, see for the early critiques, Mintzberg 1996, Peters and Savoie 1994, Wilson 1994; for the late 1990s findings, Kickert 1997b, König 1997a, 1997b, van Mierlo 1998, Wright 1997; for now, Pollitt and Bouckaert 2000, Samier 2001, *Urgent Business ...* 2003, also Pelizzari 2001, and Manning 2000, Rinne 2000 on the World Bank’s view.

<sup>7</sup> “Merit with flexibility’, for instance, is not, or should not be, a system based on a combination of classical PA and NPM, but rather a basically “Weberian” system into which those NPM features have

#### 4. Lisbon strategy and economic growth

The Weberian way, in whichever setup, is even more important for Estonia because of the country's strong opting for the Lisbon Strategy and for Innovation as the bases of national development (see Tiits et al. 2004, Rodrigues 2002, 2003), which absolutely requires a capable State and a particularly high administrative capacity (see Kattel in this volume). Ever since the study by Evans and Rauch of 35 developing countries (1999), we also know empirically that “‘Weberian’ characteristics [of the PA] significantly enhance prospects of economic growth” (748).

The key economic and development issues of today, sustainability, dynamic markets, innovation, and technology, actually foster the role of the State for economic growth (see Reinert 1999). The Schumpeterian, innovation-based world cannot be imagined without a capable State actor (see Burlamaqui 2000). “The direct correlation between the capabilities of government and countries’ development ... is based on vast historical evidence. The most powerful nations’ strength and ability to create and distribute wealth cannot be explained without acknowledging the central role of public institutions” (Echebarría 2001:1).

Moreover, for CEE, the existence of a double revolution – both in technology and the rise of a global innovation-based economy, and in the political transition sphere locally – is precisely what makes the situation even more critical and NPM even worse. In the current techno-economic paradigm shift, “the managers and structures designed and acting within the tenants of the New School of Management are not and cannot be prepared to administer such a revolution” (Debicki 2003:36). The CEE lesson of the last decade is therefore precisely the necessity for a State role in economic and social affairs, not for the State to stay out and let well alone. However, this is the opposite of what Estonia seems to be opting for – and not only in PA.

#### 5. Conclusions

The tensions and clashes between the need of a capable State for the economy, EU membership, and Society as a whole on the one hand, and a neo-liberal and/or technocratic world view on the other, are, as so often, simply left open and unresolved in Estonia. Mistaking “Governance” as a shift away from government, and “Good Governance” as something good for Estonia today, rather than for the IFI’s 20 years ago, is thus less than helpful, to say the least.

The key to good Governance in Estonia is to strengthen the Administrative Capacity and thereby to bring Public Administration reform in line with the national

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been integrated that do work in general, have been assessed to be likely to work in the specific circumstances, and are not alien to the ‘Weberian’ system as a system. Otherwise, the merits of the system as such – and only the Weberian system as a system seems to guarantee sustainable strong Administrative Capacity – will disappear. This is also the problem with suggesting to CEE (or generally) a “‘problem-solving’, even pragmatic approach” (Verheijen 1998:416).

priorities, and with EU membership. The optimal solution for Estonia would therefore be a genuine post-post-NPM system, Weberian-based but with the lessons from NPM learned, with attention to the Estonian reality, and the final goal, as always, of the Good Life in the Good State.

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<sup>8</sup> All web-based references are valid as of 15 July 2004.

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