

RULE OF LAW AND ITS EFFECTS ON ECONOMIC GROWTH

Ana Udovičić^{1, *} and Katarina Marošević²

¹University of Applied Science
Šibenik, Croatia

²Josip Juraj Strossmayer University, Faculty of Law
Osijek, Croatia

DOI: 10.7906/indecs.22.5.1
Regular article

Received: 22 May 2024.
Accepted: 12 September 2024.

ABSTRACT

It is generally assumed that the rule of law is essential for economic growth. However, it is clearly a multidimensional concept, including a variety of discrete components. Literature has a huge amount of cross-national data claiming to measure the rule of law. Yet even the very best work in the field has not been adequately attentive to the multidimensionality of the rule of law concept. As a governance principle, it ensures the enforcement of equality in a society, in different spheres. Therefore, in a broader sense, it ensures the avoidance of arbitrariness and is interconnected with institutions and economic growth and development. The 2023 Rule of Law Report, including its 27 country chapters, examines developments across all Member States in four key areas for the rule of law: the justice system, the anti-corruption framework, media pluralism and freedom, and other institutional issues related to checks and balances. The World Justice Project developed the World Justice Project Rule of Law Index as a quantitative tool that measures the rule of law in practice. This article's aim is to present the World Justice Project Index for Croatia and other EU countries as a helpful tool for comparative methods with another measurement of the Rule of Law, for instance, the Rule of Law Group/Pillar as apart from the Economic Freedom Index. Additionally, this article aims to present chosen research on the rule of law and institutions and its relation to economic indicators and economic growth and development. The article will present theoretical and empirical secondary data on the relationship between institutions, the rule of law, governance, and economic growth.

KEY WORDS

rule of law, WJP, economic growth, governance

CLASSIFICATION

JEL: H11, K00, O43, P48

*Corresponding author, *η*: ana_u@vus.hr; -;
Trg Andrije Hebranga 11, HR – 22 000 Šibenik, Croatia

INTRODUCTION

The relationship between the rule of law and economic growth is of great interest not only in the academic community but also in the public sector and state governance. Considering the complexity of the rule of law's scope, its unique definition is impossible. According to the political philosophy perspective given by Britannica, the rule of law is defined as the mechanism, process, institution, practice, or norm focused on the equality of all citizens before the law and enabling no arbitrary form of government.

In other words, the rule of law is the mechanism, process, institution, practice, or norm that supports the equality of all citizens before the law, secures no arbitrary form of government, and, in a more general sense, prevents the arbitrary use of power [1]. Although very similar, a bit broader definition was given by the United Nations: '(...) the rule of law is a principle of governance in which all persons, institutions, and entities, public and private, including the State itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with international human rights norms and standards. It requires measures to ensure adherence to the principles of supremacy of the law, equality before the law, accountability to the law, fairness in the application of the law, separation of powers, participation in decision-making, legal certainty, avoidance of arbitrariness, and procedural and legal transparency' [2]. The interconnectedness of the rule of law and institutions is undeniable, as well as the impact on economic growth and (economic) development. The importance of the rule of law and institutions is even part of a Sustainable Development Goals Agenda set by the United Nations, which is visible in the 16th Goal, 'Peace, Justice, and Strong Institutions' [3].

According to the view of economists, the wealth of the economic system depends on institutions, not on individuals, and an efficient institutional structure can solve problems related to market uncertainty and asymmetric information, create positive heterogeneity, and enable efficient distribution of resources. The institutional structure includes significant factors related to the rule of law, control of corruption, freedom of expression, political stability, quality of bureaucracy, and guarantee of property rights [4]. Taking into account Southeast Europe, as calculated and stated by Nedanovski and Shapkova Kocevaska, the regression model analysis results confirmed that stronger adherence to the rule of law stimulates economic growth [5]. Although the mentioned region belongs to the less developed one compared to some of the other EU regions, the positive impact of the rule of law implementation was still confirmed.

Bufford [6] states that the rule of law is an indispensable foundation for a market economy and provides an essential instrument for creating and preserving wealth, economic security, and well-being, as well as improving the quality of life. Separate legal structures are required to support a market economy and to provide for its effective operation. These structures must operate at the legislative, administrative, and judicial levels. A country will always be poor without adequate legal structures to support economic activity. The Rule of Law requirements for a market economy differ substantially from those for other types of social needs [6].

Addink [7] emphasises the differences in the historical roots and traditional perspectives, i.e. common law and continental law, although both systems have a focus on the rule of law. The tradition of common law is based more on limiting the powers of the state, while the continental tradition is not only on limiting but also on empowering the government [7]. Since governance appears as a way of making laws, Ciacchi and von der Pfordten [8] mention four specific relations between governance and law: governance as law, governance in law, governance through law and governance against the law. According to some definitions, governance is exercising authority or control to manage a country's affairs and resources [9]. Besides,

governance is a sophisticated process of interactions between structures, traditions, functions, and procedures defined by accountability, transparency, and participatory principles [10].

Over time, the fundamental basis of governance has evolved, and it is a crucial element in leadership and implementation. Governance is increasingly being identified as one of the most critical issues to economic growth in most emerging countries, and “institutions are the rules of the game in a society or humanly devised constraints that shape human interaction and structure incentives in human exchange, shape actions of individuals to maximise the utility of principals” [11; p.16].

Thriving market economies depend on strong states that secure private property rights and their voluntary transfer. However, the strength of the state can be its greatest weakness. If it is strong enough to secure private property rights, it could also be strong enough to attenuate them or even to expropriate its citizens. A simple promise to honour private property rights in the future will not be credible: the citizens know that, after they have invested, the state is incentivised not to keep its promises and to hold citizens up. An independent judiciary could make all actors better off in such a setting. If it can make the representatives of the state stick to their promises, additional (physical and human capital) investment could lead to higher income and growth, as well as higher tax receipts for the state [12].

The article aims to present previous research on the relationship between economic indicators and the rule of law. Furthermore, based on the presented results, the work aims to show that the rule of law forms the basis for economic development. The article discusses previous theoretical and empirical research related to the connection between institutions and the rule of law, as well as research on the connection between governance and its impact on economic growth. In a perspective where factors such as corruption prevention and freedom of expression are present, the institutional structure significantly affects economic development. Furthermore, the article presents the features of the rule of law. It depicts the rule of law index according to the World of Justice Project (WJP), emphasising the Rule of Law Justice index according to income for high-income countries. Furthermore, the Rule of Law Justice index for Croatia for the year 2023 is analysed.

LITERATURE REVIEW

There are several studies on the connection between the institutional structure and its characteristics and the economic performance of countries. In the study that Kaufmann, Kraay, and Zoido-Lobaton [13] conducted on 150 countries, they found an evident cause-and-effect relationship between the rule of law and income per capita and infant mortality rate. Furthermore, the per capita gap may be three times greater in countries that do implement the rule of law principle compared to countries that do not implement it. In his research, the Nobel-winning economist announced that he believes that economic growth is not possible without the requirements of the rule of law and further argues that in order to ensure long-term economic growth, especially in a dictatorial regime, development in the law of rule issues is needed. North and Thomas [14] believe that the lack of property rights protection prevents capital investments that would help economic growth.

Furthermore, Knack and Keefer [15] and Haal and Jones [16] claim a positive relationship between property rights and economic growth. Protecting property rights and taking them under the state guarantee, thus increasing investment demand, affects economic growth positively, as it does in technological and other innovations. Knack believes it is possible to prevent macroeconomic instability precisely in the previously mentioned way [15]. In their study covering the period from 1950-2009, Valeriani and Peluso [17] performed a panel data analysis for 181 developed and developing countries. According to the results, institutional quality

positively affects economic development in developed and developing countries. Therefore, it is possible to conclude that social welfare and per capita income increase seriously with an increase in the rule of law in a country [18]. When speaking of the relationship between regulations, quality, prevention of corruption, and economic growth, Ata, Koc, and Akca [19], in their research that covered 30 OECD countries, found positive and statistically meaningful results.

Some studies further define that the positive effect of institutional structure on economic growth is possible only in developed countries. In this respect, Yaprak [20], in his study of 36 middle-income countries, found a negative relationship between components of institutional structure and economic growth. Bienen [21] and Sachs and Warner [22], in their study of African countries, stated that weak growth in Africa is caused by natural causes such as limited access to the sea, abundance of natural resources, and tropical climate, but, furthermore, they concluded that institutions significantly affect economic growth. Helliwell [23] investigated the relationship between democracy and economic development in his study, which included 125 children. In the study, he concluded that there is a positive relationship between democracy and economic growth in high-income countries. Besides the positive effect, however, he claims that democracy has a negative but insignificant effect on growth in low-income countries. Furthermore, in the study published by Alesin and Perroti [24], Alesina and Rodik [25], Alesina et al. [26], Chong and Calderon [27] and Chang [28], results show that the institutional structure is not as effective as it is in developed countries [18].

Since governance appears as a way of making laws, as defined in the introduction, and a sort of implementation, the literature review of governance importance is being presented as well. Mira and Hammadache [29] study the relationship between the implementation capacity of governance principles, as defined by the World Bank, and the economic performance of 45 developing countries. They use several regression model estimations – similar to Samarasinghe [30] – on the dependent variables GDP growth rate and GDP per capita, along with explanatory variables such as commodity prices, risk perception indexes, and economic growth rates of dominant developed countries. Their findings indicate that given the broad concept of good governance, it is rather difficult to assume a positive correlation between governance and growth, let alone generalise such findings regarding emerging market (E.M.) economies [31]. Nevertheless, Mira and Hammadache [29] find that four of the six variables have a positive correlation with GDP growth; however, only two of these variables are significant: government effectiveness, political stability and reduction of violence [32].

The novel literature on institutions and long-run growth tests similar propositions since either the conception of institutions or the proxy for them is the extent of property rights protection (e.g. [33]). In an interesting extension, Acemoglu and Johnson [34] find that the effects of property rights on growth, investment, and financial development trump the effects of institutions ensuring the integrity of contracts. In addition to the focus on long-run growth, the property rights literature variants have also considered alternative dependent variables, including productivity [16] and investment in fixed assets [35], [36]. Even though the function of governance in economic development has been understood since the 18th century, economic theories have overlooked the significance of governance in production and economic development. However, in today's world, governance has become a major element of whatever economic system has been formed [11]. Governance is a sub-component of an institution that covers all aspects of behaviour and social network, including political, economic, and legal aspects [12]. Strong governance boosts individual and organisational productivity by utilising their resources efficiently in production. Economic actors are more involved in resource reallocations when governance is poor, limiting free market rather than productive activities. Because strong governance lowers company expenses, it promotes the creation of markets in which agents can benefit from each other. It fosters an atmosphere in which people and physical

capital are prioritised. Strong governance minimises macroeconomic instability, uncertainty, and negative externalities. This improves economic efficiency by allowing for more efficient resource allocation. Information for enterprises and consumers to respond rationally and foster free market competition is governance quality. These factors contribute to economic growth [37].

Among recent studies, it is important to mention the connection of digital development to the European economy and society. According to classical and neoclassical economics, the main drivers of growth are technological progress and innovation [38]-[42]. Economic growth can only be achieved through the development of human capital and the increased integration of digital technology. The integration and use of digital technology are thoroughly linked to human capital development [43, 44]. Therefore, the focus should be on maximising learning opportunities, research, exploration, and development activities at both government and enterprise levels. A framework for digital progress should be developed at the state level and by all companies as a helpful structuring tool to save resources [44]. Management's attention to digitalisation and its ability to gather information from inside and outside the company determine digital transformation's success [45]. The state's responsibility cannot be bypassed to facilitate digitisation efforts. It is responsible for developing the proper framework to ensure that it can be applied in the business sector efficiently [46]. Kovacs et al. [47] conducted an analysis focused on the Member States that joined the EU during the Eastern European enlargements. The study examined the individual indicators of the integration of digital inclusion as widespread as possible. It showed that the performance of all individual indicators is typically below the EU average, while the average catching-up rate is not encouraging. The authors conclude that the state should support digital development through various tendering procedures, which is also unsatisfactory [47].

The study was conducted on the impact of health capital on economic growth in the Balkan countries over the 2000-2019 period. It included annual data for 10 Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, North Macedonia, Montenegro, Romania, Serbia, and Turkey).

The researchers used panel autoregressive lag of a pooled mean group to examine the relationship. The results revealed that economic growth responds to short-term and long-term health capital changes. Estimation results indicate a positive relationship between health capital and the economic growth of Balkan countries. According to the results, increased health expenditures stimulate higher economic growth and development. The findings imply the need to formulate policies that assign higher priority to the healthcare sector, which would help sustain future economic growth in Balkan countries [48].

A study concerned with economic and environmental sustainability through trade openness and energy production in Saudi Arabian countries was conducted using annual data from 1970 to 2020. The fully modified ordinary least squares and the dynamic ordinary least squares methods were employed to develop two models, including an economic growth model and an environmental Sustainability or pollution model. The results of the two tests ensured that both expanding trade openness and increasing energy production led to faster economic growth. Nevertheless, the expansion of trade openness and energy production also led to environmental pollution; hence, the increase in energy production did not support sustainable development [49].

Another recent and very interesting analysis of the economic and sustainability priorities in the United Arab Emirates aims to suggest strategies that are more effective in assisting economic growth [50]. The authors use the World Bank data set, which collects various stakeholders' opinions on the UAE development. First, exploratory factor analysis was applied to detect the main groups of development priorities. Second, fuzzy cluster analysis has been conducted to detect the groups of stakeholders with different attitudes towards the importance of extracted groups of priorities. Third, clusters were compared according to demographics, media usage,

and shared prosperity goals. The exploratory factor analysis has extracted the two main groups of development priorities: economic priorities and sustainability priorities. Four clusters have been detected according to the level of motivation when it comes to the economic and sustainability priorities: Cluster 1 (High economic High sustainability), Cluster 2 (High economic– Medium sustainability), Cluster 3 (High economic– Low sustainability) and Cluster 4 (Low economic– Low sustainability). Members of the cluster that prefer a high level of economic and sustainability priorities (Cluster 1) also prefer more diversified economic growth, which provides better employment opportunities and better education and training for young people in the UEA [50].

METHODOLOGY

The 2023 Rule of Law Report, including its 27 country chapters, examines developments across all Member States, both positive and negative, in four key areas for the rule of law: the justice system, the anti-corruption framework, media pluralism and freedom, and other institutional issues related to checks and balances. The country chapters, which rely on a qualitative assessment carried out by the European Commission, analyse new developments since the previous Report and the follow-up to the challenges and developments identified in the 2022 edition. The WJP developed the WJP Rule of Law Index as a quantitative tool that measures the rule of law in practice [51]. The Index's methodology and comprehensive definition of the rule of law are the products of intensive consultation and vetting with academics, practitioners, and community leaders from more than 100 countries and jurisdictions and 17 professional disciplines. The Index offers original, independent data organised into eight factors encompassing the rule of law: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. Index factor scores reflect the perspectives and experiences of more than 149 000 everyday people and 3 400 legal experts worldwide, and a rigorous process of validation and analysis backs them (Source: WJP).

The WJP developed the conceptual framework summarised in the Index's 9 factors and 47 sub-factors in consultation with academics, practitioners, and community leaders from around the world [51]. The Index team developed a set of five questionnaires based on the Index's conceptual framework to be administered to experts and the public. Questionnaires were translated into several languages and adapted to reflect commonly used terms and expressions and then identified, on average, more than 300 potential local experts per country to respond to the expert surveys, or Qualified Respondents' Questionnaires (QRQs). The team engaged the services of leading local polling companies to implement the household surveys or General Population Polls (GPP). Polling companies conducted pilot tests of the GPP in consultation with the Index team and launched the final survey for full fieldwork. The Index team sent the QRQ questionnaires to local experts and engaged in continual interaction with them; collected and mapped the data onto the 44 sub-factors with global comparability; constructed the final scores using a five-step process. The data was subject to a series of tests to identify possible biases and errors. For example, the Index team cross-checked all sub-factors against more than 70 third-party sources, including quantitative data and qualitative assessments drawn from local and international organisations. The Econometrics and Applied Statistics Unit of the European Commission's Joint Research Centre, in collaboration with the Index team, to assess the statistical reliability of the results, conducted a sensitivity analysis. To illustrate whether the rule of law in a country significantly changed over the past year, a measure of change over time was produced based on the annual difference in the country-level factor scores, the standard errors of these scores (estimated from a set of 100 bootstrap samples), and the results of the corresponding t-tests. The data was organised into country reports, tables, and figures to

facilitate its presentation and interpretation. For tables organised by income group, the WJP follows the World Bank income classifications [51]. Besides, according to the official World Justice Project webpage, the Global Rule of Law Recession continues since, for the sixth year in a row, the rule of law has declined in most countries [51].

RESULTS

GLOBAL ANALYSIS

Table 1 gives an overview according to the income, presenting countries belonging to the high-income group. The change in rankings was calculated by comparing the positions of the 140 countries and jurisdictions measured in the 2022 Index with the rankings of the same 140 countries and jurisdictions in 2023, exclusive of the two new additions to the 2023 Index, Kuwait and Montenegro. Income groups used in the 2023 report are based on the World Bank's 2023 fiscal year income group classifications. For the 2023 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1085 or less in 2021; lower-middle-income economies are those with a GNI per capita between \$1086 and \$4 255; upper-middle-income economies are those with a GNI per capita between \$4 256 and \$13 205; high-income economies are those with a GNI per capita of more than \$13 205.

The highest overall Rule of Law score is reserved for the northern European countries (1/46 Denmark, 0,90; 2/46 Norway, 0,86; 3/46 Finland, 0,87; 4/46 Sweden, 0,85) and then also for developed central and western European Countries, i. e. Germany (0,83), Luxembourg (0,83), Netherlands (0,83), Estonia (0,82), Ireland (0,81) and Austria (0,80) (respectively 5/46, 6/46, 7/46, 9/46, 10/46 and 11/46) – all being at the level of 0,80 or higher. Croatia achieved a much lower rank, 40/46, in the high-income category, with a score of 0,61. Compared to last year, Croatia has risen by two places, thereby presenting positive change. The same score was recorded for Greece as well (rank 41/46, score 0,61), but Greece's annual overall score fell by -1,4%. Hungary was the only other European country that was lower than the score of 0,61 (rank 45/46, score 0,51). Additionally, some of the Central European and Eastern European countries usually record lower levels of some other indicators, i.e., The Economic Freedom Index is important for achieving economic success.

Table 2 gives an overview of the Rule of Law Justice Index ranks by the World Justice Project and by the Rule of Law group of indicators calculated as an average of the three indicators belonging to the group of the Index of Economic Freedom for the 27 European Union Countries.

The Index of Economic Freedom is comprised of 12 different freedoms, from property rights to financial freedom, in 184 countries. The Index of Economic Freedom confirms a positive relationship between economic freedom and progress. It consists of 12 indicators grouped into four pillars – Rule of Law (consisting of property rights, government integrity, judicial effectiveness), Government Size (consisting of government spending, tax burden, fiscal health), Regulatory Efficiency (business freedom, labour freedom, monetary freedom) and Open Markets (trade freedom, investment freedom, financial freedom).

For both indicators of the Rule of Law, there were used or calculated last available data. The methodology of the Index of Economic Freedom is that there are four categories made from 12 specific components of economic freedom, each of which is graded on a scale from 0 to 100. Scores on these 12 components of economic freedom are calculated from a number of sub-variables then equally weighted, and averaged to produce an overall economic freedom score for each economy. The listed sources explain the formulas and methodology used to compute the scores for each of the 12 components of economic freedom.

Table 1. Rule of Law by criterion of income, High-Income group (authors' work, based on [51]).

Income Rank	Country/ Justification	Overall Score	Annual Change in Overall Score, %	5-Year Change in Overall Score, %	Global Rank	Change in Global Rank
1/46	Denmark	0,90	-0,3	0,7	1	0
2/46	Norway	0,89	0,3	0,3	2	0
3/46	Finland	0,87	0,4	0,3	3	0
4/46	Sweden	0,85	-0,4	-1,1	4	0
5/46	Germany	0,83	0,0	-0,2	5	1
6/46	Luxembourg	0,83	0,8		6	2
7/46	Netherlands	0,83	-0,3	-2,5	7	2
8/46	New Zealand	0,83	-0,2	-0,4	8	1
9/46	Estonia	0,82	0,0	2,3	9	0
10/46	Ireland	0,81	0,3		10	0
11/46	Austria	0,80	-0,3	-2,0	11	0
12/46	Canada	0,80	0,5	-1,3	13	0
13/46	Australia	0,80	0,5	-1,3	11	0
14/46	Japan	0,79	0,0	-0,2	14	2
15/46	United Kingdom	0,78	-0,4	-3,1	15	0
16/46	Belgium	0,78	-1,0	1,2	16	2
17/46	Singapore	0,78	-0,1	-2,6	17	0
18/46	Lithuania	0,77	0,4		18	0
19/46	Korea rep.	0,74	0,5	2,0	19	0
20/46	Czech Republic	0,73	0,1	-1,3	20	0
21/46	France	0,73	-0,4		22	2
22/46	Latvia	0,73	0,7		22	2
23/46	Hong Kong SAR, China	0,73	-0,2	-6,0	23	1
24/46	Spain	0,72	-0,8	2,4	24	1
25/46	Uruguay	0,72	0,4	0,7	25	0
26/46	United States	0,70	-0,6	-4,0	26	0
27/46	Slovenia	0,69	1,6	2,3	27	4
28/46	Portugal	0,68	-0,9	-5,2	28	1
29/46	Malta	0,68	0,1		30	0
30/46	Cyprus	0,68	-0,9		31	3
31/46	Italy	0,67	0,0	2,0	32	0
32/46	Chile	0,66	-0,1	-0,7	33	0
33/46	Slovakia	0,66	0,3		34	1
34/46	Barbados	0,66	0,0	1,1	35	1
35/46	Poland	0,64	-0,6	-5,3	36	0
36/46	United Arab Emirates	0,64	0,2	-1,9	37	0
37/46	Antigua and Barbuda	0,63	0,6	0,7	38	2
38/46	St. Kitts and Nevis	0,63	-0,4	-4,1	39	0
39/46	Romania	0,63	-0,4	-4,1	40	2
40/46	Croatia	0,61	0,3	0,2	45	2
41/46	Greece	0,61	-1,4	-0,3	47	3
42/46	The Bahamas	0,59	-2,0	-1,4	50	2
43/46	Kuwait	0,58			52	-
44/46	Trinidad and Tobago	0,52	-0,8	-7,0	70	1
45/46	Hungary	0,51	-0,2	-6,0	73	2
46/46	Panama	0,51	-0,5	-1,2	74	0

Table 2. Rule of Law Justice Index in the European Union Countries (authors' work, based on [51, 52]).

Rank	Country/Justification	Rule of Law Justice Index 2023	Rule of Law Group by Economic Freedom Index, 2024	The Index of Economic Freedom 2024
1	Denmark	0,90	95,2	77,8
2	Finland	0,87	97,3	76,3
3	Sweden	0,85	94,9	77,5
4	Germany	0,83	91,4	72,1
5	Luxemburg	0,83	92,5	79,2
6	Netherlands	0,83	93,2	77,3
7	Estonia	0,82	89,1	77,8
8	Ireland	0,81	90,4	82,6
9	Austria	0,80	88,8	68,4
10	Belgium	0,78	87,3	65,6
11	Lithuania	0,77	77,1	72,9
12	Czech Republic	0,73	77,7	70,2
13	Latvia	0,73	75,1	71,5
14	France	0,73	83,7	62,5
15	Spain	0,72	74,9	63,3
16	Slovenia	0,69	80,2	65,9
17	Portugal	0,68	81,8	68,7
18	Malta	0,68	77,2	64,5
19	Cyprus	0,68	76,1	72,2
20	Italy	0,67	73,3	60,1
21	Slovak Republic	0,66	70,3	68,1
22	Poland	0,64	60,8	66,0
23	Romania	0,63	64,8	64,4
24	Croatia	0,61	67,4	67,2
25	Greece	0,61	67,3	55,1
26	Bulgaria	0,56	59,1	68,5
27	Hungary	0,51	59,0	61,2

It is evident that countries ranked at the bottom according to the Rule of Law Justice Index are also the ones where the Rule of Law Group calculated as an average of the indicators belonging to the group of Rule of Law according to the Economic Freedom Index (property rights, government integrity, judicial effectiveness) have a lower level of the Rule of Law Group compared to the Index of Economic Freedom overall score – visible from the results for Hungary, Bulgaria and Poland and with very small difference in-between overall Economic Freedom Index and the Rule of Law Group average for Greece, Croatia, Romania and Slovakia – being ranked as well by previously mentioned Rule of Law Justice Index among the last ones.

Institutional underdevelopment frequently appears as a cause and because of certain economic underdevelopment. Furthermore, [52] states that according to the level of trust in the police, trust in the legal system, trust in the political system and trust in others as a part of well-being indicators, countries of North Europe have higher rates of measured indicators (Norway, Finland, Sweden,...), while Central and Eastern European countries have lower level of trust in most indicators presented – named as well-being indicators [53]. The lower rank of Central and Eastern European Countries could also be explained by their transitional path in becoming independent democracies and the need to change in a political, societal, institutional, and economic way – and becoming more decentralised economies, achieving fiscal, functional, and

administrative decentralisation, in order to achieve better living standard. Although countries have made significant progress in their transition way, from one system to another, the weight of inheritance is still present to a certain extent, which can also be seen when comparing the competitiveness of individual NUTS 2 of certain national economies [54]. Suppose one looks at certain composite indexes, such as the Human Development Index, as a measure of the living standard of countries. In that case, the rank is very similar to those already mentioned. In the first five ranks for the Human Development Index are three countries from North Europe: Norway (2nd, 0,966), Denmark (5th, 0,952) and Sweden (5th, 0,952) [52].

CROATIAN POSITION

Furthermore, we analyse Croatia's profile according to the JWP Index (Tables 3-5) and demonstrate data according to the JWP official website. An analysis was made with the available information concerning other countries in the region that are also in the high-income group. The score ranges from 0 to 1, where 1 signifies the highest possible score, and 0 signifies the lowest possible score.

According to the given data, the regional rank and income rank are marked as low. Furthermore, the overall score of 0,61 is considered a medium value, considering that 1 represents the highest possible value. Croatia has increased by two places compared to 2022 in rank range, Table 3.

Table 3. The overall rule of law score for Croatia for 2023 [51].

Indicator	Croatian score
Overall score	0,61 ↑
Global rank	45 / 142 ↑
Regional rank	28 / 31 ↑
Income rank	40 / 46
Rank change	+2 ↑
Score change	0,00 ↑

Table 4 presents the score for various aspects, which is much lower for Croatia for the following fields: Criminal Justice (0,51), Regulatory Enforcement (0,56), Civil Justice (0,56), Absence of Corruption (0,57) and Constraints on Government Powers (0,58). The best field of eight listed for Croatia was Order and Security (0,84). Therefore, these five fields are the main obstacles to better governance and improvement of the rule of law of the Croatian economy and, therefore, consequentially, institutions as well.

Table 4. Croatia's factor score for the rule of law in 2023 (author's work based on [51]).

	Score	Global average	Regional average	Global rank	Regional rank	Income rank
Constraints on government powers	0,58	0,54	0,74	53/142	28/31	39/46
Absence of corruption	0,57	0,51	0,73	50/142	26/31	40/46
Open government	0,61	0,52	0,72	37/142	26/31	34/46
Fundamental rights	0,68	0,56	0,77	37/142	25/31	34/36
Order and security	0,84	0,72	0,86	31/142	21/31	29/46
Regulatory enforcement	0,56	0,54	0,72	50/146	28/31	41/46
Civil justice	0,56	0,54	0,69	58/146	28/31	42/46
Criminal justice	0,51	0,47	0,66	54/146	28/31	41/46

Table 5 shows Croatia's global score in relation to all eight factors according to WJP, with 0 representing the lowest possible score and 1 representing the highest possible score.

Table 5. Croatia Rule of Law Score Over Time, 2015-2023 (authors' work based on [51]).

Year	Rule of Law Score
2015	0,60
2016	0,61
2017-2018	0,61
2019	0,61
2020	0,61
2021	0,61
2022	0,61
2023	0,61

According to the data in Table 5, it is evident that the index itself has changed very little; it has remained at the same value for years, i.e. for the 2016-2023 timeframe.

LIMITATIONS

The Index methodology has both strengths and limitations. Among its strengths is the inclusion of both expert and household surveys to ensure that the findings reflect the conditions experienced by the population. Another strength is that it approaches the measurement of the rule of law from various angles by triangulating information across data sources and types of questions. This approach not only enables accounting for different perspectives on the rule of law, but it also helps to reduce possible bias that might be introduced by any other particular data collection method. Finally, statistical testing is used to determine the significance of the changes in the factor scores over the last year.

With the strengths above, there are a number of limitations. First, the data sheds light on rule of law dimensions that appear comparatively strong or weak but are not specific enough to establish causation. Thus, it will be necessary to use the Index in combination with other analytical tools to provide a full picture of causes and possible solutions. Second, in previous editions of the Index, the methodology has only been applied in three major urban areas in each of the indexed countries for the General Population Poll. However, the World Justice Project's goal was to update its methodology to include nationally representative polls. Towards this end, nationally representative polls have been conducted in 83 countries and jurisdictions covered in the 2023 WJP Rule of Law Index. Nationally representative polls will be conducted in the remaining countries in future editions of the Index. Third, given the rapid changes to the rule of law occurring in some countries, scores for some countries may be sensitive to the specific points in time when the data was collected. To address this, the WJP is piloting test methods of moving averages to account for short-term fluctuations. Fourth, the QRQ data may be subject to problems in measurement error due to the limited number of experts in some countries, resulting in less precise estimates. To address this, the WJP works constantly to expand its network of in-country academic and practitioner experts who contribute their time and expertise to this endeavour. Finally, due to the limited number of experts in some countries (which implies higher standard errors) and the fact that the GPP is carried out in each country every few years (which implies that for some countries, some variables do not change from one year to another), the test described above may fail to detect small changes in a country's situation over time (source: WJP).

The rule of law is increasingly viewed as a factor of economic growth that is no less important than capital and labour, technological innovation, geographical location, economic openness or cultural characteristics [55].

Predominately, the conclusions about the constructiveness of the rule of law are based on cross-regression, which may have significant limitations because it does not consider the particularities of some countries. As a result, it is better to use panel data estimation methods with fixed, variable effects [56].

Moreover, countries with historically established rules of law are usually compared to countries that lacked such an institutional feature in the past. The correlation between successes in achieving the rule of law and economic growth can be reciprocal when strengthening legal frameworks increases with income. Moreover, countries with historically established rules of law are usually compared to countries that lacked such an institutional feature in the past. The correlation between success in achieving the rule of law and economic growth can be mutual when strengthening legal approaches occurs together with an increase in income.

CONCLUSION

The Rule of Law is recognised as an element that indicates the justice system and its fairness, the level of respect for human rights, the effectiveness of democracy, and sustainable development in a certain country. According to the chosen theoretical and secondary data, this article gives an overview of the interconnection between the rule of law, governance, and economic growth. Knowing that strong governance minimises macroeconomic instability, it is easy to conclude that it builds a positive path to achieving economic growth and development.

According to the data presented in the article, the rule of law is weakening. It is very worrying that about 6 billion people live in countries where the Index is decreasing, as measured by the research defined by the Rule of Law Justice Index.

The Rule of Law Justice Project offers an extended insight into the Rule of Law to provide insight to many stakeholders on possible weaknesses, strengths, developments, and setbacks across 142 countries and jurisdictions covering eight areas: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. Given the available data, it is evident that in 2023, in general, the rule of law is in decline in most countries. Some countries have managed to weaken authoritarian trends, while some countries have sustained progress in relation to the protection of human rights, the rule of law, and anti-corruption measures. The mentioned indications are that progress is possible in all measured segments of the Rule of Law. According to the income groups, the classification was made according to GNI per capita in 2021, as follows: i) low-income economies, \$1085 or less; ii) lower-middle-income economies, in-between \$1086 and \$4 255; iii) upper-middle-income economies, in-between \$4 256 and \$13 205; iv) high-income economies, more than \$13 205. All countries of the European Union belong to the high-income economies but with a pronounced gap in the overall Rule of Law Justice Index. Further, countries in North Europe, such as Denmark, Norway, Finland, and Sweden, have the highest rank and score on the Rule of Law Justice Index. Besides the first few rankings of northern European countries, other EU countries are also recording high scores on the Rule of Law Justice Index, for instance, by the following order: Germany, Luxembourg, Netherlands, Estonia, Ireland, and Austria. All mentioned countries are above the 0,80 Rule of Law Justice Index score. Other EU countries below that score, were above 0,70 were the following countries: Belgium (0,78), Lithuania (0,77), Czech Republic (0,73), Latvia (0,73), France (0,73) and Spain (0,72). All other EU countries are below the 0,70 score – which is almost half of the EU countries, i.e., 12 EU countries. Most of them are former transitional Central European Countries (Slovenia, Slovakia, Poland, and Hungary), Eastern or

South-eastern European Countries (Romania, Croatia, Bulgaria) or Mediterranean countries (Malta, Cyprus, Italy, Greece).

According to some other indexes that measure the rule of law, i.e., the Rule of Law Group of indicators calculated as a part of the Economic Freedom Index, very similar results are confirmed. The difference in the overall score of the Index of Economic Freedom and the Rule of Law Group of Economic Freedom Index is very small for the countries that are ranked at the bottom of the rank compared to the ones at the best positions according to the Rule of Law Justice Index.

Based on the Rule of Law Justice Index for 2023, the regional rank and income rank are marked for Croatia as low, according to the given data. Furthermore, the overall score of 0,61 out of 1 is considered a medium value. Croatia has increased by two places compared to 2022 in rank range. The same score was recorded for Greece as well (rank 41/46, score 0,61), but Greece's annual overall score fell by -1,4%. Bulgaria and Hungary were the only other European countries that had lower scores than 0,60 (0,56 and 0,51, respectively). The worth of emphasising is as well that besides the lower level of the Rule of Law Justice Index, in other related areas of measurement and indices (Economic Freedom Index, level of trust), countries of Eastern Europe and some of Central Europe still record lower levels. Therefore, improvements at the institutional level, governance and the rule of law should be of great importance for all countries, especially for the countries that are least developed.

Conclusively, we recommend that future studies extend the literature by analysing the rule of law index in comparison with previous years in order to obtain a deeper analysis or the analysis for the previous six years since the beginning of the rule of law justice index measurement.

REFERENCES

- [1] Choi, N.: *Rule of Law*.
<https://www.britannica.com/topic/liability-law>,
- [2] United Nations: *United Nations and the Rule of Law*.
<https://www.un.org/ruleoflaw/what-is-the-rule-of-law>,
- [3] United Nations: *Sustainable Development Goals*.
<https://www.un.org/ruleoflaw/what-is-the-rule-of-law>,
- [4] Field, L. and Voight, S.: *Economic growth and judicial independence: cross country evidence using a new set of indicators*.
European Journal of Political Economy **19**(3), 497-527, 2003,
[http://dx.doi.org/10.1016/S0176-2680\(03\)00017-X](http://dx.doi.org/10.1016/S0176-2680(03)00017-X),
- [5] Nedanovski, P. and Shapkova Kocevka, K.: *Rule of Law and Economic Growth: Evidence from South East Europe*.
In: Prašević, A., et al., eds.: *Shaping Post-COVID World – Challenges for Economic Theory and Policy*. Faculty of Economics and Business, University of Belgrade, pp.67-85, 2023,
- [6] Bufford, S.: *International Rule of Law and the Market Economy - An Outline*.
Southwestern Journal of Law and Trade in the Americas **12**, No. 303, 2006,
- [7] Addink, H.: *Good Governance: Concept and Context*.
Oxford University Press, pp.75-91, 2019,
<http://dx.doi.org/10.1093/oso/9780198841159.003.0005>,
- [8] Colombi Ciacchi, A. and von der Pfordten, D.: *Exploring the relationship between law and governance: A proposal*.
The Theory and Practice of Legislation **11**(2), 151-167, 2023,
<http://dx.doi.org/10.1080/20508840.2023.2215657>,
- [9] Schneider, H.: *Participatory governance; The missing link for poverty reduction*.
OECD Publishing, 1999,
<http://dx.doi.org/10.1787/888041015581>,

- [10] Fayissa, B. and Nsiah, C.: *The impact of governance on African economic growth*. The Journal of Developing Areas **47**(1), 91-108, 2013, <http://dx.doi.org/10.1353/jda.2013.0009>,
- [11] North, D.C.: *Institutions, institutional change and economic performance*. Cambridge University Press, 1990, <http://dx.doi.org/10.1017/CBO9780511808678>,
- [12] Feyisa, H.L.; Ayen, D.D.; Abdulahi, S.M. and Tefera, F.T.: *The three-dimensional impacts of governance on economic growth: Panel data evidence from the emerging market*. Corporate Governance, and Organization Behavior Review **6**(1), 47-55, 2002, <http://dx.doi.org/10.22495/cgobrv6i1p3>,
- [13] Kaufmann, D.; Kraay, A. and Zoido, P.: *Aggregating governance indicators*. Policy Research Working Paper 2195, The World Bank Development Research Group Macroeconomics and Growth & World Bank Institute Governance, Regulation and Finance, 1999, <http://dx.doi.org/10.2139/ssrn.188548>,
- [14] North, D.C. and Thomas, R.P.: *The rise of the western world: A new economic history*. Cambridge University Press, 1973, <http://dx.doi.org/10.1017/CBO9780511819438>,
- [15] Knack, S. and Keefer, P.: *Institutions and economic performance: cross-country tests using alternative institutional measures*. Economics & Politics **7**(3), 207-227, 1995, <http://dx.doi.org/10.1111/j.1468-0343.1995.tb00111.x>,
- [16] Hall, R.E. and Jones, C.I.: *Why do some countries produce so much more output per worker than others?* The Quarterly Journal of Economics **114**(1), 83-116, 1999, <http://dx.doi.org/10.1162/003355399555954>,
- [17] Valeriani, E. and Peluso, S.: *The impact of institutional quality on economic growth and development: An empirical study*. Journal of Knowledge Management, Economics and Information Technology **1**(6), 1-25, 2011,
- [18] Ozpolat, A.; Guven, G.G. and Ozsoy, F.N.: *Does the rule of law affect economic growth positively?* Research in World Economy **7**(1), 107-117, 2016, <http://dx.doi.org/10.5430/rwe.v7n1p107>,
- [19] Ata, A.Y.; Koc, A. and Akca, H.: *The Relationship Between Economic Growth and Institutional Structure in OECD Countries: Cross Sectional Analysis*. Actual Problems of Economics **10**(136), 323-333, 2012,
- [20] Yaprak, A.: *Culture study in international marketing: a critical review and suggestions for future research*. International Marketing Review **25**(2), 215-229, 2008, <http://dx.doi.org/10.1108/02651330810866290>,
- [21] Bienen, H.: *Leaders, violence, and the absence of change in Africa*. Political Science Quarterly **108**(2), 271-282, 1993, <http://dx.doi.org/10.2307/2152012>,
- [22] Sachs, J.D. and Warner, A. M.: *Sources of slow growth in African economies*. Journal of African Economies **6**(3), 335-376, 1997, <http://dx.doi.org/10.1093/oxfordjournals.jae.a020932>,
- [23] Helliwell, J.F.: *Empirical Linkages between Democracy and Economic Growth*. British Journal of Political Science **24**(2), 225-248, 1994, <http://dx.doi.org/10.1017/S0007123400009790>,
- [24] Alesina, A.F. and Perotti, R.: *The welfare state and competitiveness*. The American Economic Review **87**(5), 921-939, 1997,
- [25] Alesina, A. and Rodrik, D.: *Distributive politics and economic growth*. The Quarterly Journal of Economics **109**(2), 465-490, 1994, <http://dx.doi.org/10.2307/2118470>,

- [26] Alesina, A.; Özler, S.; Roubini, N. and Swagel, P.: *Political instability and economic growth*. Journal of Economic Growth **1**, 189-211, 1996, <http://dx.doi.org/10.1007/BF00138862>,
- [27] Calderon, C.; Chong, A. and Loayza, N.: *Determinants of current account deficits in developing countries*. Policy Research Working Paper No. 2398, World Bank, Washington, 2000,
- [28] Chang, H.J.: *Rethinking development economics*. Anthem Press **1**, 2003,
- [29] Mira, R. and Hammadache, A.: *Good governance and economic growth: A contribution to the institutional debate about state failure in Middle East and North Africa*. Asian Journal of Middle Eastern and Islamic Studies **11**(3), 107-120, 2017, <http://dx.doi.org/10.1080/25765949.2017.12023313>,
- [30] Samarasinghe, T.: *Impact of governance on economic growth*. <https://mpira.ub.uni-muenchen.de/89834>,
- [31] Investopedia: *Emerging Market Economy*. <https://www.investopedia.com/terms/e/emergingmarketeconomy.asp>,
- [32] Misi Lopes, L.E.; Packham, N. and Walther, U.: *The effect of governance quality on future economic growth: an analysis and comparison of emerging market and developed economies*. Small Business Economics **3**, No. 108, 2023, <http://dx.doi.org/10.1007/s43546-023-00488-3>,
- [33] Acemoglu, D.; Johnson, S. and Robinson, J. A.: *The colonial origins of comparative development: An empirical investigation*. American Economic Review **91**(5), 1369-1401, 2001, <http://dx.doi.org/10.1257/aer.91.5.1369>,
- [34] Acemoglu, D. and Johnson, S.: *Unbundling institutions*. Journal of Political Economy **113**(5), 949-995, 2005, <http://dx.doi.org/10.1086/432166>,
- [35] Haggard, S.; MacIntyre, A. and Tiede, L.: *The rule of law and economic development*. Annual Review of Political Science **11**(1), 205-234, 2008, <http://dx.doi.org/10.1146/annurev.polisci.10.081205.100244>,
- [36] Claessens, S. and Laeven, L.: *Financial development, property rights, and growth*. The Journal of Finance **58**(6), 2401-2436, 2003, <http://dx.doi.org/10.1046/j.1540-6261.2003.00610.x>,
- [37] Ugur, M.: *Institutions and economic performance: a review of the theory and evidence*. <http://dx.doi.org/10.2139/ssrn.2102746>,
- [38] Sala-i-Martin, X.: *Transfers, Social Safety Nets, and Economic Growth*. Staff Papers. Working Paper No. 1996/040, International Monetary Fund, 1996, <https://www.imf.org/en/Publications/WP/Issues/2016/12/30/Transfers-Social-Safety-Nets-and-Economic-Growth-2009>,
- [39] Romer, P.M. and Griliches, Z.: *Implementing a national technology strategy with self-organizing industry investment boards*. Brookings Papers on Economic Activity. Microeconomics **1993**(2), 345-399, 1993, <http://dx.doi.org/10.2307/2534742>,
- [40] Solow, R.: *Reviewed Work: Elements of Pure Economics by Leon Walras, William Jaffé*. Econometrica **24**(1), 87-89, 1956, <http://dx.doi.org/10.2307/1905263>,
- [41] Solow, R.M.: *Technical change and the aggregate production function*. The review of Economics and Statistics **39**(3), 312-320, 1957, <http://dx.doi.org/10.2307/1926047>,
- [42] Swan, M.: *British Guiana: the land of six peoples*. The Corona Library **4**. Her Majesty Stationery Office, London, 1957, <https://archive.org/details/british-guiana-swan>,

- [43] Cortright, J.C.: *New Growth Theory, Technology and Learning: Technology and Learning: A Practitioner's Guide*.
Reviews of Economic Development Literature and Practice **1**, 1-40, 2001,
- [44] Grieger, M. and Ludwig, A.: *On the move towards customer-centric business models in the automotive industry-a conceptual reference framework of shared automotive service systems*.
Electronic Markets **29**, 473-500, 2019,
<http://dx.doi.org/10.1007/s12525-018-0321-6>,
- [45] Bouncken, R.B.; Kraus, S. and Roig-Tierno, N.: *Knowledge-and innovation-based business models for future growth: Digitalized business models and portfolio considerations*.
Review of Managerial Science **15**(1), 1-14, 2021,
<http://dx.doi.org/10.1007/s11846-019-00366-z>,
- [46] Steinbuka, I.; Balina, S. and Zemitis, M.: *Fostering Research, Innovation and Digitalization in Europe and Latvia*.
In: 9th International Scientific Conference on New Challenges of Economic and Business Development – Digital Economy. University of Latvia, Riga, 2017,
- [47] Kovács, T.; Bittner, B. and Nábrádi, A.: *The Integration of Digital Technologies in the European Union based on the DESI Indeks*.
ENTRENOVA - ENTERprise REsearch InNOVation **8**(1), 337-349, 2022,
<http://dx.doi.org/10.54820/entrenova-2022-0029>,
- [48] Kaštelan, U. and Konatar, M.: *The Impact of Health Capital on Economic Growth in the Balkan Countries*.
ENTRENOVA - ENTERprise REsearch InNOVation **8**(1), 99-107, 2022,
<http://dx.doi.org/10.54820/entrenova-2022-0010>,
- [49] Elhassan, T.: *Economic and Environmental Sustainability through Trade Openness and Energy Production*.
Business Systems Research Journal **14**(2), 102-123, 2023,
<http://dx.doi.org/10.2478/bsrj-2023-0014>,
- [50] Pejić Bach, M.; Žmuk, B.; Kamenjarska, T.; Bašić, M. and Morić Milovanović, B.: *The economic and sustainability priorities in the United Arab Emirates: conflict exploration*.
Journal of Enterprising Communities: People and Places in the Global Economy **17**(5), 966-998, 2023,
<http://dx.doi.org/10.1108/JEC-04-2022-0067>,
- [51] World Justice Project: *The Global Rule of Law Recession Continues*
<https://worldjusticeproject.org/rule-of-law-index>,
- [52] Conceição, P., et al.: *Human Development Report 2023/2024*.
UNDP, New York, 2024,
<https://hdr.undp.org/system/files/documents/global-report-document/hdr2023-24reporten.pdf>,
- [53] Marošević, K. and Lucić, N.: *Institutions' Importance and Determination of Trust in Social Welfare System*.
In: Kyere, E.; Marošević, K. and Sugawara. C.L., eds.: *In This World Together: Global Social Work and Social Development*. Faculty of Law in Osijek, Osijek, pp.61-86, 2024,
- [54] Marošević, K.: *Regional development and imbalances in the Republic of Croatia*. In Croatian.
Faculty of Law in Osijek, Osijek, 2021,
- [55] Xu, G.: *The role of law in economic growth: A literature review*.
Journal of Economic Surveys **25**(5), 833-871, 2011,
<http://dx.doi.org/10.1111/j.1467-6419.2011.00691.x>,
- [56] Acemoglu, D.; Johnson, S.; Robinson, J.A. and Yared, P.: *From education to democracy?*
American Economic Review **95**(2), 44-49, 2005,
<http://dx.doi.org/10.1257/000282805774669916>.