

**The European Union after the enlargement:
Institutional frontier or strange attractor?**

Jean-François NIVET @

GERCIE (Université François Rabelais de Tours)

& ROSES (CNRS - Université de Paris I)

February 2005 - Preliminary draft

Abstract

The enlargement in 2004 has significantly raised the heterogeneity of the European Union, not only in terms of income per capita but also of social and institutional development. Now growing evidence shows that economic growth has important institutional foundations. And the dominant view claims that national institutions remain specific, evolve only slowly and that transplantation has detrimental effects. This paper proposes to draw theoretical and empirical lessons on institutional issues from post-communist transition and EU enlargement experiences, and questions conventional contentions. An analytical framework, illustrated by the post-communist transition outcomes, argues that a comprehensive view of institutions needs to distinguish between those affecting the relative efficiency of public actions and the general ones involved in all kinds of activities. It describes how different governance indicators can approximate the two kinds of institutions and their differentiated impact. A sample of 53 European and neighboring countries is constructed. Empirical evidence testifies that the quality of governance significantly influences human development components and foreign direct investment. In addition an improvement in the general institutional underpinning is observed though on a short period of time (1996-2002), thanks to democratic and regulatory criteria imposed on EU candidates. The relative failure of the Barcelona process offered to South and Eastern Mediterranean countries is conversely attributable to the lack of institutional considerations. The EU prospects depend therefore on its capacity to take up the challenge of governance, in EU members as well as non-members.

JEL classification: H1, K1, P1, P3, P5

@ Université François Rabelais, UFR Droit, Economie, Sciences Sociales, 50 avenue Jean Portalis BP 0607, 37206 Tours cedex 03, France. Mail: jean-francois.nivet@univ-tours.fr.

The enlargement in 2004 has significantly raised the heterogeneity of the European Union. This disparity touches not only the level of income per capita, but also social development and institutional structure. At the same time, it is the crowning achievement of pre-membership efforts, which include economic reforms but simultaneously adaptation of the regulatory scaffolding and progress of democratic practices. The latter aspects are central because growing evidence shows that economic development has important institutional foundations (Acemoglu *et al.*, 2001, Djankov *et al.*, 2003a,b, Edison, 2003, International Monetary Fund, 2003, Kaufmann, 2003, North, 1990, 1994, Rodrik *et al.*, 2002, 2003, Sen, 2003). The same lesson can be drawn from the post-communist transition (Nivet, 2004b).

These studies dismiss alternative views insisting on geographical factors (Sachs, 2003a,b) or beneficial effects of international trade (Frankel and Romer, 1999). They can be used to analyze EU prospects. The fact that the new members benefit from geographical proximity and great trade integration would not be sufficient to ensure convergence. But institutional convergence would hardly provide a solution. The “new” comparative economics concludes indeed that different circumstances necessitate different institutions, and transplantation of institutions, especially of civil law systems, leads to over-regulation and inefficient choices (Djankov *et al.*, 2003a,b). Institutional reforms remain country-specific and have to suit local circumstances (IMF, 2003). In particular, a negative “transplant effect” arises if the law is imposed without adaptation to local conditions (Berkowitz *et al.*, 2003). Institutional arrangements find their roots in country’s culture and history (North, 1990, 1994), their specificities are explained by different historical, geographical, or initial conditions (Rodrik *et al.*, 2002). As a result institutions typically change very little and sluggishly¹.

These inquiries on institutional issues are however handicapped by various limits. Models formalizing arguments are often missing, because institutional economics is hardly intelligible in terms of mathematical formulas². Most of empirical works concentrate on the link between institutions and economic development, measured by income levels, sometimes income growth and volatility (IMF, 2003), but neglect the social dimension of development and the transmission mechanisms. The distinction between economic policies and institutional conditions is not always

¹ Rodrik *et al.* (2002) nonetheless admit that institutions have changed in the last 3 decades, and that reforms and policy innovations can eventually result in a fundamental change in the institutional underpinning.

² Sen (2003) writes: “le recours à des modèles économiques formalisés, penchant habituel de la théorie économique, pour comprendre le fonctionnement du marché est une arme à double tranchant. Le modèle fournit sans doute un aperçu explicite des mécanismes à l’œuvre dans le monde réel. Mais l’élaboration d’une telle structure tend aussi à estomper des présupposés implicites qui jouent pourtant un rôle considérable dans les relations que le modèle veut mettre en lumière. Le fonctionnement du marché ne met pas seulement en œuvre des échanges ‘autorisés’, il dépend aussi de solides fondations institutionnelles (...) et d’une éthique de comportement (...)” (pp. 343-344). Sachs *et al.* (2000) add: “they [formal models of economic transition] are too simple and too specific to be close to real complex large scale of institutional changes” (p. 4).

clearly drawn. Considering, as done by the IMF (2003), that the ratio of total private credit to GDP is mainly representative of (macroeconomic) policies is for instance not fully convincing because financial development is fundamentally based on institutional guarantees (Nivet, 2004b).

More worrying is the implicit dogmatic bias against public interventions and activities. Property rights remain often the kind of rights exclusively considered (Nivet, 2004b). One of the institutional measures used by IMF (2003) is described as regulatory “burden” and the relative “absence” of government controls on markets, while the variable is originally conceived as an assessment of regulatory “quality” and burdens of “excessive” regulation (Kaufmann *et al.*, 2003). The impact of institutions on growth is mainly explained by the fact that good institutions enhance the effectiveness and sustainability of public policies (Edison, 2003, IMF, 2003). Institutions are essentially envisioned as constraints on governmental detrimental intrusions. Rather tautological conclusions ensue. Assuming that developing countries are typically characterized by missing government transparency, press freedom and bureaucratic efficiency, they obviously need relatively less “dictatorship” (as opposed to “disorder”), i.e. less intervention, regulation, and courts and more market discipline (Djankov *et al.*, 2003b)³. Moreover ambiguous positions are taken towards democracy. Institutional reforms call for a “strong domestic leadership” (IMF, 2003). Political competition would favor harmful patronage by politicians, attracted by personal benefits, which are on the contrary zero under “a perfectly secure dictatorship” (Shleifer and Vishny, 1994).

This paper tries to overcome some of these restrictions. It proposes to draw theoretical and empirical lessons on institutional issues from post-communist transition and EU enlargement experiences. The latter indeed question some of the previous contentions. And the EU prospects depend largely on its capacity to take up the challenge of governance (Nivet, 2004a). The paper is organized as follows. Section 1 develops an analytical framework, illustrated by the post-communist transition outcomes. It argues that a comprehensive view of institutions needs to distinguish between those affecting the relative efficiency of public actions and the general ones involved in all kinds of activities. Section 2 describes how different governance indicators can approximate the two kinds of institutions, and how to evaluate their differentiated impact. Empirical regressions, using a sample of 53 European and neighboring countries, are presented in section 3. They show that the quality of governance significantly influences human development components and foreign direct investment. This result has important implications for the new EU members but also for non-members countries. From that point of view, section 4 concludes that an improvement in the general institutional underpinning is conceivable even on a short period of time (1996-2002), thanks to democratic and regulatory criteria imposed on candidates.

³ A bias against the French legal system and in favor of common law can also be detected. Djankov *et al.* (2003a) claim that “French legal origin typically is associated with worse public sector outcomes and with greater corruption” (p. 292), a surprising assertion because part of the same authors (La Porta *et al.*, 1999) conclude from their regression results that “they [French origin countries] also have less efficient governments, as measured by bureaucratic delays and tax compliance, though not the corruption score” (p. 261).

1. Institutional frontiers: a simple analytical framework

Assume that the level of economic and social development Y depends on the amount of private and public activities, respectively denoted P and S , and that the global productivity of these two inputs is determined by the level of institutional development I , hence:

$$Y = g(P, S, I) \quad \text{with } \partial Y / \partial P > 0, \partial Y / \partial S > 0, \partial Y / \partial I > 0$$

The social costs C of organizing economic and social activities, which notably include agency costs, transaction costs, corruption costs and distortion costs of taxes, depend obviously of the amount of inputs, but also of their relative efficiency which has fundamental institutional foundations. If the parameter i measures the relative inefficiency of public interventions originating in the institutional environment, we have:

$$C = P + i S$$

This framework allows to understand institutional diversity and its various effects through “institutional frontiers”⁴: see figure 1. Firstly, with the same private and public activities P and S , two countries exhibit different economic and social development levels if they are distinguished by different general institutional development, or equivalently higher public and private activities are needed to reach the same economic and social development in countries with weaker institutional environments. Secondly, two countries can reach similar levels of economic and social development with different optimal combinations of private and public activities minimizing total social costs if they are characterized by various relative institutional developments. The social costs associated with this level of economic development will however generally differ.

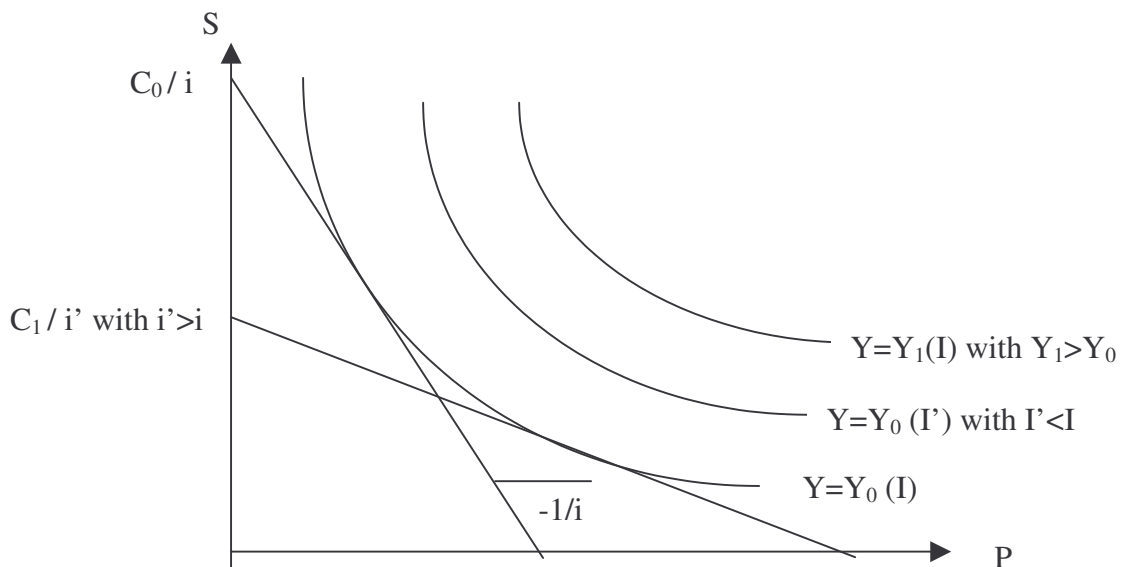


Figure 1: Institutional, economic and social developments

⁴ This framework is very general, and can be adapted to deal with issues like the choice between hierarchy and market, the “make it or buy it” decision... S and P would represent the respective terms of the alternative.

Pre-transition situations were characterized by repressed private activities and high public interventions, which proved inefficient taking into account general and relative institutional development levels. Minimizing social costs required reducing the public sphere and encouraging private activities, the more so when transition was perceived to be accompanied with aggravated relative public inefficiencies (from i to i'): see figure 2. The failure came from the fact that the general institutional environment deteriorated (from I to I'). Privatization was accordingly not sufficient, and should be accompanied by increased public activities to compensate institutional collapse. In the absence of such public activities, the economic and social level of development could only shrink. It is worth noting that the status quo with institutional collapse delivers the same effects: maintaining a constant public activity is not sufficient, higher private activities are required. It is indeed one of the main lessons drawn from the transition experience: in countries like Russia, with weak institutional foundations, massive privatization did not bring about what was initially expected, but maintaining or reestablishing state ownership does not represent an alternative (Nellis, 1999, Nivet, 2004b).

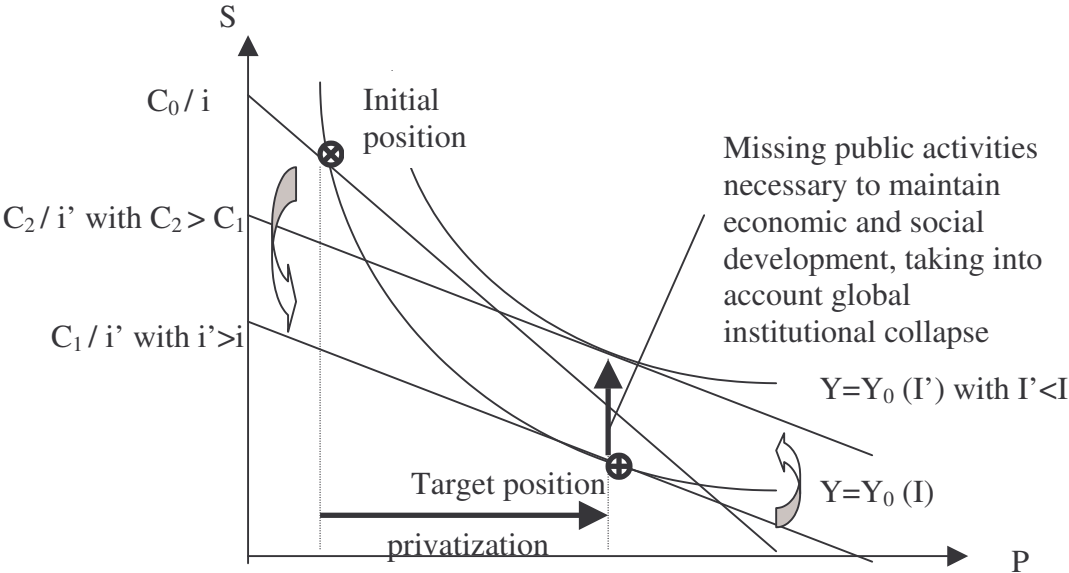


Figure 2: The stylized failed Eastern European transition

On the contrary, a successful transition not only means finding a new equilibrium for public and private spheres, but also promoting global institutional development (from I to I''): see figure 3. Institutional progress allows reaching the same economic and social level with lower private and public inputs, hence lowering social costs. These savings if reinvested then contribute to social and economic progress. The analytical framework then accounts for the lacking link between state interventions and corruption, confirmed in empirical studies (Treisman, 2000), and for the fact that institutions dominate policies in explaining economic performances (IMF, 2003, Rodrik *et al.*, 2002). The same policy, namely privatization, yields very differentiated outcomes according to the institutional context. Moreover, if common law compared with civil law is more protective for private owners *vis-à-vis* the state, this difference affects only the relative efficiency (parameter i) but not the general institutional development (variable I). It is therefore compatible with the

lack of empirical relation between legal families and corruption (La Porta *et al.*, 1999), and the net positive effect on income of French legal origin (Acemoglu *et al.*, 2001, Rodrik *et al.*, 2002).

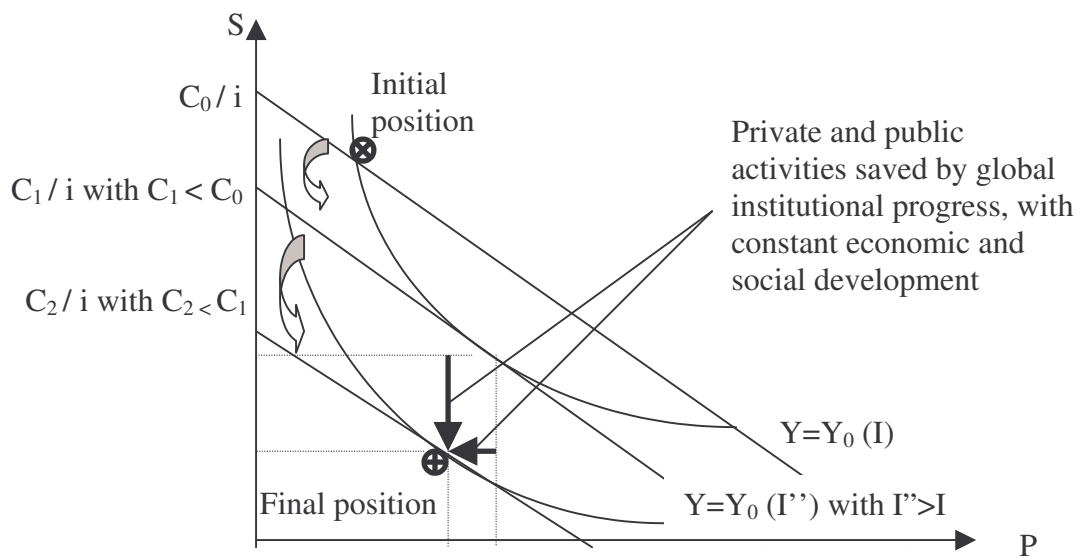


Figure 3: The stylized successful Central European transition

The dominant approach conversely insists on ownership institutions and the inefficiency of public activities, symbolized by the parameter i in the previous theoretical framework. State ownership is used by politicians, especially those engaged in political competition, to defend their own political goals and private agenda. Private agents have accordingly no choice but to corrupt public agents, in order to be freed from their rights of control (Shleifer and Vishny, 1994). Private owners then offer the best resistance to undue state interferences, and the best advocates of good laws formalizing their business practices (Hay, Shleifer and Vishny, 1996). From that point of view, the flexibility allowed by common law is preferable to the prescriptive nature of civil law, even if a third model relying on private self-enforcement of rules would be more adapted to the transition context (Hay and Shleifer, 1998). Introducing private property rights are then far more urgent than designing legal institutions, because rights emerge from below and market forces (Rapaczynski, 1996), and privatization represents the main step in transition strategy (Boycko, Shleifer and Vishny, 1995, 1996). More generally, in the analytic framework developed by Djankov *et al.* (2003b), the risk to individual property of private expropriation (“disorder”) or state expropriation (“dictatorship”) represents the fundamental basis of institutional choices, and “a world with perfect property rights” provides the benchmark. The features of this world are however not at all discussed⁵.

⁵ When they apply this framework to institutional development in transition countries, Djankov *et al.* (2003b) do not reason in terms of efficient institutional choices minimizing total social costs, contrary to their other applications. They do not justify this absence. Still, their assessment of the Russian strategy is very favorable: “by the year 2000, Russia emerged as a democratic, capitalist economy, with much stronger institutions than it had at the beginning of the decade”, “in retrospect, many of Yeltsin’s policies appear as welfare-improving strategies for combating dictatorship and disorder” (p. 613).

Asserting that Poland followed the “invisible-hand” model, where benevolent governments provide public goods, Russia the “grabbing-hand” model, where local politicians and bureaucrats pursue private goals and elicit bribes, and China the “helping-hand” model (Frye and Shleifer, 1997), not only lack a clear empirical basis but also theoretical foundations. If bureaucrats stand in the heart of the system (Mendras, 2003), the grabbing-hand proves private as well, and the origin of discrepancy between these countries need to be explained. Djankov *et al.* (2003b) rely on the civic capital concept: the capacity of cooperation among the members of a society shapes its institutional possibilities⁶. The limit of this concept lies however in its *ad hoc* and “rag-bag” side, as illustrated by the determinants of civic capital which comprise cultural, geographic, technological and human capital factors⁷.

Rather than opposing invisible and grabbing hands, two hands, the left and the right hands, can be considered. All situations are possible between arm-wrestling and shaking hands at the back. This alternative approach insists on overall institutions, and more particularly on the legal basis of a market economy (Nivet, 2004b). It recognizes that all rights cannot be analyzed as property rights. And since the latter convey residual rights of control, the non-residual rights originating in contracts, regulations and laws turn out crucial as well. For instance, the sound development of the Warsaw stock exchange heavily benefited from extensive regulatory and legal rules (Nivet, 1997). The transition experience indeed shows that shareholders, employees, citizens including those deprived from property, tremendously need protection facing political, economic and criminal elites occupied with rent-seeking and corrupt activities, legal gambits and predatory transactions. Law and third guarantors often provide the only cure for misconducts, bad social norms and missing ethics.

Institutional choices are then intimately intertwined with public and corporate governances, and the question: who guards the guardians⁸. Anonymous exchanges and specialization in complex decentralized societies are supported by delegation of authority, in other words agency relation between principals and agents. The efficient operation of the system requires accountability through evaluation of choices and actions, checks and balances, revocable mandates, the possibility to resort to third parties in case of abuse. Private shareholders entrust managers to care about corporate wealth. Depositors entrust banks with their savings. Citizens appoint political representatives defending their welfare, and relinquish to the state the use of violence in exchange of their personal protection. The agents are generally made aware of their responsibilities through a set of rules and regulations, which are enforced by more or less

⁶ Weitzman (1993) already relies on cultural explanations of the success of Chinese township-village enterprises: Chinese culture and history would promote cooperative behavior, making explicit rules and laws superfluous.

⁷ Djankov *et al.* (2003b) explain that the civic capital concept is broader than social capital. Yet the use of the social capital concept by economists, surveyed by Sobel (2002), already suffers from its extensiveness and imprecision.

⁸ Tirole (2001) proposes a general definition of corporate governance: “the design of institutions that induce or force management to internalize the welfare of stakeholders” (p. 4). We can adapt this definition to public governance, replacing management by public agent (civil servant or politician) and stakeholders by citizens. Politicians themselves often draw the parallel between corporate and public governances. John Kerry for instance called for “a new CEO in Washington” and wrote about presidential election: “on November 2 we will have a national shareholders meeting” (*The Wall Street Journal*, September 15, 2004).

independent actors, like supervisory agencies of stock exchanges and banks, constitutional courts and various courts of last resort, legislative bodies. Ineffective governances will take the form of expropriated owners and lenders, private use of public authority like monopoly positions granted to political allies in exchange of financial compensations... So private and public opportunisms tend to reinforce each other until the frontiers between the two spheres vanish. Policemen threaten entrepreneurs while mafia offers protection, but both activities are similar and represent racket. The lack of recourse and protection, i.e. of voice, leaves no choice but to comply, to (unwillingly) exit or to renounce to enter.

Examples of such dysfunctions are countless in Eastern European and post-USSR countries. For instance, the current policy implemented in Russia by Putin can be seen as a fight against generalized opportunism and corruption inherited from the Yeltsin period. It consists in escaping the need of rules and governance principles through the reduction of delegation of authority and decentralization. State centralized activities and concentrated powers are consequently raised in accordance with the scheme stylized in figure 2: re-establishment of state control over the oil sector, weakening of autonomy and administrative powers of regions, cutting down civil and political rights and notably freedom of independent medias and associations. An alternative strategy followed by some other transition countries consists in the improvement of governances and institutional foundations, along the lines displayed in figure 3. This dilemma proves critical not only in transition countries, but equally in most developing countries. These countries, confronted with more developed ones, so offer the ideal ground for empirical testing of theoretical views.

2. The empirical strategy

The preceding section stresses three important ideas. Firstly, the overall social and economic level of development should be understood in relation with the general level of institutional development, and not only with the relative economic inefficiencies of public interventions. Secondly, institutional development can be captured by the quality of governances, which notably can deter entry and force exit of agents. Thirdly, institutional progress is conceivable even for a short period of time.

Empirical assessments of governances have significantly developed in recent years, simultaneously with the growing interest in the subject. One of the most important efforts is realized within the World Bank. Governance indicators constructed by Kaufmann *et al.* (2003, 2004) have attractive characteristics. They synthesize various partial measures provided by official and private sources, including non-governmental organizations, collected through different methods, from rating by experts to surveys of citizens, and covering a very large number of countries and territories. They use a rigorous and transparent methodology of construction. They cover four time periods: 1996, 1998, 2000, and 2002. This dynamics will be exploited later in order to test the capacity of institutions to change.

The last important feature of these data for our purpose is that they distinguish between six dimensions of governance: voice and accountability (human, civil and political rights, press freedom, independence and censorship, military in politics, representativeness and accountability of officials...), political stability (military coups, political violence, civil unrest and war, political and ethnic fractionalization, terrorism...), rule of law (crime, financial fraud, property rights protection, enforceability of contracts, affordability, effectiveness, fairness and independence of judicial process), government effectiveness (bureaucratic skills and quality, red tape, personnel turnover, tax effectiveness, infrastructure, stability, adaptability, continuity and time horizon of policies...), regulatory quality (restrictions on exports, imports, and ownership, price controls, labor and financial regulations, competitive practices, tax effectiveness, transparency, predictability and stability of regulations), control of corruption (nepotism, cronyism and patronage, diversion of funds, bribing, red tape, unofficial payments...).

All these dimensions do not however share the same status from a conceptual point of view. The control of corruption represents the behavioral outcome of governance, and does not correspond to the definition of institutions given by North (1990): “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” (p. 3). It will not be used in the empirical work. Government effectiveness and regulatory quality provide an approximation of the previously defined relative inefficiency of public interventions. Voice and accountability, and rule of law conversely epitomize broad institutions of governance, defined as rights (not only property rights) and procedures enabling diverse citizens and agents to participate (or not) to the economic and social game. They affect the capacity of individuals to resist private and public opportunism and predation, and to resort to a third party (newspaper, association, judge...). Political stability reflects non-economic phenomena pertaining to political institutions and conducts. The arithmetic mean of the five indicators gives a synthetic measure of governance.

The theoretical section argues that the quality of governances is positively linked with social and economic development, notably because it influences entry and exit decisions. The first relation will be assessed through the statistical link between governance indicators and the human development index (HDI) in 2002 calculated by UNDP (2004). The second type of linkage deserves more elaboration. Most empirical studies focus on enterprises and sectors. But entry and exit become important choices as soon as investments in capital, hence their return and the risk of being expropriated, are requested. It accordingly affects also human capital, with health and education investments. But entry and exit are not easily statistically observed. The most extreme case of exit is death. An interesting test lies therefore in comparing the impact of governance on the three HDI sub-indexes, namely life expectancy at birth, education measured by adult literacy and gross enrolment, and PPP GDP per capita. Another literal, though less extreme, form of exit, and simultaneously of entry, is represented by migration choices. The latter are not confined to finding job with a reasonable salary. Running away from persecutions justified by beliefs,

searching for better health and education systems, escaping obstacles to personal economic and social achievements are important motives, which all fall within the province of governance. Despite their different nature and objectives, the same kind of reasoning applies to entry choices made by firms, especially to foreign direct investment (FDI). The size of the internal market, the distance of other markets, tax conditions and labor costs do not cover all driving forces; public governance contributes to country competitiveness, as exemplified by the assessments of governance integrated in the Global Competitiveness Report produced by the World Economic Forum.

The constructed sample is composed of 53 European and neighboring countries. It has the advantage to cover a great variety of economic and social development and institutional levels, as well as of cultural, historical and religious traditions. The geographical proximity makes precisely intra-zone migrations and foreign investments critical issues. The relative geographical homogeneity allows disregarding alternative explanations, like climate and health handicaps of tropical and equatorial regions or landlocked areas. Geographical factors offer however potential additional explanations compared with institutional ones (Sachs, 2003a,b), and should be controlled for. A variable representing the distance between the country and Belgium will be included with this aim in view. It measures the attraction and influence exerted by the Western European countries, Belgium being considered as the economic barycenter of the European Union. It moreover represents the exogenous part of international trade identified in gravity models, as emphasized by Frankel and Romer (1999). The country size, measured by its population, will also be considered.

The sample covers countries from all legal families: English-type common law system, French, German and Scandinavian civil law systems, and post-socialist systems. Legal origins represent potentially important institutional features and are consequently included in regressions. Djankov *et al.* (2003a,b) forcefully stress their weight and particularly praise the merits of common law, while Kaufmann (2003) relativizes these arguments. In addition, this sample allows the assessment of the institutional attractiveness of the European Union, and above all of the effectiveness of its formalized cooperation programs with Eastern partners, with partnership and pre-membership agreements, and South-Mediterranean partners, with the Barcelona process.

The sample is made of: 3 rich countries outside EU (Iceland, Norway, Switzerland), 10 “old” members of North and Central EU (Denmark, Finland, Sweden, Austria, Belgium, Germany, Ireland, Luxembourg, Netherlands, United Kingdom), 5 “old” members of South EU (France, Greece, Italy, Portugal, Spain), 2 new Mediterranean members of EU (Cyprus, Malta), 8 new Central and Baltic members of EU (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia), 2 candidates from South-Eastern Europe (Bulgaria, Romania), 5 potential candidates from South-Eastern Europe (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro), 4 Western heirs from USSR (Belarus, Moldova, Russia, Ukraine), 3 Caucasian countries (Armenia, Azerbaijan, Georgia), 5 North African countries (Algeria, Egypt,

Libya, Morocco, Tunisia), 4 Near Eastern countries or territories (Jordan, Lebanon, Occupied Palestinian Territories, Syria) and 2 rather special countries (Israel, Turkey).

3. The empirical significance of governance

Descriptive statistics are provided in table 1 in annex. They perfectly illustrate the variety of economic, social and institutional development levels reached by the various countries. Not surprisingly the main disparity lies in GDP per capita. It is interesting to note that the ten new EU members, except for their specific small size, are relatively close to the richest Western European region in terms of life expectancy, education achievements and inward FDI. This feature substantiates in a sense the rationale underlying the enlargement, and concurrently highlights the inferior position of the two other zones. South and Eastern Mediterranean countries strikingly share many characteristics with countries from South-Eastern Europe and CIS, educational performances notwithstanding. This boundary is not observed concerning migration rates, the most developed countries being the only area of net immigration⁹. But it is remarkable that synthetic governance indicators obey a similar logic, with positive increasing scores for Western Europe and new EU members, and negative non-progressing scores for the other groups.

The first empirical stage (table 2 in annex) fails nonetheless to identify robust significant effects of institutional, legal or geographical factors on the human development index. But it confirms that a worrying gap in terms of economic and social development separates old and new EU members on the one side, and Eastern and Southern neighbors on the other side. It militates for a concerted policy in order to avoid a “greater divide”. Disaggregating HDI into its sub-indexes in a second stage (tables 3 and 4 in annex) helps to ascribe the previous result to the differentiated determinants of each component.

The GDP per capita sub-index proves significantly positively influenced by the quality of governance (table 3). It is difficult to decide between “global” institutions, as measured by voice and accountability, and rule of law indicators, and “relative” institutions, embodied in government effectiveness and regulatory quality indicators. Political stability does not exert a specific effect, while countries with an English legal origin enjoy a significant advantage. Interestingly enough, the determinants of the life expectancy sub-index are almost opposite (table 4). Relative institutions are without effect. Voice and accountability have a positive impact. The most surprising result lies in the significant negative influence of political stability¹⁰. It proves that democracy not only helps the expression of the demand for health service, but also that the threat of changeover of political power between parties favors the supply response. The fact that Ukraine and Belarus obtain a positive rating only for the political stability indicator in 2002,

⁹ Israel can be distinguished by its high human development and immigration figures. If it is excluded from the South and Eastern Mediterranean sub-sample, the average net migration rate becomes -0.12 .

¹⁰ In a close vein, Campos and Nugent (2003) find that causal relationship between social and political instability and investment is positive over the medium and long terms in developing countries.

Morocco and Syria a value only slightly negative, is no guarantee of social progress. Political stability can actually characterize antidemocratic political entrenchment. Furthermore the South and East Mediterranean countries display a significant backwardness vis-à-vis three other groups of country, which represents another “great divide”.

Geographical and demographic variables tend also to alternately behave. The distance to Belgium acts as a significant negative force on GDP per capita, suggesting that international trade and integration matter. The size of the population at the same time significantly depresses life expectancy. One reason could be found in congestion effects in health systems. The last dimension to examine is the education sub-index. The econometric results are however not presented, because they essentially mimic those obtained with the aggregate HDI. Isolating institutional, legal, geographical or demographic regularities is unachievable. The only noteworthy feature relates to the sizeable lead Western European countries have over all other ones.

The last empirical step focuses on entry and exit decisions. Entry of foreign investors, measured by the stock of inward FDI in 2002 as a percentage of GDP, is not influenced by all governance indicators (table 5 in annex). Democratic, political or pure economic components are not significant factors. But government effectiveness, and above all the general legal institutional setting captured by the rule of law indicator, form essential conditions of national attractiveness¹¹. Legal origin and geographical distance on the contrary seem unimportant. The population displays a significant negative effect, which runs counter to the traditional argument according to which foreign firms seek sizeable domestic product markets. The population variable however does not take into account purchasing power considerations. Considering the net migration rate, econometric results are not exhibited because none of the institutional, legal, geographical or demographic variables have a significant direct impact. The human development index proves nonetheless a powerful force behind migration choices. The above-mentioned variable are accordingly important through their indirect influence. Low revenues and poor health services act indeed as push factors in South and Eastern countries, while better perspectives in Western Europe are symmetrically pull factors.

4. Conclusion: The evolution of institutions

The previous section shows that the quality of governance is a major source of differentiated economic and social performances among countries from Europe and its neighborhood. In particular an improvement of the general institutional underpinning, approximated by the rule of law indicator, is prone to deliver a rise in income per capita and inward foreign direct investment. But the dominating view claims that institutions tend to evolve very slowly. Hence when they develop the concept of “institutional possibility frontier”, Djankov *et al.* (2003b) assume that its location is fixed for a given society or sector, because it depends on civil capital. The original

¹¹ Disdier and Mayer (2004) find that location choices of French multinational firms in Eastern and Western Europe are significantly influenced by the quality of national institutions.

empirical test proposed by Acemoglu *et al.* (2001) is based on institutional persistence, namely on the premise that early colonial institutions persist for a long time. They put forward economic mechanisms for such persistence, like sunk costs involved in setting up institutions or political economy phenomena. North (1994, 2000) insists on the cognitive roots of institutions. Formal rules find their legitimization in belief systems, informal norms and culture, which are specific and result from past experience. It follows that learning process and path dependence make their change at best gradual and incremental.

The sample and period under scrutiny have been purposely chosen to study institutional persistence and change. The most advanced transition countries make big efforts to open and conclude negotiations with a view to rapid EU membership, which becomes reality for eight of them in 2004. Less advanced countries, like Bulgaria and Romania, strive to avoid being left at EU's door. Croatia and Turkey try to reinforce the credibility of their membership application. Now the conditionality imposed by the Copenhagen criteria decided in June 1993 not only requires appropriate policies, but is also prone to trigger a global institutional development. New members should have a competitive market economy, but also adapt their economic rules to the *acquis communautaire*, and enjoy stable democratic institutions guaranteeing human rights and the rule of law. Governance issues are then at the heart of the relations between "old" EU members, new members, potential ones, and other neighboring countries (Nivet, 2004a). But how to organize cooperation with the latter? The Euro-Mediterranean partnership organized by the Barcelona process since 1995 provides a response for 12 Southern and Eastern Mediterranean countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Territories, Syria, Tunisia, Turkey. The main instrument used to make relations deeper consists in creating progressively a free trade area. The intensification of political and security dialogue, as well as the strengthening of cultural decentralized exchanges, are also encouraged. The discretion given to countries, coupled with the superficiality of non-trade axes, make however unlikely important impacts on the political and economic general internal institutions.

Observing the dynamics of governance indicators precisely allows evaluating these effects. The idea developed in table 6 in annex consists in comparing the statistical link between their value in 2002 and 1996, taking into account potential sources of change. The 18 rich Western European countries are then taken as the benchmark, in order to test for different evolution in the three other kinds of countries, namely those subsequently joining European Union and those remaining outside, in the East and in the South. The persistence of institutions is confirmed by high coefficient of determination and autoregressive coefficient. This inertia proves however not perfect. The autoregressive coefficient is indeed significantly different from unity for the general political governance indicators (voice and accountability, political stability), and for regulatory quality.

In addition, collective dynamics can be detected, which cannot be ascribed to the differentiated adaptive capacity of legal families. For all indicators except the rule of law, South and East

Mediterranean countries show signs of significant decline in their scores. On the contrary, the position of countries from South-Eastern Europe and CIS deteriorates only in terms of government effectiveness. Above all future EU members distinguish. They not only tend to maintain their ranking compared with the “old” members, but also exhibit a significant sizeable improvement in the rule of law. A methodological remark is worthwhile. Kaufmann *et al.* (2003, 2004) construct governance indicators so that they follow the same statistical distribution each year. They consequently do not measure global trends in governance, but change of countries’ relative positions. Various assessments of general governance trends tend to conclude that a regression characterized the second half of the 1990s, after an improvement in the first half of the 1990s (IMF, 2003, Kaufmann *et al.*, 2003, 2004). The most plausible interpretation is however that the level of governance quality in the Western European region remained globally stable, making a relative evolution of other regions the evidence of absolute changes. The conclusion ensues. The general institutional backwardness of South and Eastern Mediterranean countries deepened, despite the Barcelona process. The latter suffers from its ignorance of institutional issues. Conversely the EU pre-membership strategy based on the Copenhagen criteria acted as an institutional anchor and helped the rule of law gaining ground during a very short period of time. This institutional progress should bear fruits.

Annex: Data and econometric results

Sources and definitions of variables

Human development index, and sub-indexes: UNDP, *Human Development Report* 1998, 2004

Simple average of three indices expressed as a value between 0 and 1: GDP per capita in PPP US\$ (in logarithm) index, life expectancy at birth index, education index comprising adult literacy rate and combined primary, secondary and tertiary gross enrolment ratio.

Inward foreign direct investment stock as a % of GDP: UNCTAD, *World Investment Report 2004*

Net migration rate per 1000 pop., annual average 1995-2000: United Nations, *International Migration 2002*, Population Division, Department of Economic and Social Affairs, October 2002

Calculated as annual number of immigrants minus annual number of emigrants (both citizens and non-citizens) divided by average population.

Population: World Bank, *World Development Indicators 2004*, supplemented by OECD data for small European countries

Distance to Belgium: CEPII, <http://www.cepii.fr/anglaisgraph/bdd/distances.htm>

Geodesic distances following the great circle formula, using latitudes and longitudes of the most important cities/agglomerations (in terms of population).

Governance indicators: Kaufmann *et al.* (2003, 2004)

Estimates using an unobserved components model applied to several hundred individual variables measuring perceptions of governance, drawn from 25 separate data sources constructed by 18 different organizations. The governance estimates are normally distributed with a mean of zero and a standard deviation of one in each period for the sample covering 199 countries and territories. Then virtually all scores lie between -2.5 and $+2.5$, with higher scores corresponding to better governance.

Legal origin of countries: La Porta *et al.* (1999)

Table 1: Descriptive statistics

<i>Non weighted mean (standard deviation)</i>	<i>Human Develop- ment Index</i>	<i>GDP per capita sub-index</i>	<i>Life expectan- cy sub- index</i>	<i>Educa- tion sub- index</i>	<i>Inward FDI stock, % of GDP</i>	<i>Net migration rate per 1000 po.</i>	<i>Popula- tion in millions</i>	<i>Distance to Belgium in km</i>	<i>Synthetic governan- ce indicator</i>	<i>Synthetic governan- ce indicator</i>	<i>Legal origins</i>
<i>Period</i>	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>1995- 2000</i>	<i>2002</i>	<i>-</i>	<i>1996</i>	<i>2002</i>	<i>-</i>
Western Europe	0.931 (0.0140)	0.939 (0.0336)	0.889 (0.0173)	0.966 (0.0224)	41.94 (30.66)	2.094 (2.094)	21.718 (24.981)	922.52 (655.93)	1.340 (0.281)	1.523 (0.277)	German, Scandinavian, French, English
EU new members	0.858 (0.0208)	0.817 (0.0405)	0.820 (0.0436)	0.935 (0.0338)	44.12 (17.37)	-0.410 (2.925)	7.490 (10.912)	1417.98 (593.76)	0.560 (0.188)	0.899 (0.157)	Mainly socialist
South-Eastern Europe, CIS	0.772 (0.0349)	0.645 (0.0878)	0.775 (0.0386)	0.898 (0.0317)	25.99 (19.07)	-2.754 (5.162)	19.700 (36.453)	2009.53 (779.90)	-0.440 (0.311)	-0.443 (0.423)	Socialist
South East Mediterranean	0.738 (0.0714)	0.660 (0.0882)	0.779 (0.0468)	0.773 (0.1162)	21.03 (17.07)	0.718 (3.177)	22.591 (23.374)	2637.65 (683.25)	-0.309 (0.574)	-0.392 (0.470)	Mainly French
All sample	0.837 (0.0884)	0.783 (0.1444)	0.824 (0.0615)	0.9021 (0.0931)	34.05 (25.07)	0.1096 (3.938)	18.682 (27.000)	1659.11 (946.89)	0.410 (0.848)	0.489 (0.954)	-

Western Europe (18 countries): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom

EU new members (10 countries): Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

South-Eastern Europe, CIS (14 countries): Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Macedonia, Moldova, Romania, Russia, Serbia and Montenegro, Ukraine

South East Mediterranean (11 countries): Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Territories, Syria, Tunisia, Turkey

Table 2: Human development index 2002 as dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0.762*** (0.036)	0.767*** (0.037)	0.759*** (0.037)	0.755*** (0.036)	0.759*** (0.035)	0.761*** (0.037)
Governance indicator 2002						
Synthetic indicator	0.022 (0.017)					
Voice and accountability		0.020 (0.014)				
Political stability			0.001 (0.012)			
Rule of law				0.021 (0.016)		
Government effectiveness					0.028* (0.015)	
Regulatory quality						0.010 (0.013)
Legal origin						
English	0.058 (0.035)	0.061* (0.034)	0.070** (0.034)	0.056 (0.035)	0.043 (0.036)	0.064* (0.035)
French	0.000 (0.033)	0.004 (0.033)	0.004 (0.034)	0.001 (0.033)	-0.006 (0.033)	0.005 (0.033)
Scandinavian and German	0.017 (0.039)	0.023 (0.038)	0.029 (0.039)	0.014 (0.039)	0.005 (0.039)	0.027 (0.038)
Country group						
Western Europe	0.132*** (0.033)	0.127*** (0.034)	0.161*** (0.028)	0.139*** (0.030)	0.126*** (0.029)	0.146*** (0.031)
EU new members	0.081** (0.037)	0.075* (0.038)	0.106*** (0.037)	0.093*** (0.033)	0.081** (0.033)	0.095*** (0.035)
South-Eastern Europe, CIS	0.036 (0.035)	0.030 (0.035)	0.038 (0.036)	0.047 (0.036)	0.040 (0.034)	0.039 (0.036)
Population 2002	-0.0001 (0.0002)	-0.0001 (0.0002)	-0.0002 (0.0002)	-0.0001 (0.0002)	-0.0001 (0.0002)	-0.0002 (0.0002)
Distance to Belgium	-6.77e-06 (8.65e-06)	-7.78e-06 (8.33e-06)	-1.01e-05 (8.93e-06)	-7.43e-06 (8.50e-06)	-4.12e-06 (8.62e-06)	-9.63e-06 (8.32e-06)
Number of observations	52	52	52	52	52	52
Adjusted R ²	0.820	0.822	0.813	0.820	0.828	0.816

Standard errors in parentheses. Significance levels: *, **, *** respectively less than 10%, 5%, 1%.

Countries with socialist legal origins and from the South and Eastern Mediterranean are taken as references.

Table 3: PPP GDP per capita sub-index 2002 as dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0.710*** (0.052)	0.718*** (0.054)	0.710*** (0.055)	0.692*** (0.053)	0.700*** (0.052)	0.707*** (0.054)
Governance indicator 2002						
Synthetic indicator	0.063** (0.024)					
Voice and accountability		0.042** (0.021)				
Political stability			0.028 (0.018)			
Rule of law				0.054** (0.024)		
Government effectiveness					0.058** (0.022)	
Regulatory quality						0.034* (0.019)
Legal origin						
English	0.130** (0.050)	0.145*** (0.051)	0.163*** (0.051)	0.127** (0.052)	0.110** (0.052)	0.145*** (0.051)
French	0.053 (0.048)	0.064 (0.049)	0.052 (0.050)	0.057 (0.048)	0.043 (0.048)	0.065 (0.049)
Scandinavian and German	0.079 (0.056)	0.102* (0.056)	0.096 (0.058)	0.075 (0.058)	0.066 (0.057)	0.108* (0.056)
Country group						
Western Europe	0.087* (0.048)	0.102** (0.050)	0.141*** (0.041)	0.113** (0.043)	0.103** (0.043)	0.121** (0.045)
EU new members	0.079 (0.053)	0.089 (0.056)	0.110* (0.055)	0.117** (0.048)	0.102** (0.049)	0.113** (0.052)
South-Eastern Europe, CIS	0.028 (0.051)	0.015 (0.053)	0.018 (0.054)	0.057 (0.052)	0.037 (0.050)	0.035 (0.052)
Population 2002	0.0002 (0.0003)	0.0002 (0.0003)	0.0002 (0.0003)	0.0003 (0.0003)	0.0002 (0.0003)	0.0002 (0.0003)
Distance to Belgium	-34e-6*** (1.25e-05)	-39e-6*** (1.24e-05)	-37e-6*** (1.32e-05)	-37e-6*** (1.24e-05)	-32e-6** (1.27e-05)	-42e-6*** (1.23e-05)
Number of observations	52	52	52	52	52	52
Adjusted R ²	0.860	0.852	0.847	0.856	0.861	0.850

Standard errors in parentheses. Significance levels: *, **, *** respectively less than 10%, 5%, 1%.

Countries with socialist legal origins and from the South and Eastern Mediterranean are taken as references.

Table 4: Life expectancy sub-index 2002 as dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0.724*** (0.031)	0.731*** (0.030)	0.717*** (0.029)	0.722*** (0.030)	0.723*** (0.030)	0.724*** (0.030)
Governance indicator 2002						
Synthetic indicator	0.004 (0.014)					
Voice and accountability		0.019* (0.011)				
Political stability			-0.021** (0.009)			
Rule of law				0.008 (0.137)		
Government effectiveness					0.015 (0.012)	
Regulatory quality						0.004 (0.010)
Legal origin						
English	0.098*** (0.029)	0.091*** (0.028)	0.102*** (0.027)	0.095*** (0.030)	0.086*** (0.030)	0.098*** (0.029)
French	0.070** (0.028)	0.071** (0.027)	0.080*** (0.027)	0.070** (0.028)	0.065** (0.028)	0.071** (0.028)
Scandinavian and German	0.077** (0.033)	0.073** (0.031)	0.096*** (0.031)	0.074** (0.033)	0.066** (0.033)	0.079** (0.031)
Country group						
Western Europe	0.095*** (0.028)	0.066** (0.027)	0.127*** (0.021)	0.092*** (0.025)	0.081*** (0.025)	0.095*** (0.025)
EU new members	0.082** (0.031)	0.056* (0.031)	0.120*** (0.029)	0.081*** (0.028)	0.072** (0.028)	0.082*** (0.029)
South-Eastern Europe, CIS	0.067** (0.030)	0.059** (0.029)	0.079*** (0.028)	0.071** (0.030)	0.068** (0.029)	0.068** (0.029)
Population 2002	-0.0005*** (0.0002)	-0.0005*** (0.0002)	-0.0006*** (0.0002)	-0.0005*** (0.0002)	-0.0005*** (0.0002)	-0.0005*** (0.0002)
Distance to Belgium	-1.50e-06 (7.26e-06)	2.80e-07 (6.81e-06)	-7.76e-06 (6.97e-06)	-1.08e-06 (7.11e-06)	1.19e-06 (7.29e-06)	-1.90e-06 (6.90e-06)
Number of observations	52	52	52	52	52	52
Adjusted R ²	0.738	0.754	0.765	0.740	0.747	0.738

Standard errors in parentheses. Significance levels: *, **, *** respectively less than 10%, 5%, 1%.

Countries with socialist legal origins and from the South and Eastern Mediterranean are taken as references.

Table 5: Inward FDI stock as % of GDP 2002 as dependent variable

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	28.226 (20.630)	26.701 (21.2990)	30.300 (20.957)	21.888 (20.376)	25.572 (20.262)	27.584 (20.734)
Governance indicator 2002						
Synthetic indicator	15.390 (10.136)					
Voice and accountability		-2.782 (8.826)				
Political stability			7.953 (6.586)			
Rule of law				19.842** (9.674)		
Government effectiveness					17.493* (8.744)	
Regulatory quality						10.550 (7.785)
Legal origin						
English	27.455 (19.736)	37.442* (19.892)	35.676* (19.092)	22.397 (19.673)	19.453 (20.325)	29.634 (19.588)
French	14.006 (18.773)	17.380 (19.140)	13.844 (19.042)	14.009 (18.332)	10.377 (18.624)	17.064 (18.752)
Scandinavian and German	-14.171 (22.019)	-3.253 (21.897)	-10.326 (21.821)	-20.171 (22.007)	-20.253 (22.133)	-7.785 (21.315)
Country group						
Western Europe	-3.207 (18.751)	21.946 (19.689)	6.951 (15.672)	-3.751 (16.341)	-3.441 (16.430)	1.802 (17.368)
EU new members	5.821 (20.993)	27.401 (22.236)	10.335 (20.722)	11.135 (18.186)	8.422 (18.766)	11.612 (19.643)
South-Eastern Europe, CIS	18.146 (19.806)	19.024 (20.541)	14.126 (20.264)	28.891 (20.099)	20.844 (19.487)	19.744 (19.950)
Population 2002	-0.258** (0.115)	-0.292** (0.118)	-0.273** (0.115)	-0.235** (0.114)	-0.257** (0.112)	-0.275** (0.114)
Distance to Belgium	-0.0042 (0.0049)	-0.0073 (0.0049)	-0.0050 (0.0049)	-0.0039 (0.0047)	-0.0029 (0.0049)	-0.0059 (0.0047)
Number of observations	52	52	52	52	52	52
Adjusted R ²	0.289	0.252	0.276	0.319	0.316	0.282

Standard errors in parentheses. Significance levels: *, **, *** respectively less than 10%, 5%, 1%.

Countries with socialist legal origins and from the South and Eastern Mediterranean are taken as references.

Table 6: Governance indicators 2002 as dependent variable

	<i>Governance indicator 2002</i>					
	<i>Synthetic indicator</i>	<i>Voice and accountability</i>	<i>Political stability</i>	<i>Rule of law</i>	<i>Governm. effectiveness</i>	<i>Regulatory quality</i>
Constant	0.248 (0.192)	0.459 (0.275)	0.341 (0.355)	-0.110 (0.262)	0.556*** (0.177)	0.408 (0.286)
Same governance indicator 1996	0.843*** (0.083)	0.739*** (0.102)	0.608*** (0.115)	0.862*** (0.103)	0.973*** (0.083)	0.715*** (0.091)
Legal origin						
English	0.004 (0.161)	-0.067 (0.244)	-0.272 (0.325)	0.242 (0.196)	-0.294 (0.180)	0.353 (0.246)
French	0.125 (0.158)	-0.085 (0.237)	0.254 (0.325)	0.323 (0.197)	-0.258 (0.164)	0.259 (0.249)
Scandinavian and German	0.204 (0.177)	-0.020 (0.266)	0.314 (0.363)	0.418* (0.217)	-0.180 (0.191)	0.425 (0.274)
Country group						
EU new members	0.167 (0.159)	-0.029 (0.228)	0.208 (0.309)	0.515** (0.228)	-0.202 (0.155)	0.185 (0.247)
South-Eastern Europe, CIS	-0.296 (0.219)	-0.369 (0.311)	-0.616 (0.377)	-0.041 (0.308)	-0.578*** (0.204)	-0.372 (0.325)
South East Mediterranean	-0.428*** (0.148)	-0.643*** (0.228)	-0.702*** (0.249)	-0.197 (0.178)	-0.265* (0.143)	-0.810*** (0.174)
Number of observations	51	53	52	52	51	52
Adjusted R ²	0.960	0.922	0.829	0.949	0.965	0.914
Wald test F(1, N-k)	3.63*	6.50**	11.63***	1.78	0.11	9.81***

Standard errors in parentheses. Significance levels: *, **, *** respectively less than 10%, 5%, 1%.

Countries with socialist legal origins and from Western Europe are taken as references.

H₀ for Wald test: the coefficient of the initial governance indicator equals unity.

References

- Acemoglu D., S. Johnson, J.A. Robinson, 2001: «The colonial origins of comparative development: an empirical investigation», *American Economic Review*, vol. 91, n° 5, December, pp. 1369-1401
- Berkowitz D., K. Pistor, J.F. Richard, 2003: «Economic development, legality, and the transplant effect», *European Economic Review*, vol. 47, n° 1, February, pp. 165-195
- Boycko M., A. Shleifer, R. Vishny, 1995: *Privatizing Russia*, Cambridge, Mass., MIT Press
- Boycko M., A. Shleifer, R. Vishny, 1996: «A Theory of Privatization», *The Economic Journal*, vol. 106, n° 435, March, pp. 309-319
- Campos N.F., J.B. Nugent, 2003: «Aggregate investment and political instability: an econometric investigation», *Economica*, vol. 70, n° 279, August, pp. 533-549
- Disdier A.C., T. Mayer, 2004: «How different is Eastern Europe? Structure and determinants of location choices by French firms in Eastern and Western Europe», *Journal of Comparative Economics*, vol. 32, n° 2, June, pp. 280-296
- Djankov S., R. La Porta, F. Lopez-de-Silanes, A. Shleifer, 2003a: «Appropriate institutions», in Pleskovic B., N. Stern, eds, *Annual World Bank Conference on Development Economics 2003: The New Reform Agenda*, World Bank and Oxford University Press, pp. 283-298
- Djankov S., E. Glaeser, R. La Porta, F. Lopez-de-Silanes, A. Shleifer, 2003b: «The new comparative economics», *Journal of Comparative Economics*, vol. 31, n° 4, December, pp. 595-619
- Edison H., 2003: «Testing the links: How strong are the links between institutional quality and economic performance?», *Finance & Development*, vol. 40, n° 2, June, pp. 35-37
- Frankel J.A., D. Romer, 1999: «Does trade cause growth?», *American Economic Review*, vol. 89, n° 3, pp. 379-399
- Frye T., A. Shleifer, 1997: «The Invisible Hand and The Grabbing Hand», *American Economic Review*, vol. 87, n° 2, pp. 354-358
- Hay J.R., A. Shleifer, 1998: «Private Enforcement of Public Laws: A Theory of Legal Reform», *American Economic Review*, vol. 88, n° 2, May, pp. 398-403
- Hay J.R., A. Shleifer, R.W. Vishny, 1996: «Toward a Theory of Legal Reform», *European Economic Review*, vol. 40, n° 3-5, April, pp. 559-567
- International Monetary Fund, 2003: *World Economic Outlook*, Chapter III, «Growth and Institutions», April, pp. 95-128
- Kaufmann D., 2003: «Institutions matter», in Pleskovic B., N. Stern, eds, *Annual World Bank Conference on Development Economics 2003: The New Reform Agenda*, World Bank and Oxford University Press, pp. 302-313
- Kaufmann D., A. Kraay, M. Mastruzzi, 2003: «Governance matters III: Governance indicators for 1996-2002», *World Bank Policy Research Working Paper*, n° 3106, June
- Kaufmann D., A. Kraay, M. Mastruzzi, 2004: «Governance matters III: Governance indicators for 1996, 1998, 2000, and 2002», *World Bank Economic Review*, vol. 18, n° 2, pp. 253-287

- La Porta R., F. Lopez-De-Silanes, A. Shleifer, R.W. Vishny, 1999: « The quality of government », *Journal of Law, Economics, and Organization*, vol. 15, n° 1, April, pp. 222-279
- Mendras M., dir., 2003: *Comment fonctionne la Russie? Le politique, le bureaucrate et l'oligarchie*, Collection CERI/Autrement, Editions Autrement, Paris
- Nellis J., 1999: « Time to rethink privatization in transition economies? », *International Finance Corporation Discussion Paper* n° 38, Washington DC, 29 p., reprinted in Parker D., ed., *Privatisation and Corporate Performance*, Elgar, Cheltenham, UK, 2000, pp. 613-641
- Nivet J.F., 1997: « Stock Markets in Transition: The Warsaw Experiment », *Economics of Transition*, vol. 5, n°1, Spring, pp. 171-183
- Nivet J.F., 2004a: « Gouvernances publiques et attraction européenne : une comparaison entre l'Europe de l'Est et le Sud méditerranéen », colloque *Le partenariat euro-méditerranéen à l'heure de l'élargissement de l'Union Européenne*, Université François Rabelais de Tours, 21-23 octobre
- Nivet J.F., 2004b: « Corporate and public governances in transition: the limits of property rights and the significance of legal institutions », *European Journal of Comparative Economics*, vol. 1, n° 2, Autumn, pp. 155-173
- North D.C., 1990: *Institutions, institutional change and economic performance*, Cambridge, Cambridge University Press
- North D.C., 1994: « Economic performance through time », *American Economic Review*, vol. 84, n° 3, June, pp. 359-368
- North D.C., 2000: « Big-bang transformations of economic systems: An introductory note », *Journal of Institutional and Theoretical Economics*, vol. 156, n° 1, March, pp. 3-8
- Rapaczynski A., 1996: « The roles of the state and the market in establishing property rights », *Journal of Economic Perspectives*, vol. 10, n° 2, Spring, pp. 87-103
- Rodrik D., A. Subramanian, F. Trebbi, 2002: « Institutions rule: The primacy of institutions over geography and integration in economic development », *CEPR Discussion Paper* n° 3643, November
- Rodrik D., A. Subramanian, 2003: « The primacy of institutions (and what this does and does not mean) », *Finance & Development*, June, vol. 40, n° 2, pp. 31-34
- Sachs J.D., W.T. Woo, X. Yang, 2000: « Economic reforms and constitutional transition », *mimeo*
- Sachs J.D., 2003a: « Institutions don't rule: Direct effects of geography on per capita income », *NBER Working Paper* n° 9490
- Sachs J.D., 2003b: « Institutions matter, but not for everything: The role of geography and resource endowments in development shouldn't be underestimated », *Finance & Development*, June, vol. 40, n° 2, pp. 38-41
- Sen A., 2003: *Un nouveau modèle économique: Développement, justice, liberté*, Odile Jacob Poches, Paris
- Shleifer A., R.W. Vishny, 1994: « Politicians and firms », *Quarterly Journal of Economics*, vol. 109, n° 4, November, pp. 995-1025
- Sobel J., 2002: « Can we trust social capital? », *Journal of Economic Literature*, vol. 40, n° 1, March, pp. 139-154
- Tirole J., 2001: « Corporate governance », *Econometrica*, vol. 69, n° 1, January, pp. 1-35

- Treisman D., 2000: « The Causes of Corruption: A Cross-national Study », *Journal of Public Economics*, vol. 76, n° 3, June, pp. 399-457
- United Nations Development Program, 2004: *Human Development Report*, New York and Geneva
- Weitzman M.L., 1993: « Economic Transition: Can Theory Help? », *European Economic Review*, vol. 37, n° 2/3, April, 549-555