INSTITUTIONAL QUALITY STATES EU-12

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Abstrakt: The article deals with problems of institutions, ways of assessing and measuring their quality. At the theoretical level based on the text of a concept of institutional economics. In her conception of the institution are set out the rules and constraints that determine the evolution of society and economy of the country. In the article we first performed a comparative discussion of the methods of measurement and evaluation of the quality of institutions, available on latest stage of knowledge. In order to capture real trends in the institutional convergence of new Member States of the European Union (EU-12), we applied a statistical methodology for the World Bank's Governance Matters.

Keywords: Institutions, Iinstitutional Economics, European Union, Assessment and Measurement of Quality OfIinstitutions, Iindices of Iinstitutional Quality, Methodology Governance Matters.

1. Introduction

In the past twenty to thirty years the growing interest of economists on the impact of institutions to underpin economic prosperity of the country can be seen. The growing interest in this area is also associated with the collapse of the socialist bloc countries of Central and Eastern Europe. These countries started the process of transformation, the essence is the definition of new "rules of the game, the new economic and political institutions to achieve economic stability and desirable economic growth. [1] [5] An interest in institutional factors, particularly increases in empirical analysis, which examined the causes of differences in economic performance between countries, respectively groups of countries. Institutional factors extend the range of variables by which economists explain the realized long-term growth of countries and persistent disparities between developed and less developed economies. Nowadays, several national and international organizations focus their global efforts to create and design various **indices of institutional quality** as explanatory variables to examine the historical, cultural, political and economic determinants, and whose aim is to express precisely the degree of political and economic quality of public sector and private sphere. These indicators represent the particular additional information to objective data, allowing better explanation for the causes of various economic phenomena. The indisputable advantage of these approaches is a comprehensive global view of the economy where efficiency and competitiveness of the economy evaluated on the basis of both hard and soft data and data on institutions to illustrate the basic indicators.

Trying to quantify the quality of institutions has resulted in great deal of indices. Some of them are unique in nature, thus uniqueness, because their design was conducted to capture and analyze only the particular, specific purpose. Data that are used to design unique indices are gathered on the basis of specific surveys, questionnaire surveys, especially the views of companies and people. Other indices are compound, composite and represent a comprehensive, long-term, well-developed methodology used for regularly repeated international comparisons. These methods usually combine different types of data (cardinal data and pliable data) and the sources of acquiring knowledge (statistical databases, expert

evaluation, investigation into the companies and people, etc.). Both approaches can also be used as the characteristic effect of institutions on economic performance and competitiveness of the economy, and in comparison of institutional quality and its development across countries in time intervals. Despite the existence of sophisticated, alternative, sophisticated approaches, which can now reach an estimate of quality of institutions, either at national or at the detailed level, it is clear that the conceptual quality is measured only with great difficulty. The vast majority of data available for analysis of the institutional environment can thus obtain in the form of widely available statistics (so-called hard) data. But there are other limitations in the practical application of these indicators, which should be respected.

Although in the case of measuring quality of institutions is a very young field of research that is still evolving, rapidly improving with the way its growing importance. Long-term monitoring of developments and dynamics of institutional change is able to recognize the risk of development of individual states and to identify barriers to their further development.[4] Currently one of the most watched characteristics of the institutional environment, notably the quality of democracy, the degree of freedom, political rights, and quality of regulation, bureaucracy and corruption. In particular, the measurement of democracy and political governance enables citizens to evaluate and compare the performance of the entire public sector and also helps to express support or dissatisfaction to the government. Results of the evaluation may influence the decisions of voters in elections and strategic decisions of firms, banks and financial institutions.

2. AIMS and Methodology

With respect to above mentioned, we focused on assessing the quality of development institutions within the EU-12. We used a statistical methodology yet Governance Matters. This methodology was applied to a group of EU-12 to affect the trend in the institutional convergence of new EU Member States. The function of the methodology is the detection and qualitative analysis of possible institutional trends in Europe. Firstly, we conducted comparative research on institutional quality in the individual EU Member States, on the basis of available partial indicators of institutional quality. Using time series values sub-indices of institutional quality, we then compiled a comprehensive index of institutional quality.

Regarding the methodology of Governance Matters itself, the reason of its processing was the interest of the World Bank to cooperate in the global effort to improve the quality of institutions through effective use of their resources. [1] Ratings of institutional quality countries is realized through design of the general index of **GM (Governance Matters)**, which the World Bank regularly publishes since 1996[1].

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[1] Until 2004, the index was published every other year intervals. Since 2004, the index is published for a large public interest annually.

The resulting aggregate index is based on several hundreds of individual measurements, run by international organizations, consulting firms, universities, political and business organizations estimating the risk (risk-rating agencies), center experts and NGOs, which mainly relate to **perceptions of quality management**[2]. **Combined data obtained expert estimates and the data obtained on the basis of a questionnaire survey of companies and people**. The World Bank methodology is based on the definition of institutions as components of the state government (state capture). The government and the quality of governance by the World Bank is seen as a key element of the determinant of a country's level of potential development. It is characterized as the *"traditions and institutions by which power is exercised"*. [2] This definition thus includes three basic components of quality management, each of this folder are assigned to two aggregated indices, the **so-called institutional quality indices (Index of Institutional Quality, IIQ)**, which describe the situation in the country. The selection process, monitoring and replacement of Government (air bearing GM 1 and GM 2), effective aspect of the government's capacity to formulate, introduce and implement a "healthy" policies (indices 3 and GM GM 4) and the aspect of respect for the citizens and the State institutions are taken into account which determine mutual relation whether the interaction of economic and social (indices GM 5 and GM 6).

Ø *GM 1 - The level of democracy, political rights and freedoms (Voice and Accountability)*, which is assessed by means of participating in choosing their government, their populations, if possible free speech and assembly and the freedom and independence of media,

Ø *GM 2 - Political stability and absence of violence*, this indicator reflects the perception of the possibility that the government will lose its stability or will be directly overthrown and resources that are not constitutional or violently, also includes an indicator of political violence and terrorism,

Ø *GM 3 - Efficiency (performance) of the Government (Government Effectiveness)* monitors the quality of public and private services, competence and degree of political autonomy and bureaucratic organization, the quality of shaping government policy and its implementation and the degree of compliance with government commitments,

Ø *GM 4 - Quality control (Regulatory Quality)* focuses on the ability of government policy to promote and develop the private sector, measured the impact of price regulation, banking supervision and regulation of foreign trade,

Ø *GM 5 - Legal Procedure (Rule of Law)* is an indicator of confidence that the company has the legal system in the state and the willingness with which the public is adjusted to the new legal standards, the index assesses the extent of crime and violence and the efficiency of the courts and police, etc.

Ø *GM 6 - Control of Corruption* monitors how Government uses its power to private interests or the interests of prominent so-called elites, as well as monitor corruption in both small and large.

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[2] In the period 1996 - 2008, the number of resources, institutions and countries involved in the construction of the index continuously changed depending on the availability of data. In 2002, for example, used a total of 250 individual measurements, based on 25 different sources and produced 18 different organizations. In 2004, the final comparison included the total of 209 countries evaluated the total of 37 sources originating from 31 independent organizations. Currently, these aggregates include 340 sub-indicators, which are derived from 35 sources from 32 organizations with international connections. Included were 212 countries.

Tab. 1 Components of quality management and their related indexes according to the World Bank:

Components of the duality of administration	Indices of institutional duality - IIQ	Mark
Processes by which governments are selected, controled or replaced if needed	The level of democracy, political rights and freedom, the independence of the media *(Voice and Accountability)*	**GM1**
	Political stability and absence of violence (Political Stability and Absence of Violence)	**GM2**
Government's ability to formulate and effectively implement "sound" policy	Performance (efficiency) of the Government *(Government Effectiveness)*	**GM3**
	Quality regulations, measuring the impact of price regulation, banking supervision, regulation of foreign trade *(Regulatory Quality)*	**GM4**
Respect of citizens and the state institutions that govern economic and social processes between them	Rule of law, the impact of crime, effectiveness and foreseeability of judicial decisions *(Rule of Law)*	**GM5**
	Control of Corruption *(Control of Corruption)*	**GM6**

Source: World Bank, available from www: <www.worldbank.org>, translation and editing autor

In all indexes the countries are classified according to the common interval <-2.5 to +2.5>. The higher the value of the indicator the better the perceived quality of the relevant constituent authorities is. The final index reflects the result of statistical research, but it neither shows the official standpoint of the World Bank nor the real position of the countries which the Bank assesses. The complex index of GM is calculated as the simple average of indicators G1 - G6 and represents the problem of developing countries which is the Bank most importantly interested in. The purpose of the evaluation is to assess the overall situation of the quality of governance in the country and the results will set the program for further economic development. Although with each new measurement indicators as GM and methodology and sources used, the indicators of past evaluations are recalculated. [1] This can guarantee the comparability of published data to some extent. It should be stressed that the World Bank's research is among the experts considered to be the high quality and reliable scale in the area.

3. Results

Our goal was to capture the process of institutional adaptation to EU-12, which is very important process for transforming economies which face the problem of finding and creating a competitive institutional setting (eg, by means of its imitation of advanced countries). The aggregate indicator of institutional quality is calculated as the arithmetic mean value of

individual indicators of institutional quality of GM 1 to GM 6 in the country selected for a given year. The following tables (Tab. 2 and Tab. 3) summarize the value of GM's overall indicator for the EU-12 and EU-15 in the period 1996 - 2007.

Tab. 2 Summary values of indicators of institutional quality of the EU-12

Summary values of indicators of institutional quality of the EU-12									
	1996	**1998**	**2000**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Bulgaria	-0,29	0,07	0,14	0,26	0,21	0,25	0,23	0,23	0,24
CR	0,86	0,76	0,64	0,85	0,83	0,75	0,82	0,83	0,80
Estonia	0,66	0,76	0,86	0,96	1,04	1,04	0,99	1,05	1,06
Cyprus	0,98	0,89	0,92	0,95	0,95	0,88	0,89	0,98	1,00
Lithuania	0,31	0,54	0,52	0,72	0,84	0,79	0,77	0,71	0,72
Latvia	0,19	0,45	0,46	0,63	0,76	0,68	0,68	0,73	0,68
Hungary	0,73	0,90	0,88	0,98	0,94	0,91	0,87	0,87	0,80
Malta	0,62	1,06	1,17	1,20	1,32	1,26	1,19	1,26	1,31
Poland	0,66	0,72	0,64	0,65	0,64	0,51	0,52	0,46	0,48
Romania	-0,13	0,00	-0,09	0,01	-0,03	0,01	0,02	0,11	0,12
Slovakia	0,43	0,47	0,47	0,61	0,71	0,73	0,79	0,81	0,72
Slovenia	0,95	1,10	0,87	1,02	1,00	0,98	0,92	0,96	0,95
EU-15	1,44	1,43	1,43	1,48	1,45	1,40	1,36	1,39	1,35

Tab. 3 Average values of indicators of institutional quality of the EU-15

Average of indicators of institutional quality of the EU-15									
	1996	**1998**	**2000**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
GM 1	1,40	1,25	1,21	1,38	1,28	1,32	1,30	1,35	1,27
GM 2	0,90	1,04	1,11	1,01	0,94	0,78	0,77	0,91	0,91
GM 3	1,81	1,74	1,69	1,71	1,66	1,61	1,55	1,52	1,42
GM 4	1,21	1,10	1,28	1,56	1,51	1,48	1,40	1,39	1,41
GM 5	1,63	1,60	1,58	1,52	1,56	1,53	1,51	1,48	1,50
GM 6	1,67	1,87	1,74	1,73	1,73	1,69	1,62	1,67	1,61
Average	1,44	1,43	1,43	1,48	1,45	1,40	1,36	1,39	1,35

Source: World Bank, calculations the author

As shown in Fig. 1: Summary indicator of institutional quality (***author of processing based on data of the World Bank***), all monitored countries reached lower values than the EU-15. The best results gained Malta and Estonia. The worst results achieved the Union's newcomers Bulgaria

and Romania, which in 2004 amounted to only 0.01. CR is placed in the middle of the monitored countries.

What concerns the indicators GM 1 all countries achieved relatively satisfactory results, which is due to the establishment of democracy in all countries. The democracy is also one of the values which the EU protects together with freedom and social justice. The problem with the perception of democracy can be traced especially in post-communist countries. Monitored countries also achieved good results in the second indicator GM. But neither in this indicator had some country reached negative values. In the evaluation of the effectiveness of the government (GM 3) we do not find such satisfied results because neither of countries reached the average EU-15 and values have a decreasing attempt relating to increasing bureaucracy. GM 4 indicator assesses the quality of regulation. Even in this indicator countries did not exceed the EU-15 average, which suggests a slow introduction of changes to the banking sector and fiscal sector and foreign trade. With the indicator GM 5 The Code, countries maintain very poorly compared to the average EU-15. High-quality legal code of certain country is the precondition for the smooth functioning of the state according to the principles of the functioning of society in the 21st century. In our opinion, this is the reason for governments to adapt the rule of law and its enforcement, and thus contribute to increase trust in the legal system. The last indicator GM 6 monitors corruption, which does not bring the long-term economic stability of the country. It distorts the priorities of government policy, including monetary and fiscal target policies. In this indicator, the monitored countries stack up poorly against the average EU-15. It is necessary to change the thinking of the corruption which is taken as normal element by society. In all indicators index, GM Bulgaria and Romania achieved the worst results and have the most negative assessment of indicators. These countries are not still adapted to other EU states, for which they are still criticised by EU and in some cases penalized. On the other hand Malta and Cyprus gained the best results.
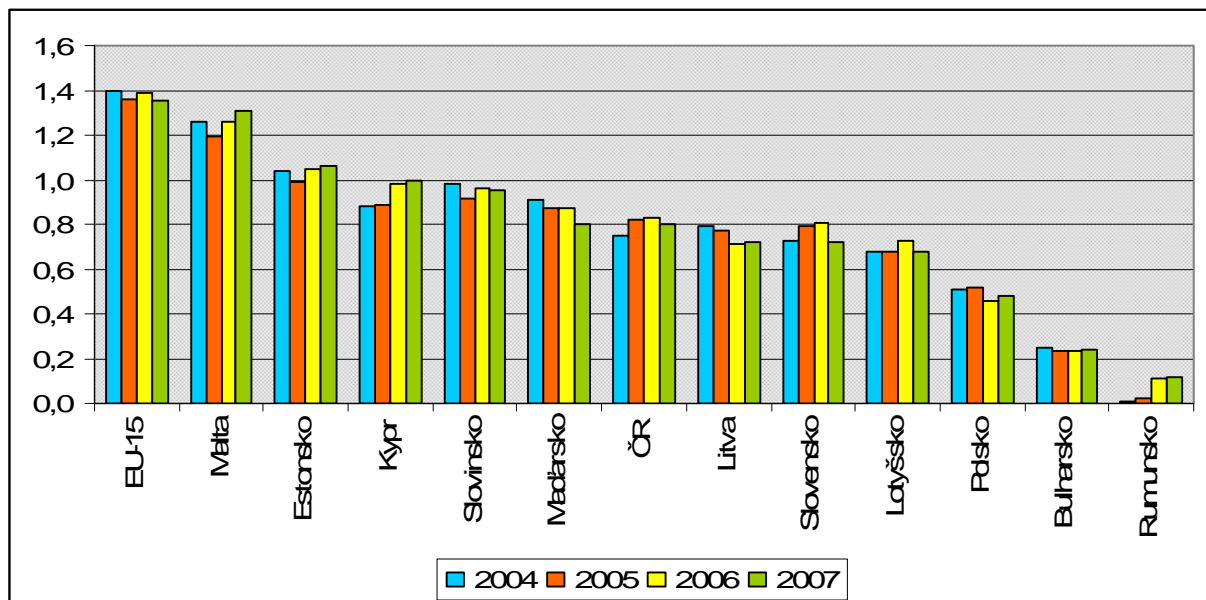

Fig. 1: Summary indicator of institutional quality (author of processing based on data of the World Bank)

4. Conclusion

The main purpose of monitoring the quality of institutions is to assist governments to identify specific aspects of the country and take corrective measures to ensure economic stability and economic growth. [4] Political instability and excessive regulatory measures as well as high levels of corruption discourage foreign investors and domestic entrepreneurs. The development of the institutional quality of the EU analyzed in this article confirms that the process of gradual enlargement of the EU has a positive effect on the transformation and building a new institutional environment in the new EU Member States. Although the EU-15 average characterized by higher quality institutions than the new member countries, the pace of economic growth in EU-15 is much slower and institutional quality in comparison with the countries of the EU-12 is stagnating or getting worse. The success of institutional reform is particularly evident in Cyprus and Malta, but also in Estonia and Slovenia. Although these countries still do not belong to the economically most powerful, they have already begun to reform affect not only of the existing production capacity of economies of these countries, but also their long-term potential.

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