European University Institute

ROBERT
SCHUMAN
CENTRE FOR
ADVANCED
STUDIES

WORKING PAPERS

State Capacity and Economic Integration: Evidence from the Eastern Enlargement

László Bruszt and Nauro F. Campos

European University Institute

Robert Schuman Centre for Advanced Studies

Global Governance Programme

State Capacity and Economic Integration:

Evidence from the Eastern Enlargement

László Bruszt and Nauro F. Campos

Robert Schuman Centre for Advanced Studies

The Robert Schuman Centre for Advanced Studies (RSCAS), created in 1992 and directed by Professor Brigid Laffan, aims to develop inter-disciplinary and comparative research and to promote work on the major issues facing the process of integration and European society.

The Centre is home to a large post-doctoral programme and hosts major research programmes and projects, and a range of working groups and *ad hoc* initiatives. The research agenda is organised around a set of core themes and is continuously evolving, reflecting the changing agenda of European integration and the expanding membership of the European Union.

Details of the research of the Centre can be found on:
http://www.eui.eu/RSCAS/Research/

Research publications take the form of Working Papers, Policy Papers, Policy Briefs, Distinguished Lectures, Research Project Reports and Books.

Most of these are also available on the RSCAS website:
http://www.eui.eu/RSCAS/Publications/

The EUI and the RSCAS are not responsible for the opinion expressed by the author(s).

The Global Governance Programme at the EUI

The Global Governance Programme is one of the flagship programmes of the Robert Schuman Centre for Advanced Studies at the European University Institute (EUI). It aims to: build a community of outstanding professors and scholars, produce high quality research and, engage with the world of practice through policy dialogue. At the Global Governance Programme, established and early career scholars research, write on and discuss, within and beyond academia, issues of global governance, focussing on four broad and interdisciplinary areas: European, Transnational and Global Governance; Global Economics; Europe in the World; and Cultural Pluralism.

The Programme also aims to contribute to the fostering of present and future generations of policy and decision makers through its unique executive training programme, the Academy of Global Governance, where theory and "real world" experience meet. At the Academy, executives, policy makers, diplomats, officials, private sector professionals and academics, have the opportunity to meet, share views and debate with leading academics, top-level officials, heads of international organisations and senior executives, on topical issues relating to governance.

For more information: http://globalgovernanceprogramme.eui.eu

Abstract

We study whether and how economic integration increases state capacity. Despite the recent surge in economist's interest in state capacity, there remains a lack of theory-based detailed empirical measures. This paper introduces a new panel of institutional reform measures. We present a political economy framework highlighting the Montesquieu, Weber and Smith channels and yielding hypotheses about the judiciary, bureaucracy, and competition policy. Our main finding is that the relationship between bureaucratic independence and judiciary capacity seems to be the main engine of the process of state capacity building engendered by the prospect of European Union membership.

Keywords

1. Introduction[*]

The Great Recession and the Eurozone Crisis dented the consensus about the economic benefits from European Union (EU) membership. Economic research has strived to quantify these benefits but some of them have proven notoriously difficult to pinpoint (Crafts 2016).[1]

This paper argues that one of these potential understudied benefits is the increase or the buildup of state capacity. We investigate which role economic integration, specifically the prospect of European Union (EU) membership, play in building the capacity of the state to uphold political and economic freedoms, enforce law and order, regulate economic activity, and provide public goods.

According to Besley and Persson, "[T]he lack of attention to the role of state capacity by economists contrasts with other social scientists" (2014, p. 930). The scholarship on state capacity has a long tradition in social sciences (Tilly 1971, Evans et al. 1985). In the last two decades or so, economists have been paying close attention to institutions. More recently, progress in this area has led to identifying key individual institutions and, it is in this context, that the economics literature on state capacity is gaining steam.

The seminal work by Besley and Persson (2009, 2010) focuses on fiscal capacity as a key aspect. Dinsecco and Katz (2016) and Chuaire et al (2017) provide additional supporting econometric evidence. Besley and Persson (2014) investigate complementarities among different state capacities (fiscal, legal and collective) as well as positive feedbacks between state capacity and income. Acemoglu et al. (2015, 2016) use rich case studies (Colombian inter-governmental relations and diffusion of U.S. post offices) to offer novel insights into state capacity building. Bardham (2016), Savoia and Ken (2015), and Koyama and Johnson (2017) survey this nascent literature drawing on works from development and history.

Interest is increasing but an important lacuna remains: we lack theory-guided detailed empirical measures of key state capacity features, comparable across countries and over time.

We put together a conceptual framework to guide our analysis that highlights what we call the Montesquieu, Weber and Adam Smith *channels*. Each of these correspond to a series of mechanisms in three distinct institutional arenas, namely, the judiciary, bureaucracy, and competition (or anti-trust) policy. Thus, our conceptual framework features ideas from political economy, the separation of powers and the benefits of enforcing competition. We draw on these classic thinkers as each argues for different preferred channels through which integration may affect state capacity and, ultimately, economic welfare.

Stressing the "Adam Smith channel", some authors hold that economic liberalization should be given priority. Reforms that open markets and increase competition could bring in new players and foster the demand for institutional reform and state capacity building. Other authors suggest starting with transformations on the supply side of institutional reforms, with an increase of the autonomy of

[1] See, among others, Baldwin et al. (2012), Beeson (2014), Brou and Ruta (2011), Mattli (1999), Robson (2012) and Hoekman (2016).

the state, either through its capacity to design and implement public policies ("Weber channel") or to uphold economic and political rights ("Montesquieu channel".)[2]

The Eastern Enlargement of the European Union provides a unique context to investigate these issues. After the 1995 Enlargement (in which Austria, Finland and Sweden joined), the EU created a system of regular standardized monitoring of the progress in institutional change in all the arenas that could affect the capacity of candidate countries to implement the rules of the Single Market. These roughly correspond to the various individual chapters of the *acquis*, which of course need to be successfully implemented before accession. The yearly reports on progress towards accession of the European Commission (2017) offer an exceptional basis for analysis. Quantifying these reports generates a longitudinal database that reflects changes in key institutional areas. The reports detail the national paths towards meeting the institutional requirements of EU membership from the transplantation of regulations (Berkowitz et al 2003) to the creation of regulatory organizations endowed with the necessary powers, resources and personnel.

By quantifying all the EU reports on progress towards accession (European Commission 2017), we generate a panel of new *de jure* (independence) and *de facto* (capacity) institutional measures for 17 European Union candidate countries yearly since 1997.[3] They cover the judiciary, bureaucracy, and competition policy and include measures of potential inputs into each of these areas.

While our conceptual framework illustrates the large number of possible paths towards EU accession, we use this new unique data set to try to uncover which are the key relationships between inputs into and among the institutional outcomes of the judiciary, bureaucracy, and competition policy build-up. We understand these as reform implementation sequences. This is carried out in a simple and transparent manner using time lag relationships as criteria. We justify this choice by noting that although the theoretical literature on reform sequencing is voluminous (Roland, 2000), the empirical literature is almost non-existent and thus offers little guidance.

Starting from the quality of bureaucracy, we uncover evidence that the training of civil servants and civil service law in the current period positively affect bureaucratic capacity in the next period, which in turn affects bureaucratic independence positively one-year ahead. Current civil servant salary is correlated neither with future bureaucratic capacity nor independence.

Turning to the judiciary, the only input we find driving capacity seems to be the courts' workload, idem effectiveness of the Supreme Court driving judiciary independence. Legal procedures seem to affect neither one-year ahead judiciary independence nor capacity. Yet, without judicial oversight, there is no guarantee that supervisory agencies can monitor and enforce the rules of market competition effectively.

Our most important finding rests upon the relationship between judiciary capacity and bureaucratic independence. We estimate that capable, independent courts are prime movers behind the development of a professional state bureaucracy, and vice-versa. Judiciary capacity in the previous year is positively correlated with bureaucratic independence in the current year. And uniquely among our results (i.e., the only self-reinforcing feedback relation we find), bureaucratic independence in the last period is positively related to judiciary capacity in the current year.

---

[2] Similar sequencing dilemmas are found inside the specific institutional arenas, like the judiciary or the state bureaucracy. Should the depoliticizing of the civil service precede its professionalization or is the right sequencing the other way around? Can the separation of the judiciary from the other branches of the state create an effective judiciary on its own or one has first to introduce measures that allow for the judiciary oversight of the two other branches of the state?

[3] Our sample is as follows: Albania 2005-2013; Bosnia 2005-2013; Bulgaria 1997-2006; Croatia 2005-2013; Czech Rep 1997-2003; Estonia 1997-2003; Hungary 1997-2003; Kosovo 2005-2013; Latvia 1997-2003; Lithuania 1997-2003; Macedonia 2007-2013; Montenegro 2007-2013; Poland 1997-2003; Romania 1997-2006; Serbia 2005-2013; Slovakia 1997-2003; Slovenia 1997-2003; Turkey 1998-2013.

Two additional results are noteworthy. First, this set of institutional reforms have important economic implications. For example, we find that a strong Supreme Court and a capable judiciary are positively correlated with per capita income, while countries with higher export to GDP ratios tend to have more competition policy capacity. Competition policy capacity is also positively correlated with the income share of the poorest 10% of the population and with labor income share (the latter results are similar for judiciary independence). Secondly, we find that correlations between our de facto and de jure measures and other widely used institutional variables (such as the Freedom House, Polity and political constraints on the executive indexes) are substantially higher than the correlations between these widely used measures and our inputs. This raises the possibility that there may be an over-abundance of measures of institutional outcomes, without similar attention to measuring "inputs" into these. To put it bluntly: we may now have a wealth of measures of the "same thing" ("outcomes") but a dearth of indexes capturing factors that may play a role in determining these outcomes ("inputs").

This paper is organised as follows. The next section provides background on why and how the European Commission monitored progress of candidate countries in terms of their adoption and implementation of the *acquis*. Section 3 present the various theoretical perspectives we draw from to construct our institutional measures and use them to formulate hypotheses of interest. Section 4 describes the data construction and collection procedures we followed as well as the variables we use in our analysis with emphasis on the institutions of the judiciary, bureaucracy and competition authority. Section 4 briefly discusses key methodological issues. Section 5 presents our empirical results examining the cross-determination of the three individual institutional reforms in the judiciary, public administration and competition. Section 6 concludes.

2. Background

The fall of communism in Eastern Europe was reinforced by the desire to "return to Europe" as quickly as possible. There was a diverse set of members-in-waiting countries that included Poland and the Baltic States, Hungary, and Czechoslovakia. This represented special challenges for the EU as it involved the integration to the European Single Market of countries with weak states and markets, countries still coping with the hardships of transforming their economies inherited from the state socialist regimes.

EU member states had two main fears related to integrating these economies, both linked to transferring to these countries the 80 thousand pages of already existing EU rules for the Single Market (Bruszt and Langbein, 2016). The first fear was linked to the potential failure of complete rule transfer; the second fear was linked to its eventual success.

As for the former, the EU insiders feared that the new members would not be capable to play by the EU rules and that partial implementation of the EU rules might induce unfair competition, increase protectionism and thus undermine the integrity of the EU common market. The latter fear referred to the possibility that the new members would not be able to live by the EU market rules; that competitive pressures and/or political costs resulting from the imposition of EU rules would be too high for them to take.

The definition of the economic criteria of eligibility for membership at the 1993 Copenhagen Summit signaled the EU's new awareness of the potential consequences of this enlargement. By adding to trade liberalization and implementation of EU market regulations the requirements of having a 'functioning market economy' and 'the capacity to withstand competitive pressure', the EU departed from its dominating policy paradigm that viewed these two latter factors as automatic outcomes of market liberalization. Original EU15 member states and the Commission feared repeats from the collapse of the East German economy partly caused by the unexpected consequences of fast liberalization and currency unification after the German reunification. The unfolding economic and political turmoil and the need for fiscal transfers convinced key players within the EU that they could

not leave the task of integrating the lesser developed economies of the future members into the internal market solely to the power of (transnational) market forces.

Once having defined in a broad way the economic criteria of membership, the Directorate-General for Enlargement was assigned the task to assist CEE countries to meet the accession criteria while also allowing EU insiders to monitor institutional change in these countries. The Commission mobilized a large pool of experts and cooperated with international financial institutions to specify the state capacities in core state institutions and in more than 30 other different policy fields that would be required for a successful accession.

In 1997, the Council gave the Commission the task to monitor on a year by year basis the CEE countries progress towards accession. The outcome of this exercise was synthesized in the annual Progress Reports, which were intended to work as a mechanism to help the accession countries align their legislation with the acquis (European Council 1997:3). Legislative alignment was defined as the extent and quality of transposition of EU legislation into national law. However, alignment was understood more broadly than just legislative alignment, it also included the creation of the institutional conditions for the implementation of the EU regulations. Hence, the Progress Reports also assessed each candidate country's ability to implement the acquis (European Commission 1998:1). The Commission left it to the aspiring member states to choose their sequencing strategy and the speed of required institutional change.

The monitoring of a candidate's progress in meeting the accession criteria also used methods that allowed collecting and contrasting a big variety of dispersed information. Just to give the example of the preparation process of one progress report, desk officers in the country units of DG Enlargement[4] and at various DGs enlisted business associations and NGOs from the EU member states and candidate countries, Central Banks and Chambers of Commerce. Rather than engaging in pure 'checklist monitoring' the Commission asked these experts to suggest solutions to overcome detected problems of the candidates and these trickled-down to EU technical assistance programs that were meant to help candidate countries to meet EU requirements.

Overall, the scope of EU pre-accession assistance should not be overestimated. Direct assistance programs to the ten candidate countries that entered the Union in 2004 totaled € 28 billion in the period from 1990 to 2005 (Bruszt and Langbein, 2016).

The second dimension of monitoring reflected the presence or absence of organizations, regulatory agencies that could enforce on the ground the EU rules. The exact ramification of these organizations differed across the acquis chapters, but they usually implied the creation of an enforcement agency that was independent from political and private influence endowed with sufficient enforcement power to properly execute its duties.

The third dimension of monitoring have registered whether and to what degree is the given enforcement organization endowed with the necessary resources, meaning usually human, budgetary and physical resources. Last but not least, the Commission was concerned with the actual performance of the supervisory authority in specific regulatory fields. To evaluate this the Commission developed criteria for assessing progress to EU requirements that could include also indicators of the frequency of inspections, the number of fines imposed, and in general, the overall quality and predictability of rule enforcement.

A possible critique directed against the Progress Reports is a potential political bias, i.e., that the reports would tend to shy away from criticising countries because of political or other reasons. Albeit a possibility, it is difficult to find anything in the data that points in the direction of a systematic under- or overvaluation of one or more of the candidate countries. The final political decision whether to take a given country or not as member was just partly dependent on the evaluations by the Commission of

---

[4] In 2014 DG Enlargement was renamed DG NEAR (DG for Neighborhood and Enlargement Negotiations).

progress towards meeting all the EU requirements. One of the interesting finding of our coding was that at the time of the final decision to take specific countries, the reports done by the desk-officers of the Commission had still lots negative evaluations (meaning still below EU standards) in several of the chapters. Furthermore, the Progress Reports are vulnerable to much of the same critique that has been directed to many of the other operationalization of institutional capacity, namely that the measure is based on subjective assessments rather than objective criteria. However, this is only partly true, the evaluations made by the country experts are based on criteria worked out by the Commission. The country experts had to evaluate each sector within a country in accordance with the standards laid down in the Guide to Main Administrative Criteria (European Commission, 2005). Although this does not go all the way to meeting the requirement of objective indicators, it at least provides a systematic assessment, which enables cross-country and cross-sector comparisons.

The first monitoring reports of the Commission published in 1997 painted a rather bleak picture of the institutional capacities of the applicant countries. These reports saw the need for major changes in public administration and judiciary in all these countries. At least as importantly, in most of the more than thirty policy fields of market regulation, the reports found that the institutional status quo in the applicant countries was far away from the institutional requirements for participating in the common market.

3. A Political Economy Conceptual Framework

Market integration has progressed very slowly across the globe. Most of the attempts at furthering market integration involve at most a Free Trade Agreement with limited common regulations in very few areas (Balassa, 1967). The integration by the EU of the Central and Eastern European (CEE) economies, from this perspective seems to be a unique experience as it has involved the rapid abolition of all tariffs and the transfer of around 80 thousand pages of common regulations covering more than 30 policy fields. Besides the restructuring of key economic institutions, deep integration extended to the remaking of the two central institutional arenas of the state, the judiciary and the state bureaucracy.

The stress on state reform by the EU was linked to a key dilemma of deep economic integration. The creation and the extension of a common market presuppose the capacity of all members to play by common rules. Implementation of these rules might be costly and, at least as importantly, it might require considerable administrative and judicial capacities that could conceivably be in short supply (Bruszt and McDermott, 2014). An eventual large-scale non-compliance in countries with weaker states could undermine the integrity of the single market. Such vulnerability grows with the number of policy areas that are included in institutional harmonization and with the potential importance of the lesser-developed economies as trading partners or production sites.

The simultaneous initiation of accession negotiations with, first ten and then another seven, Central and Eastern European countries represented exactly such a challenge. Key EU actors perceived the Eastern enlargement as a factor potentially endangering the results of the previous waves of economic integration (European Commission, 1997). The first monitoring reports of the Commission published in 1997 painted a rather bleak picture of the institutional capacities of the applicant countries. These reports saw the need for major changes in public administration and judiciary in all these countries. At least as importantly, in most of the more than thirty policy fields of market regulation, the reports found that the institutional situation in the applicant countries was far away from the institutional requirements for participating in the common market.

Below we report findings showing that even after the EU has invested seven to ten years' effort in furthering institutional upgrading in the CEE countries, the outcomes remain highly diverging across and within these countries. In some of the accession countries, the paths of institutional change converged towards EU norms, in others institutional convergence got stuck way below EU norms .

How were these paths of institutional change interlinked? Was there a right sequencing of change within and across the key institutional areas that has allowed for progress in transforming key state institutions? What role did the sequencing of institutional change play in the dramatic divergence of outcomes?

We seek theoretical guidance for alternative answers to these questions from classics source. We rely on the ideas of those political scientists, economists and sociologists who have stressed the dynamics of self-reinforcing or positive-feedback processes instead of timeless relations among diverse variables (Pierson2000; Tilly 1984; Artur 1994; North 1990). We look at institutional transformation as a complex set of interlinked changes in multiple arenas whereby the timing of a change within a sequence effects how change happens and what effects it has on change in other institutional arenas. In this approach, early events can trigger self-perpetuating processes or they can set in motion a backlash that hinders further institutional change (Stinchcombe, 1968; Pierson, 2000). In each hypotheses, we highlight a key mechanism that could account for setting in motions either blockage or positive feedback. We start with the ideas on the right sequencing of change within the judiciary and the state bureaucracy and proceed to competition policy and then to conflicting ideas about the right sequencing of change across the three key institutional fields.

Judiciary: The Montesquieu channel

The reforming of the judiciary was one of the key institutional arenas of state reform that the EU deemed equally crucial for the upholding of democratic political rights and economic freedoms.

From a theoretical perspective, the reform of judiciary had to create a key institutional condition of credibly committing the aspiring member states to sanction the rules of the EU. Also, putting in place an independent judiciary with the capacity to efficiently and even-handedly enforce economic freedoms and the rules of the Single Market could, in principle, set in motion at least two interlinked mechanisms that would reinforce institutional change in other institutional arenas. The stabilization of the expectation of economic players that they can safely invest and contract - because the judiciary predictably enforces their rights independently of their differences in economic and/or political power - can increase the number and alter the composition of these players. This way, judiciary reform can change the balance of power on the demand side of state reform.

But what are the institutional conditions of judiciary independence? In defining these conditions, we can rely on the ideas of Montesquieu.

> "… there is no liberty if the judiciary power be not separated from the legislative and executive. Were it joined with the legislative, the life and liberty of the subject would be exposed to arbitrary control; for the judge would be then the legislator. Were it joined to the executive power, the judge might behave with violence and oppression."
> (Montesquieu, 1777 pp. 221-237)

The institutional sources of judiciary independence have to do with the separation of powers. The judiciary should be independent of both the legislature and the executive, and should restrict itself to applying the rules of the Single Market to particular cases in a transparent and consistent manner.

In formulating our first hypothesis, we rely on the late 18th Century reading of the ideas of Montesquieu by the founding fathers of American Constitution (Manin 1994.) Their starting point was the same as that of Montesquieu: key to the stabilization of the common market of the thirteen North American states lies with the creation of independent judiciary. But, learning from the weaknesses of previous constitutional solutions, the American founding fathers were not satisfied with the notional separation of the different branches of the state. They thought that solely the constitutional declaration of the independence of judiciary would not suffice. Among the three branches of governments there was a hierarchy in the degree of legitimacy. Branches of government with stronger legitimacy, the executive and the legislative, they argued, could encroach on the autonomy of the branch with weaker

legitimacy, like the judiciary. Their conclusion therefore was that mechanical separation of powers will on their own not do and each branch should be empowered with the necessary powers to defend its boundaries from encroachment. In the case of the judiciary, these were the powers given to the judiciary to oversee the constitutionality of the legislative and the executive.

On this basis we can formulate as a guiding hypothesis that the sooner there will be progress in terms of establishing an independent constitutional court, the faster can countries create an independent judiciary.

While making no reference either to Montesquieu or the American founding fathers, the institutional requirements of EU membership clearly reflected the above concerns. These requirements included the professionalization of the judiciary, and its endowing with skilled staff and resources to process cases efficiently and in a timely manner. These factors were necessary aspects of judiciary capacities, all evaluated separately in EU progress reports. Similarly, an important role was played in EU evaluations by the separation of judiciary from political control and the steeling of judiciary independence by the creation of an autonomous constitutional court.

Figure 1 shows how the ideas above guide our data collection and organize our thinking about the Montesquieu channel and the other two areas. We consider judiciary capacity and independence as ultimate outcomes of institutional development in this area. The EU progress reports allow us to distinguish three inputs into this process: the workload, the procedures and the relative strength of the Supreme Court. We define in operational manner each one of these five aspects in detail below.

Figure 1 Institutional Conditions of Joining the Single European Market
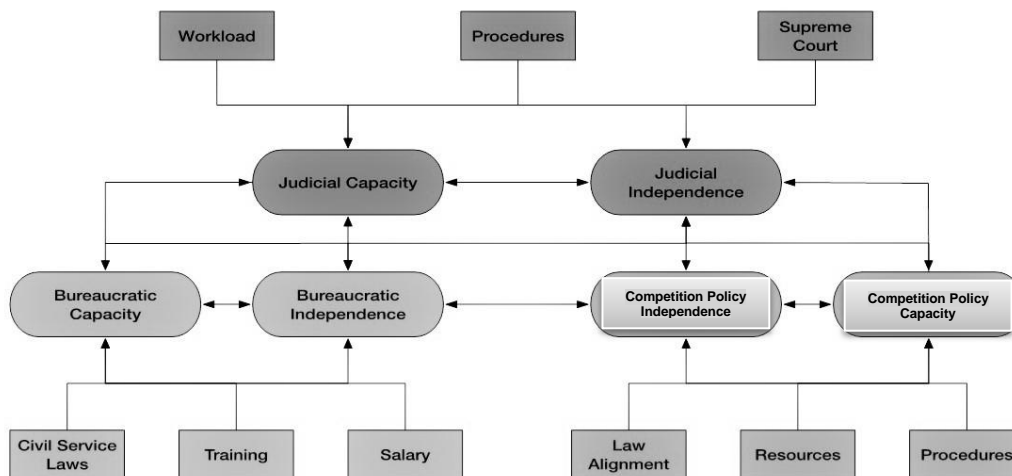
Notice that Figure 1 represents only the core of EU mandated institutional changes in the applicant countries. A fuller picture would include the institutional requirements in more than 30 specific policy fields from environmental regulation to food safety regulation. Note also that Figure 1 does not represent any EU expectations about sequencing of change. During the first wave of Eastern enlargement Brussels left it to the aspiring member state to choose their own sequencing strategy.

State bureaucracy: The Weber Channel

The other institutional arena that was seen by the EU as crucial for integrating the CEE economies was public administration. The concerns of the EU in this field were like the one described above with reference to the judiciary. Only a depoliticized, professional bureaucracy can efficiently implement, administer and enforce the rules of the common market. The expected self-reinforcing benefits of state reforms were the same as in the case of judiciary (European Commission, 1997).

But, what could be the right sequence of reforms within the public administration? What should come first, the professionalization of the bureaucracy implying the meritocratic selection and promotion together with employment protection, or the establishment of the legal defences from politicization of the state bureaucracy?

In formulating this hypothesis, we rely on the work of Max Weber who was the first to stress the intimate relationship between the spread of large-scale capitalist enterprise and modern bureaucratic state .

> <Compared to the Chinese state> "…very different is the rational state in which alone modern capitalism can flourish. Its basis is an expert officialdom and a rational law. The Chinese state changed over to administration through trained officials in the place of humanistically cultured persons as early as the 7th and 11th centuries but the change could be only temporarily maintained." (Weber, 1924, p. 339)

He also stressed the strong association between the emergence of rational law and well-functioning bureaucracy:

> "The rational law of the modern occidental state, on the basis of which the trained official renders his decisions, arose on its formal side, though not as to its content out of Roman Law." "Capitalism… requires a law which can be counted upon like a machine. The creation of such a body of law was achieved through the alliance of modern state and the jurists." (Weber, 1924, p. 342-3)

In the work of Weber, the state's ability to support the market depended on the bureaucracy being a corporately coherent entity with its own independent selective criteria. That goal could be attained by "conferring a distinctive and rewarding status on bureaucrats… the concentration of expertise...through meritocratic recruitment and the opportunities for long-term career rewards" (Evans, 1992 p.146). Peter Evans, who did perhaps the most to translate and apply the Weberian ideas to the comparative study of evolving market economies (Evans, 1992, 1995) argued that key factor explaining variation in state capacities was the corporate coherence of the autonomous state: the existence of defences for the civil service from short-term political or economic interests. Highly selective meritocratic recruitment and promotion, and, in general professionalization of the bureaucracy were the key to create a cohesive bureaucracy with an *esprit de corps*, with its own professional criteria of success. Such a cohesive bureaucracy had, Evans argued, stronger defences against re-politicizing and against capture by private interests.

Based on the above discussion we can formulate as a second guiding hypothesis that the sooner there will be progress in the implementation of reforms that strengthen the professionalization of the civil service, the faster will be progress in the implementation of measures that increase the independence of state bureaucracy.

Start with the demand side for institutional change: Competition policy (Smith)

Above we have discussed two propositions about sequences of change *within* specific institutional arenas. We continue with three further propositions that are linked to the question about the 'right' sequencing of change *across* these institutional arenas. According to the first, institutional change should start with the institutions that could induce and maintain competition; according to the second

approach change should start with the reform of state institutions. Finally, according to the third approach a critical mass of change in both institutional arenas is the way to start.

The underlying idea that is in common in all these approaches is that the major hindrance before institutional change is in the wrong constellation of economic interests that hold the state captive in a bad *status quo*. Key economic and social actors have vested interests in maintaining the *status quo*; they paralyze the state and prevent any change.

Change, according to the first approach should start within the economy, by measures that are introduced fast and alter the composition and the preferences of the players. The structural changes in the economy are assumed to result in the liberation of the state from the hold of vested interests and allow for progressing with institutional change in other institutional arenas, including the sphere of civil service. The key is the speed of changes (Åslund et al, 1996 p. 217), not allowing time to react and resist the implementation of the right measures.

Translated to the level of institutional change, from this perspective the implementation of the institutional conditions of competition policy and the free movement of goods and capital is the way to start (Motta, 2014). The implementation of EU conform rules of competition allows new entrants to the domestic market; they will weaken the powers of the dominating economic groups and alter the demand side for implementing the necessary steps for integration. The state will be liberated to introduce the reform of the state bureaucracy and the judiciary.

The literature on the 'race to the top' can also be used to make this argument (Vogel and Kagan, 2008). Accordingly, business firms coming from effectively regulated markets will be agents of institutional change, demanding higher regulatory standards in their host countries if that improves their competitive position; if it helps them to exclude from the host market weaker actors, and/or, if it helps them to prevent unfair competition by non-compliant domestic firms.

We here call this the Adam Smith channel. In the *Wealth of the Nations*, Adam Smith highlighted the dangers of the presence of monopolies on the state:

> "The interest of the dealer, however, in any particular branch of trade or manufacture, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition is always the interest of the dealers." (Smith, 1776, pp. 219-220)

> "This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature." …The legislature, were it possible that its deliberations could be always directed, not by the clamorous importunity of partial interests, but by an extensive view of the general good, ought upon this very account, perhaps, to be particularly careful neither to establish any new monopolies of this kind, nor to extend further those which are already established. Every such regulation introduces some degree of real disorder into the constitution of the state, which it will be difficult afterwards to cure without occasioning another disorder." (Smith, 1776, p. 368)

Based on the above discussion we can formulate the hypothesis that the sooner there will be progress in implementing EU conform institutional change in the field of competition policy and free movement of goods, the faster there will be progress in civil service reform and the reform of the judiciary.

Change the supply side of institutional change first (Montesquieu & Weber)

A different view from the above is to have as first step in the complex processes of economic transformation is to build up the defenses of the state. Opening up the markets without first strengthening general state capacities could get to stalemate at the best, or it could lead to state capture at the worse (see e.g. Dewatripont and Roland, 1992; 1995). The new entrants might not change the nature of the demand side for state reform; they might just exploit the weaknesses of the state. The

implication of these arguments is that the better way is to start with the measures of state strengthening suggested on the basis of Montesquieu and Weber and create first the institutional conditions of functioning judiciary and bureaucracy.

Based on this discussion we can formulate the hypothesis that the sooner there will be progress in implementing EU conform civil service reform and the reform of the judiciary, the faster will be progress in the field of competition and free movement of goods.

Reforms creating a judiciary endowed with institutional guarantees of independence, and a depoliticized civil service are expected to bring about two veto-points within the state and increase its capacity to resist capture. Such a state than is expected to have the capacity to induce positive feedback loops by undertaking sustainable institutional changes in the more specific regulatory fields, including those that could alter the demand side of integration.

Induction of virtuous circles (Montesquieu or Weber, and Smith)

Based on the critique of the above two general approaches one can generate a third hypothesis. Neither the changing of the demand side or of the supply side might be sufficient to set institutional change in the economy in a sustainable new path. Some simultaneity of change in the demand and supply sides are needed that could together help to consolidate control over institutional change by an emerging pro-reform alliance of actors within and outside of the state (Forslid et al 2011).

Two interlinked arguments can be made in support of such an approach. One could argue, first, that reforms might not generate enough defences for the autonomy of the state without some change in the demand side of the reform. Even multiple veto points within the state, meaning the existence of the institutional guarantees of the independence of the judiciary and the bureaucracy, might not provide a sufficient defence for the state if all the veto points could be controlled by status quo oriented economic and political groups (Stasavage, 2002). It is hard to lock in externally supported state reforms if the factors that have created the intertwining between public and private actors prior to the reform are not broken with the help of new pro-reform alliances in the economy.

On the other hand, except for the sweeping transformation of the demand side in the economy, the emerging alliances for institutional change need at least one defense, at least one veto point within the state to lock in reform. Change in the demand side for reform, on its own might not generate sufficient enough support for institutional change in the economy if there is not some simultaneous progress in reform within at least one branch of the state.

To set in motion institutional change one should expect a combination of supply and demand side reforms to generate progress in deep integration. We expect that the sooner there will be simultaneous change in regulatory institutions responsible for competition and the free movement of goods on the one hand, and in some aspects of implementing EU conform civil service reform or the reform of the judiciary on the other hand, the more likely it is to have cumulative progress in other general state institutions.

4. Measurement

This paper focuses on three key regulatory areas, namely the judiciary, public administration (the bureaucracy) and competition policy. For each one of these areas we quantify the various aspects that the European Commission judged to be crucial. It is important to notice that the Commission never differentiates between inputs and outcomes in the Progress Reports. It evaluates individually each of the aspects without considering the potential relationships among them. This call is entirely ours: based on our understanding of each regulatory area, we decided which variables are deemed inputs and which are deemed to be outcomes. For each of the three areas, we can identify two main outcomes

(capacity and independence, which are similar across the three areas) as well as the various inputs into the delivery of these outcomes (which are not similar across the three areas.)[5]

For the data collection, a codebook has been prepared that aimed to capture wherever possible the institutional dimensions discussed above. For each dimension, a scale has been created that ranges from "severe deficiencies in the conformity with EU requirements" to "full conformity with EU requirements," the grading of the scale differs depending on the chapter and dimension but is usually organized along a four-grade scale. These are categorical variables taking values between 1 and 4, with 4 indicating levels of institutional development comparable to EU Member States, 3 for satisfactory levels but still below EU average, 2 for deficiencies in conformity with EU requirements, and 1 reflecting severe deficiencies in moving towards EU norms.[6]

Coders, all of them doctoral students dealing with European integration, used the *Atlas.ti* dedicated software to create a high degree of inter-coder reliability. Two coders independently from each other coded each chapter simultaneously. In cases of disagreements between coders a third coder has been brought in two make the final judgment. The use of the *Atlas.ti* software have the advantage of increasing the transparency of the coding process since it allows researcher to go over the coding and see on what basis a country have received a certain score, something that increases the inter-subjectivity of the data.

The objective of this section is twofold: to discuss how each of these inputs and outcomes of the three regulatory areas was operationalized and measured, and to present basic trends and lessons that emerge from the discussion of the dynamics of our outcome indicators.

Judiciary (Montesquieu)

Let us start with the judiciary. Outcomes are measured in terms of both judiciary capacity and judiciary independence. Capacity refers to access to necessary resources, expertise and training. EU norms establish basic parameters for the functioning of the judiciary. Conformity with these norms basically speaks to the workload and to delays in the workings of the judicial system. The expert teams responsible for the Progress A similar scale is used throughout and thus regarding judicial independence which refers to judicial independence in terms of appointment, promotion and remuneration. Thus, corruption of the judicial system (which also affects the independence of the judiciary) is not dealt with in this dimension, but in the input "Legal Procedural Dimension" discussed below.

Regarding the judiciary, we focus on three main inputs that we theorise can potentially contribute to the "production" of capacity and of independence as defined above. One regards the constitutional dimension (existence and strength of a Supreme Court), the second centres on the workload ("behavioural dimension" in the codebook) and the third focuses on the "legal procedures dimension"

---

[5] For further details see data codebook (Bruszt and Lundstedt 2016).

[6] For example, in 1999 Poland was graded 2 in the legislative state aid dimension, which is part of the Unions competition policy. The European Commission writes "[i]n the area of State aid, Poland has undertaken to align its State aid award provisions with the acquis by way of adopting a comprehensive law on State aid. However, the adoption of this law is still pending which gives rise to concerns" (Poland Progress Report 1999:33). In 2003, for the same dimensions, the Commission concludes that the recent amendments to the state aid legislation have brought the rules into closer conformity with the EU requirements, and that the country now satisfies the basic requirements of EU norms (Poland Progress Report 2003:27); an evaluation gave Poland a score of 3 for that dimension.

of the judicial system.[7] It is also important to note that when corruption happens to be an issue identified with respect to the judiciary it is always reflected in the coding of this last item.[8]

Let us now turn to each of the three inputs for the Montesquielian channel. The constitutional dimension of the Judiciary centres on the existence and functioning of the Supreme (or Constitutional) Court. Constitutional control is sometimes referred to as the Supreme Court's ability to safeguard citizens' rights. Important features of a Supreme Court endowed with the necessary powers are: (a) the possibility of citizens to refer complaints to the Court; and (b) the parliament and/or the executive is not able to overturn decisions made by the Supreme Court.

The workload is key to the behavioural dimension of judiciary reform. EU norms establish basic parameters for the functioning of the judiciary. Conformity with these norms speaks to workload and delays.

The third and last "input" into judiciary capacity and independence refers to existence and effectiveness of legal procedures. This dimension reflects ease of access to courts and the expected certainty of judicial decisions both in terms of their content and of their enforcement. As EU norms are quite developed in this regard, the scale used reflects the degree of conformity.

State bureaucracy (Weber)

Let us now turn to the bureaucracy or the quality of public administration. The evaluation on the public administration is based on the European Principles of Administration elaborated by SIGMA and the European Commission. Here we look at two key outcome dimensions of the quality of public administration: independence of the bureaucracy and administrative capacity.

The notion of administrative capacity in this context means that there is sufficient professionalism in the civil service and that a coherent institutional or organizational set of administrative structures exists to that the bureaucracy has capacity to deliver. This aspect is thought of by the EU as centred on the career structure of the civil service, but it includes dimensions such as performance evaluation, recruitment, promotion, and employment security.

We consider three key inputs into this Weberian channel, namely (1) the extent and quality of the training and (2) the structure of the salaries of public administrators as well as (3) whether the civil service law in place is appropriate and effective ("legislative dimension" in the codebook.)

Competition policy (Smith)

The third dimension we consider is competition policy. The national state-aid authority often goes under the name of Competition Office, Competition Council or Division of Competition and State-aid. Some countries divide the responsibilities between several bodies while others only have one responsible authority. The authority/authorities are in some cases responsible for both anti-trust and merger, and state-aid.

We evaluate three key inputs into the Smith channel: alignment of anti-trust and merger legislation with EU requirements; the resources available for the enforcement of anti-trust and merger legislation;

---

[7] This dimension covers three different aspects: (1) access to courts (e.g. the right to appeal); (2) the court procedure (e.g. legal certainty, which in turn includes a unified interpretation of the law by the courts, the requirement of justification for judicial decisions, and an evenly handled procedure); and (3) the enforcement of judicial decisions.

[8] If corruption is mentioned as a problem for the judiciary in a Progress Report the report should be coded 1 or 2 depending on if efforts to remedy the problem with corruption have been taken.

and procedural structures for market surveillance (with reference to free movement of goods.)[9] These refer to agencies responsible to the enactment, alignment and enforcement of competition policy.

Legislation on anti-trust and mergers includes legislation on competition, cartels, plus abuse of dominant market position, market concentration and restrictive practices. The resource input into competition policy refers to the number and quality of staff, physical resources (ICT and buildings), and general financial/budgetary resources. The third inputs into competition policy we consider are the procedural structures for market surveillance. Procedural structures consist of the ability of the agency to operate independently, its competences, and its powers. Competences refer to the areas the national anti-trust and merger authority has the competence to make decisions. The powers refer to the strength of, for example, sanctions that the national anti-trust and merger authority can impose. Procedural structures in line with EU requirements mean responsible authorities are in place; they are independent and impartial; and they respect the principle of proportionality.

Outcomes from the Adam Smith channel are again measured in terms of capacity and independence. In the case of competition policy, we define capacity as the quality of the enforcement of anti-trust and merger legislation and we define independence in terms of the freedom from interference enjoyed by the competition authority. The independence aspect of the outcomes from competition policy comes from a different chapter in our data set and refers to the capacity to deliver market surveillance.[10]

What does the data say?

The objective of this section is to give a flavour of our measurement efforts by focusing on our six outcome variables. Figures 5a and 5b show the unweighted averages of bureaucratic capacity and independence, judiciary capacity and independence, and competition policy capacity and independence, for the countries in our sample. For ease of exposition, we divided the sample in New Member States (NMS) and in Candidate Countries. Progress Reports for most of the former are available between 1997 and 2005, while for the latter between 2005 and 2013. We take advantage of these common nine-year windows to construct the graphs in Figure 2 (with each group based on a different time window: NMS 1997-2005 and Candidates 2005-2013.)

There are three main observations we would like to make based on Figures 5a and 5b. The first of them is that irrespective of whether we examine New Member States (which most have already acquired Member State status by 2004) or Candidate countries (pf which none has acquired Member State status by 2013), in no one none of the six institutional outcomes areas we see an average that indicates that these countries have reached a stage in which their institutions are satisfactorily comparable to those of the average EU member state (this of course refers to the 17 EU Member States as of 1995). In short, there are no 4s. Competition policy independence has the highest average among all six outcomes reaching almost 3.5 (out of 4) at the end of the period of analysis for the NMS group.

The second is that there is unexpectedly little difference between NMS and Candidates at the start. Indeed, there is even one rea (Judiciary capacity) in which the Candidates average score is higher than NMS score at the beginning of the period. Of course, the beginning of the period is different with 1997 for NMS and 2005 for Candidates which have allowed catch-up among the latter group in various of these dimensions. Yet the possibililty that the institutional (not the economic) gap between New

---

[9]   In the codebook, these variables appear under "Competition Policy" and as indicated all refer to anti-trust and merger policy.

[10]   While all the three inputs and the capacity outcome for competition policy can be found under the chapter 2 entry in the codebook ("competition policy"), the independence measure originates from chapter 7 ("free movement of goods") and refers to the extent to which the required procedures to deliver market surveillance are in place.

Members States and Candidates is not considerable in the run-up to the process of EU accession is an argument that in our view is difficult to find in the literature.

The third observation is how surprisingly strong and clearly visible the pull from EU accession turns out to be. Although it is evidence that the final levels tend to be higher for *de jure* dimensions (bureacratic, judiciary and competiton policy independence) then for *de facto* dimension (bureacratic, judiciary and competiton policy capacity), there a very strong EU pull in judiciary capaciaty and competition policy independence, almost no pull in judicairy idnepejndce, and a trong pull in the remaining three areas. What makes this pull remarkable is recalling that these changes happen over nine years (not nine decades) and that the Candidate countries can not to be treated as counterfactuals. These are all EU candidates and the EU pull happens to all.

5. Methodological Issues

The objective of this section is to discuss three main methodological issues and clarify the choices we make in this paper. One issue refers to our focus on implementation sequences, another to the overall modelling strategy and the third to the implications for estimation of the fact that most of our variables of interest are categorical.

Regarding the first issue, we decided that all right-handed variables enter in one-period lags (one-year lag in this case). This choice ameliorates endogeneity concerns and lends itself quite naturally to a discussion of temporal implementation sequences.[11] A finding that one reform last year is statistically associated with a change in another reform this year can be interpreted as a temporal sequence. Given the inertia in institutional change, as shown in the previous section, in all specifications we include the lagged dependent variable in the right-hand side.

The second important methodological issue refers to the structure of the conceptual framework we put forward above and how we go about testing it. Recall it centers on three pillars, namely the Montesquieu, Weber and Smith channels. We empirically implement this framework in two stages: first we estimate the effects within each channel and then we estimate the effects between channels. In the first stage, we estimate whether and how each of the two outcome measures (that is, independence and capacity) can be explained by the three inputs, while in the second we add to our estimates the effects of the other two channels. For example, let us take the Weberian channel. First, we explore whether and how administrative capacity and administrative independence were explained by (one-year lagged) civil service law, by the training of public servants and by their salaries. In the second stage we assess whether, after accounting for these inputs, there are specific effects from the other two channels (in this case one-year lagged judiciary and competition policy, independence and capacity).

The third issue is how to deal with the implications for the choice of estimation method of the fact that most of our variables are categorical. There are three obvious estimator choices. One is the OLS fixed-effects panel estimator which main advantage is that it is simple and standard. The use of country and year fixed-effects would be helpful to ameliorate omitted variable biases, which may be important in this context. The second choice is the System GMM (Arellano-Bover/Blundell-Bond linear dynamic panel-data implemented in Stata *xtdpdsys* facility) estimator, which has as its main advantage correctly accounting for the presence of the lagged depended variable, and hence is the natural choice for the estimation problem at hand. One issue these two options do not address is that most or our variables of interest are categorical and thus an estimator like the Ordered Probit would be a more satisfactory way of handling this.

---

[11] We assessed the trade-off between having the number of lags estimated specifically for each institutional area and decided for the benefits of transparency from the strategy of "1-year lag throughout." The concern that institutions change very slowly to be captured by such choice is diminished in light of the results and discussion on the previous section.

We first observe that the use of these three estimators yields qualitatively similar results. Table 1 shows one example for the case of administrative capacity. Note that the key result (regarding the role of civil service law) is robust across the three estimators. Also note that measures of goodness of fit in both the fixed-effects and ordered probit cases is quite satisfactory and that for the System GMM estimator in column 2 the AR(1) and AR(2) tests suggest that the instruments we use are valid and that the model is correctly specified. Given institutional inertia and the absence of substantial differences between these results, we decided to report and focus our analysis on the System GMM results.

Table 1.
Determinants of Administrative Capacity
A Comparison of Fixed-Effects, System GMM and Ordered Probit Estimators

	(1) Fixed Effects	(2) System GMM	(3) Ordered Probit
One-year Lag Administrative Capacity	0.434***	0.741***	6.597***
	[0.0670]	[0.138]	[1.639]
One-year Lag Civil Service Law	0.198**	0.152**	0.891*
	[0.0775]	[0.0626]	[0.537]
One-year Lag Civil Servant Training	0.0584	0.110**	0.781
	[0.0478]	[0.0486]	[0.492]
One-year Lag Civil Servant Salary	-0.190	-0.244**	-1.412*
	[0.128]	[0.114]	[0.724]
One-year Lag Judiciary Capacity	-0.00754	0.00614	0.466
	[0.0798]	[0.0687]	[0.615]
One-year Lag Judiciary Independence	0.117	0.0557	0.366
	[0.116]	[0.144]	[0.394]
One-year Lag Competition Policy Quality	0.111**	0.0122	0.626
	[0.0505]	[0.0426]	[0.572]
Constant	0.383	0.301	
	[0.319]	[0.368]	
Observations	104	104	104
Number of countries	16	16	16
R-squared	0.527		0.655 (pseudo)
AB test AR(1)		0.0046	
AB test AR(2)		0.6141	

Notes: Robust standard errors in brackets. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

The System GMM estimator is designed for situations like ours: an unbalanced panel with a "small T and large N" (for the countries that joined the EU in 2004 our data only covers six years) and the left-hand side variable is defined as dynamic in that it depends on its own past realisations (Plümper et al 2005). Moreover, the System GMM handles right-had side variables that are not strictly exogenous and may be correlated with past and current realisations of the error term, (country-level) unobserved heterogeneity, measurement error and omitted variables, as well as potential heteroscedasticity and autocorrelation within or across individual units' errors.

6. Empirical Results

One aim of this paper is to empirically study whether deep integration promotes the build-up of State Capacity and we do so by identifying implementation sequences of changes in three key regulatory areas. We study how a set of countries embark on deliberate changes in rule of law, public administration and competition policy aiming towards reaching European Union standards so that they can be deemed fit for membership. [12] Above we explained the theoretical framework guiding this exercise, the data collection and measurement efforts, and discussed methodological options on how to proceed. We argue that the System GMM approach is the best option and this is in light of the fact that results do not differ qualitatively following radical changes in method. We consider the following dynamic panel data model:

$$y_{it} = \sum_{j=1}^{p} \alpha_j y_{i,t-j} + x_{it}\beta_1 + w_{it}\beta_2 + v_i + \epsilon_{it} \quad i = 1, \dots, N \quad t = 1, \dots, T_i \qquad (1)$$

Where y_{it} can be one of six options as it represents one of our measures of judiciary independence or capacity, bureaucracy independence or capacity, and competition policy independence or capacity. With α_j and p as parameters to be estimated, β_1 and β_2 as vectors of parameters to be estimated and the panel effects (v_i) and ϵ_{it} assumed to be independent for each country i and across all years t. Importantly, x_{it} is a vector of exogenous covariates that includes within reform area variables (or inputs), while w_{it} is a vector of exogenous covariates that includes the remaining five reform area outcomes.

Here we first focus our presentation on the set of results for the Weberian channel (public administration or bureaucracy) and then use the diagrammatic scheme presented above to put these results in context and contrast them with those we obtain for the judiciary and competition channels.

Table 2 presents our System GMM estimates for the independence of the bureaucracy focusing on inputs from within the Weberian channel.

One first noteworthy finding is that none of the three "inputs" into bureaucratic independence receives much empirical support. Civil service law, salaries or training in the previous period do not seem to be empirically associated with current level of bureaucratic independent.[13] Instead, this is better explained by other outcome variables such as bureaucratic capacity, judiciary capacity and competition policy capacity.

---

[12] We have preliminarily explored the economic effects of our inputs and output measures and find that they are positively correlated with international trade (export levels), economic growth and income inequality. These results are the subject of a companion paper.

[13] This is confirmed by the results from the AR(1) and AR(2) tests that suggest the model in column 1 is not correctly specified (the other columns suggest this is because it excludes the other outcome variables as the results from these tests become supportive).

Table 2.
Determinants of Independence of the Bureaucracy
System GMM Estimator

	(1)	(2)	(3)	(4)
One-year Lag Bureaucratic Independence	0.175	0.534***	0.832***	0.672***
	[0.229]	[0.136]	[0.280]	[0.153]
One-year Lag Bureaucratic Capacity	0.206*	0.217**	0.339**	0.316
	[0.118]	[0.101]	[0.160]	[0.224]
One-year Lag Civil Service Law	-0.0878	0.0245	-0.0840	0.0543
	[0.0585]	[0.0394]	[0.0613]	[0.0575]
One-year Lag Civil Servant Training	-0.0205	0.0185	0.193	0.0190
	[0.0262]	[0.0202]	[0.138]	[0.0494]
One-year Lag Civil Servant Salary	0.0424	-0.0689	-0.268***	-0.437
	[0.121]	[0.103]	[0.0971]	[0.329]
One-year Lag Judiciary Capacity	0.334***			
	[0.125]			
One-year Lag Judiciary Independence		0.177**		
		[0.0802]		
One-year Lag Competition Policy Independence			-0.0268	
			[0.0394]	
One-year Lag Competition Policy Capacity				0.214***
				[0.0691]
Constant	1.017***	0.250	0.316	0.609***
	[0.356]	[0.315]	[0.261]	[0.233]
AB test AR(1)	0.2246	0.0309	0.0405	0.0463
AB test AR(2)	0.83	0.6546	0.2663	0.6925
Observations	104	104	104	104
Number of id	16	16	16	16

Standard errors in brackets *** p<0.01, ** p<0.05, * p<0.1

It should also be noted that these overall pattern of results (bureaucratic independence being better explained by other outcomes than by its own inputs) do not change if we split the sample between the countries that succeeded in becoming members of the European Union and those that did not (so far). Moreover, the model seems to be picking up well the fixed-effects characterizing individual county features because these results are also not affected by the addition of various other controls such as their initial level of development (proxied by per capita income in 1990), their economic growth rates, their shares of population living in urban areas, and the evolution of their overall political institutions (as proxied by the widely used Henisz's index of political constrains.)[14]

Table 3 shows the results of the effects of the other five outcome variables on the evolution across countries and over time of our quantification of the Commission's assessment of the level of bureaucratic independence. It shows the dominant role played by competition and judiciary capacity in this case.

---

[14] These are available from the authors upon request.

Table 3.
Determinants of Independence of the Bureaucracy
System GMM Estimator

	(1)	(2)	(3)
One-year Lag Bureaucratic Independence	0.401**	0.600***	0.354
	[0.198]	[0.167]	[0.253]
One-year Lag Bureaucratic Capacity	0.191**	0.293	0.329**
	[0.0934]	[0.220]	[0.164]
One-year Lag Civil Service Law	-0.0793	0.0237	0.0369
	[0.0560]	[0.0660]	[0.0648]
One-year Lag Civil Servant Training	-0.00943	0.0201	0.0586
	[0.0230]	[0.0572]	[0.0571]
One-year Lag Civil Servant Salary	-0.0328	-0.284	-0.366
	[0.0942]	[0.353]	[0.348]
One-year Lag Judiciary Capacity	0.325**		0.208*
	[0.126]		[0.125]
One-year Lag Judiciary Independence	0.179**		0.104
	[0.0839]		[0.116]
One-year Lag Competition Policy Independence		-0.0736*	-0.0807**
		[0.0441]	[0.0383]
One-year Lag Competition Policy Capacity		0.375***	0.318***
		[0.122]	[0.0797]
Constant	0.207	0.479*	0.383
	[0.363]	[0.277]	[0.404]
AB test AR(1)	0.0417	0.0328	0.0655
AB test AR(2)	0.544	0.8966	0.8022
Observations	104	104	104
Number of id	16	16	16

Standard errors in brackets *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Now we turn our attention to the other outcome variable in the Weberian channel. Table 4 shows System GMM estimates for equations in which the dependent variable is bureaucratic quality. First, we examine the relative importance of its own inputs and the main findings here are quite different than those for bureaucratic independence: inputs seem to be more important than the other outcomes. Civil service law and civil servant training in the previous year are shown to be positively correlated (while salaries are negatively correlated) with the current level of bureaucratic quality. Another noteworthy difference is that in this case inertia is much stronger than for the other outcome: previous realizations of bureaucratic quality are strongly related to current levels of it while the same cannot be said for bureaucratic independence. Last, but not least, it is important to note that we find previous levels of quality are positive related to current levels of independence so one can argue that the effects of the three inputs on independence is indirect, that is, it takes place through capacity. This is an example of a sequence uncovered by our results: training increases capacity, which, by its turn, leads to increases in bureaucratic independence.

Table 4.
Determinants of Capacity of the Bureaucracy
System GMM Estimator

	(1)	(2)	(3)	(4)
One-year Lag Bureaucratic Capacity	0.721***	0.725***	0.772***	0.762***
	[0.114]	[0.133]	[0.133]	[0.125]
One-year Lag Bureaucratic Independence	0.0530	0.0530	0.0861	0.0534
	[0.0817]	[0.0873]	[0.0762]	[0.0850]
One-year Lag Civil Service Law	0.126**	0.128*	0.0890	0.0935
	[0.0615]	[0.0709]	[0.0627]	[0.0733]
One-year Lag Civil Servant Training	0.127***	0.143***	0.149***	0.181***
	[0.0440]	[0.0338]	[0.0441]	[0.0480]
One-year Lag Civil Servant Salary	-0.231*	-0.244***	-0.226**	-0.180
	[0.118]	[0.0798]	[0.0957]	[0.136]
One-year Lag Judiciary Capacity	0.00824			
	[0.0560]			
One-year Lag Judiciary Independence		-0.0432		
		[0.103]		
One-year Lag Competition Policy Independence			0.0669	
			[0.0554]	
One-year Lag Competition Policy Capacity				-0.132*
				[0.0787]
Constant	0.372**	0.475*	0.148	0.426***
	[0.168]	[0.258]	[0.235]	[0.151]
AB test AR(1)	0.0022	0.0025	0.0024	0.0036
AB test AR(2)	0.6189	0.7069	0.6999	0.9772
Observations	104	104	104	104
Number of id	16	16	16	16

Standard errors in brackets *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 5 shows the results of the compounded effects of the other five outcome variables on the evolution across countries and over time of our quantification of the Commission's assessment of the level of bureaucratic quality. It shows that differently from the results we obtain for independence, here the dominant role is not played by competition and judiciary capacities, but instead by inputs, in particular by the alignment of the domestic civil service law with EU standards and by civil servant's training. Notice that accounting for the other outcomes makes the coefficient on salary, which was negative and statistically significant above into, statistically insignificantly different from zero. The level of inertia we observe for bureaucratic capacity or quality is much stronger than the one we estimate for independence. This seems intuitive to us because one can conjecture that bureaucratic independence better reflects balance of powers considerations and as such may vary more easily over time if either the judiciary or the executive become relatively more assertive.

Table 5.
Determinants of Capacity of the Bureaucracy
System GMM Estimator

	(1)	(2)	(3)
One-year Lag Bureaucratic Capacity	0.741***	0.593***	0.450*
	[0.125]	[0.189]	[0.245]
One-year Lag Bureaucratic Independence	0.0623	0.0623	0.0415
	[0.0878]	[0.0731]	[0.0995]
One-year Lag Civil Service Law	0.125*	0.110	0.137*
	[0.0705]	[0.0755]	[0.0819]
One-year Lag Civil Servant Training	0.129***	0.120***	0.114**
	[0.0433]	[0.0417]	[0.0507]
One-year Lag Civil Servant Salary	-0.236***	-0.191	-0.0812
	[0.0819]	[0.137]	[0.206]
One-year Lag Judiciary Capacity	-0.0257		0.0157
	[0.0523]		[0.0982]
One-year Lag Judiciary Independence	0.0901		0.116
	[0.134]		[0.170]
One-year Lag Competition Policy Independence		0.0422	0.0323
		[0.0542]	[0.0497]
One-year Lag Competition Policy Capacity		-0.0840	-0.0573
		[0.100]	[0.177]
Constant	0.182	0.617**	0.318
	[0.319]	[0.247]	[0.574]
AB test AR(1)	0.0034	0.0166	0.0417
AB test AR(2)	0.6456	0.8264	0.9496
Observations	104	104	104
Number of id	16	16	16

Standard errors in brackets *** p<0.01, ** p<0.05, * p<0.1

We repeated the same estimation exercise above for both the judiciary and competition (Montesquieu and Smith channels) but devised a more economical way to report and discuss our results than in the more standard tabular format. As a departure point, we use Figure 1 above which shows all three channels, their inter-relationships and all inputs we assess in each one of the three channels to construct Figure below which instead of showing all links, only shows those links (represented by arrows) for which we find robust econometric support.

Starting from the Weberian channel, the first observation is that civil servant salary in the previous period does not seem to be related to either bureaucratic capacity or independence in the current period. On the other hand, training and civil service law both positively affect future bureaucratic capacity, which by its turn positively affects one-year ahead bureaucratic independence. We just described referring to Figure 3 what we reported and discussed above in Tables of System GMM estimates so it should be easier to follow from this point onwards. These results are then not reported here but available in an on-line Appendix.

Turning to the Montesquieu channel, our results indicate that the only input driving judiciary capacity is workload, while the only input driving judiciary independence is the effectiveness of the Supreme Court. Neither procedures nor the Supreme Court affects judiciary capacity in a sequential manner. By the same token, neither procedures nor the workload affects judiciary independence in a

temporal manner. Yet, we find a link between judiciary capacity towards the Smith channel, more specifically with the quality of competition policy's antitrust enforcement.

However, the most important result from the Montesquieu channel is the intricate, self-reinforcing, bi-directional relationship between judiciary capacity and bureaucratic independence. Judiciary capacity in the previous year is positively related to bureaucratic independence in the current year. And uniquely among our results (as it can be seen in the Figure below this is the only case in which arrows go both ways), bureaucratic independence in the last period is positively related to judiciary capacity in the current year. It can be said that this "BI-JC node" is the fulcral relationship because it is the end-point for all robust sequences we uncover from our estimation results.

There are other important sequences we identify with the Smith channel. We find that alignment with EU law and adequate resources in previous periods are associated with increases in the current period in the independence of the Competition Authority. This last factor, by its turn, is shown to increase bureaucratic independence. On the Montesquieu channel, we should also mention a sequence from Supreme Court in previous period towards improvements in current levels of judiciary independence that, by its turn, is related to improvements in the quality of the enforcement of competition policy in future periods.

In summary, using the measures and methods discussed above we are able to document that deep integration indeed contributes to increases in key state capacities. Moreover, our analysis throws some light on how it does so. We identify various implementation sequences that depict the evolution of three important institutional areas across countries and over time, explicitly driven by the objective of becoming a full-fledged member of the European Union.

There are various caveats and limitation one should bear in mind. One is that our results focus on temporal sequences, which obviously leave aside interesting possibilities of contemporaneous relationships that are not analyzed above. There are other ways of carrying out this exercise (network analysis comes to mind) but we believe the step-by-step approach we favor above is more transparent and easier to communicate. Last, but not least, it is likely that other institutional reforms may be important and their omission biases our results in important ways.

7. Conclusions

The aim of this paper was to explore variation in the effects of deep integration on the development of state capacities from the perspective of strategies for sequencing institutional change that contribute to build-up State Capacity. To do so, we made use of a new panel data set on the accession process to the European Union of Central and Eastern European countries.

Regarding the Montesquieu channel, we find strong support to the notion that the sooner there is progress in establishing an independent constitutional court, the faster countries were able to put in place an independent judiciary. The experience of institutional transformations in Central and Eastern Europe proved the authors of the Federalist Papers right: independent constitutional courts are functional for the progress of judiciary independence. Our findings also support the shared expectation of Montesquieu and the authors of the Federalist Papers: progress in judiciary independence increases the capacity of the state to uphold the freedoms of market, by way of strengthening the enforcement of anti-trust regulations.

We also find that early reforms that strengthen the professionalization of the civil service contribute to increasing the independence of state bureaucracy. The implementation of civil service laws and progress in the training of civil servants does significantly increase bureaucratic capacity. The later contributes by its turn to bureaucratic independence. We did not find support for the proposition about the link between salaries and increasing bureaucratic capacity.

We find limited support for part of the Smith channel. On the one hand, improving the quality of competition policy has a positive effect on the autonomy of state bureaucracy. Thus, changes in the demand side of state reform can contribute to the transformation of the properties of the state in a key dimension. But the enforcement of antitrust regulation does not have the expected effect on other key aspects of the state reform, namely the transformation of the judiciary. To the contrary, it is the increase in judiciary capacity that seem to lead to improvements in enforcement of antitrust regulation. Thus, we find little support to the notion that market reforms will further state reform on their own.

Similarly, our empirical results do not support the hypothesis that supply-side reforms, the encompassing change of the judiciary and the bureaucracy, on their own improve the institutions regulating market competition. State reforms, we found, have a direct effect on the anti-trust institutions via the increasing capacity and independence of the judiciary. The effect of increase in bureaucratic capacity and autonomy is mediated via the Montesquieu channel. In turn, progress in bureaucratic independence is reinforced by a key element of the Smith channel.

Finally, we find strong support for the notion that a simultaneous change in implementing competition policy and achieving progress in civil service reform or the reform of the judiciary will most likely yield progress in other general state institutions and in regulatory institutions. We found an intricate, central and bi-directional relationship between judiciary capacity and bureaucratic independence. Judiciary capacity in the previous year is positively related to bureaucratic independence in the current year and bureaucratic independence in the last period is positively related to judiciary capacity in the current year. This crucial relationship is the only case for which we find evidence of a self-reinforcing, bi-directional relationship. Further, the independence of the Competition Authority seems to increase bureaucratic independence, forming a nucleus of the sequences of institutional reforms we uncover.

These findings about the complex interplay between reforming the institutions of the state and the market have broader implications. We have also used our rich set of measures to investigate pure economic implications. We uncover some promising findings that justify the exercise above and suggest venues for future research. For example, when focusing on the variation of per capita income levels across countries and over time, we find support for the importance of various aspects of the judiciary. In particular, we uncover evidence showing that a strong Supreme Court and a capable judiciary are positively correlated with per capita income. An interesting contrast appears when we examine inequality measures. For instance, studying variations in the labour share in national income we find support for a different set of institutions. We find that judiciary independence and competition policy capacity are positively correlated with the labour share. Competition policy capacity is also positively correlated with the income share of the poorest 10% of the population as well as with share of exports on GDP. We believe this set of results provide valuable starting points for future research. By the same token, we think it will be important to study whether deep economic integration elsewhere can increase state capacity and set in motion self-reinforcing sequences of institutional change with the same strength as it did in the process of attaining full European Union membership.

References

Acemoglu, Daron, Camilo García-Jimeno, and James Robinson. 2015. "State Capacity and Economic Development: A Network Approach." *American Economic Review* 105(8): 2364–2409.

Alesina, A., E. Spolaore and R. Wacziarg (2000), "Economic Integration and Political Disintegration," *American Economic Review*, 90(5): 1276-1296.

Åslund, Anders, Peter Boone and Simon Johnson. 1996. "How to Stabilize: Lessons from Post-Communist Countries", *Brookings Papers on Economic Activity*, 1: 217-313.

Balcerowicz, Leszek. 1995. *Socialism, Capitalism, Transformation,* Central European University Press, Budapest.

Beeson, Mark. 2014. *Reconfiguring East Asia: regional institutions and organizations after the crisis*. Routledge,

Besley, Timothy, and Torsten Persson. 2009. "The Origins of State Capacity: Property Rights, Taxation, and Politics." *American Economic Review* 99 (4): 1218–44.

Besley, Timothy, and Torsten Persson. 2011. *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton: Princeton University Press.

Buccirossi, Paolo, Lorenzo Ciari, Tomaso Duso, Giancarlo Spagnolo, and Cristiana Vitale. "Competition Policy and Productivity Growth: An Empirical Assessment." *Review of Economics and Statistics* 95, no. 4 (2013): 1324-1336.

Brou, Danielle and Michelle Ruta. 2011. "Economic Integration, Political Integration or Both?" *Journal of the European Economic Association* 9(6): 1143–1167.

Bruszt, Laszlo and McDermott, Gerald (eds.). 2014. *Leveling the Playing Field: Transnational Regulatory Integration and Development.* Oxford University Press 2014

Bruszt, Laszlo and Lundstedt, Ludvig. 2016. "Institutional Change During the EU Accession: Introducing a New Dataset," Berlin, MaxCap Working Paper series 25.

Campos, Nauro and Fabrizio Coricelli. 2002. "Growth in Transition: What We Know, What We Don't, and What We Should," *Journal of Economic Literature* XL(3): 793-836.

Chuaire Maria, Scartascini, Carlos and Tommasi, Mariano (2017), "State Capacity and the Quality of Policies: Revisiting the Relationship between Openness and Government Size," *Economics & Politics* 29 (2): 133–156.

Dewatripont, Mathias, and Gérard Roland. 1992. "Economic Reform and Dynamic Political Constraints." *Review of Economic Studies* 59: 703–30.

Dewatripont, Mathias, and Gérard Roland. 1995. "The Design of Reform Packages under Uncertainty." *American Economic Review* 85: 1207–23.

Dincecco Mark and Gabriel Katz. 2016. "State Capacity and Long-Run Economic Performance," *The Economic Journal* 126(590): 189–218

European Commission. 1997. 'Agenda 2000: Reinforcing the Pre-Accession Strategy', DOC/97/7.

European Commission. 1998. *Reports on Progress Towards Accession by Each of the Candidate Countries*. Working Document. Brussels.

European Commission. 2005. *Guide to the Main Administrative Structures Required for Implementing the Acquis*. Working Document. Brussels.

European Council. 1997. *Luxembourg European Council*. Luxembourg: European Union.

Evans, Peter, Dietrich Rueschemeyer and Theda Skocpol .1985. *Bringing the state back in*, Cambridge: Cambridge University Press.

Evans, Peter 1992. "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change" in Haggard, Stephan and Robert Kaufman, (eds.) 1992. *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State.* Princeton, N.J.: Princeton University Press. p. 139-182

Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation.* Princeton, N.J.: Princeton University Press.

Forslid, Rikard, Jonas Hackner and Astri Muren 2011, "Trade Costs and the Timing of Competition Policy Adoption," *Canadian Journal of Economics* .Vol 44, No. 1, 171-200.

Geddes, Barbara. 1994. *Politician's Dilemma: Building State Capacity in Latin America.* Berkeley: University of California Press

Haggard, Stephan and Robert Kaufman, (eds.) 1992. *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State.* Princeton, N.J.: Princeton University Press.

Hellman, J., G. Jones, and D. Kaufmann. 2001. "Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition," WB Policy Research Working Paper No. 2444. Washington, DC: World Bank.

Hoekman Bernard. 2016. "Deep and Comprehensive Free Trade Agreements," EUI Working Papers, RSCAS 2016/29.

Koyama, Mark and Johnson, Noel (2017), "States and Economic Growth: Capacity and Constraints", *Explorations in Economic History* 64(2): 1-20.

Manin, Bernard. 1994. ''Checks, Balances and Boundaries: The Separation of Powers in the Constitutional Debate of 1787.'' In: Fontana, B. (ed) *The Invention of the Modern Republic*, Cambridge: Cambridge University Press

Martin, P., T. Mayer and M. Thoenig (2012), "The Geography of Conflicts and Regional Trade Agreements," *American Economic Journal: Macroeconomics* 4(4): 1-35.

Mattli, Walter. 1999. The Logic of Regional Integration: Europe and Beyond. Cambridge: Cambridge University Press.

Montesquieu. 1777. *The Spirit of the Laws*, vol. 1, trans. Thomas Nugent (London: J. Nourse, 1777)

Motta, Massimo. 2004. *Competition Policy: Theory and Practice*, Cambridge University Press.

Plümper, Thomas, Vera Troeger, and Philip Manow, 2005, "Panel data analysis in comparative politics: Linking method to theory," *European Journal of Political Research* 44, no. 2 (2005): 327-354.

Robson, Peter. 2012. *Economic integration in Africa*. Routledge.

Roland, Gerard. 1994, "On the Speed and Sequencing of Privatisation and Restructuring", *Economic Journal*, Vol. 104 (426), pp.1158-1169.

Savoia, Antonio, and Kunal Sen. 2015. "Measurement, Evolution, Determinants, and Consequences of State Capacity: A Review of Recent Research." *Journal of Economic Surveys* 29 (3): 441-458.

Vogel, David and Robert A. Kagan. 2008. *Dynamics of Regulatory Change: How Globalization Affects National Regulatory Policies: An Introduction.* University of California Press

Stasavage, David. 2002. "Credible Commitment in Early Modern Europe: North and Weingast Revisited*," Journal of Law, Economics, and Organization* 18 (1), pp. 155-86.

Smith, Adam. 1991. *The Wealth of Nations.* Amherst, New York: Prometheus Books.

Weber, Max .1968. *Economy and Society*, ed. Guenter Roth and Claus Wittich. New York: Bedminster Press.

Weiss, Linda. 1998. *The Myth of the Powerless State*. New York: Cornell University Press.

Figure 2a. Builiding up State Capacity:
De Jure Dimensions of Bureaucracy, Judiciary and Competition
Yearly Averages for New Member States (1997-2005) and Candidate Countries (2005-2013)

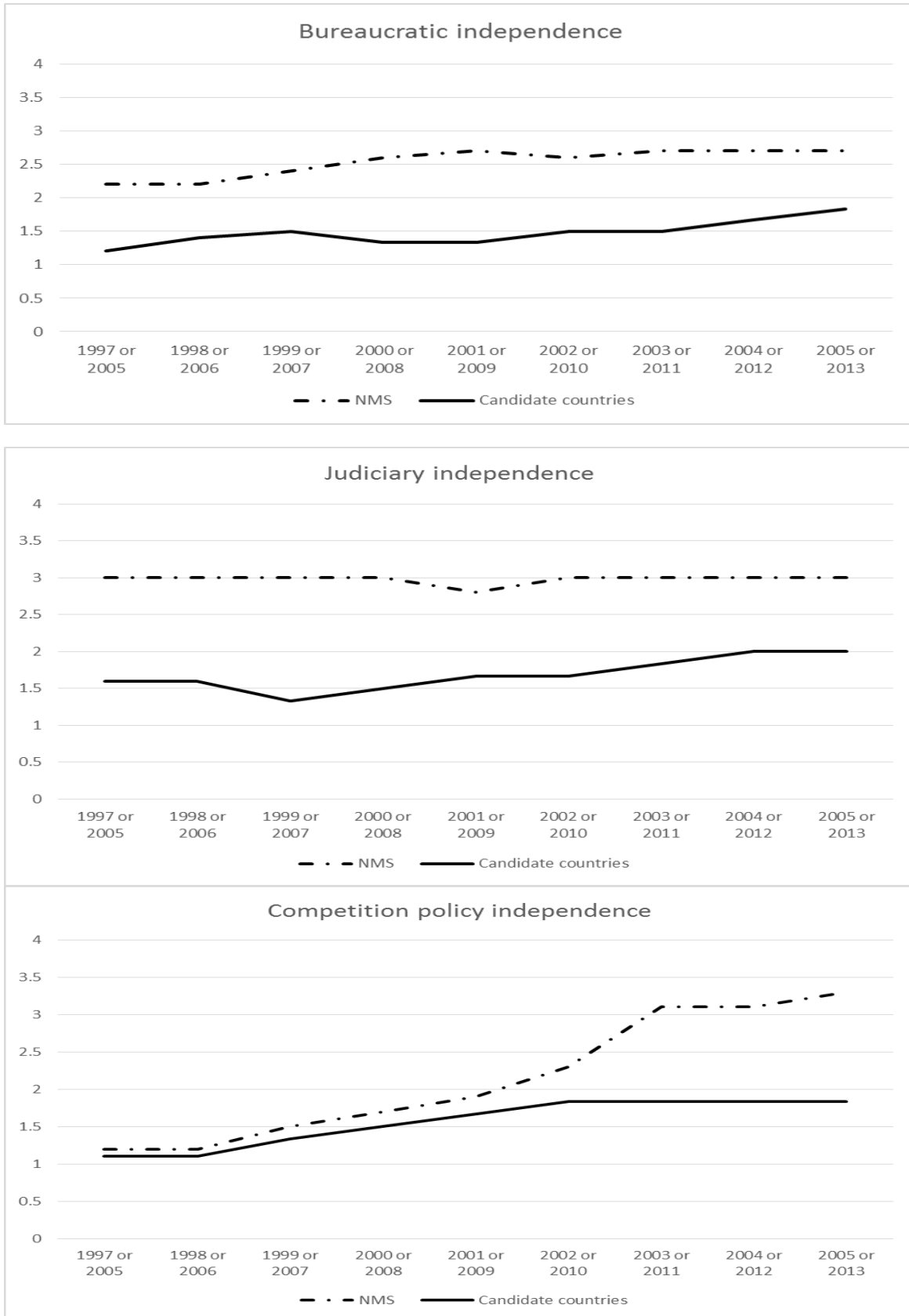Robert Schuman Centre for Advanced Studies Working Papers

Figure 2b. Builiding up State Capacity: De Facto Dimensions of Bureaucracy, Judiciary and Competition, Yearly Averages for New Member States (1997-2005) and Candidate Countries (2005-2013)
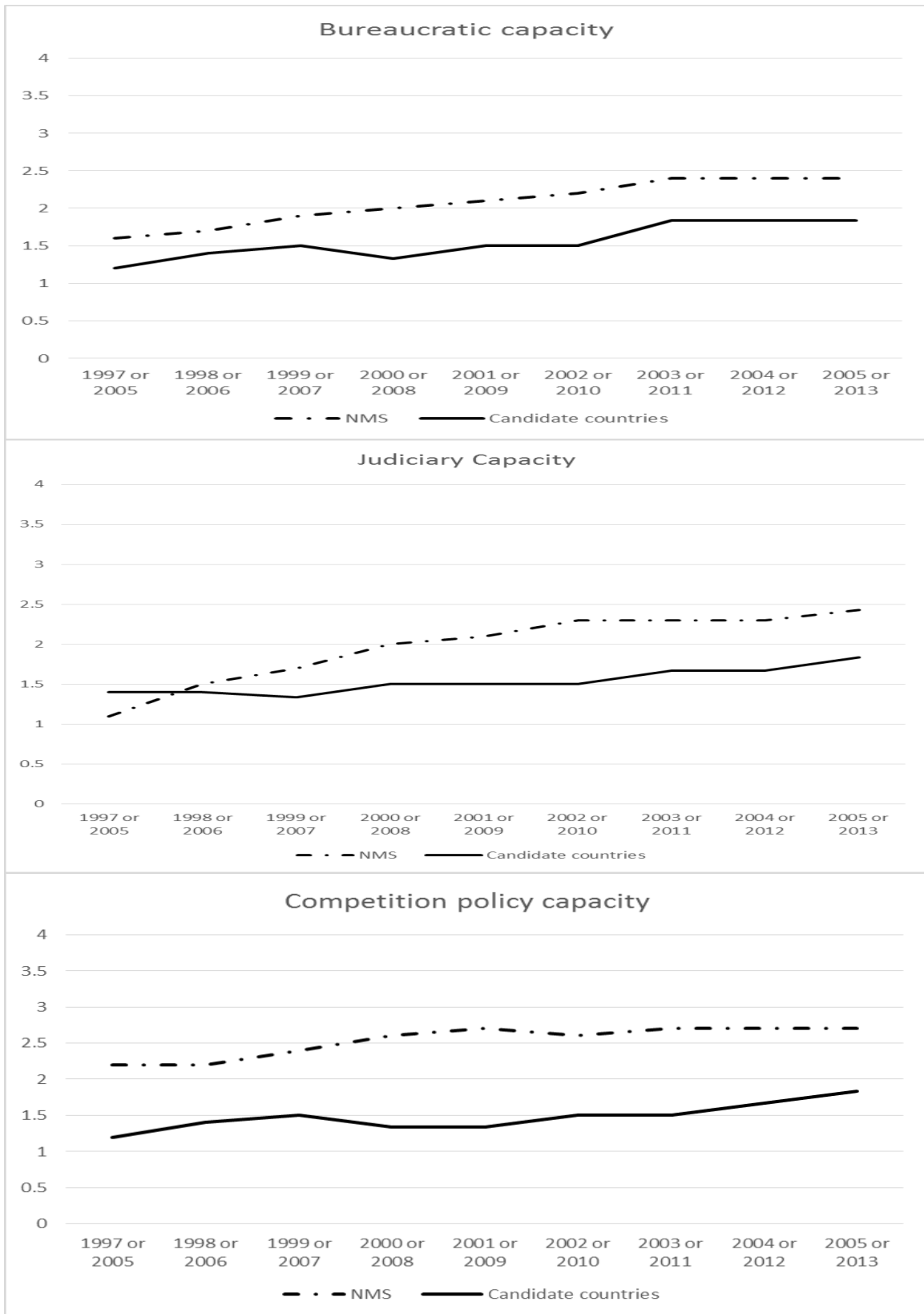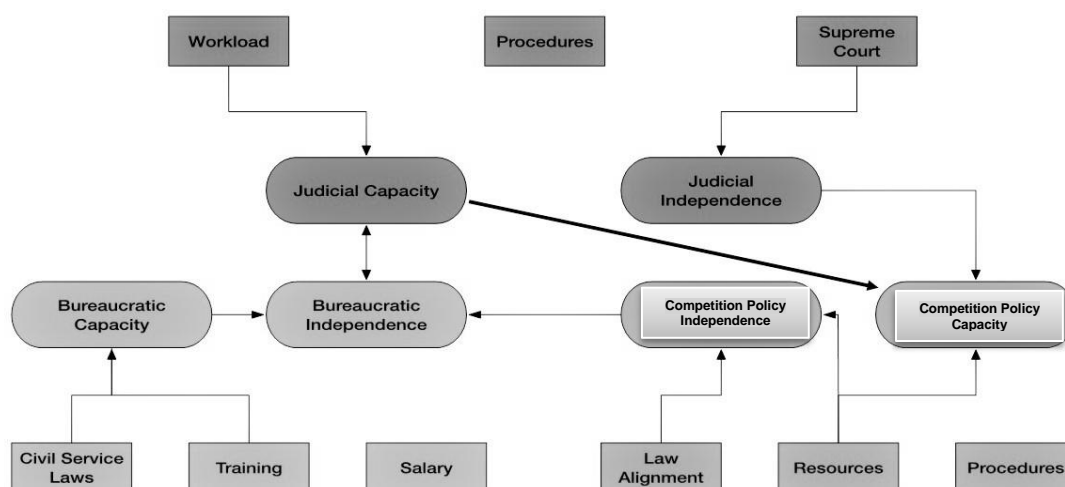
Figure 3. Diagrammatic representation of main econometric results

On-line Appendix (not for publication)

	GDP per capita (PWT 8.0)	Exports (Share of GDP)	Labour share in national income (PWT)	Income share lower 10%
L. dep var	1.035***	-0.250	0.940*	1.128**
	[0.0248]	[0.409]	[0.548]	[0.502]
L.IndepJud1	387.2	0.0130	0.0185***	-0.360
	[897.8]	[0.0162]	[0.00351]	[0.572]
L.ConstSC1	2,180***	0.0137*	0.0215	0.943
	[632.4]	[0.00763]	[0.0227]	[0.709]
L.Behav_workload1	-550.1	0.0101	0.000488	-2.160**
	[818.3]	[0.00849]	[0.00410]	[1.020]
L.JudicCap	1,287	0.00299	0.00134	0.629
	[824.7]	[0.00600]	[0.00307]	[0.601]
L.BuroIndep1	-657.2	0.0139	-0.0160***	-0.497
	[1,079]	[0.0130]	[0.00393]	[0.561]
L.EnforceAntiTMer	-312.6	0.00758*	0.00733*	0.851**
	[443.4]	[0.00417]	[0.00424]	[0.428]
Constant	0	0.158*	0.0754	-0.677
	[0]	[0.0838]	[0.376]	[3.564]
Observations	98	98	87	42
Number of id	16	16	14	10

Standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1

	GDP per capita (PWT 8.0)	Exports (Share of GDP)	Labour share in national income (PWT)	Income share lower 10%
L.dep var	1.010***	-0.0232	0.200	-0.345
	[0.0277]	[0.329]	[0.269]	[0.955]
L.CivServLaw1	673.3***	0.0113***	-0.00326	-2.717*
	[130.0]	[0.00384]	[0.00316]	[1.414]
L.BuroTrain1	-864.4*	0.00442	0.000684	-0.955
	[501.2]	[0.00454]	[0.00188]	[0.799]
L.BuroSalary1	-467.8	-0.00280	-0.00495	0.884*
	[531.2]	[0.00595]	[0.00527]	[0.475]
L.JudicCap	1,305***	0.00646	-0.00421	1.539
	[266.1]	[0.00907]	[0.00375]	[1.438]
L.IndepJud1	971.0*	0.0173	0.00687**	-1.392
	[538.9]	[0.0115]	[0.00323]	[0.863]
L.EnforceAntiTMer	478.0	0.00573**	0.00275	-0.213
	[604.9]	[0.00224]	[0.00349]	[0.180]
Constant	0	0.151*	0.463***	12.58**
	[0]	[0.0849]	[0.174]	[5.450]
Observations	98	98	87	42
Number of id	16	16	14	10

Standard errors in brackets

*** p<0.01, ** p<0.05, * p<0.1

What is the relation between our Bureaucracy indexes (Weber) and Freedom House Civil Liberties, Freedom House Political Rights and Freedom House Democracy, and Executive Constraints Measures?

```
           | AdminC~1 BuroIn~1 BuroTr~1 BuroSa~1 CivSer~1    fh_cl    fh_pr  fh_pol~2 p_xconst p_parc~p
-----------+-------------------------------------------------------------------------------------------
  AdminCap1 |  1.0000
  BuroIndep1 |  0.6084   1.0000
  BuroTrain1 |  0.4587   0.4292   1.0000
  BuroSalary1 |  0.4237   0.3082   0.5436   1.0000
  CivServLaw1 |  0.4163   0.1997   0.4511   0.3033   1.0000
       fh_cl | -0.4437  -0.5442   0.3540  -0.2301  -0.2312   1.0000
       fh_pr | -0.4245  -0.6649   0.1658  -0.0026  -0.2233   0.6243   1.0000
   fh_polity2 |  0.4998   0.7398   0.2336   0.1358   0.1323  -0.7792  -0.8925   1.0000
     p_xconst |  0.2706   0.3443   0.2546   0.2880   0.2390  -0.0210  -0.1038   0.1963   1.0000
     p_parcomp |  0.4699   0.5989   0.1676   0.2166  -0.1427  -0.4360  -0.3826   0.6853   0.1595   1.0000
```

- We find a clear pattern: correlations are substantially higher with Capacity and Independence ("outcomes") than with the three inputs (training, salary, education)

- We find correlations are substantially higher with Independence of the Bureaucracy than with Bureaucratic Capacity

- Panel fixed-effect regressions support these results

What is the relation between our Judiciary (Montesquieu) and Freedom House Civil Liberties, Freedom House Political Rights and Freedom House Democracy, and Executive Constraints Measures?

```
            | IndepJ~1 JudicCap ConstSC1 LegalP~1 Behav_~1    fh_cl    fh_pr fh_pol~2 p_xconst p_parc~p
------------+----------------------------------------------------------------------------------------
   IndepJud1 |  1.0000
    JudicCap |  0.1298   1.0000
    ConstSC1 |  0.6325   0.1797   1.0000
   LegalProc1 |  0.3878   0.1678   0.4046   1.0000
  Behav_work~1 |  0.2133   0.3452   0.2185   0.3999   1.0000
       fh_cl |  -0.4233  -0.1386  -0.5955  -0.3464  -0.3090   1.0000
       fh_pr |  -0.7148  -0.2382  -0.8559  -0.3975  -0.2018   0.7433   1.0000
   fh_polity2 |  0.6078   0.2364   0.7891   0.4653   0.3050  -0.8861  -0.9128   1.0000
    p_xconst |  0.1665   0.1517   0.0639   0.1740  -0.0013   0.0562  -0.0322   0.0645   1.0000
    p_parcomp |  0.3869   0.2277   0.4744   0.4657   0.3153  -0.5878  -0.5569   0.7732   0.0781   1.0000
```

- Lack of a clear pattern: correlations with formal aspects (Independence and Supreme Court) substantially higher than rest

- At least all have "correct sign" (more political rights associated with more Judiciary independence, Supreme Court strength, and capacity)

- Yet correlations are particularly low with Capacity and Workload

- Similarly unclear pattern emerges from panel fixed-effect regressions with or without lagging the Freedom House et al. variables

What is the relation between our Competition Policy (Smith) and Freedom House Civil Liberties, Freedom House Political Rights and Freedom House Democracy, and Executive Constraints Measures?

```
            | MktSur~e Enforc~r Resour~r ProcSt~r AlignL~r    fh_cl    fh_pr fh_pol~2 p_xconst p_parc~p
------------+----------------------------------------------------------------------------------------
  MktSurveil~e |  1.0000
  EnforceAnt~r |  0.4910   1.0000
  ResourceSt~r |  0.3503   0.6570   1.0000
  ProcStrAnt~r |  0.3831   0.5335   0.7378   1.0000
  AlignLegAn~r |  0.4235   0.5196   0.5003   0.5763   1.0000
       fh_cl |  -0.2357  -0.0048  -0.0917  -0.2266  -0.2577   1.0000
       fh_pr |  -0.2138  -0.1242  -0.2825  -0.3635  -0.4175   0.7327   1.0000
   fh_polity2 |  0.2738   0.0620   0.2261   0.3703   0.4010  -0.8817  -0.9109   1.0000
    p_xconst |  0.1624   0.0698   0.1115   0.1815  -0.1005   0.0526  -0.0311   0.0655   1.0000
    p_parcomp |  0.2202   0.0121   0.1980   0.3882   0.3629  -0.5860  -0.5589   0.7754   0.0799   1.0000
```

- We observe the lowest correlations for Competition Policy

- They are much lower than for Bureaucracy (clear pattern of outputs vs input

- They are also much lower than Judiciary, despite lack of clear pattern

- Still have "correct sign" (more political rights associated with more Competition Policy independence and capacity)

- Similar lack of significance emerges from panel fixed-effect regressions

Author contacts:

László Bruszt
Central European University Budapest
and SNS Firenze

Email: brusztl@ceu.edu

Nauro F. Campos
Brunel University London
and ETH Zurich

Email: nauro.campos@brunel.ac.uk