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RULE OF LAW AND ECONOMIC GROWTH: EVIDENCES FROM SOUTH EAST EUROPE

Abstract: The rule of law is a principle that promotes the limitation of arbitrary power. Although there is no universal definition in the literature, this notion encompasses several important topics, including personal security, property rights security, government checks, and corruption control, among others. There has recently been a rising body of research demonstrating the importance of the rule of law in maintaining economic development, fostering justice, and enhancing democratic capacities in nations around the world. Our paper focuses on understanding the importance of rule of law for economic prosperity in the countries that geographically belong to the region of South East Europe. In our analysis, we include the following countries: Albania, Bosnia and Hercegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, Romania, Serbia and Slovenia. First, we investigate five different rule of law indicators present in the institutional economics literature. Next, we evaluate the influence of rule of law on economic prosperity in South East Europe from 1996 to 2020 in the second half of the article. Our hypothesis that stronger adherence to rule of law principles stimulates economic growth in this region is supported by the regression model results.

KEYWORDS: RULE OF LAW, ECONOMIC GROWTH, INSTITUTIONS

JEL CLASSIFICATION: E02, K40, O43

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1. INTRODUCTION

The rule of law is a principle that promotes the limitation of arbitrary power. Although there is no universal definition in the literature, this notion encompasses several important topics, including personal security, protection of property rights, government checks, and corruption control, among others. One broad approach defines rule of law as "a system in which the laws are public knowledge, clear in meaning, accessible to all, and apply equally to everyone; judges are impartial and independent and free from undue influence; central institutions of the legal system, including courts, regulatory agencies, prosecutors, and police are reasonably fair, competent, and efficient; government seeks to be law-abiding and its officials accept that the law will be applied to them; the making of laws is guided by transparent, stable, clear and general rules; and the laws themselves are prospective, known, clear, and relatively stable, and encompass critical areas" (Americas Society and Council of the Americas Working Group, p. 7). This definition assumes broad approach towards rule of law and can be applied to different context, including laws, institutions, processes, and applications of the legal and judicial system.

Recently, there has recently been a rising body of research showing the importance of the rule of law not only for the legal environment, but also for the economic growth and prosperity, fostering justice, enhancing democratic abilities in nations around the world etc. Rule of law is becoming crucially important for the economic wellbeing because it decreases uncertainty, protects private property, stimulate entrepreneurial behavior and small business growth, forces authorities' accountability, inhibit corruptive behavior, provides check on the governmental powers etc.

In our work, we are focusing on the importance of rule of law for the economic prosperity in the South East Europe region. The paper is structured as follows. In the second part, we provide the theoretical background for the relationship between rule of law and economic growth. The different indicators used for measuring rule of law are synthetized in Section 3. In Section 4, we describe the data used and present the model specification. The results from the analysis are reported and discussed in Section 5. The final section concludes.

2. THEORETICAL BACKGROUND

In the economic sense of the word, the rule of law represents a crucial factor of economic growth. Moreover, the relation between the rule of law and economic

growth can be reciprocal over time because the strengthened rule of law can contribute to increase GDP and vice versa. The empirical literature suggests that correlation among the rule of law indicators for the advanced industrial states is much higher than among developing countries, suggesting the need for particular care in drawing inferences from global samples. From the other side, there is presence of different rule of law "complexes" or "syndromes" across developing countries. (Haggard and Tiede, p. 682) However, countries with problems in the legal sphere may find themselves in the so-called "double trap": the inferior quality of legal and other institutions does not allow to increase the rate of economic growth, and this does not allow to improve institutional characteristics. The presence of such adverse dependence has been proven empirically for many low-income countries. (Shevchuk, Blikhar, Komarnytska and Tataryn, 2020, p. 283)

The study of the role of legal factors in the economic growth were initiated by the harbingers of the new institutional economics led by the Nobel laureate R. Coase (1960). Yet, until the early 1990s, these studies were limited to microlevels. The researchers then drew attention to the differences between the Anglo-Saxon and French legal systems and started analyzing the link between the legal system and economic growth. (Shevchuk, Blikhar, Komarnytska and Tataryn, 2020, p. 282)

R. Barro (1997) played a role of pioneer including the institutional variables in the economic growth models. In his research he identified the meaning of liberal democracy and the rule of law for the economic growth. He pointed to the importance arising from precisely defined and protected property rights and a well-functioning judicial system. They are very important for work and investment because they enable the necessary incentives. Of course, this does not mean that all problems have been solved. Namely, the challenges associated with measuring aspects of the rule of law and the protection of property rights remain. Many theorists are interested in the extent to which Barro's findings can discriminate among different components of the rule of law and if they are robust to the consideration of alternative measures.

The actual protection of property rights not only rests on effective legislation, but also crucially depends on its enforcement. "There seems to be a strong consensus that property rights matter, supported by both cross-national and survey work. But there is also concern that the security and enforcement of property rights might be endogenous to some antecedent political conditions, or that the effects of property rights are at least conditional on other, complementary institutions." (Haggard, MacIntyre, and Tiede, p. 209). Consequently, the question that arises is, what are

consequences about the appropriate policy measures in this case. Namely, "if one documents a robust long-run effect of property rights protection, but substantial short-run transitional costs of implementing them, can one draw any policy conclusions from that finding?" (Bjørnskov, p. 248) Majority of the researchers suggest that de jure protection does not affect de facto enforcement of property rights in the long run.

Intuitively, we postulate that social capital and political institutions are the underlying determinants of the property rights institutions that matter for growth. (Hall and Ahmad, p. 57). In the case of developing countries (as for the Balkan countries), it is important that intended "reforms of legal system should focus on improvement of property rights protection" (Ftoreková and Mádr, p. 19). The question why developing countries usually have weak institutions is usually related to the fact that there are other priorities. Also, no one can omit the fact that financing credible institutions is economically unsustainable for poor countries. It is correct to say that causality runs from institutions to economic development, but it is also true vice versa, that economic development generates processes and capacities, which in turn produce better institutions. This is the case of the Anglo-American countries. Namely, they did not possess those institutions in the initial stages of their development. (Çurçija, p. 4)

The most important theoretical development has been the joining of arguments about checks on government power to a consideration of the time inconsistency or credible commitment problem: the fact that governments not only have the power to renege on their commitments, but they can have powerful incentives to do so (Haggard, MacIntyre, and Tiede, p. 213). Given these incentives, the rule of law cannot be credible, and the gains from property rights therefore cannot be fully realized, unless there are effective checks on executive discretion. Therefore, for many economists and political scientists, the threat to the rule of law emanates from fundamental dilemmas in political power. Actually, the idea of institutional checks and balances has been a staple of liberal political theory ever since.

Much of the literature to property rights issue, has been concerned to the security of this institution. Unfortunately, the corruption problem could exist along the secure property rights, favoring an inefficient allocation of resources (Haggard, MacIntyre, and Tiede, p. 212). In some centralized economic and political systems can be created a predictable and credible procedure for investors at the same time when there exists a significant level of corruption. Many political theorists explain this in the following way: when corruption is decentralized, by contrast, no individual politician or

bureaucrat fully internalizes the costs of their corrupt behavior, and property rights are less secure as a result. (Haggard and Tiede, p. 675) What can be drown from here is the conclusion that there are variations in the level, as well as the types of corruption. Consequently, when dealing with the process of economic growth, a distinction should be made between various levels and types of corruption.

3. MEASURING THE RULE OF LAW

The age of measuring and quantification is upon us. This trend may be seen throughout the world of institutions, including the judicial system. There are already more than 150 different indices that capture governance and institutional excellence (Malik 2002, 19; Haggard et al. 2008). Rule of law measurement is not an exception.

In order to assess the rule of law, we have found five distinct indicators that are most frequently utilized in this field of research: The World Bank's index on rule of law, the Heritage Foundation's index of economic freedom with a category on rule of law, Freedom House's freedom of the world report with a category on rule of law, the Cato Institute and Frazer Institute's Human Freedom Index with a category on rule of law, and The World Justice Project's index on rule of law.

3.1. World bank’s rule of law index

The Worldwide Governance Indicators project of the World Bank established the rule of law index, which is the gold standard for assessing and contrasting the rule of law in various countries. Six major aspects of governance are reported by the Worldwide Governance Indicators (WGI) project, including: voice and accountability, political stability and the absence of terrorism/violence, government effectiveness, regulatory quality, rule of law, and corruption control. The most recent one spans the years 1996 to 2020 and includes information on more than 200 nations and territories. The initiative gathers information from a range of sources, including surveys of homes and businesses, commercial sources of business information, non-governmental groups, and public sector organizations. Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (Kaufman, Kraay and Mastruzzi, 2010). All of the indicators, including rule of law are calculated on -2.5 to 2.5 scale, where higher values indicate better performance.

3.2. The heritage foundation's rule of law index

The Index of Economic Freedom is created and published annually by the Heritage Foundation. Rule of law, government size, regulatory effectiveness, and market openness are the four main broad topics that the Index of Economic Freedom concentrates on. Property rights, judicial effectiveness, and government integrity are the three main areas covered by the rule of law component. Higher scores indicate better outcomes for both the economic freedom index and its constituent parts, which are both assessed on a 0 to 100 scale. This index includes information going back to 1995. Total 177 nations are included in the most recent economic freedom study (Miller, Kim, Roberts, 2022).

3.3. Freedom house's rule of law index

The Freedom in the World report, which examines political rights and civil freedoms for various nations and territories worldwide, is released by Freedom House every year. The report's 2022 edition includes 195 nations and 15 territories. The election process, political pluralism and participation, government functioning, freedom of expression and belief, rights of associations and organizations, rule of law, and personal autonomy and individual rights are all examined in the research. The Universal Declaration of Human Rights, which was ratified by the UN General Assembly in 1948, serves as the foundation for the employed methodology. External analysts gather and evaluate data. Later, the analysts' findings are reviewed by knowledgeable advisers and local experts. (Freedom House, 2022).

Rule of law is an indicator in the civil liberties group of indicators. It covers 4 questions: Is there an independent judiciary?, Does due process prevail in civil and criminal matters?, Is there protection from the illegitimate use of physical force and freedom from war and insurgencies? And Do laws, policies, and practices guarantee equal treatment of various segments of the population?. Each of these questions is awarded 0 to 4 points, where 0 represents smallest degree of freedom and 4 the greatest degree of freedom. The maximum number of points a country or a territory can be awarded for the rule of indicator is 16, and minimum is 0.

3.4. Human freedom index

The human freedom index, which measures personal, civil, and economic freedom across various jurisdictions, is a relatively recent index. Human freedom is a social notion that upholds the worth of every person and is thus defined as coercive constraint-free space or negative liberty (Vásquez et al., 2021). It is the outcome of a

collaboration between the Frazer Institute and the Cato Institute. The index covers information on 165 jurisdictions and is released annually.

The Human Freedom Index combines 82 different measures of economic and personal freedom. One of the metrics used to create the index is the rule of law, which is seen as one of the foundations of personal freedom. The different jurisdictions are rated on a scale of 0 to 10, with 10 denoting greater freedom.

3.5. The world justice project's rule of law index

The most comprehensive indicator of adherence to the law in various countries and territories around the world is the World Justice Project's Rule of Law index. It contains information on a variety of aspects of the rule of law, which is divided into eight major categories. These include: constraints on the scope of governmental power, absence of corruption, open government, protection of fundamental rights, order and security, regulation enforcement, civil justice, and criminal justice. Later, these eight components are divided into 44 distinct sub-factors. Data are collected through a general population poll and qualified respondents' questionnaires in the separate jurisdictions. On a scale of 0 to 1, with 1 denoting more compliance, calculated ratings for rule of law adherence are available. The most recent edition provides pictures of 139 different international jurisdictions (World Jusstice project, 2022). Although the WJP Rule of Law Index is the most complete measure of the rule of law, it only goes back to 2015, making econometric analysis challenging.

We have conducted a stationarity check for the different indicators used to measure rule of law. We used Levin, Lin and Chu unit test. The results are given in Table 1.

Table 1. *Levin, Lin & Chu test results*

Variable	Intercept only		Intercept and trend	
	Statistic	Stationarity	Statistic	Stationarity
World Bank	-12.2648***	I(0)	-17.9951***	I(0)
Freedom House	-1.82477**	I(0)	-2.38867***	I(0)
Cato and Frazer Institute	-3.07437***	I(0)	-4.13482***	I(0)
World justice project	-3.49048***	I(0)	-12.6568***	I(0)

Source: Authors' calculations. **Note:** *** 1%, ** 5%, * 10% . Std errors are given in parenthesis.

4. DATA AND METHODOLOGY

Data on 10 countries that geographically belong to the South East Europe region are included in the analysis. We use data about the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, Romania, Serbia and Slovenia. The period of analysis dates back to 1996 to 2020. We work with unbalanced panel data.

The main purpose of our paper is to examine the relationship between the rule of law and economic growth. The dependent variable in our models is GDP per capita growth. It represents the annual percentage growth rate of the gross domestic product per capita of a country based on constant local currency. Data are obtained from the World Bank national accounts data, and OECD National Accounts data files.

In addition, twelve independent variables are included in the models in order to describe the relationship between GDP per capita growth and rule of law more precisely. The list of the independent variables, their explanation and source is provided in Table 2.

Table 2. *Explanation and source of the independent variables*

Variable	Explanation	Source
Log(GDP) (1996)	Logarithmic transformation of the initial level of GDP per capita in constant 2015 US dollars prices in 1996. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	World Bank national accounts data, and OECD National Accounts data files.

School attainment Males (2001)	The percentage of male population ages 25 and over that attained or completed lower secondary education. It is calculated by dividing the number of population ages 25 and older who attained or completed lower secondary education by the total population of the same age group and multiplying by 100. The variable represents the initial level of school attainment of males in 2001.	UNESCO Institute for Statistics
Fertility rate	Total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with age-specific fertility rates of the specified year.	(1) United Nations Population Division. World Population Prospects: 2019 Revision. (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Reprot (various years), (5) U.S. Census Bureau: International Database, and (6) Secretariat of the Pacific Community: Statistics and Demography Programme.

Life expectancy	Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.	(1) United Nations Population Division. World Population Prospects: 2019 Revision. (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Reprot (various years), (5) U.S. Census Bureau: International Database, and (6) Secretariat of the Pacific Community: Statistics and Demography Programme.
Gross fixed capital formation	Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. According to the 1993 SNA, net acquisitions of valuables are also considered capital formation.	World Bank national accounts data, and OECD National Accounts data files.

Government consumption	General government final consumption expenditure (formerly general government consumption) includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditures on national defense and security, but excludes government military expenditures that are part of government capital formation.	World Bank national accounts data, and OECD National Accounts data files.
Rule of Law	Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (Kaufman, Kraay and Mastruzzi, 2010). The indicator is rescaled on a 0 to 100 scale, where 100 represents best possible outcome.	Worldwide governance indicators
Terms of trade (%)	Annual change in the net barter terms of trade index. This index is calculated as the percentage ratio of the export unit value indexes to the import unit value indexes, measured relative to the base year 2000.	World Bank national accounts data, and OECD National Accounts data files.

Inflation	The annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency.	World Bank national accounts data, and OECD National Accounts data files.
EU dummy	EU is an indicator variable that takes value of 1 if country i is the EU member, otherwise it takes value of 0	Dummy variable
Political rights	Category from the Freedom of the world index. It consists 3 different subcategories: Electoral Process, Political Pluralism and Participation, and Functioning of Government. The country's score on political rights varies between 0 and 40 (a score of 4 for each of the 10 questions).	Freedom House, Freedom in the World report
Civil liberties	Category from the Freedom of the world index. It consists 4 different subcategories: Freedom of Expression and Belief, Associational and Organizational Rights, Rule of Law, and Personal Autonomy and Individual Rights. The country's score on political rights varies between 0 and 60.	Freedom House, Freedom in the World report

Source: Created by the authors.

We have constructed several ordinary least squares regression models with fixed effects. We used the software Eviews 10 to estimate the model. We attempt to quantify the influence of the rule of law on per capita growth rates in South East European nations using the panel data approach.

The model's framework is based on an analogy with Barro's seminal study on the factors that influence economic growth (Barro, 1997), which ignited further investigation into the impact of institutions, including the rule of law, on economic growth (Acemoglu, Johnson and Robinson, 2001; Haggard and Tiede, 2011). Barro extends the neoclassical model by assuming that the GDP growth rate depends on the initial level of production per capita (initial GDP per capita) and human capital conditions. In addition to these factors, he adds other choice and environmental variables environmental variables" (p. 8). Barro classifies these factors between those made by the government, which include expenditures, tax rates, government-induced distortions, and maintaining rule of law and guaranteeing property rights, and those made by the private sector, which includes saving rates, labor supply, and fertility rates.

In our work, we focus on 10 countries from the South East Europe. We replicate Barro's model and construct an ordinary least squares regression models with fixed effects. The dependent variable in each of the models we've built is GDP growth.

Model 1

$$GDP\ growtht_{i,t} = constant + \alpha_1 Log(\ gdp)_{i,1996} + \alpha_2\ Male\ attainment\ rate\ _{i,2001} + \alpha_3\ Fertility\ rate_{i,t} + \alpha_4\ Life\ expectancy\ _{i,t} + \alpha_5\ Govenremnt\ consumption_{i,t} + \alpha_6\ Gross\ fixed\ capital\ formation_{i,t} + \alpha_7\ Rule\ of\ law\ _{i,t} + \alpha_8\ Inflation_{i,t} + \alpha_9\ Terms\ of\ trade_{i,t} + \varepsilon_{i,t} \quad (1)$$

Model 2

$$GDP\ growtht_{i,t} = constant + \alpha_1 Log(\ gdp)_{i,1996} + \alpha_2\ Male\ attainment\ rate\ _{i,2001} + \alpha_3\ Fertility\ rate_{i,t} + \alpha_4\ Life\ expectancy\ _{i,t} + \alpha_5\ Govenremnt\ consumption_{i,t} + \alpha_6\ Gross\ fixed\ capital\ formation_{i,t} + \alpha_7\ Rule\ of\ law\ _{i,t} + \alpha_8\ Inflation_{i,t} + \alpha_9\ Terms\ of\ trade_{i,t} + \beta_1 EU + \varepsilon_{i,t} \quad (2)$$

Model 3

$$GDP\ growtht_{i,t} = constant + \alpha_1 Log(gdp)_{i,1996} + \alpha_2\ Male\ attainment\ rate_{i,2001} + \alpha_3\ Fertility\ rate_{i,t} + \alpha_4\ Life\ expectancy_{i,t} + \alpha_5\ Govenremnt\ consumption_{i,t} + \alpha_6\ Gross\ fixed\ capital\ formation_{i,t} + \alpha_7\ Rule\ of\ law_{i,t} + \alpha_8\ Inflation_{i,t} + \alpha_9\ Terms\ of\ trade_{i,t} + \beta_2\ Political\ rights_{i,t} + \varepsilon_{i,t} \quad (3)$$

Model 4

$$GDP\ growtht_{i,t} = constant + \alpha_1 Log(gdp)_{i,1996} + \alpha_2\ Male\ attainment\ rate_{i,2001} + \alpha_3\ Fertility\ rate_{i,t} + \alpha_4\ Life\ expectancy_{i,t} + \alpha_5\ Govenremnt\ consumption_{i,t} + \alpha_6\ Gross\ fixed\ capital\ formation_{i,t} + \alpha_7\ Rule\ of\ law_{i,t} + \alpha_8\ Inflation_{i,t} + \alpha_9\ Terms\ of\ trade_{i,t} + \beta_3\ Civil\ liberties_{i,t} + \varepsilon_{i,t} \quad (4)$$

We have, however, made a few modifications to the original Barro's work. Barro, for instance, cites International Country Risk Data as the source for the rule of law variable, but we utilize the World Bank's Rule of Law index. Second, school attainment in Barro's case is the school attainment is the average years of attainment for males aged 25 and over in secondary and higher schools, while in our case the variable represents the percentage of male population ages 25 and over that attained or completed lower secondary education. Barro, also uses regional variables, due to the fact that growth rates differed between different regions in the world. Instead, because all of the selected economies belong to the same region, we introduced the EU dummy in order to capture the regional differences between the South East Countries. The major reason for these interventions was the hard access to data for the selected sample.

5. RESULTS AND DISCUSSION

In Table 3, we provide the results from the regression models. In the original model (Model 1) we inquire the effects on growth rate caused by changes in the variables log (GDP) (1996), school attainment, fertility rate, Life expectancy, Gross fixed capital formation, Government consumption, Rule of Law, Terms of trade and Inflation. In the second model (Model 2) we add the dummy variable EU to the independent variable's list. The original model is augmented with Political rights variable in Model 3 and with Civil liberties variable in Model 4.

Adjusted R^2 is 0.74 to 0.75 in the reported models, suggesting good fitness of the regressions.

Table 3. *Regression results, Dependent variable: GDP per capita growth*

Dependent Variables	Model 1	Model 2	Model 3	Model 4
c	51.07133***	47.67633***	51.66761***	49.49010***
	(13.88624)	(14.38586)	(14.26845)	(14.21239)
Log(GDP) (1996)	-8.473703***	-9.289903***	-8.289636***	-9.599390***
	(2.851117)	(2.989912)	(2.933182)	(3.056309)
School attainment Males (2001)	0.035965*	0.026675	0.038344	0.063081**
	(0.019202)	(0.021736)	(0.025865)	(0.031256)
Life expectancy	-0.329547**	-0.220489	-0.349838**	-0.313933*
	0.162752	(0.201836)	(0.173711)	(0.166009)
Fertility rate	-3.647109*	-4.562420**	-3.788463*	-4.377910**
	(1.992707)	(2.231279)	(2.054339)	(2.083399)
Gross fixed capital formation	0.147621**	0.143088**	0.146623**	0.138551*
	(0.069901)	(0.070142)	(0.073567)	(0.071010)
Government consumption	0.155436	0.149761	0.149842	0.227424
	(0.119403)	(0.119676)	(0.130031)	(0.143506)
Rule of Law	0.075864*	0.080125*	0.076892*	0.099796**
	(0.040234)	(0.040540)	(0.040830)	(0.045012)
Terms of trade (%)	0.062400	0.074701	0.069141	0.033574
	(0.103018)	(0.103988)	(0.104849)	(0.108753)
Inflation	0.111021*	0.116147**	0.104740	0.108562*
	(0.056644)	(0.056973)	(0.066356)	(0.060899)
EU		0.683443		
		(0.746757)		
Political rights				0.597564
				(0.527612)
Civil liberties			0.159256	
			(0.873694)	
Obs.	114	114	113	113
R2	0.807996	0.809870	0.807318	0.810141
Adjusted R2	0.747716	0.747239	0.743091	0.746855
F stat	13.40400	12.93079	12.56972	12.80124

Source: Authors' calculations. **Note:** *** 1%, ** 5%, * 10% . Std errors are given in parenthesis.

The initial level of GDP per capita has negative coefficient in all the models, and it is statistically significant. The coefficient varies from -9.6 to -8.3. This result is in line with the neoclassical growth theory and it can be interpreted as a conditional rate of convergence. Compared to the Barro's research (1997), the selected economies from South East Europe tend to converge faster to the steady state level of output.

Next, the school attainment variable has positive sign in all of the models, but is statistically significant only in Model 1 and Model 4. On impact, the increase in school attainment of males ages 25 and over that attained or completed lower secondary education, tends to increase the growth rate per capita in the selected countries by 3.6 percentage points (Model 1) and 6.3 percentage points (Model 4).

Life expectancy can be interpreted as an variable representing the health status of the human capital. In Model1, 3,and 4, life expectancy is statistically significant. However, the coefficient before the variable is negative in all of the developed models, meaning that increase in life expectancy wlill lead do decrease of the growth rates by 0.3 percentage points.

Similarly, the coefficient before fertility rate is negative and statistically significant in the four reported models. The coefficient varies from -4.6 (Model 2) to -3.6 (Model 1).

The countries from South East Europe can enhance growth rates by increasing investments. The coefficient before gross fixed capital formation is positive and statistically significant in all of the regression models.

Interesting finding in our sample is that the although the government consumption has positive coefficient in all of the reported models, this variable is not statistically significant determinant of growth rates in South East Europe in the analyzed period.

Rule of law has both economical and statistical significance as a determinant of growth rate in the selected countries. The coefficient before this variable in all of our models in positive and varies between 0.07 and 0.10. Having in mind that the variable rule of law was rescaled on a 0 to 100 scale, this result can be interpreted as, all else held constant, one percentage increase in the rule of law indicator, will lead to 0.07 to 0.1 percentage points increase in growth rate, on average.

In addition, inflation has proven to be statistically significant regressor, with positive coefficient. Change in terms of trade is not statistically significant variable in our models.

EU dummy, Political Rights variable and Civil Liberties variable, that were respectively used in Model2, Model3 and Model 4 are not statistically significant.

6. CONCLUSIONS

This paper applies Barro's economic growth model to South East Europe countries. Four models are estimated from 1996 to 2020 to capture the importance of rule of law in the selected region. The results from our model show that rule of law is statistically significant variable and better adherence to rule of law principles can stimulate growth in these countries, all else held constant. These conclusions are relevant for the government policies assessment in the selected countries. If the citizens have higher confidence and better abide by the rules of the society, contract enforcement and property rights are guaranteed, the public entrust the police and the courts, the countries' economies will grow.

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