

WORLDWIDE GOVERNANCE INDICATORS: RULE OF LAW, 2007

The Worldwide Governance Indicators (WGI) project of the World Bank reports aggregate and individual governance indicators for 212 countries and territories over the period 1996–2007, for six dimensions of governance: Voice and Accountability, Political Stability/Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption.

The aggregate indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from a diverse variety of survey institutes, think tanks, non-governmental organizations, and international organizations.

The World Bank uses an Unobserved Component Model (UCM) to aggregate the various responses in the broad 6 clusters. This model treats the “true” level of governance in each country as unobserved, and assumes that each of the available sources for a country provide noisy “signals” of the level of governance. The UCM then constructs a weighted average of the sources for each country as the best estimate of governance for that country. The weights are proportional to the reliability of each source. This means that more precise sources (in the sense of providing less noisy signals of governance) receive more weight in the aggregate indicators. The resulting estimates of governance have an expected value (across countries) of zero, and a standard deviation (across countries) of one. This implies that virtually all scores lie between – 2.5 and 2.5, with higher scores corresponding to better outcomes.

In “Rule of Law” the World Bank includes several indicators which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts. Together, these indicators measure the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions, and importantly, the extent to which property rights are protected.

Table

Worldwide Governance Indicators: Rule of Law, 2007 and 1998

Country	Governance score 2007	Governance score 1998
Australia	1.79	1.77
Austria	1.90	1.82
Belgium	1.52	1.29
Bulgaria	-0.14	-0.23
Canada	1.86	1.78
Cyprus	0.96	0.82
Czech Republic	0.77	0.82
Denmark	1.95	1.86
Estonia	1.00	0.50
Finland	1.87	1.90
France	1.32	1.37
Germany	1.78	1.66
Greece	0.65	0.68
Hungary	0.74	0.74
Iceland	1.97	1.76
Ireland	1.77	1.63
Italy	0.43	0.84
Japan	1.39	1.47
Korea	0.82	0.71
Latvia	0.57	0.18
Lithuania	0.49	0.41
Luxembourg	1.85	1.81
Malta	1.55	1.26
Mexico	-0.58	-0.51
Netherlands	1.76	1.81
New Zealand	1.91	1.88
Norway	2.00	1.98
Poland	0.28	0.69
Portugal	0.95	1.22
Romania	-0.17	-0.11
Slovak Republic	0.35	0.23
Slovenia	0.84	1.07
Spain	1.12	1.29
Sweden	1.90	1.80
Switzerland	2.01	2.04
Turkey	0.00	-0.05
United Kingdom	1.75	1.80
United States	1.59	1.68

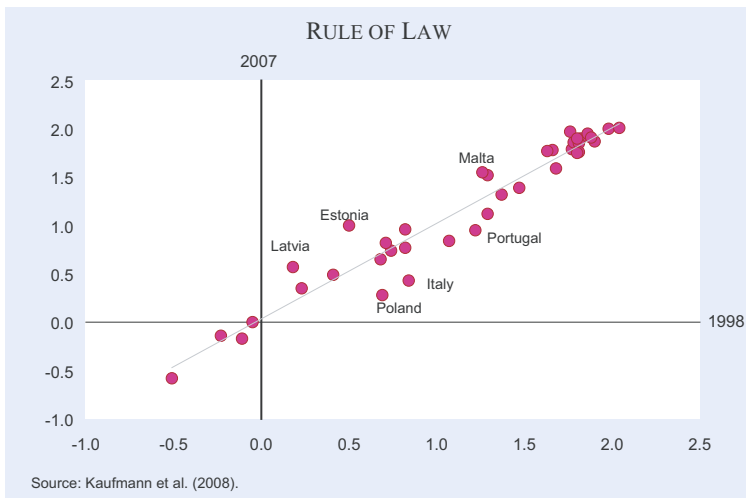
Note: Only European countries and non-European OECD countries are included.

Source: Kaufmann, D., A. Kraay and M. Mastruzzi (2008).

Among European countries and non-European OECD countries Switzerland, Norway, Iceland, Denmark and New Zealand dominate the top scores in the 2007 Rule of Law-Indicator. The United States, Malta, Belgium, Japan and France have been classified as countries with a medium level of Rule of Law. The countries with the lowest score are Bulgaria, Romania and Mexico (Table).

To have a comparison over time, the Figure illustrates the changes for the Rule of Law-Indicator over the decade 1998–2007. The 1998 score is shown on the horizontal axis and the 2007 score on the vertical axis. Countries located above the 45-degree angle line exhibited improvements in Rule of Law,

Figure



while countries below the line exhibited deteriorations in Rule of Law. The first feature of this graph is that most countries are clustered quite close to the 45-degree line, indicating that changes in the Rule of Law-Indicator in most countries are relatively small over the ten-year period covered by the graph. But improvements have been made in Estonia, Latvia and Malta. In contrast there have been declines in countries such as Poland, Italy and Portugal.

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References

Kaufmann, D., A. Kraay and M. Mastruzzi (2008), "Governance Matters VII: Aggregate and Individual Governance Indicators 1996–2007", *Policy Research Working Paper* 4654.

World Bank, Worldwide Governance Indicators, 1996–2007, <http://info.worldbank.org/governance/wgi/index.asp>.