

Judicial Independence and Economic Growth

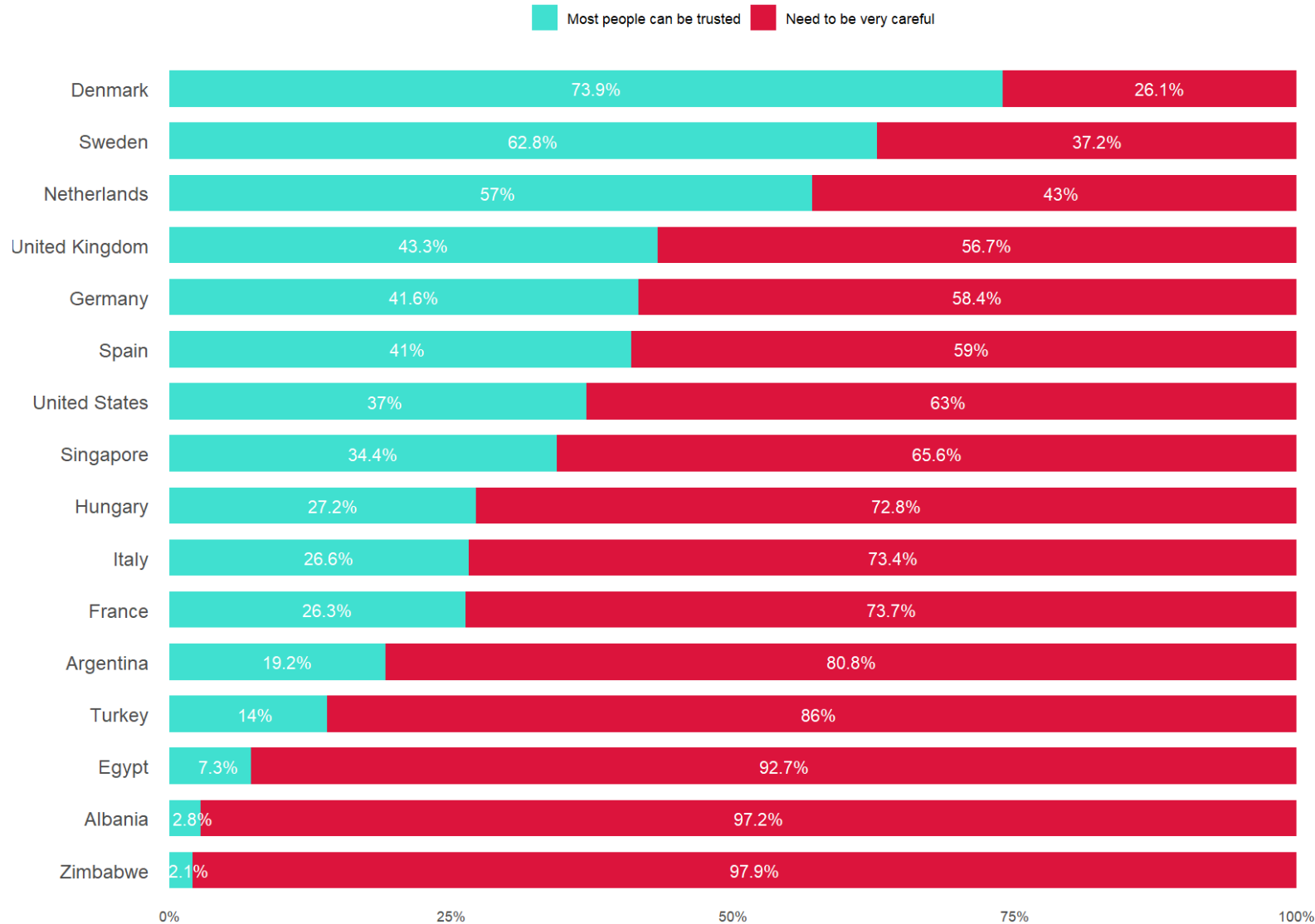
Games, History and Empirical Evidence

A close-up photograph of a board game board. The board is green with a pattern of grey and white circles. Several wooden pieces are scattered across the board: a green piece on the left, a yellow piece in the center, a light-colored wooden piece in the center, a black piece on the right, and another black piece in the foreground. A red die with gold pips is on the right side. In the background, there are some cards or papers, one of which is yellow and red. The text "Trust and Games" is overlaid in the center of the image.

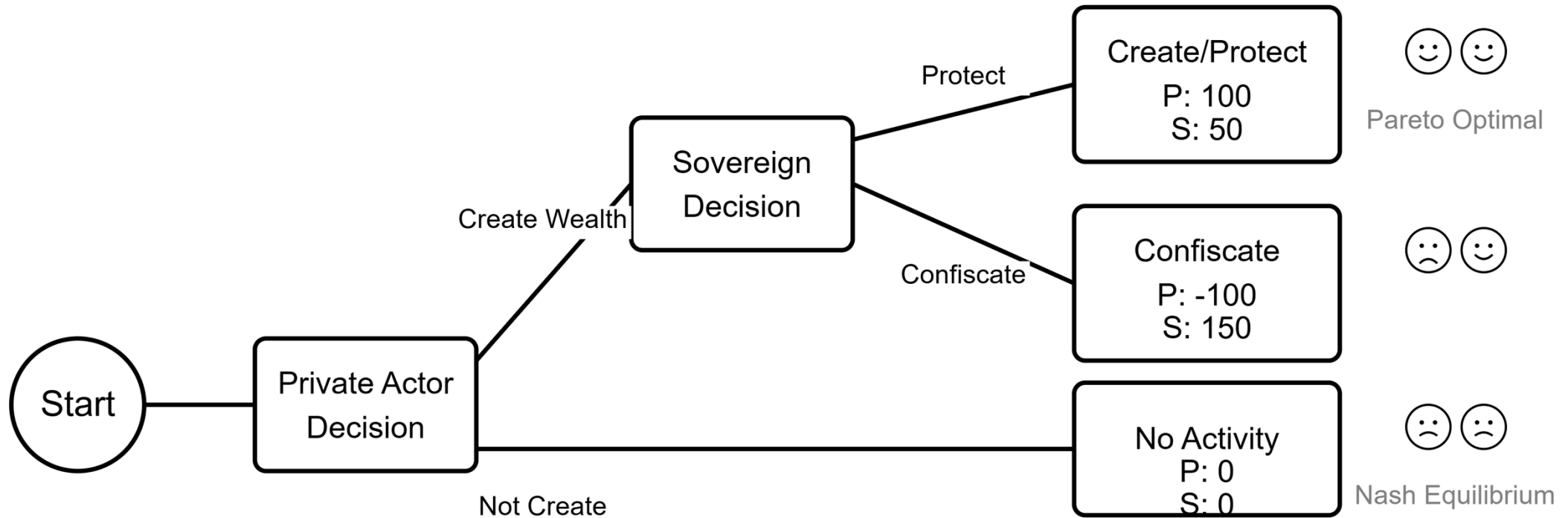
Trust and Games

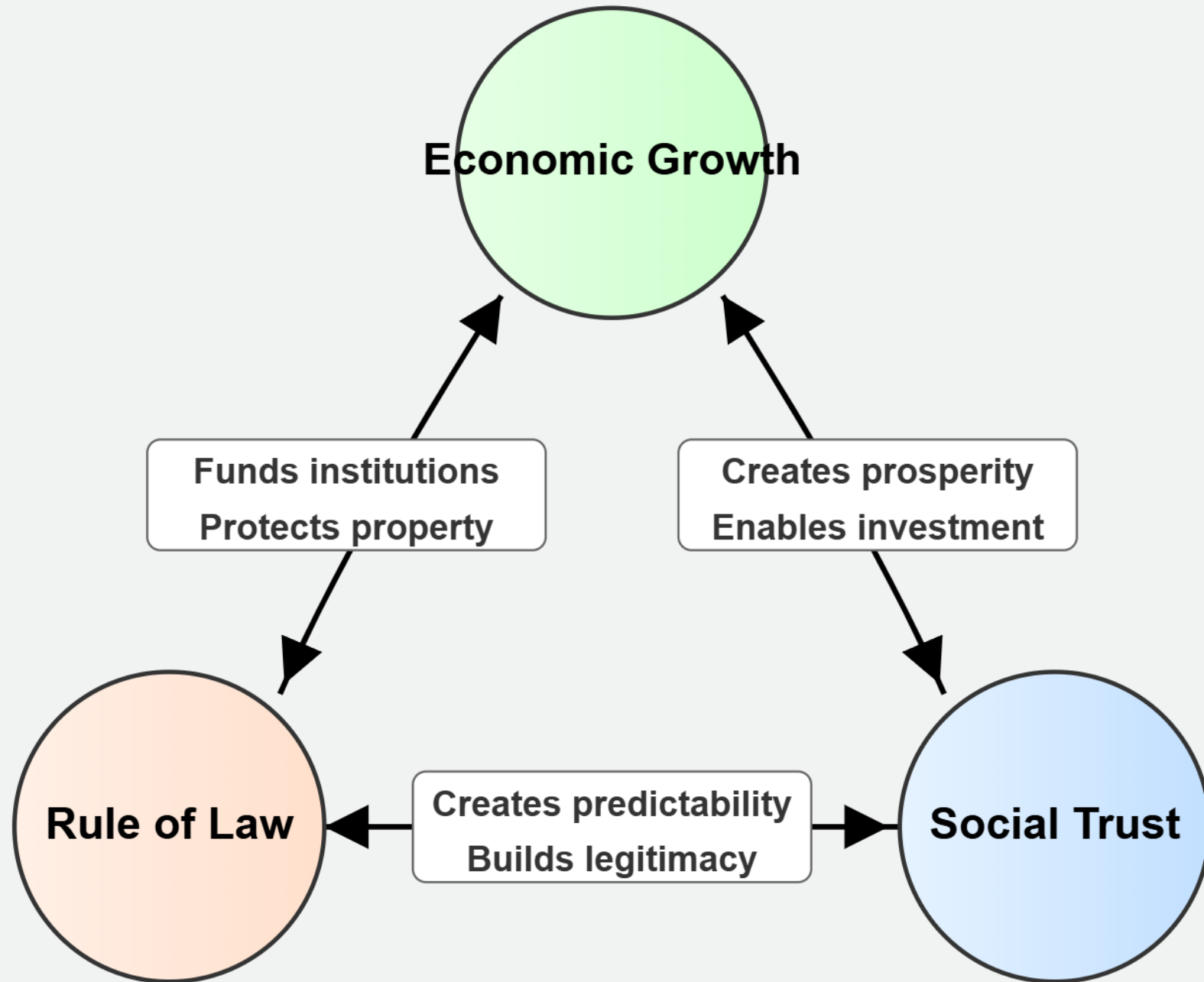
Social Trust

Source: Integrated Values Survey 2022



The Fundamental Political Dilemma







Economic History

Inclusive vs. Extractive Institutions

Inclusive Institutions

Economic:

- Market economy
- Strong property rights
- State support for markets (public services and regulation)

Political:

- Pluralism
- Checks and balances
- Independent judiciary with rule of law

Extractive Institutions





Economic:

- Centrally planned command economy
- Insecure property rights
- Entry barriers and regulations to protect vested interests

Political:

- Concentration of power in the hands of the few
- No constraints on power
- Dependent judiciary and lack of rule of law

Synergies

		Economic	Institutions
		Inclusive	Extractive
Political Institutions	Inclusive		
	Extractive		

The Development of Judicial Independence in England

- 1. Pre-1688 Stuart Period:** Judges served "at king's pleasure"; Frequent dismissals of non-compliant judges; Crown controlled Star Chamber; Arbitrary taxation and property seizures; Kings used forced loans and monopoly rights to raise funds
- 2. Glorious Revolution (1688):** Critical juncture for judicial independence; Parliament gains control over taxation; Judges protected from royal dismissal (requires both houses' vote); Clear constraints placed on royal power
- 3. Early Reforms (1701):** Act of Settlement formalizes judicial tenure; Stock market reacts positively to judicial independence reforms; Judges' salaries increased; Protection from arbitrary dismissal
- 4. Further Strengthening (1761):** Judges remain in office despite monarch's death; Enhanced judicial security combined with strong property rights protection leads to economic growth
- 5. Economic Impact:** Development of functioning loan market; Increased entrepreneurial activity; Lower risk of property confiscation; England gains advantage over France and Spain where similar protections were absent

Judicial independence emerged gradually through institutional reforms, creating foundations for economic growth

North vs. South Korea: A Tale of Two Institutions

South Korea

- Market economy with strong property rights
- Per capita GDP: ~\$34,000 (2023)
- Global technology leaders (Samsung, LG, Hyundai)
- Democratic political system
- Independent judiciary with rule of law
- High education levels & innovation
- Strong international trade integration

North Korea

- Centrally planned command economy
- Per capita GDP: ~\$1,300 (2023 est.)
- Limited industrial development
- Authoritarian hereditary regime
- Judiciary controlled by political leadership
- Restricted access to education & technology
- Economic isolation & limited trade

Same geography, same culture, same history until 1945 — Different institutions, different outcomes

Nogales: One City, Two Systems

Nogales, Arizona (USA)

- Average household income: ~\$30,000
- Reliable public services (water, electricity, sewage)
- Strong property rights protection
- Access to quality healthcare
- Independent judicial system
- High high school graduation rates
- Low corruption levels

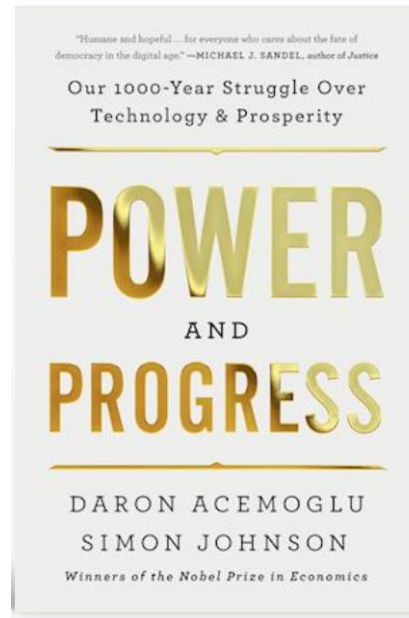
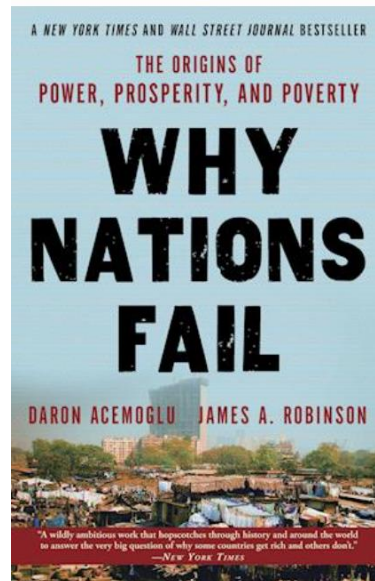
Nogales, Sonora (Mexico)

- Average household income: ~\$10,000
- Irregular public services
- Weaker property rights enforcement
- Limited healthcare access
- Less independent judicial system
- Lower educational attainment
- Higher levels of corruption

Same location, same people, same culture — Different institutions, different outcomes

Key takeaways

- Institutions matter!!!
- Further reading:



The image features a large, circular mosaic composed of numerous small, multi-colored squares (including shades of blue, green, purple, and grey) arranged in concentric rings. The squares are densely packed in the center and become more sparse and fragmented as they move towards the right edge of the frame. A central white circle is present, and the text "Empirical Evidence" is overlaid in a black, sans-serif font across the middle of the image.

Empirical Evidence

Judicial independence and Economic Growth

Table 5.5: OLS regression of economic growth (1980-2003) on judicial outcomes and controls¹⁷

Economic growth	(1)	(2)	(3)	(4)
Perceived judicial independence	-	0.562*** (5.98)	-	0.530*** (5.28)
Log of number of days for judicial contract enforcement	-	-	-0.509** (2.31)	-0.201 (0.91)
Log of real GDP per capita in 1980	-0.688** (2.54)	-1.032*** (4.10)	-0.846** (2.44)	-1.113*** (3.43)
Log of secondary school attainment rate in 1980 (in %)	0.724** (2.09)	0.698** (2.15)	0.633* (1.86)	0.637* (1.95)
Average annual population growth (in %)	-0.669*** (4.17)	-0.509*** (3.38)	-0.721*** (2.84)	-0.584** (2.33)
Dummy for transition countries	-1.572*** (3.09)	-0.817* (1.91)	-1.178* (1.68)	-0.713 (1.18)
Constant	6.086***	6.261***	10.485***	8.411***
R ²	0.267	0.411	0.268	0.393
F	7.44	16.56	5.62	10.90
Observations	95	95	86	86

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Defending Judicial Independence



Theory

Fundamental to trust, property rights, and economic incentives

History

Centuries of evidence from developing nations to modern economies

Evidence

Empirical studies confirm its impact on growth and prosperity

"The price of justice may be high, but the cost of its absence is devastating"

In an era where judicial independence faces global challenges, the evidence reminds us: protecting our courts means protecting our future