



ELSEVIER

Contents lists available at ScienceDirect

Economic Systems

journal homepage: www.elsevier.com/locate/ecosys

The effect of judicial independence on entrepreneurship in the US states



John A. Dove*

Manuel H. Johnson Center for Political Economy, Troy University, 137N Bibb Graves, Troy, AL 36082, USA

ARTICLE INFO

Article history:

Received 4 March 2014

Received in revised form 4 June 2014

Accepted 19 June 2014

Available online 5 January 2015

JEL classification:

D78

H11

L26

O12

Keywords:

Entrepreneurship

Judicial independence

Legal institutions

Legal quality

Economic growth

ABSTRACT

The relationship between institutional quality, entrepreneurship, and economic growth has been well documented within the literature. However, much less work has been done regarding judicial independence and how this affects, specifically, entrepreneurial activity. Therefore, this paper attempts to fill that gap by exploiting the differences in judicial independence that exist between the US states and empirically evaluating how this affects entrepreneurship. Overall, the results suggest that the method of selecting and retaining justices of both courts of last resort and intermediate appellate courts has a significant and direct effect on entrepreneurial activity, though the latter result is somewhat less robust. The presence of judicial nominating and retention commissions also has a significant and direct effect. Further, although somewhat weaker, the method of selecting the chief justice of a state court of last resort would also appear to have an impact on entrepreneurship. These results are robust to a number of specifications.

© 2014 Elsevier B.V. All rights reserved.

1. Introduction

There has been a long history of trying to understand the process of economic growth and development. This issue is one that has led to significant amounts of research within the academic literature and elsewhere. Much of the academic work has been driven by the institutional approach to understanding economic development (North, 1990; Acemoglu et al., 2002; Acemoglu and Johnson,

* Tel.: +1 3348086604.

E-mail address: Jadove@troy.edu.

2005; Rodrik et al., 2004; Weingast, 1995). Here it is the institutions and “rules of the game” that individuals within jurisdictions face that play a primary role in promoting or hindering economic growth.

Thus, those economies where the institutional arrangements are conducive to growth through the protection of property rights and consistent adherence to the rule of law are generally found to expand more rapidly as opposed to others that do not have similar institutional arrangements in place. Most important in this development is the entrepreneurial process that acts as the driver of economic growth and change (Schumpeter, 1942/2003; Kirzner, 1978). With the proper institutional framework in place, the necessary incentives are created that foster productive entrepreneurial activity which then, in general, acts as a catalyst to greater long-run growth.

Although a large body of work has addressed how various institutional arrangements affect entrepreneurship which in turn affects economic growth, much less has been done to evaluate to what extent an independent judiciary might play a role in this process. Therefore, the current study attempts to fill this void by exploiting differences that exist in judicial independence (JI) and entrepreneurial activity across the US states and how the former may impact the latter. Obviously, the rule of law plays a major role in facilitating long-run growth by creating the necessary incentives for individuals to exploit entrepreneurial opportunities.¹ However, for the rule of law to properly function, there must be an independent and impartial third party arbitrator to ensure that it is adhered to and upheld.

In this light, then, an independent judiciary would be one that is free from the influence of either private interests or other branches of government (*i.e.* the executive or legislative branch). Therefore, if, as many studies have shown, the rule of law matters for economic growth and in fostering entrepreneurial activity, and that enforcement of the rule of law requires an independent judiciary, then it should be the case that greater JI in a given state will result in increased entrepreneurial activity. Although a number of studies have attempted to empirically evaluate to what extent an independent judiciary affects a multitude of economic outcomes (Feld and Voigt, 2003), few have looked specifically at its influence on entrepreneurship. Thus, by employing a panel dataset of entrepreneurial activity covering the years 1996–2012 and also several measures of judicial independence, many of which are conventional to the literature, along with several additional measures, this paper attempts to empirically evaluate to what extent an independent judiciary impacts entrepreneurship.

Overall, the results suggest that the method of selecting justices to state courts of last resort and intermediate appellate courts appears to most consistently impact entrepreneurship across the states. This is also true for the presence of both judicial nominating and retention commissions. Further, although less robust, the method of selecting the chief justice of a state’s court of last resort also plays a role in entrepreneurial activity across states. These results would appear to hold for a number of specifications.

The remainder of the paper is structured as follows: Section 2 provides a brief review of the relevant literature and theoretical considerations regarding economic growth, judicial independence, and entrepreneurship. Section 3 discusses and lays out a number of testable hypotheses. Section 4 describes the data as well as the empirical specification. Section 5 discusses the results, while section 6 concludes.

2. Review of the literature and theoretical considerations

A large body of research has clearly shown the causal link between institutional quality, entrepreneurship, and economic growth. For instance, a number of studies have demonstrated the impact that institutional quality has on economic growth and development (Acemoglu et al., 2002; Acemoglu and Johnson, 2005; Djankov et al., 2002; La Porta et al., 1997; Lopez De Silanes et al., 1998; DeSoto, 2001; North, 1994; Weingast, 1995; Besley, 1995). Much of this research has focused on the

¹ Here, for the rule of law to hold, three requirements are considered necessary. They include (1) having laws that are prospective and not retrospective, (2) ensuring that all laws are known and certain, and (3) requiring that all laws are equally applicable to similarly situated individuals without exception. This definition is loosely drawn from Fuller (1969).

Download English Version:

<https://daneshyari.com/en/article/5056353>

Download Persian Version:

<https://daneshyari.com/article/5056353>

[Daneshyari.com](https://daneshyari.com)