

The Economic Impact of Civil Justice Reforms

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Effective justice systems, encompassing quality, independence and efficiency, are an important structural condition for Member States to achieve sustainable growth. Predictable, timely and enforceable justice decisions contribute to trust and stability, and thereby to a business environment conducive to entrepreneurial activity and investment. The efficiency of justice systems, indeed, is crucial to ensure the proper functioning of markets, not least through effective enforcement of contractual obligations and rights in a number of fields, like property (including intellectual one), insolvency cases, and labour law.

In the aftermath of the crisis, a number of countries have undertaken reforms meant to remove bottlenecks hindering the smooth functioning of civil justice, also in light of the European Semester exercise. This reform effort, complementing in many cases other reforms in the areas of business environment, product and service markets, mostly aimed at reducing the length of civil and commercial trials as well as the backlog of pending cases, in order to increase the efficiency of civil justice procedures alongside judicial independence and quality.

The relevance of these measures in terms of potential growth and their viability in a period of tight lending conditions call for the development of a proper assessment framework, aimed at quantifying potential benefits from reforms, while highlighting the areas of intervention which could lead to comparatively higher gains.

This paper builds on the descriptive work on justice started a few years ago by the Council of Europe (through the biennial CEPEJ reports) and, more recently, by the European Commission (through the EU Justice Scoreboard). Its aim is to analyse the link between judicial reforms and indicators of civil justice efficiency and, in turn, between the latter and selected economic outcomes. A number of econometric methodologies are used to this purpose, with the objective of providing an accurate and robust estimation of the links of interest, by controlling for potentially confounding factors and highlighting the role of judicial efficiency as an important transmission channel between judicial reforms and economic variables. With respect to previous analyses, the present work has thus the advantage not only of a broader "horizontal" focus but also of more immediate policy relevance.

The findings are in line with the economic rationale: the analysis shows that reforms aimed at rationalising the organisation of courts (by increasing their average size), fostering investment in ICT and introducing incentives to reduce excessive litigation rates (for instance by enhancing the use of alternative disputes resolution methods) all positively affect the efficiency of civil justice. This improvement consists in a decrease in disposition time (our preferred measure of trial length) and in pending cases as a ratio to population, both referred to litigious civil and commercial disputes. Moreover, increased efficiency is positively reflected on entrepreneurial activity (measured by firms' entry rates) and on foreign direct investments. Clearly, not all these links show the same magnitude and statistical significance, but the overall picture is clearly supportive of the growth potential of reforms in the field of civil justice and the potential reward for Member States implementing measures in this area.