

# THE SCOPE OF FUNCTIONS AND STRENGTH OF INSTITUTIONS IN ECONOMIC POLICY OF THE EU MEMBER STATES FROM CENTRAL AND EASTERN EUROPE. CONCEPTION OF ANALYSIS

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**Abstract.** *The manner of conducting economic policy determines various phenomena and socio-economic processes, including economic development and growth, to a considerable degree. A significant role in economic and social sciences is attributed to international comparative studies. The aim of the study was introduction of the conception for analysis of the scope of functions and strength of institutions on an example of the national policies of the EU member states from Central and Eastern Europe.*

*The paper introduces the selected dimensions of economic policy in the EU member states from Central and Eastern Europe. On the basis of the use of existing indices, the measures of these dimensions are proposed. Also, elements of the typology of economic policies of these countries considering the selected policy dimensions are presented.*

*The analyses show that there are differences among national economic policies of particular states of Central and Eastern Europe. From the standpoint of economic policy and its dimensions, the situation is most favourable in countries with the most powerful institutions: the Czech Republic and Estonia. It is crucial to strive after improvement of the quality of institutions in individual states, which should result in a faster socio-economic development and an increased efficiency of the public authorities.*

**Key words:** *economic policy, Central and Eastern Europe, comparative economics*

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## Introduction

The development of states depends on numerous factors. Their socio-economic life is also affected by government intervention manifested in the conduct of economic policy. It should be emphasized that the economic policy is a very complex and multidimensional system of intervention that can be conducted on many levels such as global, supranational and international, national (domestic), regional and local ones. The economic policy can be considered as the most important form of interference in socio-economic life, exerted by the public authorities. Both in theory and in practice, many different dimensions of

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this policy are distinguished. The scope of the functions and the strength of institutions can be counted among the two basic dimensions.

A great role in the economic and social sciences is attributed to international comparative studies. Particularly valuable may be the comparative analysis within the countries of Central and Eastern Europe that are members of the European Union. These states are characterized by many similar developmental contexts, including those associated with the transformation of political system and the process of European integration. It is worth noting that in these countries over the last twenty years, the economic systems significantly reduced the role of the public authorities in the economy, whereas the importance of the market mechanism has considerably increased.

The aim of the article is to introduce the principles of the analysis of the scope of functions and the strength of institutions on an example of the national policies of the EU member states from Central and Eastern Europe. In the paper, the following ten countries were taken into account: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

### **The essence of economic policy**

It is worth considering the essence of economic policy with reference to the definition of this policy, which was presented in the relevant literature many times. For example, B. Winiarski says that the economic policy is an intentional exertion of influence by state authorities on the national economy – on its dynamics, structure and functioning, on economic relations within the country and on its economic relations with foreign countries (Winiarski 2004, p. 17). In our opinion, it is worth considering the viewpoint according to which the economic policy is a conscious exertion of influence by the policy subjects, mainly by the bodies of public authorities, on the object of that policy in specified internal and external determinants, aiming at achieving the defined aims by employing suitably matched tools and resources in compliance with the rules of economic and social sciences (Jaźwiński 2005, p. 7–8). In the synthetic approach, it is the economy system that is the object of economic policy (including economic system, phenomena and processes).

One can assume that economic phenomena and processes, development and growth included, are the result of the action of two groups of factors: the market mechanism and the interference exerted by the public authorities, manifested in conducting the economic policy. The market mechanism involves the invisible hand of the market, the marketing and gambling of the market forces. However, the interference exerted by the public authorities is associated with the visible hand of the state, regulation, interventionism, exertion of influence, development, influence of public authorities, state, government. Economic policy should be only a supplement to the market mechanism, a complementary system, and not a substitution of the market. What is important is the

pursuance of maintaining appropriate proportions between the market mechanism and the economic policy.

The existence of a problem does not necessarily mean that government intervention is required. It can be justified on the basis of the following conditions (Acocella 2005, p. 130–131):

- there is a failure of the market or other private institutions (e.g., private voluntary organisations or firms);
- the government can obtain better results than other institutions in at least one respect (the result desired, e.g., employment; the cost of the intervention; or the different distributions of income generated by various institutions), all other conditions being equal;
- the choice between alternative measures; in many cases government intervention can make use of a variety of instruments which have different costs and give different results which must be carefully evaluated and compared.

Briefly outlining the essence of economic policy, it can point out, after R. Musgrave, to three interrelated economic functions of the state, realized within the scope of economic policy (Stiglitz 2004, p. 24–25): the stabilizing function, which is intended for ensuring that economy remains in the state of full employment at stable prices; the allocation function, within the scope of which the state exerts an influence on trends in allocation of resources in the economy by purchasing goods and imposing taxes, as well as disbursement of subsidies; and the distributing function concerning the manner of distributing the goods produced by the whole society among its members.

Market failures at both the microeconomic and the macroeconomic levels were considered so widespread and deep as to justify the programmed action by government. Many authors, such as R. Frisch, J. Tinbergen, H. Theil and others, began to develop the so-called ‘theory of economic policy’. On the basis of fixed targets or the social preference function, as well as an analytical model of the economy and the assumption of rational policymakers, consistent levels of policy instruments were derived for static and dynamic settings (Acocella 2005, p. xxv). Therefore, economic policy can be also defined as a discipline that studies public economic action, inasmuch as it studies all three levels: the current choices of the government, the choice of higher-level institutions (i.e. the definition of society’s economic construction) and the identification of social preferences and objectives (Acocella 2005, p. 2).

### **The scope of functions and the strength of institutions as the basic dimensions of economic policy**

One can distinguish two basic dimensions of economic policy, relying on F. Fukuyama’s approach (Fukuyama 2005, p. 19):

- the scope of functions comprising a range of functions and targets set by subjects of economic policy;
- the strength of institutions defined as the capacity of the subjects of economic policy to implement the functions and to achieve goals of the policy and to specify the law in a clear manner comprehensible to everyone; it depends, among other things, on the quality of the public administrative authorities, on the assumed system, on the law in force and culture.

In Figure 1 the matrix of economic policy dimensions is presented, with the states given as examples.

Taking advantage of the presented approach, the economic policies of all the states (countries) of the world can be divided into four groups characterized by a considerable scope of functions and powerful institutions, a considerable range of functions and weak institutions, a limited scope of functions and powerful institutions; a limited range of functions and weak institutions.

The main problem with past efforts at state building, Fukuyama argues, is the ‘failure to unpack the different dimensions of stateness’ (Coyne 2004). Fukuyama expressed a viewpoint that it is necessary to promote a concept of the state with powerful institutions and with a limited scope of the functions – a powerful but limited state. However, one has to emphasize that contemporary schools of economics have diversified the attitude to the state interference in economy, especially considering that interference ranges (Karpiński 1997, p. 17–18).

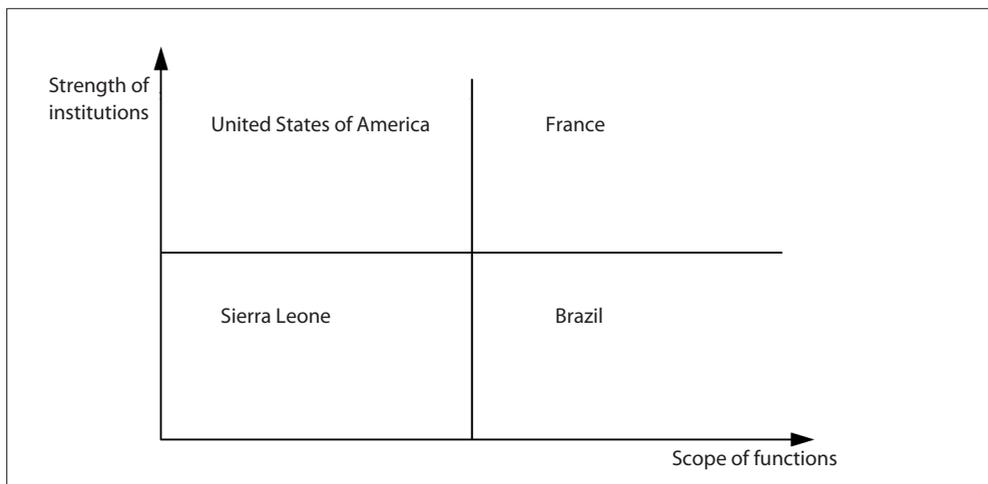


FIG. 1. Basic dimensions of economic policy

Source: author's own modification based on Fukuyama 2005, p. 26–27.

The range of the interference exerted by the public authorities within the scope of the economic policy of a given state varies in time and space and depend on various factors, among other things on the achieved level of socio-economic development, on the economic situation, on the fixed trends of the overall policy of the state, on the system determinants, on situations and international obligations. At the same time, the scope of the economic policy often grows in periods of low markets. It was visible in many countries of the world in the period 2008 to 2009 under conditions of the global financial and economic crisis. One should also stress that even the adherents to the minimum role of the state in economy do not negate the need to strive for achieving a high efficiency of the institutions' functioning.

In the opinion of the author of this work, achievement of high quality institutions and optimisation of the range of functions in the economic policy of various countries will help optimising the functioning and development of national economies. The manner of conducting this policy determines various phenomena and socio-economic processes, inclusive of economic development and growth, to a considerable degree.

### **Index of Economic Freedom in measuring the economic policy dimensions**

For measuring the scope of functions and the strength of institutions we can use the Index of Economic Freedom, which is promoted by the Heritage Foundation. This index takes into account several dozens of variables grouped into ten categories called economic freedom factors. These factors are (Heritage Foundation 2010, p. 457–467):

- business freedom – a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process;
- trade freedom – a measure of the absence of tariff and non-tariff barriers that affect the imports and exports of goods and services;
- fiscal freedom – a measure of the tax burden imposed by government; it includes both the direct tax burden in terms of the top tax rates on individual and corporate incomes and the overall amount of tax revenue as a percentage of GDP;
- government spending – the level of government expenditures as a percentage of GDP;
- monetary freedom – the measure of price stability with an assessment of price controls; both inflation and price controls distort market activity;
- investment freedom – evaluates a variety of restrictions typically imposed on investment; individuals and firms would be allowed to move their resources into and out of specific activities both internally and across the country's borders without restriction;
- financial freedom – the measure of banking security as well as a measure of independence from government control; state ownership of banks and other

financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services;

- property rights – an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state;
- freedom from corruption – introducing insecurity and uncertainty into economic relationships;
- labour freedom – a quantitative measure that considers various aspects of the legal and regulatory frameworks of a country's labour market.

Particular factors can be referred to different areas of economic policy to a considerable degree. On the basis of values of the relevant variables, each of the ten categories is evaluated in the scale from 1 to 100. The average of these ten assessments determines the value of the Index of Economic Freedom. The higher the evaluation mark, the higher is the range of liberalism in a given country. The ranking of economic freedom includes also some areas that are not states, but which are, however, characterized by a different economic system than the rest of the state, e.g., Hong Kong.

Table 1 presents the methodology of the Index of Economic Freedom.

In the Index of Economic Freedom, the ten components of economic freedom are equally weighted so that the overall score will not be biased toward any one component or policy direction (Heritage Foundation 2010, p. 467).

### **Economic policy in the EU member states from Central and Eastern Europe in context of the Index of Economic Freedom**

It is important to present the proposal of how to measure the scope of functions and the strength of institutions in the economic policy of particular EU member states from Central and Eastern Europe.

For determining the range of functions and partly the institution power in economic policies of particular states (countries) of the world, the Index of Economic Freedom (Heritage Foundation 2010) can be used. This index is widely known and used in economic sciences for comparative studies. Taking into consideration the adopted assumptions and literature studies, the evaluation marks selected from ten categories in the Index of Economic Freedom can be referred to two basic dimensions of economic policy:

- the scope of functions, e.g., evaluation of government spending, fiscal freedom;
- the strength of institutions, e.g., evaluation of freedom from corruption, property rights.

It should be emphasized that the indicators of government spending and fiscal freedom are directly related to the scope of functions in economic policy. The category of government spending includes government expenditures, among them the consumption

**TABLE 1. Methodology of the Index of Economic Freedom**

Indicator	Components
Business freedom	<ul style="list-style-type: none"> <li>• starting a business – procedures (number)</li> <li>• starting a business – time (days)</li> <li>• starting a business – cost (% of income per capita)</li> <li>• starting a business – minimum capital (% of income per capita)</li> <li>• obtaining a license – procedures (number)</li> <li>• obtaining a license – time (days)</li> <li>• obtaining a license – cost (% of income per capita)</li> <li>• closing a business – time (years)</li> <li>• closing a business – cost (% of estate)</li> <li>• closing a business – recovery rate (cents on the dollar)</li> </ul>
Trade freedom	<ul style="list-style-type: none"> <li>• the trade-weighted average tariff rate</li> <li>• non-tariff barriers: quantity restrictions, price restrictions regulatory restrictions, investment restrictions, customs restrictions, direct government intervention</li> </ul>
Fiscal freedom	<ul style="list-style-type: none"> <li>• the top tax rate on individual income</li> <li>• the top tax rate on corporate income</li> <li>• total tax revenue as a percentage of GDP</li> </ul>
Government spending	<ul style="list-style-type: none"> <li>• government expenditures, including consumption and transfers, account for the entire score; in most cases, general government expenditure data include all levels of government such as federal, state, and local</li> </ul>
Monetary freedom	<ul style="list-style-type: none"> <li>• the weighted average inflation rate for the most recent three years</li> <li>• price controls</li> </ul>
Investment freedom	<ul style="list-style-type: none"> <li>• national treatment of foreign investment</li> <li>• foreign investment code</li> <li>• restrictions on land ownership</li> <li>• sectoral investment restrictions</li> <li>• expropriation of investments without fair compensation</li> <li>• foreign exchange controls</li> <li>• capital controls</li> </ul>
Financial freedom	<ul style="list-style-type: none"> <li>• the extent of government regulation of financial services</li> <li>• the extent of state intervention in banks and other financial services</li> <li>• the difficulty of opening and operating financial services firms (for both domestic and foreign individuals)</li> <li>• government influence on the allocation of credit</li> </ul>
Property rights	<ul style="list-style-type: none"> <li>• the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws; it also assesses the likelihood that private property will be expropriated and analyzes the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts</li> </ul>
Freedom from corruption	<ul style="list-style-type: none"> <li>• derived primarily from Transparency International's Corruption Perceptions Index (CPI), which measures the level of corruption in countries</li> </ul>
Labour freedom	<ul style="list-style-type: none"> <li>• ratio of minimum wage to the average value added per worker</li> <li>• hindrance to hiring additional workers</li> <li>• rigidity of hours</li> <li>• difficulty of firing redundant employees</li> <li>• legally mandated notice period</li> <li>• mandatory severance pay</li> </ul>

Source: author's own modification based on Heritage Foundation 2010, p. 457–467.

and transfers. It shows the state expenditures in relation to the Gross Domestic Product. The amount of expenditures in budgetary and financial terms determines the scope of the state functions, while the category of the fiscal freedom rating takes into account the total tax revenue as a percentage of GDP. It has a significant impact on state revenues in relation to GDP. In this way, it determines the range of budgetary capabilities of the state functions realisation. The lower the value of the category of government spending and fiscal freedom, the greater the range of functions in the economic policy of a particular country.

At the same time, it should be noted that the indicators of freedom from corruption and of property rights directly affect the strength of institutions in economic policy. The heart of development policy must be the politics that will create and enforce efficient property rights (Harriss, Hunter, Lewis 1995, p. 130; North 2005, p. 124). The category of freedom from corruption reflects the level of corruption, which is the determinant of the quality of institutions in economic policy, while the category of property rights relates to the degree to which the country laws protect private property rights. This is an important determinant of the quality of laws and regulations. High values of the category of freedom from corruption and of property rights are an evidence of strong institutions.

Table 2 presents ten EU member states from Central and Eastern Europe according to the Index of Economic Freedom on the basis of the ranking from 2010 comprising 183 countries.

**TABLE 2. The EU member states from Central and Eastern Europe according to the Index of Economic Freedom**

A	B	C	D	E	F	G	H	I	J	K	L
Bulgaria	62.3	77.8	87.4	86.3	48.3	69.5	50.0	60.0	30.0	36.0	78.1
Czech Republic	69.8	65.5	87.5	80.1	45.6	75.6	70.0	80.0	65.0	52.0	76.4
Estonia	74.7	83.1	87.5	80.2	62.2	71.1	90.0	80.0	80.0	66.0	47.0
Hungary	66.1	76.8	87.5	68.6	25.9	74.1	75.0	70.0	65.0	51.0	67.6
Latvia	66.2	72.9	87.5	82.7	57.4	67.0	80.0	50.0	55.0	50.0	59.1
Lithuania	70.3	82.0	87.5	84.6	63.5	70.8	75.0	80.0	55.0	46.0	58.5
Poland	63.2	62.2	87.5	74.9	46.8	78.1	60.0	60.0	55.0	46.0	61.5
Romania	64.2	72.5	87.5	85.8	59.8	73.3	75.0	50.0	40.0	38.0	60.4
Slovakia	69.7	72.6	87.5	84.0	64.5	78.2	70.0	70.0	55.0	50.0	65.1
Slovenia	64.7	83.3	87.5	64.0	46.1	76.0	70.0	50.0	60.0	67.0	43.5

Notes: A – state name; B – Index of Economic Freedom for year 2010; C – business freedom; D – trade freedom; E – fiscal freedom; F – government spending; G – monetary freedom; H – investment freedom; I – financial freedom; J – property rights; K – freedom from corruption; L – labour freedom.

Source: (Heritage Foundation 2010).

Taking into account the assumptions and basing on data already cited, in Table 3 there are presented the EU countries from Central and Eastern Europe, characterized by the highest and lowest levels of the scope of functions and the strength of institutions in economic policy according to the Index of Economic Freedom.

TABLE 3. The EU member states from Central and Eastern Europe with the highest and lowest levels of the scope of functions and the strength of institutions according to the Index of Economic Freedom

Category	Highest level	Lowest level
Scope of functions according to the government spending	Hungary Czech Republic Slovenia	Slovakia Lithuania Estonia
Scope of functions according to the fiscal freedom	Slovenia Hungary Poland	Bulgaria Romania Lithuania
Strength of institutions according to the freedom from corruption	Slovenia Estonia Czech Republic	Bulgaria Romania
Strength of institutions according to the property rights	Estonia Czech Republic Hungary	Bulgaria Romania

Source: author's own compilation.

On the basis of data presented in Table 3, the following conclusions may be formulated. The countries with the most powerful institutions according to the freedom from corruption are Slovenia, Estonia and the Czech Republic. Among the states with the biggest function scope, two times Hungary and Slovenia appear, while among the countries with the smallest function scope Lithuania can be found two times. It is also worth noting that among the states with the best institutions, two times Estonia and the Czech Republic appear, whereas among the countries with the worst institutions Bulgaria and Romania can be found twice.

### **Worldwide Governance Indicators in measuring economic policy dimensions**

To measure the strength of institutions, the Worldwide Governance Indicators (WGI) of the World Bank, called the indicators of good governing, can be used. The World Bank in its research and investigations takes into account several hundreds of variables assigned to six dimensions of governance quality concerning the six governance indicators comprising (Kaufmann, Kraay, Mastruzzi 2009, p. 6):

- voice and accountability – capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media;

- political stability and absence of violence – capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism;
- government effectiveness – capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies;
- regulatory quality – capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development;
- rule of law – capturing 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;
- control of corruption – capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

Each country is evaluated in the six mentioned categories in the scale from –2.5 to +2.5. The higher the evaluation mark the better is the governance quality in a given area. These evaluation marks can be, to a considerable range, referred to the institution power of economic policy.

Table 4 presents the methodology of the Worldwide Governance Indicators.

For the 2008 round of the Worldwide Governance Indicators, the World Bank relies on a total of 441 individual variables measuring different dimensions of governance. These are taken from 35 different sources produced by 33 different organizations. The WGI data sources reflect the perceptions of a very diverse group of respondents. Several are surveys of individuals or domestic firms with the first-hand knowledge of the governance situation in the country (Kaufmann, Kraay, Mastruzzi 2009, p. 7).

### **Economic policy in the EU member states from Central and Eastern Europe in the context of the Worldwide Governance Indicators**

For determining the strength of institutions and institution power in economic policies of particular EU countries from Central and Eastern Europe, also the World Bank Worldwide Governance Indicators can be used. These indicators are widely known and used in economic sciences for comparative studies. In this approach, there are considered six categories: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, control of corruption. It should be stressed that these indicators are directly related to various aspects of the strength of institutions in economic policy. However, of greatest importance from the point of view of

TABLE 4. Methodology of the Worldwide Governance Indicators

Indicator	Selected components
Voice and accountability	<ul style="list-style-type: none"> <li>• orderly transfers</li> <li>• vested interests</li> <li>• accountability of public officials</li> <li>• human rights</li> <li>• freedom of association</li> <li>• democracy index</li> <li>• civil liberties: freedom of speech, assembly, demonstration, religion, equal opportunity, excessive governmental intervention</li> <li>• political rights: free and fair elections, representative legislative, free vote, political parties, no dominant group, respect for minorities,</li> <li>• freedom of the press</li> <li>• military involvement in politics</li> </ul>
Political stability and absence of violence	<ul style="list-style-type: none"> <li>• fractionalization of the political spectrum and the power of these factions</li> <li>• fractionalization by language, ethnic and/or religious groups and the power of these factions</li> <li>• restrictive (coercive) measures required to retain power</li> <li>• organization and strength of forces for a radical government</li> <li>• societal conflict involving demonstrations, strikes, and street violence</li> <li>• instability as perceived by non-constitutional changes, assassinations, and guerrilla wars</li> <li>• military coup risk</li> <li>• major insurgency/rebellion</li> <li>• political terrorism</li> <li>• political assassination</li> <li>• civil war</li> <li>• major urban riot</li> </ul>
Government effectiveness	<ul style="list-style-type: none"> <li>• bureaucratic delays</li> <li>• government instability: an increase in government personnel turnover rate at senior levels that reduces the GDP growth rate by 2% during any 12-month period</li> <li>• government ineffectiveness: a decline in government personnel quality at any level that reduces the GDP growth rate by 1% during any 12-month period</li> <li>• institutional failure: a deterioration of government capacity to cope with national problems as a result of institutional rigidity that reduces the GDP growth rate by 1% during any 12-month period</li> <li>• global e-government</li> <li>• quality of bureaucracy</li> <li>• excessive bureaucracy/red tape</li> <li>• quality of general infrastructure</li> <li>• quality of public schools</li> </ul>
Regulatory quality	<ul style="list-style-type: none"> <li>• export regulations</li> <li>• import regulations</li> <li>• other regulation burdens</li> <li>• restrictions on ownership of business by non-residents</li> <li>• restrictions on ownership of equity by non-residents</li> <li>• unfair competitive practices</li> <li>• price controls</li> <li>• discriminatory tariffs</li> <li>• excessive protections</li> <li>• stock exchange/capital markets</li> <li>• foreign investment</li> </ul>

Rule of law	<ul style="list-style-type: none"> <li>• enforceability of contracts</li> <li>• direct financial fraud, money laundering and organized crime</li> <li>• losses and costs of crime</li> <li>• kidnapping of foreigners</li> <li>• enforceability of government contracts</li> <li>• enforceability of private contracts</li> <li>• violent crime</li> <li>• organized crime</li> <li>• fairness of judicial process</li> <li>• enforceability of contracts</li> <li>• speediness of judicial process</li> <li>• confiscation/expropriation</li> </ul>
Control of corruption	<ul style="list-style-type: none"> <li>• internal causes of political risk: mentality, including xenophobia nationalism, corruption, nepotism, willingness to compromise</li> <li>• indirect diversion of funds</li> <li>• losses and costs of corruption</li> <li>• cronyism</li> <li>• government efforts to tackle corruption</li> <li>• public trust in financial honesty of politicians</li> </ul>

Source: author's own modification based on Kaufmann, Kraay, Mastruzzi 2009, p. 73–79.

the quality assessment of institutions in economic policy are the following four indicators: government effectiveness, regulatory quality, rule of law, control of corruption.

Table 5 presents ten EU member states from Central and Eastern Europe according to the Worldwide Governance Indicators on the basis of the 2009 ranking comprising 212 countries.

**TABLE 5. The EU member states from Central and Eastern Europe according to the Worldwide Governance Indicators**

A	B	C	D	E	F	G
Bulgaria	+0.60	+0.39	+0.10	+0.75	-0.12	-0.17
Czech Republic	+1.02	+0.93	+1.07	+1.09	+0.85	+0.37
Estonia	+1.03	+0.57	+1.15	+1.47	+1.05	+0.94
Hungary	+1.00	+0.59	+0.66	+1.26	+0.82	+0.55
Latvia	+0.86	+0.40	+0.56	+1.07	+0.73	+0.29
Lithuania	+0.85	+0.73	+0.64	+1.14	+0.58	+0.18
Poland	+0.86	+0.79	+0.48	+0.77	+0.49	+0.38
Romania	+0.48	+0.30	-0.14	+0.53	-0.05	-0.06
Slovakia	+0.89	+0.92	+0.76	+1.14	+0.52	+0.43
Slovenia	+1.02	+1.07	+1.09	+0.81	+0.91	+0.95

Notes: A – state name; B – voice and accountability; C – political stability and absence of violence; D – government effectiveness; E – regulatory quality; F – rule of law; G – control of corruption.

Source: World Bank.

Taking into account the assumptions and basing on data already cited, Table 6 presents the EU member states from Central and Eastern Europe, characterized by the best and worst institutions according to the the Worldwide Governance Indicators.

**TABLE 6. The EU member states from Central and Eastern Europe with the best and worst institutions according to the the Worldwide Governance Indicators**

Category	Best institutions	Worst institutions
Government effectiveness	Estonia Slovenia Czech Republic	Romania Bulgaria Poland
Regulatory quality	Estonia Hungary	Romania Bulgaria Poland
Rule of law	Estonia Slovenia Czech Republic	Bulgaria Romania Poland
Control of corruption	Slovenia Estonia Hungary	Bulgaria Romania Lithuania

*Source:* author's own compilation.

On the basis of data presented in Table 6, the following conclusions may be formulated. The countries with the most powerful institutions according to the government effectiveness category are Estonia, Slovenia and the Czech Republic. Among the states with the most powerful institutions, Estonia appears four times. It is also worth noting that among the countries with the worst institutions Romania and Bulgaria can be found as many as four times, and Poland three times.

## **Conclusions**

In the article, the concept of analysis of the scope of functions and the strength of institutions in economic policy is proposed on an example of the national policies of the EU member states from Central and Eastern Europe. Attention is focused on the essence of economic policy. Also, the multidimensional system of the economic policy of these countries is indicated. The scope of functions and strength of institutions can be described as the two basic dimensions of the economic policy analysis. On the basis of the use of existing indices, in the paper the measures of these dimensions are proposed, and elements of a comparative analysis of economic policies pursued in the EU countries from Central and Eastern Europe are briefly outlined.

Taking into account the above discussions, the economic policies of particular EU member states from Central and Eastern Europe can be counted among the four groups:

- those characterized by the scope of functions bigger than the average value, as well as by strength of institutions higher than the average – Hungary is an example;
  - those characterized by the range of functions smaller than the average value, as well as by the strength of institutions higher than the average – Estonia is an example;
- those characterized by the scope of functions bigger than the average value, as well as by the strength of institutions lower than the average – Poland is an example;
- those characterized by the range of functions smaller than the average value, as well as by the strength of institutions lower than the average – Romania is an example.

The presented analyses show that there are clear differences among the national economic policies of particular EU member states from Central and Eastern Europe. From the standpoint of economic policy and its dimensions, the situation is most favourable in countries with the most powerful institutions: the Czech Republic, Estonia, Hungary and Slovenia. It is crucial to strive after improving the quality of institutions in individual states, which should result in a faster socio-economic development and an increase of the efficiency of the public authorities interventionism. This postulate applies in particular to the countries with the comparatively weakest institutions (Bulgaria and Romania).

It seems that the proposed concept of analysis of the scope of functions and the strength of institutions in economic policy on an example of the national policies of EU member states from Central and Eastern Europe can be further developed. Worth considering is its application in other comparative studies in different territorial and temporal sections. Also, studies may be conducted on the relationship between the scope of functions and the strength of institutions in economic policy and in various socio-economic phenomena and processes.

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