

Subjective well-being and institutional variables - An econometric study-

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Abstract:

The article aims to study the relationship between subjective well-being and institutional variables in Algeria, where many studies confirm that achieving economic growth rates is due primarily to the nature and quality of the institutional system of the state. The income level as a variable that measures the subjective well-being of the individual in addition to the institutional variables, using the ARDL model during the period 1984 to 2020, as the institutional indicators are represented in government stability, law and order, the quality of bureaucracy, and democratic accountability, and these variables were determined depending on economic theory and Previous studies taking into account the Algerian reality.

As for the results of the study, it found the negative impact of democratic accountability on the per capita gross domestic product in the long term, while the impact of the rest of the variables on the per capita gross domestic product was positive, such as the law and order index, government stability and the quality of bureaucracy.

Keywords : Subjective well-being, government stability, quality of bureaucracy, democratic accountability, ARDL Model

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I- Introduction:

The studies that dealt with the relationship between subjective well-being and institutional variables show the difference in the field of influence, as it is confirmed by many experimental studies through the interpretation of subjective well-being with the variable of the individual's gross domestic product and the level of individual income as a basic indicator and its relationship with indicators of good governance that the relationship goes in both directions. And this is due to other factors, as institutional indicators have an impact on economic performance and on the gross domestic product of the individual by assessing the quality and quality of institutional variables using global governance indicators,

The quality of life and the standard of living have a prominent role in establishing and directing care and individual well-being, and thus social well-being in society, and empowering target groups to achieve general societal goals, social justice, equality, freedom, democracy, citizenship, and improving the quality of life. Moreover, it is not possible to achieve the general societal goals without social welfare policies that direct plans, programs and projects to meet human needs and improve the level and quality of life in society.

The main objective of this study is to show the relationship between subjective well-being and institutional variables in Algeria, based on the findings of the empirical studies, and then to address the Algerian reality. Thus, the problematic of the study is as follows:

How do institutional variables affect subjective well-being in Algeria?

To answer the problem, a research hypothesis was proposed, which is:

Institutional variables affect subjective well-being positively.

To reach the aim of the study, answer the general question, and test the validity of the hypothesis, the following research methodology was followed, which was represented in two aspects, a special aspect of the most important experimental studies or applied studies that were conducted on the subject, and then the applied aspect to find out the impact of institutional variables on the gross domestic product of the individual. And the level of income as a variable that measures the subjective well-being of the individual in addition to the institutional variables, using the ARDL model during the period 1984 to 2020, as the institutional indicators are represented in government stability, law and order, the quality of bureaucracy, and democratic accountability, and these variables were determined based on economic theory. And previous studies taking into account the Algerian reality.

1. Theoretical approach and literature review

-Many theoretical concepts aimed at studying the relationship between the quality of institutional variables, economic growth, and gross domestic product per capita have confirmed that the long-term economic performance of the state has a strong relationship with the institutional environment and the aspects of complementarity between the various types of institutions, as he pointed out. (Alonso, Garcimartin, Kvedaras 2020) indicate that institutional quality is highly associated with variables that can be modified through public policies, such as per capita income, international openness, the educational system, the financial system, and redistributive policies.

- And when economists talk about the subject of welfare (**le bien être**), they use old terms for the famous economist Arthur Cecil Pigou, who is considered the father of Keynes in his book “The Economics of Welfare” published in 1908 (**Stiglitz & C E, 2009**). **Pigou** also called for The welfare theory is nothing less than a general theory of economic policy. (**Davoine, 2007**) He said that whoever wants to study the great principles of science must focus mainly on the large quantities of social problems, such as the existence of the rich and the poor, and despite the fact that the rate of change in economic development is great in the past 20 years, and therefore this conceptual development We owe much to the work of Amartya Sen, who in his work defines development as freedom, published in 1999, as not only are these multiple dimensions what constitutes well-being, but goes beyond this to know the causes that lead to development and social well-being from on the one hand, and to multidimensional deprivation on the other hand (**Angus, 2011**).

-The course of economic growth has been characterized by fluctuating and slow over the past two decades in the Arab world. The degree of growth change varies in different Arab countries according to their level of income. Where there is a debate among researchers about the issue of development and the extent of its performance, and that poor institutional performance may be due to the main reason for the quality of institutions that slow down the wheel of economic growth; Other researchers believe that there are other factors that cause it. And whether governance is a prerequisite for achieving economic growth at higher levels or vice versa (**El Adlani.H.A, 2019**)

-Most of the research (**Stiglitz, Sen, & Fitoussi, 2009**) in this field focused on determining the importance of institutions for economic outcomes such as growth in per capita GDP and per capita income. However, well-being has a multidimensional concept such as community participation, community values, health, education, social networks, freedom, and well-being including life satisfaction, self-esteem, optimism, or positive participation.

-Economic and political institutions are the main determinant of economic results (**Acemoglu, Johnson, Robinson, & Thaicharoen, 2003**), and institutional change is an important element in economic development and contribution to raising economic performance. This is confirmed by most economists of institutional economics that institutional change, And high-quality institutions are the main factor for achieving economic development, and (**Rodrik et al. 2002**) confirm that the efficiency of economic and social institutions and political power determine the overall economic performance and economic development (**Feldman, Hadjimichael, Kemeny, Lanahan, & Partridge, 2014**) Institutions have an influence on behavior and motivations in real life, and they also have the power to shape and determine the success or failure of nations. In addition, institutions are crucial in determining whether a country becomes poor or prosperous (**Acemoglu & Robinson, 2015**).

-Well-being dimensions are closely related to economic development. (**Stiglitz, Sen, & Fitoussi, 2009**) While good institutions are an end in themselves, they examine the relationship between different types of institutions and dimensions of well-being that can help institutions guide public policy.

- (**North, 1990**) analyzed the causal relationship between good governance and economic growth through its discussion of democracy, political stability and corruption. He also sees (**Rodrik, 2002**) and (**Hall & Jones, 1999**), if the increase in the volume of working capital

has a positive impact on growth, this increase will be much greater if the economy enjoys good quality of governance

-(**Han, Khan, & Zhuang, 2014**) analyzed the governance gap and its impact on economic growth. The study showed that "Middle East and North African countries that have an excess of political stability, government effectiveness, and control over corruption, grow faster than those that It suffers from a deficit in these indicators by up to 2.5 percentage points annually. The study indicates that governance matters to economic growth in the Middle East and North Africa region.

-(**Mehanna, Yazbeck, & Sarieddine 2010**) studies the relationship between governance and economic development in 23 countries in the Middle East and North Africa region during the period 1996-2005. Their study compares the various challenges facing the region, including education, fixed investment, the existence of religious fractions, And the verdict. The study shows that improving governance is the main challenge facing countries in the Middle East and North Africa region. The study shows that voice, accountability, governmental effectiveness, and control of corruption exert the strongest economic impact on economic development. Bureaucratic professional allocation reduces opportunities for corruption and encourages productive investment (**Dahlström, Lapuente, & Teorell, 2012**).

- According to the results of the analysis, it was found that variables such as the independence of the judiciary, government expenditures, transfers, subsidies, civil liberties, and military tutelage (political stability) have a negative impact on the overall economic performance of developing countries. (**Yıldırım & Gökalp, 2016**)

-(**Han, X., Khan, H. and Z huang, J. 2014**) By analyzing the governance deficit and its impact on economic growth in a study showing that MENA countries benefit from government effectiveness and control of corruption, increasingly and faster than those with a deficit in these indicators by up to 2.5 percentage points per year. The study indicates that good governance increases economic growth in the Middle East and North Africa region.

-- It has been empirically proven that in countries with great political freedom and low levels of corruption, the positive effects of corruption outweigh the negative effects and vice versa (**Méndez & Sepúlveda, 2006**) It is empirically demonstrated that corruption not only reduces economic growth, but also contributes to income inequality, (**Gyimah-Brempong, 2002**)

- (**Wilson, 2016**) concluded that corporate governance has a direct and significant impact on the economic growth of a selected group of countries. Moreover, it also indirectly affects economic growth through the population channel; When corporate governance interacts with the population, the transformations are positive and significant.

-That political and economic institutions are the basis, economic success, the degree of incentive structures, and the relationship between the state and the market is the determinant of growth performance in cities. (**Acemoglu & Robinson, 2012**)

- (**Chiung-Ju, 2015**) measured the causal relationship between governance and economic growth in ten Asian countries, and the experimental results showed that there is Granger causation from governance to economic growth in "not free" and "partially free" countries with the exception of Singapore. As for "free" countries such as South Korea and Taiwan, there is a one-way reason from governance to economic growth. The results of this study

indicate that policymakers in South Korea, Taiwan and Singapore can use the governance index to improve their expectations of future economic growth.

-Conceptual frameworks that focus on the study of institutions also show that the long-term economic performance of a country is critically linked not only to the institutional environment but also to the complementarities between different types of institutions (**F. Gagliardi 2017**).

- While improving some social conditions leads to improving the quality of life (**Montalembert, 2016**) leads to improving social and institutional life through defining social policies in light of improving the management of institutions and improving some devices, and generalizing a licensing system for assistance and support services in addition to strengthening the role of organizations and Organization and control of the National Solidarity Fund. (**Jach & Isabelle, 2014**) European social policy and national systems in light of the institutional nature and quality of solidarity institutions help to maintain the social basis and political power, through the organization and financing of social services. Whereas, within this concept, the social welfare state is formed as an essential element of national and social cohesion. And regarding the relationship between institutional innovation and public programs (**Penven, 2015**) identified it through the importance of the role of the state in the policy of decentralization, which is one of the basic steps imposed by the policy of institutional modernization in the field of social policy in combating poverty.

2. Model and data study: The relationship between subjective well-being and institutional variables

The study is to know the impact of institutional variables on subjective well-being by relying on the indicator of the gross domestic product per capita in Algeria and through the interpretation of each of the institutional variables and economic growth in Algeria, as the institutional variables are represented in government stability, law and order, the quality of bureaucracy Democratic accountability and government stability. As for the explanatory variable of subjective well-being, it is represented in the crude internal growth rate and the level of income. These variables have been identified based on economic theory and previous studies, taking into account the Algerian reality.

Theoretical and experimental studies showed the different impact of each of the institutional variables on well-being. That is, it does not necessarily have to be a positive effect. In many of the points of view of previous studies, this appeared, and it in itself leads us to estimate several models to know this effect according to the different institutional variables and their impact on the GDP per capita in Algeria in the long term.

Therefore, the dependent variable in this applied study is the raw internal product, and the independent variables are the institutional variables. However, it was concluded through theory and experimental studies that causation may operate in both directions. As for the estimation method, we relied on the Autoregressive Distributed Time Lapses (ARDL) method to study the relationship in the long run. The ARDL method allows us to study the relationship in the long run, taking into account the effect of the lagging values of the independent and dependent variables on the current values of the dependent variable. An application of the cointegration technique for long-run growth analysis consists in testing

whether the dependent variable and the independent variables follow a common trend in the long run.

The data related to the variables of the study are represented in the variables of the gross domestic product rate, which are dependent variables, in addition to other independent variables that are represented in the institutional variables, including government stability, law and order, the quality of bureaucracy, democratic accountability and government stability. These variables are rates and Pedigree. The quantitative data of the study are annual time series for Algeria, extending over the period 1984 to 2020.

The variables forming the models and their sources are summarized in the following table:

Table (01): Study variables

Series code	Series name	Series source
TPIBH	gross domestic product per capita	World Bank database
BUREAUC	bureaucratic quality	Database of World Governance Indicators (WGI).
DEMOCR	Democratic accountability	Database of World Governance Indicators (WGI).
GOVSTAB	government stability	Database of World Governance Indicators (WGI).
LAW	Law and order	Database of World Governance Indicators (WGI).

Determining the impact of institutional variables on per capita gross domestic product in the long run will be done by estimating a standard model interpreted by institutional variables as independent variables and per capita gross domestic product is the dependent variable.

Before estimating the equation, the statistical properties of the variables should be studied, especially the study of stability. The goal is to reveal the relationship in the long run and to avoid false estimates that may result if the series used in the estimate are unstable.

The unit root of the model variables was tested using the Augmented Dickey Fuller test. As for the degree of delay, it was determined based on the lowest value of the Akayek and Schwarz criteria (max $p = 4$). Next table

Table (02): The degree of integration of the time series

Study variables	LAW	GOVSTAB	DEMOCR	BUREAUC	TPIBH
degree of stability	I (1)	I (1)	I (1)	I (1)	I (1)

If the critical value (according to Mackinnon 1996) is at a significant 5% greater than the value calculated for the Dickie Fuller test (ADF) (in absolute terms), this means accepting the null hypothesis, i.e. the variable contains a unit root, and therefore the series is unstable. But if the value calculated for the Dickie Fuller test is greater than the critical value, the series is stable.

By making the first differences on unstable time series, we obtain stable time series.

After confirming the condition of applying the ARDL methodology, which is the degree of integration of the time series of the variables of the study through the unit root test, so that

the degree of integration of all variables is integrated of degree I (1), then now we will test the existence of a cointegration relationship.

The model takes the following linear form:

$$PIBH = f(BUREAUC, DEMOCR, GOVSTAB, LAW) \dots\dots\dots(3)$$

To estimate the aforementioned relationship in the long run, we will use the Auto Regressive Distributive Lags (ARDL) model developed by Pesaran et al (2001). This model is considered as an alternative to the well-known cointegration tests. This test developed by Pesaran et al (2001) is distinguished from the rest of the tests because it does not require that all time series be integrated of the same degree I(0) or I(1). The only condition for applying this test is that the degree of integration of any of the variables should not be I(2). Also, ARDL can be applied if the sample size is small, unlike most traditional cointegration tests that require a large sample size in order for the results to be more efficient.

The ARDL model enables us to separate the effects of the short term from the long term, as we can through this methodology determine the complementary relationship of the dependent variable and the independent variables in the long and short term in the same equation, in addition to determining the size of the effect of each of the independent variables on the dependent variable. Also in this methodology we can estimate the parameters of the independent variables in the short and long run. Its parameters estimated in the short and long run are more consistent than those of other methods such as (Engel-Granger ,1987), (Johansen ,1988) and Johansen-JSLS method (1990). To determine the length of the distributed slowing periods, two criteria are usually used, namely (AIK) and (SC), where the length of the period in which both (AIK) and (SC) degrade are chosen.

The ARDL form of equation (1) is written in the following form:

$$\begin{aligned} \Delta PIBH = & \alpha_0 + \sum_{j=1}^{p_1} \beta_j \Delta PIBH_{t-j} + \sum_{j=0}^{p_2} \theta_j \Delta BUREAUC_{t-j} + \sum_{j=0}^{p_3} \gamma_j \Delta DEMOCR_{t-j} \\ & + \sum_{j=0}^{p_4} \delta_j \Delta GOVSTAB_{t-j} + \sum_{j=0}^{p_5} \lambda_j \Delta LAW_{t-j} + \pi_1 PIBH_{t-1} + \pi_2 BUREAUC_{t-1} + \\ & \pi_3 DEMOCR_{t-1} + \pi_4 GOVSTAB_{t-1} + \pi_5 LAW_{t-1} + \varepsilon_t \dots\dots\dots(4) \end{aligned}$$

Model (4) shows that the raw internal product of the individual can be explained by its lagging values, and the lagging values of the independent variables.

2.2. Testing the cointegration relationship using the limits method

The first step of the ARDL methodology is to test the existence of a cointegration relationship, so that cointegration according to Pesaran and al (2001) in ARDL models is based on testing the following hypothesis:

$$\begin{cases} H_0 : \pi_1 = \pi_2 = \pi_3 = \pi_4 = \pi_5 = 0. \\ H_1 : \pi_1 \neq 0, \pi_2 \neq 0, \pi_3 \neq 0, \pi_4 \neq 0, \pi_5 \neq 0. \end{cases}$$

The test statistic is F-statistics (Wald test), and the decision is as follows: if the value of the F-stat is greater than the upper bound of the critical values, then we reject the null hypothesis that there is no cointegration relationship. But if the F-stat is less than the minimum critical values, then we accept the null hypothesis that there is no cointegration relationship. But if the calculated value of the F statistic falls between the upper limit and the lower limit of the critical values suggested by Pesaran and al (2001), then we cannot decide.

The minimum value assumes that all variables are static at their original values (in their level), i.e. they are integral of order I(0). As for the value of the upper limit, it assumes that the variables are static in the first differences of their values, in the sense that they are integrated of the order of one correct I (1).

The second step is to estimate the parameters of the model in the short run and the long run. This is done after making sure that there is a co-integration relationship between the variables of the study.

The value of the cointegration statistic is $F = 7.284391$ and the limits of the critical values at the different degrees of significance proposed by Pesaran and al (2001) are shown in the following table:

Table (03): boundaries tests		
F-statistic = 7.284391		
Critical values		
Upper limit	Bottom border	significatif levels
4.36	4.41	10%
5.47	4.67	5%
5.22	5.30	2.5%
6.62	5.13	1%

Source: Prepared by the researchers depending on Eviews 10

The table shows that F-stat is greater than the upper limit of the critical value at different degrees of significance (1%, 5%, 10%) and therefore reject the null hypothesis and accept the alternative hypothesis of a long-term equilibrium relationship.

2.3. Estimation of the ARDL Model

After confirming the existence of a long-term relationship, we will estimate the parameters of this relationship according to the ARDL methodology. Based on the (Schwarz Bayesian Criterion) lag periods (3, 2, 2, 4, 1) were determined, and it was found that the model is the optimal model. The results of the assessment in the short and long term are shown in the following table:

Table (4): Estimating the autoregressive model for the distributed time gaps (3, 2, 2, 4, 1)

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TAUXPIBH(-1))	-0.010963	0.594532	-0.018440	0.9856
D(TAUXPIBH(-2))	0.220702	0.409002	0.539610	0.6002
D(BUREAUC)	-18.439448	15.639701	-1.179015	0.2633
D(BUREAUC(-1))	-11.753638	19.965422	-0.588700	0.5680
D(DEMOOCR)	5.615536	7.454732	0.753285	0.4671
D(DEMOOCR(-1))	-1.521291	7.286661	-0.208778	0.8384
D(LAW)	22.270142	17.047069	1.306391	0.2181
D(LAW(-1))	-19.342273	14.931349	-1.295414	0.2217
D(LAW(-2))	2.139658	15.164999	0.141092	0.8903
D(LAW(-3))	17.980518	12.976938	1.385575	0.1933
D(GOVSTAB)	-5.734645	4.991000	-1.148997	0.2749
CointEq(-1)	-1.075056	0.750974	-1.431548	0.1801
Cointeq = TAUXPIBH - (2.8288*BUREAUC --8.7645*DEMOOCR + 8.9271 *LAW + 7.1203*GOVSTAB --45.1864)				

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BUREAUC	2.828823	15.925924	0.123574	0.0039
DEMOCR	-8.764530	8.941346	-0.870336	0.0027
LAW	8.927132	9.046919	0.801919	0.0396
GOVSTAB	7.120367	2.552016	2.028333	0.0674
C	-45.186483	33.794570	-1.126946	0.2837

$$y = -45.08 + (8.92 \text{ law} + 7.12 \text{ govstab} - 8.76 \text{ democr} + 2.82 \text{ bureauc})$$

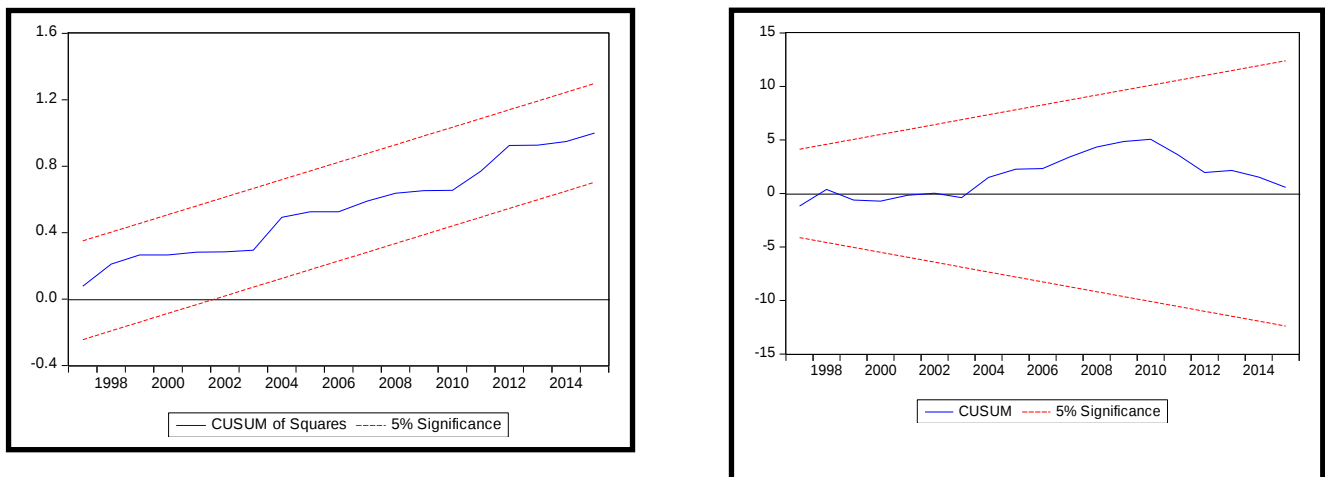
After estimating the model using the ARDL method, we concluded that the negative impact of democratic accountability on GDP per capita in the long run, as an increase of 1% in democratic accountability leads to a decrease in GDP per capita by 8.76%.

The effect of the rest of the variables on the per capita gross domestic product was positive, as the 1% increase in law and order, government stability, and the quality of bureaucracy lead to an increase in the per capita gross domestic product in the long run by 8.92%, 7.12%, and 2.82%, respectively, and All variables, including the constant, are statistically significant at 5%.

2.4. Test stability of the model

The structural stability test for short- and long-term transactions will be conducted through two tests proposed by Brown, Durbin, and Evans (1975): the CUSUM cumulative test and the CUSUM of Squares.

Figure (02): Graph of the test for each of the cumulative sum of residuals and the test for the cumulative sum of squares of reciprocal remainders



Source: Prepared by the researchers depending on Eviews 10

It is clear from the two figures that the estimated coefficients of the model are structurally stable during the study period, due to the occurrence of the two test graphs (CUSUM) and (CUSUM of Squares) within the critical limits at a significant level of 5%.

3. The results of the study

With regard to the results reached in this standard study that extended from 1984 to 2020, we found, after estimating the model using the ARDL method:

For the impact of institutional variables on per capita gross domestic product, we found, after estimating the model using the ARDL method, the negative impact of democratic accountability on per capita gross domestic product in the long run. An increase of 1% in democratic accountability leads to a decrease in per capita gross domestic product by 8.76%.

The effect of the rest of the variables on the per capita gross domestic product was positive, as the 1% increase in law and order, government stability and the quality of bureaucracy leads to an increase in the per capita gross domestic product in the long run by 9.92%, 7.12% and 2.82%, respectively, and All variables, including the constant, are statistically significant at 5%.

Conclusion

Through what was dealt with in this study, which was the relationship between subjective well-being and institutional indicators, it is clear that self-well-being, which was explained by the raw internal product of the individual, has an impact on the quality of the institutional variables, and that institutional change has a role on the overall economic performance and the level of income. The individual and the extent of his satisfaction and well-being in addition to the level and quality of life, which has been proven by most of the previous theoretical and experimental studies.

According to the results of the study and to test the research hypothesis, after estimating the model using the ARDL method, we found the negative impact of democratic accountability on the per capita gross domestic product in the long run, and we also found the positive impact of the variables of law and order, government stability and the quality of bureaucracy on the per capita gross domestic product, which explains Subjective well-being in the long term, and this confirms the validity of the hypothesis that there is an effect between the two variables, but the nature of the effect changes between a positive effect and a negative effect.

Whereas, the studies that dealt with the relationship between subjective well-being and institutional variables are considered one of the few studies, but institutions are considered one of the most important determinants of well-being. Economic activities that help achieve the greatest benefit from their personal skills and talents, and that enable individuals to make the choices they desire and thus achieve their well-being and increase their individual income level.

Therefore, and through the case of Algeria, it must be said that good and targeted guidance must be directed to spending and social support programs to achieve the goals of social policy, self-well-being and self-satisfaction, and thus societal well-being that aims at a fair distribution of income among the groups of society, especially those with low incomes, and to avoid All forms of deprivation and multidimensional poverty in society.

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