

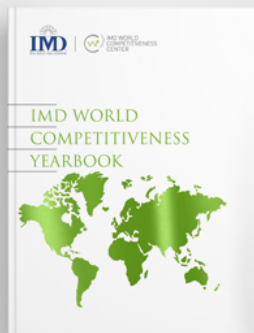
In the second round of tests, which focus on business productivity, we find that the only sub-factor that is consistently significant throughout the 2012-2016 period is the institutional framework sub-factor. Lagging the input sub-factors for business productivity, only the institutional framework and the health and environment sub-factor are significant statistically throughout (see **Table 2**). These results indicate that “institutional competitiveness” plays an essential role in defining the efficiency and productivity of business.

Table 2
Business productivity tests

	Public finance sub- factor	Fiscal policy sub- factor	Institutional framework sub-factor	Business legislation sub-factor	Societal framework sub-factor	Basic infrastructure sub-factor	Technological infrastructure sub-factor	Scientific infrastructure sub-factor	Health and environment sub-factor	Education sub- factor
Business productivity sub-factor	Panel A: Results by year									
2016			X		X		X			
2015			X						X	
2014		X	X				X		X	
2013			X					X	X	X
2012			X			X				
Business productivity sub-factor	Panel B: Lagged results									
2016			X		X				X	
2015			X						X	
2014			X						X	X
2013			X			X		X	X	
2012										

What does institutional competitiveness mean? A peruse of the institutional framework components highlights the fundamental role of stability and predictability in this context. We thus propose that the quality of the legal and regulatory system is a key driver of efficiency and productivity. Similarly, the level of the government policies’ adaptability to changes in the economy is essential. We also propose that increasing the transparency of government policy-making and simultaneously limiting bribery and corruption drive business efficiency and productivity. We thus expect the Rule of Law and the country credit rating indicator, which evaluates the political, economic and financial risks that underline a particular country’s credit quality, to be of high significance.

The above propositions may seem self-evident to some observers but current political trends suggests that in some countries institutional competitiveness is somewhat in decline. It is thus necessary to revisit its fundamental role. We will tests the above propositions in our next Criterion of the Month.



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