

The Rule of Law and the Economy: How the Rules of the Game Enable Prosperity

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What happens to the economy when governments stop playing by the rules? Underinvestment, slow growth and volatile markets. The Law Society and Bingham Centre are working together to find out how the rule of law affects the economy.

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Can the global economy survive in a "world without rules"?

At the January 2026 World Economic Forum in Davos, [national leaders repeatedly spoke about](#) how the world has become more unpredictable, more fragmented, and harder to govern through shared rules. A stark example is the global uncertainty caused by the US Supreme Court's February 2026 ruling on some presidentially imposed tariffs. At the time of writing this blog, it appeared that [the Court's finding](#) of illegality would affect potentially as much as \$130bn in tariffs paid by businesses since last year, and cast doubt on major trade deals that had set country-specific tariffs.

For businesses and investors, this signals a shift. Uncertainty increasingly comes from institutions: it is no longer just cyclical or financial.

The World Justice Project (WJP) reinforces this warning. Its latest [Rule of Law Index](#) shows a global pattern of decline for the eighth year in a row, with 68% of countries deteriorating in 2025.

This is largely due to weaker judicial independence, eroding checks and balances, and shrinking civic space.

It is in this context that the Bingham Centre for the Rule of Law and the Law Society of England and Wales have published a report, [The Rule of Law and the Institutional Roots of Economic Performance](#).

In the report, economist **Dr Laura Lopez-Gomez** looks at the evidence linking rule of law to economic growth, development and prosperity.

What does the rule of law have to do with the economy?

Economies do not run on hard work alone; they function on expectations.

Every spending and investment decision, whether by a household, an entrepreneur, or a multinational business, depends on basic legal assurances: that contracts will be enforced, property protected, public power constrained, and disputes resolved fairly.

The report places this at the heart of institutional economics, showing that prosperity is enabled by the "rules of the game" that shape political, economic, and social interaction.

The rule of law [as defined by Bingham](#) includes a core requirement that everyone, including businesses and state authorities, is "bound by and entitled to the benefit of laws" that can be enforced in the courts.

This allows economic actors to coordinate expectations and take productive risks. It reduces uncertainty, protects rights, and ensures laws do not just exist on paper but are enforced in practice by independent courts following fair procedures.

Dr Lopez-Gomez's report notes that countries with strong rule of law are characterised by a high degree of "self-enforcement", where most people follow the law voluntarily. In this sense, the rule of law provides a shared playbook for the vast majority of transactions and economic activities, enabling them to take place without anyone being taken to court, while still being underpinned by law.

When these conditions hold, transactions become safer, credit flows more easily and long-term planning becomes viable. The report's central finding is both intuitive and evidence-based: countries with strong rule of law tend to achieve higher levels of prosperity.

How exactly does the rule of law support economic growth?

Crucially, the report goes beyond correlation and explains the mechanisms.

At the microeconomic level, the rule of law shapes incentives. Where laws are clear and enforcement is credible, firms are more likely to formalise their business, and to invest, innovate, and enter into long-term contracts.

Where the rule of law is weak, economic actors often retreat into short-term strategies and informal arrangements because risk is too high.

At the macroeconomic level, the rule of law supports stability of the economy as a whole by enabling a more efficient allocation of resources by economic actors.

This paves the way for deepening financial markets, improving the availability of credit and investment capital, and making a country more [attractive to foreign direct investment](#).

The report goes on to consider how the rule of law interacts with other institutional factors, including corruption control, public services (effective bureaucracy), and democracy. Each of these is intertwined with the rule of law and magnifies its benefits.

Indeed, the [2024 Nobel prize in economics](#) was awarded to three experts in economic history who have demonstrated the long-term economic benefits of inclusive institutions, which rely on the rule of law.

Is the rule of law a driver of growth, or a stabiliser of prosperity?

One of the report's key insights is that the economic impact of rule of law reforms varies by context.

A consistent finding in the evidence is that improvements in legal quality often have stronger growth impacts in low- and middle-income countries, where institutions are weaker and markets less developed. In such settings, the rule of law can kick-start or

speed up growth by reducing uncertainty and unleashing private-sector dynamism.

In high-income economies, where institutions are more consolidated, the rule of law often acts as a stabiliser, preserving trust and preventing backsliding in the quality of institutions that economic actors rely upon.

Maintaining the rule of law requires a focus on access to justice for everyone in our communities, as problems such as court backlogs or [a lack of affordable legal advice](#) have detrimental impacts on our well-being and economic productivity.

Yet amongst the bulk of evidence pointing to an overall positive relationship in which rule of law strengthens growth in the long term, there are contrasting examples to consider.

Some economies have achieved strong growth despite institutional weakness and poor rule of law standards - such as China, which is ranked [92nd in the 2025 World Justice Project global Rule of Law index](#), albeit that its overall rule of law has somewhat improved since the late 20th century.

We heard from a range of experts (senior members of the judiciary and legal profession, economists, civil servants, and policy experts) at a recent roundtable.

They offered some possible explanations for countries achieving strong growth despite poor or slowly improving rule law. While other growth drivers such as natural resources and skilled workforces have parts to play, so does investment. In practice, businesses may be willing to invest under risky conditions - but only where they are able to price in these risks and stand to gain a higher return on investment.

However, what explains these growth performances and, indeed, how far they can be sustained into the future, requires further investigation.

Against this background, the report positions the United Kingdom as a particularly important case, reflecting both the historical roots and modern maturity of its legal institutions.

It underlines the adaptability of common law and its role in supporting industrial and commercial development, showing how legal predictability became a platform for long-term economic development. Yet the report is equally clear that even mature systems continue to face new pressures, from changes in the global trade landscape, to rapid technological change.

The rule of law remains a source of resilience, but it is not self-sustaining: it must be defended, adapted and properly resourced.

Conclusion

This report is not simply a reminder that the rule of law matters. It is a practical explanation of why the rule of law matters — and why it matters now, to us all.

In an era shaped by trade disruption, investment risk, and economic security concerns, the rule of law should be treated as part of the core toolkit for sustainable prosperity.

This is why the Law Society and Bingham Centre have embarked together on this crucial project. With economic performance being both a public and political imperative in the UK today, our collective success depends upon instituting and vigorously maintaining the rule of law that is so necessary for growth and investment.

URL: <https://binghamcentre.biicl.org/comments/146/the-rule-of-law-and-the-economy-how-the-rules-of-the-game-enable-prosperity>

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