Fundamentals: Macro and the Regulatory Environment

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Three distinct layers of policies are needed

- **Priorities**: Know your jobs challenge, remove or offset the constraints.
- **Labor Policies**: Stay on the efficiency plateau, avoid misguided interventions, provide voice and extend protection.
- **Fundamentals**: Macroeconomic stability, an enabling business environment, human capital, rule of law and respect for rights.
Macroeconomic fundamentals

• Growth: aggregate demand and employment

• Costs: interest rates; exchange rates

• Risks, uncertainty: economic; political
Macro policies, growth and strategies

“Commission on Growth and Development” led by Nobel Laureate Michael Spence recommended:

• Openness to the global economy;
• Macroeconomic stability;
• High rates of private and public investment (including on infrastructure), matched by domestic savings;
• Respect for market signals but not absolute deference to markets; and
• Governments committed to trying out country-specific growth strategies and abandoning policies that are no longer useful; and
• Government provision of public goods.

Caveat...

This list of characteristics“...does not provide a formula for policy makers to apply—no generic formula exists. Each country has specific characteristics and historical experiences that must be reflected in its growth strategy.”
When is a “jobs strategy” rather than a “growth strategy” relevant?
Microeconomics of growth

- Underlying aggregates are lots of individual firms and worker
- Same policy can have differential impacts across:
  - Firms by age, location, sector, labor intensity, productivity, ownership
  - Workers by skill, age, gender, tenure
- Look at regulations beyond labor regulations, e.g.:
  - Business registration
  - Permits, licenses
  - Contracts
  - Creditor rights

- Which regulations might matter?
- How reform them?
  - What is important to fix and why
  - Practical considerations to keep in mind about how to do it
Some regulations are easier to reform than others
POLL: What reform would most raise business registration?

• Reducing the cost of registration
• Reducing the time it takes to register
• Improving the information about how to register
• All of the above
• None of the above
Ease of business entry regulations

- Mexico (Bruhn 2011; Kaplan 2011) (location)
- Europe (Klapper, Laeven and Ragan, 2004) (sector, location)
- Experiments in Sri Lanka, Peru, Ghana (McKenzie et al) (cost, information)
- Brazil (Fajnzylber, Maloney, Montes-Rojas 2011) (other costs/benefits)
- Ethiopia (Hallward-Driemeier and Gajigo 2015) (gender)
Efficiency of regulations vary within countries

FIGURE 2.1 An economy’s regulatory environment may be more business-friendly in some areas than in others

Distance to frontier score (0–100)

Average of highest three topic scores
Average of all topic scores
Average of lowest three topic scores

Source: Doing Business database.
Sub-national variation can be significant too
Countries without gender gaps in legal capacity or property rights had 30% higher rates of women moving from self-employment to being an employer (Hallward-Driemeier, 2014)
Impacts of regulations can vary by gender

- **Formal laws affect informal practices too – and in changing incentives can have impacts across generations**
- e.g. changing inheritance laws in India gave families incentives to educate their daughters who would now inherit some of the family property
- e.g. Changes in the family law in Ethiopia raised the minimum age of marriage, gave wives equal control over marital property and ended the ability of a husband to deny permission for his wife to work – raising by a fifth (from a low base) the share of women working outside the home, for pay and in non-seasonal work
- e.g. Swaziland’s legal recognition of women’s ability to own property and enter contracts raised investments and access to capital, encouraging greater female entrepreneurship
- e.g. Growing recognition of economic as well as personal and social costs of violence against women – in the home, in the market, and society (new WBG Gender Strategy)

*It provides quantitative measures of laws and regulations that affect women’s economic opportunities in seven areas*
Implementation is key: corruption is common

**Manager’s Concerns**

Constraints to Doing Business

*Share of Entrepreneurs considering issue a Major or Severe obstacle*

**Incidence of Bribe Requests**

Was an Informal Payment or Gift Expected or Requested when applying for...?

% of firms reporting being asked for a bribe

Conducts:

- Corruption
- Electricity
- Tax rates
- Crime
- Political Instability
- Financial Sector
- Workforce
- Tax administration
- Land
- Court
- Business licensing
- Customs
- Labor Regulations

Constraints to Doing Business:

- Corruption (40%)
- Electricity (38%)
- Tax rates (35%)
- Crime (30%)
- Political Instability (25%)
- Financial Sector (20%)
- Workforce (15%)
- Tax administration (10%)
- Land (5%)
- Court (4%)
- Business licensing (3%)
- Customs (2%)
- Labor Regulations (1%)

Entrepreneurs considering issues a Major or Severe obstacle:

- Corruption (44%)
- Operating License (38%)
- Construction Permit (19%)
- Importing (17%)
- Exporting (14%)
The gap between de jure and de facto measures of regulation

Variations within a country are greater than the variation in averages across countries

Regulatory reforms should not just be about lowering costs. More even enforcement can reduce uncertainty – that lowers hiring and investment. And reforms should not create additional barriers to entry, explicitly or de facto, with special attention to input sectors.

Source: Hallward-Driemeier and Pritchett, JPE, 2015
Passing reforms is not sufficient. Enforcement matters.

- Reforms may actually raise time and costs in practice – but reduce uncertainty if enforcement is more consistent
Conclusion

• Macro: under aggregate effects can be significant heterogeneity in how policies affect different firms and workers

• Regulatory: Non-labor laws can have significant impact on jobs
  • What is the public interest being served
  • What incentives/distortions are being set up
  • If reform, test:
    • 1) whether the reform is having an impact
    • 2) how the reform is working and thus the most effective way to scale it up
  • Pay attention to implementation and equal enforcement
Trouble in the Making?
The Future of Manufacturing-Led Development

What to do? **Recommendations within the 3Cs**

A mix of

- Greater urgency of addressing some of the old agenda
- And additional elements to support the use of new technologies and adapt to new business models

**Competitiveness**
- Business environment
- Infrastructure
- Institutions
- Facilitate adjustment

**Capabilities**
- Workers skills

**Connectedness**
- Trade in goods
- Logistical performance
- International data flow

New business models, new contracting, competition law
Mobile finance

Digital skills, creativity
Management capabilities
Enabling framework for data ecosystem
3Cs: Competitiveness, Capabilities, and Connectedness

Sources: Calculations based on Kee, Nicita, and Olarreaga 2009; International Telecommunications Union’s ICT Indicators Database; and the following World Bank databases: World Development Indicators, Worldwide Governance Indicators, Global Findex, Logistics Performance Index, and Services Trade Restrictiveness Index.