

Foreword How to use Doing Business indicators and how not to

The public discourse on economic policy is overwhelmingly focused on fiscal measures, monetary interventions, welfare programs and other such highly visible instruments of government action. Thus when an economy does poorly, a disproportionate amount of our debate centers on whether or not it needs a fiscal stimulus, whether there should be liquidity easing or tightening, whether its welfare programs have been too profligate or too paltry and so on. What gets much less attention but is equally—and, in some situations, even more—important for an economy's success or failure is the nuts and bolts that hold the economy together and the plumbing that underlies the economy. The laws that determine how easily a business can be started and closed, the efficiency with which contracts are enforced, the rules of administration pertaining to a variety of activities—such as getting permits for electricity and doing the paperwork for exports and imports—are all examples of the nuts and bolts that are rarely visible and in the limelight but play a critical role. Their malfunctioning can thwart an economy's progress and render the more visible policy instruments, such as good fiscal and monetary policies, less effective. Just as the Space Shuttle Challenger broke apart on takeoff from Cape Canaveral, Florida, on January 28, 1986, not because (as was later realized) something major had gone wrong but because a joint held together by a circular nut called the O-ring had failed, an economy can be brought down or held back by the failure of its nuts and bolts. The World Bank Group's Doing Business report is an annual statement of the state of the nuts and bolts of economies around the world and, as such, is one of the most important compendiums of information and analysis of the basis of an economy's effective day-to-day functioning and development. Creating an efficient and inclusive ethos for enterprise and business is in the interest of all societies. An economy with an efficient bureaucracy and rules of governance that facilitates entrepreneurship and creativity among individuals, and provides an enabling atmosphere for people to realize their full potential, can enhance living standards and promote growth and shared prosperity. It can also help in creating an environment in which standard macroeconomic policies are more effective and course through the economy more easily. After decades of debate there is now some convergence in economics about the roles of the market and the state. To leave everything to the free market can lead to major economic malfunction and elevated levels of poverty, and have us be silent witnesses to, for instance, discrimination against certain groups. Moreover, there is a logical mistake that underlies the market fundamentalist philosophy. To argue that individuals and private businesses should have all the freedom to pursue what they wish and that government should not intervene overlooks the fact that government is nothing but the outcome of individual actions. Hence the edict is internally inconsistent. Fortunately, market fundamentalism has, for the most part, been relegated to the margins of serious policy discourse. Turning to the other extreme, it is now widely recognized that to have the state try to do it all is a recipe for economic stagnation and cronyism. In any national economy there are too many decisions to be made, and too great a variety of skills and talents scattered through society, for any single authority to take effective charge. It is true that government should intervene in the market to help the disadvantaged, to keep inequality within bounds, to provide public goods and to create correctives for market failures such as those stemming from externalities, information asymmetries and systemic human irrationalities.¹ But over and above these, government also has the critical responsibility to provide a nimble regulatory setup that enables ordinary people to put their skills and talents to the best possible use and facilitates the smooth and efficient functioning of businesses and markets.² It is this