

Bring Me Sunshine: Which parts of business climate should public policy try to fix?



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Overall Assessment

- Nice study
 - Important issue
 - Careful survey and interpretation
 - Innovative and plausible recommendations
- Also
 - Questions stemming from the analysis
 - Good not only for PMs



Main Message

- Business climate is in many respects a public good => Which aspect is key? Which constraint to relax?
- Cross-country regressions, micro-analyses based on managers surveys and country studies can together provide valuable policy input, though each alone cannot



Evidence (Hypotheses) 1

- This conclusion based on interpretation of evidence
 - Cross-country regressions => institutional quality determines living standards (but difficult to prove causality and exclude alternative explanations)
 - Surveys of managers' opinions => direct evidence on relative importance of different business climate constraints (but different firms may face different constraints and identical constraints may affect different firms differently)



Evidence (Hypotheses) 2

- Country-level growth diagnosis => narrow down choices for a policy maker (but hard to take below the macro level)
- Case studies of countries or regions => rich information, good for formulating hypotheses (but not for testing them)



What the paper argues

- Evidence can be used more effectively if approaches combined => clearer policy guidance
- On the whole -- credible



Data and Methodology

- Surveyed studies are mostly econometric exercises based on cross-country data and cross-firm data of managers' opinions (BEEPs and ICS)
- Some surveyed studies are country- or regional-level case analyses
- The authors do not do carry out new estimation but report on their earlier research



Issue 1 – Productivity and constraints

- Authors' premise: Within a country, more productive firms more constrained by environment – if not, evidence that a particular aspect of environment not a pure public good
- Premise supported for customs but not for electricity or access to finance (need significance tests)
- But could be reverse also if e.g.,
 - Less constrained firms become more productive
 - More productive firms better at getting around the constraints -- e.g., by having skills, adapting (pre-saving) or paying bribes



Issue 2 – Contradictory Findings

- Econometric estimates of some studies (Dollar et al., Ayyagari et al.) do not accord with authors' tabulations – endogeneity?
 - look at intensity and variance of ratings -- not just at whether a given constraints is rated as above or below average
 - “regression coefficients will be low for constraints that are highly binding for all firms/countries” => check if there is low variation in the ratings across firms



Issue 3 – Combining growth diagnostics with manager information

- Great idea of exploiting complementarity
- Terrific when it works (macro and manager data yield similar results)
- Problem when results differ or are not sufficiently informative
- E.g., Figure 6 – Brazil (macro) v. El Salvador (micro)
 - Brazil – corruption ~ 3.4 and macro issues ~ 3.6
 - El Salvador – corruption ~ 2.5 and macro issues ~ 2.3-2.4
 - Not much within country difference on which to hinge major policies (need statistical significance)



Specific points

- “Cross-country analysis can only provide information about the relationship between performance and business environment variables for the average country” – actually can go further – e.g., split the sample or do quantile regression



Analysis – Issues

- Survey appears inclusive and balanced
 - Mostly empirical studies
 - More information about the surveyed studies would be useful (e.g., nature of data and sample size)
- Surveyed studies generate a variety of findings and authors show how the various findings could be reconciled and used to provide a better understanding of the effect of business environment
- Authors' hypotheses on the whole consistent with the main thrust of the survey findings



Ideas going forward

- Explore further (sharpen) the ability of exploiting complementarity of approaches => couple of ideas
- Collect panel data on firms and managers' opinions
 - Can handle better endogeneity, cross-firm heterogeneity and country effects
- Collect duration analysis data – e.g., follow a sample of
 - start-up firms over time to study effect of environment on performance and exit
 - College (business school) graduates to examine firm formation (entry)



Overall Assessment

- Important topic
- New, plausible interpretations of observed outcomes
- Nice paper