

Where credit is due

There can be an entire book of apocrypha based on what John Maynard Keynes is supposed to have written or said. On one occasion, Lord Keynes was reportedly asked, "How is your wife?" He replied, "Compared to whose wife?" Despite his marriage to Lydia Lopokova, given his proclivities, both the question and answer are unlikely. However, many things are judged on the basis of a relative, rather than absolute, performance.

Most people will remember the name of the first person to reach the South Pole, but may not remember that of the second. Whether it is the International Food Policy Research Institute's (IFPRI) Global Hunger Index or the World Bank's Doing Business Indicators, there is an obsession with ranks. Ranks are relative and ranks are also a function of the number of countries included. For instance, if the number of countries changes, it is possible for a country that has improved to register a decline in rank. Even if the set of countries is constant, an improved country can register a decline in rank because other countries have improved relatively more. Underlying every rank is some score or index. If one wishes to track a country or economy's secular (over time) improvement, score/index is a better indicator. Unfortunately, most people are obsessed with ranks and prefer to use these for cross-country comparisons.

There is nothing wrong with that. After all, one wishes to benchmark against the best in the business. However, all cross-country comparisons are fraught with problems. The methodology must be impeccable. For the World Bank's Doing Business Project (DBP), it is anything but that.

As everyone probably knows, DBP is based on 10 heads included in the score/ranking: (1) starting a business; (2) dealing with construction permits; (3) getting electricity; (4) registering property; (5) getting credit; (6) protecting minority investors; (7) paying taxes; (8) trading across borders; (9) enforcing contracts; and (10) resolving insolvency.

For these, questionnaires are administered to entrepreneurs/professionals. Note that no question is truly objective. Every question carries with it a normative value judgement about what is desirable, even if it is not explicitly stated. Note also that though these masquerade as representative of entire economies/countries, in practice, they are based on one or two cities. Thus, India's ranking is based on Mumbai and Delhi alone. Sample sizes are also hardly respectable. For some countries and some heads, sample sizes can be as gargantuan as two. Sometimes, those two or three respondents may not be entrepreneurs or professionals, but people who work for the government. Stated simply, had it not been the World Bank, the methodology would have been crucified. Indeed, it has been crucified and the reading list of critiques will be fairly long. Methodologically, the World Bank's Enterprise Survey is more robust.

In fairness, the Bank has altered its methodology periodically. What has just been published is described as DBP 2018 and has 190 economies. When DBP started in 2003, there were 133 economies. It has been 190 since last year. Repeating the point made earlier, across 11 heads (the labour head is not included in computing the aggregate), only 50 per cent of economies have more than six respondents overall. Thirty-five per cent have 3-5 respondents and 15 per cent have 1-2 respondents. Add the methodological change point and I don't think one should compare DBP 2018 with anything before 2015.

Does that mean DBP tells us nothing at all? Certainly not and it will be churlish not to give credit to India's improvement in DBP 2018. The 30-spot jump in ranks to 100 since DBP 2017 is remarkable. However, the government's intention will understandably be to improve the business environment everywhere in the country, not just in Mumbai and Delhi, and for every entrepreneur, not just the limited liability company highlighted by the Bank. Stated thus, the goal of moving to the

top 50 countries is a by-product, not the intended goal. In passing, the distance to frontier concept is in some sense the score, the distance from the best in the business, so to speak. There has been an improvement not just in the rank but also in this score.

Despite improvements, if one looks at the scores, relatively weak areas are dealing with construction permits, registering property, enforcing contracts and resolving insolvency. (The ranks give a slightly different picture because they also depend on how other countries perform.) In some of these, and indeed under all heads, there will be improvements in DBP 2019 because of the reforms that have kicked in after June 2017 - DBP 2018 only covers the period until that cut-off date. If one sticks to Mumbai and Delhi, I suspect registering property won't improve significantly without updating and digitising land records, improving titling and streamlining procedures on transfer of property. Construction is largely a municipal subject while enforcing contracts involves the judiciary.

This is what DBP 2018 says on construction permits: "India made dealing with construction permits less cumbersome by implementing an online system that has streamlined the process at the Municipality of New Delhi and Municipality of Greater Mumbai. The online system has streamlined the process of obtaining a building permit, thereby reducing the number of procedures and time required to obtain a building permit in India." And on enforcing contracts, "India made enforcing contracts easier by introducing the National Judicial Data Grid, which makes it possible to generate case measurement reports on local courts. This reform applies to both Delhi and Mumbai." Not that impressive but that also underlines the slack.

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