# Exposing the World Bank's Biased Business Regulation Ratings

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**After years of criticism from labor unions and other progressive groups, the Bank's own chief economist is accusing his colleagues of ideologically-driven data manipulation.**

The World Bank's chief economist has set off a firestorm over its system of assigning ratings to 190 countries' business climates, which are published yearly through its flagship *Doing Business* report. Trade unions, civil society organizations, some governments, and international organizations have long criticized the report for its ideologically driven anti-regulation stance.

Now even World Bank chief economist Paul Romer has attacked the report for its lack of "integrity." As reported by the *Wall Street Journal*, Romer stated that many countries' *Doing Business* scores and rankings, which purport to measure the degree of business friendliness of regulations, changed from year to year because of changes in the report's methodology — not in countries' regulations.

While Romer noted that many countries' scores have been unjustly altered through the methodology changes, he specifically apologized to the government of outgoing Chilean President Michelle Bachelet, observing that the actions of the *Doing Business* team consisted of putting a "thumb on the scales." The changes penalized Chile when the Socialist Party's Bachelet was in power, leading to worsening scores, but improved when conservative President Sebastián Piñera was in power. Romer stated that "changes to the methodologies used in the rankings had the appearance of being politically motivated."

Bachelet is calling for a full investigation of the World Bank's ratings system, noting that such a financial monitoring apparatus "should be trustworthy, since they impact investment and countries' development." Chilean Economy Minister Jorge Rodriguez Grossi said in a statement that "it is rare to see action this immoral." Some Chilean officials have suggested that the country's poor *Doing Business* ranking might have been a factor in the conservative Piñera's successful campaign to regain the presidency last month.

The *Wall Street Journal* article extensively quotes the former director of *Doing Business*, Augusto Lopez-Claros, currently on leave from the Bank, who vigorously defends the report. Prior to heading the team that prepares *Doing Business*, Lopez-Claros had a career at the International Monetary Fund, Lehman Brothers, and the University of Chile.

Before Romer's harsh attack, much of the criticism of *Doing Business* has focused on an earlier labor indicator that gave best scores to countries with highly deregulated labor markets. Having no minimum wage laws, for example, garnered a higher score. Contrary to what *Doing Business* repeatedly asserted, the World Bank's own research has found that in most cases labor market deregulation does not improve economic outcomes.

In the face of strong pressure from trade unions, the report dropped the labor market flexibility indicator in 2010, but it continues to give worse rankings to countries that mandate higher levels of taxation and social contributions from business.

This year's 300-page *Doing Business* 2018 also made unfounded claims that more "business friendly" regulations are key to lowering income inequality. The report notes that the 20 countries receiving their best (i.e. most business-friendly) scores — almost all of which are advanced economies — have a lower Gini coefficient than the 20 countries that receive the worst scores.

A casual look at the 20 poor performers reveals they include many countries facing severe civil or political conflict, including Syria, DR Congo, Afghanistan, Central African Republic, Libya, Yemen, South Sudan, Venezuela, and Somalia. It's ludicrous for the Bank to imply that the only thing these war-torn countries have to do to achieve more equal income distribution is to deregulate business.

The International Labor Organization and some academic critics have also observed that the *Doing Business* report is susceptible to manipulation by the pro-business law firms that complete the survey questionnaires on which the *Doing Business* scores are based. The firms have included such illustrious corporate citizens as the Mossack Fonseca group, made famous through the Panama Papers for helping wealthy individuals hide their assets in tax havens. Even the IMF acknowledged the "subjective nature" of the *Doing Business* indicators in a working paper published in 2011.

Amidst all the controversy, the World Bank's executive board established an independent panel in 2013 that recommended several changes to the ratings report and its status within the Bank, including the elimination of country rankings and deleting the tax rate indicator. The latter penalizes countries that require business to pay taxes or make contributions to pensions and other social protection schemes that exceed a low threshold. However, Bank management rejected almost all the recommendations made by the independent panel.

In the current firestorm created by their chief economist, World Bank officials are continuing to defend their ratings system, including its treatment of Chile. But Romer's criticism raises critical questions about the appropriateness of the World Bank, a publicly funded multilateral institution, to be promoting a conservative anti-regulation agenda in its "flagship" report and attempting to discredit governments that don't agree with it.

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