Impact of economic crisis on business regulation reforms

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Abstract
The objective of this article is to identify link between the last economic crisis and business regulatory reforms. The data set contains the information about number of doing business reforms and its impact to selected countries’ total ranking in doing business. The article presents review of empirical work available in scientific literature assessing how the regulatory environment for doing business affects productivity, economic growth, trade and investment. Available data shows that an economic crisis creates a stronger motivation for reform and how a simplified and competitive regulatory framework with reduced barriers can encourage business entrepreneurship and economic growth. The article expands the current knowledge on link between regulatory framework and economic growth. It includes both economic and legal overview in order to understand how the economic crisis affected the regulatory framework for doing business. It indicates the importance of an adequate legal framework that follows dynamic economic trends.

Keywords: Economic crisis; regulatory reforms; deregulation; doing business;

JEL codes: K2, K20
INTRODUCTION

It’s been ten years since the world has suffered the last financial crisis. As many authors call it, the worst financial crisis since the Great Depression, has affected most countries in one way or another and some far more severely than others. (Barth, Kaufmann, 2015) Economies are more likely to implement regulatory reforms in the doing business areas when there is fiscal distress so numerous of affected countries already implemented regulatory reforms in their legal system and these include both reforms in financial regulatory system and business regulation framework.

Economic growth and development is impossible without effective economic governance. A good regulatory institutional environment is one that “establishes an incentive structure that reduces uncertainty and promotes efficiency, thereby contributing to stronger economic performance”. (Kirkpatrick, 2014, p. 162) Simplified and supportive legislative framework, adapted to the requirements of entrepreneurs, is necessary for achievement of stable and predictable economic growth and job creation. (Vujčić, Gongeta, 2018, p. 295)

Regulatory reform is one area where significant improvements in competitiveness can be made at little cost. (Kennedy, 2015, p. 3) The objective of this article is to identify link between the last economic crisis and business regulatory reforms.

The data set analysed in this article contains the information about number of doing business reforms and its impact to selected countries’ total ranking in doing business. The article presents review of empirical work available in scientific literature assessing how the regulatory environment for doing business affects productivity, economic growth, trade and investment. According to the latest data in Doing business 20181 there is sample evidence of the positive impact of reforming in the business regulation areas with a historically higher number of reforms—namely starting a business, paying taxes and trading across borders. The regions with the highest share of reforming economies are Europe and Central Asia, South Asia and Sub-Saharan Africa. (Doing business 2018)

The structure of the article is as follows. Chapter two focuses on similar literature that proves statistically significant and positive relationship between the quality of the regulatory environment and economic growth. Chapter three emphasizes the importance of correcting the market failure and improvement of market competition through the adequate and effective regulatory framework for promoting competition and controlling the anti-competitive behaviour of dominant firms. In chapters four and five there are some examples of how reducing administrative burdens, simplifying regulation, strengthening competition and cutting red tape are reforms that pay off.

Also, the article analyses some empirical evidence how these kind of reforms are positively associated with higher manufacturing productivity growth in low-income economies and aggregate productivity growth in middle-income economies indicators.

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1 The Doing Business database provides annual cross-country rankings on 10 different components of regulatory burden on business: starting a business, construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. It measures aspects of regulation that enable or hinder entrepreneurs in starting, operating or expanding a business—and provides recommendations and good practices for improving the business environment.
LITERATURE REVIEW AND THEORY DEVELOPMENT

Regulatory competition is an extremely complex area of law that is constantly evolving, and whose underpinning principles cross paths with economic and market theories. Its pervasive effects embrace many aspects including the market economy. (Lista, 2013)

Over the last two decades the relationship between regulations and business activity has been under investigation in many academic circles and in many articles. (Haidar, 2012, p.287)

Over a 1000 research articles analysing how doing business regulation affects economic growth have been published in peer-reviewed academic journals in the past ten years.

As soon as the last financial crises emerged in year 2008 Becht et al. published their scientific research in which they examined the connection of deregulation of corporate law and how it affects the decision of entrepreneurs of where to incorporate. In the same year comparison of EU company law statutes also was made under the Association Internationale des Sociétés d’Assurance Mutuelle.

Available research’s show a statistically significant and positive relationship between the quality of the regulatory environment and economic growth. The most of them, just like this article, are based on Doing Business data. In his research study Haidar (2012, p. 295) concludes that “Business regulatory reforms data from the World Bank Doing Business project, signals that reforms, which improved business and investment climate, may have helped to mitigate the effects of the 2008 global slump in economic growth.”

Papers in the doing business regulatory environment literature vary in “how much they can demonstrate casual effects between better business regulation and outcomes of interest”. For example, Djankov (2009) finds a statistically significant negative relationship between the regulatory business burden (measured using Doing Business database) and economic growth. Haider (2012) also uses the Doing Business database but replaces the annual regulatory status variable with a regulatory change variable, which measures the total number of regulatory reforms happening in a country over a 4-year period. (Kirkpatrick, 2014, p. 164) George Kaufman (2016) emphasizes that the prevention of a future crisis requires, among other things, the development of better regulation framework.

Like Eckardt (2014), Becht et al. (2008) and Djankov S. (2009), this article presents that simplifying the rules of starting a business positively affects the economic growth and competitiveness.

Following the last World Bank’s publication (Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia, 2018), the analysis of business regulation for domestic firms in Croatia, the Czech Republic, Portugal and Slovakia and their enforcement in five crucial Doing Business areas is made.

MATERIAL AND METHODS

Economic regulation is intended to correct market failure and improve market competition. An important determinant of the success of regulatory reform therefore is the effect-
tiveness of the regulatory institutional framework for promoting competition and controlling the anti-competitive behaviour of dominant firms (Parker and Kirkpatrick, 2004).

Much of the quantitative evidence relating to the impact of regulatory reform is concerned with the effect on economic growth. The World Bank’s Doing Business databases have been used to provide indicators of the quality of regulatory governance in developing countries. (Kirkpatrick, p. 164)

The indicators are used to analyse economic outcomes and identify what reforms of business regulation have worked, where and why. (Doing Business, 2018) In order to show how reforms in doing business regulation are connected to the country’s ranking, the available data are analysed.

This article focuses on several doing business categories: starting a business, trading across borders, enforcing contracts and resolving Insolvency. These categories were selected by following criteria: Starting a business records the procedures, time, cost and paid-in minimum capital required for a small or medium size domestic limited liability company to formally operate. Trading across borders is important since international trade can be defined as a cornerstone of economic development and as access to international markets is strongly correlated with economic growth. Analysis of the enforcing contracts category shows how judicial system that provides effective commercial dispute resolution is crucial to a healthy economy. Talking about the last category: Resolving Insolvency, it is clear how access to finance is key to the development of the private sector so “A good insolvency framework—one with clear rules, that efficiently rehabilitates viable companies and liquidates non-viable ones—provides entrepreneurs and lenders with tools to evaluate the consequences of a worst-case scenario.” (Doing business, 2018:56)

The article (including the Tables 1 and 2) cover studies and research articles that use Doing Business data for analysis and rely on conceptually and methodologically similar.

RESULTS AND FINDINGS

Reforming the Business Environment

Appropriate regulation which improves the business start-up environment, stimulates entrepreneurship and facilitates business creation. (Vujčić, Gongeta: 2018 p. 300)

Although many European Member States already adapted their legislative frameworks to the requirements of entrepreneurs, simplifying the legislation and reducing the regulatory costs on the European level is necessary in order to achieve a clear, stable and predictable regulatory framework that will support economic growth and job creation. (Vujčić, Gongeta: 2018, p. 295) More recent researches show how the reform of enterprise registration and licensing procedures has been a significant part of regulatory reform in numerous countries.

Over the past decade, more than 60 economies have reported more than 3,180 regulatory reforms. The most recoded reforms (38 in total) in 2016/17 where in the area of starting a business and getting credit. Simplifying registration formalities was the most common feature of reforms making it easier to start a business. The Table 1. brings an

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3 In this article Douglass North’s definition of the term “institution framework” is accepted and it refers to the set of informal and formal “rules of the game” that constrain political, economic, and social interactions (North, 1990, 1991)
overview of the number of doing business reforms made in selected countries since 2008. The countries are selected according to following criteria. New Zealand is ranked 1 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings and it is the country that remained unchanged for last few years. Germany is selected as one of the strongest economies in the European Union, Croatia, Czech Republic, Portugal and Slovakia are selected because these countries are also selected for the latest subnational report of the Doing Business series in the European Union. And Serbia and Bosnia and Herzegovina are border countries with European Union and have interesting and better rank comparing with some European countries.

Table 1. The number of doing business reforms since 2008

<table>
<thead>
<tr>
<th>Reforms/Country</th>
<th>Total</th>
<th>Starting a business</th>
<th>Trading across borders</th>
<th>Enforcing contracts</th>
<th>Resolving Insolvency</th>
<th>Current rank among countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>12</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Germany</td>
<td>14</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Croatia</td>
<td>28</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>51</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>28</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>Portugal</td>
<td>29</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>Slovakia</td>
<td>19</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>39</td>
</tr>
<tr>
<td>Serbia</td>
<td>26</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>B&amp;H</td>
<td>18</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>86</td>
</tr>
</tbody>
</table>


As it is visible New Zealand made 12 total doing business reforms since the last financial crisis. According to the 2009 Doing Business annual report, in 2008 New Zealand made starting a business easier by making it possible to complete the process in one simple online registration in less than a day, made paying taxes less costly for companies by reducing the corporate income tax rate and introduced a reorganization procedure with the aim of providing an alternative to liquidation and receivership and maximizing a company’s chances of continuing as a going concern. In following years New Zealand enacted new district court rules that make the process for enforcing contracts user friendly (year 2010); reduced its corporate income tax rate and fringe benefit tax rate, (year 2011) improved access to credit information by allowing credit bureaus to collect positive information on individuals (year 2012); made enforcing contracts easier by improving its case management system to ensure a speedier and less costly adjudication of cases (year 2013); improved access to credit information by beginning to distribute both positive and negative credit information (year 2014). In 2016 New Zealand made paying taxes easier by abolishing the cheque levy and made paying less costly by decreasing the rate of accident compensation levy paid by employers. As it is visible from the last Doing business report, in 2017 New Zealand made paying taxes even more easier by improving the online portal for filing and paying general sales tax and made enforcing contracts more difficult by suspending the filing of new commercial cases before the Commercial List of the High Court of New Zealand during the establishment of a new Commercial Panel.4

As one of the leading European Union economies, Germany is ranked 20 among 190 economies in doing business. Since the last financial crisis, Germany made 14 business reforms. Positive reforms were recorded from 2008 – 2013 starting with making starting a business easier by implementing electronic registration and introducing online publication of the incorporation notice; making paying taxes less costly for companies by reducing the corporate income and trade tax rates and by introducing straight-line depreciation for fixed assets and low-value asset write-offs below a certain threshold. The next step to start business easier was reducing the minimum capital requirement to a symbolic amount (1 Euro for so called Mini GmbH) followed with enhancing its insolvency process through the Act on the Implementation of Measures to Stabilize the Financial Market. In 2010 Germany eased business start-up by increasing the efficiency of communications between the notary and the commercial registry and eliminating the need to publish an announcement in a newspaper. The resolving process was improved by adopting a new insolvency law that facilitates in-court restructurings of distressed companies and increases participation by creditors. Positive wave of regulatory reforms was stopped in 2014 when Germany made starting a business more difficult by increasing notary fees and made more expensive to register property by increasing the property transfer tax. The last business reform was recorded in Doing business 2016 Annual report when Germany made starting a business easier by making the process more efficient and less costly.\(^5\)

Croatia is ranked 51 in doing business according to the latest Doing business 2018 Annual report. There were 28 business reforms in this country since 2008. The ones that made starting a business easier was enhancing the services of the one-stop shop, allowing limited liability companies to file their registration application with the court registries electronically through the notary public (2010) and reducing notary fees (2014). In 2015 Croatia made starting a business more difficult by increasing notary fees.\(^6\)

Czech Republic is ranked 30 among 190 world economies. This country made continuous improvement in business regulation with made reforms. It started with reducing the time required to start a business by fully implementing improvements in its company registration process and was followed by reduced time and number of procedures to start a business by introducing “Project Czech Point,” which makes it possible to obtain multiple registration-related documents in one place. In 2014 the Czech Republic made starting a business even easier by substantially reducing the minimum capital requirement and the paid-in minimum capital requirement. Next year doing business was made easier by reducing the cost and the time required to register a company in commercial courts by allowing notaries to directly register companies through an online system (2016) and the last reform was made in 2017 by reducing the cost and the time required to register a company in commercial courts by allowing notaries to directly register companies through an online system.\(^7\)

The 29 ranked country, Portugal made the last reform in starting a business in 2013 and it was eliminating the requirement to report to the Ministry of Labor. Previous reforms in this category were made in 2008 by eliminating outdated formalities, simplifying requirements for company registration and implementing an online incorporation sys-


tem for use by lawyers and in 2011 when Portugal made starting a business easier by allowing company founders to choose the amount of minimum capital and make their paid-in capital contribution up to 1 year after the company’s creation, and by eliminating the stamp tax on company’s share capital subscriptions.8

Next selected country for analyzing in this article, 39 ranked Slovak Republic, made 19 doing business reforms in total. Slovak Republic made positive changes for starting a business through its one-stop shop, which merged 4 procedures into 1 and reduced costs (2008) and by speeding up the processing of applications at the one-stop shop for trading licenses, income tax registration and health insurance registration (2012). The positive period of regulatory reforms was stopped in 2013 when the Slovak Republic made starting a business more difficult by adding a new procedure for establishing a limited liability company. In following years (2014, 2015) some positive reforms were made by reducing the time needed to register with the district court and eliminating the need (and therefore the fee) for the verification of signatures by a notary public and by simplifying the process of starting a business by introducing court registration at the one-stop shop. 2015 was the year when the last reforms in starting a business were recorded.9

Serbia and Bosnia and Herzegovina are the countries bordering the European Union and are very important, especially for the cross border trade. Therefore, it is important to analyze their regulatory framework and reforms made in doing business category. Comparing these two countries, Serbia is ranked 43, double than the Bosnia and Herzegovina 86 and made 26 business reforms in total. B&H made 18 business reforms since the last financial crisis. Analyzing the available data in Doing business annual reports, it is clear that Serbia made only positive changes in starting a business reforms. First, Serbia made starting a business easier by creating a one-stop shop for company registration (2009), than in 2012 Serbia eliminated the paid-in minimum capital requirement, in 2016 they simplified the process of starting a business by reducing the time to register a company and finally Serbia made starting a business easier by reducing the signature certification fee and increasing the efficiency of the registry, reducing the time for business registration.10

Another EU neighbor/border country, Bosnia and Herzegovina made 18 doing business reforms in the past decade. The ones important for starting a business were made in 2011 and 2016 when starting a business was made easier by replacing the required utilization permit with a simple notification of commencement of activities and by streamlining the process for obtaining a tax identification number and when the paid-in minimum capital requirement for limited liability companies was reduced and the efficiency of the notary system was increased.11

**DISCUSSION**

**The Impact of Regulatory Reform**

Private sector impacts both economic and social development. Available results show a positive relationship between registration and licensing reform and various indicators of

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economic performance, including the number of new registrations, size of the formal sector, employment growth, and tax revenues. (Kirkpatrick, 2014, p. 165) In his research article Haidar (2012) concludes that business regulatory reforms increase economic growth and competitiveness. The Table 2. Analyses the ease of doing business index ranks of selected countries against each other based on how the regulatory environment is conducive to business operation stronger protections of property rights where economies with a high rank have simpler and friendlier regulations for businesses. (Trade economics, 2018)

Table 2. Ease of doing business rank of selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Actual</th>
<th>Previous</th>
<th>Highest</th>
<th>Lowest</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Germany</td>
<td>20</td>
<td>17</td>
<td>27</td>
<td>14</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Croatia</td>
<td>51</td>
<td>43</td>
<td>110</td>
<td>39</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>30</td>
<td>27</td>
<td>75</td>
<td>26</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Portugal</td>
<td>29</td>
<td>25</td>
<td>48</td>
<td>23</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Slovakia</td>
<td>39</td>
<td>33</td>
<td>49</td>
<td>29</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>Serbia</td>
<td>43</td>
<td>47</td>
<td>93</td>
<td>43</td>
<td>2008 - 2017</td>
</tr>
<tr>
<td>B&amp;H</td>
<td>86</td>
<td>81</td>
<td>131</td>
<td>79</td>
<td>2008 - 2017</td>
</tr>
</tbody>
</table>

Source: Data used from trading economies, available at: https://tradingeconomics.com/country-list/ease-of-doing-business (15.9.2018.).

As earlier said, New Zealand is ranked 1 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of New Zealand remained unchanged at 1 in 2017 from 1 in 2016. Ease of Doing Business in New Zealand averaged 2.10 from 2008 until 2017, reaching an all-time high of 3 in 2010 and a record low of 1 in 2015. (Doing Business, 2018)\(^\text{12}\)

Germany is ranked 20 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Germany deteriorated to 20 in 2017 from 17 in 2016. Ease of Doing Business in Germany averaged 19.60 from 2008 until 2017, reaching an all-time high of 27 in 2008 and a record low of 14 in 2015.\(^\text{13}\)


Analysing the Czech Republic ranking it is visible that the rank of this country deteriorated to 30 in 2017 from 27 in 2016. Ease of Doing Business in Czech Republic averaged 53.30 from 2008 until 2017, reaching an all-time high of 75 in 2013 and a record low of 26 in 2015. (Doing Business, 2018)\(^\text{15}\)

According to the latest available data, the rank of Portugal deteriorated to 29 in 2017 from 25 in 2016. Ease of Doing Business in Portugal averaged 31.70 from 2008 until 2017, reaching an all-time high of 48 in 2009 and a record low of 23 in 2014. (Doing Business, 2018)\(^\text{16}\)

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\(^{13}\) https://tradingeconomics.com/germany/ease-of-doing-business (15.9.2018.)


\(^{15}\) https://tradingeconomics.com/czech-republic/ease-of-doing-business (15.9.2018.)

\(^{16}\) https://tradingeconomics.com/portugal/ease-of-doing-business (15.9.2018.)


The rank of Bosnia and Herzegovina deteriorated to 86 in 2017 from 81 in 2016. Ease of Doing Business in Bosnia and Herzegovina averaged 107.60 from 2008 until 2017, reaching an all-time high of 131 in 2013 and a record low of 79 in 2015. (Doing Business, 2018)\(^{19}\)

Following the previous analysis of available data in Table 1, the ranking can be linked to the continuity in both positive and negative doing business reforms in these countries.

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