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Business regulations and poverty

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Highlights

A large literature on the determinants of poverty finds a strong association with regional and country-specific factors like the vulnerability to flooding or tropical diseases, remoteness, quality of governance, and property rights (Dollar, Kleineberg and Kraay, 2016). A second strand of the literature finds within-country factors such as the availability of infrastructure (roads, water, electricity) and services (health, education), proximity to markets, and social relationships to matter as much (for example, Kraay and McKenzie, 2014). A third set of studies investigate household characteristics such as household size, age structure, dependency ratio, gender of the head of household, employment status, hours worked, property owned, nutritional status and educational attainment and correlate those to the poverty headcount (Banerjee and Duflo, 2011).

In this paper we disentangle the link between business regulations and their enforcement and the poverty headcount, expanding the evidence on country-level determinants of poverty. In particular, we use business regulations on starting a business, acquiring licenses, getting credit and contract enforcement, as well as an overall regulatory ranking as indicators of property rights. The data are constructed from the World Bank's *Doing Business* project and cover 189 economies from 2005 to 2013.

We find that business-friendly regulations are correlated with lower poverty headcount, as is higher government expenditure, a country's income per capita, and the regional dummies for East Asia and Eastern Europe. We suggest that the conduit for poverty reduction is business creation, both as a source of new jobs and as a manifestation of thriving entrepreneurship.