

COLLEGE OF EUROPE
BRUGES CAMPUS
ECONOMIC DEPARTMENT

Costs of Regulatory Procedures and Economic Growth

Supervisor: **Andres Rodriguez Pose**

Thesis presented by
Lubomira Bencova
for the
Degree of Master of European Economic Studies

Academic Year 2010-2011

Abstract

Recently, there has been considerable empirical research treating determinants of economic growth. Part of it took an extensive view of the institutional framework and its growth enhancing capacity. Another part discussed the question concerning proper institutional means capable of a long-term economic growth. The importance of good governance as a correct, neither excessive nor insufficient, combination of regulatory framework was highlighted within above-mentioned theoretical and empirical work. By influencing the economic activity of the country concerned and by influencing the overall dynamism of its business environment it can encourage durable economic growth. The remaining question is what is the correct regulatory burden promoting such conditions.

Two specific aspects stand out when treating institutional growth enhancing means – corruption and well-targeted business regulation. Corruption undermines regulatory capacity by diverting resources from productive areas promoted by “good regulation”. This causes considerable allocation problems to the substantial amount of resources. Business regulation on the other hand is able to enhance economic growth when it is well targeted. While excessive regulation would be detrimental to economic growth, insufficient regulation would be inefficient. “Smart regulation” is hence a fundamental objective of regulatory capacity of the country, because it enhances growth by targeting specific needs within the economy in question while engaging a limited amount of resources.

In order to promote economic growth by smart regulatory capacity of the institutional framework, several policies have been considered. One of them treats business regulation and entrepreneurship. Doing business indicators (DBI) assess various aspects of the business environment within the country in question. They observe costs, time and overall regulatory burden of specific administrative procedures, including opening and closing of business. In this thesis, a specific focus shall be granted to these two steps of the business cycle, including the enforceability of the contracts. My hypothesis tests whether the decreasing costs of the regulatory procedures can enhance economic growth, assuming negative correlation between costs and growth and employing cost analysis as an instrument.

This hypothesis shall be tested on behalf of two traditional growth models, Solow model and endogenous theory. In my analysis, the costs of regulatory procedures are envisaged excluding other parameters treated by DBI. I believe that this research might have an interesting policy application that could be subject to an additional research.