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Promoting Economic Freedom: Key to Realizing the World Bank's Mission

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In an April 2 speech, World Bank President Jim Yong Kim set out the ambitious goal of ending extreme poverty within a generation.[1] Outlining a bold development agenda in advance of the World Bank–IMF spring meetings from April 19 to 21, Kim emphasized the importance of fostering "inclusive growth" and building "a science of delivery for development."

The search for a "science" for development is a particularly interesting concept. No doubt there are a variety of pathways to inclusive growth, but all that have produced long-term success have included some application of competitive free-market capitalism. The principles of economic freedom that underpin market capitalism are all about the promotion of competition, and that includes policy competition among competing development philosophies as well. The application of the scientific method—gathering evidence, testing hypotheses as to policy cause and effect, and analyzing outcomes—will help identify such best practices and provide solid empirical grounding for the World Bank's development theories and programs in the future.

Development Is About Stamping Out "Unfreedoms." Amartya Sen, a Nobel laureate economist who has made considerable contributions to development economics, once noted that "development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity for exercising their reasoned legacy."[2] People crave liberation from poverty, and they hunger for the dignity of free will. By reducing barriers to these fundamental human rights, the forces of freedom create a sustainable framework in which people can fulfill their dreams of success.

Indeed, the process of advancing economic freedom is at the heart of development and poverty reduction. Dynamic and inclusive growth occurs as the result of progress by individuals. Successful societies are collections of successful individuals, and when ordinary people have the opportunity to make decisions for themselves, their chances for individual success are maximized. Economic freedom—cultivated and maintained by the rule of law, limits on government, regulatory efficiency, and open markets—is critical to generating the broader-based economic dynamism that brings more opportunities for people to work, produce, and save.

This multi-dimensional relationship between economic freedom and development has been documented in The Heritage Foundation's annual *Index of Economic Freedom*. The data collected for the *Index* demonstrates empirically that a high level of economic freedom induces a greater level of prosperity and also facilitates progress in overall human development, including better health, longer lives, greater education, and cleaner environments. And most relevant to the mission of the World Bank, economically freer countries have a much better record at reducing poverty.[3]

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As indicated by the findings of the *Index,* sustaining dynamic and inclusive economic growth requires putting into practice three fundamental principles of economic freedom: (1) empowerment of the individual, (2) nondiscrimination, and (3) open competition.

These principles do not constitute a dogmatic ideology. In fact, they represent the antithesis of dogmatism, allowing individuals the freedom and flexibility to embrace diverse and even competing strategies for the pursuit of a brighter future. In other words, as succinctly pointed out by President John F. Kennedy decades ago, "the wave of the future is not the conquest of the world by a single dogmatic creed but the liberation of the diverse energies of free nations and free men."[4]

The Private Sector: The Best Source for Inclusive Development. According to *Voices of the Poor,* the World Bank's landmark report that attempts to understand poverty from the perspective of the poor themselves, "above all, the poor pin their best hopes for escape from poverty on income from employment in their own businesses or on wages earned through employment."[5]

In fact, this is also something that World Bank President Kim has emphasized:

> [O]ne of the things we've learned is that, one, 90 percent of all jobs are created in the private sector. And while there have been arguments in the past about the appropriate way to development—do we close off our societies and just redistribute or do we open up our societies and try to spur the private sector to grow in a way that—and what did we learn from the Arab Spring? We learned that it has to be inclusive, especially of young people but in a way that's sustainable, that only through growth in the private sector with jobs that are both inclusive and sustainable can societies reach their highest aspiration.[6]

The World Bank can exercise a powerful practical influence on improving the entrepreneurial framework in its member nations by advancing a private-sector development agenda that aims to eliminate regulatory and policy obstacles to development and foster opportunities for entrepreneurship and job creation.

Over the past decade, for example, the World Bank's *Doing Business* report has been instrumental in fostering competition among countries to identify and implement the best policies and reforms to create a climate conducive to business formation and success. It would not be wrong to call the worldwide improvements in commercial regulation the "Doing Business Effect." Many member nations of the World Bank have been inspired to pursue real policy fixes as they recognize that the timely implementation of transparent and streamlined regulations is critical to paving the way for private-sector-led economic development.

It is an enormously challenging task to precisely quantify complex aspects of the entrepreneurial environment that matter to private-sector growth and development across countries. Nonetheless, it is noteworthy that *Doing Business* has identified and documented specific policies that are important in their own right and can serve as practical indicators for the condition of the broader regulatory framework.

Sparking constructive policy discussions and intensified reform competition, *Doing Business* has

1. Jim Yong Kim, "Within Our Grasp: A World Free of Poverty," World Bank, April 2, 2013, http://www.worldbank.org/en/news/speech/2013/04/02/world-bank-group-president-jim-yong-kims-speech-at-georgetown-university (accessed April 18, 2013).
2. Amartya Sen, *Development as Freedom* (New York: Anchor Books, 1999), p. xii.
3. See Ambassador Terry Miller and Anthony Kim, "Economic Freedom: Global and Regional Patterns," in Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2013), http://www.heritage.org/index/book/chapter-1.
4. President John F. Kennedy, remarks at the University of California, March 23, 1962, https://www.mtholyoke.edu/acad/intrel/pentagon2/ps19.htm (accessed April 18, 2013).
5. World Bank, "Creating Opportunity for Jobs, Growth and Reducing Poverty," http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,menuPK:282890~pagePK:149018~piPK:149093~theSitePK:282885,00.html (accessed April 18, 2013).
6. Jim Yong Kim, remarks at the 45th Annual Meeting of the Association of American Chambers of Commerce in Latin America, October 1, 2013, http://www.worldbank.org/en/news/speech/2012/10/01/world-bank-group-president-dr-jim-yong-kim-united-states-chamber-commerce (accessed April 18, 2013).

encouraged an increasing number of countries, particularly developing and underdeveloped economies, to adopt more favorable entrepreneurial frameworks for dynamic economic expansion and broader development. As concisely summed up by *The Economist* magazine:

> The Doing Business rankings seem to have spurred reform. In 2005 only a third of countries in sub-Saharan Africa were reforming; now over two-thirds are. Poland, Ukraine and Uzbekistan have made big gains. Even the sick men of Europe—Greece and Italy—are showing signs of progress. Unlike bail-outs, cutting rules comes cheap.[7]

How Congress Can Help. As the largest shareholder at the World Bank, the United States should play a proactive role in helping improve the effectiveness of its development practices. Although the executive branch has the key role in representing U.S. interests in the bank, Congress can exercise influence through oversight and control over the bank's funding process to encourage changes in policies or procedures.[8] In this context, it would be appropriate for Congress to:

- **Hold hearings** on the importance of economic freedom and measurable cross-country policy competition in promoting private-sector growth and real development progress; and
- **Urge the World Bank** to advance principles of economic freedom more explicitly in its development practice.

Encouraging Policy Competition Among Countries. President Kim said in his April 2 speech that "we set goals to keep ourselves from falling into either fatalism or complacency—both deadly enemies of the poor." To ensure that that does not happen, Kim should steer the World Bank to an even greater embrace of an evidence-based approach to development policies, emphasizing scientific principles and rigor in evaluating successes and failures and encouraging the economic freedom that fosters innovation, policy competition, and the advance of policies proven to work.

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7. Editorial, "Doing Business 2013: Getting Better," *The Economist*, October 27, 2013, http://www.economist.com/news/business/21565250-bad-rules-breed-corruption-cutting-them-costs-nothing-getting-better (accessed April 18, 2013).
8. See Rebecca M. Nelson and Martin A. Weiss, *Multilateral Development Banks: How the United States Makes and Implements Policy,* Congressional Research Service Report for Congress, March 7, 2013, http://www.fas.org/sgp/crs/misc/R41537.pdf (accessed April 18, 2013).