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## Too Much Order Can Be a Bad Thing

By Konstantin Sonin

It is considered inappropriate to speak ill of the dead. This rule does not seem to apply to banks, however. Take Sodbusinessbank, whose closure in May kicked off the recent banking crisis. The bank faces an impressive list of charges: money laundering, links with organized crime, violating federal law and orders from regulators. The Central Bank and the Federal Financial Monitoring Service are bent on getting to the bottom of the bank's shady dealings. And it's hard to argue with their desire to restore order to the banking sector. In practice, this has meant liquidation.

All the allegations hurled at Sodbusinessbank tend to obscure the other side of the story. Five years ago or so, nearly half of the companies sold off the shelf in Moscow had accounts at Sodbusinessbank. An off-the-shelf company is fully registered, but does not trade and has no directors. Such companies can be re-formed with little paperwork or expense. Accounts were opened at Sodbusinessbank because the process was simpler and cheaper than at other banks. It can't be ruled out that the bank might have overlooked the occasional irregularity, of course. It's true that many off-the-shelf companies were created to dodge taxes and shut down within three months. And it's true that when bank accounts are easily opened, they are easily used for all sorts of questionable operations. But people who wanted to start a business also bought off-the-shelf firms with accounts at Sodbusinessbank. All of the entrepreneurs I know did business with the bank at some point.

Economic research shows that the cost of creating a new company is a good indicator of the level and pace of a country's economic development. Countries where starting a business is simple and cheap tend to have a comfortable standard of living and dynamic economic growth. Where cutting through the red tape on one's own requires a large investment of time and money, or where off-the-shelf companies are prohibitively expensive, however, countries tend to stagnate. In the United States, for example, the cost of starting a new company amounts to 0.02 percent of per capita GDP. In Nigeria, a country with 100 million people and large oil reserves, the cost is 2 percent, or 100 times as much. The drastic difference between living conditions and economic growth in these two countries is therefore not surprising. Now that order has been restored in the Sodbusinessbank case -- in other words, the deceased has been properly buried -- starting companies in Moscow costs a little more and takes a little longer.

My point is that restoring order on the market or anywhere else has a downside. Closing tax loopholes seems like a good thing at first, but it also reduces the incentive to go into business. When regional governments cannot offer tax breaks, how are they supposed to attract major new companies? Bolstering the executive chain of command has left governors with less power and money than before, meaning that talented and ambitious people have less incentive to go into regional politics. The push to clean up politics -- or, say, for more objective television news coverage -- has turned into an attack on politics per se. In the same way, the push to clean up business threatens to turn into an attack on business per se. In case anyone has forgotten, entrepreneurs, not regulatory agencies, create added value in the economy. If you're looking for perfect order, visit the graveyard. If that's still not orderly enough, you can always pave it over.

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