1. What Makes Doing Business Easier

Why in News?

- News of a continuing improvement in India's ranking according to the World Bank's 'Ease-of-doing-business' Index appears to have come in handy for a Government.

What is Ease-of-doing Business Report?

- The report was introduced in **2003 by World Bank** to provide an assessment of objective measures of business regulations and their enforcement across 190 economies on ten parameters affecting a business through its life cycle.
- The report measures the performance of countries **across 10 different Parameters Namely**
- Starting a Business — Protecting minority investors
- Dealing with Construction permits — Paying taxes
- Electricity availability — Trading across borders
- Property registration — Contract enforcement
- Credit availability — Resolving Insolvency
- This time two more parameters were considered namely, employing workers and contracting with the government but these are not included in the score and rankings.

India's Performance:

- India was placed at 63rd position this time (2019) out of 190 countries marking an **Improvement of 14 places** from its 77th in 2018.
- India's **Score Improved** from **67.23 (2019) to 71.0 (2020).**

Concerns over Ease of Doing Business:

- The scale of the problem is better understood if we recognise that by far the **largest number of working Indians is self-employed.**
- So there is much to be said about concerns with the ease of doing business in India, no matter that the **World Bank's perception is overly based on the regulatory regime without adequate attention to infrastructure,** and is embarrassingly narrow in its coverage, being confined to Delhi and Mumbai.
- Having said the ease of doing business is important, it needs to be emphasised that a business cannot flourish on its own. Its fortunes are tied to the health of the economy within which it is embedded.

Creating Demand:

- The viability of a business depends on the vitality of the economy in which it is embedded. Ease of doing business index, things has improved rapidly and significantly in recent years. India's rank improved from 142 in 2014 to 77 in the report for 2019, and 63 for 2020.
- However, **this has done little for private investment, which, when measured as share of GDP, has remained unchanged since 2014.** And, the recent surge in India's ranking on the ease of doing business has come at a time of a distinct slowing of growth.
- It appears that we would be unwise to judge the state of the economy by observing movements in the ease of doing business index.
- That the **Indian economy is facing an aggregate demand slowdown is indicated by the fact that aggregate investment, as a share of GDP, peaked in 2011.** Now, it is about 10% lower. There have been exhortations to the government to resort to deficit spending.

Impact of Fiscal Stimulus:

- During 2008-09, in the wake of the global economic crisis, the fiscal deficit was hiked from 2.5% to 6% of GDP, rising further in the next year. Such high increases have been rare, if at all, in India.
- As a result we did not encounter the steep decline in growth observed in parts of the western hemisphere. However, as soon as the deficit was taken back to levels dictated by the Fiscal Responsibility and Budget Management Act, 2003, the growth rate declined compared to what it had been before the fiscal stimulus.
- **This holds an important lesson. The composition of the public spending matters for growth;** increases in the fiscal deficit that take the form of a rise in public consumption rather than public capital formation can have only a temporary effect. In the two years of an exploding fiscal deficit in 2008 and 2009, public capital formation increased little.
- Had the unusually high increase in the deficit gone entirely to capital formation it would have both increased aggregate demand and raised the potential supply of the economy. Its growth impact would have lasted much longer.

Reasons for a Slowdown:

- A slowing of aggregate demand growth can take more than one form. In the textbook view it is **part of the investment cycle,** and deficit spending can take the economy out of it.

- But what we may be witnessing right now could be a **demand slowing with Indian characteristics**. This is related to the fact that the greater part of the population is located in a very slow-growing agricultural sector, putting a brake on consumption growth.
- The grimness of the situation is summed up by the dual feature that around 70% of the population is rural and in half the years of the decade since 2008, we have had zero or negative growth in crop agriculture while the non-agricultural economy has grown steadily.
- Now, as the **income distribution shifts away from the overwhelming majority of the population, aggregate demand growth slows.**
- **Anecdotal evidence** that luxury cars fared well during this Deepavali while sales of the most basic items of clothing did not, **points to the likelihood of such an income-distributional shift having actually taken place.**

Conclusion:

- When faced with an aggregate-demand growth slowdown an active macroeconomic policy is needed.
- Of monetary policy it seems we are doomed to see a change too little too late after years of the Reserve Bank of India having nursed a high-interest rate regime
- Fiscal policy alone holds some promise but calibration would be necessary in its use. **Spending must focus on the rural sector to raise agricultural yields and build the infrastructure needed to support non-farm livelihoods so that pressure on the land can be reduced.**
- This will also expand aggregate demand. Right now the government needs to be pro-active rather than adopt a hands-off approach. Business cannot go it alone.