

For business, India's at least gotten a bit easier

Given that the Indian economy has been reeling from one shock after another, a bit of good news would be welcome. And some has just arrived: The World Bank has declared that, over the course of a single year, India jumped from No. 130 to No. 100 in its “ease of doing business” ranking.

The rise wasn't entirely a surprise. While successive Indian governments have had a tremendous weakness for red tape, it seems generally understood now that things have gone too far. Even the left-of-centre Congress Party promised, in its manifesto before the 2014 elections, to raise India's ranking in the World Bank index to No. 75; its rival, the Bharatiya Janata Party, promised to bring India into the top 50. Prime Minister Narendra Modi has now taken a big step towards fulfilling that pledge. If nothing else, this is useful proof that easing regulations is now solidly on the political agenda in India.

The World Bank report said that India had simplified several regulations—construction plans could be filed in advance of applying for a permit, for example, some paperwork has been streamlined for employers paying into pension funds, and so on. While Modi is often accused of being too reliant on India's bureaucracy, clearly some distinct if localized improvements in India's regulatory framework have just taken some time to show up in the rankings.

Of course, there has been a little bit of gamesmanship as well. The World Bank's criteria when building up its indices are well-known and transparent. It's easy for governments to focus on precisely those things the listing examines, such as electricity connections in the two largest cities; Rwanda, now ranked 41st, has often been accused of doing precisely that. Indian finance minister Arun Jaitley has been fairly open about the fact that the government was “deliberately targeting” the areas that go into evaluating the index. I have no doubt that, given this focus, further improvements in the economy's ranking are in the offing.

The World Bank's index is too poorly constructed, and the gaps within it too large, for the ranking to be anything but a very rough guide to how economies are actually run. (Amusingly, for example, the report suggests on page 30 that India making online payment of some taxes a “requirement” rather than an alternative makes things easier for business. Fewer options are not usually better!) The Harvard economist Lant Pritchett has found that the index can have, sometimes, only a tenuous connection with the reality on the ground.

Of course, it is a relief that an Indian government at least recognizes that the ease of doing business is important enough to spend energy on and hold press conferences about. Yet I think we have to remain somewhat sceptical. To make India truly hospitable to business, we need large-scale deregulation and administrative reform. That's not really been on the horizon. It's fair to worry that achievements such as this will lead the government to assume that the pressure to reform is off—or, worse, that minor modifications to online forms are all that are needed to supercharge the Indian economy. The government can find it too easy to claim that its improved ranking is proof that reforms on the scale needed have already been undertaken.

Fortunately, there are alternatives that the government could also look at if it wants a somewhat more sobering picture. In fact, its own think tank, Niti Aayog—“NITI” stands for “National Institution for Transforming India”—recently published a somewhat more authoritative, state-by-state survey of the ease of doing business in India. Unlike the World Bank report, which uses the testimony of tax experts and so on, the Niti Aayog survey queried actual entrepreneurs and companies.

It discovered, among other things, that innovations like “single windows” for some permissions, which help raise one's rank in the World Bank index, are generally not known to the vast mass of

actual entrepreneurs. And the views of firms make it very clear that restrictive labour laws and other regulations are holding back their growth. If the government really wants to make it easier to do business in India, it might want to listen not just to the World Bank but to those actually doing business in India. **Bloomberg View**

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