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'Govt has to stretch itself for economy's recovery'
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'Govt has to stretch itself for economy's recovery'

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Several industry bodies have been voicing the need for higher government spending in areas such as infrastructure to stimulate demand in a post-covid world. Nevertheless, simply spending on infrastructure may not do the trick, and the country's consumption story needs a dose of direct cash transfers, Harsh Pati Singhania, director, JK Organisation, said in an interview. Edited excerpts:

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> **HARSH PATI SINGHANIA**
> Director at J.K. Organisation

What can the government do to stimulate demand in the economy?

Immediate measures to revitalize demand is an imperative, as it will help stabilize the economy. Insufficient or delayed fiscal stimulus would only prolong the recovery and make the fiscal situation of the government even more acute. Initially, the rationale against any cash transfers was that it would be used up in precautionary savings during the lockdown months. But now with the unlocking of the economy, things have changed.

For example, providing a monthly grant of ₹1,000 per member to PDS household (₹5,000 per family) for three months, will cost about ₹3.5 trillion, ~1.7% of GDP (gross domestic product). Since Aadhaar is seeded with both ration cards and bank accounts, transfers could be made directly into bank accounts linked to each ration card. Moreover, the furlough scheme in the UK has been very successful, which has prevented job losses and enabled minimum income to tide over the crisis. Post-lockdown economic activity is picking up. India could try something similar. Besides, there should be calibrated easing in the sectors, such as travel, tourism and hospitality, which are a major part of the economy.

Where will the government get the money from for cash transfers, since it is expected to fall short of revenues this year? We are looking at a fiscal deficit of over 7%, isn't it?

We understand that the government is in a tight situation as far as funding is concerned. But one must realise that demand revival is key for which the government has to stretch itself in the short term to get the economy back on the recovery path. It can also look at disinvestment, selling some of its non-core assets to come up with the requisite funds.

m INTERVIEW

Will any rationalization of goods and services (GST) rates help in demand recovery?

Any GST rate cut will only be for a temporary period, but can make a difference to spending, especially discretionary ones. For example, take the case of automobiles, which is already in the highest tax slab. In the post-covid world, where there is an emphasis on social distancing, personal mobility is expected to take priority. A GST rate cut from 28% to 18% will add to the sales momentum that is very much needed for the industry, which has huge linkages to several other industries and small enterprises.

This will benefit the entire ecosystem. Any loss in government revenue would be recovered from the higher sales, which will otherwise be absent if there are no sales. Of course, any rate cut would have to be few and used very selectively.

What more needs to be done to move the needle on ease of doing business?

Although India has taken big strides on the ease of doing business and improved its ranking by 79 places (from 142 to 63 now) in the last six years, businesses at the ground level are still weighed down by lack of major structural reforms, multiple overlapping regulations and compliance issues. The number of compliances for a typical manufacturing unit is at least 2,000-3,000 (if we only take into account the laws of the land), which goes up to 6,000, if we also include the rules. A typical manufacturing project requires a minimum of 28 approvals, which can take up to two-three years.

That apart, land acquisition remains costly, as well as time consuming, and it takes years to move through the maze of multiple regulations. The social impact assessments under land acquisition can be prepared by an independent expert group instead of being done by the government and later reviewed by the expert group to avoid duplication. By cutting down from multiple agencies to single one working simultaneously, at least one year could be saved.

The cost of capital is also significantly higher in India and this adds to the expense burden, rendering domestic manufacturing less competitive than global peers. Unless these issues are tackled properly, India will continue to lack competitiveness and *atmanirbharta* (self dependence) would not be adequately achieved.