Title

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Publication Date
2023-12-13

Peer reviewed

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December 2020

Introduction

These essays were written as columns for the *Financial Express* daily newspaper in India. This collection begins in December 2019, so technically the first two pieces were not written in the "Year of Coronavirus." But they provide a good starting point. The collection ends in December 2020: there are 26 essays in all. All of these pieces appeared in the *Financial Express*, in print and online, with varying lags from the dates of writing, which are noted after each essay. The newspaper versions invariably had different, more elaborate titles, but the ones below are my original, somewhat spare, title choices. I hope that reading these pieces in sequence and together will provide a consistent and useful perspective on Indian economic policy in a year that has been truly extraordinary. I have not changed any of the text, so these represent my real-time and evolving understandings of India's situation over this period. Many of the essays are about the response to the pandemic, so they focus on non-economic aspects of policy but the economic implications are, I would like to think, always in the analysis. Two of the essays focus on the US – its pandemic response and its presidential election – neither is about India's policies at all, but each has, I hope, some lessons for India.

India's Economic Slowdown: Crisis or Blip?

The year 2019 has been a momentous one for India. On the political and societal front, one has seen a centralisation of political power, accompanied by measures to homogenize Indian society in ways that seem to be at odds with the country's recent history and ideals. My view is that these efforts have also affected the economy, both by taking away attention from core economic issues, but also be shrinking the set of perspectives on economic policy that are valued within the corridors of power.

The Indian economy has been in the grip of a worrying slowdown, one which policymakers have been slow to acknowledge and to come to grips with. One can argue that the problems are short term ones, the result of a conventional macroeconomic slowdown, global economic uncertainties, and perhaps some specific structural reforms which have been initially disruptive, but will soon bear fruit. In this perspective, the slowdown is a blip that will disappear.

But there is an alternative view that has been recently expressed very forcefully by Ashoka Mody, now at Princeton University, who has written in the past on India's demographic dividend, as well as its industrial dynamics. His latest analysis, in the form of an op-ed, has a title that makes his position clear: How India's growth bubble fizzled out. Mody views the growth experience of India since the 1991 reforms as being driven by finance, real estate and construction, and argues that this is the bubble that has now popped. He emphasises the lack of investment in urban infrastructure and human capital, and the erosion of Indian manufacturing, and says that it will take a generation to catch up on those fronts, which are critical for sustained future growth. From this perspective, India is in a crisis.

There are strong elements of truth in Mody's analysis, but one should not underestimate the changes that were wrought in the last three decades, to the point where 5 percent growth is considered a barely acceptable floor, rather than an aspirational rate of growth. There have been improvements in tax policy, in infrastructure, in financial systems, and in attitudes, though all of these are now under stress. But where Mody concludes that there are "no easy fixes," I would argue that there is a way forward that can begin to turn around the economy relatively quickly.

First, the central government has to reverse its impulses for centralisation of everything. The Terms of Reference of the 15th Finance Commission seem to me to reflect those impulses, looking for ways to reverse the greater share of tax revenues, awarded to the states by the previous commission, along with somewhat greater flexibility. Instead, the centre needs to allow the states more room and ability to spend money, perhaps with nudges towards priorities such as education and urban infrastructure. If the centre needs to discipline the states' spending, it should invest in strengthening their fiscal management and accounting systems, all the way down to cities and towns, rather than trying to punish or reward them based on meeting fiscal deficit targets.

Second, the central government needs to be more open. There are many dimensions of openness. The only one that seems to have received attention is measures to attract foreign investment, by liberalising restrictions. But everything else the centre has done has worked against openness. There has been hostility to trade measures that might support the integration of Indian manufacturing into regional production networks. The lack of progress on this front, precisely at a time when it was both needed and possible, has been shocking. Second, opening up higher education to domestic and foreign entrants would go a long way to addressing human capital gaps at the upper end of the educational spectrum. At a time when the global higher education sector is in turmoil, and flexibility is becoming the norm, Indian higher education policy has lagged badly. A vital component of policy in this case would be creating an institutional and social environment where faculty from other countries (including those of Indian origin) want to spend substantial periods of time in India. Instead, the government's political and societal impulses have had the opposite impact. A third dimension of openness is being willing to gather inputs on economic policy from a wide range of people with appropriate expertise. Here, too, the current government appears to have regressed.

A third area where concerted government action can have rapid payoffs is in the creation of a robust infrastructure for digital communications. This implies tackling the continued deficiencies of the electric power sector – perhaps the one place where pressure on the states is needed for further reform. But the approach to building and improving the communication networks has to change. Currently, there are two inefficient government-owned firms, and a dominant, almost predatory private sector behemoth. This is not a recipe for long-run growth. India is large enough to support more competition in telecoms, and there is enough potential for growth to make it attractive for new entrants, if the playing field is level. Public-private partnerships for investment in the needed infrastructure may work here. Policies will need to be carefully designed, but can yield benefits to industry, education, finance, and almost every part of the economy.

December 12, 2019

India's Lost Year

In retrospect, the arc of events in India in 2019 seems predictable. Early in the year, political events afforded the government with an opportunity to highlight external threats in the general election campaign. This was arguably a major factor in giving the ruling party an unassailable majority, and seemingly, a mandate to accelerate its political and societal agenda. Indeed this is what has happened, with actions that are well-known, including the peripheries of Kashmir and the Northeast, but ultimately reaching at the heart of the idea of Indian democracy.

Meanwhile, the economy has continued to falter, with the government seemingly always a step or two behind in what needs to be done to restore both confidence and growth. There was an interim budget before the election, a full one after, but each with policy changes that seemed to deal with symptoms and not causes, to be reactive rather than proactive, and never quite enough.

This month is seeing nationwide protests against the latest political moves of the government, with young people leading the way in some cases. Their protests are driven by a concern for the kind of country they are going to live in for the majority of their lives. Other protests are motivated by fears of competition from immigrants. The protests are being met with police violence and internet shutdowns. It is not hard to see that the ebbing of hope in the nation's economic future is connected to both kinds of protests. India's potential demographic dividend is out in the streets, decrying the creation of fear and uncertainty about their futures, rather than moving forward with hope. And an atmosphere of fear, uncertainty, violence and repression, is not one in which economic progress is likely to thrive.

The government is clearly pursuing a well-defined, if narrow, strategic vision with respect to India's polity and society. It is proving to be bold, relentless, even rigid, in this pursuit. There does not seem to be room for debate and discussion with respect to policy choices and implementation. Centralisation and concentration of decision-making are not favourable conditions for the complexities economic policy making, let alone defining priorities. The post-election statements of the vice chairman of NITI Aayog, regarding a priority list of "big bang" reforms, seem like a mirage at this stage. Even the pollution that choked northern India in November, harming millions of people because of poorly understood and managed economic policies, has been overshadowed, even forgotten.

This was a year where India could have turned a corner, with political stability and economic recovery. Instead, the year has been lost. It is possible that India's rulers will make some course corrections, and rethink what is important for making India truly great (which is at the heart of their vision). But it is just as possible that matters will be allowed to go on as they are proceeding, with the government's power over law and order and the media allowing it to impose its will. That course is unlikely to be good for the economy. Authoritarian regimes have certainly succeeded economically, but they are also capable of generating catastrophes. Rigid and weak democracies may also allow problems to fester, but the global evidence suggests that democracies do better on average, in terms of economic growth. Nor does India's current course bode well for its global standing or its attractiveness to foreign investors, notwithstanding the currently strong stock market.

What is the way out, so that a lost year does not become a lost decade? India's citizens will not get a chance to render a new verdict nationally for over four years, though state elections may help send useful signals to the government. But given its current mindset, it may be that only a change in that mindset will make a difference. What is remarkable in the current situation is that India, despite its diversity, is 80 percent Hindu. All minorities in India have navigated this dominance, and the country's political and constitutional structures implicitly incorporated this imbalance, without making it intolerable for minorities. Despite many imperfections and inequities, the Indian model seemed to be reasonably stable, and a basis for finally making serious economic progress.

Instead of building confidence and trust by embracing and strengthening the positive features of Indian society, recent political actions have been based on a mindset of fear and victimhood. Again, this is remarkable in a nation where there is such a firm majority for one religion, with an associated culture that is even more pervasive. Other countries also treat minorities badly, and blame them unfairly. There is no evidence that this approach is good for economic progress, besides its negative implications for human rights. A lost decade for the economy can stretch out further, and can be a lost decade for society as well. Indeed, the arc of history is even longer, and may bend away from progress and general well-being for many decades at a time. It is remarkable and disquieting that India is facing this prospect as 2019 comes to an end.

December 22, 2019

Implementing India's Economic Strategy

My last column for 2019 reflected on India's lost year, where what can mildly describe as continued political missteps accumulated to the point where the country's economic future is threatened. Nevertheless, one has to look to the future, and understand where there is room for making a positive difference. This involves thinking about India's economic strategy going forward. A year ago, I wrote two columns critically analysing a report titled "An Economic Strategy for India," written by about a dozen premier economists with expertise on the Indian economy. The group included US- and India-based individuals in academia, the private sector and international policy roles, but no one, as far as I could tell, working actively with the national government. The report said many of the right things, and my main concern was that not enough attention was given to focusing on India's lack of dynamism in the industrial sector, traditionally the core of economic development.

I have also been lamenting the lack of broad consultation of experts by the national government, but this thought prompted me to dig into what NITI Aayog, the government's premier think tank, has been doing. I discovered a significant report that was published a month before the "outsider" document I had discussed a year ago. "Strategy for a New India @75" is over 200 pages long, and identifies 41 areas for attention and focus. It is clear and well-written, the recommendations are good, and it has a foreword by the Prime Minister. Many experts were consulted, and it shows in the report's breadth and quality. Interestingly, there seems to be no overlap in the contributors to the two reports.

One major difference in the NITI Aayog report is that it doesn't give much attention to macroeconomic stability or to the need to clean up the mess in the financial sector. In some sense, these are preconditions that one can view as necessary, but at a different level than strategies for sustained growth. Given its length and the breadth of its coverage, it tackles many important issues the "outsider" report neglects or does not emphasise enough. In particular, the seven sets of governance reforms, including civil service reform and modernization of city governance, are given welcome prominence. I wish I had read this report a year earlier. But since so little of what it recommends seems to have happened, perhaps it is not too late.

What do we learn from the NITI Aayog report, not just its content, but also its trajectory? In the rest of this column, I offer several tentative lessons. First, if the goal of creating NITI Aayog was to have a high-quality think tank, this report provides some validation. Freed of the futile and outmoded exercise of planning and separated from the politics of allocating central government money to subnational governments, the new organization has great potential.

Second, there is clearly considerable expertise within the system, or on its peripheries. I have been arguing that the government's economic policymakers should not hesitate to bring in outside expertise, but it seems that outsiders might also do better by interacting more on the ground with those who are engaged with the realities of India. Of course, as this year's Nobel Prize illustrated, there are such ties, particularly with NGOs and with some state governments, but deeper intellectual engagements across different groups must surely help, if only to refine ideas that most already agree on. A related point is that the internal document seems to me to have a clearer sense of the kind of structural transformation that India needs. The "outsider" report was, to some extent, circumscribed by the fashions of the economic profession, in academia and in international organizations. Economists need to engage more productively with non-economists.

Third, the NITI Aayog report and its overall efforts illustrate the continued weaknesses of economic policymaking in India. The report may have been launched with a splash, but I could find no evidence of updates, of assessment of progress, or linkages to all the other documents and ideas spread across the organization's website. The report itself did suffer from the standard weakness of Indian government documents, having a long list of areas that need attention, without any clear prioritization, systematic analysis of linkages between different areas, clearly presented pathways to implementation, or realistic timelines (India will turn 75 very soon).

The root cause is the internal organization of India's national government, where the focus too easily becomes one of retaining and projecting political power. This tendency has been exacerbated in the current government. There is already too much centralization of power and decision-making geographically, and further concentration within a small group at the centre just makes everything worse. The NITI Aayog report does address some of these problems of the architecture of governance in India. Any successful economic strategy will depend on systemic changes in this architecture, including the civil service, regulators, the judicial system, and of course, politicians. Compared to what needs to be done on this front, the economics is relatively easy.

January 12, 2020

Rethinking Economic Strategy in India

India faces enormous problems in delivering promises of improvements in material well-being to its people. Comparisons with China's economic performance over the last few decades make clear the opportunities that India has missed. With the economy currently struggling, there has been increased attention to economic strategy, at least among those whose jobs require that focus, from academics to those in government think tanks like NITI Aayog. These analysts are mostly accurate in identifying what needs to be done, and sometimes are also able to drill down to key barriers that need to be overcome. But those who shape and implement policies, namely politicians and bureaucrats, do not seem to be able to move things forward at an acceptable pace.

It may be that self-interest prevents these key decision-makers from doing things that will enhance the welfare of India's masses. In that case, the root cause is the institutions of governance, and reforms have to focus there first for progress on the economic front to accelerate. This is a complex problem, since matters cannot be dealt with by fiat from the top down. Indeed, drawing a lesson in favour of centralisation or authoritarianism from China's experience would be completely misguided.

While governance reforms can take long, perhaps too long given the urgency of India's situation, analysts can certainly do much better in terms of providing better narratives to guide policymakers. One approach I would advocate is a streamlining of the central narrative, and using that explicit focus to prioritize, and to draw out lessons for implementation. Rather than structuring strategies in terms of lists, the components of which fail to mesh together in a coherent action plan, one can think of a tree structure, where the initial focus (the trunk) leads to unearthing subsidiary issues and constraints (the branches). Of course, reality is not so clean and simple, but the goal of strategy is to focus on what is most important for success.

As an example, consider one of the most fundamental aspects of India's current reality, a young population. This implies an obvious need to focus on employment generation. The classic approach to employment-friendly growth has been labour-intensive manufacturing. To be able to produce at efficient scale, to use the best technologies, and to have adequate financing, there is a strong case for engagement with the world economy, at least at the level of successful exporting and perhaps also FDI. Arvind Panagariya, the first vice chairman of NITI Aayog, has long been good at keeping a focus on trade-based employment generation in his writings, both as an academic and as a policy advisor.

On the other hand, NITI Aayog's 2018 document, Strategy for New India @75, ranges over every problem that India faces. Out of over 200 pages, there are 5 on industry and another 15 on agriculture, where exports receive some mentions. Import tariff structure gets mentioned in one or two bullet points. Make in India, the national government's high-profile initiative to promote manufacturing, has a few perfunctory mentions, almost independently of the actual state of Indian manufacturing. The need for reforms in land and labour laws is discussed separately, as is the need for developing better infrastructure to support international trade. There is no concluding section, and neither the preface nor the introduction drive home the centrality of the key issue stated on the first page of the report, "India's inability to capitalize fully on its inherent labour and skill cost advantages to develop large-scale labour intensive manufacturing." Nowhere is there a coherent, implementable action plan to tackle this failure, and it continues.

None of this is to argue against the need to realize the complexity of the challenges facing India, which are multiplying. For example, the kind of labour-intensive manufacturing that the country will need to develop going forward is very different than what served many countries in the 1960s. But the report illustrates the same problems of policy articulation when going into complexities captured in buzzwords such as "Industry 4.0." The discussion of this issue in the industry chapter does not bring out the importance of higher education reform. The higher education sector has its own 5 pages, where there are many good recommendations (as in very chapter), but no solution to the problem that one-third of faculty positions are ostensibly vacant. Rashtriya Uchchatar Shiksha Abhiyan (RUSA), a centrally sponsored scheme meant to improve state-level colleges and universities, is discussed without being evaluated. The stark statement that "There is no policy framework for participation of foreign universities in higher education" is not elaborated upon. And so on.

Of course, no single document can lay out all the interconnections in the different aspects of India's economic strategy that need to be addressed for accelerated growth. Instead, what one needs is a more concise document that provides an integrated view of objectives and priorities, along with a short list of implications for policy formulation and implementation. Some changes have no fiscal costs, only political costs; others require identifying amounts and sources of funds. Every exhortation for reform or identification of a problem should be accompanied by a roadmap for fixing that problem, along with identifying possible side effects or supporting actions. If such a set of economic strategy documents exists for India, I would very much like to see it.

January 20, 2020

The Budget and the Economy

We all know that this year's Union Budget came at a difficult time for India's economy. There have been economic challenges in the past, but those memories had receded. However, instead of improving, the situation worsened after the last general election and the Budget that followed it. What can we expect after this Budget?

It is important to remember that the direct economic weight of the Union government is relatively small. After allocating the States' share of tax revenues and other devolution recommended by the last Finance Commission, the net revenue of the Union government was just 9.45 percent of GDP, based on 2019-20 Revised Estimates. Its expenditure was only 13.20 percent of GDP. The difference is the fiscal deficit, of 3.75 percent of GDP. This means that the Centre's revenue is just about 70 percent of its expenditure. This reminds us of the fragility of the Centre's revenue-raising capacity, and its limited ability to influence the economy directly through its expenditures, especially with legislative constraints on the fiscal deficit and global monitoring of India's macroeconomic stability.

But the need was for fiscal stimulus, and the growth slowdown allowed the Budget to use an escape clause for a planned deficit above the legislated target. To some extent, all levels of government in India resort to off-budget borrowing, and stratagems such as slowing down payments. In hard times, this phenomenon gets worse, but can shift its contractionary effects from where they are apparent and possibly better managed, to places (lower level governments and enterprises) where the effects might be hidden or worse. In the end, it is difficult to tell whether the government's stimulus hit the right spot. After the Budget, the RBI tried to make it easier and more attractive for banks to provide credit. Again, it is difficult to say how it will all add up, but the stock market and foreign exchange market have not cast a negative vote.

On the revenue side, almost all Indians pay indirect taxes, since they buy goods and services, where the GST comes into play. The Budget continues a much-needed process of improving the design and implementation of the GST, by streamlining and simplifying. In the long run, the GST will help improve India's relatively low tax-to-GDP ratio, and bring more of the economy into the formal sector, but it may still be a bumpy road ahead. Very few Indians pay direct taxes, in the form of income taxes. The Budget attempts to simplify the income tax structure, lowering rates in the middle tiers, tying that to giving up various exemptions or deductions, but leaving the old structure as a choice as well. Aside from a small stimulus, simplifying tax preparation and filing could have long run benefits of encouraging people to file returns. But truly broadening the tax base needs structural reforms that promote formal sector jobs.

The two biggest question marks and challenges on the revenue side are the projected revenues from spectrum auctions and disinvestment of public enterprises. Auctions are good for revenue-raising, but not necessarily for building a telecom infrastructure that provides broad access, through affordability, and sustainable competition among providers. This remains a tough challenge. Disinvestment has never delivered as promised, because it is often designed poorly and timidly. Political opposition is a perennial problem, and making it work will remain difficult.

Finally, customs duties are no longer a major revenue source, but are tending to be used for protecting certain industries or types of firms. There is overreliance on such measures, when more direct ways of supporting particular types of firms or sectors, especially through infrastructure investments, would be more efficient.

On the expenditure side, the Union government remains locked into a complicated mix of schemes and discretionary transfers, meant to achieve a wide range of economic policy goals. Their complexity, lack of coordination and deficiencies in implementation capacity make expenditure efficiency a perennial issue. For example, it seems that every Finance Commission, including the latest, calls for simplification of Centrally Sponsored Schemes. On the plus side, these expenditures do provide safety nets that are quite good for what is still a relatively poor country. The current Budget has no significant new schemes, and it is always difficult to assess the aggregate or distributional impacts of adjustments in spending plans (less for employment guarantees, more for payments to farmers, etc.).

Ultimately, policy proposals that can influence the future course of the economy are not a core part of the revenue-expenditure-borrowing accounting of the Budget. The Budget, like its predecessors, has many specific proposals, typically needing to be fleshed out, and implemented effectively. There remains a tendency to substitute moralizing for designing incentive-compatible economic policies. India needs to create many more formal sector jobs than it is doing now, and that means creating many more firms, and growing existing firms more effectively. The Budget did not jettison the long-term capital gains tax, but it does seek to make risk-taking more attractive for start-ups. But Make in India, and now, Assemble in India, have to be made effective through targeted infrastructure investments and integration in regional production networks. Three decades of economic reform have not achieved this.

On balance, the latest Budget is positive in its potential impacts on India's economy. But there is a new urgency, and one hopes the government can actually deliver what is needed.

February 10, 2020

Reading the Economic Survey of India

In the new millennium, as economists with distinguished academic careers began to hold the post of Chief Economic Adviser in the Finance Ministry, the Economic Survey of India (ESI) began to display conceptual innovations that had been less prominent in earlier years. What does this year's survey yield in terms of insights into policies that may yet rescue India's economy from its current floundering?

The Survey's recasting of economic growth as "wealth creation" can be appealing, given the positive imagery conjured up by the more materialistic term. There are some hints of a retreat from distributional concerns, which were nicely captured in the popular term, "inclusive growth," but perhaps that is partially substituted for by "grassroots entrepreneurship." It was a decade ago that economists such as Ejaz Ghani began to quantify the spatial patterns and determinants of formal entrepreneurship in India, and this year's Economic Survey takes an important step forward in updating that research, and making it more visible. New firms boost growth, and their formation is aided by physical infrastructure and human capital. The policy implications that are drawn are straightforward – more education and better regulation (related to the now hackneyed phrase, "ease of doing business"). Regulation touches on land and labour, and involves state and city governments. But what is, perhaps, missing from the analysis of entrepreneurship here is policies to reform and strengthen urban governance – where this reform project has to go beyond simply creating a few "smart cities."

The ESI also innovates with its focus on trust, though one has to acknowledge that a previous CEA, Kaushik Basu, has been writing about the importance of trust for economic performance for some time. Of course, Basu's focus includes the mistrust created by divisive social policies, whereas the ESI concentrates on the crony capitalism and corruption that emerged most starkly in the period shortly after the global financial crisis. Both aspects are important, and India has been a low trust economy for a long time. Bureaucrats have not trusted businesspeople, business people have not trusted each other, and so on. Personal connections and kinship ties have been the trust-builders in Indian society. The ESI emphasizes the importance of intrinsic motivation (preferences that abhor cheating, for example) and better regulation, but intrinsic motivation may not be strong enough in the situations of concern – only a few bad apples can bring down a system. Areas that need attention but do not get much mention in this document (but in some cases appeared in the last ESIs) are the need for judicial reform, organizational reform (in areas such as banking), and, most simply, greater investment in systems and expertise for preventing bad outcomes. Most critically, a well-functioning legal system adds a vital backstop for trust. One can also argue that greater equality and attitudes of respect for others are important in creating societal trust.

The Survey's discussion of public corruption is welcome – novel in its forthright acknowledgment in a government document, if not in conceptual insights. Of course, what is missing is the policy implications of the analysis, which would require restrictions on politicians and their families in how they interact with and influence the private sector, and reforms in campaign finance mechanisms, which allow illegal flows of funds from the "cronies" who are criticized in the ESI, to the politicians who are their enablers. One also has to recognize more clearly that successful cronies are as much of a problem as the unsuccessful ones who make the headlines for stealing money and escaping to other jurisdictions. The question of what are the systemic structural defects in India that need to be fixed remains unanswered here.

Much of the ESI consists of new takes on old problems: poorly conceived and designed government interventions, obstacles to doing business (whether new or old), the failure to integrate into the world trading system in a manner that would permit gains from comparative advantage in international trade, the growing problems of the financial sector (banks and non-banks), and the need for privatization. What is innovative in this year's Survey are the types of questions asked, and the solutions offered. Much of the focus is from the perspective of what makes for-profit organizations function well, rather than treating them as black boxes that are effectively invisible in economic policy making. Perhaps it is not unreasonable to distinguish between a business school perspective on the economy, and the more traditional economic modelling approach.

If that change in perspective takes hold, and begins to influence policy formulation and implementation, then this ESI may mark a positive conceptual shift that actually helps to put India on an accelerated growth path (or more rapid wealth creation). Of course, there will be a need for thinkers who argue for the interests of the disadvantaged, promote broader ideas of welfare, and so on. And in some cases, human rights should take precedence over material gains. But a focus on, and detailed analysis of, how to promote the success of more and more businesses in India, from the grassroots up, is novel and necessary.

February 21, 2020

Contagion, Lies and Crises

In October 2018, UC Santa Cruz's Center for Analytical Finance organized a panel discussion on the lessons of the 2008 financial crisis. This was just after the 10th anniversary of the Lehman Brothers bankruptcy, which was the tipping point for the crisis and the recession that followed. The panellists noted that while much had been done in terms of regulatory systems to defend against the kinds of problems that emerged in 2008, the regulations were imperfect. They also noted that future problems could arise in completely new ways, giving cyber-attacks and an unsustainable debt build-up in China as two possible examples.

Financial systems are subject to contagion, and that is what makes financial crises so dangerous to the real economy: as the dominoes fall in sequence, the lubricants of money and credit that keep the real economy functioning dry up. And sudden, short term stoppages of real activity create liquidity problems, demand collapses and further financial meltdown. The coronavirus crisis has begun with a different sort of contagion, and the sequencing of dominoes is different, but the negative spiral for financial systems and real economic activity is similar.

Every country is responding with different degrees of speed and urgency, but one thing is clear. The United States has so far provided one of the worst responses possible, and caused unnecessary human suffering and economic damage. The Trump administration has two characteristics that have been evident throughout its three years of functioning. One is placing loyalty way above expertise, to the point where expertise is almost completely irrelevant, or even seen as a negative. The second is a tendency to lie blatantly, to deny reality, and to viciously attack truth-tellers. These characteristics were evident in the lack of expertise in the White House (the experts had been fired a couple of years ago), and the continued denial of the reality of the situation.

The consequences of the Trump administration's incompetence and dishonesty have been a failure to develop testing capabilities (somewhat analogous to not knowing what the true financial health of the investment banks was in 2008, which was a deliberate choice of the Securities and Exchange Commission under George W. Bush); a failure to provide equipment, supplies and capabilities to support prevention and treatment; and a failure to provide meaningful guidance for individual behaviour. Instead, Trump obsessed about the stock market's behaviour (a symptom far removed from the causes needing attention), his re-election in November, and the "foreign" origins of the virus. Sections of the media that slavishly support Trump, and his legions of cult-like followers spent time attacking the Democratic party, and spinning outlandish conspiracy theories, both hallmarks of the Trump style of operations, before his election and since.

Interestingly, it was the moves of educational institutions, sports teams, and mass entertainment providers that finally turned the tide. Also crucial have been the responses of governors of US States. Democratic party governors, in particular, have used their executive powers to enforce measures designed to mitigate the virus's spread, though they have been seriously hampered by the lack of ability to test widely. Meanwhile, the Federal government's response has continued to be slow, incoherent, and sometimes exacerbating the problem, as when Americans were panicked into flying back from Europe without adequate planning to receive them at US airports in a safe manner.

What lessons does the US experience have for India? First, political leaders who deny reality and are more focused on looking good and retaining power than on the welfare of citizens at large will tend to fail in a crisis, although they may be able to hide their failure from many by manipulation of the media. But the manipulation of the media (with the media's own complicity) prevents the problem from being recognized and acted on.

Second, leaders who do not trust expertise and surround themselves with competent people, rather than flatterers and loyalists, will not be well prepared to deal with a fast-moving crisis, in particular. Assembling expert teams and embedding them in the wider system takes time, and time is of the essence in a crisis.

Third, having a well-decentralized system can be helpful. US state governors are speaking to each other and sharing best practices, especially regionally. In some cases, this has helped cut across partisan mistrust – though it is also the case that some Republican party governors have not completely bought into the Trump cult of denying reality. Governors also know that they are accountable to their own electorates, and will be judged at the next election. India lacks good decentralization in many of these aspects. Of course, good central decision-making is vital, but decentralization can compensate for central failures and even provide role models for how to fix them.

A fourth lesson goes back to the financial crisis of 2008. The US Federal Reserve has responded magnificently to the current dangers to the financial system. And the financial regulatory reforms of the past decade have insured against the worst vulnerabilities of that earlier period. India has a rolling financial crisis that has not received the urgent attention it required, and which is exposing enormous failures of its regulatory regime. Two types of contagion at once will be a monumental challenge for the country in the next few months.

March 18, 2020

India's Crisis Response

India is only now beginning to fully recognize and respond to the coronavirus crisis. It has the advantage of learning from the mistakes of other countries, where the health crisis exploded earlier. Here are some thoughts on what India is doing and the challenges it faces, bearing in mind that viewing the crisis and commenting from afar may have limitations.

First, almost every country has been slow to take actions to control spread of the virus. Even China did not respond as quickly as it should have: though it had the disadvantage of being first, it also had on-the-ground knowledge that should have triggered a faster response. One problem for every government is taking responsibility, and suffering political fallout from overreacting. But by now, it seems that the dangers of being slow are much greater than those of overreacting, even allowing for the costs of economic disruption. India has now gone to a national lockdown, not a day too soon. However, it remains to be seen if it is implementing this lockdown in a way that will prevent panic and shortages. The messaging and the planning – again, observed from far away – seem to be less than optimal. If supplies of food and other basic commodities are disrupted, it will lead to chaos and other kinds of health problems.

Second, there has been a wide variation of the speed with which different countries have ramped up testing. Testing is important to guide individuals and public authorities in targeting social isolation and allocation of health supplies. As the head of the World Health Organization said, responding to the virus without adequate testing is like fighting a fire blindfolded. Most accounts suggest that India has been way behind the curve in scaling up testing. If testing is not increased rapidly, the lockdown will be longer, more widespread and worse than it needs to be.

Third, ramping up production of health supplies that are needed to treat coronavirus patients is critical, as the number of identified cases starts to jump – the example of New York City in the US is an example. One of the richest cities in one of the richest nations in the world is already finding it difficult to treat just over 20,000 patients. It is not entirely clear if the Indian government is doing enough on the front of manufacturing the health supplies the country may need over the next few weeks. And this is in a situation where India is not as well endowed with doctors and other medical professionals as are richer economies.

Fourth, the health crisis comes on top of a continuing, slow burning financial crisis. For several years, the government and the RBI have been chasing the expanding difficulties of the financial system, without getting them under control. Whereas the US financial system is in relatively good shape compared to 2008 (for example, far fewer problematic mortgages, and financial firms that are better capitalized), India is in much worse shape than when the global crisis erupted in 2008. So far, the response of the Indian government and the RBI to the added strains of the health crisis appears to have been slow and timid. The US Fed has already launched massive attempts to provide liquidity to financial and non-financial firms, and the national government, after a few days' delay produced by its polarized politics, is poised for an enormous fiscal stimulus, meant to shore up both supply and demand. By contrast, India is in danger of doing too little too slowly. The challenges in India are greater, since getting money to individuals and firms is not as easy when so much economic activity is in the "informal" sector. One can only hope that by the time this article is published, Indian policymakers have responded more assertively and proactively than they have at the time of writing.

Finally, the thinness of talent at the top (for example, the number of IAS officers relative to population has not improved since colonial days, despite increased complexity and demands of governance, and vacancy rates are high), the geographic over-centralization of decision-making, and the tendency to rely on relatively few loyalists for decision-making, make it difficult to marshal expertise for responding to the crisis, whether it is designing a lockdown that minimizes suffering and economic harm to the extent possible, figuring out monetary and fiscal policy responses, or organizing the health sector to control the core problem of treating the illness. India is a poor country, it is deficient in human capital, and it does not use its human capital effectively.

The Prime Minister has emphasized the costs of not responding adequately to the coronavirus crisis, saying it could otherwise set the country back by decades. But his focus was on the lockdown only. How will people be kept alive and healthy with the economy at a standstill, how will testing be rapidly scaled up, how will health services be organized for treatment of the ill, and how will the government and the central bank make sure that demand, supply and credit are not disrupted to the extent that the economy collapses even as the virus is controlled? For this observer, the answers are not yet clear.

March 24, 2020

India's Biggest Challenge

Since the nationwide lockdown on March 24th, various branches of the Indian government have issued dozens of notifications to clarify the scope of the lockdown, develop the health system's response, and support the real economy and the financial system. These are illustrations of the strength of the Indian ruling elite. It remains to be seen how well these pieces of paper and digital documents translate into effective action. In the United States, projections of the death toll from the pandemic are drawing comparisons with that country's past wars. The nature of the societal response that is needed has also used war as an analogy for the effort to overcome the virus. Independent India has not faced a crisis like this in its seven plus decades, with large-scale war and famine being legacies of the colonial period. Independent India faces its biggest challenge ever.

Everyone recognizes that the health care system will be the first line of defence against the pandemic, and that India's resources are lacking. Even advanced countries like the US and Italy have been seeing their health care systems come under enormous strains. India will need a range of equipment for those on the front lines, and will have to go beyond domestic production to get what it needs. It remains to be seen whether the bureaucracy can be flexible enough to search globally for what is needed. This will apply to health care professionals as well as supplies and equipment, and may require domestic reallocations as well as looking abroad. Eleven "Empowered Groups" have been constituted, covering different dimensions of the needed responses. How well they work will be have to be seen. Again, the US provides an example of weakness and failure at the federal level, in sharing equipment and supplies across states from national stockpiles, and in failing to coordinate and prioritize support for the worst hit states. Will the different Empowered Groups coordinate well, and how will they implement what needs to be done?

Beyond the frontline of care for the stricken, testing, contact tracing, and more complex aspects of societal management require on the ground engagement that will be a challenge for lower levels of government. One has already seen better responses from police forces in southern states which have higher literacy and stronger civil society in general, versus the north of the country, including well off areas such as the National Capital Territory. The challenges will be even greater in rural areas, and one cannot help but wonder still whether the manner in which the lockdown was implemented, leading to a hasty and painful dispersion of migrant workers to their home villages, will end up making it more difficult to track, isolate and treat disease cases.

Despite the critical nature and human consequences of frontline health care and public health interventions, perhaps the biggest challenge for India will be in terms of economic policy. In a situation unprecedented since the Great Depression, it is difficult to estimate exactly what ought to be done. But observing what is being done in the US, it seems that India needs to do more than it has so far, even though much has been announced in terms of new measures since the lockdown was announced. My own opinion is that the RBI should provide even more support for financial markets and for the finances of financial and non-financial firms. It should consider another interest rate cut as well. Even more importantly, the central government should be pumping more money into the economy, both in the form of transfers, and by supporting aggregate production and investment. In the current situation, it seems to me that all fiscal deficit targets are irrelevant in the short run. The government should borrow what it needs, and the RBI should make this possible. Control of the health crisis at the expense of a prolonged downturn in the economy, well beyond what was already being experienced, will substitute one form of suffering for another.

Of course, there will be concerns about inflation, but the collapse in the price of oil will help enormously. Another major source of inflation is food prices, and the government should be focusing very heavily on maintaining and even improving food supply chains, and enlisting state governments in making sure that agricultural commodities are able to move freely across the country. This will also mean rolling back some of the lockdown on transport systems – that complete shutdown was one of the worst aspects of the lockdown as initially announced. The government should also release food grains from its stocks, and import food if necessary, to make sure that food supplies are sufficient. Another concern about government spending is that it may crowd out private spending, especially investment, but that is unlikely to be an issue for the next year.

It is unfortunate that the crisis will put on hold important economic reforms such as disinvestment and cleaning up balance sheets of the financial sector and nonfinancial corporations. Certainly, a massive stimulus will allow some scoundrels to benefit or to escape the consequences of past misdeeds or incompetence. But that is an unavoidable side effect of avoiding a major economic collapse. Side effects should not distract from what is immediately necessary for preserving the livelihoods of the masses.

April 1, 2020

Re-starting India's Economy

The Covid-19 virus has several key characteristics: it is new to humans (so there is no built-up immunity), it has a long asymptomatic period, it is highly contagious, and there is as yet no vaccine or treatment. These features have led to rapid spread and relatively high death rates. Lack of political courage as well as uncertainty led to slow policy responses. Because of the prospect of many more cases of the disease than even the best health systems could handle, the ultimate response in country after country has been some version of a lockdown, suspending many types of activity and halting large swathes of the economy.

There is an obvious and much debated trade-off between the severity and length of a lockdown and the lives saved or lost. What has gotten sidelined in these debates is the importance of another question. Given that we prioritize saving lives and that economies are already shut down and suffering, what is the most efficient way to re-start the economy? Answering this question also has implications for the strain on health care systems, so there is a dual benefit to thinking through the answer.

From my perspective, Paul Romer has provided the best answer to the question of how to resume economic activity while minimizing illness and lives lost. Romer won an economics Nobel prize for work on innovation and economic growth, and is exceptional in his clarity and creativity. He argues that the best use of resources is in a rapid ramp-up of testing for the Coivd-19 virus, which can also be bundled with antibody testing. While many have recommended ramped-up testing, Romer recommends a different scale altogether. Some public health experts are recommending testing 1 percent of the population. The US is getting there, after many weeks, with a botched beginning to testing and continued missteps, including resistance from the President to making testing a national priority. Many countries are in the US range of cumulative testing, with Iceland an outlier at 10 percent. India's cumulative testing is abysmal, less than 0.02 percent of the population, even after 3 weeks of lockdown.

Romer's proposal is to test 7 percent of the US population every day, so that the whole population would be covered in just two weeks. He also advocates continual testing, because tests can have false negatives, or can miss the virus in its early stages. He estimates that the cost of this program would be on the order of $100 billion, which seems an enormous sum, but is less than a tenth of the trillions of dollars of lost output that is occurring because of generalized lockdowns. The logic is clear: universal testing (accompanied, of course, by targeted quarantining) is the best way to remove uncertainty and permit as many people to return to work and normal activities as quickly and safely as possible. Put another way, the economic rate of return to Romer's strategy is over 1,000 percent. And this is without any costs in terms of lives lost or greater illness.

What are the barriers to this strategy? Ramping up testing to a universal, continual process will take time, but the alternative is worse. The problem seems to be with some politicians, some health experts, and businesses that focus on profits. How to deal with the third barrier is illustrated by a historical example given to me by my colleague, economic historian Bernard Elbaum. According to him, in World War II, "the US government suspended patent rights and got companies to share proprietary information. The UK also shared key technology secrets with the US which helped speed development of radar and penicillin." The current US response has been the opposite of global sharing of research and technology for testing, and yet another example of the Trump administration's incompetence. But there are lessons here for India as well.

The second barrier is conventional wisdom: the health experts close to the US administration are giving better advice than the president, but they have failed to stand up for aggressive testing, focusing too much on uncertainties and complications. Indeed, Romer suggests that his universal testing approach would make contact tracing – which is part of public health conventional wisdom, but can be costly, difficult and invasive of privacy – almost unnecessary.

The political barrier is the most difficult to overcome. Politicians are not held to account except in periodic elections. Even there, the counterfactual for their policies is difficult for the average voter to judge. This applies especially to economic costs. Luckily, in the US, one of the top public health officials close to the president is finally admitting that the Trump administration botched its response, leading to more deaths than needed. Paul Romer, as an economist, is saying that the US testing policy is leading to much more economic damage than needed.

There are quibbles about Romer's recommendations. But their beauty is that they provide simplicity, focus and clarity for a policy response that can drastically reduce the economic damage of the pandemic (with its own severe negative impacts on health and welfare, especially of the poor), without any additional costs in terms of illness and death. In earlier columns, I have argued that the Indian economic policy response to the effects of the lockdown has been inadequate. If we apply Romer's logic to India, then going for rapid universal testing, at least until a vaccine is developed and produced (which will take more time), is a vital piece of economic policy.

April 7, 2020

India's Coronavirus Responses

Two months after India's pandemic-triggered lockdown began, one can take stock of the country's situation and the overall government response. The initial actions of the government were a mix of overreaction and timidity. While it was necessary to move quickly to prevent the spread of the virus, the manner of implementation showed a remarkable lack of awareness of the vulnerability of millions of the country's migrant workers, who were made to suffer needlessly, because of the panicky approach of completely shutting down all domestic transport. This was in late March, when there was enough data from China and Europe to plan an intelligent lockdown. That did not happen. Much has been written about the human suffering that was caused, but it is worth trying to go back and understand why such poor decisions were made.

The lockdown was swiftly followed by a timid economic response, with both the RBI and the central government offering relatively small measures to deal with the sudden stop in almost all economic activity. The RBI provided liquidity support to keep businesses from becoming insolvent, and, given the central government's economic reach, it also provided similar measures, as well as direct transfers. These were obvious and necessary moves, but well short of what was needed immediately to shore up the economy and reduce suffering.

Meanwhile, the health response has probably gone as well as can be expected, given the generally poor state of India's infrastructure for delivering health care. Different states have responded with varying levels of effectiveness, reflecting not just their resource levels, but also their institutional capacities. The crisis has highlighted the importance of state and city governments in the delivery of public services, something that the national government consistently fails to acknowledge in its design of policies in this sphere. But areas where the national government could and should have done more included the rapid development of testing capabilities and access to protective equipment, which do have challenges, but also in something as basic as getting the message out that healthcare providers should be protected rather than being ostracized. The substitution of slogans for practical messages continues to be a weakness of the current regime.

The outcome of a draconian lockdown and a reasonably competent healthcare response has been a slow rise in cases, to some extent in well-defined hotspots. Unfortunately, the situation still does not seem to be under as much control as it might have been, and it is not clear why. Reopening the economy will be a slow and fraught process in these circumstances, and it does seem that India's people might have been better off both in terms of health and economic circumstances with a better-crafted set of responses from the national government.

Meanwhile after a long seven weeks and multiple extensions of the lockdown, the national government finally announced a new set of policy measures to combat the adverse economic consequences. In the interim, the RBI had been ramping up its liquidity support, in a welcome departure from its earlier timidity. The headline number that was announced, in a dramatic multiday rollout, was reported at 10 percent of GDP, several times the initial response in late March.

But there is less than meets the eye to the government's new policy proposals. The new numbers appear to include previously announced measures. Liquidity support measures have been combined with direct income support, making it less obvious what the true immediate impact will be. Analysts who have unpacked the announcement suggest that the national government's actual increase in spending through these new proposals will be much less than one percent of GDP. In a nutshell, there is still not enough in the package to tide the economy over the lockdown and a gradual reopening.

Interestingly, the crisis has also been used as an opportunity to announce some needed reforms, particularly with respect to the management of food supplies and the conduct of domestic trade in agricultural commodities. It will be interesting to see how effectively these changes are implemented. Other reform measures are a mixed bag – opening up coal mining to private operators does not seem particularly relevant to the current situation; other privatizations at this time run the risk of being distress sales; liberalization of FDI in defence production also seems orthogonal to the crisis and downturn, and so on. Most importantly, these are medium and long-term measures that are not germane to India's immediate economic challenges.

None of the above should be surprising. The current government has not developed a coherent approach to implementing structural economic reforms. Of course, these are always difficult to accomplish, and previous governments have also struggled. But the more recent tendency in the national government has favoured rhetoric over analytical rigor, and politics over economics. The exhortation for self-reliance tacked on to the newest policy proposals also fits into this mould. Certainly, the pandemic will cause structural shifts in the global economy, but these will require carefully crafted and strategic policy responses, not slogans. Judging from the past two months, India's economic future may be bumpy, and more so than it needs to be.

May 20, 2020

India Beyond the Coronavirus

India is two months into its economic lockdown meant to control the coronavirus pandemic. Controls are being relaxed in a phased manner, with variations across different parts of the country, based on local situations and estimates of local risks from re-opening. To get a sense of where the country is headed, one has to assess the performance of its leaders and policymakers so far.

I have not been alone in arguing that the lockdown was poorly implemented, causing unnecessary hardships, especially at the bottom of the pyramid. This is so obvious that the best that some of those responsible (directly or indirectly) can do is to blame the states for not dealing well with the mess that the national government created. The approach to decision making in evidence here reminds one of the concentration and centralization at the top, reducing complex policymaking to the gut reactions of a few. It is also worth remembering that the fiscal response required to compensate for the draconian lockdown has also been inadequate, perhaps for similar reasons.

The country's progress during the lockdown has reminded us of weaknesses in India's public health infrastructure, and the failure to invest in innovation as well as in human capital. The ramp up of testing and analysis of the pandemic's spread at the national level have failed to rise to the challenge. India's institutions of knowledge production and training have been developing in an uneven manner, and are not geared toward scientific progress for the public good. This is not to say that a quality response is absent. Scientists and social scientists within India, as well as those of Indian origin in numerous other countries, have been providing analyses and policy suggestions. One example, on the Ideas for India website, is a vulnerability index developed by three researchers, which seems to be better thought out than the government's own threefold classification for re-opening. On the other hand, there appears to be no substantive analysis of what is happening to the Indian economy, or how to manage it re-opening and revival, on the website of the national government's premier think tank, NITI Aayog.

What is coming from the national government are slogans or platitudes, including the most prominent one of "self-reliance," but also "rural development" and "reconciliation with nature." The prominence of self-reliance in the rhetoric is particularly worrying, especially in the context of a recent tendency to raise tariff rates to protect particular segments of Indian industry. Of course, "Make in India" also has the danger of falling into this way of thinking, rather than a more promising approach based on building dynamic comparative advantage. Indeed, while the pandemic is the latest challenge to the globalization of the last three decades, which was focused on the rise of China, increased migration, and, to some extent, the playing out of commodity cycles, globalization is not going to disappear. The Internet, long-distance transportation technologies, and global capital and knowledge-sharing will still matter. Indian policymakers should be developing a clear and confident strategic vision of how India will thrive in a post-pandemic world, but there appears to be nothing forthcoming in this direction.

Despite some criticism of the states, coming from the Centre, many of them have done decent jobs of responding. They have been hampered by the Centre's dysfunctions, and measures such as suspending alcohol sales will only make the states' dire fiscal situations worse. But state level bureaucracies have handled their challenges fairly well, albeit again with exposure of weak points in governance such as the quality of training of police (more so in the North). A crisis of this sort is actually what the structures of Indian government, inherited and almost nurtured, from the colonial period are best at dealing with. It is unfortunate that the current national government's centralizing tendencies may undermine the states in the future, rather than building on the confidence gained from handling the pandemic crisis.

This is not to say that the states are paragons – the Centre's plan to rationalize and reduce barriers to domestic agricultural trade will overcome long-standing barriers driven by state-level political economy constraints. Creating a national market for food products could be an important step toward realising gains from exporting where India has some comparative advantage, such as serving markets in the Middle East. Again, this is nothing to do with "self-reliance," though it can promote rural development. But the conceptual framing at the national government level does not seem to promote strategic analysis of future economic opportunities in a world where India has less than 5 percent of global GDP. International trade is a central subject, and the states will need support and partnership with the Centre to develop, rather than being undercut.

"Never let a good crisis go to waste" is an old saying. In 1991, the balance of payments crisis provided political room for needed liberalisation of the economy. The 2008 financial crisis did not have quite the same bite for India, and the response ended up weakening the financial sector, though domestic politics in the second UPA government were a major driver of that weakening. In the present case, it seems that the current government will waste this crisis, at least for promoting economic development, though perhaps not for other, non-economic objectives.

May 25, 2020

Is India Ready for Growth?

Economic growth is about increasing the value of measurable economic activities, and is a convenient (if overemphasized) proxy for increases in welfare. One can measure aggregate economic activity by capturing its components, valuing them and adding them up, either from the perspective of expenditure, or income. India's pandemic lockdown brought a forced halt to a large fraction of economic activity, so national income and expenditure would naturally take a big hit. The problem in such circumstances, aside from the fundamental issue of basic survival for many people affected by the loss of income, is that such reductions have ripple or multiplier effects, deepening and prolonging the initial loss. This phenomenon led to the Great Depression of the 1930s, and that traumatic time helped to change the way in which appropriate economic policy responses were conceived. In particular, government was recognized as being uniquely able to spend in bad times (including transferring money to its citizens, who would do the actually spending in that case), to cushion first-order income losses and their even more substantial ripple effects.

Every government has been responding in this manner to pandemic-caused halts to economic activity. In previous columns, I reported what I thought was a broad consensus view, that the Indian government's fiscal response has been inadequate, given the hit taken by the economy as a result of the lockdown. It has been a bit difficult to estimate the overall impact of government measures, in terms of net fiscal "stimulus," but a dozen or so different analysts reported numbers mostly ranging around 1 percent of GDP (the standard measure of aggregate economic activity). Recently, however, Surjit Bhalla, who holds a very important position as India's Executive Director at the International Monetary Fund (IMF), provided a headline number of a 5 percent fiscal package. He argued that this is one of the largest responses among all economies in the world, and that India is now "Ready for Growth." I hope he is correct, but given the importance of this issue for the Indian economy going forward, the basic issue of how much the government is supporting aggregate economic activity seems to be worth re-examining, before one gets into issues of the quality of structural reforms and long-run growth prospects.

Bhalla bases his estimate on the IMF Policy Tracker, which reports its own estimates of various components of the government's economic package. He reports added expenditure of 3.5 percent for poor households, migrant workers and agriculture, plus another half percent transfer to state governments, together totalling 4 percent or so. The headline number is not derived explicitly, but is supported by some qualitative arguments, including methodological disagreements with all the analysts who preceded him. The methodological issues seem to be complex, and include issues of where spending gets counted, and whether certain kinds of guarantees indirectly support spending that would otherwise not have taken place.

Who is more accurate? Reviewing one analysis, as reported in *The Wire* on 17th May, provides a detailed calculation of a direct fiscal stimulus of 1 percent of GDP, much less than the IMF numbers, the sources of which are not provided. More recently, Pronab Sen, former Chief Statistician of India and Chairman of the National Statistical Commission, has also offered calculations that amount to around a 1 percent fiscal stimulus, possibly doubled by multiplier effects. Using a consistent approach, he estimates the corresponding response to the 2008-09 crisis, which was much less severe, at 3 percent of GDP. Yet another detailed and thoughtful evaluation of the entire economic package, by Rajeswari Sengupta and Harsh Vardhan (like Sen's analysis, available at www.ideasforindia.in) concludes that the incremental government spending in the overall package is less than 2 percent of GDP.

Several analysts of the temporary shock to economic activity estimate its magnitude at 10 percent or more of annual GDP for 2020-21. In that case, even a 5 percent stimulus would be inadequate, and the bulk of analyses indicate that even allowing for indirect effects, the total package the government has come up with is less than that. On the bright side, the monetary policy response has been more appropriate, but monetary policy measures are not as direct as putting money into people's pockets, and the distributional impacts are also less favourable than when money is transferred to the poor.

I have not been able to find an official government analysis, or a rebuttal of academic and private sector analyses of the economic package, beyond the government's own discourse and framing. The issue is not one of politics or of the quality and impact of economic reforms: it is a basic question of what the government is actually planning and accomplishing in its efforts to engineer an economic recovery from the lockdown. India will resume growth, but the questions are how much and how soon, and what will be the ultimate economic cost in terms of lost income and welfare. The answers depend on what the government does, and, at least to me, it is not clear that it is doing the best it can.

June 9, 2020

Small Business in India and COVID-19

As I discussed in my last column, the true extent of central government support for the Indian economy in the face of the lockdown is crucial for understanding the economy's prospects. One can complement the big picture perspective by trying to see what is happening on the ground. Small businesses in India are extraordinarily important, since the "formal" sector is so small. Micro, Small and Medium Enterprises (MSMEs) in India account for a third of GDP, and employ over 100 million workers. These numbers are taken from earlier government definitions of

MSMEs, and do not reflect recent changes in those definitions, but the importance they convey is what matters.

Recently, Udayan Rathore and Shantanu Khanna provided preliminary findings from a survey of MSMEs that aims to understand and quantify the impacts of the lockdown on these firms. In May, they surveyed about 360 of these firms, some before and some after the May stimulus package announced by the central government. Most of the firms surveyed were in North India, especially Uttar Pradesh, but industry association leaders were also interviewed for broader perspectives. These latter interviews strongly reinforced earlier findings, that government policies and external events had already been harming MSMEs before the pandemic and lockdown.

In particular, demonetisation disrupted MSMEs' use of off-the-books financing, and that may be beneficial in the long run, but had severe negative implications for these firms in the short run. Second, the manner in which the GST was formulated and implemented disrupted the cash flow cycle of MSMEs, since they were required to make estimated payments well before they would normally collect their own receivables. Third, the crisis in the nonbank financial sector, which was triggered by large firm malfeasance, led to a severe curtailment of financial access for MSMEs, which anyway have had problems getting formal finance.

These three shocks to MSMEs were symptomatic of an overall weakness in economic policymaking and implementation – a long-running failure to understand industrial structure and dynamics in India. Rathore and Khanna's work suggests that the problem is continuing in the response to the lockdown. In their sample, the median enterprise had annual sales of Rs, 20 million, had 19 employees and had been in business for 16 years. The majority of the firms sold to businesses, rather than consumers or government. Without going into too much detail, I would describe the message of the survey to be that MSMEs, especially the smallest, have taken an enormous hit from the lockdown, and not enough has been done to enable them to recover.

Without addressing the problems of MSMEs, India will not be ready for growth. Indeed, the pandemic and lockdown are merely the fourth negative shock that small businesses in India have faced, and the economy's poor performance over recent years has reflected this situation. The survey indicated that many MSMEs are facing insolvency in a short period of time, with worsening consequences for job losses. Because they rely on informal finance, or internal funds, most have not been able to tap emergency resources. The majority of the respondents did not see any benefit to them in the mid-May rescue package. Less than two-fifths of the survey firms had approached a bank for financing, and of those that did, less than a third (effectively, 10-12 percent of the sample) had succeeded. Meanwhile, savings were getting depleted and there was increased recourse to expensive informal finance. More than half the firms expected their receivables collection to be delayed, even when contracts were not cancelled. Indeed, the failure of large firm and governments to pay their smaller suppliers on time has been a long-standing problem in the Indian economy. Firms also noted the burden of fixed charges for services such as electricity, which had to be met despite the lockdown.

The problems of small business when there are large negative shocks to the economy are not unique to India. The United States has also been facing similar issues. The similarities also extend to the political economy of the two countries. In its response to the pandemic-induced economic crunch, the current US government has favoured large businesses, providing much more support for them than for small, especially local, businesses. Its policies have also favoured shareholders over workers. This is not surprising in the US political context of Republican party control of the executive branch, but it is less clear why this seems to also be the case in India. Certainly, the rhetoric in India is more in favour of the poor and disadvantaged.

Perhaps in the case of India the driving force is less of a big-business bias and more simply a lack of comprehension among policymakers of what it is like to run a small business in India, beyond the various classifications into MSMEs and their subcategories. These broader observations go beyond the work of Rathore and Khanna, but they do conclude that, “Alarmingly, over 70% of the [firms] report that they would not survive for another quarter while almost a third will not survive beyond a month. … There is an immediate requirement for the government to engage with the MSME sector and consider their concerns and suggestions. The revival of this sector … will be critical for the livelihoods of millions and for India’s economic recovery.”

June 23, 2020

Assessing India's Pandemic Prospects

Since the world is undergoing a challenge of a magnitude not seen since World War II, writing column after column on the topic of the pandemic is unavoidable. Four months after the initial global realization that this event was going to be a major shock to humanity, some broad features are emerging. Countries have had varied responses to the novel coronavirus, both in terms of active health policy actions and preventive measures that halted economic activity.

While predictions of very high death tolls have not been borne out, refuting the accuracy of these predictions is impossible, since they were based on not responding, and every country has taken some steps to mitigate the health impacts of the pandemic. On the other hand, there seems to be enough evidence to refute those who have sought to downplay the severity of the virus, or to question the need to respond with extreme caution and assertive policies. The disaster in Brazil is one example to support this latter statement, as is the varied experience of different American states (much of it also disastrous), as well as the failures and successes of America's federal government.

On the whole, in these global comparisons, India's record looks reasonably good, given its initial conditions of lacking resources and infrastructure. Despite the botched lockdown – particularly the pain inflicted on poor migrant workers and some unnecessary disruption of transport networks – India's response was sufficiently speedy and severe (even if overdone on both dimensions) to provide breathing room for action. Even though case counts and deaths are still rising, rates of increase and absolute levels still look manageable, and compare favourably with many other countries, rich and poor, large and small.

On the other hand, India has done less well since that initial lockdown decision. There are numerous areas where the central government could have done better, and can still improve. My sense is that not enough is being done to strengthen the quality of the public health response. Part of the problem is slow decision making and slow action. But another problem is that some kinds of decision making are overly concentrated and overly politicized. State and local officials have no choice except to deal with realities on the ground, but the central government is not doing enough to provide funds for those actions, or to provide physical goods or expertise where there are shortages. Unlike the United States, where the federal government has almost completely abdicated its responsibilities, India has an odd mix of too much centralization for decisions where local knowledge should be the guide, and not enough centralization where unified action would help.

The issue of funding for public health actions is symptomatic of a much wider problem. The central government is caught in a mental time warp, where it was worrying about fiscal deficits, tax receipts and overall spending, and the opinion of ratings agencies. It has failed to realize that none of this matters in the very short run – that there must be aggressive spending to control the pandemic, to sustain incomes for the poor, to lift aggregate demand, and to overcome supply bottlenecks created by responses to the pandemic.

The central government took almost two months to start announcing significant relief measures and a reopening plan for the economy. Its claims of fiscal stimulus appear to be significantly overstated. Indeed, it seems that central ministries are being told to avoid spending their budgeted funds. The Indian government's approach is reminiscent of US policy at the beginning of the Great Depression, which only served to prolong that downturn.

Of course, fiscal deficits do not come for free – they will have consequences down the road. But one has to remember that deficits are endogenous to the level of economic activity, and making sure that the economy recovers rapidly will do much to mitigate the effects of deficit spending now. There is also the issue of stoking inflation, but the worst case is to have higher inflation without growth, if supply constraints are allowed to linger. Here the Indian government should be paying attention to trade and transport very carefully. The government has taken steps to loosen internal restrictions on agricultural trade. But a 2013-14 report on transport produced by a committee chaired by Rakesh Mohan is still to implemented effectively. And much of the recent rhetoric on self-reliance goes against the need to strategize on how to overcome possible new constraints on international trade.

To summarize, the Indian government's short run response has been adequate, avoiding a true catastrophe. But it has not done enough to plot as rapid a pathway out of the pandemic as it should have. Some of this shortcoming is because of a lack of capacity at the centre, but much of it comes from over-centralisation and over-concentration of decision-making and public funds. These have been persistent problems in India, which have increased in the last few years. The central government needs to spend more in the short run, and strategize better for the medium and long run, if the pandemic is not to end up crippling India's growth prospects for many years.

July 18, 2020

Plotting Recovery for India

The COVID-19 pandemic could not have come at a worse time for India. Its economy was already in poor shape, especially in terms of the balance sheets of the private sector. The fiscal position of the government was also deteriorating. In tandem, economic growth was slowing to the extent that it was making both problems worse, hampering the ability of the private sector to climb out of its hole, along with reducing government tax revenues and squeezing needed public investment. India now has a potentially major crisis on its hands. The situation can be handled with denial and repression, or with acknowledgment, analysis and focused actions. Here are a few ideas for the second of these routes.

First, the pandemic is far from under control, and still threatens to explode disastrously. Furthermore, we may be entering an era in which such pandemics happen more frequently, as humans continue to impinge on the rest of the animal kingdom as well as crowding each other more. New investments in public health are vital, including training of personnel at all levels (not just doctors), as well as facilities and equipment. Private health care systems are not designed to deal with public health problems where contagion is a fundamental issue. This is entirely separate from all the inequality and basic rights issues associated with lack of affordability of health care. The direct investments required here are not very large relative to GDP, and their rate of return in terms of insuring against massive disruptions of economic activity has to be very large.

Investments in public health also extend to sanitation. The recent national emphasis on building public toilets was welcome but overly narrow. There has to be a massive increase in investment in supplying clean water for drinking and washing, and in treating waste water. India is remarkably backward in this respect. Achieving this objective will require getting money to states and cities, because that is where the design and implementation of water supply and waste systems has to occur. These are quintessential public goods, and there does not seem to be much room for private investment, but multilateral agencies can provide project funds.

Allowing states and cities to issue bonds more easily, and to raise repayment funds through taxes and user charges more freely, will allow some access to private capital. All of this has been done in small localized cases, but it needs to be stepped up on a massive scale to give people a first line of defence against contagious diseases, of which COVID-19 is only one.

Second, India needs to deal urgently with its deficiencies in domestic transport systems. Airports and airlines will be able to adjust relatively quickly to the new requirements of a world in the shadow of pandemics – the investments required can easily be passed on to relatively well-off customers. In cities, the rich will be safe in their air-conditioned automobiles. But the railways and urban and inter-city bus systems will require massive investments to upgrade their equipment and facilities, including railway and bus stations, and trains and buses, along with processes for better hygiene and sanitation. Again, the economics will have to tackled somehow. Perhaps the most urgent and important need is in the railways, where corporatization can be a major step toward modernization, as Rakesh Mohan has argued cogently on many occasions. Indeed, investment in the railways will be vital for economic recovery in the case of moving freight, even more so than passengers. As India will face a much more challenging environment for international trade, doing everything it can to promote safe and efficient movement of goods within its borders will provide an alternative avenue for growth.

Third, India's digital infrastructure is far from adequate for a post-pandemic world. Some of the shifts to using virtual interactions will become permanent, and, as noted, there can be future disruptions of this nature. India's schools, colleges and businesses all need access to much better digital infrastructure. To some extent, the smart phone revolution created a false sense of accomplishment – that channel and its underlying infrastructure could support significant new levels of communication, but nothing like what is required for a 21st century economy. Here, there are challenges of making sure that there is adequate competition: dominance by a single private player, however efficient, will not be ideal, even if better than earlier dominance by inefficient public monopolies. Digital infrastructure will also be vital for future growth in India's software exports, especially as international labour mobility is stunted.

Finally, one has to tackle the pre-existing condition of underlying financial problems. The RBI and government must do more to keep small and medium enterprises afloat, in whatever way is needed. These firms are hurting the most, and they will have the harder time recovering, especially if they collapse completely. Negative impacts on employment will especially manifest here. Short term support has to be combined with rapid regulatory innovation to improve financing mechanisms for these firms. Corporations also need attention. They are receiving forbearance in cases where they are candidates for bankruptcy, but, rather than simply ignoring their problems, it is better to step up restructuring, so that recovery can be more rapid. An overhang of bad debt that is unrecognized and unresolved will kill any recovery for a long time.

July 25, 2020

India's New Education Policy

The new National Education Policy (NEP) represents one of the most positive and hopeful developments to emerge from the current government. If we think of education as the second leg of a strategy of ensuring that India's citizens possess basic capabilities, following on good health, then one can easily recognize its supreme importance. There is so much wrong with India's current education system that the new policy has to be far reaching and broad in scope, so it is difficult to summarize every aspect of the policy and its potential. Let us try.

An overarching theme of the 2020 NEP is to reimagine education as learning and broad mental development, getting away from rote learning and test preparation. Restoring the term "Education" in what has been the Human Resource Development Ministry is partly symbolic of this shift. Specific changes in different aspects of the educational arc embody the shift. Perhaps the most important change is strengthening early childhood education, giving the public sector a responsibility for preschool learning, but emphasizing creativity, imagination and play. This is nothing new, but has been lost in the progressive narrowing of ideas of education over recent decades, at least in some countries. Rich parents already send their children to preschool, but creating more equity here will be an enormous benefit.

Second, restructuring the primary and secondary school progression to de-emphasize examinations, and to allow greater variety and flexibility in what is taught is also of enormous importance. Giving children opportunities to explore, to find their interests, and to develop their minds in multiple dimensions is the essence of true education. Locking children into narrow pathways as early teenagers is wasteful and even harmful. Of course, there will need to be assessment of learning along the way, but that entire system will have to be reconfigured.

The overall themes of breadth, flexibility and room for discovery carry through to the recommendations for higher education, both undergraduate and postgraduate. Even college students are still discovering their interests and their potential, and more effective undergraduate education will prepare students better for research, if they choose that path. The NEP stresses the need for more focused and effective support for research.

So far so good. Turning to some specific issues and challenges, the NEP's emphasis on increasing vocational education may need careful implementation. One reason for India's current system in the extreme inequalities in society and economic opportunity, combined with a scarcity of well-paying jobs. This is what drives the nature of the system, which relies on tests as selection mechanisms for prestigious colleges, and getting into those is what matters for access to the best jobs. This is a bit of a Catch-22, since economic growth depends on the kind of education system that the NEP wants to create, but that kind of system will work well once the economy is growing in ways that will support it. One did see some of this take place when economic reform took hold, but there is a long way to ago.

Inequality, labour abundance and scarcity of opportunity are also challenges for the NEP's emphasis on increasing vocational education. Teaching hands-on skills works best in a more equal context, such as the examples of Germany and South Korea mentioned in the NEP. But tracking children into vocational pathways risks shutting the disadvantaged out of economic opportunity. Indeed, what India needs is much more hands-on learning, whether it is for teaching physics or auto mechanics. If all subjects are taught in ways that emphasize practical application and real-world relevance, then there is a more natural pathway to so-called "vocational" education.

This raises another issue. Education that allows students to work with tools, instruments, materials and equipment is going to require investment in making these available. On top of this, as the NEP makes clear, there is already a serious deficiency in access to computers for school children. In a world where human beings will increasingly thrive by using digital devices, India has been falling behind its digital potential, despite the proliferation of smartphones.

The final challenge is in the core resource needed to make the NEP work. India does not have enough well-trained teachers, from preschool all the way to graduate school, to realize the changes that are needed. Lighter and more streamlined regulation, which is in the NEP, will help. But there are still incentive problems that hinder the performance of teachers, even if they are trained. Perhaps the surest way to tackle this supply constraint will be to allow for more private sector involvement, even of the for-profit kind. Certainly, allowing more foreign participation in multiple ways, especially to attract high quality university faculty, will also help to jumpstart the process of relaxing the most binding supply constraint of all, that of quality, motivated teachers.

There are, perhaps, clear guiding principles for how to make things work. First, concentrate public money at the ages that matter for foundational education. Second, make sure that the poor are never financially constrained as they move through the system. Third, regulate for outcomes and fairness, not at the level of micromanaging classrooms, schools, or even universities. Finally, encourage entry, especially of global talent for higher education, by being maximally flexible. But give parents and students options whenever possible, so that education suppliers have extrinsic incentives to complement the noble intrinsic incentives we assume they possess.

August 15, 2020

Creating and Sustaining Growth in India

Recently, three prominent economists (Maitreesh Ghatak, Ashok Kotwal and Bharat Ramaswami) asked the question, "What would make India's growth sustainable?" Here, "sustainable" is not tied to environmental issues, but simply means "lasting." This is such a core question that their answer really needs to be studied. To simplify their careful analysis, the authors point out that investment occurs when investors can see the demand that will generate returns on their investment. For many poorer countries that grew rapidly in recent decades, that demand came from consumers and businesses in richer countries. But, especially with the pandemic, and increasing protectionism even prior to that, the global situation is not as conducive to export-led growth as it once was.

The three economists suggest that India's rapid growth in the first decade of the millennium was driven by exports of software and IT-enabled services. This created all kinds of spillovers into the rest of the economy, but the core gains were going to a very narrow, already well-off segment of India's population. This is partly true. Based on sheer numbers, and the higher propensities to consume of those who are poorer and in rural areas, the argument is made for a rural-led growth strategy. The argument is that only increased demand for mass consumption goods (and not just luxury goods) will provide sufficient encouragement for robust domestic investment.

Some aspects of these ideas go back to the notion of a "big push" to raise investment, though that was not necessarily tied to rural production, merely simultaneous investment across the economy in ways that would also raise purchasing power and demand. A rural-led strategy particularly emphasizes looking for "low-hanging" fruits in agriculture. Specifically, shifting from grains to higher value-added farm products such as "fruits, vegetables, milk, eggs, meat, and fish," as well as more sophisticated products such as wine, cheese and flowers, will enhance rural incomes and increase rural demand for manufactured products, creating a virtuous cycle.

One can see hints of a rural-led strategy in some areas of some states, but the barriers are also glaringly obvious. Governments are focused on the problems of the 1960s, and their grain procurement system locks farmers into a low-risk but low-income strategy of supplying the PDS. Fertilizer and pesticide companies, credit providers, and middlemen are also happy with that lock-in. Meanwhile, there is inadequate investment in agricultural infrastructure and extension services for crops that are unfamiliar, and in support for marketing, risk management facilities, and effective entrepreneurship training. Punjab is a case study in talking about agricultural diversification for decades and accomplishing very little.

One has to be careful, though, about just focusing on agriculture and rural products, no matter how important they are as a part of a strategy of generating lasting growth. To illustrate, past increases in rural incomes (coming not from productivity gains or agricultural diversification, but from income support programs like NREGA) have gone into purchasing cheap manufactured products from places such as China.

Of course, there is a national "Make in India" initiative in place, which focuses on ease of doing business and relaxing government restrictions or speeding permissions processes. But there are some deeper issues that need to be addressed. Right now, India does not do a good job of supporting new firms, or allowing well-run smaller firms to grow. Access to investment capital and working capital is restricted, for structural reasons exacerbated by the non-performing asset problems of banks and non-bank financial companies, further worsened by the pandemic and lock-down after effects. One major problem is that large firms and governments do not pay smaller firm suppliers in a timely manner (and sometimes not at all). Small firm finance in India needs a rethinking and overhaul. This will matter in rural areas too, as some farmers transition into being entrepreneurs.

Another area where positive change is needed, not just removal of obstacles, is in marketing and access to markets. And here, one should not write off export markets. Whatever the global trend in terms of protectionism or pandemic restrictions, factors such as the desire of firms to diversify away from China for sourcing components, and new and growing markets in areas such as healthcare and environmentally friendly products will provide niches for export growth. In the context of agricultural diversification, there is nothing to prevent Punjab from making a concerted effort to serve markets in West Asia, for example, as well as Delhi and its wealthy environs.

Finally, the biggest obstacle to sustained growth may be the broader point to take away from the three economists' analysis. The big push story is based on oligopolistic supplier markets and the need to coordinate across industries. But India seems to be heading toward something that is as bad as in the days of the license permit raj, and is visible in countries like Mexico and Pakistan, where a few industrial houses dominate the economy and, indirectly, politics, in ways that prevent the growth of disposable incomes among the majority of people. Even the United States is heading in that direction, unfortunately. Sustained growth almost certainly has to be inclusive growth. A rural-led strategy is ultimately the first step in inclusive growth. But concentration of economic (and political) power is antithetical to that pathway.

August 19, 2020

India's Turning Point?

"India's Turning Point" is the title of a new report from McKinsey Global Institute, the think-tank type unit of the massive global consulting company. The subtitle of the report is "An economic agenda to spur growth and jobs." With over a dozen people having worked directly on the report, along with a host of distinguished advisers, the book-length document deserves serious attention. At the same time, there is nothing completely new in the report for Indian economy researchers or policymakers. One can find the arguments in the report in reports from government and RBI committees, economic surveys of multiple chief economic advisers, and so on. Nor are the issues and recommendations matters of political ideology, at least in terms of first-order thinking; although any change, good or bad, has distributional consequences, and managing the effects on winners and losers is ultimately a matter of politics.

If nothing is very new in the report, are there some key items that are worthy of note? To begin with, the following three interrelated observations struck me as particularly useful, if one is to begin tackling all the different areas that need policy attention. First, the report highlights the relative paucity of medium sized firms that can bring more competition to markets dominated by large firms, as well as raising productivity and generating employment. India's "missing middle" in the firm size distribution has been recognized for decades, but has yet to be remedied.

One of the reasons for this failure to grow more firms in India is the extreme dysfunction of Indian financial intermediation. India desperately needs to improve capital markets and financial intermediation in general, to bring down the high cost of finance, and to remove credit constraints, especially for smaller firms. Numerous technological and regulatory innovations are needed. The report also reminds us of the need to tap household savings more effectively, and to channel them more into productive investment. References to the RBI's Ramadorai Committee and to academic work by Ila Patnaik and Radhika Pandey on this topic are welcome examples of how the McKinsey report builds on a range of previous analyses.

A third noteworthy feature of the report is its emphasis on state level reforms and on regions and clusters within states. Maps of Maharashtra, Uttar Pradesh and Odisha on pp. 143-145 of the report are examples of how politicians and policymakers can be helped to visualize the economic geography of their constituencies, and begin to develop coordinated plans and prioritizations. Of course, such exercises are just a bare beginning to what needs to done, and state level policy makers need to have very detailed analyses of how to overcome obstacles and inertia, especially in an environment where there are severe fiscal constraints.

Beyond the three main themes I have highlighted, there are numerous other recommendations, and each of the above three is itself an umbrella for multiple reform possibilities. One can use the McKinsey report's simple visualizations to more easily identify very specific issues that sometimes get submerged. For example, if one looks at the comparative chart for the components of the very broad and heterogeneous category of "ease of doing business," on p. 116 of the report, it suggests that delayed contract enforcement is an enormous obstacle. This, of course, leads to an enormous area where reform has completely failed to take hold – the ability of the judicial system to effectively and efficiently deal with economic matters such as property and contract disputes. This has a bearing on many obvious areas such as land use, but it is the root cause of some fundamental problems in small firm finance, where smaller firms do not get paid in time, or at all, by large firms or governments who are their customers. These are enormous hidden costs of a judicial system that is ineffective and unequal in its impacts in the economic sphere.

Readers may find it useful to compare the above discussion with what I provided in my last column. Issue of distribution and inclusiveness are perhaps the area where the McKinsey report is weakest. This is a perennial tension in Indian economic thinking: the possibilities envisioned by those who have been well educated and have succeeded on a global playing field, and what is available to the average Indian. The problem is that visions of aggregate growth and modernization and global competitiveness are ultimately viewed as adversarial to, or neglectful of, the need for broad inclusion in the fruits of growth.

One has seen this debate before, carried out by famous economists on both sides. The perspective of three academic economists that I highlighted, and tried to extend, in my last column, needs to have a firmer place in the McKinsey-type intellectual framework. At the same time, concerns about inclusion cannot come at the cost of the rapid growth that India desperately needs. There has to be common ground. One would have thought that the current government would be well-positioned to find that common ground. I have argued previously that ideological and political goals had pushed that possibility to the background. But the government seems to have won those battles, whatever one thinks of that victory.

Covid-19 is still a challenge, but there is no excuse now for India's government not to achieve a turning point for the nation's economy.

September 1, 2020

India's First Six Months of Covid-19

Six months after India's initial drastic lockdown, with the release of 1st-quarter GDP numbers and a continued increase in Covid-19 cases, how should we assess the situation, looking back to those months, and also looking forward? The fall in GDP, among the worst in the world, reflects the severity and poor planning of India's lockdown. This is a familiar story, and the GDP figures just confirm the damage. Of course, one quarter's loss of output would be less important if followed by a quick recovery. In previous columns, I have argued that India did not do enough to bridge the disruption of the lockdown for small businesses, and this will make recovery slower and more difficult. But now it is emerging that the real problem with achieving a rapid recovery lies in the management of the pandemic. If the pandemic is not controlled, then no government economic policy will be enough for full recovery.

In earlier columns, I have suggested that, given its resource and institutional constraints, India's management of the pandemic was about as good as could be expected. But now, as infections continue to climb, and comparisons with other countries are made, it looks like that assessment was too rosy. India has higher rates of infections and deaths than its poorer neighbours, including Afghanistan as well as Bangladesh and Pakistan. It may be that those other countries are undercounting more than India, but such an explanation seems unlikely. Aside from these direct statistics, other evidence, from antibody tests, suggests that true infection rates may be many times higher, making community spread much more likely than the official data suggest.

There is also the concern that the economic disruption so far will create a negative health spiral, in which those without livelihoods will suffer other health problems, with fewer resources to treat them, and where increasing Covid-19 cases will crowd out treatment for all kinds of other illnesses. This was a worry right from the start of the pandemic, even in more developed countries, but India may face this situation more starkly in the next months.

What is to be done? In late August, in a joint statement, the Indian Public Health Association, the Indian Association of Epidemiologists, and the Indian Association of Social and Preventive Medicine called for the lockdown to be discontinued. This recommendation is a reflection of the failure of the government to use the initial drastic lockdown to plan and implement an effective public health strategy. These experts want testing that is more targeted than the current policy of trying to track and test most contacts of new cases. The rationale is that these new identified cases are too small a fraction of actual infections. However, innovation might help: a cheap and quick home test, even if not too reliable, might allow rapid expansion of testing and more accurate containment of those who are infected.

If the number of cases is going to keep increasing, then the obvious place where the government needs to put resources is in health care, including facilities, equipment and personnel. If trained personnel are not available, then they could be brought in temporarily from other countries. There are thousands of medical personnel of Indian origin who might be willing to help in the kind of emergency situation that India may face. As the public health experts suggest, testing should be targeted to protect healthcare workers, and they should also receive the best protection and equipment possible. The rate of return to such expenditures is obviously very high, if the recovery of the entire economy is at stake.

The central government could also help by being more honest about the situation, by being willing to consult experts more readily, and by communicating more effectively with citizens. The last of these is easy to underestimate, but it is critical to get it right. Initially, the result of government communications was panic and fear. Now, weariness has set in, and people appear to be ignoring precautions such as mask-wearing and social distancing. This is a time for repeated reminders from those in power to those whom they notionally serve. My impression is that front-line workers and state governments have been making strong efforts, but as one moves up the hierarchy of power and authority, the level of performance seems to attenuate.

It is a reasonable conjecture that over-centralization is hurting India now more than ever. This refers not only to the hierarchies of government, but also the concentration of decision-making at the highest level. The pandemic requires rapid and comprehensive flows of information, along with the capacity to process this information and make good decisions. At the top, this means being able to absorb diverse ideas and bad news, to seek out expert judgments, and to adjust rapidly. Beating the coronavirus is different from defeating political opponents or charming citizens eager for hope and change. How quickly the nation's leadership learns from these past six months and changes its approach will be vital for managing the pandemic and achieving economic recovery and sustained growth.

September 15, 2020

Agricultural Reform in India

India is facing massive twin crises in health and in the economy. As in the past, economic crisis has spurred the introduction of politically difficult reforms, this time in agriculture. Agriculture in India remains an important source of livelihoods, and farmers' constituencies are politically significant. Constitutionally, agriculture is a state subject, which also makes coordinated national reforms more difficult. At the same time, various national policies designed to provide food security have played an important role in how agriculture is conducted in India.

The national government has introduced a set of agricultural reforms, in three separate bills which were very quickly enacted as laws. The political rhetoric of the reforms has emphasized the goal of increasing farmers' incomes. The means to this end that is supposed to be embedded in the new laws is various kinds of deregulation that will increase competition for agricultural output, thereby increasing farmers' incomes. To the extent that the changes do not simply redistribute value across different parts of the supply chain (for example, benefiting farmers at the expense of middlemen), they must represent genuine efficiency increases such as reductions in transaction costs. Although much of the attention has been on the trading of agricultural products, an even more important source of potential efficiencies is in production. The new laws contain some direct changes for regulation of production, and of course changes in the regulation of agricultural marketing will have also implications for production.

The issues involved in the agricultural reforms are very complex (more so than a simple liberalisation), and much detailed analysis has already been produced. Here I will provide a more high-level take on where matters stand. First, there is the concern that the national government has acted without the cooperation of the states, and without a good understanding of the different situations of various states with respect to their existing policies towards agricultural production and marketing. There may have been a political case for acting quickly, and perhaps even for bypassing the states, but it seems fair to say that some of those gains will be illusory, as state governments and various farmer groups push back on some of the reforms, possibly delaying or even blocking implementation.

Second, the detailed comments on the three new laws by a range of analysts indicate some inconsistencies and ambiguities which will also create challenges for implementation. What will happen to national food procurement, which is a central aspect of farming in Haryana and Punjab, or how contract farming will change, are two areas of note. But there seem to be many other details at the heart of the potential reorganization of trading of agricultural products that seem not to have been thought through. For example, issues of market power, interlinking of credit and intermediary services, and reorganization of interstate trade do not seem to have been addressed very clearly.

Ambiguity and inconsistencies only heighten uncertainty with respect to the reforms. If this uncertainty is combined with another missing piece, namely, a clear analysis of how farmers' income risks will be managed in a post-reform world, then the chances of acceptance and implementation go down dramatically. In other words, farmers are being asked to accept possibly significant new income risks, without any alternative risk management policies, in exchange for an untested promise of higher, but likely riskier, incomes. Existing regulations, however, poorly designed, are familiar and have relatively predictable consequences. There are also networks of relationships and institutional roles that has grown around existing laws, including the functions of intermediaries and state government agencies, and these may be destabilized. The new laws and the process of their introduction can only create anxiety. Indeed, the new laws could and should have been designed to address issues of risk and of institutional design in a manner that would reassure farmers.

It may also be reasonable to argue that agricultural marketing and trade reforms can only have second-order impacts on agricultural incomes. The new laws do contain new provisions with respect to commercial farming and the role of corporate entities, but the real issues lie in parts of agriculture that are more marginal. In that respect, the national government seems to have difficulty thinking clearly about how to improve the functioning of small producers, whether in industry, services or agriculture. For example, reform of agricultural marketing and trade could have been combined with strong new policies to improve credit access for small farmers, revitalize moribund agricultural extension services, targeted subsidies for adoption of technologies to improve efficiency of water use or of access to water, crop insurance for small farmers, and so on. None of these require large sums of new money, and would have provided reassurance and hope.

This preliminary assessment of the agricultural reform legislation reminds us of general themes. Indian economic policymaking in recent years seems to have shrunk in ways that hinder progress. For a large, heterogeneous country, the number of people and range of inputs in shaping laws and policies seem to be inefficiently low or narrow. Good design of laws and policies has a very high rate of return. India's national government has won all its political battles, and needs to focus on the struggling economy. The first steps in agricultural reform illustrate the strengths and the weaknesses of how the national government has been going about this task.

October 18, 2020

How Can India Recover?

We all know that India is in a precarious position, because of the twin crises of health and the economy. The health crisis is easy to understand, in that there is a single cause, the novel coronavirus. The remedies are also relatively straightforward to conceptualize, if difficult to implement in a consistent, sustained manner. Social distancing, hand washing and early detection and treatment are not a complicated formula for control. Implementation is another matter, and India is like many other countries in its inability to steer government resources towards targeted health investments, and to nudge or direct individual and social behaviour in the right direction. The good news here is that accomplishing these tasks is not financially burdensome, and simply requires better governance and political leadership.

The economic crisis is much more complex, and will be more difficult and costlier to turn around. Its roots are quite deep, and the pandemic and lockdown were merely the straw that may have broken the camel's back. Of course, the metaphor here can be misleading, since matters can be turned around with good policy, whereas a broken spine is typically irreparable. Nevertheless, the vision of possible disaster is worth it if it focuses policymakers' minds. When the current ruling coalition originally came to power, the problems with the economy were already emerging. Corruption and inefficiency had allowed poor quality investments to be made at a level that was threatening India's financial system.

There were policy reforms to allow for more effective restructuring and cleaning up of balance sheets of financial companies, by doing the same for the non-financial companies that were the source of the problem. But judicial quirks, demonetisation, and a problematic roll out of a new tax system for businesses all took attention away from the primary task of the needed restructuring. The pandemic and the poorly planned lockdown could not have come at a worse time for this process.

Meanwhile, India's exports had been slowing down, the government was struggling to achieve fiscal deficit targets, and the central bank was working hard to bring down stubbornly high inflation and inflation expectations. None of the components or policy levers of economic growth were moving in the right direction. With respect to exports, the national government had been failing to maintain low and efficient tariff structures, and doing little to remove logistics bottlenecks, enter into new trade agreements, or integrate into regional supply chains. This was a problem that preceded the change in ruling parties, though the problems have gotten worse since then. The central bank did not seem able to deal with real appreciation of the rupee, as capital inflows were strong. It wanted to manage inflation, but did little to improve the transmission of monetary policy, and it was unable to see the growth slowdown coming, as it focused on bringing inflation under control. Falling savings and investment rates were a symptom of the wrong direction of the economy.

Essentially, India had lost its way in terms of structural reforms that it needed to make to keep the economy growing at 7 percent or more, let alone to reach double digit growth rates that would open up a path to East Asian-style development. It did not do things it should have done when times were good, and it will be harder to do these now that times are bad. Is there a path to recovery?

First, the process of cleaning up and restructuring balance sheets of non-financial firms needs to resume and accelerate. Bankruptcy as restructuring is painful and costly, but much less so than bankruptcy as liquidation, though in some cases, the latter is the best route to take. This process will allow financial firms' balance sheets to be cleaned up, and new lending to resume more robustly.

Second, the central bank needs to figure out how to improve monetary policy transmission, especially if it is to do any kind of inflation targeting. In this regard, the use of an inflation measure heavily affected by food prices, when agricultural markets are highly regulated and subject to volatility and manipulation, is hardly ideal. Here, the push for domestic agricultural marketing reform will help a little, but improving production conditions, risk management for farmers, and international trade as a stabilizer will be vital.

Third, India will only grow quickly and sustainably when industry beings to take off. Here we include information technology in all its various forms as part of industry. The pandemic has accelerated the increasing role that digital technology was already playing in the economy. Whether for finance, marketing, service delivery, or education, digital technology has the potential to allow for leapfrogging and rapid catch-up. In this respect, the role of public investment in digital infrastructure has been dismal, and instead India is relying on near-monopolies in many parts of the digital value chain. Spectrum is not allocated to maximize economic growth, and there is minimal investment in universities that can drive more rapid innovation.

Finally, India's last decade has been increasingly about battles for political succession and dominance, nationalism, and cultural pride. Technical analyses of economic growth and clear strategic thinking have receded into the background, so that goals of economic growth, and schemes and missions accompanying these goals, have lacked well-defined roadmaps for implementation. Changing this situation is the most important step to recovery.

October 23, 2020

The Lessons of Trump

With the election of Joseph Biden as the next president of the United States (pending official certification of the various vote counts), it is possible to take a deep breath and begin to assess the lessons of one of the most remarkable episodes in modern American history. One should acknowledge right away that there were many aspects of the last four years which were not that abnormal for the US, over its history, and certainly not in global experience. Indeed, very early in Trump's presidency, he was compared to various African dictators by the South African comedian and commentator, Trevor Noah. Of course, there are such examples worldwide, many in Europe, Latin America, and elsewhere.

Donald Trump very much behaved as many world leaders have throughout history. He acted without respect for the formal and informal institutions that provide the framework for a reasonably successful and durable society – what supports the "social contract." He was elected by challenging the status quo embodied in these institutions, and by manipulating the population's anxieties with respect to race, class, and culture (particularly related to religious beliefs and social hierarchies). The fact that he almost got re-elected, despite his total disregard for the truth and his incompetence, speaks to the power of his approach to capturing and wielding power. This is an important lesson for the whole world – even a society with seemingly robust and durable institutions can be undermined very swiftly. Trump was not beginning from a dire situation, such as that which allowed Hitler to rise to power, in terms of severe societal shocks and fragile institutions. But once he took power, there seemed to be little that could stop his degradation of institutions.

Another lesson here is that Trump's success once in office was facilitated by numerous members of the Republican Party's elite, even those who he had previously abused and belittled. Indeed, some of them are supporting him as he seeks to keep undermining confidence in America's democratic institutions by attacking the conduct of the election. Again, there are parallels to the rise of other authoritarians, with Hitler again the most horrifying example. No one wields power without a cadre of enablers. Trump extended his corruption into numerous parts of government, when it served his purposes, even those with formal independence or norms of impartiality, including the Justice Department and Postal Service. He spoke of judges and Supreme Court Justices as "his," and he even tried to use the US military as a personal political tool, often with little or no pushback from members of his ruling elite.

The third lesson follows from the first two. Trump was finally stopped, barely, and perhaps only temporarily (he can still wield influence and even run for president again) by a broad coalition of ordinary people and elites across the political spectrum, sometimes putting aside political differences simply to protect core institutions and values. A key factor was often grassroots efforts, and adherence to the rule of law, in the face of Trump's and his enablers' corrosive actions. A remarkable example of this was the patient and determined counting of mail-in ballots in each of the states, often under timing restrictions imposed by Republican

Party state legislatures and the continued attacks by Trump. The majority of the media also played a role, calling out Trump's lies more openly, refusing to amplify them, and highlighting the openness and objectivity of the conduct of the election.

A fourth lesson is the value of decentralization and checks and balances. In some cases, decentralization can be damaging, as when it allowed racial segregation to persist in many parts of America, but here the decentralized electoral process prevented Trump from undermining the integrity of the national election. Again, some state legislatures did try to tilt the rules in ways that would favour Trump, but institutional checks and balances prevented too much political interference. But it was a close call.

The most visible domestic consequence of Trump has been the health catastrophe that the pandemic has become, thanks to his and his cronies' dishonesty and incompetence. But globally, by cosying up to dictators and tyrants, diminishing allies, and sabotaging global cooperation, Trump also inflicted considerable damage worldwide, hopefully temporary. The overarching negative consequence of Trump has been an erosion of trust, of confidence in the difference between truth and lies, and of the line between right and wrong. Many did not take Trump seriously when he began running for president. A lesson here is that the performance persona of a leader should not become a barrier to understanding their true character and motivations.

The defeat of Trump is not a panacea for the ills of the United States or the world at large. In some ways, he helped surface those ills, when they might otherwise have been papered over for longer. It will take enormous skill and effort to repair some of the damage done by Trump, and to fix some of the problems he exposed. For the people of the United States and for other nations and their peoples, the lessons from this episode are of the importance of ethical action, defence of decent institutions, recognition of problems, sustained collective effort to reduce problems once recognized, the value of relevant expertise, and, at the core, the value of being transparent and truthful in public service.

November 7, 2020

India's New Economic Reforms

India is in a crisis situation, with the pandemic occurring in an already weak economy. The national government has struggled in many respects, both in terms of managing the pandemic and in trying to rescue the economy. The crisis and the urgency it has created have, however, led to the beginning of a new set of economic reforms. These reforms aim to address obstacles to growth that have persisted through the three decades since India shifted its basic stance towards economic policymaking.

In an earlier column, I commented on the reforms in agricultural markets and marketing, which have the potential to improve efficiency in agricultural markets, and perhaps even help farmers earn more as a result. As farmers' responses suggest, these benefits are not guaranteed, and the government should consider additional reforms that focus on production, risk mitigation, and ensuring competition by buyers and intermediaries. Improvements in credit access for farmers would also help. An additional possibility is reform of the PDS, along with better incentives for farmers to shift into higher value crops. This would reduce the damage to the environment that the current narrowly-designed PDS creates in states like Punjab, as a recent detailed analysis by Naresh Devineni, Shama Perveen and Upmanu Lall suggests.

The central government also passed a series of labour law reforms, that are designed to streamline the regulation of labour. Like the agricultural reform bills, the urgency of action has led to a lack of prior debate, and new laws that are not always completely well thought out. Many details are left out of the laws themselves, and left up to future executive actions. While the reforms aim to continue to provide needed protections for labour while increasing flexibility for employers, there do seem to be valid concerns about adequate safety and health protections for labour under the new legal framework, and the dilution of collective bargaining power for labour. A different issue is the lack of employment protection, and here one has to be agnostic, since the difficulty of firing industrial labour in India has been a major barrier to its hiring.

Of course, flexibility in hiring and firing is not going to be sufficient to improve anaemic employment growth. In addition to other kinds of incentives for industrial growth, one hopes that the government will make a serious attempt to collaborate with industry and figure out how to improve the skills of India's workforce, in depth and in breadth. One of the challenges is that so much employment is in smaller firms, which do not have the resources to provide training for workers. By contrast, India's software firms had sufficient scale (and high enough profit margins) to train their workers who, even as graduates of engineering colleges, did not have the specific skills or quality of training needed.

Perhaps the most central example of the new set of economic reforms is the production-linked incentive (PLI) scheme for 10 sectors, ranging across a variety of products and technologies. The essential idea is to reward growth in sales, and this is certainly better than policies that encourage firms to stay small, as did the notorious Small Scale Reservation schemes of the past. The latest PLI policy follows on an earlier announcement for some electronics manufactures. Encouraging rapid growth with simple and direct monetary incentives seems especially attractive as the economy seeks to recover from the pandemic. But here, too, the government may need to fill out its policy package in a more careful manner.

Sustained growth in manufacturing will come from good physical infrastructure, efficient regulation, building reputation, developing customer and supplier linkages, and so on. A more rational and trade-friendly tariff structure will also help. The best investment will be attracted by an environment that includes all of the above. As noted earlier, access to a labour with the appropriate skills, or the existence of local organizations that can impart these skills, is also an important component of sustained manufacturing growth. The poor performance of India's manufacturing sector is caused by multiple deficiencies in the preconditions for productive investment and growth.

The PLI schemes are useful to signal government support and to jumpstart the economy in sectors that are viewed as having potential for growth or that have strategic importance, but they will ultimately be a drop in the bucket compared to what is needed. And on top of everything else, broad-based manufacturing growth will still require cleaning up and reforming the financial sector. In any domestic ecosystem of manufacturing, access to credit and capital will have to be smooth and efficient. India's financial system has been prone to financial capital being allocated inefficiently, or even just stolen. Companies such as Apple or Reliance may be able to rely solely on their own funds, but a successful economy will require a much better functioning financial sector than the one India has. Innovations based on digital technology provide some hope for improving the financing of India's firms, but regulation will have to catch up quickly, and make sure that this can happen without introducing new kinds of risk.

In the final analysis, the new set of economic reforms being introduced with urgency by India's national government is barely scratching the surface of what needs to be done for the economy to sustain growth at rates that will once again start lifting millions out of poverty.

November 22, 2020

India and the World Economy

As India embarks on a new set of economic reforms, triggered by the pandemic and its economic fallout, it faces complexities that were not at the center of the initial reform effort three decades ago. The crisis in 1991 was centred on the balance-of-payments, and allowing the Indian rupee to fall from an artificially high level with respect to other currencies was a key part of the solution. Another vital feature of the reforms was also focused on India's relationship with the world economy: extraordinarily high tariff barriers began to be reduced, allowing for welfare gains from greater international trade, as well a better equilibrium in the balance of trade. Reforms of the domestic economy that increased market orientation were, in some sense, opportunistically combined with these externally-oriented measures.

Three decades later, India is in a very different position – its balance of payments is in good shape, and foreign exchange reserves are sufficient to weather even abnormal shocks to the economy. The headline reforms are focused on politically difficult attempts to reduce frictions in labour markets and agricultural markets, though these are running into problems because of inadequate attention to ameliorating the impacts of new risks that workers and farmers may face. Figuring out a new trade-off between efficiency and risk for the domestic economy is a clear conceptual issue, even if the details are challenging to work out.

In terms of connections to the rest of the world, however, it is less clear what the right policy mix should be. We can think of three types of international flows: labour, goods and services, and capital. India has benefited from being able to send workers with a variety of skills to different types of economies that could employ them more productively than at home: construction workers and nurses in the

Persian Gulf, software engineers in the US, and so on. Direct benefits came from large remittances back to India. The pandemic, especially, but also some significant changes in US immigration policy, have had some major impacts on this international connectivity, but new vaccines and a change in the US president are likely to reverse these shocks. In any case, there is not much that Indian policymakers can do or need to do on this front.

The second category, goods and services, is one where Indian policymakers are still struggling to determine the right policy mix. Since the initial reforms, the Indian rupee has steadily depreciated, roughly according to a market determined equilibrium. India has been able to grow its exports, both in a variety of agricultural and manufactured commodities, and in services, from software services to tourism. It has been reasonably competitive in a range of goods and services, though nowhere near what China has achieved, or even smaller countries like Bangladesh in specific niches such as garments. Only in the last few years, even before the pandemic, have Indian exports struggled to register growth. Whereas the export powerhouses of East Asia consistently ran surpluses on the current account of the balance of payments, India has mostly run deficits, albeit manageable ones.

Current account deficits have to be covered somehow, though various forms of foreign capital – the third category of international flows. Whereas economic theory and economic policymakers mostly agree on the benefits of international trade in goods and services – subject to the political challenges of looking after the losers, such as workers who might see their jobs replaced by imports – there is less of a consensus on the benefits of international capital flows. Obviously, having to borrow abroad in a forced situation is undesirable. But even other kinds of capital flows can raise fears of instability if they are reversed, or make exports less competitive if they push up the value of the rupee. This latter issue is present even if capital flows are in the form of foreign direct investment (FDI), and therefore more stable and sustainable.

Right now, India is trying to build its manufacturing capacity by raising tariffs, in an old-style push for import substitution. It is also providing direct incentives, such as the new scheme rewarding increases in production. Meanwhile, the country is a relatively attractive destination for foreign capital, both FDI and portfolio investment, and the government is encouraging the former, in particular. But these flows can make Indian exports less competitive if the rupee appreciates too much, requiring domestic demand to do more of the work of absorbing increased output.

Arguably, this did work in Japan in the 1960s, but it is not clear if India is well-off enough to sustain that domestic strategy. In addition, the lack of competitive discipline that comes from successful exporting can hinder the achievement of acceptable quality levels. Some economists might argue for capital controls in this situation, while others might suggest that the Reserve Bank of India do more to keep the rupee at competitive levels, by accumulating foreign exchange reserves.

Lurking under the surface of these issues is the trilemma of being unable to simultaneously manage the exchange rate and domestic inflation while maintaining an open capital account, although foreign exchange reserves provide a way of softening the trade-offs. These are not new challenges, but they will need to be a focus for India's policymakers as they seek renewed economic growth.

December 1, 2020

India's Agricultural Reforms

India's agricultural marketing reforms have proved to be more problematic than many, including myself, initially realized. Clearly, some kind of rationalization of agricultural trade, internally and for export, is needed – there are too many inefficiencies in the current system. Indeed, some states had already been liberalizing or reforming on their own. Unfortunately, the states were not consulted on the new laws, and neither were farmers. The lack of transparency and consultation by itself is undesirable, but it also contributed to a suboptimal reform, and to unnecessary anxiety and societal disruption. It certainly did not fit with professions of favouring cooperative federalism. Why this approach is characteristic of this government is a separate question, but one can try to look for a way forward from the current mess.

Farmers from Punjab and Haryana seem to be among the most prominent in being disturbed by the new laws. These two states are the most locked-in to the national system of food grain procurement, which includes minimum support prices (MSPs). In fact, while once the two states were almost economic twins, Punjab is now much more dependent on this narrow system. Since many of Punjab's farmers are Sikhs, this has led to rather vicious sectarian attacks, but religion and territory are not the issue here at all. Others have dismissed the protesting farmers as a pampered minority among farmers nationwide, because they benefit from selling wheat and paddy for the national stockpiles, with a considerable income guarantee built in through the MSPs and levels of purchase. But the reality is quite different.

It has been clear for decades that Punjab agriculture has been on a self-destructive path. The wheat-paddy rotation has depleted the soil. Paddy cultivation has sucked down the groundwater table. Both these, and diminishing returns overall, have reduced returns for farmers, and squeezed their incomes, especially those of smaller or marginal farmers. One can see this in the general disequilibrium in Punjab's society, including symptoms such as drug use and desperate attempts at illegal migration. The farmers are protesting, not because they are protecting privilege, but because they are on the edge of a cliff, with nowhere to go. While the reforms do not touch the current procurement system, the farmers fear that the new laws are the first step towards other changes that will be set in motion inevitably, pushing them off that cliff.

The Punjab government has realized some of the problems of agriculture for decades. It has tried to diversify agriculture and to expand industry and services. These efforts have not made much headway, because of poor governance, corruption, poor design and implementation, lack of sustained focus, and lack of fiscal space. None of these are uncommon in developing country contexts, and Punjab may not be much worse than other Indian states, but the vice-like grip of the current public procurement system, along with Punjab's fraught history in the years when economic reforms were taking off in India, have made significant progress unattainable. Meanwhile, Punjab has plummeted in per capita state income rankings.

What can be done on the agricultural front? Most importantly, the national government needs to redesign the public procurement and distribution system to broaden the range of crops, including more high-value-added and less water-intensive crops, and do it in a way that does not reduce farmers' incomes. Second there need to be programs that directly pay farmers to switch to other crops, such as basmati rather than ordinary rice. Haryana is already implementing such programs, but Punjab faces a much more severe fiscal constraint. Since Punjab is on the brink, and a collapse of its agricultural economy will harm the entire country, it makes sense to target the state for earmarked support to incentivize crop switching, with matching state funds to reduce moral hazard.

A third step must be to support and reorient agricultural research and extension. In Punjab, it may be that its premier agricultural university, PAU in Ludhiana, is focusing too much on scientific research that is meant to prolong the current system by developing new genetic varieties that resist new pests. This research also leads to scholarly publications and prestige. But the messy and inexact fieldwork of traditional agricultural extension for a very large variety of possible alternative crops gets neglected. Knowledge is a classic public good, and the national government can play an obvious role in setting priorities for agricultural research and extension, and funding them.

Finally, the national government can be more active in modernising the agricultural supply chain, through public-private partnerships. Some of the rationale for the current reforms seems to have been that liberalization has to be a precursor to attracting private investment. But, and this is the case for the entire country and not just Punjab, making things easier for large corporations when many farmers are on the brink represents either an incorrect sequencing, or an incomplete package, of reform measures – or perhaps some combination of both.

Many of the steps that the national government can take will not have high net fiscal costs. Many of these ideas are already being implemented or piloted in specific areas. Other ideas have been detailed in multiple research and policy papers. Putting together a package that helps farmers move themselves away from the cliff's edge should be quickly feasible. It would be more constructive than confrontation and vilification.

December 17, 2020