Articulate an economic strategy

The country has been in lockdown mode since March 24, administered centrally by the Ministry of Home Affairs, using powers conferred under the National Disaster Management Act. The approach has thus far been an administrative one, the overarching aim being to minimise the spread of the epidemic. Subject to this overriding objective, administrative relaxations have been progressively implemented, to secure agriculture, and to restart manufacturing activity and supply chain movements.

This was an appropriate and necessary institutional response, but it is important that the country now shift from a home ministry-driven administrative approach to an economic approach, so that economic activity can be revived, and the loss in gross domestic product (GDP) growth minimised.

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The chief economic adviser expects growth to fall to 2 per cent this year; this is better than what external agencies forecast, but will not happen automatically unless there is a clear economic strategy. The central government's role in delivering such a strategy cannot be confined to reacting to the inevitable loss of revenue, and to providing peripatetic relief as and when the need arises. This is what has been happening so far, and reflects a continuation of the administrative approach. This must change.

There are five things that the central government must do that no one else can:

First, the government needs to set out its own view of the evolving macroeconomic situation. This involves not just projecting a GDP growth rate, but also specifying its structural composition, the complementary current account scenario, and how fiscal and monetary policy will be crafted to secure sustainable growth consistent with moderate inflation. There has to be an official view, and to say that this is not possible because the situation is evolving is an evasion of responsibility. Other countries have set out such a view and India must also do so.

A credible narrative on how key macroeconomic indicators are expected to change in the short run, and over the next three years, is crucial to how India's response will be assessed by external and domestic economic actors. The government needs to provide a strategic vision on fiscal, monetary, industrial, trade and current account policies. The Reserve Bank of India (RBI) can come up with complementary monetary and credit policies. The government must demonstrate synchronised functioning. Economic actors will then understand that India will do what it takes in the short term, and also how we are going to navigate this challenge, and recover from it, in the medium term.

Second, at the national level, the biggest challenge this crisis has posed is that the lockdown has fragmented the Indian single market. It is the central government's job to specify how the single market will be resuscitated and preserved in the months going forward, focusing particularly on interstate movement of goods and labour, and arrangements to deploy resources where they are needed to maintain and strengthen supply chains.

Third, this is a time when both spending and recovery have to be looked at in the medium term. We need a credible, scenario-based, medium-term rolling fiscal framework that tells us what the immediate revenue hit is going to be and how we are going to recover from it over the next three years; what the immediate public spending needs are going to be, and how will we moderate this over the next three years; what the macroeconomic implications of borrowing will be, and how these will be addressed over the next three years. Without this kind of medium-term framework, it is not going to be possible to come up with a credible fiscal consolidation road map. Just repurposing this year's Budget is pointless.

Fourth, attempts to directly engage in universal provisioning, garnering "relief" funds, welfare handouts etc. may make for good optics, but are not the core job of the Central government, which should focus on ensuring adequate public financing is available for the states to implement granular economic support measures. I have, elsewhere, suggested ways in which this can be done. [1]

Equally, the states must demonstrate that financing that is made available is utilised effectively and efficiently to secure further resource tranches. If we find that the national effort is not capable of rising above business as usual, and that money continues to be inefficiently spent, or wastefully targeted, then the case for a large-scale publicly funded response is weakened. It would then be prudent to take the economic hit and spend less, rather than suffer the consequences of spending more, badly.

Many argue that the current crisis presents an opportunity to implement big-ticket reforms. But doing so in a context of uncertainty, and a legacy of weak institutions can be perilous. Labour reforms do not mean disregard or dilution of safety and environmental laws. Capital market reforms do not mean temporary measures to suspend good financial governance. So the fifth area of focus should be on establishing and strengthening the institutional and administrative apparatus rather than big-ticket reform announcements. These can come later.

It is widely recognised that the major obstacle to India securing its full economic potential is its weak administrative capability and poor institutional quality. Reform must commence with foundational development of institutional and administrative capacity which will increase the confidence of producers, consumers, and investors that the resumption of business as usual will happen in a vastly improved economic and institutional environment than that which existed prior to this crisis.

The writer is director, National Institute of Public Finance and Policy. Views are personal .

1. Rathin Roy says COVID-specific bond to help tackle crisis, Cogencis, May 2