Lessons from current trends in economic policymaking

The degree to which ethical violations were seen in the implementation of demonetisation presents a strong case for incorporating an ethical, narrative-based approach to economic policymaking.

By DEEPANSHU MOHAN, Oct 2, 2018

Recent reports highlighting the massive failure of demonetisation to address problems surfacing from India’s shadow economic system or in accounting for ‘black’ money raise some serious questions about the craft and ethics of economic policymaking in India. This is particularly true in context of recent policies designed and implemented by agencies of the government, including the hurried implementation of the Goods and Services Tax (GST).

In case of demonetisation (i.e. legal banning of ₹500, ₹1000 notes), more than the actual failure of the policy itself (i.e. in doing what it intended to do), it is vital for the government to realise how more than a 100 people reportedly died in weeks right after the November 8 announcement, while causing millions of daily-wage and casual-wage workers to stay income-less for months (ex-post demonetisation).

The degree to which ethical violations were seen in the implementation scenario of demonetisation (or any such centralised process of government decision making) presents a strong case for incorporating an ethical, narrative-based approach to economic policymaking and its evaluation. The government at this crucial juncture may do well in taking a step back and reflect consciously to (re)address some basic questions of economics: What can be considered as an ‘efficient’ economic policy? And to what extent can the implementation of ‘efficient’ policy remain consequentially-sensitive in achieving the desired outcomes for citizens’ economic well-being?

What can be seen as an efficient economic policy?

Econocrats (i.e. economists working as bureaucrats) routinely examine market-based outcomes through movements of price with an eye towards evaluating whether a particular situation is the most desirable for society. The concept of efficiency in both economics and policymaking qualifies as an analysis of the world compared to some form of a desired “optimal” state. However, it is often done so entirely in terms of measurable outcomes alone. Such a comparison remains normatively impossible without knowing what the “most desirable” or “optimal” scenario looks like.
Moreover, the process of defining what is efficient in economics (and policymaking) remains incomplete without a discussion on what kind of a legal or moral framework is required for the “optimal” state to be achieved by an economic policy’s intended goals. The circumstance under which the discussion on a legal and/or moral framework for a policy becomes important is only when econocrats measure a policy’s ‘efficiency’ not only from a consequentialist or outcome-oriented lens. But by also taking into account the potential legal or social cost of the policy itself i.e. by being consequentially sensitive to people’s needs and preferences.

As an example from the case of demonetisation itself, one can see how neighbouring countries like Nepal, Bhutan, Myanmar that remain predominantly dependent on the strength of Indian currency for facilitating border/cross-border trade, were not involved nor even informed before the roll-out of such a large scale monetary policy experiment. An ad-hoc, unilateral policy to scrap ₹500, ₹1000 notes on part of the Indian government significantly eroded the confidence and trust of its regional neighbours and allies in the robustness of India’s own financial system, while seeing a disruption of trade in their own sovereign markets.

Jonathan Wight, on the role of ethics in economics, once said, “the standard moral analysis of markets might begin like this: In a political election, each citizen rightfully controls only one vote, but in economic decision each consumer rightfully controls as many votes as he or she has dollars to spend.”

People who lack income or wealth therefore have no ‘effective demand’ and their preferences have little or no impact on efficiency in the market, as often measured by econocrats too. It is this process of thinking in economic policymaking that remains problematic and needs revision.

*How can incorporating narratives help?*

To practically ensure this, incorporating the role of policy narratives—in designing and assessing the impact of proposed economic policies—holds key towards the determination of efficiency in economic policies. ‘Narratives’ here, may simply refer to humanist, contextual perspectives accumulated from subjects or recipients who are most likely to be affected from any given economic policy’s implementation.

For example, when a government considers increasing indirect tax rates on a particular baskets of goods (or services) with an expectation to increase its fiscal revenue base—it remains important to study through existing narratives from a target group of small-medium scale traders (i.e. likely to negatively be affected from the government’s policy implementation)—on how feasibly can they subside increased costs of production to the consumer who will bear the price of an increased indirect tax rate,. Or, how (from the past) such a tax policy measure might reduce consumer demand of goods from such group of traders.
A standard way of assessing the efficiency of any economic policy must thus, remain directly relational to the realisation of household or consumer preferences (within or outside the country). Without some form a narrative-based, consequentially-sensitive attitude towards economic policymaking which is operational under a legal and moral framework, the efficiency of any economic policy will (wrongly) continue to be seen merely in an outcome-oriented, consequentialist manner.

For a transitioning, a large demographic country like India, a (consequence-sensitive) process in policymaking by econocrats remains critical in our objective of moving towards the realisation of an “optimal welfare” state (assuming that’s the motive of any government).

(Views are personal)
The author is assistant professor and assistant director, Centre for New Economics Studies, O.P. Jindal Global University.