For India to Become Atmanirbhar in 10 Years, Do Indians Have to be Atmanirbhar Now?

Only those stakeholders in the Indian economy who are able to survive on their own now may be able to regain some momentum in the months and years ahead.

The five tranches of economic measures put forth by finance minister Nirmala Sitharaman saw a wide array of segments covered by the Union government in its effort to provide an economic response to the pandemic and national lockdown.

There is a lot to process in each individual component of the Rs 20 lakh crore package and a lot that will be determined down the road – especially with regard to the legislative amendments required in completing the cycle of announcements and how other reform proposals are actualised.

The Indian bureaucracy is notorious for adding minor footnotes, clauses and limits at the end of administrative or executive orders, which cause the implementation of even the most well-intentioned steps to diverge significantly from their scope and purpose, thereby resulting often in both government and market failures.
Still, if one simply goes by the scale and magnitude of the steps announced and a long-term vision, there are some definite positives and negatives. And some unknowns too, making many economic policy observers less convinced on how things might actually turn out in a year’s time from now.

Let’s start with some of the clear positives first.

In the numbers provided, the government has tried to project a ‘maximum bang for minimum buck’ approach. Most support measures have translated into forms of regulatory relief, broader liquidity support or are reflected in its contingent liabilities, rather than in the form of explicit budgetary support. Hence, one sees the direct spending proportion on the fiscal side to be very low.

It seems the Union government has very craftily used the COVID-19 pandemic crisis to plough through long pending, deep-rooted structural reforms. That should be welcomed.

A case in point here is for the measures announced for the agricultural sector. If the final government action in law and spirit echoes what Sitharaman said, the reforms pertaining to the regressive Essential Commodities Act, APMC Act, and provisions for contract farming are all likely to be make this part of a watershed moment for the agricultural sector. The average farmer in India, for too long now, was unable to benefit from market-price based incentives in the distribution and sale of produce. Now, she has at least the opportunity to exert choice and is likely to sell the produce at a market price to who she wants, and take more informed decisions without being caught in the red-tape of rigged mandis and other middle-mERCHANTS.

‘Food-tail’, including the e-commerce sector’s quest to get into food deliveries, is likely to get a huge boost if farmers are given the license (as an opportunity) to sell to who they want to, and for the private buyers, to have the liberty to procure from any farmer across the nation. Though the reforms in the APMC Act – a subject where involvement of states is very vital – will need to be carefully vetted and studied for their impact.

Still, what the Union government has tried to do with its three legal-framework reforms in agri-marketing, is to break away the control exercised by distributors, often at the cost of the farmer. This reform might take some time but is a step in the right direction, and one that was a long time coming.

The effort now needs to ensure that this is implemented at a scaled-up level and farmers are able to benefit from the sale of vegetables in the same way as milk (and sugar) cooperatives are. I had discussed this in the framework for designing localised agri-market systems through a proposal to creating more “commodity-based cooperatives”, allowing farmers – and source sellers – to get the best possible price for their product without having the constraint to sell everything at one given location (whether a mandi or a government warehousing destination). This is also compatible with the vision of localising supply chains which seems an inevitable reality – now and in a post COVID-19 economic landscape.
A few other positives in the economic package include the increase in allocation for public expenditure in healthcare (construction of more district level hospitals, rural healthcare facilities); the adoption of a more tech-driven approach to disseminating education in rural (distant areas); and the insolvency exemptions provided for a temporal period of time – for COVID-19 reasons – to firms that borrow say within a year-cycle window. The last move will help reduce the high credit-risk behaviour that was making banks more and more reluctant to lend more money.

However, for the scale of crisis currently inflicted, MSME firms, the retail sector, the food and restaurant industry, the unorganised segment etc., the inundation of debt that is likely from unchecked borrowings will require a much more prudent debt-management strategy for the government and for the financial sector to design (even once the temporal phase of IBC exemptions pass), given how a lot of support that the government has provided features in form of liquidity and guarantees on credits, which is likely to strain the liability side of its own balance sheet. India’s government-to-debt GDP is likely to balloon and there needs to be a robust strategy to address that.

Within a fairly poor fiscal management of deficit, as seen prior to the pandemic, the ability to accrue higher margins of revenue from new and existing resources shall put tremendous pressure on the Union government to manage its own debt and pay its due. It isn’t surprising that despite the liquidity injection offered to the MSME segment, the corresponding Union minister, Nitin Gadkari, was quick to respond and say that the government was falling short of paying its (pre-existing) dues on time. While in the short-term, helping firms borrow more, and letting banks lend more, is prudent, the government is somewhere working under an assumption that there is enough demand in the system to generate the need for loanable funds or credit lines. That is a misplaced assumption.

This brings me to some of the negatives associated with a predominantly monetarist, supply-side, liquidity centric approach, in dealing with both the immediate crisis at hand, and also using the same as some form of a therapeutic dose to initiate medium-to-long-term changes in India’s economic landscape (where the lack of liquidity isn’t that big a concern right now). Sitharaman has tried to address concerns of demand and of solvency for firms with just one move: liquidity.

On aggregate, putting the pieces together, the measures test self-reliance rather than enabling it.

Only those firms, agents and economic stakeholders who are able to survive – and thus show how atmanirbhar (self-reliant) they are – from the wrath of the current crash, may hope to regain some momentum in the months and year ahead by borrowing more and floating across. And all of that right now seems like a long shot in the dark. After the first tranche of measures were announced, I argued how a demand-side structural shock commanded the Union government to ensure more aggressive direct spending. Even all five announcements taken together failed to address this key and simple aspect. It is
possible that the government is choosing to keep some more ammunition in the tank, and may do more in the next few months.

Another key issue with the approach of the Union government’s economic support and restructuring plan is associated with the politics of the government itself. It is an approach embedded in a deeper centralisation of economic decision-making and a command-control operational mode to undertake or design economic responses.

For example, one is not sure whether states, or even state-level ministries (in matters of coal, mining reforms, agricultural changes etc.) were consulted on the reforms announced by the finance minister. This can be at least said with respect to the agricultural sector announcements, liquidity support for MSMEs, on the issue of migrant workers (and the support they need over the course of next one year or more) etc.

There seems to be almost a given presumption that states are – and need to be – on board with all that the Centre wishes to do. And while there are some key areas where directionality of changes need a more centralised reckoning and framework to work under, the lack of participation of a consensus-based dialogue is likely to deepen the existing faultlines between many states and the Union government, thereby causing implementation hurdles, higher sunk costs and an uncoordinated bureaucratic machinery. This is precisely the reason why many private investors have been finding it difficult to take the optimism from Sitharaman’s briefings.

It seems the government’s message is: to become atmanirbhar five to ten years from now, you need to be atmanirbhar now. In other words, all stakeholders are pretty much on their own now.

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