

By Akshita Goyal

# A FORMER CHIEF ECONOMIC ADVISOR SHARES HIS INNOVATIVE VIEWS

SEASONAL MAGAZINE RECENTLY CAUGHT UP WITH DR. ARVIND VIRMANI, CHAIRMAN OF FOUNDATION FOR ECONOMIC GROWTH & WELFARE (EGROW) AND FORMER CHIEF ECONOMIC ADVISOR TO KNOW HIS VIEWS ON HOW TO STEER THE ECONOMY BACK TO GROWTH, AS PART OF OUR COVER STORY, URGENT CURES FOR THE COVID-19 ECONOMY.

**C**hief Economic Advisor (CEA) is a celebrated post in India. Dr. Manmohan Singh, who went on to become the country's Prime Minister, was India's Chief Economic Advisor between 1972-76 under then Prime Minister Indira Gandhi. Dr. Raghuram Rajan was International Monetary Fund's (IMF), Chief Economist and Director for Research before he became Chief Economic Advisor under Dr. Manmohan Singh and later under PM Narendra Modi. Another leading economist, Kaushik Basu who was also CEA under Dr. Singh in UPA-2, later became Chief Economist of World Bank. In other words, only economists of the highest caliber have been entrusted with this crucial duty by most governments. However, despite their exemplary expertise their performances have varied, as it involved various other factors too like the prevailing economic challenges, the ruling government's overall policies, election agendas, global issues and so on. Dr. Arvind Virmani, who was a top performing Chief Economic Advisor, handled the crucial post between 2007 to 2009, in UPA-1 under Dr. Manmohan Singh and could guide the economy to one of its best performances ever. Later, Dr. Arvind Virmani was appointed as the Executive Director at the International Monetary Fund (IMF), Washington DC, representing India (as its Ambassador to IMF),



as well as Bangladesh, Sri Lanka and Bhutan. Other significant roles that Dr. Arvind Virmani has handled include Principal Advisor, Planning Commission; Member, Telecom Regulatory Authority of India (TRAI); Appellate Tribunal for SEBI Act; and Chief Executive of Indian Council for Research on International Economic Relations (ICRIER). On the academic side of his career, he was Affiliate Professor, George Mason University (and Distinguished Senior Fellow, School of Public Policy - CEMP, GMU). A noted author in economics and other related areas, Dr. Arvind Virmani has published 33 journal articles and 20 book chapters in the areas of macroeconomics, growth and finance, international trade & tariffs and international relations. His books include, The Sudoku of India's Growth, From Uni-polar To Tri polar World: Multi-polar Transition Paradox, Propelling India From Socialist Stagnation To Global Power, and Accelerating Growth and Poverty Reduction – A Policy Framework for India's Development. Currently, Dr. Arvind Virmani is the Chairman of Foundation for Economic Growth & Welfare (EGROW), a non-profit, multi-disciplinary public policy organisation engaged in independent, high-quality research in the areas of macroeconomic policy, public welfare, national security and diplomacy. Seasonal Magazine recently interviewed Dr. Arvind Virmani for our cover story, Urgent Cures for the Covid-19 Economy. Here are the excerpts of this interaction:.

SEASONAL MAGAZINE RECENTLY INTERVIEWED DR. ARVIND VIRMANI FOR OUR COVER STORY, URGENT CURES FOR THE COVID-19 ECONOMY. HERE ARE THE EXCERPTS FROM THIS INTERACTION:

**A**n infective virus has thrown off the normal in our lives and caught us off guard. Such emergencies called for urgent responsiveness and attentiveness on the part of the Government. As in many other countries, Indian government took a quick step of imposing a lockdown. During such VUCA (Volatile, Uncertain, Complex and Ambiguous) times, we had a chance to interact

with Dr. Arvind Virmani for our cover story, Urgent Cures for the Covid-19 Economy.

Starting with his views on the 'Life versus livelihood' debate, he affirmed that while lockdown was a necessary shock, it will be extremely costly if extended. He cited an EGROW Foundation research paper which estimates the effect of lockdown on the economy to be 5% of annual GDP in a month. Going deeper, he explained that for this calculation, researchers broke the economy into 3 sectors- essential, contract services and the rest of the economy. As the data speaks, Essential services constitute around 40% of the economy size. In the Essential goods and services sub-sector, we asked about his views on whether the government should distribute these to the poor or cut the tax rates for these to increase their affordability.

In response, Dr. Virmani emphasised that if the sector has been in operation

throughout the period of the lockdown, no such tax concessions are required. In his tenure as the Chief Economic Advisor to the Government of India, he had strongly advocated the case of direct benefit transfers (DBT) rather than provision of goods. He believes that DBT is a flawless procedure that is completely sealed and avoids leakages given that the alternative of goods provision through Fair Price shops is administratively inefficient.

When we were discussing the topic of how the Government is mitigating the damaged economy under lockdown, Dr. Virmani suggested that the legal asymmetry is still left to be addressed. The tax payment obligations for the essential goods and services industry and that for the rest of the economy can't be straight-jacketed. Clear differentiation and concession ought to be made for the industries which have been completely closed shop under lockdown.

This will not only help the hard-hit industries (like Auto, capital goods and construction) spring back into action post-lockdown but also assuage business sentiments. For the question of payment of wages to daily labourers, he asserted that the Government can't expect the businesses to bleed losses when they have got no compensation apart from an extension of the moratorium on loan repayments.

As we moved onto discuss a course of action to use this crisis as an

**DWELLING ON THIS IDEA OF GIVING MSMEs INTEREST-FREE FUNDS, DR. VIRMANI DREW OUR ATTENTION TO A PROVEN FACT THAT MOST INTEREST SUBSIDY SUPPORT HAS BEEN MOST EFFECTIVE WHEN THEY HAVE BEEN ROLLED OUT FOR A LIMITED PERIOD OF TIME.**

opportunity for long-term reform, Dr. Virmani astutely pointed out that the time is ripe to encourage diversification of supply chain. He applauded the RBI's move to reduce the repo rate for it increases the extent of monetary transmission and maintains adequate liquidity.

In a lighter vein, Dr. Virmani also said that in times of crisis, interest rates must be negative. On the welfare side, he said that the misery of poverty can be eliminated and not just alleviated through the largest three welfare programmes with Aadhar as the vehicle. Another pragmatic suggestion offered by Dr. Virmani was that of a negative income tax to ensure redistribution of wealth from the haves to the haves-not.

With this isolation period in the backdrop, we routed our interaction to the suggestions of eminent researchers NYU's Marti Subramanyam and Ashoka's Anisha Sharma. They had mooted a Government SPV providing arm's length pseudo-equity up to 25% of profitable MSME's revenues which can later be brought back by the MSMEs.

Dwelling on this idea of giving MSMEs interest-free funds, Dr. Virmani drew our attention to a proven fact that most interest subsidy support has been most effective when they have been rolled out for a limited period of time. Moreover, he is of the opinion that after simplification of the tax structure under GST, tax payment history of MSMEs must be used as an indicator of offering credit guarantees.

Covid-19 has presented the economy with a brand new challenge-one that would lead the Government to learn and unlearn dynamically as the agents in the economy gradually emerge out of the lockdown. Given the promising status as of today and the buoyancy of India's growth in the past, Dr. Virmani urges us to look forward.

*(Akshita Goyal is currently an ISB PGP candidate of 2021 batch)*

**THE TAX PAYMENT OBLIGATIONS FOR THE ESSENTIAL GOODS AND SERVICES INDUSTRY AND THAT FOR THE REST OF THE ECONOMY CAN'T BE STRAIGHT-JACKETED.**

