

Big Bang Reform for Fast, post-Pandemic, Growth

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INTRODUCTION

- India's Market Reform Goal
- Acceleration of econ growth (1980-2003)
- Sustaining fast growth (2004+)
 - Goals(actual): Economic => Social
 - Economic growth slows
- Modi 1 (jun 2014 - may 2019)
 - Mixed goals: Institutional, Moral
 - Growth: recovery followed by decline
- Modi 2: Realignment of goals (jun-aug)
 - (re-) Accelerating econ growth
 - Major policy reforms initiated (sep)

Economic Reforms

- Bureaucratic Socialism (1950-79)
 - Growth slowed, poverty increased
- Market liberalization (1980+)
 - Reforms=>Competition=>Productivity
 - Accelerating gr & sustaining fast growth
 - Revenues: Tax & non-tax; welfare programs
 - Govt expenditure: Efficiency & focus
 - Public Goods (roads, communicable diseases, macro-economic framework, pollution)
 - Externality(Infrastructure): Optimal subsidy
 - Information Asymmetry (Fin, Edu, Health; digi): Regulation

Accelerating GDP growth

- 1980s reforms: Selective decontrol, external trade
 - PcGdp GrRt: 1.3% per year to 3.9%
- 1990s reforms:
 - Price, production capacity, trade(-petro,fert,sugar)
 - Investment: Pvt domestic & foreign (FDI)
 - Capital market (CCI), foreign (FII, ECB)
 - External Trade (QR, tariffs; +minerals)
 - Exchange rate(dual, uniform mrkt driven)
 - Banks, equity mrkt, financial sec: decontrol, regulation

Sustaining GDP growth

- 1999-2000 to 2003-04 reforms
 - Infrastructure: Govt monopoly => Pvt investment
 - New Telecom policy,
 - Public Goods focus: Highways & rural roads
 - Electricity Act (2003)
 - Private Port, Airport
 - CPSE Privatization Policy: Initiated(hotels)
 - PcGdp GrRt: > 6% per year
- 2004-05 to 2013-14
 - Primacy to Social goals
 - Reforms pending : Warning 2009 (oecd ppr)

Competitiveness Issues

- Structural imbalance
 - Agriculture shares of Gdp & employment;
 - Agro productivity & Rural under-employment
- Cost & quality of factors
 - Labor, land, Capital, mgt
- Education & Skills
 - Quality: 3Rs, credentialism
- Power/electricity cost (ind)
- Imported Inputs (Tariff, QRs, EoDB)
- Employment (Labor Intensive G&S, Start-ups)

Govt Institutions & resources

- Public Sector monopolies
 - Unregulated: Deadweight loss
- Public Enterprises (PSU, PSB)
 - Resource drain/destroyer
 - Not Social welfare enhancer
- Government Efficiency & corruption
 - Taxation & tax bureaucracy
 - Targeting of transfers & subsidies: UID
 - Programs & projects: Delivery
- Legal system: Police, courts, judiciary

Modi 1: Institutional reform

- India Bankruptcy Code (IBC): Management, bad debt
- Monetary Policy Committee: Flex Inflation targeting
- Goods & Services Tax (constitution)
- Natural Resources (oil, coal, minerals, spectrum)
 - Sale through auctions (pvt bidders)
- DBT(Aadhar, Jan Dhan acts, DCT-farmers)
- Digital India, E-gov, GEM, UPI;
 - PIT seeding, Bharat Net (in process)
- Tech Startups: modern, quality jobs

Policy perspective: mixed signals

- Growth revival to moral/social goals
 - Anti-corruption laws, Demonetization
- Institutional reform: J-curve effects
 - IBC: Short term costs
 - GST: Costs of constitutional compromise
 - MPC: Forecasting errors, High real rates
- Legacy problem
 - Twin debt of Companies & Banks
- Reform credibility, market confidence
- GDP growth , investment decline

Modi 2: Big Bang reform

- Corp tax rt: 25%; Supply chain manf 15%
- Govt Monopoly(M&M)=>Pvt competition
 - Coal, Oil; Defense; Space, Atomic energy
- “Strategic Industry” Policy Framework
 - Framework for Privatization of CPSEs, PSBs
- Education Policy(incl Medical): Pvt & frgn entry
- Agriculture: Essential Commodity(amend)Act;
 - Farmers’ Produce Trade & Commerce (P&F) Act
 - Farmers Agreement of Price Assurance & Farm Services

Potential Reforms 2020-21

- GST: Simplification (rates, exemption, cess): MSME
- Direct Tax Code: MSME, Startups
 - Simplify, rationalize, best practice
 - Max marginal tax rate: reduce
- Direct Cash Transfer: DBT(JAM)=>DCT(mobile)
- Skills: Apprenticeship Act; E-skilling platform
- Exports: Textile(Specific), Agri(QR=>Tariff band)
- EoDB regulations: Decriminalization, reduction, digitization, post-file audit. CG

Post-pandemic opportunity

- De-Globalization trend(Trade, FDI, work visas)
 - Remote working from India
- High-tech decoupling: Value chains (R&D, SI base)
- Supply chain diversification: Resiliency Initiative(scri)
- **Dualistic trade policy**: China-ROW(ex china)
 - Break export monopoly (unfair trade)
 - Temp(3 yrs),target+phase tariff(+7%-0.7=>20%-0.25)

Atma Nirbhar Bharat

- Atma Nirbhar (self reliance + self confidence)
- Glocal: Global(mrkt) □ National □ Local(unique prd)
- World => India (3Ds)
 - Democracy: Shared values, rule of law, transparency
 - Demand: Domestic market size, Growing middle class
 - Demography: Young labor, Skilled labor(R&D cntrs)
- Economic Competitiveness: Domestic reforms

Post-pandemic opportunity

- Digitization: Faster catch up possible
 - Social sec demand: E-medicine, E-education/skilling
 - Public good infrastructure
 - E-gov(connectivity), Aadhar
 - Digital platforms: UPI, Fin Stack, Health stack
 - Futuristic regulations: E-com, Social media; Startups
- Public health: Build on strengths
 - Pharma & drugs: Vaccine prod for world
 - Active Pharma Ingredients(API): Import substitution
 - Swach Bharat (broaden)
 - Sewage, solid waste (collection, treatment, recycling)

Employment related reforms

- Agriculture reform
- Wage codes, simple rules
- Connectivity: Digital, logistic, power
- Rural Skills: Agro-processing, services, startup
- Export(Exim): Simplification & EoDB
- Goods & Service tax: MSMEs
- Direct Tax code (& marginal rt): MSMEs, Startups
- Subsidies & transfers: Direct Cash Transfer (mobile)
- Empowerment: freedom from destitution,

Conclusion: Reforms & Growth

- FY20(actual) = 4.2% ; Q4 =3.1%
- FY21: Frcst in May = -5% +/- 2.5% ; in Oct = -7.5%
 - Q1(-23.5),Q2(-8.5%),Q3(0),Q4(2%)
- Primary Goal Modi 2 (2020)
 - Re-accelerating GDP growth
- Major (“Big bang”) reforms (2020)
- Must complete remaining reforms
 - Minimize risk from slower world Gdp gr(ST & MLT)
 - Maximize geo-economic opportunity (SMT)
- FY22: 10% +/-1%; FY23-FY27(avg): 7.5% +/-

Budget 2021-22

- Direct Tax Code (MSME, Startups)
 - Simplify, rationalize, best practice
 - (Max marginal rate reduction can be done later)
- GST: Simplification for MSMEs (propose in speech)
- Direct Cash Transfer(DCT) Roadmap
 - Integrate subsidies into DCT[Rural<->mobile wallet]
- External Trade (EXIM)
 - Textile tariffs: Specific => Ad velorem
 - Agriculture: QR=>Imp tariff-exprt duty band
 - EoDB: Digital Integration of logistics, customs, banking, GST
 - SEZ regulations: reduce, digital filing & post-file audit
- Skills: Apprenticeship Act (propose in

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- Papers on growth in India & lessons from others: <https://sites.google.com/site/drarvindvirmani/growth>