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A withering state?

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The year 2020-21 was an unprecedented one that immensely put the most significant shock across the globe since World War II. As a significant contributor to global growth, there was substantial international attention to India's budget. V-shaped growth, a quick and sustained recovery is the key feature of the budget. The projected growth of the economy at 11 per cent is closer to the IMF prediction in its Global Outlook Report. In the UK, the Bank of England's Chief Economist, Andy Haldane claimed a similar recovery in 2020 July. However, this has moved to much slower growth, a long, flat U-shaped recovery, mainly because of the second lockdown and the lack of business confidence. Considering the current pandemic, the aberrations in the labour market have a significant role in determining recovery.

As Carmen Reinhart, the Chief Economist at the World Bank, argues, the pandemic is regressive and disproportionately hitting low-income households and smaller firms with fewer assets to buffer than against solvency. The fiscal stimulus to the labour market was minimal in the country. As seen in the ILO's Rapid assessment of India, the casual workers and the self-employed workers have affected most on their work and income during the pandemic period. Further to this, CMIE's CPHS data also shows a 30 per cent employment shift into informal type. Since the recovery signs are getting more robust in the economy, the V-shape recovery is still a possibility. The increasing GST collection and the surge in the industrial and financial sectors are showing this. The massive vaccination drive also brings confidence back to society and the economy.

The budget comes with substantial initiatives in the infrastructure sector that can have a multiplier effect on the economy, supported by the belief that supply creates its demand. Infrastructure investments follow a pattern of long-term debt financing path. The government has made great strides in the last few years through the National Infrastructure Pipeline. Further to this, the proposed 1.70 trillion for transport Infrastructure support this approach. There is no doubt about the long-term gains of infrastructure investments. However, most of the infrastructure projects have a time lag and face immense project-level risks. The regional skewness is apparent in the proposals for transport infrastructure. Ideally, the infrastructure investment needs to be spread across India through various sectors. We have sound evidence from Duflo and Pande (2007) on the distributional impact of large public sector investments such as dams. The premature infrastructure projects featured prominently in the growth of NPAs on the bank balance sheets, even in the pre-pandemic period. So the concern would be whether the infrastructure investment is the right approach for the projected V-shaped growth in the economy?

Regarding income generation, the budget followed the course of rapid privatisation rather than strategic disinvestment. The government's presence will be restricted to a few units in four strategic sectors - atomic energy, space and defence; transport and telecommunications; power, petroleum, coal and other minerals; and banking, insurance and financial services. Two public sector banks and one general insurance company will also be listed for privatisation in 2021-22. This is besides the proposed sales of BPCL, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, Bharat Earth Movers Limited, Pawan Hans etc, in 2021-22. As we know, much of the support for privatisation is based on the argument that performing public enterprises can be improved by exposing them to forces in product and capital markets. Even then, globally, the privatisation experience raised a host of concerns about economic, social and environmental consequences, which have eventually broadened the agenda for state-owned enterprises (SOE) reform in many countries. The restructuring of SOEs is not an outdated concept. In a country like India, it is vital to prevent the exploitation of monopoly power and broader social costs associated with the privatisation process. The move towards divesting ownership in strategic sectors will have long-term consequences. A diluted public sector might mean that India missing out on the opportunity to capitalise on the global distrust against Chinese supply lines in the wake of the current crisis and challenging its own 'Make in India' approach. Since the underperformance of GOI in the actual sales for some time, the current challenging business environment could undervalue the sales. Most PSEs have extensive underutilised resources; pragmatism would support different business models with the private sector to make it more competitive. Would it be better to modernise the existing PSEs for market competition as part of Atmanirbhar strategy rather than outright sales?

The budget offered limited evidence to strengthen the banking industry. Markose et al. (2020) show a lack of economic viability of PMJDY accounts in most Indian public sector banks, which is problematic given their extant financial fragility. This study finds that most public sector banks, which interestingly includes the 11 banks under Prompt and Corrective Action, suffer monetary shortfalls in that the PMJDY average account balances do not cover per PMJDY account costs. The high dependence on government for capital, the lack of risk-taking ability and NPAs are significant hurdles of the public sector banks. How far the proposed asset management and asset reconstruction companies would help manage the banking sector's bad loans without developing a road map for structurally reforming banking institutions. It is useful to remember Franco Modigliani's observation that economists agree about economics and disagree about the economic policy, which is more of a value judgement. There is a need to agree with basics; the challenge comes when we prioritise diverse stakeholders' competing demands.

References

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