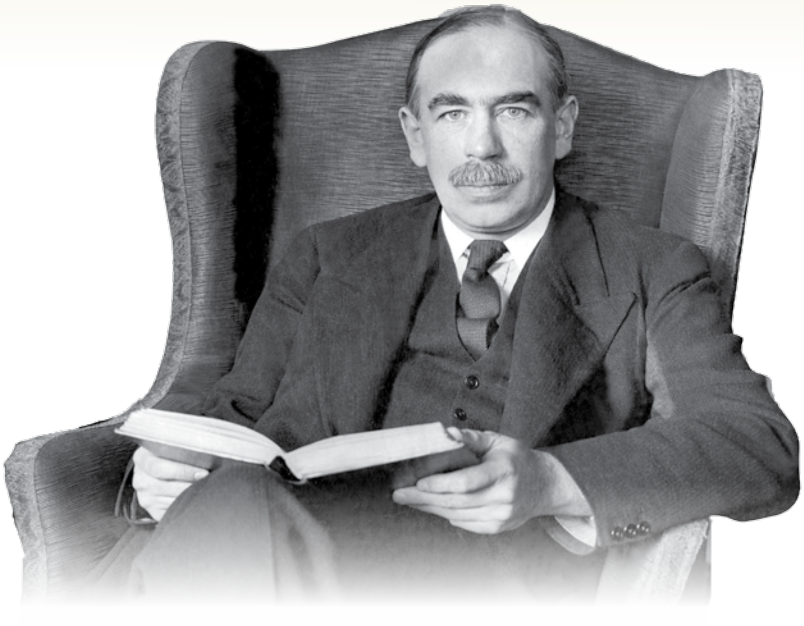
Would the Master Return Again? Revisiting Keynes as We Prepare for Post-lockdown

SACHIN CHATURVEDI



In his classic book, Robert Skidelsky suggested Keynes to the United States after the 2008-09 recession. The book basically redefined the relationship between State and market and how to arrive at a delicate balance through a Keynesian perspective. As a result, the suggestion was to provide fiscal stimulus and expansionary monetary policy as two most important messages. It is this approach that distinguishes Keynes from Neo-classical and the Chicago School of economics, most relevant in the times, when economic policy has to draw distinction between risk and uncertainty.

The policy circles, as earlier, embraced the suggestions, and for a moment, it seemed prescriptions of Friedman were dumped over Keynes. This was the second return of Keynes to the US.In 1931, Keynes advocated for the counter-cyclical public policy, which the US accepted. This had salvaged the economy from the crisis at that point also.

With COVID19, the world is back in a situation where demand and supply both have plunged in a major way. Would Keynes come back again for salvaging the economy? With more than 210 countries affected by the virus and with 18 lakh confirmed cases and more than a lakh deaths, this seems to be the biggest global challenge of modern times. Recently Kristalina Georgieva, Managing Director, IMF described this "way worse than the global financial crisis." According to some estimates, the global gross domestic product in Q1 in 2020 would be close to negative 20 per cent, which would be several times higher than what was observed in the 2008-09 recession.

Director General, RIS.

With the COVID crisis, many governments have already jumped in with the fiscal stimulus packages. Almost all the G-7 countries have already announced the details.

Indian Package

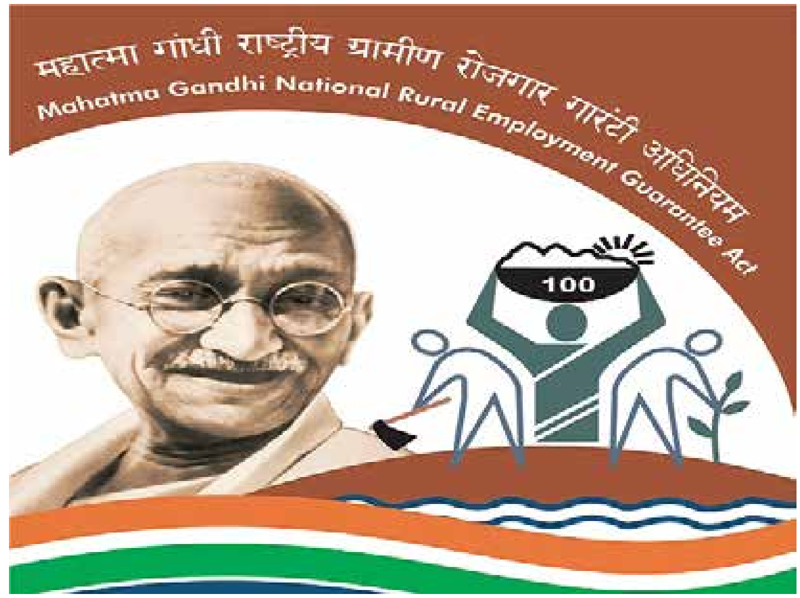
With Covid, the cyclical and structural challenges have multiplied many times. It is here that the macroprudential policy has to be supplemented by the Keynesian perspectives.

One good thing that has happened at the RBI in recent months is to do away with single point agenda of inflation-targeting and not to follow the Basel norms to the point of choking. The realisation that the governance of banks and monetary space is not an end in itself and that it is to achieve the wider development objectives, is an encouraging sign.

Some of the first steps announced by India already entail massive fiscal expenditure with continuing focus on revamping of macro-fiscal framework. The FRBM target of the central government of 3.5 per cent of the GDP would be a casualty in this process. However, the efficacy of the policy would be enhanced if sub-national entities at local levels are given the necessary manoeuvring space. However, as Keynes suggested, it is essential that the state expenditure must focus on capital asset creation along with substantial employment generation. It is from this perspective if a thorough review of FRBM be taken up, then we should not hesitate in that exercise. All dictats from international agencies may be temporarily overlooked considering the emergency like situation in the country. The Finance Minister has rightly emphasised for keeping on hold some of the global norms in specific local context.

Social Cohesion

Across last couple of Budgets, the Government has paid special attention on rural development and expansion of agriculture. The post-COVID19 policy response should focus on agriculture for the 'social cohesion' that Keynes talked about. It is essential for plurality of Indian economy and is also essential for easing pressure off from foreign trade that would have to bear the brunt of de-globalisation that is likely to be the case in near future.



In the last few years, share of development expenditure went up by 21 per cent between (the base year) and 2019 when the amount has reached at Rs. 78 lakh 14 thousand crore in 114 programmes. Out of these programmes, MGNREGS has emerged as a life line in providing purchasing power in rural areas. With tweaking of its guidelines, the programme is contributing for creating of quality assets and at the same time providing wage security to around 7.97 crore people, which is now highest since the programme was launched. A recent report has shown that this programme has expanded its foot prints as well. Out of 2.63 lakh gram panchayats only 9,144 panchayats have not incurred any expenditure under MGNREGS. In 2015, this number was close to 40 thousand. Needless to say, MNREGS has the potential to reduce the threats of involuntary unemployment and jack up the effective demand from within to move closer to full employment equilibrium, if not help achieve it completely.

The beauty of Keynes is that there is no single Keynesian system of economic governance. If there is one system that is relevant in all his writings, it is the role of governments for ensuring aggregate demand for maintaining full-employment.