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Online panel discussion on " COVID-19's Impact and Way Forward for India: An Economic Assessment" on 13th May organized by The Bengal Chamber

'India needs to be cautious not to slip back to the Licence Raj or Permit Raj regime'

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Kaushik Basu

Kaushik Basu, Professor of Economics and Carl Marks Professor of International Studies, Cornell University, on Wednesday, said that India needs to be cautious not to slip back to the Licence Raj or Permit Raj regime. The ‘Licence Raj’, which basically involved an elaborate system of licences and regulations that were required to set up and run businesses in the country, was dismantled with the liberalisation policy introduced in 1991.

“The licence permit raj in India was a slow evolution. The year 1991 saw the biggest economic reform, which transformed the landscape of the economy. Right now, there is a risk (of going back to permit era). From what I am hearing from corporates and variety of people is that the awareness has come for policy makers that we will not make that mistake. We must not become a system where you need to take permission for everything. We need to quickly unwind, creating space so that people can start taking their own decisions,” said Basu at a webinar organised by the Bengal Chamber of Commerce and Industry here on Wednesday.

Supressing market forces

While controlling the economy, it is important to see that we do not try to suppress market forces. “We must never think we can control the invisible hand, stop the market from functioning, halt the economy, and have bureaucrats and police run the state. It has not worked anywhere in the world and is a recipe for disaster,” he said.

According to him, the stimulus package announced by the Prime Minister on Tuesday is a move in the right direction. He also said that though fiscal deficit was a ‘worry’, however, it has to be put aside for now.

“The initial moves made by India were right moves. A lot will depend how we exit from lockdown. Landscape of global economy will change, winners and loser will emerge,” he added.

Though it important for India to work in terms of taxation and policies for transfer to the poor, however, one cannot be obsessed with long term changes at the moment, he pointed out.

“The level of inequality in India is unacceptable, but right now our window is a couple of months, and we cannot make mistakes to have a course of setbacks. Global players are worried because in March alone we saw $16 billion capital exiting India, the biggest outflow in a single month. There are a lot of economies thatare doing well amidst this crisis, like Vietnam, South Korea and Taiwan. We have to keep reforms in midst of this, so that we have a good future, along with managing the current crisis," he said.

Additional stimulus

According to NR Bhanumurthy, Professor, NIPFP, the fiscal stimulus of ₹20-lakh crore (approximately 10 per cent of GDP) announced by the Prime Minister on Tuesday would amount to 3 per cent of the GDP.

There are estimates that nearly ₹8-lakh crore has already been provided by the RBI through increase in liquidity as well as reduction in repo rate and CRR rate; so, what is left now would translate into 5 per cent of GDP. Again, the Central and State governments put together are likely to witness a total reduction in revenues to the tune of ₹7-lakh crore in revenue due to lower GDP growth.

"Now this ₹12-lakh crore additional fiscal stimulus that the PM has promised will include that ₹7-lakh crore because you are not going to compromise on the expenditures that have already been planned in the Budget 2021, and we have already seen that the government actually increased borrowing programme for current financial year from ₹7.8-lakh crore to ₹12-lakh crore; so, I think additional ₹4.2-lakh crore largely to cover the decline in revenues, so overall, my own calculation suggests that the additional stimulus measure expecting that there will be no further changes in monetary policy would be close 3 per cent of GDP, and that is substantial, given the fiscal condition right now," he said.

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