Modi’s need for control impairs recovery

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The gradual reopening of India’s economy after a 43-day coronavirus lockdown has been marred by a hyper-centralization of decision-making. Deepening mistrust between New Delhi and the states threatens to splinter the country’s common market of 1.3 billion people, its biggest draw for investors.

With infections surging by nearly 50% to cross 70,000 since the shutdown was eased about a week ago, it’s clear that one-size-fits-all rules have been less than a stellar success. They have forced states to sacrifice the little revenue they generate by, among other things, taxing fuel and alcohol. That’s left them fighting for a fair and timely share of dwindling federal resources and scrambling to raise funds in the bond market.

It’s impossible to conclude that a more localized approach would have contained the pandemic. Still, states left to act on their own might have fared better in lowering both the human cost of the tragedy and its grave economic consequences.

Amarinder Singh, chief minister of Punjab asked the PM to let him have a say in restarting some parts of the industrial centres of Ludhiana and Jalandhar. Both have been marked as red zones by New Delhi, forcing a halt to everything except essential services. Punjab relies heavily on surplus rural labour. More than a million have signed up to go back home on special trains arranged by the Modi government, Singh said on the call. How can he get them to stay?

States aren’t being unrealistic in demanding more money and a little freedom. No political leader wants to take the risk of getting overwhelmed by Covid-19 by allowing a full reopening just yet.

States that have succeeded in beating back the virus are also struggling to stay afloat. In the south, Kerala is facing the double whammy of no local production and migrant workers returning from the Middle East. It wants states’ borrowing limit to be raised, and for the central bank to purchase their bonds directly if investors won’t.

Kerala Finance Minister Thomas Isaac also wants compensation for the loss of the goods and services tax.

With no money from anywhere, local government spending will collapse, making India’s recovery under a phased reopening a long climb out of a deep hole.

Nomura Research projects India’s real gross domestic product to decline by 5.2% this fiscal year. Most private forecasters agree that the combined budget deficit of federal and state governments may balloon to around 14% of GDP, more than double last year’s 6.5% shortfall. This situation is still salvageable. The government, and the central bank, must work with states to make available the resources they need to restart safely. Beg, borrow, or monetize, but find the cash.

At least some of it has to reach the states. Otherwise, the crunch will spawn harmful ad hocism. Some states in are so worried about the excess returnee workers f that they’re suspending labour laws, hoping to attract the large factories they never got.

What will be the point of investing in India to tap a diverse yet common market where only a sliver of the population has any spending power?