A guide to the Prime Minister’s financial package of ₹20 trillion

Modi’s approach is to push behavioural change by scaling up the successes among various schemes

Consider this scenario. You are a poor farmer left with a few bags of water and a family to feed before sowing season. If you feed them as you normally would, you may have no seeds left to sow. If you ask the family to go a bit hungry, you have the option of sowing the remaining grain to reap the next harvest. Which option would you choose?

Well, if you were Prime Minister Narendra Modi, you would probably choose option two. Nothing else can explain why, in the face of an overwhelming consensus among economists and political observers in favour of massive cash transfers to the poor and the adoption of an economic stimulus, Modi has chosen to offer under 2% of gross domestic product (GDP) as actual stimulus spending (versus the 10% of GDP indicated in his “₹20 lakh crore” revival package). The remaining parts of the package are about medium-term reforms, easing liquidity, and loan guarantees to struggling micro, small and medium enterprises (MSMEs).

It is interesting that many activists who once opposed cash transfers (they asked for subsidies in kind, delivered through an efficient public distribution system, or PDS) are now demanding cash transfers, while Modi is using the PDS to distribute grain and pulses to the needy. Nobody bothers to ask where the cash—if given to all—will go at a time when our economy under lockdown is producing little beyond food, everyday essentials and liquor. Nobody wants to know how you can stimulate the economy with goods and services tax (GST) cuts when production hasn’t even started in most sectors. The right time to stimulate demand is after the lockdown is more or less over.

When there is a deafening chorus of Keynesians and modern monetary theorists pulling in one direction, the Prime Minister has held his ground. While this has not stopped him from expanding the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) by another ₹140,000 crore this fiscal, this seems like an admission that the return of millions of migrants to their home states presents a political problem of huge dimensions if they end up starving or get radicalized. Similar political compulsions—the loss of three Hindi-belt states in December 2018—may have prompted Modi to launch the PM Kisan Samman Nidhi, involving annual payment of ₹6,000 to farmers, in the budget for 2019-20. This, too, should be seen in its context: it was intended to avoid a larger push towards farm loan waivers that the Congress party was espousing.

The exceptions to Modi’s preference for empowerment over entitlement do not prove the rule. He is no Hayek or Friedman, but he believes that while the government can help you up to a point, ultimately you have to help yourself. There are no free lunches, though there can be subsidized lunches for a while.

A key element of Modi’s approach to economics is a system of incentives and penalties where all economic actors—rich or poor, small or big firms—are made to embrace behavioural change. If his methods deviate from traditional economic advice, which is obsessed with monetary and fiscal measures, it may be because he doesn’t give them as much importance as his own instincts.

This is what explains interest rate subventions for home loans over free housing, free Ujjwala gas connections where refills are paid for by the user, and the Saubhagya electricity-for-all scheme where the connections are free but power consumed has to be paid for. Even MGNREGS has been refocused, post-2014. The man-days created have been steadily falling as the scheme got converted from a boondoggle to something where real assets get created.

In the case of business, Modi’s approach has been to prompt behaviour changes, often by initiating huge economic disruptions. The GST followed demonetization and digitization, and India’s tax treaties with Mauritius, Singapore and Cyprus were renegotiated to prevent round-tripping and anonymous funding.

One aspect of Modi’s approach mirrors what a venture capitalist (VC) would do—the pursuit of “real options”. A VC does not know in advance which one of his myriad investments is going to be a huge winner and which ones will go bust. So he places several small bets, and uses options to scale up only the ones that show promise. This could explain Modi’s tendency to announce scores of schemes, many of which are now hard to recall. If he sows enough seeds, he seems to be betting, some will sprout and deliver. In his last tenure, schemes like Ujjwala and PM Kisan Samman delivered big time. The Insolvency and Bankruptcy Code, the Jan Dhan Yojana, and digitization also worked fairly well.

Modi’s ₹20 lakh crore covid package does the same thing. It initiates many reforms in many areas, and even if a few of them click, the results will be substantial. The Modi method involves adopting two opposite approaches simultaneously, incrementalist and big-bang disruptive moves, small bets in a large number of areas, and huge ones that can be expanded (Jan Dhan, digitization, Swachh Bharat toilets, etc). Modi wants Indians to change the way they think and work, and he does not mind taking endless flak from experts and agenda-driven critics in the process.