



MACROECONOMIC
Analysis & Policy Studies

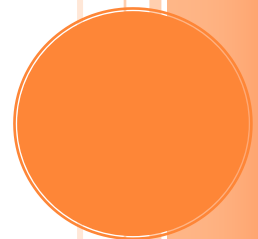
Public Policy Illusion

Decoding it through an MMT perspective

Student Research Internship Report

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Public Policy Illusion: Decoding it through an MMT Perspective

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DECADES GONE WRONG

The illusion of policymakers and the politicians in India and other countries, on the reliance on the private sector, in the past two decades, for all the necessary goods and services has been proven time and again costly. The failures of the policy that are faced today by the vulnerable section of the population, for a nation with very fragile economic conditions, where 81% of the working force are employed in the informal sector with little or no social security (the wire, 2018), cannot be blamed on the present or the former government, but the lack of the proper commitment in the social sector for the last two decades.

The innate difference between the private enterprise which is based on greed and profits which directly contradicts with the social 'for service' organizations, seems not to be understood, because of the obsession for the private sector to deliver them. Adam Smith, who preached for the invisible hands to do their job, was well aware of the limitations in the private sector's ambitions and sought after the government to provide the public goods i.e., health, education, infrastructure, social benefits, etc. What is striking to see is the fact that a nation that has grown at an average rate of around 8% has not done enough to increase the growth in terms of increasing human development. After two decades of rapid growth, India is still one of the poorest in the world, largely not spending enough to develop human capital (Dreze & Sen, 2020, pg.20).

UNDERSPENDING AND MMT

The spending by the Indian government for public goods has been at abysmal levels, barely coping up with underdeveloped countries. The very often way to elude such acts is based on the myth of not having enough money in the coffin to spend. This myth has been the excuse for many decades by many prominent policymakers and leaders and has also managed to earn the sympathy of its people on account of budget deficits. To shed light, the MMT view of economics has emerged to falsify these claims and to prove that money is never the real constraint facing the policymakers, to undertake projects without imposing constraints on itself (Kelton, 2020).

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I, C.P. Sai Aravindh, declare that this work is my own and has not been plagiarized.

Modern Money Theory (MMT), views that a country with a sovereign monetary institution, who has the power to issue its currency, faces only real resource constraints and not money. It emphasizes the policymakers to keep inflation in check and it has no proportionate relation with increasing budgetary spending.

Views of the analysts and economists in the media succumb to the same mistake as they are entangled in the ideologies of the orthodox economists who are not ready to understand the modern functioning of the monetary institutions. A recent example from a well-known daily news site, cites the repayments of bonds now that were taken years ago are borne by today's taxpayers (business line, 2021). Only when such misleading comments are brought to light will there be change and the expectations of the vulnerable can be realized and this is how a democracy must function.

We will now discuss some areas of public goods (healthcare, education, infrastructure and social benefits) which starve for more funding but have been ignored on account of rising deficits. The problems related to spending will only be discussed below, seeing this as the foremost necessary step, and other measures to solve each sector are beyond the scope of the article.

HEALTHCARE

India with a relatively huge number of people undernourished and ranked 131 in the human developed index ranking (UNDP, 2020), only when met with a harsh critical juncture i.e., the covid pandemic, the realization of the misallocated resources, and the mistaken belief of trusting the private sector to provide healthcare, has come to light. The fact that the UPA government promised to increase the health expenditure to 2-3 percent of GDP (Dreze & Sen, 2020, pg.148), has only been lip service to date and the following government did little to meet the goal. This does not claim against the fact that India has done nothing in terms of health care, particularly, in reforms such as The Nation Rural Health Mission (NHRM) launched in 2004, the mid-day meal scheme (1995) which had manifold benefits, recent PM-JAY (2018) and various state-specific schemes has done a pretty decent job to protect the vulnerable.

All these success stories point at the huge potential that such programs have for the massive population, but lack the necessary funds.

Table 1

Country Name	2014	2015	2016	2017	2018
India	0.9	0.9	0.9	1.0	1.0
South Asia	0.8	0.9	0.9	0.9	1.0
Sub-Saharan Africa	1.7	1.8	1.8	1.9	1.9
Middle East & North Africa	3.1	3.3	3.3	3.6	3.4
Latin America & Caribbean	3.8	4.2	4.1	4.2	4.1
Europe & Central Asia	6.7	6.7	6.8	6.7	6.7
World	5.8	5.9	5.9	5.9	5.9
European Union	7.4	7.4	7.4	7.3	7.3
East Asia & Pacific	4.4	4.4	4.5	4.4	4.4

Numbers in % of GDP

Source: World Development Indicators

A quick look at table 1 will suffice to provide the immediate solution and the cause to such a problem, where India has spent less than 1% of GDP in the world, lower than even most underdeveloped countries. India is far off from the world average of about 5.5%, and spending less than the sub-Saharan African countries (about 1.8%). This view highlights the facts of the schemes starving for funds and also for the potential new schemes.

There is also a bizarre reliance on private health care providers and not making them universal (for only BPL people), with a vast inclusion error, which has left the people at the mercy of the private players. So, an increase in spending by the government can be a good starting point in meeting the health potential in the preventive, primary, secondary, and tertiary sectors.

EDUCATION

Education is another matter of wide public concern in India, as Amartya Sen and Jean Dreze points out, without proper investment in human development, sustainable growth in a nation is not possible, as people should harness the basic educational knowledge to be empowered and failing that there will always be a deficiency in the outcome (Maira, 2021). The problems in education are complex and of manifold, relating to lack of accountability and responsibility, corruption, infrastructural problems, etc. with underfunding issues (excluding teachers' salary, because they receive more than their western counterparts) included in the complex straddle.

Table 2

Asian countries	Adult literacy rate	Adult female literacy rate
India	74	66
China	97	95
Sri lanka	92	91
Indonesia	96	94
Bangladesh	74	71
Malaysia	95	94

Year-2018, (% of people ages 15 and above)

Source: world development indicators

For international comparison, Table 2 shows, India is far from universal literacy, even among Asian countries India seems to be far behind, and also the difference among female and male literacy is pretty large for a country that grew around 8%. The annual survey conducted by ASER (PRATHAM) paints an encouraging picture of increasing enrollment rate, falling out of school children, and falling discrimination among gender, and also the learning levels seem to be rising steadily, if not fast (ASER, 2018).

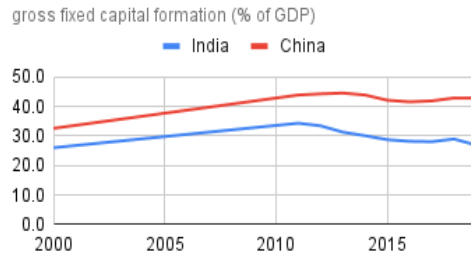
The deeper problem is that the increasing number of students enrolled has been sitting idly in the classes, all day long most of the year, either due to no teacher or doing nothing even with the presence of the teacher. But the solution doesn't mean to turn to private, who only exaggerate the problem, leading to more discrimination, breaking universal elementary education and also have been proven to give all most the same result of the government schools, of course with exceptions (K. Shiva Kumar et al., 2009).

Keeping this in mind, the problem of proper management, setting accountability, etc., are all doable with political will, as with raising any necessary additional funding which cannot be of any difficulty in the eyes of an MMT analyst.

INFRASTRUCTURE AND SOCIAL SUPPORT

Providing proper infrastructure is an integral part of sustained growth in a nation, only then the resources can be put to maximum use. Somehow in this context, the participation of the private players is not recognized and the government is pressured to fill the gap, either alone or through public-private partnership (PPP).

Chart 1



Source: world development indicators

But there has been a huge negative disparity in both quality and quantity of investments in India, needless to say doing a better job than its lower-income country counterparts, but growth potential is large when investments are set to increase. As S&P global remarks, ‘Lacking infrastructure hampers growth and investment’, in all areas i.e., power, transport, etc., distort the progress of ‘make in India’ reform. So, since the multiplier effect in increasing spending on infrastructure is quite high (S&P Global, 2016), there is an immediate need to rectify the issue by increasing investments.

There has been a huge debate on the topic of social support for the past two decades, mostly concentrated on the area of fiscal support, where there seems to be no money left to spend on social causes, a myth that can be broken down by the MMT approach.

Most of the social support has been directed to the BPL households, with its large inclusion errors as pointed earlier leaves them at the mercy of private practitioners, when we know that the policy of self-selection method as done in the MGNREGA, does a far better job selecting the needed households. India having a huge migrating population in off-farm seasons lacks the infrastructure to have full efficiency in supporting the people migrating. Empirical studies prove the stickiness of labour (and capital), placing a constraint in achieving the aspirations of oneself and eventually for the economy (Banerjee & Duflo, 2019, pg.61), providing them with proper incentives and benefits would prove good for all, the old age security pension of mere 200 rupees is not going to do any good (India Filings, n.d.). These are only a tip, and the main point to highlight here is the problem of rejecting good social policies on account of lack of fiscal space.

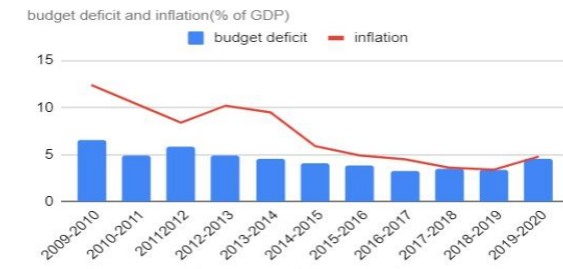
SOLUTION-MMT

The problems depicted here are only the tip of the iceberg, viewing each case would involve massive complexity and require a variety of views with a different spectrum which would be beyond the scope of this article, the main point emphasizing here is the budgetary spending.

The reason that almost all the policies are facing obstacles is the lack of fiscal space because of the self-imposed constraints, imposed upon itself like the Fiscal Responsibility and

Budget Management Act (2003) in India, which mandates the budget deficit below 3% of GDP (The FRBM Act, 2003). This self-imposed mandate has no practical basis and is only an arbitrary number, which is believed to control inflation, having a buffer of unemployed, and keeping the theory of the Phillips curve hypothesis as to its backbone, which can be falsified by the MMT theory (Kelton, 2020).

Chart 2



Source: Budget at a glance (2020-21), Annual report (RBI)

Although in the chart above, inflation is in line (not precisely) with fiscal deficits, there are other macroeconomics policies like money market rates, the flow of credit, tax rates, ease of supply-side constraints in essential trade, etc. influencing the inflation rates. In short, the fiscal deficits in no way exactly (although a probability), lacking credible evidence, caused inflation, and many countries that faced hyperinflation were mainly because of the supply-side shocks (imported inflation) and large borrowings from the external sectors and not its budget deficits. Hyperinflation in some countries like Venezuela and Zimbabwe (Mitchell, 2009) was more on account of supply shocks whereas in the erstwhile Weimar Republic (Mosler & Armstrong, 2020) it was due to the severe penalties imposed on it by the Versailles Treaty and the MMT contains vast literature to prove false for its cause of inflation and the benefits of deficits in budgetary spending.

When the government of India can find a source for funding the new parliament building of 20,000 crores, in its budget and going ahead with its construction, among such chaotic (pandemic) times (EPW, 2021, pg.8), it is possible to add policies of social concern in its budget any time necessary. Even the United States administration under Biden has realized the mistakes in the reliance of the private sector to do the good deeds, dismissing the trickle-down effect and is reversing the mistakes of the past administration (EPW, 2021, pg.7). The human development that should have happened during the rapid economic progress has been missed, which has to be caught back and with it the job of providing a level playing field has to be taken up by the government (not by private).

So, the progress made by the MMT has shed light on the concerns of the rising deficit, and with a proper commitment from the government, it is possible to undo the wrong.

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