Barbell Strategy

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In News

- Barbell strategy protected the economy from the worst manifestations of the crises, and yet remained flexible to respond to the evolving circumstances.
- Hence, India's performance in combating the health crisis has been quite good and certainly much better than that of countries (including US, UK, Italy, France and Germany) with far more advanced health systems.

Background

- Post the breaking out of the pandemic, India explicitly wanted to lay out the intellectual framework of its response to both the health and economic challenges caused by the pandemic.
- The central problem, in both cases related to making major decisions, was the extreme uncertainty and paucity of information — the fog of war.
- The WHO was far from clear in its recommendation and changed its stance repeatedly.
- Epidemic experts were consulted; some recommended herd immunity while others predicted millions of deaths.
- For India, the government realised that it is a marathon rather than a sprint; with no possibility of course correction later with 1.35 billion people.
- It was a one-way street.
    - Given these constraints, the Central Government opted for what is known in financial markets as a "barbell" strategy — i.e. hedge first for the worst-possible outcome while progressing step-by step with a Bayesian updating of information.
    - The initial total lockdown, therefore, should be seen as a hedge against the worst possible

outcomes.

- This initial lockdown also gave the space to arrange a large-scale medical response in terms of equipment, quarantine and testing capacity.

The Barbell Strategy: India's Response

- As time has passed, the central government then unlocked the economy step-by-step as information as well as medical capacity both improved.
- The same barbell strategy was used in the economic response.
- The Indian economic response during the lockdown phase was oriented more towards providing a cushion to the most vulnerable segments of society and of the business sector (such as medium and small enterprises).
- This explains the emphasis on
    - food availability
    - cash transfers to Jan Dhan accounts
    - government guarantees on loans to small enterprises
    - Moratoria and postponement of financial deadlines
- With the economy mostly unlocked by early October, there is now a case for an appropriate demand stimulus with infrastructure investment taking center-stage.
- Both monetary and fiscal space exists for this push despite the widening of the fiscal deficit.
- Demand-driven inflation is not a major issue as almost all price increases are due to supply disruptions.
- With the Rupee under pressure to appreciate and a current account surplus feeding foreign exchange reserves (standing at US$545bn in end September), there is space for allowing the transmission of an expansionary monetary impulse to reignite India's financial system.
- An infrastructure pipeline is being ramped up.
- Every financing avenue will be explored including

foreign and domestic capital, asset monetization and even deficit monetisation.

- Indian media and academicians tend to be excessively critical of monetisation. This is dogma. Carefully calibrated monetisation should be part of the financing mix.

Bayesian inference

- Is a method of statistical inference in which Bayes' theorem is used to update the probability for a hypothesis as more evidence or information becomes available.
- Bayesian inference is an important technique in statistics, and especially in mathematical statistics.
- Bayesian updating is particularly important in the dynamic analysis of a sequence of data.
- Bayesian inference has found application in a wide range of activities, including science, engineering, philosophy, medicine, sport, and law.
- In the philosophy of decision theory, Bayesian inference is closely related to subjective probability, often called "Bayesian probability".