

What Must India do now to address the Coronavirus Crisis*

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While the Covid-19-induced lockdown has yielded mixed and spatially diverse results so far in terms of disease containment, the socio-economic impact has been uniformly devastating across states in India. This warrants a careful appraisal of the lockdown strategy and a reorientation of the role being played by the Centre and state governments in the subsequent phases of lockdown.

India still appears to be some distance away from the peak of new cases, but different states have been affected at various speeds and intensity. This warrants a calibrated, decentralised and state-specific lockdown exit strategy, in contrast to the top-down manner introduced about a month ago. The day-to-day implementation of lockdown measures depends largely upon state governments. The necessary containment measures like testing, contact-tracing, isolation and treatment are also being administered by states.

Although performances of state governments vary significantly, they remain in the best position to determine the nature and extent of restrictions required to contain the pandemic in their respective domains. The resumption of inter-state travel and transportation should be decided by the Centre, but unless disease containment attains a uniform outcome threshold across states, normalisation of such activities may remain unfeasible.

While ceding decision-making space regarding the lockdown exit to states, the Centre should continue to support, coordinate, advise and monitor state governments' containment efforts. However, issues still remain with the adequacy of quality testing kits and Personal Protective Equipments (PPEs). States with weak public health systems need additional financial and institutional support.

In fact, greater transparency and accuracy in reporting the state-wise data by the Centre and promotion of best practices by states can help bring convergence in disease containment efforts.

The Centre must step up its efforts manifold in addressing the livelihood crisis, which is likely to persist much longer than the pandemic. While India's lockdown has been most stringent, the Centre's macroeconomic and welfare policy response has been the weakest among the major economies. According to the International Monetary Fund's estimate, India's actual spending measures announced so far by the Centre and states combined is Rs 1.42 trillion, which is about 0.7% of GDP, much less than the Rs 1.7 trillion announced by the Union finance minister on March 26.

How much of this has been spent on actual transfers under the PM Garib Kalyan Yojana needs to be clarified. Reports suggest major shortfalls and exclusions in cash transfers and food entitlements in different states. The monthly cash transfers of Rs 1,000-2,000 to old-age and other pensioners, female PM Jan Dhan Yojana account holders, and farmers, or a mere Rs 20 per day wage hike for Mahatma Gandhi National Rural Employment Guarantee Act workers are simply inadequate.

Ninety per cent of the 490-million strong workforce in India is in the informal or unorganised sector, and around 81% of them earn less than Rs 15,000 a month. These incomes have simply evaporated due to the lockdown.

The additional five kg of free food grains for each National Food Security Act (NFSA) beneficiary is also insufficient to meet basic nutritional requirements, given the severe constraints on food availability. Moreover, the promised one kg of free pulses per family has not even been delivered to most states. It makes little sense to restrict food allocations to beneficiaries of NFSA, which covers only 67% of the 2011 population, ie around 830 million out of the current population of over 1.35 billion.

The distressed working population needs two things on an emergency basis: Adequate food and cash income. The Centre must universalise food entitlements, with at least 10 kg food grains, two kg pulses and one litre cooking oil per head delivered to the beneficiaries' homes. Cash payment of at least Rs 7,500 per household must be made along with home-delivered food rations.

Rather than transferring digital cash droplets to bank accounts, the State machinery should be geared towards door-to-door delivery of food and cash entitlements with minimum exclusion criteria. If the bottom 80% of Indian households are covered, the entire relief programme should cost not more than Rs 5 trillion (around 2.5% of GDP).

The damage caused by the Covid-19 pandemic to the global and the Indian economy cannot be estimated properly at this stage, because there is a fundamental uncertainty regarding the longevity of the pandemic globally. It would be rational to prepare for a fresh interim budget as the revenue and deficit projections of the February 2020 budget have already become infructuous. State finances are under severe strain, and unless the Centre rethinks its fiscal conservatism, the economic crisis will engulf every sector, causing widespread insolvencies. Austerity measures and pay cuts will only depress aggregate demand and deepen the crisis.

The unprecedented and multi-dimensional nature of the economic crisis, which can be compared with the Great Depression of the 1930s, calls for a radical departure from economic orthodoxies, as was the case with the Keynes-Kalecki revolution in economics. We require a similar overhaul of the government's fiscal and monetary strategy, going beyond the measures taken by the previous government in the wake of the 2009 recession.

The Fiscal Responsibility and Budget Management Act should be junked forthwith, alongside the "inflation-targeting" framework of the Reserve Bank of India. A significant expansion of the fiscal deficit, financed by low-interest government borrowing and printing more money, is the only viable solution in the short-run. If the economic contraction can be avoided through deficit-financed public expenditures and indirect tax cuts in this financial year, direct tax rates on incomes, profits and wealth can be enhanced in subsequent years to restore fiscal balance.

Rather than opting for convenient routes, the Centre must act responsibly in making hard but substantive choices.

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