

Lockdown with a human face

While trying to contain coronavirus, immediate focus should be on alleviating hardships of poor and vulnerable groups, including migrant workers



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AS THE CORONAVIRUS spreads, severe dilemmas haunt policymakers. Even the scientific community is confused and does not seem to know whether the South Korean model of more intensive testing is preferable to the European model of a complete lockdown. The economic crisis that we are facing today is very different from any crisis that we have encountered recently. This is the first economic crisis in recent memory to have been triggered by a non-economic factor — a pandemic. It has brought to a grinding halt nearly all economic activity.

The dilemma policymakers face is often starkly described as the choice between “lives” and “livelihoods”. On April 14, the government decided to extend the lockdown by another 19 days. A lockdown essentially amounts to limited economic activity and this results in throwing temporary workers and daily wage earners out of employment. Migrant labour falls in this category. According to the 2011 census, the number of migrant workers under the category, “migrants for work/employment” was 41.42 million. This number must have grown substantially by now. The impact of the lockdown has fallen very heavily on the poor and vulnerable groups. We need to bear this in mind while evolving the strategy to combat the virus.

Elsewhere, I have classified the expenditure during the period we combat the virus into three broad categories. First, medical and healthcare expenditure, which includes the money spent on extension of hospital facilities, employment of additional medical and healthcare workers, costs of testing on a much wider scale and the purchase of accessories like personal protection equipment, ventilators and testing kits. The expenditure under this category is a “must” and there can be no compromise on it. The length of the battle will decide the cost. Second, the expenditure involved in taking care of the people thrown out of employment, and other vulnerable sections of the population. Third, stimulation expenditure aimed at restarting the economy. Here, the financial system presided over by the RBI will play an important role. But the government also has a role.

The “life” versus “livelihood” dilemma pertains to the lockdown policy. A tight lockdown over an extended period may save lives by curtailing the progress of the virus. But at the same time, it places several segments of society under severe hardship. With the lack of economic activity, many will go hungry. In this context, the government must look at two issues. First, it must consider to the extent to which the lockdown can be relaxed while keeping in mind the priority of restricting the spread of the virus. The government has recently announced some relaxations. This is a welcome step. However, it must keep this concern under continuous consideration. It must explore other options on the medical front as well. For example, will more testing make it possible to reduce restrictions? Second, if the lockdown is a “compulsion”, we need to pay adequate attention to the plight of people who have been affected adversely.

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income. Cash transfers to these workers may not be that easy as many of them might not have bank accounts. Moreover, we do not have a registry of these workers. Many may not have local ration cards and therefore, may not receive aid from the local or state government. The best course of action is to provide food and shelter in a systematic way. Local authorities must find a mechanism to achieve this. Hunger is a blot on society and needs to be fought no less than a virus.

There is much talk about a “stimulation package” to revive the economy. The financial system will have to lead the charge. The government can provide direct help only to small producers and certain sectors of the industry severely affected by the lockdown. In any case, most such efforts will have to wait for the lockdown to be lifted.

Expectations regarding additional expenditures by the government vary from 2 per cent of the GDP to 5 per cent of the GDP. Normal sources of financing will not be adequate to meet this order of expenditure. Central finances were under pressure even before the onset of the pandemic. Many analysts felt that the figure of 3.5 per cent of the GDP as the fiscal deficit, indicated in the budget for 2020-21, would be exceeded. The pandemic will necessitate an increase in expenditure. Moreover, with the decline in economic activity, revenues will also go down. The revenue projections were made on the assumption that the nominal income growth would be 10 per cent. But this is unlikely to be achieved. The nominal income growth is likely to be 7 per cent, at best. Given the in-

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crease in expenditures and the slowdown in revenue collection, the borrowing programme will exceed significantly over what was indicated in the budget. Monetisation of debt is inevitable and it will have its own consequences. The brunt of the expenditures will be borne by the state governments and therefore, the Centre must allocate additional resources to them. They may also be allowed additional borrowing above 3 per cent of the state domestic product.

In the first quarter of 2020-21, the GDP growth rate will be negative. Agricultural performance during the year could be the same as in 2019-20 as the rainfall is expected to be normal. The developed world may go through a recession over the year. Thus the external sector may not be of much help. It is quite possible for the economy to have a V-type recovery from the second quarter of 2020-21. On that assumption, the overall growth rate for the year can be 3 per cent. This is an optimistic estimate.

To return to the present, the focus of the government has to be two-fold. It must act vigorously to contain the virus, explore the possible alternatives to a complete lockdown, and prepare a road map for removal of restrictions. Second, it must take all actions to provide adequate help to the poor and the needy including the migrant workers. Lockdown, as necessary, must be with a human face.

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