

A NIGGARDLINESS THAT IS ECONOMICALLY UNWARRANTED

The Centre Can Afford To Step Up Its COVID-19 Assistance To A Higher Scale; Fiscal Deficit Is No Worry

The three-week long lockdown imposed on the country, it can be argued, was an over-reaction. More widespread testing of possible cases, “social distancing”, self-quarantining by the elderly, and selective lockdown of sensitive areas (as the Chinese government did in Wuhan) might have been quite adequate. But while this can be debated, what cannot be is the utter thoughtlessness that has accompanied the actual lockdown.

Ameliorative steps made necessary by it should have been announced simultaneously, to prevent the mass exodus of migrant workers which occurred not because of any “Fake-News”-induced panic, as the government claimed before the Supreme Court, but out of sheer desperation. Instead, some steps were announced by the Finance Minister a full 36 hours into the lockdown; and they were minuscule.

- **A comparison**

Indeed, India stands out among all the countries of the world as much for the scale of the draconian measure it has imposed as for the extent of unconcern it has displayed for the working poor affected by it. In the United States, for instance, where the lockdown has raised the number of persons filing unemployment claims from 2.8 lakh to 6.6 million in a matter of days, those affected can fall back on unemployment benefit; and the government has approved a package of ameliorative steps costing roughly 10% of that country’s GDP to cope with the crisis. In India by contrast, the Finance Minister’s package comes to less than 1% of its GDP; and much of it is just a repackaging of already existing schemes. New expenditure comes to just a little over half of the ₹1.7-lakh crore earmarked for the package.

Besides, none of the steps will help the migrant workers; not even the larger foodgrain ration which in principle could, because most of them would have ration cards back home rather than in the places where they stay. But much has already been written on all this, and I need not repeat it here.

- **What can be done**

What I wish to argue here is that this niggardliness is totally unwarranted on economic grounds. Many economists and civil society activists had suggested a cash transfer of ₹7,000 per month for a two-month period to the bottom 80% of households to tide over the crisis, in addition to enhanced rations of food grains and the inclusion of certain other essential commodities within the ration basket. The cost of their proposed cash transfers alone would come to ₹3.66-lakh crore, which is more than 10 times the cash transfers provided in the Finance Minister’s package. Providing assistance on the scale proposed by civil society organisations is necessary; it will no doubt pose logistical problems, but not financial problems.

Even if all of it is financed through a fiscal deficit for the time being, the economic implications of such an enlarged deficit would not be forbidding. These implications can manifest themselves in two ways: one is through inflation, and the other by precipitating a balance of payments problem. Let us consider each of these.

As long as supplies of essential commodities are plentiful and these are made available through the Public Distribution System to the vast majority of the people, so that they are insulated against the effects of inflation, any inflation per se should not be a matter of great concern. This is the case in India at present.

- **Food grains aplenty**

The supply of the most essential of goods, food grains, is plentiful. Currently there are 58 million tonnes of food grain stocks with the government, of which no more than about 21 million tonnes are required as buffer-cum-operational stocks. This leaves a surplus of 37 million tonnes which can be used for distribution as enhanced ration, or for providing a cushion against inflation.

The rabi crop is supposed to be good; as long as it is safely harvested, this would further boost the government's food stocks. There are some reports of labour shortage holding up harvesting. This may be a temporary problem that would disappear once the lockdown eases; but if necessary Mahatma Gandhi National Rural Employment Guarantee Act work can be extended to cover harvesting operations in areas experiencing labour shortage.

Likewise, the supplies of other essential commodities which consist of manufactured goods and where output has been demand-constrained all along, will get boosted in response to higher demand; and in special cases, imports may have to be resorted to. There is in short no reason to think that inflation of a worrisome magnitude will follow if the fiscal deficit is increased.

There is an additional factor here. The increase in total demand caused by an initial increase in demand, which is financed by a fiscal deficit, is a multiple of the latter. Now in a situation like the present, when even if the lockdown is lifted social distancing and restrictions on social activities will continue, the value of the multiplier will be lower than usual. People in short would hold on to purchasing power to a much greater extent than usual because of the continuing restrictions on demand, which would act as an automatic anti-inflationary factor.

Of course, there will be shortages of some fewer essential commodities and also hoarding on account of such shortages. But since these shortages will be expected to be temporary, a result of the pandemic unlikely to last long, there will be a damper on hoarding.

- **Issue of deficit**

True, if inflationary expectations are strong and persistent, then the prices of non-rationed commodities may rise sharply for speculative reasons; but the government can prevent such expectations, by adopting measures such as bringing down petro-product prices, taking advantage of the collapse of world oil prices. A larger fiscal deficit, therefore, need not cause disquiet on account of inflation.

On the balance of payments front, the worry associated with a larger fiscal deficit is financial flight caused by frightened investors. Some financial flight is already happening, with the rupee taking a fall. This flight is not because of our fiscal deficit but because, whenever there is panic in financial markets, the tendency is to rush to dollars, even though the cause of the panic may lie in the United States itself.

But India has close to half a trillion dollars of foreign exchange reserves. These can be used, up to a point, to check the flight from the rupee to the dollar. If the flight nonetheless persists, then India will have a legitimate reason for putting restrictions on capital outflows in the context of the pandemic.

We are currently in a bizarre situation where cross-border movement of people is virtually barred, while cross-border movement of finance is freely allowed. If the hardships of the people caused by the pandemic, and the lockdown it has created, are not ameliorated through larger government expenditure, because of the fear that the larger fiscal deficit required for it would frighten finance into fleeing, then the privileging of finance over people would have reached its acme.

This must not be allowed. The Centre must not worry about its fiscal deficit; and since the State governments will bear a substantial expenditure burden on account of the pandemic, the Centre must make more resources available to them. It should raise their borrowing limits, perhaps double their current limits as a general rule, apart from negotiating the magnitude of fiscal transfers it should make towards them.

Meanings of Difficult Words:

1. **niggardliness** (noun) - unwilling to spend, reluctant to give; ungenerousness, close-fistedness, penny-pinching, perverseness.
2. **unwarranted** (adjective) – unjustified, unnecessary, unreasonable, uncalled for, groundless.
3. **step up** (phrasal verb) – increase, intensify, augment, escalate, scale up.
4. **COVID-19** (noun) – coronavirus disease 2019.
5. **fiscal deficit** (noun) – the difference between total expenditure and total income of the government.
6. **lockdown** (noun) – an emergency protocol implemented by the authorities that prevents people from leaving from a place; An extended state of confinement/encirclement/isolation of a person by the authority.
7. **social distancing** (noun) – a term means actively avoiding crowded public places, is a key element in decreasing the rapid spread of COVID-19. This is an effort intended to limit exposure by reducing face-to-face contact and preventing spread among people in community settings.
8. **quarantine** (noun) – a process of separating out people, animals and things (such as plants) from others for a period of time in order to control/restrict the spread of a contagious disease; Quarantine is imposed to separate and restrict the movement of persons, who may have been exposed to infectious disease, but not yet known to be ill.
9. **thoughtlessness** (noun) - carelessness, in-sensitiveness, absentmindedness.
10. **accompany** (verb) – occur with, be present with, appear with, coincide with, coexist with.
11. **ameliorative** (adjective) – beneficial, restorative, corrective, enhanced, reformed, revamped/improved.
12. **exodus** (noun) – mass departure, evacuation, leaving/exit.
13. **sheer** (adjective) – utter, complete/thorough, consummate/out and out.
14. **desperation** (noun) – hopelessness, despair/distress, worry, discouragement.
15. **minuscule** (adjective) – very small, insignificant, negligible.
16. **indeed** (adverb) – in fact, actually, undeniably.
17. **stand out** (phrasal verb) – be distinctive, be prominent, be noticed, attract attention, catch the eye.
18. **as much** (phrase) - virtually the same.
19. **draconian** (adjective) - (of laws or punishments) extremely harsh, severe, strict, stringent, tough.
20. **unconcern** (noun) - indifference, apathy, lack of concern, passivity.
21. **fall back on** (phrasal verb) – resort to, turn to, use, employ.
22. **cope with** (verb) – deal with, grapple with, handle/manage.
23. **in/by contrast (to)** (phrase) - in opposition to, be very different from.
24. **earmark** (verb) – designate, reserve, set aside.
25. **ration** (noun) - the practice of having a fixed allowance of food, esp a statutory one for civilians (particularly in time of scarcity or soldiers in time of war); allowance, allocation, allotment.
26. **in principle** (phrase) – in general, in essence.
27. **back home** (phrase) – in one’s country/hometown.
28. **ground** (noun) – reason, factor, basis.
29. **activist** (noun) – advocate, champion, supporter (of a political or societal change/cause).
30. **household** (noun) – family, house.

31. **tide over** (phrasal verb) – sustain, keep someone going, help/assist (someone in difficulty).
32. **food basket** (noun) – it is also called the farmer's basket, is a customized basket of local agricultural products for daily individual consumption.
33. **logistical** (adjective) – relating to organization and planning of something.
34. **for the time being** (phrase) – for now, for the moment, for the present.
35. **implications** (noun) – consequence/outcome, ramification, repercussion.
36. **forbid** (verb) – prohibit, ban, bar, stop.
37. **manifest** (verb) – indicate, show, display, exhibit.
38. **inflation** (noun) – simply meaning “cost of living”; increase of price level of goods & services and vice versa decrease of currency value.
39. **precipitate** (verb) – bring about, cause, give rise to, trigger.
40. **plentiful** (adjective) - abundant, copious, ample, overflowing, huge.
41. **Public Distribution System (PDS)** (noun) – The Public Distribution System (PDS) in the country facilitates the supply of food grains and distribution of essential commodities to a large number of poor people through a network of Fair Price Shops at a subsidized price on a recurring basis.
42. **insulate** (verb) – protect, keep safe, shield.
43. **per se** (adverb) – (Latin) in itself, of itself, as such, intrinsically.
44. **matter of concern** (phrase) – something which causes worry.
45. **at present** (phrase) - at the moment, (just) now, at this time.
46. **aplenty** (adjective) – in large quantities, in large numbers, in abundance.
47. **buffer** (noun) – cushion, shield, screen, guard.
48. **surplus** (noun) - excess, oversupply, overabundance.
49. **rabi crops/sowing** (noun) – winter crops; seeds sowing in the beginning (Nov) of the winter and harvesting at the end of the season (Apr) in the South Asia.
50. **kharif crops** (noun) – monsoon crops; seeds sowing in the beginning (Jun) of the monsoon and harvesting at the end of the season (Oct) in the South Asia.
51. **as long as** (phrase) – given that; when/while.
52. **harvest** (verb) – acquire, obtain gather (a ripe crop from the fields).
53. **food stock** (noun) - raw material (supplied for industrial process).
54. **hold up** (phrasal verb) – delay, obstruct, impede, hinder, hamper.
55. **demand-constrained** (adjective) - relating to a system of economy where the level of output and employment is limited by the amount of overall demand (or spending) on its products. it is also characterized by the existence of unemployment, unutilized capacity, and unsold stocks of raw materials.
56. **all along** (phrase) – from the beginning, all the time.
57. **resort to** (verb) – use, utilize, turn to, have recourse to.
58. **in short** (phrase) – briefly, in essence, in sum.
59. **worrisome** (adjective) – worrying, distressing/upsetting, troublesome.
60. **magnitude** (noun) – size, extent, measure; value, figure.
61. **multiplier effect** (noun) – the proportional amount of increase in final income (particularly of the government) that results from an injection of spending; it occurs when an initial injection (investment/spending) into the economy causes a bigger final increase in national income.
62. **hold on to** (phrasal verb) – keep, retain, keep possession of, not give away.
63. **purchasing power** (noun) – the ability to buy something (goods/services).
64. **to a great extent** (phrase) – in a substantial way; largely.

65. **anti-inflationary** (adjective) - relating to the factors which reduce/prevent inflation.
66. **hoard** (verb) - gather, accumulate, collect, stockpile.
67. **on account of** (phrase) – because of, owing to/due to, by virtue of.
68. **pandemic** (noun) – the worldwide spread of a new disease; The illness spreads around the world and typically affects a large number of people across a wide area.
69. **unlikely** (adjective) – not likely, doubtful, beyond belief.
70. **last long** (phrase) - to exist for a significant amount of time.
71. **dampener** (noun) – brake/check, restraint/restriction, control.
72. **hoarding** (noun) - stocking/storing, accumulation, collection.
73. **inflationary** (adjective) – tending to cause monetary inflation.
74. **persistent** (adjective) – continuous, unrelenting, never-ending.
75. **speculative** (adjective) – risky, uncertain, unpredictable.
76. **bring down** (phrasal verb) – decrease, reduce, lower, diminish.
77. **take advantage of** (phrase) – make use of, utilize, capitalize on, benefit from.
78. **disquiet** (noun) – distress, unease, worry/concern.
79. **front** (noun) - a particular situation.
80. **flight** (noun) - escape, fleeing, running away, exiting (of investors by selling shares due to events such as political or economic instability).
81. **frightened** (adjective) - anxious, disturbed, troubled, concerned.
82. **take a fall** (phrase) - incur/accept blame.
83. **lie in** (phrasal verb) – be present, be contained, exist.
84. **foreign exchange reserve or forex** (noun) – Foreign exchange. Forex (exchange) reserves are the amounts of assets /money in foreign currencies that a country has in its central bank (in India, it is Reserve bank of India).
85. **check** (verb) – restrain, contain, control.
86. **nonetheless** (adverb) – notwithstanding, nevertheless, in spite of that/however.
87. **persist** (verb) – continue, linger, remain/stay, last.
88. **legitimate** (adjective) – valid, reasonable, reliable.
89. **capital outflow** (noun) – money/assets flowing out of (or leaving) a particular country's economy.
90. **capital inflow** (noun) – a steady movement of capital (amount) into a place, economy, activity etc.
91. **bizarre** (adjective) – strange, unusual, unconventional/eccentric, ridiculous.
92. **cross-border** (adjective) – across a border (between different countries).
93. **virtually** (adverb) – effectively, nearly.
94. **hardship** (noun) – financial distress, trouble, misfortune, suffering.
95. **ameliorate** (verb) – make something better, improve, enhance.
96. **flee** (verb) – run away, run off, take flight, escape.
97. **privilege** (verb) – give a special advantage.
98. **acme** (noun) – the level/point where something is at its best; summit, pinnacle, top level.
99. **bear** (verb) - sustain, shoulder, absorb, take on.
100. **substantial** (adjective) – considerable, significant, large.
101. **fiscal transfer** (noun) - financial transfer (from the central government to the state governments).