

A BLUEPRINT TO REVIVE THE ECONOMY

A Carefully Crafted Economic Proposal For Consideration Of The Indian Government To Help Our Fellow Citizens

“We have no food, no home, no income. My children are starving,” cried Prachi to a TV anchor on April 14. Prachi, a migrant worker from Bihar, is one of the roughly 400 million workers in India who are dependent on daily wages for their survival. She has lost her source of livelihood because we are under a lockdown and economic activity has stopped. A lockdown is necessary to prevent the spread of COVID-19. But we need not make a choice between saving lives and protecting livelihoods. We can achieve both through a ‘smart’ lockdown and careful economic management.

The phrase ‘Greater Depression’, which has entered the vocabulary of economists, highlights the gravity of the humanitarian and economic crisis confronting us today. Every sector of the economy in every nation has come to a screeching halt. We extend our sympathies and wishes to all the leaders of the world, including our Prime Minister, for the enormous responsibility of steering their respective nations through this pandemic. In the spirit of non-partisanship, here is a carefully crafted economic proposal for consideration of the Indian government to help our fellow citizens.

Demand, supply challenges

First, it is important to diagnose the scale of the economic crisis accurately. Prachi has lost her job because her employer has been forced to stop commercial activity. It is important for the government to feed Prachi and help her employer to restart activities so that he can re-employ her soon. The economic crisis needs a demand side and a supply side response. It is morally imperative that we immediately address the miseries of the poor and vulnerable by providing money as well as food. The bottom half of all households (13 crore out of 26 crore families) must be given ₹5,000 per family in their bank account within a week. The list of households and the bank details (largely Aadhaar-seeded) are available in the government’s various schemes such as PMJAY and MGNREGA. Besides, the States have their ‘below poverty line’ lists. This will cost a maximum of ₹65,000 crore. Further, depending on the need, for the month of May, these families can be given ₹3,000 each. This will cost an additional ₹39,000 crore.

More than cash, scholars like Jean Dreze have observed that it is food that people need most urgently. India has far in excess of the buffer stock requirement. The Central government has already announced distribution of free food, but reports suggest that there is either lack of food supplies at the local ration shop or identity requirements of ration cards are proving to be a roadblock. The government must universalize food distribution immediately, to remove identity requirements, and work with State governments to rush supplies to every ration shop so that every family gets free grain.

Next, the April 15 guidelines allow MGNREGA work, which was stopped due to the lockdown, to be restarted while observing social distancing norms. District collectors should be given the freedom to start and expand works under MGNREGA. If work cannot be given for some reason, 10 days’ wages every month should be paid to the registered MGNREGA workers in the panchayat/block until the scheme is resumed. This will ensure some livelihood support. Economists Amartya Sen, Raghuram Rajan and Abhijit Banerjee have also called for urgent implementation of these measures.

The next step is to help Prachi’s employer to resume commercial activities, which can be done by re-opening the economy gradually. The key to reopening is our ability to identify sensitive COVID-19 hotspot areas and containment zones. The Central and State governments must work in tandem to identify hotspots, preferably at the level of the block/mandal and not just at the district level. This can be done with the help of public health experts and epidemiologists through strategic testing.

Planning ahead

Starting May 4, the new guidelines must be expanded to permit all economic activity (with a few exceptions) in non-hotspot areas. Economic activity requires labour and capital, which are significantly diminished due to the lockdown. Continuous testing and monitoring will be needed as new areas may turn into hotspots and hotspots may become non-hotspots.

Let small shops, service establishments and the self-employed start commercial activity in their areas. Three-quarters of the 80 million enterprises are establishments that operate in local areas. As long as they observe the usual precautions, they will not add to the risks. This will boost local economic activity.

The new guidelines permit agricultural activity during the rabi harvest season. This is a step in the right direction. However, the constraint for all these commercial and agricultural activities will be the availability of labour for which re-opening of travel and transport is crucial. But it is also the riskiest. Mass rapid transit as well as private transport must be gradually opened in non-hotspot areas. It is necessary to open up rail and bus transport with adequate precautions such as temperature checks and social distancing norms inside buses and trains. One strategy could be to reduce the number of passengers in each bus and train by increasing the frequency of the vehicles or by running them at half-capacity. There will be trade-offs, but each local transport authority can choose the right policy and tweak it from time to time.

Funding the revival

The other essential ingredient for resumption of economic activity is access to capital, especially working capital. A majority of the small and medium enterprises (SMEs) would have run out of cash and lost significant revenues. No bank is likely to lend to them. The government must step in to provide credit guarantees that can incentivize banks to SMEs. The Reserve Bank of India (RBI) has already instructed banks to issue a moratorium on loan obligations for three months. If needed, this can be extended by another three months.

For the formal sector, we can take a leaf out of the U.S.'s Paycheque Protection Program. The idea is for the government to help formal sector businesses to keep workers on their payroll without resorting to retrenchment or lay-offs. The 2017-18 Economic Survey estimated, using the Employees' Provident Fund Organization (EPFO) data set, that there are 40 million employees earning less than ₹15,000 per month who are employed in firms registered under the Goods and Services Tax (GST). It is likely that they are vulnerable to retrenchment. The government could 'protect their pay cheques' by funding their employers to pay them for one or two months. This can be implemented using data from the EPFO and GST databases.

The RBI, and through it the banks, should be encouraged to make capital available liberally to sectors such as tourism and manufacturing, which need specific interventions. External trade will continue to be tepid. India must do whatever it takes through export incentives and strategic use of foreign exchange reserves to capitalize on the export opportunity arising out of this crisis and stimulate exports dramatically over the next few years. Exports can be the key to jobs for hundreds of millions of skilled and unskilled workers, as it was during the boom years 2004-2010.

Fiscal stimulus measures on the demand and supply side must be supplemented by monetary stimulus from the RBI with re-designed measures such as moratorium, loan forgiveness, regulatory forbearance, revised NPA regulations and easing the cycle of credit flow.

Money versus myth

Do we have the money to indulge in such a revival and recovery package? It is our estimate that the total fiscal package will cost ₹5-6 lakh crore. That amount is available. The Centre and the States have a total expenditure budget of over ₹70 lakh crore for 2020-21. The Centre alone has budgeted to spend ₹4 lakh crore on capital expenditure this fiscal year. In a crisis, much of the capital expenditure may not be possible at all, and even if it is, must be deferred to the next fiscal year.

Besides, more savings can be identified by axing wasteful expenditure. Further, the Centre can borrow money during times like this without crowding out private investment or pushing up interest rates. As a final resort, the government can monetize part of additional deficit, otherwise known as 'printing money'.

A microorganism has brought humankind to its knees. As health scientists have said, we must learn to live with the virus. We need to act now to ensure that Prachi and millions like her can live through this and experience the new normal.

Meanings of Difficult Words:

1. **blueprint** (noun) – model, plan, guide, template, framework.
2. **revive** (verb) – re-establish, revitalize, restore, improve.
3. **craft** (verb) – involve in an activity skillfully; to make something with skill.
4. **consideration** (noun) – deliberation, reflection, pondering, analysis, review.
5. **starve** (verb) – suffer (from hunger).
6. **dependent** (adjective) – reliant on, relying on, counting on.
7. **livelihood** (noun) – source of income; means of making a living with the basic necessities (food, water, shelter and clothing); means of support, subsistence.
8. **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.
9. **COVID-19** (noun) – coronavirus disease 2019.
10. **Greater Depression** (noun) – a worldwide economic depression that started in 1929 and lasted until the late 1930s (almost for 10 years until about 1939). Although it originated in the United States, the Great Depression caused drastic declines in output, severe unemployment, and acute deflation in almost every country of the world.
11. **highlight** (verb) – underline, underscore, emphasize, call attention to.
12. **gravity** (noun) – seriousness, importance/significance, magnitude.
13. **humanitarian crisis** (noun) – it is also called as humanitarian disaster; a situation with high levels of human suffering in which basic human welfare is in danger on a large scale.
14. **confront** (verb) – trouble, burden, annoy, cause suffering to, beset.
15. **come to a (grinding) halt** (phrase) – a (bad) situation becomes inactive slowly and then stops completely.
16. **screeching** (adjective) – relating to a high-pitched sound produced when applying the brakes forcefully to stop a vehicle suddenly.
17. **extend** (verb) – offer, give, reach out, hold out.
18. **sympathies** (noun) – expression of pity; expression of sorrow; support, solace.
19. **steer** (verb) – guide, conduct, direct/lead.
20. **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.
21. **spirit** (noun) – real meaning, true intention, essence, ethos.
22. **non-partisanship** (noun) – fairness, neutrality, impartiality, egalitarianism.
23. **diagnose** (verb) – identify, determine, distinguish, detect.
24. **imperative** (adjective) – vitally important, crucial/critical, essential.
25. **address** (verb) – tackle, deal with, attend to, try to sort out.
26. **misery** (noun) – pain, distress, suffering.
27. **the vulnerable** (noun) – a weak/neglected person who is in need of special care/support.
28. **household** (noun) – family, house.
29. **Aadhaar-seeded** (adjective) – linked (Aadhaar number to the bank account).
30. **Below Poverty Line (BPL)** (noun) – an benchmark used by the government of India to indicate economic disadvantage and to identify individuals and households in need of government assistance and aid.

31. **far** (adverb) – much, very much, noticeably, considerably.
32. **buffer stock** (noun) – a large supply of a commodity stored (as reserve/extra) by the government for the purposes of stabilizing prices in an entire economy.
33. **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.
34. **roadblock** (noun) – barricade, barrier, blockade.
35. **universalise** (verb) – make (something) available for all.
36. **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.
37. **resume** (verb) – restart, return to, come back to.
38. **call for** (phrasal verb) – require, publicly ask/necessitate, demand.
39. **implementation** (noun) – execution, enforcement, imposition.
40. **hotspot** (noun) – a place of significant activity.
41. **containment** (noun) – an act of keeping something (harmful) under control (it means quickly identifying cases of coronavirus through testing, placing infected individuals in isolation, tracking who infected persons might have been in contact with and potentially quarantining those who came into contact with infection so that the disease doesn't continue to spread).
42. **in tandem** (phrase) – alongside each other.
43. **preferably** (adverb) – ideally, if possible, rather.
44. **epidemiologist** (noun) – an expert in the study of how disease spreads and can be controlled.
45. **diminish** (verb) – decrease, decline, reduce, shrink.
46. **add to** (verb) – increase, magnify, intensify, amplify.
47. **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.
48. **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.
49. **constraint** (noun) – restriction, limitation, restraint.
50. **riskiest superlative adjective of risky** (adjective) – uncertain, unpredictable, unsafe.
51. **transit** (noun) – movement of people/thing from one place to another place.
52. **open up** (phrasal verb) – increase, step up, accelerate.
53. **trade-off** (noun) – a situation in which you must choose between (balance) two things that are opposite or cannot be had at the same time; a compromise; swap, exchange.
54. **tweak** (verb) – adjust, modify, alter.
55. **from time to time** (phrase) – every now and again, at intervals, periodically, occasionally.
56. **ingredient** (noun) – element, part, component.
57. **resumption** (noun) – restarting, recommencement, reopening.
58. **run out** (phrasal verb) – use up, be exhausted, be finished.
59. **step in** (phrasal verb) – intervene, intercede, become involved.
60. **credit guarantee** (fund) (noun) – a type of fund (by the government) which backs up the loan taken by the beneficiaries as a form of collateral (pledged as security/guarantee).
61. **incentivise** (verb) – encourage, motivate, galvanize.
62. **moratorium** (noun) – a temporary suspension of an activity; embargo, ban, prohibition.
63. **loan obligation** (noun) – a binding agreement/promise to make payments for the loan (money borrowed) from lender.
64. **formal sector** (noun) – formal economy; it is the part of an economy that is taxed, or monitored by any form of government.
65. **take a leaf out of (someone's book)** (idiom) – to imitate someone.
66. **payroll** (noun) – a list of employees who get paid by the company.
67. **resort to** (verb) – use, utilize, turn to, have recourse to.

68. **retrenchment** (noun) – an act of cutting down or reduction, particularly of public expenditure; spending less money.
69. **lay-off** (noun) – unemployment; dismissal, discharge, redundancy.
70. **vulnerable** (adjective) – at risk, unsafe, easily affected by.
71. **tepid** (adjective) – unenthusiastic, uninterested, lukewarm.
72. **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).
73. **capitalise on** (verb) – take advantage of, exploit, benefit from.
74. **arise out** (verb) – result, occur, stem (from).
75. **stimulate** (verb) – prompt, encourage, trigger.
76. **unskilled** (adjective) – unqualified, unschooled uneducated, untaught.
77. **boom** (noun) – a period of rapid economic growth.
78. **fiscal stimulus** (noun) – Government measures, normally involving increased public spending and lower taxation, aimed at giving a positive jolt to economic activity.
79. **supplement** (verb) – augment, increase, add to, boost.
80. **monetary stimulus** (noun) – an attempt by a government to make the economy grow faster by increasing the money supply (the amount of money in the economy).
81. **loan forgiveness** (noun) – it means you are no longer expected to repay your loan.
82. **regulatory forbearance** (noun) – the norm that allowed banks to avoid treating restructured loans (new loan created to replace pre-existing loans) as sub-standard. Forbearance is a “concession” granted to a counter-party (debtor) for reasons of financial difficulty in meeting its financial commitments, that would not be otherwise considered by the lender. (Restructured loan is a new loan created (to replace the pre-existing loan) with a lower installment amount. It is paid over a longer duration of time).
83. **non-performing assets (NPAs)** (noun) – bad loans, troubled accounts, stressed loans; an account where principal and/or interest remains overdue for a period of time.
84. **ease** (verb) – reduce, lessen, decrease.
85. **credit flow** (noun) – availability of credit.
86. **myth** (noun) – (false) belief, notion, idea.
87. **indulge in** (verb) – become involved in (usually an undesirable activity).
88. **capital expenditure (CAPEX)** (noun) – the money spent on the acquisition of assets like land, buildings, machinery, equipment, as well as investment in shares.
89. **at all** (phrase) – conceivably, in any way, by any means.
90. **defer** (verb) – delay, hold off, postpone.
91. **axe** (verb) – cancel, withdraw, drop, discontinue.
92. **crowd out** (phrasal verb) – oust, overthrow, exclude, remove.
93. **push up** (phrasal verb) – increase, raise.
94. **as a final resort** (phrase) – a final course of action when all else has failed; ultimate, final, eventual.
95. **monetise** (verb) – earn money, generate revenue.
96. **deficit** (noun) – shortfall, deficiency, shortage.
97. **otherwise known as** (phrase) – also called as, also known as, better known as; used to show that someone/something has a different name.