

REBUILD INDIA'S CONFIDENCE, REVIVE THE ECONOMY

The path to a sustained recovery is to improve sentiments in society, using economic tools

These are extraordinarily difficult times for our nation and the world. People are gripped with the fear of disease and death from COVID-19. This fear is ubiquitous and transcends geography, religion and class. The inability of nations to control the spread of the novel coronavirus and the lack of a confirmed cure for the disease have exacerbated people's concerns. Such a heightened sense of anxiety among people can cause tremendous upheavals in the functioning of societies. Consequently, disruption of the normal social order will inevitably impact livelihoods and the larger economy.

The economic impact of COVID-19 has been much discussed. There is unanimity among economists that the global economy will experience one of its worst years in history. India is no exception and cannot buck the trend. While estimates vary, it is clear that, for the first time in many decades, India's economy will contract significantly.

An event with deep impact :

Economic contraction is not merely a GDP number for economists to analyse and debate. It means a reversal of many years of progress. A significant number among the weaker sections of our society may slip back into poverty, a rare occurrence for a developing nation. Many enterprises may shut down. An entire generation may be lost due to severe unemployment. A contracting economy can adversely impact our ability to feed and educate our children owing to a shortage of financial resources. The deleterious impact of an economic contraction is long and deep, especially on the poor.

It is thus imperative to act with utmost urgency to nurse the economy back to good health. The slowdown in economic activity is both a function of external factors such as the lockdown and behavioural changes of people and enterprises, driven by fear. The foundation for reviving our economy is to inject confidence back in the entire ecosystem. People must feel confident about their lives and livelihoods. Entrepreneurs must feel confident of reopening and making investments. Bankers must feel confident about providing capital. Multilateral organisations must feel confident enough to provide funding to India. Sovereign ratings agencies must feel confident about India's ability to fulfil its financial obligations and restore economic growth.

On NREGA and cash support :

There is extreme duress among India's poor. At a time when agriculture activity has been robust, data show that just in the month of June, 62 million people demanded work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme at minimum wages. This is thrice the usual number and 10 times more than the total number employed by the entire listed corporate sector. It is evident that most of them are displaced non-agricultural workers, struggling to make ends meet. Such is the scale and enormity of despair in our labour force. Fortuitously, the MGNREGA programme has proved to be a bedrock of support in such times but it is not enough.

A meaningful cash transfer can restore confidence in these families. Money in the hands of people can provide an immediate sense of security and confidence, which is the cornerstone to restoring economic normalcy. India is perhaps the only large democracy that has not provided direct cash assistance of a significant amount during the COVID-19 crisis. There seems to be a misplaced sense of apprehension that providing large cash assistance may deter people from returning to the workforce when needed and starve industry of labour. Such fears are stale and unfounded. In the United States, as per reports, nearly three-quarters of unemployed workers received higher pay and benefits under their government's COVID-19 assistance than from their employers. But this has not prevented American industry from reopening. While it is inordinately late, it is still prudent to

provide a significant sum as direct cash assistance to the poor which can inject confidence in them to weather this COVID-19 storm.

Look at the financial system :

There is also a dire need to restore confidence in the financial system which acts as the vital lubricant for the economy. COVID-19 assistance measures undertaken by the Reserve Bank of India (RBI) and the government such as interest rate reductions, credit guarantee and liquidity enhancement schemes are welcome steps, but they have largely failed since banks are not confident of lending. Reviving the health of the banking sector is not merely about capital infusion or disinvestment of public sector banks. Allowing institutions such as the RBI, public sector banks, bankruptcy boards, securities and insurance regulators to function freely and professionally is the foundational step to restoring confidence in the financial system. It is critical to allow processes such as the insolvency process to function smoothly without intervention. If there is confidence among people to spend and among bankers to lend, then the private sector will spontaneously derive the confidence to reopen and invest. When firms feel confident of availability of capital and consumers, they do not need much else to kick-start production and investment. Corporate tax cuts, such as the one announced last year, are misguided luxuries that will neither boost private investment nor are fiscally affordable. Knee-jerk reaction such as protection of Indian industry through trade restrictions cannot catalyse economic activity immediately but instead, is a dangerous reversal of established industrial policy that has generated enormous economic gains over the last three decades.

A large direct cash assistance to people, improving capital adequacy of banks and providing credit guarantee schemes for corporates require significant financial resources. Government finances are already stretched with a major shortfall in revenues. New avenues for tax revenues are not feasible in the short term. Higher borrowing by the government is inevitable. India cannot afford to be too fiscally restrained in these distressing times.

Government needs to borrow :

India must make full use of loan programmes of international institutions such as the International Monetary Fund and the World Bank. Our long track record as an impeccable borrower with no default, timely repayments and full transparency make us an ideal borrower for these institutions. However, these will not suffice, and the government needs to borrow more.

Some have opined that India should hark back to the old ways of deficit monetisation by the RBI, also known as printing money. This is understandable given the current unforeseen circumstances. But we must be cognisant of the unhealthy impulses that seemingly free money creates for governments. Deficit monetisation imposes high intangible and institutional costs, as we have experienced in the past. It is perhaps prudent to adopt deficit monetisation as the last resort when all other options are exhausted.

India is confronted with a dangerous trinity of military, health and economic threats. Diverting people's attention from these threats through choreographed events and headlines will not make them disappear. India entered the COVID-19 crisis in a precarious position, with slowing growth, rising unemployment and a choked financial system. The epidemic has manifestly made it more painful.

Setting things right :

It is important to enlarge one's diagnosis of India's economic woes from mere GDP numbers to the underlying sentiments of fear, uncertainty and insecurity prevalent in people, firms and institutions. Restoring confidence in people through direct cash assistance and other welfare programmes can help them live their lives and spend. Restoring confidence among bankers through autonomy of institutions and processes will help them lend. Restoring confidence among businesses with greater access to capital will help them invest and create jobs. Restoring confidence among international organisations by re-establishing the credibility of our institutions will help get funding assistance and objective sovereign ratings.

Without being lured into complacency over illusionary recovery of headline numbers, the path to India's sustained economic revival is through the philosophical pursuits of improving confidence and sentiments of all in our society, using the economic tools of fiscal and monetary policies.

DEFINITIONS:

- ❖ **revive** (verb) – restore, revitalize, renew, bring back.
- ❖ **sustained** (adjective) – continuous, constant, prolonged, steady.
- ❖ **sentiment** (noun) – way of thinking, attitude, point of view, general opinion/belief.
- ❖ **extraordinarily** (adverb) – extremely, unusually.
- ❖ **grip** (verb) – afflict, affect, beset.
- ❖ **ubiquitous** (adjective) – universal, omnipresent, present everywhere, very common.
- ❖ **transcend** (verb) – go beyond, rise above, cut across.
- ❖ **geography** (noun) – region.
- ❖ **lack of** (noun) – absence, deficiency, scarcity, dearth.
- ❖ **exacerbate** (verb) – intensify, increase, heighten, aggravate, worsen.
- ❖ **heightened** (adjective) – increased, intensified, worsen, aggravated.
- ❖ **anxiety** (noun) – concern/stress/tension, unease, apprehension, disquiet.
- ❖ **tremendous** (adjective) – huge, massive, immense.
- ❖ **upheaval** (noun) – disruption, disorder, turmoil.
- ❖ **consequently** (adverb) – as a result, therefore, for this reason, because of that.
- ❖ **social order** (noun) – it refers to a stable state of society in which the existing social structure is accepted and maintained by its members.
- ❖ **inevitably** (adverb) – unavoidably, certainly, definitely.
- ❖ **livelihood** (noun) – means of making a living with the basic necessities (food, water, shelter and clothing); means of support, subsistence, source of income.
- ❖ **unanimity** (noun) – consensus, unison, unity.
- ❖ **no exception** (phrase) – as usual, the same as, to be similar.
- ❖ **buck** (verb) – resist, oppose, contradict, defy, fight against.
- ❖ **decade** (noun) – a period of ten years.
- ❖ **contract** (verb) – decline, decrease, diminish, reduce.
- ❖ **contraction** (noun) – In economics, it refers to a decline in national output as measured by gross domestic product.
- ❖ **merely** (adverb) – only, simply, just.
- ❖ **Gross domestic product (GDP)** (noun) – a measure of economic activity in a country. It is the total value of a country's annual output of goods and service.
- ❖ **slip into** (phrasal verb) – gradually start to be in a bad state or situation; decline, deteriorate, get worse gradually.
- ❖ **shut down** (phrasal verb) – discontinue, cease activity, close.
- ❖ **adversely** (adverb) – unfavourably, disadvantageously, badly.
- ❖ **owing to** (phrase) – because of, as a result of, on account of.
- ❖ **deleterious** (adjective) – harmful, damaging, adverse.
- ❖ **imperative** (adjective) – vitally important, crucial, essential, necessary.
- ❖ **utmost** (adjective) – greatest, maximum, most extreme.
- ❖ **nurse** (verb) – assist, help, encourage, nurture.
- ❖ **slowdown** (noun) – economic decline, recession, slump/depression.
- ❖ **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.
- ❖ **behavioural change** (noun) – (in public health) it refers to efforts put in place to change people's personal habits and attitudes, to prevent disease.
- ❖ **inject** (verb) – introduce, infuse, instil, bring in.
- ❖ **ecosystem** (noun) – complex situation/environment.
- ❖ **entrepreneur** (noun) – businessman, businesswoman, business person.

- ❖ **multilateral** (adjective) – involving many different organisations.
- ❖ **sovereign (credit) rating** (noun) – it indicates the risk level of the investing environment of a country and is used by investors when looking to invest in particular jurisdictions, and also takes into account political risk.
- ❖ **obligation** (noun) – liability, debt, indebtedness; duty, responsibility, commitment.
- ❖ **duress** (noun) – compulsion, force, pressure, coercion, threat.
- ❖ **robust** (adjective) – strong, powerful.
- ❖ **make ends meet** (phrase) – to earn/have just enough money to buy essentials; survive, manage, cope.
- ❖ **enormity** (noun) – hugeness, immensity, magnitude.
- ❖ **despair** (noun) – hopelessness, depression, distress.
- ❖ **fortuitously** (adverb) – unexpectedly, fortunately, luckily.
- ❖ **bedrock** (noun) – core, basis/base, foundation.
- ❖ **in the hands of** (phrase) – in the possession of.
- ❖ **cornerstone** (noun) – mainstay, linchpin, backbone, central component.
- ❖ **normalcy** (noun) – a normal condition; normality, regularity.
- ❖ **perhaps** (adverb) – maybe, possibly.
- ❖ **deter** (verb) – prevent, stop, put off/discourage.
- ❖ **misplaced** (adjective) – misguided, unwise, ill-advised, ill-considered, ill-judged.
- ❖ **workforce** (noun) – workers/ employees available for work.
- ❖ **starve** (verb) – deprive of, strip of, relieve; deny, prevent.
- ❖ **stale** (adjective) – unoriginal, uninspired, hackneyed, banal; outdated/outmoded.
- ❖ **unfounded** (adjective) – groundless, baseless, unjustified.
- ❖ **inordinately** (adverb) – excessively, unduly, unreasonably, immoderately.
- ❖ **prudent** (adjective) – wise, sensible, well judged.
- ❖ **weather** (verb) – survive, withstand, endure, come through, live through (a difficult period).
- ❖ **storm** (noun) – trouble, disturbance, controversy.
- ❖ **look at** (phrasal verb) – study, analyse, scrutinize.
- ❖ **dire** (adjective) – urgent, desperate, pressing, serious.
- ❖ **lubricant** (noun) – lubricating oil/lotion.
- ❖ **measure** (noun) – step, action, course of action, plan of action, procedure.
- ❖ **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).
- ❖ **liquidity** (noun) – the availability of liquid assets; liquidity means liquid assets; cash; (liquid asset is an asset which can be easily sold/converted into cash without losing its value); a measure of activity (i.e. the ability to buy or sell easily) in a market.
- ❖ **enhancement** (noun) – increase, improvement, strengthening, augmentation.
- ❖ **capital infusion** (noun) – introduction of additional funding from successful divisions of a business to the weak division which is not doing well.
- ❖ **bankruptcy** (noun) – legal state of insolvency. An individual or organisation is declared bankrupt if a court judges that the party involved can no longer meet debt payments to creditors. It is defined as the outcome of a legal procedure.
- ❖ **insolvency** (noun) – a condition in which the financial difficulties of an individual or organisation are such it is unable to pay its debts.
- ❖ **securities** (noun) – tradable financial assets/derivatives; investments, shares, holdings, equities, bonds.
- ❖ **lend** (verb) – give credit.
- ❖ **intervention** (noun) – involvement, interference, interposition.
- ❖ **kick-start** (verb) – revive, renew, restore.
- ❖ **luxury** (noun) – blessing, benefit, advantage, boon.
- ❖ **fiscally** (adverb) – financially.
- ❖ **affordable** (adjective) – reasonable, competitive.
- ❖ **knee-jerk** (adjective) – unthinking, unintentional, unplanned.
- ❖ **catalyse** (verb) – to cause/accelerate some action/process.

- ❖ **capital adequacy** (noun) – a measure which confirms that a bank has enough capital in relation to possible losses on loans to borrowers.
- ❖ **stretch** (verb) – put a strain on, put great demands on, overtax, overburden.
- ❖ **shortfall** (noun) – deficit, shortage, inadequacy, deficiency.
- ❖ **avenue** (noun) – way, path, direction (of approaching a problem).
- ❖ **inevitable** (adjective) – unpreventable, unavoidable, certain.
- ❖ **distressing** (adjective) – upsetting, affecting, painful.
- ❖ **impeccable** (adjective) – perfect, stainless, faultless.
- ❖ **default** (noun) – non-payment, failure to pay, non-remittance.
- ❖ **transparency** (noun) – clarity, straightforwardness, openness, clearness, unambiguity.
- ❖ **suffice** (verb) – be enough, be sufficient, be adequate.
- ❖ **opine** (verb) – suggest, put forward, propose, say (an idea/opinion).
- ❖ **hark back to** (phrasal verb) – recall, recollect, think of.
- ❖ **deficit** (noun) – shortfall, deficiency, shortage.
- ❖ **deficit monetisation** (noun) – In layman's language, monetisation of deficit means printing more money. In other words, monetisation of deficit happens when RBI buys government securities directly from the primary market to fund government's expenses.
- ❖ **given** (preposition) – considering, taking into account, bearing in mind.
- ❖ **unforeseen** (adjective) – unpredicted, unexpected, unanticipated.
- ❖ **circumstances** (noun) – situation, conditions, state of affairs.
- ❖ **cognisant** (adjective) – aware, well informed about, familiar with.
- ❖ **impulse** (noun) – (strong & sudden) urge/instinct, compulsion, need.
- ❖ **seemingly** (adverb) – apparently, allegedly, supposedly, evidently, reportedly.
- ❖ **intangible** (adjective) – indefinable, immeasurable, inexpressible.
- ❖ **institutional** (adjective) – procedural.
- ❖ **last resort** (noun) – a final course of action.
- ❖ **exhaust** (verb) – use up, run through, go through, finish.
- ❖ **confront** (verb) – deal with, tackle, face up to.
- ❖ **trinity** (noun) – a group of three things.
- ❖ **choreographed** (adjective) – orchestrated, masterminded, engineered, manipulated.
- ❖ **precarious** (adjective) – uncertain/unsure, insecure, dangerous/risky.
- ❖ **choked** (adjective) – clogged, blocked, obstructed.
- ❖ **epidemic** (noun) – widespread disease/illness; outbreak, plague, scourge.
- ❖ **manifestly** (adverb) – clearly, obviously, apparently.
- ❖ **diagnosis** (noun) – identification, recognition, judgement.
- ❖ **woe** (noun) – trouble, difficulty, problem.
- ❖ **underlying** (adjective) – fundamental, basic, primary.
- ❖ **uncertainty** (noun) – unpredictability, unreliability, riskiness/precariousness.
- ❖ **prevalent** (adjective) – widespread, usual/common, ubiquitous.
- ❖ **autonomy** (noun) – independence, freedom; self rule, self-determination.
- ❖ **credibility** (noun) – trustworthiness, reliability, integrity.
- ❖ **lure** (verb) – tempt, persuade, attract, coax, win over.
- ❖ **complacency** (noun) – carelessness, laziness, laxity, satisfaction; self-satisfaction, self-approval, smugness (excessive pride in oneself).
- ❖ **illusionary** (adjective) – deceptive; misleading, imaginary, unreal, illusory.
- ❖ **revival** (noun) – re-establishment, comeback, reintroduction, reappearance.
- ❖ **pursuit** (noun) – hunt, push, quest, search.