

Lockdown Calls for Bold Steps to Restart Virtually Grounded Economy

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21-days lockdown has multiplied India's economic challenges posed by Covid-19 pandemic. The new challenges are: 1) unprecedented flight of human Capital and 2) record flight of foreign capital from the equity and debt markets. Add to this the enhanced risk of slowing down of foreign direct investment & credit rating downgrades of companies, making difficult for them to raise debt from market at low interest rates.

Factor in alarm on global economic outlook that is becoming louder by the day. Close on the heels of Standard & Poor's observation on 30th March that world economy is heading towards zero growth is the United Nations' warning about negative growth.

As put by UN brief dated 1st April, ***"In the worst-case scenario, the world economy could contract by 0.9 per cent in 2020."***

It adds:

"Global growth could plunge even further if restrictions on movements and economic activities in these economies would extend beyond the second quarter. The world economy contracted by 1.7 per cent during the global financial crisis in 2009."

In the best-case scenario, it projects economy growing by 1.2%, as compared to pre-Covid forecast of 2.5% growth in 2020.

As pandemic is still unfolding, we don't know whether it would necessitate fresh preventive measures or enhance the duration of existing ones in the country. This flux brooks no delay in planning the revival-cum-takeoff path for the virtually grounded economy.

The Government is no doubt responding on daily basis to unveil measures to deal with problems arising from both lockdown & pandemic's payout. We appreciate initiatives such as extending five-year foreign trade policy by a year to avoid uncertainty and solving specific problems faced by different sectors.

These measures, however, do not collectively constitute a post-lockdown plan for revival of economy. The Union Government ought to prepare plan for different scenarios. More than that, it should categorically assure all stakeholders that it would go extra mile to revive the growth process & protect jobs.

A formal statement by Prime Minister Narendra Modi on these lines would go a long way in reviving business & workers' confidence. He should not hesitate in saying that the Government would revise fiscal and revenue deficit targets. He should be open to the idea of revised or mid-course correction of the budget for 2020-21.

We hope the Finance Ministry and Reserve Bank of India are working out plans for enhanced government borrowings, without which economy can't be revived.

A part of the borrowings should be set aside to provide repayment guarantees for debt to be raised by public sector companies & public-private partnership projects. Such guarantees are needed to offset the decline in credit quality resulting from downgrading of credit rating of companies.

Similarly, the Government should allocate more money towards existing credit guarantee funds created for micro, small and medium enterprises as well as for the poor who have no collateral to offer.

The Government should seek formal recommendation of 15th Finance Commission on fiscal solutions for challenges posed by pandemic.

The Government must re-prioritize and re-allocate expenditures to revive economy. It must opt for austerity measures. It should revisit the unimplemented recommendations of Expenditure Management Commission (EMC). We urge the Government to issue an action taken report. EMC's reports ought to be put in public domain.

The Government should explore all options to raise additional revenue without hurting the growth process. It should be open to the idea of tapping black money through an innovative scheme. Difficult times call for moral compromises in the interest of people, especially the poor. It goes without saying that the Government would proactively seek additional loans and grants from multilateral institutions.

We don't want to speculate on the rise in extreme poverty and other levels of poverty due to slow-down, which is now transforming into recession. The poverty is there for all to see. We thus expect the Government to not only unveil additional relief for the poor but also link it with population control.

Leaving aside noises by radical or fringe elements, there is a broad political consensus that unsustainable population load is eating into vitals of economy, environment and quality of life for the masses. The Government should utilize Covid-19 as platform to link public welfare with population control. The poor must be convinced with carrot and stick approach that their future and India's future lies in small families.

This policy initiative can, of course, be deferred till restoration of normalcy, which might happen in 2021-22. What, however, can't be deferred is the transport subsidy for return of workers to their places of work after pandemic begins to diminish.

The foremost priority should be to catalyse deployment of farm labourers for harvesting of mature crops, especially wheat. No crop should be allowed to rot in the fields.