

Ad hoc Jobs & Free Ration good; More Steps Needed to Revive Growth

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PRIME

Minister Narendra Modi has given fresh humane touch to stimulus package unveiled to cope with socio-economic crisis triggered by Covid-19 & lockdown. This should give comfort to those who have been pitching for more fiscal initiatives.

In an address to the nation on 30th June, he announced extension of free ration supply to poor by five months to end-November 2020. This has price tag of Rs 90,000 crore, taking the total allocation on Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) to Rs 1.5 lakh crore since its announcement on 26th March 2020.

This coupled with special 125-days employment generation programme in villages for cities-returned migrants is a good transient arrangement. It is a kind of breathing space for millions who would like to return to urban areas for better jobs and higher income.

Named Garib Kalyan Rojgar Abhiyaan (GKRA), the scheme is being implemented in 116 districts in six states with allocation of Rs 50,000 crore.

The Government has not clarified whether it is different from Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). We don't know whether the allocation is separate from Rs 40,000-crore additional allocation announced under the Rs 20 Lakh crore package.

The left-out States such as West Bengal and Chhattisgarh have already questioned the Centre for their exclusion from GKRA. The fact is that migrant workers have returned in droves to many more districts than 116 covered by GKRA.

No migrant worker should be discriminated against and excluded from GKRA. The scheme's effective implementation is doubtful as it coincides with monsoon season. This is the period when construction work slows down, road works are halted and many villages get flooded.

Simultaneously, the Government should realize that additional infusion of funds into politically wise, welfare initiatives are just one aspect of economic revival.

The Government should thus look beyond patch-work arrangements. It should not delay further roll-out of a definite, time-bound plan to get the economy back on the rails. This is the key to easing the plight of migrant poor - most of whom have been pushed into extreme poverty due to lockdown.

We expect the Government to publicly respond to chorus of alarming studies from different quarters. All of them including rating agencies & International Monetary Fund (IMF) have forecast contraction of economy in 2020-21. The unanimity on negative growth of gross domestic product (GDP) implies limited impact of Rs 20 lakh crore package. This is worrisome.

To make the package effective, the Government should remove impediments. The biggest one is decentralized nature of lockdown and resulting business uncertainty. And uncertainty is more debilitating than hyped fear of death from Covid.

Certain States have announced extension of lockdown by 15-30 days till July-end. One state government has reportedly announced its intent to carry forward lockdown to August. Administrations of certain districts and cities have announced their own and varied orders to enforce mobility restrictions. Lockdown should be confined to red zones only. What is needed is a repeated public call for preventive measures including change of dirty or drenched masks.

The money spent on free availability of masks and free access to sanitizers would be a fraction of the expenditure on make-shift hospitals and treatment of patients.

Ground reality is that lockdown only locks growth and partly succeeds and fails in reining in persons who facilitate spread of virus. Moreover, ever-changing landscape of lockdowns in States can't inspire confidence among the businesses.

Dynamic lockdown rules break manufacturing and supply chains. Many businesses are cautious in resuming operations. Many are hesitant to take fresh loans. Lockdown has effectively contained animal spirits of entrepreneurs.

Even unlocking of lockdown by Centre is riddled with conditions that checkmate ease of doing business. The economic cost of preventing few thousand deaths through lockdown should not be so high as to leave the Nation with no money to pay salaries to medical staff.

We need lakhs of crores for expanding healthcare infrastructure. There is a limit to which the Government can borrow from domestic capital market and multilateral financial institutions.

The country's soaring public debt is a cause for huge concern. It was already well above globally accepted safe level of 60% of gross domestic product (GDP). In its latest update on world economic outlook issued on 24th June, IMF has projected India's **"overall fiscal balance"** (OFB) at minus 12.1% of GDP in 2020-21. This OFB (it perhaps means combined fiscal deficit of the Centre and States) is almost double of - 6.3% for 2018-19.

On 18th June, Fitch Ratings changed its outlook on Indian long-term borrowing rating to negative from stable. On 1st June, the Moody's retained negative outlook while downgrading credit rating. The Government ought to take all these developments seriously instead of creating an impression that we are steering well on the right track.

Fitch expects economy to contract by 5% in 2020-21 due to strict lockdown imposed since 25 March 2020. It expects growth to rebound by 9.5% in 2021-22. **"The rebound will mainly be driven by a low base effect"**, it stated.

We can safely interpret this caveat as deemed caution: the size of economy by end of 2021-22 might well be the same as it was two years earlier. This inference is not intended to promote negativity but to underscore challenges of reviving growth that should be felt by the last man in the queue.

Put simply, the Government must communicate well and in time to reduce economic uncertainty. It should strike a balance between risk of Covid deaths and risk of having little money to fight future pandemics. It must strike a balance between short-term political image and long-term interest of the country.

Livelihood is the only means to a good, dignified life. How long life can be sustained without work and without normal life?