Opinion | Triple trouble: coronavirus, hunger, and the economy

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Back-of-the-envelope calculations suggest that without a massive fiscal stimulus package, India's shutdown with a phased reopening could reduce GDP by around 10% in 2020-21

While pleading for a strong lockdown like many others, I had stated in my *Mint* column of 20 March 2020 that we would know in a month whether India was winning or losing the war against covid-19. We can now say with cautious optimism that India is probably winning it, thanks mainly to the timely and unprecedented nationwide lockdown imposed on 24 March. Given the limited capacity of our healthcare system and our vast population, it was the only safe option. That, plus the heroic efforts of our health workers, essential service providers and police have contained the covid death toll.

However, the lockdown was imposed without proper advance preparation and has triggered a massive humanitarian crisis among migrants and daily-wage workers. Distressing TV images from Surat, Delhi, Mumbai and elsewhere reveal the plight of millions of migrant workers. They have no income, they are not allowed to go home, and many have no food despite the efforts of state governments and voluntary agencies. There are also millions of non-migrant daily wage workers in both rural and urban areas with no income and sometimes no food or ration cards. Unless the Central and state governments quickly get their act together, preventing hunger deaths could soon become a bigger challenge than covid-19. Lurking behind this humanitarian crisis is a massive economic recession triggered by the lockdown.

So the challenge today is not choosing between saving lives and saving livelihoods, but a triple challenge of containing covid deaths, preventing starvation and bracing ourselves against a deep recession. In simultaneously dealing with these three, the Centre has to play an enabling, coordinating and financing role, but the action on the ground has to be undertaken by state governments.

Four key areas require urgent action: the covid-19 battle, food support, income support, and financing these initiatives while bracing the economy against recession.

On the covid front, 414 persons have died in India so far (as of 16 April 2020), and that figure is still rising, but at a declining rate. The number of daily deaths has declined after peaking on 9 April. The curve has started flattening, most successfully in Kerala. The ratio of recoveries to deaths is also rising. Extending the lock down till 3 May provides elbow room to better cope with contact tracing, testing and treating infected patients. Central and state administrations are procuring more testing kits, personal protection equipment and ventilators. As these constraints ease, the curve of daily deaths will continue to flatten then decline, while the ratio of recoveries to deaths is expected to rise.

On the food front, there is a wide gap between policy pronouncements and actual delivery. With a hunger crisis looming, we must cut through agonizing discussions on our targeting options, ration cards, etc. and provide free food support (say, two months' rations) to anyone who asks for it. Marking recipients' fingers with indelible ink, as in elections, would minimize leakage. The public distribution system, supported by local police and administrations,can administer this.

On income support, I have often argued for an untargeted monthly provision of ₹1,000 per household, which would add up to 2% of gross domestic product (GDP) at most. For those who would not be covered by enhancements of some existing scheme, income support should be provided if they line up for it with an Aadhaar card or any other identification, of course with appropriate social distancing. Again, finger-marking with indelible ink would minimize cheating.

A package to restart the economy was announced on 15 April, with some graded easing after 20 April. These supply-side measures are welcome. But we also need to stimulate demand to get the economy going. My initial back-of-the-envelope calculations suggest that without a massive stimulus, the shutdown with a phased reopening could reduce GDP by around 10%in 2020-21.

Providing 2% of GDP extra expenditure for medical equipment and for temporary low-skill health workers, 2% of GDP for income support, and another 1% for extra food allocations would add up to a 5% of GDP fiscal stimulus. West Bengal Chief Minister Mamata Banerjee has recommended a 6%-of-GDP package. The multiplier effect of this 5-6% of GDP stimulus would reduce the recessionary impact of the lockdown significantly.

If GDP declines, it will reduce government revenue even if the existing tax exemptions and concessions are pared. The reduction of non-merit subsidies, totalling 5% of GDP, would at best offset the revenue decline. Hence, a 5-6%-of-GDP fiscal stimulus would have to be financed mainly through extra borrowing. To enable this, the current Fiscal Responsibility and Budget Management limits on Central and state government borrowing will have to be suspended. Under present global conditions, extra borrowings will mainly have to be financed from domestic sources. Such risk-less sovereign debt should be attractive for institutional investors, and its impact on domestic bond yields muted, since private sector demand for funds remains weak. Only in the unlikely event of commercial banks, including public sector banks, declining these bonds should the Reserve Bank of India step beyond its remit and monetize the deficit by directly acquiring them.

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