

COVID-19 and Indian Economy: From rolling down the hill to falling off the cliff*

Jayati Ghosh

This lecture will try to essentially look at the impact of COVID-19 on the Indian economy — though, as we all understand, we are at a point where we don't know anything about a lot of things, as the future seems to be riddled with uncertainties. We don't know about the actual spread of the virus across the country nor do we know about the severity of its attack on the Indian population, and hence, it is quite difficult to talk about its impact on the Indian economy, as it all depends on a lot of other factors, with too many imponderables. But what we do know already is that it is going to have a devastating impact on the economy even if we are able to contain the spread, say within a month, which although is extremely unlikely. That's precisely because already in terms of the response it is an unprecedented event. This is something that has not happened in this age, or since capitalism became global. Hence, there are no analogies that work. People are talking about the Spanish Flu, many are comparing this with demonetisation and the global financial crisis. However, such analogies are unfruitful since this is an unprecedented event that has an impact on both demand and supply, while there is a global slowdown of economic activity. It is unimaginable that the economy is literally shut down. We are in such a situation where we don't know how different elements of the economy would respond because we have never been here before. There is a secession of economic activity. In times of war, you end up being short of demand, you mobilise supplies through any others means and in periods of disease, the supply is affected and it doesn't necessarily affect demand. Financial crisis first hit the finance and then ultimately hit the other sectors, predominantly through demand. So was the case of demonetisation, with the crisis beginning by affecting demand as nobody could transact and therefore there was no demand for all the things that were being produced and distributed. Now we are in an unprecedented situation where there is an attack on both supply and demand, essentially wrecking every sector. The second point to note, thus is that it is generalised across every sector, from transport and trade to services and agriculture. It is not the case that those sectors that deal in international or local movements are only affected, it will have massive repercussions on each and every sector including agriculture. The third point I want to make is regarding the state of today's Indian economy. This crisis is coming on to an economy that has been extremely fragile, being faced with problems of rising unemployment, falling investment, falling consumption and agriculture in crisis. The Indian economy had been at a down-slide facing a lot of these problems unlike in 2008 during the financial crisis when our economy was at a much stronger state. This precisely makes today's situation different in terms of being able to cope. We are going to have generalised collapse in employment, wages and sectors.

When all economic activity stops, nobody is able to demand anything. Apart from basic services and essential commodities all other services are pretty much stopped. Farmers are unable to sell or harvest the crops. Agriculture is in a mess and so is the financial sector. Banking was already facing a crisis with the problem of non-performing loans. We are finding ourselves at a position where nobody is in a situation to pay back. There has to be a moratorium on repayments for a considerable

amount of time. Even if everything comes back to normal in 3 months from now most would still not be in a position to pay back. One other sector is insurance. This is one black swan event that no insurance company is prepared for. People are going to demand some claims, they will be wiped out if they are to give everybody their claims.

Now, coming on to the supply problem, the basic issue at hand the depletion of these essential supplies. How will you ensure the production of your supplies once the stocks are over in a few weeks. What are the plans to continue production of these goods or have we taken any measures to make sure those factories which produce these so called 'essential goods' are in a position to produce. Just identifying essentials and saying we will only produce those is an impossible task. Different industries would require different inputs to produce those goods that are considered to be essential.

It is important to realise that this 21 days lockdown is not a solution. What it does is that it gives you a bit of time before your infections peak. This is the time to step up your preparedness. You have to massively increase your ability to test, for which you have to expand your production of testing kits, test as much as you can so that you can test even those who are asymptomatic. That is what South Korea did. You need to test and let the asymptomatic people carry on with their lives since you cannot keep a complete lockdown forever. It has to be free not because you are doing a favour, but for your public health as you cannot run your health system or economy without knowing who is infected or not. It is a shame that not enough protective kits for those front line medical and sanitation workers are being provided yet are being exported abroad. This is a time to massively ramp up the production of these protective kits. This is also the time to ensure we have enough ventilators for the anticipated increase. Death rates are strongly linked to the availability of ventilators. Hence we need to expand the production of ventilators. We need to ensure enough ventilators, hospital beds, doctors, nurses and paramedical officers. Three weeks is actually a reasonable time to do all of these, if the Government uses this time to take these measures. Government has announced they have allocated 15, 000 crores for the same, which is in my opinion is peanuts. It is simply not enough to take even the minimum measures to expand your preparedness. Not taking enough measures now would be disastrous as you won't be prepared to deal with the virus attack once you finally lift the lockdown. It is critical that this time is used. In terms of public spending, there got to be a massive increase to address these.

The lockdown due to the spread of the contagion is also leading to a livelihood crisis over it being a public health crisis. The generalised lockdown has led to massive unemployment. People have been thrown out of jobs, stripped away of housing since in many cases for informal workers housing is linked to jobs. Most of the self-employed, micro and small enterprise workers have been stripped of their livelihoods. We see the human tragedy unfolding, when people are actually moving to a place of safety where they can at least eat, have a roof over them and would not have to die among strangers. We have seen them being attacked, abused, threatened. There was a terrible case of a group of migrant workers who were sprayed with disinfectants with severe health implications. The same government has provided airline flights and chartered flights to bring people who are elite and privileged from abroad. There is a concern with regard to the inequality regarding the response. Global migrants are

treated extremely differently from local migrants who are mistreated and abused. Informal workers constitute 90% of the workforce, which constitutes up to 400 million people. The impact is particularly huge on the informal workers, among them the women workers are the worst affected and are totally under-prepared to deal with a crisis of this magnitude.

Overall, this is a massive attack on the economy. Remember, we were an economy that was declining, we were rolling down the hill but it was a gentle roll down. Right now, we are falling off the cliff. Now, what do we do with an economy falling off the cliff? You need a combination of immediate demand and supply measures. You cannot increase demand without ensuring goods are being produced. With regard to demand, you need to have massive public spending as we are seeing across the globe where governments are spending 5-15% of GDP. If you don't spend, the economy will slide further and further down. This is not the time to worry about your fiscal deficits. You need an increase in spending of at least 5-7% of GDP immediately to save the economy from a crash. Now where do you spend that money? Immediately provide cash transfers to the needy. To those who are registered under MGNREGA, to those who have Jan Dhan account holders, those who are availing pensions, support the MSMEs and other scheme beneficiaries through the state governments. This will involve actually spending to the tune of around 3% of GDP. This needs to be done to maintain demand which otherwise is plummeting. You need to also ensure people are getting enough food.

The migrants who are stranded who have nowhere to live need cooked food at this moment, over places to stay. Across the country, those who have lost their livelihoods need food to eat while they are maintaining social distancing within their households. I have to say that I hate to use this term social distancing, that is what Indians are so good at and the caste system we have is essentially all about that. I think what we need is physical distancing with social solidarity, sadly we don't have that. The state governments are at a much better position to disburse the money to deal with the crisis because they know who is the most affected. Instead of which, we have a very unequal and unjust response, which is also a tiny response. The package that was announced by the PM, which is of 1.7 lakh crores which also had already existing schemes within it. Essentially, only around 1.2 lakh crores has been newly allocated to deal with the crisis and that is only 0.5% of the GDP, which is a tinkering amount to deal with the crisis of this magnitude. As I told you before, other countries are spending 5-15% of their GDP. What 0.5% of GDP to deal with this, it is nothing. Also, if it is unequally spent and is not going to the needy, then it is going to have disastrous effects with negative multiplier effects that will persist. I would like to elaborate on this negative multiplier effect. We tend to look only at the immediate impact of a particular economic policy, but they have persisting long time effects. What we forget is that the multipliers can be both negative and positive. You remember the impact of demonetisation — it had massive negative multiplier effects. You cut people's ability to spend by de-legitimising money effectively, and that had an impact of more than 6-9 months, since people didn't have money to spend. But it wasn't as if everything was all hunky-dory once money came back into the system. People who lost their jobs and income could not spend and they could not buy basic goods and services, the people producing those goods and services always saw a cut in their incomes as a result and therefore the negative chain continued. Even after three of demonetisation, our economy has not recovered from those. With the

lockdown, we are witnessing a massive collapse of demand and all the negative multiplier effects of that. Even if this only lasts for 3 months, it will have massive negative multiplier effects as people would not have money to spend with continued loss of jobs and employment.

The other policy response has been that of the RBI. As we have seen, the tendency of this government is to inflate the value of what they are doing. For example, Ms. Sitharaman had the goal to declare 20,000 crores to MGNREGA workers as a wage increase but that cannot be considered as a part of this package as it is a natural wage increase since the MGNREGA wages are linked to Consumer Price Index. But again, it assumes that workers are getting 100 days of employment every year but the average national average of days of employment through MGNREGA still stands at 40. This again is with the assumption that public works are going to happen in this period when we do know that is impossible so it is an exaggeration essentially. Now, what about the 3,00,000 crores declared by the RBI, that total amount in terms of various measures could have a maximum impact of that much. Most borrowers, the investors, the traders are not going to borrow to invest at this point. They have declared a moratorium on loan payment. But this again is a voluntary moratorium. Banks and non-banks have to offer those moratorium, but it has to be made mandatory. The RBI has to promise to underwrite the losses for the banks to ensure the moratorium. The Government should declare a moratorium even on GST payments. How can micro and small enterprises pay the GST when there is absolutely no income they are getting since the last two weeks. We require a much bigger fiscal response, with a compulsory moratorium forced upon banks and every other lenders.

Now what are the benefits of this lockdown. As I have said before, the whole point is to maximise our capacity and preparedness to flatten the curve. That requires a massive public spending on our health system. It requires facilities, amenities, equipment to our frontline health — that means an increase in health budget. 15,000 crores is not enough for that, it is totally inadequate. If you put together what a certain political party spends to buy MPs, you are getting that amount of money. It has been an inadequate response so far from the side of the government and It is only to be hoped that pressure will actually force the government to improve their response. It is not about politics anymore. It is about somehow preventing an economic disaster of unparalleled magnitude. This is what is happening within the economy. Now let me tell you what is happening outside our economy, globally. This is already many times worse than the global financial crisis. In the first period between September-October during the crisis, the financial flows to developing countries fell by 25% over that period, which was quite bad. However, the spread of COVID-19 has led to a decline of over 60% of financial flows to the developing countries. Portfolio loans have fallen by 70%, while it was 26% after the financial crisis. The commodity prices have collapsed, exports don't exist practically and there is a generalised breakdown of supply chains. Commodity prices are down by 37%, energy prices have fallen by 55%, agriculture is down by 7% and livestock is down by 15% as a result of this crisis globally in trade. Foreign exchange is already incurring a lot of pressure, with the currency depreciating vastly.

Imports will become more expensive and it will be harder to maintain trade balances. We are witnessing a collapse of remittances as well, as more and more migrant workers are being laid off and have got no incomes as they have lost their jobs,

especially in West Asian countries. Other kinds of financial flows such as the existing debts will be more expensive to be serviced. We have seen currencies collapse, exports collapse and all of this combination means you have to do something globally for developing countries. There is a need for a global plan for significant debt reduction, massive increase in global liquidity, more aid and moratoriums to survive this crisis. Although I'm sure it is an extremely grim picture that I have presented but I believe if the global community and international institutions put in such measures to help the developing countries, they could dramatically mitigate the tragedy that we are going to experience.

Transcript of Prof. Jayati Ghosh's online lecture on coronavirus, lockdown, economy, and the crisis of sudden mass migration, organised by the SFI-JNU Unit on March 31.

The audio of the lecture can be accessed [here](#).

*** This article was originally published at Student Struggle: The Journal of Students' Federation of India on 1 April, 2020.**