

# OPPORTUNITY IN THE CRISIS

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

The current crisis is so terrible in its toll of life and livelihoods that the need of the hour must be minimising the health, humanitarian and economic costs, especially for the most vulnerable. Rising public expenditures to help tens of millions of workers and their families alongside plummeting resources will inevitably force hard choices. Appropriately, much of the policy discussion and the government's first response have focussed on addressing the immediate imperatives. But this crisis is also an opportunity to do things that are not only good for now but for the medium term as well. We discuss a few.

*Revamp macro-fiscal framework:* If the [pandemic](#) follows the exponential trajectory seen in other countries, the crisis is going to entail massive fiscal expenditures, perhaps up to 4-5 per cent of GDP, much more than what the government has announced. Consequently, the basic macro-fiscal framework — for example, the Centre's FRBM target of 3.5 per cent of GDP, and the revenue and deficit estimates for 2020-21 — has been fundamentally overtaken by events. The Centre should immediately announce that even the states will be allowed to exceed their fiscal responsibility legislation targets because they will be in the front line of taking action against the pandemic. The crisis is an opportunity to revisit the entire framework. The focus on unattainable targets, the fact that the FRBM has been honoured only in the breach, and the consequences in terms of loss in budgetary integrity and transparency need serious review, even overhaul. Once the crisis ebbs, India might be looking at overall deficits well in excess of 10 per cent and debt levels much greater than those today. If the starting point is going to be so different, do the old goals and targets retain meaning?

*Remake finance:* Going into the crisis, India's corporate and financial sector were under severe stress — the so-called Four Balance Sheet problem. This crisis will unfortunately add consumers and small and medium enterprises to that list. This will be an extremely hard — but critical — problem to address. To allow banks to revert to normalcy, a largescale takeover of their bad loans will be unavoidable not least because the current bankruptcy process will be severely inadequate. In addition, this crisis opens the door for the new lending model proposed by Nandan Nilekani — technology-driven lending that uses data rather than collateral, allowing the 10 million-odd businesses with deep digital footprints (for example, based on GST invoices), to get loans from the thriving ecosystem of new financial players.

*Complete JAM:* One of the major achievements of this government was to create the plumbing — Jan Dhan, [Aadhaar](#), and Mobile (JAM) — to augment weak state capacity. The state could now make cash transfers swiftly, with reduced leakages, whether as income support, scholarships or pensions, and potentially eventually implementing a [Universal Basic Income](#). In the current crisis, it is proving to be an important part of the social safety net that is helping to cushion the most adversely affected groups. But the JAM plumbing is still incomplete because there is a "last mile problem". Not all those with bank accounts can access money either because of difficult geography or because bank functionaries give incomplete or misleading information. This crisis is an opportunity not just to leverage JAM to enhance cash transfers, but to empower citizens. This will require the government to identify remaining weaknesses on a war footing and fix them.

*Re-shape Indian agriculture:* The need to preserve supply chains in agriculture in times of crisis reinforces the need to create one market for agriculture across India. This requires eliminating legislation like the Essential Commodities Act and the panoply of resulting restrictions. Second, the crisis has shown the possibilities created by JAM and direct transfers. Building on PM-Kisan

and various state level schemes, pernicious subsidies, especially for fertilisers and power, could be phased out over 5-6 crop cycles. This could be done through small but frequent increases in fertiliser prices (the technique used to eliminate fuel subsidies). Advance communication to farmers along with compensating cash transfers can help build trust and confidence.

*Make in India:* A macabre joke referring to the origins of the [coronavirus](#) was that everything, even death, was Made in China. But the critical source for almost all the essential Active Pharmaceutical Ingredients (API) used to manufacture drugs, the ability also to fight death, is largely made in China. India was once a major producer of such APIs but lost ground to China. The crisis should be the opportunity to go on war footing to do intelligent industrial policy — incentives, regulatory help, trade policy — that would resurrect India's manufacturing capability. Previous Make in India attempts have shown lackadaisical results. The crisis creates the momentum to focus the effort on one sector, pharmaceuticals. As a result, the ability to save lives could be Made in India, again.

*Establish migrants as full citizens:* The crisis has highlighted the travails of migrant labour and their second-class status. It reflects a broader chasm between the few securely employed in the organised sector and the vast majority subject to the vicissitudes of the unorganised sector. Differences not just in the levels of income but in their volatility as well as differential access to social insurance (healthcare, pensions) distinguish these two classes.

The plight of migrant workers reinforces the need to move from immobile place-based benefits to mobile person-based benefits, which is possible as the JAM infrastructure is strengthened. This will require portability of benefits, including access to the PDS, Ujjwala and Ayushman Bharat.

*Upgrade Health:* State capacity over 70 years in India has been weakest in the areas of education and health. The [COVID-19](#) pandemic must lead to a serious strengthening of the health infrastructure for dealing with pandemics. To start with, India needs an apex institution like the US' Centers for Disease Control with a network across all the states. They should invest in disease surveillance systems, set up diagnostics labs, be able to gather real-time data and analyse them etc. The Taiwan model, which has been so successful in this pandemic, could be studied. More fundamentally, the crisis is a wake-up call to address India's severe limitations in the provision of basic health. Creating tertiary health facilities must be subservient to strengthening basic public health and early childhood care.

*Build National Solidarity Fund:* The severe downturn in economic activity ahead will savagely hit the informal poor. But it will also reveal how much they are central to the comfortable lives of the salaried classes and wealthy. If there was ever a time for the latter to demonstrate their solidarity with those providing the essential services they so depend on — from maids to drivers and farmers to construction workers — it is now.

The government should consider a Solidarity Fund with a one-time annual contribution coming from the wealthy and the employees in the organised sector. This contribution can take the form of taxes or elimination of middle-class subsidies identified in the Economic Survey of 2016. The wealthy could contribute via a wealth tax with thresholds set by property values say above Rs 5 crore. Salaried employees in the public and private sectors could contribute via a small, progressive tax on salaries and pensions. Middle class subsidies that could be eliminated include interest and tax deductions for small savers, favourable taxation of gold and other luxuries. Wealth taxes and elimination of subsidies for the rich should in any event be part of the long run reform agenda to reduce growing inequality.

These examples illustrate how crisis can be converted to opportunity to fundamentally

strengthen the Indian economy, and protect the vulnerable. A common thread to many of these actions — indeed prerequisites for their success — is cooperation between the Centre and states. Central direction combined with flexibility and nimbleness in the states and local bodies is India's way through the crisis and beyond.

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Here's a quick [Coronavirus guide](#) from [Express Explained](#) to keep you updated: [What can cause a COVID-19 patient to relapse after recovery?](#) | [COVID-19 lockdown has cleaned up the air, but this may not be good news. Here's why](#) | [Can alternative medicine work against the coronavirus?](#) | [A five-minute test for COVID-19 has been readied, India may get it too](#) | [How India is building up defence during lockdown](#) | [Why only a fraction of those with coronavirus suffer acutely](#) | [How do healthcare workers protect themselves from getting infected?](#) | [What does it take to set up isolation wards?](#)

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