

A PLAN TO REVIVE A BROKEN ECONOMY

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

The Prime Minister has just announced [Lockdown 4.0](#). Despite some resulting increase in economic activity, vast numbers of working people will remain without their regular incomes. He also announced [a package of 20 lakh crore](#), but this includes already allocated money of 6-lakh crore and monetary policy directives to banks and non-banking financial companies. The [announcements by the Finance Minister](#) thus far involve no additional public spending, even though this is urgently required to revive the economy and prevent further contraction. Here we discuss what the government should do immediately in fiscal terms for reviving the economy and supporting livelihoods.

The economic fallout of COVID-19

The immediate need is to provide free food and cash transfers to those rendered incomeless. Providing every household with 7,000 per month for a period of three months and every individual with 10 kg of free foodgrains per month for a period of six months is likely to cost around 3% of our GDP (assuming 20% voluntary dropout). This could be financed immediately through larger borrowing by the Centre from the Reserve Bank of India. The required cash and food have to be handed over to State governments to make the actual transfers, along with outstanding Goods and Services Tax compensation.

This is easily doable for several reasons. First, foodgrains are plentiful, as the Food Corporation of India had 77 million tonnes, and *rabi* procurement could add 40 million tonnes. Second, because of the lockdown restrictions, the multiplier rounds of such expenditure are heavily truncated at present and would not generate as much demand as in normal times. Third, cash transfers in many spheres will only enable current demand to continue (such as payment of house rent to continue occupancy) and not create any fresh demand. Fourth, when greater normalcy finally allows pent-up demand to surface, output could also expand because of resumed economic activity. Finally, putting money in the hands of the poor is the best stimulus to economic revival, as it creates effective demand and in local markets. Hence, an immediate programme of food and cash transfers must command the highest priority.

But the post-lockdown world will be different for several reasons. First, millions of migrant workers have endured immense hardships to trudge back home, and are unlikely to return to towns in the foreseeable future. Employment has to be provided to them where they are, for which the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) must be expanded greatly and revamped with wage arrears paid immediately. The 100-day limit per household has to go; work has to be provided on demand without any limit to all adults. And permissible work must include not just agricultural and construction work, but work in rural enterprises and in care activities too.

The revamped MGNREGS could cover wage bills of rural enterprises started by panchayats, along with those of existing rural enterprises, until they can stand on their own feet. This can be an alternative strategy of development, recalling the successful experience of China's Township and Village Enterprises (TVEs). Public banks could provide credit to such panchayat-owned enterprises and also assume a nurturing role *vis-à-vis* them.

Also read | [Getting cash transfers out of a JAM](#)

The second change is the palpable unsustainability of the earlier globalisation, which means that

growth in India in the coming days will have to be sustained by the home market. Since the most important determinant of growth of the home market is agricultural growth, this must be urgently boosted.

The MGNREGS can be used for this, paying wages for land development and farm work for small and medium farmers; apart from government support through remunerative procurement prices, subsidised institutional credit, other input subsidies, and redistribution of unused land with plantations. Agricultural growth in turn can promote rural enterprises, both by creating a demand for their products and by providing inputs for them to process; and both these activities would generate substantial rural employment.

Coronavirus lockdown | [Only 30 lakh found MGNREGA work in April](#)

In urban areas, it is absolutely essential to revive the Micro, Small and Medium Enterprises (MSMEs). Simultaneously, the vast numbers of workers who have stayed on in towns have to be provided with employment and income after our proposed cash transfers run out. The best way to overcome both problems would be to introduce an Urban Employment Guarantee Programme, to serve diverse groups of the urban unemployed, including the educated unemployed. Urban local bodies must take charge of this programme, and would need to be revamped for this purpose.

“Permissible” work under this programme should include, for the present, work in the MSMEs. This would ensure labour supply for the MSMEs and also cover their wage bills at the central government’s expense until they re-acquire robustness. It should imaginatively also include care work, including of old, disabled and ailing persons, educational activities, and ensuring public services in slums.

These measures are in direct contrast to those that seek to entice private investors by easing labour laws. The humanitarian crisis of the lockdown reveals the imperative for more, not less labour protection. Such measures, far from reviving investment or employment, would also further reduce domestic demand.

Also read | [Parties protest against labour law dilution](#)

The pandemic has underscored the extreme importance of a public health-care system, and the folly of privatisation of essential services. The post-pandemic period must see significant increases in public expenditure on education and health, especially primary and secondary health including for the urban and rural poor.

The “care economy” provides immense scope for increasing employment. Vacancies in public employment, especially in such activities, must be immediately filled. Anganwadi and Accredited Social Health Activists/workers who provide essential services to the population, including during this pandemic, are paid a pittance and treated with extreme unfairness. We must improve their status, treat them as regular government employees and give them proper remuneration and associated benefits, and greatly expand their coverage in settlements of the urban poor.

These could easily come within the total package announced by the Prime Minister, which could be financed by printing money. But in the medium term, public revenues must be increased. This is not because there is a shortage of real resources which, therefore, has to be taken from other existing uses through taxation. Rather, since much unutilised capacity exists in the economy, the shortage is not of real resources; the government has to just get command over them.

[Data | 96% migrant workers did not get rations from the government, 90% did not receive wages](#)

[during lockdown: survey](#)

A combination of wealth and inheritance taxation and getting multinational companies to pay the same effective rate as local companies through a system of unitary taxation will garner substantial public revenue. They will also reduce wealth and income inequalities which have become horrendous. A 2% wealth tax on the top 1% of the population, together with a 33% inheritance tax on the wealth they bequeath every year to their progeny, could finance an increase in government expenditure to the tune of 10% of GDP.

It would be argued that this might cause large financial outflows, which the country can ill-afford. Contrarily, even foreign capital is more likely to be attracted to a growing economy than one in sharp decline because of lack of stimulus. Also, a fresh issue of special drawing rights by the International Monetary Fund (which India has surprisingly opposed along with the United States) would provide additional external resources.

[Data | An estimated 12.2 crore Indians lost their jobs during the coronavirus lockdown in April: CMIE](#)

These additional resources, we estimate, would suffice to finance the institution of five universal, justiciable, fundamental economic rights: the right to food, the right to employment, the right to free public health care, the right to free public education and the right to a living old-age pension and disability benefits. The broken economy must be rebuilt in ways to ensure a life of dignity to the most disadvantaged citizen.

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