

A MATTER OF RELIEF: ON ECONOMIC STIMULUS PACKAGE

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

With the [announcement of the final tranche](#) of [Atmanirbhar Bharat Abhiyan, the COVID-19 relief package](#), a pattern to the government's approach is visible. And that is to give a strong supply-side push by boosting availability of capital on easy terms, keep income and wage support schemes to the minimum, empower constituencies ranging from farmers and workers to businesses, and finally, the most important, keep the damage to the fisc as low as possible. [The fiscal impact of the 20-lakh crore package](#) is estimated by economists at between 2-3% of GDP and that includes drawals from provisions already made in the Budget for this fiscal. The pillar on which the package rests is liquidity support so that businesses can crank up again and set the economic cycle back in motion. The option of a demand-side stimulus through a resort to deficit financing seems to be reserved for a future date if the infection does not subside or a second wave begins prompting another lockdown. The problem with this approach is that there is a desperate need for demand stimulus now. A strategy to drive consumption by, say, suspending GST for a couple of months or at least cutting rates temporarily, combined with a liquidity boost may have worked better under prevailing conditions. The Centre's problem is that its revenues are a fraction of what it would have been in a normal situation but even given this handicap, a fiscal stimulus could have been fitted into the overall package. After all, there is something to be said for the strategy of cutting taxes and riding on the ensuing consumption boost that could bring in revenues to compensate for the cut.

[The government has done well in increasing the budget for MGNREGA by two-thirds](#), adding another 40,000 crore. With migrants now returning to their villages, MGNREGA can be leveraged to keep them occupied with meaningful work. The demand of States for higher borrowings limit has been granted but with clear reform milestones that they have to meet. It remains to be seen if States are enthused to fall in line. The government has also used the opportunity to unleash some much-needed reforms in agriculture marketing, open up more sectors for private participation, enhance foreign direct investment in defence, corporatise the monolith Ordnance Factory Board and so on. How much of these announcements of intent are followed through seriously will have to be watched. In sum, the package has several notable features not all of which are COVID-19 relief. While it is impossible to satisfy all sections of society, especially in a pandemic situation, it has to be said that the government has taken a huge gamble by refusing to borrow and spend more on boosting demand. If the strategy of boosting supply works, it is fine. But if it does not, the government will be faced with a bigger problem down the line.

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