ANALYSIS ECONOMY

Government Intervention, Yes, but Make it More Decentralised and Digitally Inclined

A panoramic view shows migrants waiting to board buses to reach Ghaziabad railway station as part of their journey to travel to their native places. Photo: PTI

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As economists we frequently have to encounter this question, "How long will it take for the economy to crawl back to normalcy?"

As India nears the end of Lockdown 4.0, the popular mandate is not another round of lockdown. The decision to enforce a nationwide lockdown must be viewed against the backdrop of the abysmal state of the country's health infrastructure. According to the latest data available, India has 0.9 hospital beds and 0.7 doctors for every 1000 people, against the WHO recommendations of 1.9 hospital beds and 1 doctor per 1000 population. Moreover, India did not have adequate testing kits and administering the test is costly, with private laboratories charging up to Rs 4500 per test (although the ICMR now says the situation has improved). Notwithstanding these limitations, the lockdown measures are badly affecting the livelihood of India's 120 million migrant and informal workers, and therefore the rationale of opening up the economy.

Presently, most commentators argue, there is a prevalence of demand and supply-side shocks. Demand has fallen because of a lack of jobs, and loss in livelihood. Supply-side disruption is arising as firms have stopped manufacturing and imports from intermediate inputs, especially from China has taken a toll, affecting sectors such as pharmaceutical and automotive.

For the economy to revive, these demand and supply-side shocks need to be addressed simultaneously. Some economists and national leaders are advising for financial assistance. Usually, money transfer works as a temporary redistribution scheme when there is no lack of supply goods, but in this case, supplies are constrained by the lack of production and more importantly because of a broken supply chain.

A few days back, cyclone Amphan, by destroying crops, has disrupted the agri-supply chain in the eastern part of India. With a limited supply, as one is witnessing during the period of lockdown, and with the prevalence of natural disasters, giving money may not help. There may not be enough goods and services available for purchase, and even if they are, may prove too costly for any individual to purchase. It is to be noted, in the financial package, the Central government has merely frontloaded income grants for small farmers and has given social security pensioners a one-time additional payment of a meagre Rs 1,000.

Every cloud has its silver lining

At the time of subdued economic activity, the government revenue collection falls and there is a limit to which the government can spend money. Overshooting fiscal deficit is possible, but that comes with the cost of future inflation and a downgrade of a national sovereign rating. The silver lining is India's large middle-class population. The lockdown has forced them to save the most part of their income. Middle-class people are saving more, on account of staying back at home and a limited consumption choice available during the period of lockdown.

There is a pent-up demand for goods and services, waiting to be unleashed once the lockdown ends. This is kind of a private stimulus, and some of the discretionary consumer spending space such as automobiles, refrigerators and air conditioners are likely to see some benefit.

Credit guarantee: will it pay-off?

Supply-side measures, such as giving credit guarantee to micro, small, and medium enterprises (MSME) may be a dangerous move. It can be a recipe for future default as some of these products may not be in demand. In the event of a structural change in demand, with people getting accustomed to online and digital services, some businesses will find it hard to survive.

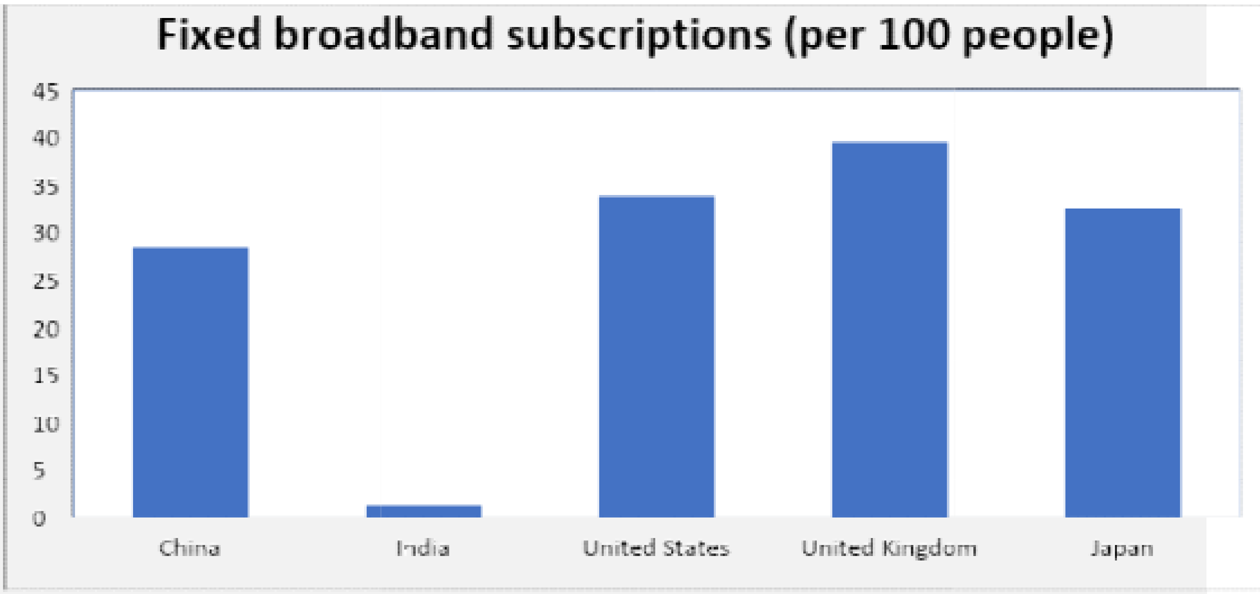
For example, the US real price index (price index adjusted for wage rate) has suffered a sharp contraction during the last three months, suggesting a decline in price, and/or decline in the basket of goods consumed. With labour becoming relatively costly (health hazard or otherwise), the production process will be more automated. There will also be an agglomeration of business activities. IKEA, for instance, is clubbing their furniture, warehouse, and restaurant business under one umbrella. Consumers are shifting to products that are more healthy and trustworthy in consumption. Given these changes, funding MSME may be a bad choice and create a lot of zombie firms sitting on idle capital and resources. As history would suggest, in West Bengal, the collapse of demand for jute bags created zombie jute mills that were kept alive by government handouts. Some of these mills could have innovated new products but lacked incentive because of government subsidy.

The alternatives: A digital rural sector

Historical data gives an idea of income elasticity of demand (read, change in demand for a given change in income) by sectors. Food is essential and has low-income elasticity. However, for a large section of India's middle-class, there is a demand for high-value food items (organic fruits and vegetables) and processed food items (restaurants and takeaways). COVID-19 has given an excellent opportunity for this section of the farm sector.

The migrant workers who have returned from cities carry with them higher soft and hard-skill sets. Capital will be mobile if there is government clarification, and can be used for setting up smaller food processing units and cloud restaurants. With scale, these services can be price-effective and income-elastic. Governments of Uttar Pradesh, Telangana, Kerala and Madhya Pradesh, among others, have shown the way for setting up various food processing units and digital-based services. The recent announcements by the Central government, for reforming the APMC Act (1963) and ESI Act (1948), are steps in the right direction.

The digital rural economy is going to be the new 'in thing' if the government really wants to see a prosperous Bharat. India compared to its peers (in terms of the overall size of the economy) lags behind when it comes to digital connectivity.



Source: World Development Indicators (2020).

Digitally enabled migrant workers

Fixed broadband subscriptions per 100 people are lowest in India in comparison to China, the US, the UK and Japan. It is time for the government to give a leg-up on the connectivity problem; not just in physical infrastructure but digital infrastructure. One of the reasons for migration to cities (apart from income) is better healthcare and education. Some of the returning migrant workers, especially the women, would have digital skills and expertise and can complement government initiatives in telemedicine.

Likewise, digitally-enabled distance education can be easily operated with some of these tech-savvy migrants workers helping to connect with some of the bigger schools and universities in the urban areas. Fibre optic cable networks can be laid out using the build-operate-transfer model under the public-private partnership. This will vastly improve connectivity, in terms of business (video conferencing with clients in urban areas) and human development (connection with online lectures and better quality medical advice). The multiplier effect of government expenditure on the fifth-generation wireless network will be manifold higher, and much more equitable than doling out other types of subsidy.

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