Lives, Livelihoods and the Economy: India in Pandemic Times

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The objective of this essay is to analyze the implications and consequences of the COVID-19 pandemic for lives, livelihoods and the economy in India. Its focus is on two propositions. First, it argues that saving lives and preserving livelihoods are imperatives, since both taken together shape the well-being of people, and it is for the government to reconcile these objectives instead of letting it be posed as an either-or choice creating a false dilemma. Second, it discusses how the draconian and prolonged lockdown has dealt a crippling blow to the economy placing a disproportionate burden on the poor, while the grossly inadequate response of the government has made the task of recovery even more difficult.

1 Lives and Livelihoods

The draconian nationwide lockdown in India started on March 25, 2020. It was meant to end on 14 April, but was extended three times until 3 May, 17 May and 31 May.

For governments everywhere, more so after the experience of Italy, Spain, the UK and the USA where governments did too little too late, imposing and continuing lockdowns was the obvious risk-averse strategy. If the spread could be restrained and managed, the success would bring political dividends. If the spread continued unabated or worsened, the microbe would take the blame for the failure. It became the equivalent of a one-way option in financial markets, tempting political leaders to think that they could not lose. This became even more attractive over time as it conformed to herd behavior by governments worldwide. Exit from a lockdown, then, posed a real dilemma for governments. It called for decision making under high uncertainty, requiring courage that needs both conviction and confidence.

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This dilemma becomes larger than life when governments emphasize saving lives in a pandemic as their primary if not sole objective. Of course, the objective of saving lives is, in itself, unexceptionable. But it must also be recognized that the health of people and the health of an economy are interdependent, where both, taken together, shape the well-being of people. Thus, saving livelihoods is an equally important objective. In fact, the relationship between lives and livelihoods is circular. If lives are saved and, in doing so, livelihoods are sacrificed, it threatens lives of people who are deprived of incomes and hence unable to meet their basic human needs. This could lead to widespread hunger, reduced immunity and lost lives. Obviously, getting sick and going hungry cannot be an either-or choice. Everyone would want to stay healthy and be well fed. It is the role of governments to strike a balance and reconcile these two objectives, rather than juxtapose them as conflicting requiring a choice to be made.

The lockdown shut down almost two-thirds of the economy, and the collateral damage was enormous. It stranded 25–30 million migrants in cities far away from their homes, deprived of their work and dignity, at the mercy of food and shelter provided by State Governments or charities, often hungry and homeless, creating an unprecedented humanitarian crisis. Manufacturing, mining, construction, trade, hotels & restaurants, and transport, which account for more than 40% of both output and employment, were shut down completely. Thus, 150 million people, as much as one-third of the total workforce, who are casual labor on daily wages or workers in informal employment without any social protection, were deprived of their livelihoods. Much of this burden was borne by the poor, often self-employed, who constitute 75% and 50% of rural and urban households, respectively. The impact on micro, small and medium enterprises (MSME), which account for 32% of output and 24% of employment in India, has been devastating. Thus, for poor households and small businesses, survival was at risk. Healthcare for patients, except for those with COVID-19, diminished sharply in terms of both access and quality. In education, learning outcomes, which are already poor, are bound to get worse since schools as colleges remain closed.

The devastating impact of the lockdown on livelihoods, and the well-being of people, could not be ignored for long. The government recognized, albeit reluctantly, that a lockdown is not a weapon in a war that could conquer or vanquish the microbe, so that the virus had to be managed. The unlocking process started hesitantly around 8 June. In substance, however, the lockdown continued until end-June, as several State Governments continued the lockdown, while the embargos were lifted very slowly elsewhere. Some restrictions were lifted on 1 July, but the lockdown continued to be stringent on the movement of people and in many other respects. Thus, for more than four months, India's 1.3 billion people were subjected to perhaps the most draconian lockdown in the world. Further, relaxations were introduced on 1 August. But schools, colleges, educational institutions, cinemas, theaters, entertainment places, bars and auditoriums remain closed. Metro rail systems in cities continue to be shut down. Restrictions on passenger trains, domestic flights and international travel remain. The economy that had almost shut down has begun to limp forward, but it will be quite some time before it can walk let alone run or hum with activity.

On March 22, 2020, just before the lockdown was imposed, the cumulative total number of infections was 360 and the number of deaths was a mere 7 (Ministry of Health and Family Welfare, India). On August 8, 2020, the cumulative total number of infections was 2.15 million (the third highest in the world after the USA and Brazil), while the number of deaths was 43,453 (the fifth highest in the world after the USA, Brazil, Mexico and the UK ¹). It is almost impossible to provide a counterfactual on what this number of infections and deaths would have been in the absence of a lockdown. Yet, it is clear that the draconian lockdown in India did not achieve its expected objective of mitigating the spread of the virus.

All the same, in the global context, India has not been a disaster story, as it was in the Spanish influenza in 1918, when it accounted for 18–20 million deaths of the estimated 50 million deaths in the world. On August 8, 2020, it accounted for 10.8 percent of the total infections and 6 percent of total deaths in the world compared with its share of 18 percent in world population. Cumulative totals of infections and deaths on the same date show that the case mortality rate in India was 2 percent compared with 3.7 percent for the world. Similarly, on August 7, 2020, the cumulative total number of Covid-19 deaths per million population in India was 31 (ranked 68 among 152 countries), as compared with 698 in the UK, 610 in Spain, 582 in Italy, 488 in the USA, 470 in Brazil, 450 in France, 400 in Mexico and 101 in Russia (statista.com/statistics). It would seem that morbidity and mortality associated with Covid-19 in India have been lower than elsewhere in the world particularly in comparison with rich countries.

This counterintuitive outcome deserves some explanation. The impact of diseases can and does differ across countries and continents, possibly attributable to differences in demographics, geographies, cultures and immunities. India has a much younger population than rich countries, so that the proportion of vulnerable people older than 65 years is far lower. Given that microbe was carried by people who had been abroad, the spread of infection was much less in the geographically distanced hinterland of rural India, and among the socially distanced urban poor, despite community transmission.

It has been suggested that countries such as India which have mandatory BCG vaccinations are less susceptible to COVID-19 infection because the vaccine has a stimulating effect on the immune system that goes well beyond tuberculosis. There are similar results derived from research on the polio vaccine. The conventional assumption is that vaccines create antibodies against specific pathogens. But immunologists have discovered that live vaccines also stimulate innate immune systems creating capacities to better resist, or fight, other kinds of pathogens too. This notion of immune protection against multiple pathogens is being developed by immunologists. This possibly exists in immune systems of people in India, which have antibodies that could be effective in resisting the virus. After all, millions of migrants stranded in megacities or relief camps crowded in cramped spaces—the polar opposite of social distancing—did not catch the virus through contagion in large numbers. Similarly, the significant number of people who have tested positive

¹ worldometers.info/coronavirus/#countries

for COVID-19 but are asymptomatic suggests that they have some innate immunity which helps resist the virus.

In addition, the loss of life attributable to the coronavirus must be situated in perspective. In India, on August 8, 2020, the total number of COVID-19 deaths were 43,453. In sharp contrast, every year, 720,000 people die from diarrheal diseases, 750,000 people die from respiratory infections, 450,000 people die from tuberculosis, while 420,000 people die from digestive diseases ². As many as 800,000 infants die every year, before reaching the age of one year, mostly due to easily preventable causes like pneumonia or diarrhea. Yet, there has been no mission mode response to any of these causes of large number of deaths recurring every year.

In retrospect, it is clear that the lockdown was premature, imposed at a stage when the number of infections and deaths was miniscule. Moreover, the draconian nationwide lockdown was announced, at very short notice, without adequate thinking let alone planning in terms of implementation. The unprecedented humanitarian crisis for millions of migrants in cities who lost their livelihoods at a stroke was the most tragic among its unintended consequences. The contraction in output and employment that followed placed much of the burden on the poor and the vulnerable without any form of social protection. The abrupt shutdown strangled the economy, the consequences of which will be felt for a long time to come. It is not clear how many lives it saved. But millions of people who lost their livelihoods were deprived of their well-being, while the survival of a large proportion was put at risk. Ultimately, it did not even slowdown the spread of the pandemic. Four months later, it is plausible to argue that a planned and strategic lockdown, selective in terms of geographical space and phased in terms of time instead of the entire country for the entire period, specified for states, regions cities, containment zones and hot spots, would have been far more effective in terms of managing the virus, and much less inequitable in terms of its social costs. It could also have minimized the damage to the economy. Such a strategic and selective approach was adopted by several Asian countries that managed the virus with success.

2 Economy in Deep Crisis

The economy, already in a downturn before the pandemic surfaced, is hurt as much as the people, even if the whole is somewhat different from the sum total of the parts. Economic performance has been battered by the contraction of output on the supply side and contraction of employment on the demand side. The consequences will extend much beyond this initial impact, as supply and demand inter-act at a macro-level. The impact on output and employment will be negative and will be magnified by multiplier effects. The contraction in employment will multiply through the decline in incomes and purchasing power, reducing output and employment elsewhere in the economy through successive rounds of the same multiplier mechanism. Recovery of production systems and supply chains

² www.healthdata.org/gbd

after the lockdown will take time, because economies are not like taps that can be turned off and on.

Clearly, even after the lockdown ends completely, the economic crisis will run deeper than anything experienced so far in independent India, while its intensity will depend on the speed and duration of the unlocking process. Stabilization is the immediate task of the government. The meaning of stabilization in economics is much the same as in medicine: just as medical treatment seeks to stabilize the health of a patient in critical condition, economic management needs to stabilize an economy in deep crisis.

The short-term focus would have to be on households on the demand side and firms on the supply side. Survival through the crisis is essential for the return of poor households and small firms to economic activities.

The poor, identified as 50% and 75% of urban and rural households, respectively, should have been provided with cash support of Rs. 6000 per month for at least three months (equivalent of MNREGA wage at Rs. 200 per day), if not longer, instead of the miserly cash transfers for women and senior citizens, a total Rs. 1500 and Rs. 1000 each, respectively, for three months. In addition, the supplementary free ration of 5 kg wheat or rice and 1 kg of pulses per month for three months, about one-tenth of household needs per month, was much too little. This could and should have been tripled, since government stocks of wheat and rice exceeded stocking norms by 55 million tonnes.

Micro-, small and medium enterprises, which are the backbone of the economy, provide one-fourth of employment, one-third of output and more than two-fifths of export earnings in India, are overwhelmed by problems. Payment of wages to workers is almost impossible. Fixed costs, on electricity, rent and interest, have to be met. There are inventories of inputs that cannot be used and outputs that cannot be sold. Working capital is exhausted. Reviving production is easier said than done. The only relief provided by the government is a Rs. 3 trillion line of credit for loans without collateral. But such loans are neither automatic nor assured. And this credit line is simply cannot suffice because buyers, including the central and state governments, owe MSMEs as much as Rs. 5 trillion.

Such support at a micro-level for survival must be combined with support at the macro-level through fiscal and monetary policies for recovery. It is essential for the government to set aside its conservatism, bordering on fetishism and provide an extra fiscal stimulus of at least 5% of GDP, in addition to the existing fiscal deficit that would probably turn out to be more than the budgeted 5% of GDP. The enlarged fiscal deficit cannot be financed by market borrowing, which would simply drive up interest rates and nip recovery in the bud. It would have to be financed by monetizing the deficit—RBI buying government T-bills—printing money, now described as ‘helicopter money.’ Monetary policy would need to bring down interest rates by at least 2 percentage points, plus quantitative easing through RBI lines of credit to banks to assist large firms, particularly in distressed sectors such as construction, automobiles, airlines, tourism and hospitality, *inter-alia*, by restructuring debt.

It is clear that the design of the government’s relief package seeks to focus on the supply side, with an emphasis on providing liquidity through lines of credit extended

by the Reserve Bank of India, rather than on the demand side by stepping up government expenditure, with the aim of minimizing the cost to the government.

The stress on the supply side, while neglecting the demand side, reveals a flawed understanding of economies in crisis and little recognition of the reality in which a prolonged lockdown has brought the economy close to the edge of collapse. Even in normal circumstances, the speed of adjustment on the supply side is slow because supply responses take time, whereas the speed of adjustment on the demand side is fast as incomes spent raise consumption demand without any time lag. If there is little or no increase in demand, supply responses will be slower than usual because producers will not wish to pile up inventories of unsold goods. In terms of the chicken-and-egg parable, demand must be revived first to kick-start the economy.

For this reason, the extra fiscal stimulus in this crisis year, 2020–21, should have been much larger than a mere 1 percent of GDP. Its contribution to domestic demand will be miniscule, given that private final consumer expenditure, about 60 percent of GDP, will be squeezed by the contraction in employment and incomes. If there is no further intervention by the government, GDP will contract by at least 10 percent, possibly more, in 2020–21. This would be much worse than the worst year in Independent India so far, 1979–80, when GDP growth was 5.2%.

Orthodox thinking, obsessive about fiscal deficits, so deeply embedded in the government suggests the absence of even the most rudimentary understanding of macroeconomics. It also reveals an utter failure to recognize that we live in unprecedented, extraordinary, times with the world economy in a crisis that could run deeper than the Great Depression ninety years earlier. The idea that monetized deficits would lead to inflation is blind to the reality of a deflationary stagnation. The worry about a downgrade from credit rating agencies, which have witnessed a steady erosion of their ethics and integrity, is just bizarre.

Those who worry about the consequences of such expansionary macroeconomic policies should provide their alternative for recovery, while the government should worry about the consequences of not doing this. If the economy is in free fall, the massive slippage in government revenues would balloon the fiscal deficit to similar if not higher levels, without any hope of recovery.

The belief of orthodox economists in the strong spring analogy—the harder you push an economy down, the greater the force with which it bounces back—is an illusion. In reality, a weak spring is the more appropriate analogy for an economy, for when it is pushed too hard it may simply remain there if its restorative forces are destroyed.

3 Conclusion

Beyond survival, stabilization and recovery, there are also opportunities in this crisis, which need to be captured by the government. But there is a clear and present danger that these might be missed by the conservative, possibly timid, mindsets which do not seem capable of thinking big and thinking long.

The collapse in the prices of crude oil and petroleum products in particular, and prices of primary commodities in general, could be of enormous help to India in the

process of economic recovery, as it is a major importer, not only by easing balance of payment problems, but also by reducing input cost across the board in manufacturing for both final goods and intermediate goods. Of course, a cash-strapped government, seeking to capture windfall gains by hiking taxes, could squander this opportunity. Similarly, a depreciation of the rupee that might follow from adverse expectations, or portfolio investment outflows, would be a blessing in disguise. For one, it would dampen footloose and volatile capital inflows. For another, it would boost exports that have stagnated for years burdened by an overvalued exchange rate, without pushing up the import bill, or prices, since oil and commodity prices are at such a low. Once again, this opportunity should not be squandered, by misguided attempts to support the rupee instead of just letting it depreciate.

There are other opportunities, which, if captured now, could bring enormous dividends in the medium term. The deindustrialization that India has witnessed over the past quarter century, because of unilateral trade liberalization while abandoning industrial policy, could be reversed. The rhetoric of ‘Make in India’ could be turned into reality, if only we could begin manufacturing for world markets as large international firms relocate production out of China. But this would require the government to formulate strategic industrial policy that coordinates trade, technology, fiscal, monetary and exchange rate policies for reviving industrialization. It would also require massive investments in physical infrastructure, particularly power, roads, transport and ports. This should be done without moaning about finances, for it would serve two purposes, as government expenditure on infrastructure creates employment and stimulates demand to revive economic growth in the short run, and removes supply constraints that would stimulate the economy through strong multiplier effects in the long term. Last but not least, this is a wake-up call to improve our social infrastructure on public health, which would save lives lost through easily preventable causes, child mortality for example, to bring about significant improvements in the well-being of our people.

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