Economic Package or COVID Budget?

Image source: The Hindu

Dr Martin Patrick

The lockdown in India has impacted the movement of goods and people across districts and states. It has adversely affected their income, particularly of the poor, and thereby their purchasing power. The announcement of the 20 lakh crore package made by the Prime Minister on May 12, 2020 was cherished by all the sections of the people in the country. The unorganised labourers, small and micro entrepreneurs, migrant workers and farmers, etc hoped that there would be adequate compensation for their income loss. In the following days, Finance Minister Nirmala Sitharaman presented the packages in five tranches. The announcement of the first day was for MSMEs (Micro, Small and Medium enterprises), the second day was for guest workers, third day's announcement was aimed at farmers and subsequent days' announcements were not aimed at any particular group but the well-wishers of the government. Whether the package is in line with the expectations of the people who belong to the poor and vulnerable class is a point for discussion. Let us start with the intricacies of the composition of Rs 20 lakh crore.

How does it become 20 lakh crore?

At the outset, it must be noted that the 20 lakh crore package includes the entire stimulus package announced by the government earlier after the outbreak of COVID-19.The details are furnished in Table1.

Table 1: Details of Various Stages of Stimulus Package.

Stages	Amount (in crore)	Percentage to total	Percentage to GDP
Monetary stimulus	8,01,603	38.23	3.91
Package-stage 1	1,92,800*	9.19	0.95
Package-stage 2	11,02,650	52.58	5.26

Total	20,97,053	100	10.12

*Includes the 1.7 lakh crore package, Rs 15,000 crore for health care and Rs 7800 crore by way of revenue loss.

It is evident from Table1 that the monetary stimulus announced by RBI at various stages to bailout different sectors is included in the package. It comes almost 4 per cent of the package. There is nothing unethical in including this measure as part of a stimulus programme, but it cannot be counted as fiscal stimulus. It becomes clear that the second package constitutes Rs 11. 02 lakh crore, i.e., 52.58 per cent of the total economic package.

What is the Extent of Direct Spending?

What is more important is the aggressive direct spending and whether it follows the same pattern of other countries who presented economic relief packages during the COVID period. Table 2 gives an idea about the cash transfers or equivalent of the same.

Table 2: Details of Cash Transfers in the Current Package.

Items	Amount (in crore)
EPF support for businesses and workers for 3 more months	2800
Reduction in EPF contribution for 3 months	6750
Liquidity through reduction in TDS/TCS rate	50,000
Free 5 kg food grains and 1 kg chana for guest workers	3500
Interest subvention for Mudra–Shishu loan	1500
Viability gap funding	8100
PM Matsya Yojana	20,000
Formalisation of micro-food enterprises, cluster-based farming approach	10,000
Beekeeping	500
Operation greens	500
Support for herbal cultivation	4000
MGNREGA	40,000
Total	1,47,650

Spending one per cent of the GDP in the first stimulus package through measures like front-loading payment of Rs 2000 under PM Kisan, small quantity of free food grains to guest workers, inadequate allocation under MGNREGA without providing sufficient number of days of employment, etc barely scratched the surface in addressing the COVID-19 impact on the poor and vulnerable groups. Evaluating the second package, it becomes clear that the cash transfer or immediate benefit for the poor and affected sections constitutes 1.34 per cent of the total amount allocated under the second package (see Table 2) and it comes to the extent of 0.7 per cent of the total package and further 0.77 per cent of the total package excluding 1.7 lakh crore. It becomes only 1.51 per cent even if the 1.7 lakh crore is added along with the present cash transfer. It must be noted that many of the measures announced in the first package were committed expenditure as per the previous budget, except a few. While Rs 70,000 crore was the additional amount provided, 97,000 crore was already budgeted (according to some estimates it is 1.2 lakh crore). This throws light on the aspect that the total cash transfer can be estimated at Rs 2,17,659 crore (an SBI report has worked out it as Rs 2.03 lakh crore) which is 10 per cent of the 20 lakh crore and 1.03 per cent of GDP. A comparison of our package with the packages announced by other countries becomes inevitable at this juncture.

Table 3: The Size of the Bailout Packages of Major Countries.

Country	Stimulus Package ($ in billion)	Per cent of GDP	Debt to GDP Ratio
US	2000	9.8	105
UK	481	16.6	84
Australia	268	18.8	30
China	394	2.9	61
Spain	219	15.6	98
Italy	49	2.3	137
France	49	1.8	100
Canada	57	3.4	85
India	279	10	69

Source: News Reports, IMF, World Bank, St Louis Fed and Eurostat documents relating to economic packages.

The packages announced by the UK, USA, Spain, etc have been prepared with an objective to enhance the aggregate spending. Most of them have a direct effect through the transfer of income to different sections. For instance, countries like the USA, UK, Australia and Spain have announced packages of the volume that range between 10 to 20 per cent of their respective GDP. In this respect, the size of India's package can be justified, barring the tricky calculation adopted.

The disquieting feature is that though the size of the economic package is satisfactory, the cash transfer is very much inadequate compared to the cash transfer in other packages. It offers only little respite to the poor. No doubt, cash is the need of the hour for the poor who have been hit hard by the 68 days' lockdown. When will the government meet the immediate needs of the hundreds and thousands of workers who remain stranded without money, food and even shelter both in cities and villages, barring thousands of guest workers who have been walking hundreds of kilometres just to reach their home? The present package not only fails to address the urgent needs of the poor workers, households and small businesses but also pales in comparison with the massive cash transfer initiated by other governments world over.

A Relief Package or COVID Budget?

It has been substantiated that the relief measures constitute hardly one per cent of GDP and 10 per cent of the package. Other measures are long term and debt-based proposals. Secondly, they are largely bailout packages. Thirdly, thrust is given for structural reforms incorporating various legal reforms and privatisation. Fourthly, the assistance extended to the States is in line with the structural reforms. Each of these aspects can be discussed.

1. Long-term Measures and Debt-based Proposals

Another major criticism levelled against the 20 lakh crore package was that most of the projects are debt-based on the one hand and long-term measures on the other. Table 4 shows the details.

Table 4: Long-term Measures and Debt-based Proposals.

Items	Amount (in crore)
Collateral-free automatic loan support for businesses including MSMEs	3,00,000
Subordinate debt for NPA/ Stressed MSMEs	20,000
Equity infusion through MSME fund of funds	50,000
Partial credit guarantee scheme 2.0 for MSMEs	45,000
Special liquidity scheme for NBFGC/HCs/MFIs	30,000
Liquidly injection for Discoms (energy)	90,000
Kisan credit-based loan	2,00,000
Credit for street vendors	5000
Housing loan for middle income	70,000
Working capital for NABARD	30,000
Boosting farm gate infrastructure for cooperative societies, FPO and start-ups	1,00,000
Boost for animal husbandry infrastructure	15,000
Total	9,55,000

Subordinate debt for NPA/Stressed MSMEs and Special liquidity scheme for NBFGC/HCs/MFIs are the two projects that can be treated as either short-term or medium-term projects. All other projects are clear representations of long-term measures. It means that 87 per cent of the measures announced by the government through the second package are long term and debt-based. It means the proposals have poor budgetary support.

2. 'Bail out' Packages for Productive and Social Sectors

The second feature of the package is that there are a number of 'bail out' proposals to revive various sectors. Analysing the two major productive sectors—agriculture and manufacturing—we can see that there are short-, medium- and long-term projects for agriculture and allied activities but a great thrust is given to long-term measures which are debt-based too. The total allocation made to agriculture and allied activities is Rs 2.5 lakh crore, which constitutes almost 17 per cent of the package. In the manufacturing sector, MSMEs are given top propriety. The allocation is Rs 4.15 lakh crore which constitutes almost 20 per cent of the package. The emphasis given to MSMEs is a right strategy and it is the need of the hour. Surprisingly, the automobile sector, the most affected sub sector of the manufacturing sector, has been totally ignored in the package.

Social sectors such as education and health are coming under the service sector. There are many reform measures relating to these two sectors, particularly with the participation of private capital. There is the usual and futile declaration that there would be an increase in the social sector expenditure but measures to this extent are scanty. The requirement of public expenditure in health to the extent of 5 per cent of GDP and 6 per cent in education looks a distant dream. The tourism sector, a part of the service sector and the most adversely affected sub sector due to the 'invisible enemy', is neglected in the package.

The discussion made so far throws light on the point that the government heavily follows the routine 'Bail Out' packages which are helpless to contain the ill effects of the pandemic, unlike a crisis developed by a bad economic policy.

3. Legal and Structural Reforms

The package also includes reform measures for land and labour through various legal interventions. The reforms announced are no doubt far reaching and cover a large gamut of economic activities. While land and other resource owners are properly accommodated in the package, the measures announced in the field of labour are specially meant to cater to the interests of corporates, not the labour class. All these attempts are aimed at higher growth which is shrinking in the midst of COVID-19 as estimated by international agencies (the latest estimate of the IMF shows that India's growth will be 1.9 per cent during 2020–21).

The proposed legal interventions are the highlights of this package which would help the government in its smooth travel towards the structural changes in the economy. The Contract Farming law, the amendment in the Essential Commodities Act, the declaration of speedy implementation of labour codes, and the amendment in Company Law, etc are some of them. These are supplemented with structural reforms as many sectors like defence, aviation industry, and space are aggressively opened for foreign capital by raising the respective investment limits which can be utilised by private players in the near future. The structural reforms leading to a Laissez faire economy is the demand of the crony capitalists and other well-wishers of globalisation.

4. Assistance to States

Even the assistance extended to the States can be viewed as part of the structural reforms. What the States are facing is an unprecedented existential challenge. Their continuous demand for financial assistance from the Centre to cope with the struggle has reflected in the increase in the debt ceiling from 3 to 5 per cent. It is really a great relief to most of the States, but the four conditions imposed on availing 3.5 to 4.5 per cent slab have raised criticisms from many corners. The fulfilment of three conditions out of four is part of the aggressive privatisation as the government has proposed to lift various restrictions that prevailed in sectors like electricity. Though the conditions may not be a hurdle for the States like Kerala, imposing conditions on availing of loan from the Centre is against the much-touted benefits of 'cooperative federalism'.

The above discussions clearly expose the fact that this package consists of bailouts to certain sectors, structural reforms and privatisation. As is mentioned by an authority of SBI, “the measures announced have been a mix of short term and long term, with focus on building the capabilities for the small players in the economy as well as paving the way for structural changes in certain sectors”. It could be learnt from the announcement made by the Prime Minister that a 20 lakh crore was an economic package; what was really in his mind a comprehensive economic package for boosting growth. The Prime Minister never intended an economic relief package. In all ways the package is a gimmick; a platform for announcing further reforms to satisfy corporates and well-wishers of globalisation. These are the measures normally to be declared in Parliament through the budget document. Hence, the present announcements made by the government can largely fit into the category of a COVID Budget.

Will Structural Reforms and Self-reliance Go Hand-in-Hand?

The economic package intends to realise Atma Nirbhar Bharat, i.e., ‘self-reliant India’. In fact, self-reliant India was a slogan first announced in the fourth Five-Year Plan (1969–74). It has been repeated in the subsequent plans but we have reached nowhere. Five pillars are envisaged to achieve a self-reliant India. They are economy, infrastructure, 21st century technology-driven arrangements and system, demand, and vibrant demography. The methods for realising this are the measures relating to land, labour, liquidity and laws.

There is a clear contradiction between the proposals in the package and the vision of Atma Nirbhar Bharat. The proposals for inviting foreign capital in all walks of life are against the spirit of self-reliance. Allowing foreign direct investment and foreign players so as to realise self-reliant India is a magic as is said, vocal for local to make it global. What is the reality? The government utilised the opportunity to repack some of the old measures and push some new measures in the agriculture and public sector enterprises which have been pending for long—a backdoor entry to reforms in the name of Atma Nirbhar Bharat.

Is it timely and Adequate?

The package is too late and proved to be a damp squib in respect of direct spending. The measures towards this direction in the package are inadequate considering the grave problems that persist in the economy. There are no serious attempts to compensate the job loss of informal workers, especially the migrant labourers. As far as the measures for various sectors are concerned, it is too early as the producers have to wait for boosting the demand to revive their production. Hence, the urgent intervention from the part of the government should be boosting the demand through aggressive direct spending, for which a minimum of 50 per cent of the package should be earmarked. Looking from this viewpoint, the package is flawed too. Further, the most affected sectors due to the outbreak of COVID like the tourism and automobile sectors are neglected in the package.

With two-thirds of India’s 134 crore people having to make do with a hand-to-mouth existence, the present crisis could easily transform into a hunger crisis. The subsequent result will be more deaths due to starvation than COVID-19. Those who believe that this is not the last package during the COVID-19 period and more can be expected from the government with aggressive cash transfer will be in despair.

Dr Martin Patrick is Chief Economist at Centre for Public Policy Research. Views expressed are personal and need not reflect or represent the views of Centre for Public Policy Research