THE IDEAS PAGE

WHAT THE OTHERS SAY

"PAKISTAN is on the verge of receiving debt relief under the G20 plan and according to an official announcement the total amount is $2bn."

— DAWN

An insufficient relief

Stress on supply-side in economic package while neglecting demand reveals flawed understanding of economies in crisis and little recognition of reality after prolonged lockdown

DEEPAK NAYYAR

C R Sasikumar

ON MAY 12, Prime Minister Narendra Modi announced a relief package of Rs 20 trillion, about 10 per cent of the country's GDP, for the economy in crisis. The news made a big splash. After Finance Minister Nirmala Sitharaman unwrapped this package in tranches, there is widespread disappointment among most stakeholders.

There is relief for agriculture in the form of a concessional credit line of Rs 2 trillion, but loans are neither automatic or assured, while marketing reforms and infrastructure creation are distant promises. The MSME sector, the backbone of the economy that provides 25 per cent of employment, 32 per cent of the GDP and 45 per cent of exports, is unhappy despite the Rs 3 trillion line of credit for loans without collateral. In their experience, lenders are not always supportive in extending loans, while buyers (central and state governments, public sector firms and the private sector) owe them as much as Rs 5 trillion. What is more, most MSMEs just do not have the resources to pay wages or meet fixed costs on electricity, rent or interest during the lockdown period.

There is nothing for the corporate sector in manufacturing or services. The distressed sectors such as airlines, automobiles, hotels, restaurants, and tourism have been ignored. Ironically, there is little for public health, already in a dilapidated state. Even stock markets, characterised by irrational exuberance in the past month, have dropped.

The poor or the migrants, caught up in their struggle for survival, might not have voiced their opinion so far on the grossly inadequate relief package for them, but the harsh realities of this period — hunger without jobs, incomes, shelter or dignity — will be embedded in their memories for long. This economic deprivation will have social and political consequences.

The big picture is lost in details, so that it is difficult to see the wood from the trees. There are statements of good intentions. There is a recycling of ideas or schemes from earlier budgets. There are policy reforms with a longer-term perspective. But there is little cohesive focus on stabilisation and revival of the economy in the short-run — so essential at this time.

The fiscal stimulus, which can be defined as government expenditure that could stimulate demand, is difficult to discern, because the package is neither clear nor transparent about the cost to be borne by the government in each component. Even so, there are 12 estimates by analysts in financial sector institutions, suggesting that the fiscal stimulus is in the range of 0.7 per cent to 1.3 per cent of the GDP.

My estimate of the fiscal stimulus (including the announcement on March 26) is Rs 2.66 trillion, which is 1.2 per cent of the GDP. Of this, however, Rs 0.9 trillion, or 0.4 per cent of the GDP, is from a drawdown on the existing funds available with state governments (Rs 0.67 trillion) and existing budget provisions (Rs 0.23 trillion). Thus, the effective fiscal stimulus, in terms of extra resources provided by the government, is Rs 1.76 trillion, or 0.8 per cent of the GDP. Its contribution to domestic demand will be minuscule, given that private final consumer expenditure in India is about 60 per cent of the GDP.

It is clear that the design of this relief package seeks to focus on the supply side, with an emphasis on providing liquidity through lines of credit, where the RBI is providing as much as Rs 8 trillion, rather than on the demand side by stepping up government expenditure, with the aim of minimising the cost to the government. The arithmetic is obviously imaginative — as much as Rs 10 trillion of the relief package will have to be financed by sources other than the Centre and the RBI. Where will resources to bridge this massive gap, 4.4 per cent of the GDP, come from?

This stress on the supply-side, while neglecting the demand-side, reveals a flawed understanding of economies in crisis and little recognition of the reality when a prolonged lockdown has brought the economy on the verge of collapse. Even in normal circumstances, the speed of adjustment of 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. At present, if there is little or no increase in demand, supply responses will be slower than usual because producers would not wish to pile up inventories of unsold goods. In terms of the chicken-and-egg parable, demand must be revived first to kickstart the economy.

For this reason, the fiscal stimulus should have been much larger. But the decision-makers have been timid, intimidated by the prospect that, because of revenue shortfalls (2 per cent of the GDP or more), the fiscal deficit would be 5.5 per cent of the GDP exceeding the budget estimate at 3.5 per cent of the GDP. The conclusion drawn, wrongly, is that there is no fiscal space.

The obsessive concern about the fiscal deficit, so deeply embedded in government thinking, suggests a narrow and limited understanding of rudimentary macroeconomics, which has often gone wrong even in good times. It also reveals an utter failure to recognise that we live in unprecedented, extraordinary times with the world economy in a crisis that could be much deeper than the Great Depression 90 years ago.

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In this situation, the extra fiscal stimulus should have been Rs 7-9 trillion (3-4 per cent of the GDP) and that would have been modest compared to what other countries have done. This 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 monetising the deficit — RBI buying government T-bills — printing money, now termed "helicopter money".

The idea that monetised deficits will unleash inflation is blind to the reality that, at this juncture, if there is no further intervention by the government, the GDP could contract by 5 per cent in 2020-21, with lingering consequences. In fact, a monetised deficit might be the only way of increasing aggregate demand to revive economic growth. The worry about a downgrade from credit rating agencies is bizarre. For one, their ethics and integrity have seen steady erosion. Moreover, how many sovereign governments will they downgrade? In fact, we might be better off without the footloose and volatile portfolio investment inflows.

If the government does not accept the necessity or wisdom of expansionary macroeconomic policies, it must set out its alternative plan for recovery. The relief package will not suffice. And, if the economy goes into a free-fall, the massive shortfalls in government revenues would balloon the fiscal deficit to similar or higher levels without any hope of recovery. The fiscal space will not be preserved. It will be squeezed further. It is time for the fiscal hawks in government to put on their thinking caps.

The writer is an economist and former Vice Chancellor, University of Delhi

A milestone, a new beginning

Flagship health scheme, PM-JAY, has crossed one crore treatments, continues to positively impact lives

HARSH VARDHAN

ON MAY 20, Prime Minister Narendra Modi said that every Indian should be proud that the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY) has crossed one crore treatments, and has had a positive impact on many lives.

Indeed, PM-JAY is a giant step towards a healthy India, as it aims to make affordable healthcare a reality for all. It has crossed a significant milestone of one crore hospitalisations — worth over Rs. 13,412 crore — in less than 20 months since its launch in 2018. The efforts of the doctors, nurses, healthcare workers, paramedical staff and all others associated with Ayushman Bharat, across all states, have helped in making it the largest healthcare programme in the world.

As PM-JAY marks this milestone, the world is up against the COVID-19 pandemic. The impact on millions worldwide, and in India, not only pertains to health, but there is also the physical, mental and economic impact on the individual and her/his family. For about 53 crore poor, vulnerable beneficiaries, testing and treatment for COVID-19 is free of cost under PM-JAY, including testing in private labs and treatment in private hospitals.

In India, the migrant population plays a key role in the economic development of the country, and they are now suffering the most in this crisis. A key design feature of PM-JAY, from the beginning of the scheme, is portability — which helps to ensure that a PM-JAY-eligible migrant worker can access the scheme's services in any empanelled hospital across the country irrespective of their state of residence.

A PM-JAY eligible migrant can avail of benefits in the state in which he works, and also in his home state, when he goes back home. This lowers the barriers posed by state borders and promotes equal access to quality health services, especially amongst the poor and vulnerable. To date, there have been more than one lakh portability cases.

The National Health Authority (NHA) has also been working on new initiatives to support and supplement the Government of India's efforts in response to the COVID-19 pandemic. From a supply side, PM-JAY has further strengthened the network of hospitals and service capabilities to ensure continued services to non-COVID-19 patients while also providing services for COVID-19 patients. This is being done through an express empanelment mechanism for hospitals since March. Since April 1, more than 1,385 hospitals (nearly 58 per cent are private) have been empanelled across the country — 75 of them are under express empanelment. Overall, 21,565 hospitals have been empanelled so far.

The NHA has leveraged its IT systems, expertise and the network of private sector stakeholders to support the government's preparedness and response. This has been done by managing the national COVID-19 helpline, 1075, and conducting thousands of outbound calls to COVID-19 positive patients, and their families, round the clock. The NHA has made calls to disseminate precaution advisories to the relevant beneficiaries of PM-JAY — the data gathered will also be used to strengthen the government's efforts at identifying such potential cases and ensuring optimal utilisation of testing facilities and resources. Further, the NHA regularly keeps in touch with the relevant beneficiaries through telephone — three crore such calls have been made across the country. The NHA is also supporting the government's Aarogya Setu mobile application. It has been making outbound calls through its call centre to people who have come in close proximity to COVID-19 positive patients, as identified through the app, and people who have reported COVID-like symptoms in their self-assessment. The NHA has contacted more than six lakh citizens and facilitated more than 15,000 tele-consultations with doctors. It is also working with the ICMR on data cleansing and is conducting call data analysis for flagging urgent actionable cases being sent to ICMR.

In any epidemic, the response has to be a collective societal one — as seen during SARS, Ebola, H1N1. The public sector, private sector and NGOs, all have to come together. The response to this pandemic is being led by the government, however, and the private sector needs to be an active partner, especially when it comes to providing adequate supply of health services, medicines and essentials. The NHA has focused on how to get the private sector more actively involved in the response with greater participation from private sector hospitals — for both COVID-19 as well as non-COVID-19 health conditions. Various states are adopting different approaches for involving the private sector in the treatment.

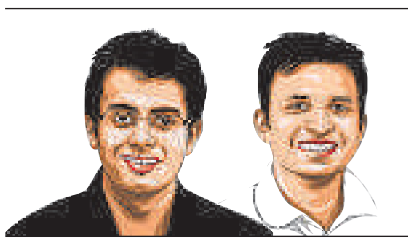
Coronavirus will be a part of our lives for a very long time. Our fight against COVID-19 is, therefore, not a sprint but a marathon. We will do whatever needs to be done, but as Prime Minister Narendra Modi said, Bharat will move ahead towards being "atma-nirbhar", even as we turn this adversity into opportunity. Living in a post-COVID-19 world will be vastly different from the past, and it will require vastly different public health approaches. As we plan for the future, Indians who require secondary and tertiary care will continue to grow, and we must also leverage the promise of telemedicine for preventive health. From a supply side, we must focus on strengthening the medical and health systems, primary healthcare delivery and healthcare workforce, including specialist doctors and medical professionals.

Ayushman Bharat PM-JAY will continue to play a significant role in this post-Corona world, in improving the overall healthcare of the country. The one crore treatment milestone is only a beginning. Our vision is to provide more than one crore treatments every year, so that the poor and needy can get the best healthcare, and are able to contribute to the overall economic progress of India, in the post-COVID period.

The writer is Union minister for health and family welfare, and chairman of the World Health Organisation executive board. Views are personal

The demand-supply debate

Boosting demand with cheap credit to consumers is not a good idea



APOORVA JAVADEKAR AND PRASANNA TANTRI

THE UNION government is often criticised for its apparent neglect of the demand side and its excessive focus on the supply side and structural reforms — the COVID-19 package was no exception. Pointing towards tepid credit growth, weak inflation, and flat wage growth to make their case, demand-side proponents suggest measures such as cash transfers, income tax cuts, and cheap credit to consumers. We examine the demand vs supply debate drawing on basic economics and vast empirical evidence from around the world.

We start with the low growth in credit. Basic economics tells us that a demand shock typically leads to a rise in both volume and the price whereas a supply shock not only hurts the volume but also leads to price rise. In banking, a good proxy for the price of credit is the spread between lending rate and the funding rate (repo rate or deposit rates) for the banks. It reflects the risk premium banks charge to their customers.

The spread has consistently risen from just below 4 per cent at the start of 2018 to around 6 per cent in January 2020 — even before COVID-19 hit us. The fact that spreads are rising was highlighted by the 2019 Economic Survey as well. At the same time, the credit growth — especially for public banks and to the MSME sector — has been sluggish for the previous two to three years. The MSME sector witnessed sub-zero credit growth for the whole of 2017 and even now, the credit growth is very tepid at around 2 per cent Y-o-Y. Rising spreads with lower credit volume provide a clear tell-tale sign that credit supply is broken.

An influential paper by Nobel laureates Abhijit Banerjee and Esther Duflo amply highlights the fact that the MSME sector suffers from lack of credit availability to finance investments rather than the lack of demand for credit. They showed that when the government changed the definition of small firms, the firms newly covered by the priority sector lending programme used the extra credit to increase production and investment. If there was no demand for credit, cheaper credit under the priority sector programme should have been used to repay the older expensive sources of borrowings. Consistent with this view, we think that the government's approach of guaranteeing SME credit by resolving the risk-sharing problem for banks will expand credit to credit-starved SMEs at lower credit spreads. Similarly, expansion of the universe of small/medium firms will bring fresh investments from the firms, which are newly covered under priority sector programme as they will be able to get cheaper credit.

Next, we analyse the measures to boost the consumer demand and we provide data and evidence to forcefully reject such measures. First, let's look at the direct transfers schemes. No doubt that cash-transfers are superior to distortive subsidies and the "Garib Kalyan" package was a step in this direction.

In fact, the government has already transferred close to Rs 40,000 crore to bank accounts including Rs 10,000 crore to women under PMJDY. But is it the ultimate solution to recovery? In fact, the PMJDY account balance has increased from close to Rs 1,17,000 crore before the advent of COVID-19 to Rs 1,35,911 crore as of May 13 — a massive jump of close to Rs 18,000 crore. Recent research by Prasanna Tantri and co-authors shows that PMJDY account holders actively use the accounts — 1.12 transactions per quarter compared to the World Bank standard of one transaction. In fact, PMJDY accounts see withdrawals when account holders are in distress, according to the study. So the rise in balances is not mechanical.

It's not that people covered under PMJDY are comfortable financially. So why are they not spending? A number of papers show that tax rebates boost demand in the short-run, but the quantum is limited. For example, Sumit Agarwal and his co-authors show that the 2001 tax rebate programme in the US led to an average spending of only $60 on $500 rebate over nine months. A recent study at the Kellogg Business School by Christian Borda and co-authors shows that tax rebates after the 2008 crisis in the US led to rise in spending, but by only 3.5 per cent in the first month of the rebates. The crux is that no rational consumer goes on a consumption spree when he is facing job uncertainty!

Trying to boost demand by providing cheap credit to consumers is not a good idea either as evidenced by the debt-financed housing boom in the US, which led to the 2008 crisis. In fact, Atif Mian and Amir Sufi, using a large panel of 30 countries, uncover a more general pattern — an increase in household debt to GDP ratio leads to a sustained drop in future GDP, investments, and unemployment. On the other hand, the economic cycles are much more muted when the initial growth is caused by structural reforms as pointed in a recent IMF study covering over 80 countries.

To put the burden of recovery on risk-averse consumers, increasing spending to spend rather than save when there is employment uncertainty, is against any reasonable risk-sharing principle. Risk should be borne by those who have the appetite — the firms and government.

The writers are assistant professors at the Indian School of Business

LETTERS TO THE EDITOR

PAY YOUR WAY

THIS REFERS TO the editorial, 'Taking off' (IE, May 22). Though it is a welcome decision by the government to allow airlines to partially resume their flights, the move to regulate airfare is regressive. Coming to the rescue of society's elite by capping the fares is in complete contrast to the treatment meted out by this insensitive and short-sighted government to migrant labour.

S K Prabhakar, *Gurugram*

JACINDA'S EXAMPLE

THIS REFERS TO the editorial, 'New zeal' (IE, May 22). It provides the right perspective to the policies of Jacinda Ardern. Since 2010, democracies across the world have come under populist pressures. New Zealand provides a new model. Democratic values and decency displayed by its PM, Ardern, should serve as an example to demagogues.

Suchak D Patel, *Ahmedabad*

UNWISE REFORM

THIS REFERS TO the article, 'Take the worker on board' (IE, May 22). While outsourcing work to contractors seems to cost less, there is a trade-off in terms of quality vis a vis employees. Further, contractors are unable to provide a safe working environment, which often leads to accidents and misery for the families of workers. "Reforming" labour laws in the manner it is being done is hasty and unwise.

Gangadhar Karalay, *Nagpur*

UNPLANNED MISERY

THIS REFERS TO the editorial, 'A ministry for migrant labour' (IE, May 22). From employers abandoning them to being sprayed with disinfectants, the fate of a migrant worker in India seems dark. The Centre's haste in announcing the lockdown without a plan is to blame.

Alisha Parvez Thakur, *Vadodara*