Comparing India's Economic Response with Major Countries

An Alternative Fiscal Package to Mitigate India's Covid-induced Crisis

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Abstract

This paper examines briefly why the Indian economy was slowing pre-pandemic, and then analyses the severe impact of the sudden, poorly planned, needlessly national and stringent lockdown of 2020, with catastrophic consequences for jobs and wages. It briefly reports on the international evidence about the impact of Covid-19 induced lockdown on the economy. It further argues that India's response to the unprecedented economic crisis was poor in its overall architecture in terms of the balance between fiscal and monetary policy measures. It does this not only for India, but compares it to the international evidence on peer country government response, with superior consequences in the latter. It argues that had the fiscal response been more adequate, and more commensurate with the depth of crisis and at least somewhat comparable to that of emerging market economies, the extremely adverse impact on employment, earnings and wages could have been mitigated. It closes by offering what could have been an alternative fiscal package for India, and spells out in components. An adequate fiscal response, it argues, would have revived aggregate demand in the product market, and through it revived the labour market – in a classic Keynesian manner.

Faced by the collapse of European and the US economies post the Great Depression (1929), Keynes' *The General Theory of Employment, Interest and Money (1936)* became so influential that he came to be seen as the savior of capitalism or the man who allowed for the great post-war expansion of government. Though many economists hoped that Keynes' influence had waned in the 1990s and 2000s, the financial crisis of 2007-08 saw "The Return of the Master", as a 2009 biography by Lord Skidelsky was titled. It was only heavy intervention by governments, most people now accept, that averted another Great Depression. Keynes's ideas had come back with a vengeance in most of the advanced capitalist economies.

Not unfortunately, however, it seems, in India – at least post 2014 – despite the collapse of jobs, with open unemployment rising to a 45-year high in 2018 to 6.1% and youth unemployment (15-29 year jumping from 6% in 2011-12 to 18% in 2017-18 and 2018-2019 (Mehrotra and Parida, 2021). The response of the Government of India to the worst economic crisis of India's post-independence history, in the aftermath of the Covid-19 pandemic, threatens to bring an already slowing economy and worsening labour market, to a growth slowdown that may take us back to the 1980s (when India's GDP growth averaged 5.4% pa.). This threatens to be a serious setback to India's structural transformation, which had gathered momentum post-2004/5 (Mehrotra and Parida, 2019). This has already caused open unemployment to rise, wages to fall further below the already low levels, post-Covid (Vyas, 2021). This is likely to be tragic, in a country which has the world's largest number of poor people by a huge margin, given that the economy's collapse in FY

2020-21 has been the worst seen by any G-20 or BRICS country, let alone those the OECD economies.

This paper asks two questions: one, why has the collapse of India's economy post-Covid pandemic among the worst among G20 countries; and two, how could the stimulus package of the India government been different to enable a recovery faster than we are likely to do, so that job opportunities revive? We will attempt to answer these questions, deriving from the international experience both in respect of mitigation measures post pandemic, as well as the stimulus measures taken by the China, and the BRICS countries. As should be obvious from the introductory para, this discussion will be conducted within a broad Keynesian theoretical framework.

Essentially, our argument is spelt out in the Abstract. This paper is organized as follows. Section 1 discusses why India's economy was slowing pre-pandemic, and whether that slowdown was structural or cyclical (a debate that was raging pre-pandemic). It goes on to discuss the government's measures to deal with the pandemic, especially the nation-wide lockdown (and its nature). Section 2 discusses the nature of the economic collapse that followed. It also examines what the international evidence tells us on impact of covid measures on the economy. Section 3 examines the international literature about peer country response, in terms mainly of fiscal policy and much less monetary policy (for reasons of space). It dwells especially on the responses in BRICS economies. In section 4 we discuss the Government of India's economic measures, specifically again its fiscal and monetary policy responses, and find them wanting. In section 5 we spell out what could have been, and still could be, an alternative response, focusing particularly on the fiscal side, given that it is here that the government's response has been found especially wanting. Section 6 concludes.

1. India's Pre-pandemic structural Economic Slowdown, and the nature of the Pandemic Lockdown

After growing at 8% pa over 2004-14, the Indian economy was slowing down thereafter. In fact, prior to the outbreak of the Covid-19 pandemic and India's lockdown, the economy had consistently slowed. In each of nine quarters prior to March 2020, the GDP growth rate was lower, reaching 3.6% in the January-March 2020 quarter, with 2019-20 ending with a 4.1% GDP growth, the lowest in over two decades.

Was the economic slowdown a structural one or a cyclical one? There were not many who would like to believe that this slowdown is structural – especially those closest to the government.

To understand India's pre-pandemic slowdown, let us start with global growth trends pre- and post-global economic crisis (GEC, 2007-08). Following a decade of high growth before GEC and a swift rebound after it, many emerging markets (EM) were seeing stubbornly slower growth since 2011. India was no exception, despite favorable terms of trade as oil prices fell from their historical

peak of around $150 per barrel, to under $50. On the domestic front, the withdrawal of the fiscal stimulus put in place right after the Lehman collapse is relevant. But the problems since the stimulus withdrawal have demonstrated structural problems.

The real drivers of GDP are private consumption, private investment, exports, and government expenditure; we examine how they were performing pre-pandemicLet us start with private consumption.

The surest indicator that the slowdown was mainly structural is that real wages, both rural and urban, had been flat between 2012 and 2018 (the exact opposite of what was happening between 2004-5 and 2011-12) – primarily because non-agricultural job growth had been very low, compared to the earlier period (when 7.5 mn new non-agri jobs were being created annually and open unemployment was 2.2%) (Mehrotra and Parida, 2019; Mehrotra and Parida, 2021). Non-farm job growth since 2012 had been merely 2.9mn pa by contrast (and open unemployment rose to an unprecedented 6.1%, with youth rates double or triple that). Consequently, real wages for regular urban workers that had risen from Rs 183 per day in 2004-5 to Rs 226 in 2011-12 (a 24% increase), actually fell to Rs 205 (or a 8.9% decline) between 2012 and 2018. Rural regular wages, which had risen by 13%, fell slightly. Urban casual wages in real terms had risen by 31% earlier, rose only 7.1% between 2012 and 2018. Rural casual wages had risen 44.5% before 2012 but barely rose 6% over 2012-18.

In other words, the labour market was seriously under-performing. The pre-2020 slowdown was a crisis of incomes, driven by non-agricultural jobs barely growing. While manufacturing jobs had risen by 11% between 2004-5 and 2011-2, they fell by 5.7% between 2012 and 2018. Construction jobs, which account for most of the jobs that rural migrants would take, rose by 96.5% in the earlier period compared to 8% recently; Services 18.6% versus 13.4%.

With wages and incomes down, people can maintain consumption only by cutting savings. So household savings fell from 23.6% (2011-12) to 17% of GDP (2018-19 series), i.e. to levels prevailing in the early 1990s, a quarter century ago. Of this, financial savings as a share of GDP fell to 7.2%, or to levels prevailing between 1990-1997 (Mehrotra, 2019). Naturally, a second driver of GDP growth, gross fixed capital formation was down to levels before 2004-5, when the dream run began; at 28% (2019-20), they are nearly 6 percentage below that in 2011-12; it will be much lower in FY 2021. As income growth is lower, consumption is compressed or only maintained at the expense of savings.

Despite private corporate savings having risen from 9.5% in 2011-12 to 11.6% of GDP (2018-19), there is no appetite (animal spirits) for investment growing faster. Investment to GDP was at 31% in 2013-14, and fell consistently thereafter even before the pandemic, and estimates for FY 21 suggest it is likely to be below 25%.

Exports, a third driver of GDP, had failed to underpin growth. Merchandise exports were lower over 2014-18 each year than in 2013-14 ($315 billion) in USD terms; as a share of GDP they fell from 17.2% in 2013-14 to 11.6% in 2017-18.

Could the fourth driver of aggregate demand, government expenditure, have been expanded pre-pandemic? That was unlikely because there was a "silent fiscal crisis", and the non-discretionary revenue expenditure and off-budget expenditures left little elbow room for capital expenditure, certainly by the Centre (budgeted 2019-20 capital expenditure to GDP was 1.3 as against 1.4% in 2018-19). That left most of the heavy lifting on public investment to state governments, but their budgets were also under pressure with growth slowing, and the exogenous shock of a poorly planned Goods and Services Tax. The fiscal consolidation path could not be abandoned, because the actual fiscal deficit in 2018-19, as revealed by the Comptroller and Auditor General, was really 5.68% of GDP (for the Centre alone), as opposed to that claimed by the Central government (3.8%).

Meanwhile, the public sector's draft on financial savings, driven by welfare spending with explicit voter appeal (rural housing, toilets, cash transfer to farmers, free gas connections to the poor), had already squeezed expenditure on public goods and basic social services (health, education, the Integrated Child Development Scheme, and the mid-day meal for school children).

India's fiscal stance in the run upto GEC (2008) was pro-cyclical, with large increases in appropriate compensatory (e.g. MGNREGA, Minimum Support Prices) and also infrastructure expenditure, but tragically also a one-off very large farmer loan waiver in 2008 (announced before the GEC broke). But growth pre-GEC had been robust, so that fiscal space still existed to pump-prime the economy from late-2008 onwards. India's fiscal stimulus was large (3.5% of GDP), its quality poor notwithstanding, as it focused on revenue expenditure (the exact opposite of China), and went on longer than necessary since the economy had revived. Hence, in 2013-14 the gross fiscal deficit was still 4.5% of GDP (not counting the off-budget items). In 2014, the government went into fiscal consolidation overdrive to bring the deficit down to 3.4% in 2018-19. As GDP growth slowed, there was still no fiscal space to use public investment to stimulate the economy now. This is one cyclical element in the pre–pandemic downturn of the Indian economy.

The second cyclical element was the outcome of monetary policy. In the aftermath of the GEC, a former RBI Deputy Governor has argued rightly that "Indian monetary policy could have tilted unduly towards the "easy" side and could have prolonged the expansionary monetary policy cycle for a longer period than what would have warranted". Together with the over-extended fiscal stimulus this unduly easy monetary policy brought inflation in its wake, and the RBI's inflation-targeting stance (Mohan, 2018).

However, since November 2014, post the US Fed's "taper tantrum", the real repo rate rose to plus 4% from negative territory, and had remained at plus 2-3% in real terms since then. This is an important reason why inflation targeting is recognized to have had a negative impact on GDP growth rates. However, over-borrowing when the real interest was in negative territory post-2008

underlies the NPA-crisis we live with. NPA-overhang was a foundational reason for low investment rates; the non-banking finance companies (NBFC) crisis that started post-2016, exacerbated it, especially for MSMEs (Subramanian and Josh, 2020).

The combined effect of the predominantly structural and some cyclical factors was slowing GDP growth for 9 quarters prior to the outbreak of the Covid pandemic in March 2020.

The Pandemic and Lockdowns in India

When the pandemic came, the Government of India responded by announcing a national lockdown of all persons and the economy. There were four types of problems with the nature of the lockdown. First, it was extremely sudden: it went into effect at four hours notice (announced at 8pm by PM Modi and became effective that same night of 24 March 2020). At the same time, another country, South Africa, which is one-tenth in terms of area and has one-twentieth of India's population, announced a lockdown but gave the country four days notice. The result was India's lockdown was unplanned, and done without serious consultation with state governments – so that every arm of government was caught unawares, causing chaos (for the movement of goods/services and human beings) – quite apart a internal migration crisis of monumental proportions, as reverse migration from cities to villages began on an unprecedented scale, the biggest since the Partition of India in 1947.[1] With all transport stopped, migrant workers did not wish to contract the disease once they lost their livelihoods suddenly, and started walking hundreds or thousands of kilometres (see field reports by ActionAid India, 2020; three reports by SWAN, 2020; Azim PRemji University, 2020).

Second, the lockdown came too early in the spread of the pandemic. On 24th March 2020, there were <600 cases of Covid-19 in India; and it was highly concentrated in a few cities. Had the government given greater time for planning the nature and geographies of the lockdown, the chaos that resulted could have been avoided. Till July, government data was showing that 80% of cases were still in only 9 cities, all with international airports, with international travelers returning home bringing the infection back to India.

Third, the lockdown was national in scope from day 1 (March 25), despite the virus being confined mostly to major metropolitan cities of India. By contrast, China, which is a bigger territory and larger population, locked down first only Wuhan city (capital of Hubei province), then Hubei. Flights and trains from Wuhan to rest of the country were terminated, but travel in the rest of 29 provinces of China was unaffected.[2]

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[1] For an poignant and heart-rending account of the internal migration crisis, which caused prolonged suffering for millions of migrants, as documented in at least a dozen surveys as the crisis was underway and since then, see Mander (2021) book: *Locking Down India's Poor.*

[2] The WHO Representative in China, stated in an interview: "China amassed significant experience in COVID-19. One area that China has been *very effective in has been implementing a differentiated, location-specific response to limiting transmission, so that public health measures are tailored to the differing realities on the ground. Measures in Wuhan, for example, were very different than those implemented in other places such as Shanghai or*

Fourth, India's national lockdown was among the most stringent in the world (Oxford University, Blatavnik School of Government Covid tracker). In a country as vast as India, bigger than Europe and more diverse than it, a one-size fits all approach lasted till mid-June, until the country was broken up into three zones. This happened because the cases kept rising, and the state government kept raising their concerns that they were not being allowed to vary the response by state, let alone by district.

The health impact of this mismanagement and poor planning, in terms of the spread of the Covid-19 was devastating. The country was in complete lockdown till 1 May, when the 'Shramik trains' carrying migrant workers back to their home towns and villages began plying. By then, however, the migrant workers living in shanty towns and slums in cities, at least four persons to a room, with limited access to water (so washing hands regularly was out of the question), were contracting the disease from their neighbours and each other, as they struggled to find food for their families or themselves. The result was that they had begun to contract the virus before they began their perilous journey back to their villages by whatever means of transport. Many of those who made it into the packed 'Shramik trains', when they began 1 May, contracted COVID-19 from each other during or before the journey. In other words, 'community transmission' had already begun before the migrants reached their villages. Once in their villages, the disease became viral, as was revealed by the climbing number of cases, as testing ramped up across the country. By then, contact tracing was an unthinkable possibility. Contact tracing had already been practically abandoned in the cities in the early months.

The overall impact was the following. By July 2020, the share of the 9 cities that had accounted for 80% of the cases till then, fell to 50%, while the share of the rest of the country increased to the remaining 50%. The cases kept climbing, so that rapidly India became the second most infected country by number of cases, after the US (and pipping Brazil). In both US and Brazil the disease

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Chengdu.This is an important lesson for everyone – one size does not fit all. We know that with strong action, it is possible to push this virus back. But we also know that the situation in each country – *sometimes even within countries – is different*. Responses must be tailored carefully to the local context." (emphasis added).AlTakarli N.S. Dubai Med J 2020;3:44–49 https://doi.org/10.1159/000508448 The national authorities later adopted public health strategies and follow-ups for cases and contacts, and more than 1,800 teams of epidemiologists were assigned to trace tens of thousands of people a day in Wuhan. In addition, a community-wide temperature screening was implemented through "installing infrared thermometers in airports, railway stations, long-distance bus stations, and ferry terminals". Thousands of health and quarantine stations were also set up in national service areas and in entrances and exits for passengers at stations. The search was later expanded to include screening people at work, in shop, streets.The Chinese government has been investing in new high technology tracking systems as well. One example is the smartphone application which is based on a health code color system that categorizes individuals into three color groups based on their health status and travel history, and then determine whether they need to be quarantined. Another measure that helped in disease surveillance and controlling is the street camera system that can catch and fine individuals walking publicly without a mask . This system is known to be effective as it was previously used during the SARS outbreak but recently updated to include facial recognition and to cover all areas in China.

had been equally mismanaged, perhaps even more so, since the US population is under a fourth of India's, and Brazil's population is barely one-seventh of India's.

Table 1: Covid-19 Cases and Deaths for Major Countries (per 100,000 population)

Countries	Cases/'000 pop	Deaths/'000	Total Cases million	Daily ave. cases in last 7 days		
USA	6712	110.8	22.6	250,721		
EU	3724	89				
S Africa	2073	56.1	1.246	19,042		
Brazil	3772	95.5	8.13	53,980		
India	766	11.1	10.4	17,476		
China	7	0.3	0.97	107		

Source: Financial Times Covid-19 Global Tracker; New York Times Covid Tracker
Notes: Numbers are as of 9 January 2021 for Financial Times (for columns 2 and 3) and NYT (for columns 4 and 5)

Covid deaths recorded per 100 000 population up to end 2020 in India were "only" around 11.1, compared to 58.7 globally, 22.7 in developing countries and 82.8 in developed nations. However, it was still four times greater than for developing Asia as a whole (see Table 1).

We have discussed India above, but why were there vast differences in numbers of coronavirus cases and deaths when comparing China and other big economies, especially United States? In China there had been approximately 97000 cases with only 4,633 deaths till mid-January 2021 (and a fraction of the US cases and deaths per 1000 population, see Table 1), despite China's population of 1.5 billion people and the fact that China was the origin point of the virus. Meanwhile, the U.S. saw the highest cases and deaths per 1000 population of any country. The main reason China had so many fewer cases had to do with how China handled the initial outbreak (see footnote 2); China went into lockdown in Wuhan and Hubei province on January 24, 2020 to ensure that cases would not continue to spread and enforced a standard measure to hospitalize anyone who tested COVID positive. Meanwhile, in countries like the U.S., people were only hospitalized if they had symptoms and those who tested positive without symptoms were often told to self-quarantine.

China spent the full first quarter of the year in lockdown, leading to a very steep drop of 6.8 percent in the country's GDP. Despite this, China did not reopen until the caseload reached zero — which did not happen until March — allowing for any new cases to be handled more quickly and easily.[3]

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[3] By contrast, India was reopening and unlocking in June already, when the number of new cases had not even peak. The peak came in September 2020.

The role of rapid, widespread testing, was critical, so that when a single case appeared after the lockdown period, 10 million people in the surrounding area were tested in two days to identify and prevent any additional cases. Due to these efforts, even though there was an initial drop in China's GDP, in the second quarter of this year the GDP grew by 3.2 precent over last year and, for the third quarter, 4.9 percent.It is only major economy that did not contract during 2020, and its exports and jobs bounced back massively by early 2021.

2. The Pandemic: Economic impact in India and Globally

The result of this combination of lockdown features meant that supply chains even in respect of farm products broke down almost immediately, and remained disrupted for weeks, because transportation across the country was brought to a standstill. India issued its first detailed instructions to its police and bureaucrats only on 15 April, as to what was permitted and what was not. By which time migrant labour were walking back home in the hundreds of thousands, since all travel had stopped.

The combined effect of the strictest national lockdown was a collapse in both supply chains, and contraction in aggregate demand (as unemployment mounted to a calamitous 122 million or quarter of the workforce, from about 30 million openly unemployed in 2019). Not surprisingly, in Q1 of FY 2021 (April-June), GDP collapsed by 23.9%, compared to Q1 of FY 2020. Actually, quarter-on-quarter, which has been the international norm for measuring GDP (i.e. comparing Q4 of FY 2020 to Q1 of FY 2021), the IMF World Economic Outlook reported contraction was actually 25%. These estimates were almost certainly an underestimate, given that during that period of lockdown it was impossible to assess correctly the damage to the unorganized sector GDP.

The Q1 decline of GDP was the worst for any G20 country. The same contraction followed in the following quarter (Q2 of FY 2021), which was again the worst for any G20 country except the UK (where the infection rate was worse than in India). The contraction of India's economy in FY 2021 was still among the worst for G-20 countries.

In April 2020, the Centre for Monitoring Indian Economy reported that 122 million were suddenly jobless, a jump from our estimate of 30 million in 2018-19 (Mehrotra and Parida, 2020). In December 2020, the number of unemployed was still 38.9 million. This situation prevailed despite a fall in the LFPR, which meant that fewer people were looking for work than two years ago, when the unemployment rate was the worst in India's 45 year history.

We next examine the impact of lockdowns on the economy, based on the international evidence.

The Lockdowns and their Economic Impact Globally

IMF has analysed in a cross-country analysis the correlation between the average lockdown stringency and the GDP growth forecast error in the first half of 2020. The forecast error is defined as the deviation of real GDP growth from the January 2020 World Economic Outlook projections,

which are the latest ones before the COVID-19 outbreak. The figure indicates that *there is a clear negative correlation between the stringency of the lockdown measures and the real GDP growth forecast error, suggesting that countries with a tighter lockdown stringency experienced larger output losses* (IMF, 2020).

It finds that the adoption of lockdowns was an important factor in the recession, but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction. Therefore, although easing lockdowns can lead to a partial recovery, economic activity is likely to remain subdued until health risks abate. Meanwhile, the IMF also finds that countries should protect the most vulnerable and find ways to support economic activity compatible with social distancing, for example, by reducing contact intensity in the workplace and enhancing work from home where possible. It also provides new evidence of the uneven effects of lockdowns, which are found to have a larger impact on the mobility of women and younger cohorts. This calls for targeted policy action to prevent a widening of inequality.

Regression results show that lockdowns have a considerable negative effect on economic activity. Nonetheless, voluntary social distancing in response to rising COVID-19 infections can also have strong detrimental effects on the economy. In fact, the analysis suggests that lockdowns and voluntary social distancing played a near comparable role in driving the economic recession. However, what is relevant to our analysis for India is that the IMF also finds: "The contribution of voluntary distancing in reducing mobility was stronger in advanced economies, where people can work from home more easily and sustain periods of temporary unemployment because of personal savings and government benefits. When looking at the recovery path ahead, the importance of voluntary social distancing as a contributing factor to the downturn suggests that lifting lockdowns is unlikely to rapidly bring economic activity back to potential if health risks remain." That is the reason that countries like China were far more successful in reviving economic activity because their lockdown was much more differentiated instead of following a one-size-fits-all approach, even though even China did not recover to levels of GDP growth prevailing prior to the pandemic. However, it is the only country that had positive growth in the G20; that was primarily because of a. the limited and carefully planned nature of its lockdown, which caused less disruption to supply chains (which recovered almost fully, so that Chinese exports to the world increased sharply back to 2019 levels); and b. the larger stimulus it put in place (that caused an improvement in domestic aggregate demand).

The IMF's findings, meanwhile, suggest that economies will continue to operate below potential while health risks persist, even if lockdowns are lifted. Therefore, it states: "…policymakers should be *wary of removing policy support too quickly and consider ways to protect the most vulnerable and support economic activity consistent with social distancing*." (emphasis added) These are precisely the things that the Indian state has failed to do (as we discuss below), during the first wave of the pandemic. Now that India (and certainly Europe, though not rest of Asia nor USA) is mid-way through the second wave of the Covid pandemic, there is little scope for removing policy support

It is notable that the IMF's analysis across countries finds unequal effects of lockdowns across gender and age groups. The pandemic is having disproportional effects on the most economically vulnerable segments of the population. Their review of the literature documents strong negative effects on lower-income households, workers with lower educational attainment, minorities, immigrants, and women, as surveys in India also found repeatedly (SWAN, 2020; Azim Premji University, 2020; Action Aid 2020). For example, unlike during previous recessions, women's employment has generally declined more than men's has (Agarwal, 2021). They find that the higher reduction in women's mobility after the pandemic may reflect that women are more likely to care for children when schools are closed.

In summary, we are arguing that the economic impact in India of the pandemic was the severest for any G-20 country because of the poor management of the lockdown (which suffered from four problems). Severity of lockdowns have impacted the economy, as shown by international evidence. The lockdown's severity impacted India's economy far more than in other countries, without necessarily controlling the pandemic. There was nothing inevitable about India having the second highest number of cases in the world, after the US. China has a larger population yet it controlled its pandemic quickly, with a few months, and managed economic growth – when all other economies in the world were contracting. By contrast, Brazil and USA, whose management of the pandemic was also poor, have seen their Covid-19 cases rising to the highest and the third highest in the world, despite these countries having a population just over 10% and just under 25% of India's population.

3. Peer country stimulus

In this section we examine briefly the nature of the stimulus put in place by some key peer-group countries in the G-20. The sum and substance of our argument in this section is that there are three differences between India's response to the economic impact of the pandemic and that of other emerging market economies (EMEs henceforth). First, the size of the fiscal stimulus for India was much smaller than even EMEs, and of course much smaller than for developed countries. Second, the size of the monetary policy stimulus was much larger than that of the other EMEs. Third, the size of the credit stimulus was also much larger than for other EMEs.

Table 2 : Size of stimulus by country grouping: India versus the rest (% of GDP)

Type of stimulus	India	Emerging Market Economies	Developed Economies
Fiscal	2.2	4.7	8.5
Monetary	6	1.6	14.2
Credit Stimulus	7	1.9	10.8

Source: The 4.7%GDP number as well as the other numbers for EMEs and High Income countries are from MSIM, IMF and UBS. For India, total claimed support (fiscal + liquidity + credit guarantee) is

We will have occasion to discuss the nature of India's stimuli in the next section. But this section examines the stimulus of a few EMEs (especially in the BRICS group of countries). We deliberately avoid discussing the stimulus of the developed economies, since there is an order of magnitude difference between their capacity and that of the EMEs. Also, for reasons of space, we decided to not discuss the monetary stimulus or the credit stimulus put in place by the EMEs, because there is considerable similarity between the EMEs in respect of the nature of these latter two types.

Given that Russia has a much higher level of per capita income than any of the other EMEs in the BRICS group, we deliberately left out Russia, while including some other countries for purposes of comparison. The stimuli of the selected countries is discussed in the following order; China, Brazil, and South Africa[5].

China

Fiscal stimulus. An estimated RMB 4.8 trillion (or 4.7 percent of GDP) of discretionary fiscal measures were announced. Key measures included: (i) increased spending on epidemic prevention and control, (ii) production of medical equipment. In addition, the economy related measures included: (i) accelerated disbursement of unemployment insurance and extension to migrant workers, (ii) tax relief and waived social security contributions, and iii) additional public investment. Automatic stabilizers further increase on budget support.

The overall public sector support is expected to be higher. For example, support outside the budget includes additional guarantees for SMEs of RMB 400 billion (0.4 percent of GDP) and fee and tariff cuts of over RMB 900 billion (0.9 percent of GDP) for usage of such items as roads, ports, and electricity.

In China, the hospitality industry was not as heavily impacted, as things began to return to normal after the initial lockdown: soon after March, domestic travel within China had no restrictions, which given China's large size allowed for flights to many different cities. Additionally, because the cases had hit zero, businesses such as restaurants and movie theaters also opened up quite

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[4] The 4.7% GDP number as well as the other numbers for EMEs and High Income countries are from Morgan Stanley, IMF Fiscal Monitor and UBS.   For India, total claimed support (fiscal + liquidity + credit guarantee) is our approximate calculation of 15%GDP. Of this, direct fiscal support (fiscal stimulus) of 2.2%GDP, liquidity support (monetary stimulus) of 6%GDP and remaining of credit guarantee (credit stimulus) of 7%GDP.

[5] Unless otherwise stated, we rely on IMF (2020) for most of the information about the details of the stimuli in each of these countries in order to maintain a certain consistency across country elements of the stimuli.

quickly, allowing for parts of the entertainment industry to start their road to economic recovery. Naturally, for these reasons the labour market was not seriously impacted.

Brazil

Fiscal stimulus. To mitigate the impact of COVID-19, the authorities announced a series of fiscal measures adding up to *12 percent of GDP*, of which the direct impact in the 2020 primary deficit is estimated at 8.4 percent of GDP. Congress declared a state of "public calamity" on March 20, and thus set aside the government's obligation to comply with the primary balance target in 2020, and also invoked the escape clause of the constitutional expenditure ceiling to accommodate exceptional spending needs. The government essentially announced an emergency separate (so called 'war') 2020 budget.

The fiscal measures included the following: a. temporary income support to vulnerable households (cash transfers to informal and low-income workers), on top of the already significant Bolsa Familia conditional cash transfers that have made Brazil's social assistance programme well recognized globally, and seen as extremely successful after a series of impact evaluations; b. bringing forward the 13th pension payment to retirees, c. expanding the Bolsa Familia program with the inclusion of over 1 million more beneficiaries, d. advance payments of salary bonuses to low income workers, e. employment support (partial compensation to workers which are temporarily suspended or have a cut in working hours, as well as temporary tax breaks). The government also lowered taxes and import levies on essential medical supplies, and new transfers from the federal to state governments to support higher health spending and as cushion against the expected fall in revenues.

In order to address the crisis in the health sector and minimize the effects on the income of the most vulnerable families due to lower economic activity, the federal government put forward a package of fiscal measures that add up to about 8.6 percent of GDP. For subnational governments, the federal government pledged to keep state and municipal transfers (FPE and FPM, respectively) at the same levels as in 2019. In addition, it approved transfers to finance expenditures related to the health crisis (World Bank, 2020).

Another aid package for states and municipalities (worth R$60 billion, or 0.9 percent of GDP) is intended to partially offset local tax revenue losses, and finance expenses related to COVID-19. Of this total, R$50 billion can be freely used by each subnational entity to finance its expenditure needs in the face of reduced tax revenues. The remainder is earmarked for health care and social assistance.

Financial assistance to states and municipalities – with a temporary stay of debt payments– was also announced.

Public banks are expanding credit lines for businesses and households, with a focus on supporting working capital (credit lines add up to 4.5 percent of GDP), and the government will back about 1 percent of GDP in credit lines to SMEs and micro-businesses to cover payroll costs, working capital and investment.

South Africa

South Africa has the highest number of Covid-19 cases in Africa. There is expectation that there will be a decline in real GDP growth by 3.6 percent in 2020 – under a UNDP-Government of South Africa report's "optimistic scenario" – resulting in an overall decline of GDP growth by 5.1 percentage points, as compared to the economy's projected performance before the onset of the COVID-19. Under this report's "pessimistic scenario," GDP is likely to fall by 6.4 percent, leading to a nearly 7.9 percentage point decline in 2020, compared to the economic performance projected before the onset of the COVID-19. As a result, at least five years must pass for South Africa's economy to return to pre-2019 levels – unless innovative actions are implemented (UNDP and Government of South Africa, 2020).

Net capital outflows (bonds and equities) since the beginning of the pandemic have amounted to $ 12.1 billion (4.2 percent of GDP); and the rand has depreciated by about 0.5 percent vis-à-vis the US dollar. Following a request from the government, on July 27 the IMF approved emergency assistance under the Rapid Financing Instrument equivalent to US$4.3 billion.

The key Policy Responses as of December 17, 2020 were as follows on the fiscal side. As part of the second phase of recovery in South Africa, the government announced a social relief and economic support package of R500 billion, or *around 10 percent of GDP*. This fiscal support package is at the centre of the government's second phase economic response (UNDP-Government of South Africa).

The government assisted companies and workers facing distress through the Unemployment Insurance Fund (UIF) and special programs from the Industrial Development Corporation. Additional funds were made available for the health response to Covid-19, workers with an income below a certain threshold received a small tax subsidy for four months, and the most vulnerable families are receiving temporarily higher social grant amounts until end October 2020. A new temporary Covid-19 grant was also created to cover unemployed workers that do not receive grants or UIF benefits and was extended for an additional 3 months through January 2021. The numbers of food parcels for distribution was increased.

Funds were made available to assist SMEs under stress, mainly in the tourism and hospitality sectors, and small-scale farmers operating in the poultry, livestock, and vegetables sectors. A new loan guarantee scheme is helping companies with turnover below a certain threshold to get bank financing for the payment of operating expenses as of May 12. Allocations were made to a solidarity fund to help combat the spread of the virus, with assistance of private contributions. The

revenue administration accelerated reimbursements and tax credits, allowing SMEs to defer certain tax liabilities, and issued a list of essential goods for a full rebate of customs duty and import VAT exemption.

What is obvious from the above analysis of the stimuli given by China, South Africa and Brazil, that they took significant action on the fiscal side, reflected in the size of their fiscal stimulus. Given that all three countries have much lower shares of their workforce that is informal, the vulnerability of their workforce was lower than that of India's workers, where 91% of workers have social security. In the light of these facts, we turn to the actions taken by the government of India.

4. The Stimulus in India to counteract the pandemic's effects on the economy

Fiscal

India's fiscal support measures can be divided into two broad categories: (i) above-the-line measures which include government spending (about 3.2 percent of GDP, of which about 2.2 percent of GDP is expected to fall in the current fiscal year), foregone or deferred revenues (about 0.3 percent of GDP falling due within the current year) and expedited spending (about 0.3 percent of GDP falling due within the current year); and (ii) below-the-line measures designed to support businesses and shore up credit provision to several sectors (about 5.2 percent of GDP) (IMF, 2020).

In the early stages of the pandemic response, above-the-line expenditure measures focused primarily on social protection and healthcare. These include in-kind (food; cooking gas) and cash transfers to lower-income households (1 percent of GDP); wage support and employment provision to low-wage workers (0.5 percent of GDP); insurance coverage for workers in the healthcare sector; and healthcare infrastructure (0.1 percent of GDP).

The measures announced in October and November 2020 include additional public investment (higher capital expenditure by the central government and interest-free loans to states, of about 0.2 percent of GDP) and support schemes targeting certain sectors. The latter includes a Production Linked Incentive scheme targeting 13 priority sectors and is expected to cost about 0.8 percent of GDP over 5 years, a higher fertilizer subsidy allocation benefiting the agriculture sector (0.3 percent of GDP) and support for urban housing construction (0.1 percent of GDP). Tax measures are merely confined to postponing some tax-filing and other compliance deadlines, and a reduction in the penalty interest rate for overdue GST filings. These are more in the nature of structural reforms to stimulate investment in 13 manufacturing sectors, and intended to have effects in the medium to long run, rather than revive aggregate demand immediately or even the short-run.

Measures without an immediate direct bearing on the government's deficit position aimed to provide credit support to businesses (1.9 percent of GDP), poor households, especially migrants and farmers (1.6 percent of GDP), distressed electricity distribution companies (0.4 percent of GDP), and targeted support for the agricultural sector (0.7 percent of GDP), as well as some miscellaneous support measures (about 0.3 percent of GDP). Key elements of the business-support package are various financial sector measures for micro, small, and medium-sized enterprises and non-bank financial companies, whereas additional support to farmers will mainly be in the form of providing concessional credit to farmers, as well as a credit facility for street vendors. Agricultural sector support is mainly for infrastructure development. However, the evidence accumulating from surveys by the All-India Manufacturer's Association are that MSMEs have been closing. Nearly 35 per cent of India's micro, small and medium enterprises (MSMEs) and about 37 per cent of self-employed persons were considering to shutdown their operations despite the financial packages announced by the Centre, according to a survey conducted by the All India Manufacturers' Organisation (AIMO) over May 2020. The survey results were based on responses from 46,525 self-employed, MSME owners, corporate CEOs, employees and experts.[6]

Monetary Policy and Macro-Financial

Since March 2020, the Reserve Bank of India (RBI) reduced the repo and reverse repo rates by 115 and 155 basis points (bps) to 4.0 and 3.35 percent, respectively, and announced liquidity measures and open market operations (including simultaneous purchases and sales of government securities), resulting in cumulative liquidity injections of 5.9 percent of GDP through September.

Earlier, the RBI introduced regulatory measures to promote credit flows to the retail sector and micro, small, and medium enterprises (MSMEs) and provided regulatory forbearance on asset classification of loans to MSMEs and real estate developers (later extended to loans from NBFCs).

On May 13, the government announced measures targeting businesses: (i) a collateral-free lending program with 100 percent guarantee, (ii) subordinate debt for stressed MSMEs with partial guarantee, and (iii) partial credit guarantee scheme for public sector banks on borrowings of non-bank financial companies, housing finance companies (HFCs), and micro finance institutions.

On August 6, RBI permitted banks to restructure existing loans to MSMEs classified as 'standard" (as of March 1, 2020) without a downgrade in the asset classification. The restructuring of the borrower account is to be implemented by March 31, 2021.

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https://economictimes.indiatimes.com/small-biz/sme-sector/over-one-third-msmes-start-shutting-shop-as-recovery-amid-covid-19-looks-unlikely-aimo-survey/articleshow/76141969.cms

The real problem is that with such a large increase in credit support and monetary policy support (through increased liquidity) – as noted in a previous section – the hitherto preexisting NPA situation of Indian banks, especially the public sector ones, is expected to become much worse. The RBI itself reported (Financial Express, January 12, 2021) that loan losses in the banking sector, as measured by the gross non-performing asset (GNPA) ratio, could nearly double to 13.5% by September 2021 in a baseline scenario, and to as high as 14.8% in a severe-stress scenario resulting from the pandemi. The GNPA ratio stood at 7.5% in September 2020. But the RBI finds that for Public banks the GNPA situation will worsen from 9.7% in September 20 to 17.6% September 21; and for private banks 4.6 to 8.8%. The implications for future growth will be serious. Unemployment rates would worsen further beyond the ones prevailing before the pandemic (see CMIE Economic Outlook for year-wise and month-wise rates since 2016).

5. What other fiscal measures were required to revive aggregate demand?

What is remarkable about the rescue package in India, impressive though it sounds at first sight (because it is 15% of GDP in aggregate over three packages), is that its fiscal component is a fraction of the total: barely amounting to 2.2% of GDP in FY 2021, which is much smaller than all other peer countries in the G 20 (see Table 2). Second, it is even smaller than in response to the Global Economic Crisis of 2008 (3.5% of GDP), when the economic impact was much weaker.

Given the fact, as we discussed in Section 1, our lockdown had at least four problems, which resulted in a pandemic on a scale that India could have avoided, one would have expected a stimulus package that would compensate for the serious economic effects of the lockdown. Rather, what India's citizens got was the opposite.

Hence, in this final section, we will focus on what could have been done, and still done to revive demand, to revive private investment and increase personal consumption with a view to positively impact the demand for workers. (though with a second Covid-19 wave in place as of March 2021 partial lockdowns across the major economic hubs of India resumed)..

Increasing joblessness has been combined with two other phenomenon. Wage rates have fallen further in rural areas, with millions of migrant labour having gone back, increasing surplus labour in agriculture. This would have a ratchet effect on urban wages in any case. Given the urban labour market is already depressed (urban unemployment is 9.1% in December 2020, according to CMIE data), wage rates will in any be depressed (Mehrotra and Parida, 2021).

There are four types of actions that the government should have taken (and it is hoped that it may still take in FY 2021-22, if we are to correct for the failures prior to 2020, and especially in 2020: enhanced capital expenditure; an urban employment guarantee; cash transfers in the form of a minimum income guarantee; and enhanced public health expenditure. We discuss each in turn.

Capital expenditure

Investment, whether public or private, is an engine of GDP growth (one of the four, as we discussed earlier), and hence jobs. Most public investment in India is by state governments, not the Centre. If public investment for India is about 7% of GDP (as in the last several years), then central government contributes barely 1.4% of GDP in 2018-19, and budgeted for FY 20 was 1.3% of GDP; so state governments are critical to public investment. However, given the contraction of the economy, the revenue situation of the state governments (discussed below) is in parlous condition. Public investment is critical to reviving investment overall, given both (Keynesian) theory and empirical evidence, because it crowds in private investment. The latter has been consistently low since the slowdown began, as we discussed in a previous section. The hope for job creation, therefore, lies in raising public investment significantly.

Unfortunately, however, public expenditure actually shrank in the first two quarters of FY 2020-21. Although the Budget for FY 2022 does make provision for greater public investment in infrastructure. However, in FY 2021, when all other engines of growth were shrinking, public expenditure should at least have kept up, if not increased – that is the meaning of counter-cyclical fiscal policy. What we got was the opposite.

Of the six years since 2013-14, in three of those years (2014-15, 2017-18, and 2019-20) actual public investment of the Centre has been lower than the budgeted. At best in FY 21, the Centre might be able to manage to spend the budgeted amount of roads, defence, infrastructure, water supply, urban development and domestically produced capital equipment (which was at 1.3% of GDP, but since GDP has fallen, the share of GDP might be slightly higher).[7]

As part of the fiscal stimulus in FY 21, the Centre also provided a Rs 12,000 crore interest-free 50-year loan to states to be spent entirely on new or ongoing capital projects. How miniscule this amount is can be gauged from the fact that in 2017-18, the states together spent nearly Rs 10 lak crore (or nearly Rs 10 trillion) on public investment. The aggregate debt of 12 major states is estimated to deteriorate to 28.9 per cent of gross state domestic product in 2020-21, from 22.3 in the previous fiscal and 21.9 per cent in FY19, and, hence, [states] may have to undertake an aggregate cut of Rs 2.5-2.7 trillion in their budgeted capital spending in FY21 on account of a 'sharp revenue shock'. That means the burden for public expenditure now must fall upon the central government, as it should have in 2020-21.

Urban Employment guarantee

Another means of creating jobs and thus raising private consumption demand (which collapsed as a result of growing joblessness and falling wages in 2020 and over the period 2013-2019) is by initiating an urban employment guarantee (alongside the higher allocations for MGNREGA). As per PLFS 201–19, open unemployment stands at a historic high of 6.1 per cent, and unemployment among educated youth reached 20 per cent. Unemployment in urban areas

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[7] We will only know the actual outcome when final estimates of GDP of FY 21 and its components become public later in calendar year 2021 (so far we have only second provisional estimates).

is higher than the unemployment rate in rural areas. The urban workforce remains either self-employed or in casual wage work. At the same time that our towns and cities are facing a crisis of jobs, there is also a crisis of quality of life due to ecological stress and lack of adequate public services (Basole et al, 2020).

Urban local bodies (ULBs) are under-resourced, are severely understaffed and are unable to hire more workers since they are financially restrained, which can be addressed by a centrally funded programme covering worker wages. This programme will *cover ULBs with a population of less than 1 million* as per the latest Census. This programme will thus cater to about 4000 small and medium towns, and keep all the major metropolitan cities as well as most state capitals out of its purview. Census towns would not come under the purview of the present programme since MGNREGA already covers all areas which do not have a ULB. In 2011, cities with a population of less than 1 million accounted for 162.3 million people, or about 50 per cent of the urban population (and 13.5 per cent of India's total population).

Its value also lies in that spending funds on an urban employment guarantee will substitute for MGNREGA expenditure, since it will invite workers back to towns, and help develop their infrastructure. We have elsewhere argued (Mehrotra, 2020a) that there are 6500 manufacturing clusters in India, located mostly in small towns and cities, which need much better infrastructure. A lot of unorganized manufacturing in India takes place in such clusters, thus providing jobs. Better infrastructure through an urban employment guarantee focused on such cluster towns will invite more investment into such manufacturing, thus creating future jobs (not just construction jobs immediately).

Cash Transfer to ensure a Minimum Income Guarantee

We saw in section 2 that almost every country in the world, especially EMEs, resorted to cash transfers as a means of alleviating the pain of loss of jobs on account of lockdown. India offered barely Rs 500 monthly for the three months (April-June 2020) into Jan Dhan accounts held by women. This was to benefit 20 crore women Jan Dhan account holders. However, then it stopped.

Why is cash transfer on a sustained basis or a Minimum Income Guarantee (MIG) for the poor needed, especially now, post-Covid?[8] The latest NSS All India Debt and Investment Survey (2013) shows over 70% rural population has one or more standing loans and nearly 74% of farmer households were in debt. These debts heavily constrain their expenditure on non-essentials, especially manufactures, reducing effective demand for manufactures, leading in turn to low investment in manufacturing. Thus, the poor's never-ending debts impact not only

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[8] The *three* pre-requisites for an unconditional MIG to the poor were not in place ten years ago: *appropriate identification of poor; bank accounts with every poor household; beneficiaries who could be biometrically identifiable/cross-checked (*Mehrotra, 2016*).* Today, they are in place and it is administratively feasible now.

human well-being but have macro-economic consequences. The strong case for MIG derives from the fact that the poor rarely accumulate assets and if they do, they are lost to droughts, floods, displacement by projects, catastrophic health expenses, etc. They need cash debts to meet consumption as well as contingency needs; they rarely borrow for productive purposes. Non-routine consumption can push them further into debt and poverty. A minimum incomeguarantee will empower households, giving them some fungible funds, especially if given towomen (for a detailed discussion of the design of such a cash, see Mehrotra et al, 2020).

Post-Covid, the collapse of jobs and incomes means that the urgency for such a MIG has only increased. IMF WEO 2020 notes that the World Bank estimates that, compared with pre-pandemic projections, the COVID-19 pandemic will increase the global share of people living on less than $1.90 a day by 1.14 percentage points, which represents almost 90 million people newly living in extreme poverty—the first increase since 1998. Of these, 40 million will be in South Asia alone (World Bank, 2020), most of whom will be in India (given India's large population). Income inequality widened during past pandemics, especially over the medium term (see Furceri and others 2020).

Hence, we propose not a universal but a target minimum income. One major problem with targeting is how to target without a beneficiary being misidentified, resulting in exclusion-inclusion errors. Our approach is to identify households that are directly verifiable, and face observable deprivations or vulnerabilities. We assume that every reasonably well-off household will be excluded, and we then progress to include households based on their relative level of deprivation. Any attempt to *identify beneficiaries* of MIG based on incomes is a risky exercise in any economy with extremely high share of informal incomes and employment. The NYAY design (suggested in early 2019) for this (and other reasons) was inappropriate.

India's reasonably robust Socio-economic and Caste Census (SECC,2011-13) is useful for identifying households with one or more of seven deprivations; each deprivation is based on observable, directly verifiable household characteristics, providing a much better indicator than 'income' (see Mehrotra, 2016 for an analysis of SECC).

MIG could offer cash transfers in no case higher than Rs.8000 per annum on a medium term basis (except temporarily for a few months in 2020 due to the post pandemic economic shock, when monthly transfers could be Rs 2500 per month).

The coverage of the scheme as per SECC would be 62.4 percent of all households of India. It is expected to cover 70 percent of rural households and around 40 percent of urban households.

The fiscal cost of the MIG for rural households for graded transfer will be Rs. 56,900 cr (0.28 percent of GDP). For urban beneficiaries MIG for graded transfer will be Rs. 12, 502 cr (0.06

percent of GDP). Overall the expenditure on MIG as per the graded payment will be less than Rs. 70,000 crore, or just 0.34 percent of the GDP (at 2019-20 prices).

By comparison, PM KISAN, the cash transfer made provision for Rs 6000 annually (since February 2019), is only expected to cover around two third of landowning farmer families. Also, it is exclusionary in nature since it leaves out landless labourers, tenant farmers and agricultural workers that are deprived and underprivileged, despite being in greater need of income support. Our coverage is much more inclusive than that of PM-KISAN, and if our proposed MIG (70 percent rural and 40 percent urban coverage) at a cost of Rs 69402 crore, was to replace PM KISAN (budget Rs. 60000 cr), the incremental expenditure would be just Rs. 9,402 cr. Our MIG proposal would cover almost all the PM KISAN beneficiaries.

Increasing public expenditure on Health

Another means of raising aggregate demand in the economy is for the state to increase public spending on health (which the Budget forFY 22 has still failed to do). Public expenditure on health never exceeded 1.15% in India's history; contrast that to 2.5% of GDP in China, and on average 7% of GDP in OECD countries. India's National Health Policy of 2017 envisioned this expenditure at 2.5 per cent of GDP by 2025. However, the Centre's share remained around 0.3 per cent of GDPover the years. The only increase in Budget FY22 was the Rs 35000 crores for Covid vaccines.

Increasing public health expenditure is a dire necessity in all states, but the poorer eastern and southern states especially (Mehrotra, 2020). Public health strengthening can help to control thepandemic faster, and minimize unnecessary morbidity and mortality, which undermines economic recovery. In addition, it is a highly labour-intensive activity, hence will generate jobs for both physicians as well as para-medical staff, quite apart increase the demand for medical equipment and drugs, as well as diagnostic services – all of which generate jobs.

Concluding remarks

We have argued in this paper that India's worst contraction in 40 years and the largest GDP decline for any G-20 country was accounted for by a lockdown that was very sudden, too early, poorly planned, unnecessarily national in scope and way too stringent. Despite this lockdown, and more likely due to it, India suffered a worse contraction than was warranted merely by the effects of the pandemic, greater joblessness, and a higher likely increase in poverty.

To make matters, the India government's monetary and credit response was over the top, much higher than in other EMEs and even developed countries. This was particularly problematic because India's banks were already reeling from a 'double balance sheet' problem, with corporate and bank balance sheets overly stressed: the gross non-performing assets of Indian banks are likely to worsen from 8.5% (2020) to 14.5% in 2021 – thus reducing prospects of further credit growth, and hence dampening future GDP growth. The prospect of achieving 7% GDP growth, necessary

to reduce poverty, has been undermined. As though that was not enough, India'sfiscal stimulus was lower than in any EME. The lockdown had led to a collapse in aggregate demand in an already slowing economy, and what was needed was a higher than EME fiscal stimulus: the opposite happened, with inevitable consequences.

We have made the argument for a larger fiscal stimulus now comparable to the one put in place at the time of the global economic crisis (with a new focus on capital expenditure, a minimum income guarantee, a urban employment guarantee and strengthened public health system). How would the resources be mobilized? Our proposals would add up to no more than 1.5% of GDP at the very most, taking into the account the fact that both the urban employment guarantee and a minimum income guaranteewould be substitutive of marginal expenditure on MGNREGA and PM KISAN respectively. We closed by making suggestions about what an alternative fiscal package that actually raises aggregate demand would have looked like – which is still needed.

First, the government of India needs to borrow more than it has in FY 2021. It is expected the fiscal deficit of the Centre alone will rise to at least 9.5% of GDP in fy 2021, partly because of the decline in GDP and partly because off-budget items like arrears to the Food Corporation of India have been shown in the budget. Real expenditure planned for FY 2022 is barely a miniscule 0.1% of GDP higher in nominal terms relative to FY 2021, and hence in real terms it is actually lower by at least 6%, which has been the inflation rate in FY 2021.[9]

Second, At the same there are possibilities of raising revenues of the non-tax type: monetise government and PSU land as rapidly as possible. Railways holds 10 mn hectares surplus that can be either sold or leased out, generating revenues over a long time. Second, the goal of divesting government equity in public enterprises and in PSBs will also generate resources for public infrastructure investment – which should crowd in private investment. It could also be partly used to recapitalize PSBs, to enable them to increase lending.

Third, following the maxim that a 'crisis is also an opportunity', reducing non-merit subsidies will create fiscal space to promote inclusive growth (Mundle 2019, Mundle and Sikdar 2019). Deep fiscal reforms can actually free up considerable fiscal space which can be used to finance a large volume of additional public spending. On the revenue side this would have three main components: non-merit subsidies, tax expenditures and savings from excess appropriations. Estimates indicate that unwarranted non-merit subsidies, with no public interest rationale for under recovery of costs, amounts to over 5.7% of GDP. Thus, taken together the potential for additional

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[9] India's public debt to GDP is likely to increase to a record high of 89.3 per cent in 2020, breaking the previous high of 84.2 per cent in 2003.The ratio was 72.3 per cent in 2019 and 68.8 per cent five years ago in 2015, according to IMF WEO. The fall in GDP in 2020 accounts for at least 4% of the rise. If GDP growth does not return to 7% the public debt to GDP may not fall.

fiscal space through rationalization of non-merit subsidies, reduction of tax exemptions and concessions and greater efficiency in public spending is an enormous 12.2% of GDP. [10]

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[10] Even this is a lower bound estimate as Mundle and Sikdar (2019) have not included in it the tax concessions and exemptions or excess appropriations of state governments

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