Rebuild India's confidence, revive the economy

Context:

- The article co-authored by the former Prime Minister Dr. Manmohan Singh discusses the **economic impact of the COVID-19 pandemic** and suggests a few policy measures to address this challenge.

Economic impact of the pandemic:

- India entered the COVID-19 crisis in a precarious position, with **slowing growth, rising unemployment and a strained financial system.** The epidemic has made it more painful.
- The COVID-19 pandemic and the subsequent regulations have had adverse impacts on livelihoods and the larger economy. The economic impact of COVID-19 is expected to be bigger than the health impact itself.
- The global economy is expected to experience one of its worst years in history and the **Indian economy is expected to contract significantly for the first time in many decades.**
- Economic contraction does not just imply a decrease in GDP numbers but marks a reversal of years of progress.
- The economic contraction will lead to a significant number among the weaker sections of the society **slipping back into poverty**.
- Many enterprises may be forced to shut down.
- **Severe unemployment** may lead to wastage of the human resource of an entire generation.
- The economic contraction and the subsequent **shortage of financial resources** will adversely impact the state's ability to feed and educate the children.
- The impact of an economic contraction would be especially severe on the poor and the vulnerable sections.
- There is also the underlying sentiment of **fear, uncertainty and insecurity prevalent in people, firms and institutions.**

Way forward:

- The article argues that the slowdown in economic activity is a function of both external factors such as the lockdown and behavioural changes of people and enterprises, driven by fear, and calls for definitive and urgent steps to revive the economy back to good health.
- The article argues that the key to reviving India's economy would be to inject confidence back in the entire ecosystem involving the people (consumers), entrepreneurs and the bankers.
- The path to sustained recovery is to **improve confidence and sentiments in society, using economic tools of fiscal and monetary policies.**
- **Cash support:** The record number of people demanding work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme at minimum wages despite the robust agricultural activity seems to be indicative of the extreme duress among India's poor.
- The article argues that despite the additional budgetary allocation for the MGNREGA programme it may not be enough and argues the case for **direct cash assistance for the poor.**
- India is perhaps the only large democracy that has not provided direct cash assistance of a significant amount during the COVID-19 crisis.
- Money in the hands of people can provide an immediate sense of security and confidence for the poor.
- The article argues that the apprehension that providing large cash assistance may deter people from returning to the workforce when needed and starve industry of labour is unfounded. The experience in other economies like the U.S. points otherwise as, despite extensive government aid to the unemployed, people were still looking for work.
- **Addressing financial system challenges:** The article calls for **restoring confidence in the financial system**.
- COVID-19 assistance measures undertaken by the Reserve Bank of India (RBI) and the government such as **interest rate reductions, credit guarantee and liquidity enhancement schemes,** though are welcome steps, may prove to be ineffective since banks are not confident of lending.

- The revival of the health of the banking sector must, apart from involving steps such as **capital infusion and disinvestment of public sector banks,** also involve **allowing institutions such as the RBI, public sector banks, bankruptcy boards, securities and insurance regulators to function freely and professionally.**
- **Restoring confidence among investors:** Entrepreneurs must feel confident about reopening and making investments.
- The confidence among people to spend and among bankers to lend will induce confidence in the private sector to reopen and invest.
- **Restoring confidence among businesses with greater access to capital** will help them invest and create jobs. **Providing credit guarantee schemes for corporates** would prove helpful in this direction.
- **Guarding against hasty decisions:** The article argues against knee-jerk reactions such as protection of Indian industry through trade restrictions. This would not be able to catalyse economic activity immediately and also would mark a dangerous reversal of established industrial policy that has generated enormous economic gains over the last three decades.
- **Ensuring financial resources:** Improving capital adequacy of banks and providing credit guarantee schemes for corporates would require significant financial resources.
- Given that the government is facing a major shortfall in revenues and that new avenues for tax revenues are not feasible in the short term, higher borrowing by the government is inevitable.
- The article argues that the government **cannot afford to be too fiscally restrained in these distressing times.**
- India can make full **use of loan programmes of international institutions such as the International Monetary Fund and the World Bank.**
- Deficit monetisation by the RBI, which involves printing money, must only be used as the last resort when all other options are exhausted.