

Reforms Package-Covid-19

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It is difficult at this stage to get a sense of the extent of the slippage of the fiscal deficit that the government can allow. Suffice it to say that the inevitable slippage has to be measured against how much debt the economy has to sustain.

For developed economies, even with interest rates near zero and a high fiscal deficit will still not create runaway problems of debt sustainability. But for India the combination of a high primary deficit, a relatively high interest rates and low nominal GDP growth can land the economy in a position where debt sustainability may well become an issue. This would happen even if RBI monetises the incremental issuance of government bonds.

So while economic support to many sectors will be necessary, it is more important to use the price signals and smart reforms to recharge the economy, even for sectors like SMEs.

Let us begin with a simple example. There is a massive shortage of masks and PPE for medical workers. But it will be unwise for the government

to begin to produce those. It will be bogged down with the details. Instead it will be better to rely on the price mechanism to encourage more producers to manufacture those, provided the necessary regulations to manufacture those are strictly enforced.

Similarly, the migrant workers will return only if there is a pull from their previous employers. But those employers are short of cash and more important will not be able to provide initial salary for these people. As an intermediate step the government could begin an urban works programme to employ the migrant labour, but it should be only used to build facilities for the urban poor to stay. Since younger people are at less risk from Covid19, this could draw in women in the age group from 16 to 50, of whom less than 10 per cent are working – this will bring in ample spare capacity into the workforce. So, then,

Immediate priorities are:

1. The government should be prepared for a long haul of weak economic growth and prepare accordingly. It may be wise to prepare a revised budget for two years – FY21 and FY22 at one go, to give stability to the economy
2. Rationale: The Government of India is\ would be under massive pressure to provide financial support to all sorts of sectors. Yet in providing those it is essential to distinguish between short and medium term support. This distinction will be needed it to see through immediate pressures and plan for a longer horizon. Such a distinction will offer clarity on both what GOI will do and will not do. Consequently it will assure FIIs, steady our sovereign ratings

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and so give assurance to all that the repair of the economy will continue without stoppage for two years, at least. So a two year special budget is a must.

The government will reap huge gains if it makes disproportionately high investment in public health. This will include putting out clearly thought through tenders and orders for a wide range of health goods. Such orders will immediately incentivise production of these goods. But there should be no price controls as that will create a massive problem of managing a black economy.

Rationale - GOI should plan for :

- building up a massive para medical force on the scale of the army. It will not be complete in a year but it will be a valuable building block to arrest future epidemics and provide employment avenues;
- build and stock sub district level hospitals in partnership with PPP. Set standards for maintaining those hospitals and bid them out like regional airports plan. (It is difficult but can be made remunerative for private

sector by making clear what is to be provided free and what is chargeable.)

- create pan India drug chains for epidemics by offering to buy massive supplies from private sector - use Jan Aushadhi to the last mile
 - set up health regulator (irda has also asked for it)
3. Could we offer a testing voucher to all those with low income (say Rs 2000 per person) to encourage voluntary mass testing for Covid19.
 - Rationale: Let us make such voucher available only for relief work in urban areas. Kirana shops are easily available in towns and can be monitored for misbehaviour. No need to create parallel PDS. Also the vouchers should be virtual, using our telecom backbone and should be given only after recipients give proof that they have got themselves tested for Covid19. Creates a national medical and food safety net
 4. It is necessary for the government to provide consistent policies and avoid knee jerk reactions like the short term ban on export of hydroxychloroquine tablets



Medium term priorities are:

- GOI should use the advantage of Digital India and plans for 4th generation Industrial Revolution to design policies that encourage health and pharma sector companies to enter into long term contracts with the government.
- GOI has made the right moves by pushing for stable financial economic policy reforms which foster the liquidity of the market. It should stick to those. For instance, plans to change inflation targeting should be scrapped, for the next two years.
- Encourage NBFCs to lend to SMEs and MFIs. Despite RBI clarifications, many NBFCs are not allowing moratoriums on loans to SMEs and MFIs.
- Reduce GST rates and bring them close to a simple two rate regime. Since tax receipts is

going to be low in FTY 21 in any case, this is the time to make the mega changes in GST. Also bring oil and coal sector in GST. Both these measures will get money into the hands of the more vulnerable households of India, who would see a direct decline in the price of kerosene or LPG or other petroleum products, and an indirect decline in the prices of all goods owing to reduced costs of transportation. At the same time, it is a long-delayed structural reform

- Repeal Epidemic Diseases Act of 1897 with something that is responsive to modern Indian constitutional ideas, with the necessary checks and balances.
- It can be used to trigger off reforms in health sector including setting up of a health sector regulator, encourage private sector led testing facilities, improve Indian data on health.



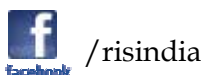
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