Numbers on the Edge

Assessing India's Fiscal Response to COVID-19

CBGA

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Foreword

The COVID-19 pandemic has laid bare our pre-existing fault lines and exposed us to an unprecedented crisis. This situation calls for timely and bold policy measures by the governments at all tiers. Several State Governments have introduced policy measures over the last two months to deal with the pandemic-driven crisis; the Centre launched the first such package of policy measures on March 26 and has recently followed it up with the *Atma Nirbhar Bharat Abhiyan* package of measures in mid-May. Besides monetary and fiscal policy measures, the Central and State Governments are also announcing institutional reforms in a number of sectors towards revival of economic activities.

It is important that all key actors in the country's policy community develop an informed understanding of the policy and institutional measures introduced by the Central and State Governments until now, and identify the areas where course corrections are required. Analysing the country's fiscal or budgetary response to the ongoing crisis is particularly important in this context, since bold and timely interventions backed adequately by public resources can not only mitigate the serious challenges confronting a large proportion of our population, such measures can also be very effective in reviving the economy.

We also need to understand and develop clear positions on some of the macro fiscal issues that will have a huge bearing on future budgetary decisions by the Centre and States this year as well as in the next few years, viz. the case for increased magnitudes of public borrowing, the need for equitable taxation policies, and the need for greater fiscal decentralisation in the country.

In this backdrop, Centre for Budget and Governance Accountability (CBGA) has analysed India's fiscal or budgetary response to the ongoing crisis over the last two months, taking into account most of the important measures announced by the Centre and some of the States until the 25th of May 2020. The analysis focuses strongly on the impact of the crisis on the poor and marginalised sections of the population and the fiscal measures meant primarily for them. This report presents our analysis and flags a number of budgetary policy recommendations.

The first Section of the report presents a brief overview of this crisis, identifying the vulnerable sectors and sections of population that require urgent attention from the government. Both Central and State Governments have already introduced a number of policy measures, with fiscal implications to varying degrees; these are documented briefly in the second Section. The third Section presents an assessment of fiscal measures introduced until now by the Centre and States. The fourth Section draws attention both to the scale of fiscal response in some of the other countries and a few pro-people measures adopted by different countries that appear worthwhile even in our context. The fifth Section highlights what kind of fiscal policy measures India needs right now.

The insights and perspectives captured in this report, we hope, can help policymakers pay more attention to some of the burning issues and policy alternatives available for India to address those. CSOs engaging with policy response to the pandemic in different sectors or different States and those focusing on the implications of the measures for the disadvantaged sections of the population will also find this publication useful. We will appreciate your feedback and queries for further information.

Subrat Das
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Section 1

The unprecedented crisis of 2020

The COVID-19 virus has infected 1.4 lakh people in India so far and killed over 4 thousand (until the 25th of May 2020). Its unabated spread has brought the globalised economy, of which movement of goods and people is an integral part, to a screeching halt. Most nations are struggling to handle this crisis effectively. What began as a health crisis has taken the form of a full-fledged socio-economic crisis, exacerbated by the inadequate policy responses to it. Its impact is expected to last a long time, along with associated deprivations. There is not a single person or occupation that has been left unaffected by this event. In this section, we examine the present situation and identify the key sectors and population groups that require urgent attention from the government.

Public Healthcare - Underfunded for Decades, Heavily Overburdened Now

The COVID-19 pandemic has exposed several long-standing gaps in India's public health system. These include lack of emergency preparedness; shortage of safety gear, ICUs and ventilators; poor infrastructure in government hospitals; overall deficit of hospitals and human resources; and skewed distribution of access to healthcare in favour of rich, urban citizens. Several cases of COVID-19 patients fleeing isolation in public health facilities indicate lack of trust in the system.

These conditions have been precipitated by the gradual shift of the Indian government's role from a provider to a purchaser of healthcare. In the last four years, the share of insurance schemes has increased while the share of funding for the National Health Mission in the health budget has fallen.[1] In 2019-20, India allocated only 1.1 per cent of GDP towards health (one of the lowest in the world), falling short of the modest target of 2.5 per cent envisioned in the National Health Policy, 2017.[2]

India has only 0.8 physicians per 1000 people, which is lower than the ratio for Pakistan and Sri Lanka. As of May 8, our testing rate for COVID-19 also remained below these two countries.[3] India has one government hospital bed for every 2000 persons[4] and only 2.3 critical care beds per 1,00,000 persons. Statistical models have predicted high deficits of hospital beds and ventilators[5] for COVID-19 patients, if cases continue to increase unchecked. With the hospitals treating COVID-19 patients overburdened and understaffed, non-COVID patients and those with chronic illnesses are finding it hard to access treatment.

Lockdown of the Economy: Labourers and Small Businesses Face the Brunt

The imposition of one of the strictest lockdowns in the world has impacted the economy harshly. Many labourers and small traders lost jobs and 84per cent Indians saw their incomes fall.[6] The Centre for Monitoring the Indian Economy (CMIE) reported that the lockdown has resulted in a job loss for 122 million people in India, causing the unemployment rate to rise to 27.11 per cent in April, which, before the lockdown was only 6.7 per cent. Their survey reported job loss of 91.3 million, including daily wage workers and those working with small traders, 18.2 million employment loss of entrepreneurs, and 17.8 million among salaried class in April.[7] By May 17th, the unemployment rate stabilised to 24 per cent, with 27 per cent unemployment in urban sector. However, the full extent of the impact of the lockdown on the urban service workforce is yet to be understood. With almost 90 per cent of people working in the informal sector in India, International Labour Organization (ILO) estimates show that about 40 crore informal workers are going to lose their livelihood for a longer period of time and fall into deeper poverty.[8]

Other than some essential services such as agriculture, utility services, some financial and IT services and public services, which were allowed to operate, the lockdown has brought all other non-essential activities in the industrial sector to a sudden halt. As a result, both demand and supply chains have been significantly disrupted. In the first phase of the 21-day lockdown period, it was estimated that a lockdown would cost Rs. 35,000 crore GDP loss per day.[9] Due to the extension of lockdown, small and medium businesses and start-ups having been hurt the most. A survey by NASSCOM reveals that around 70 per cent of Indian start-ups have cash reserves that won't last over three months.[10] Small retailers have been operating at less than 100 per cent efficiency, and with consumers showing a tendency towards e-commerce due to safety concerns, they will have to strive harder to keep their business viable.[11]

Empty Plates: Millions on the Brink of Starvation

Social distancing measures and national lockdowns could result in an estimated 130 million people across the world going hungry in 2020, in addition to 135 million already facing food shortages.[12] With every successive lockdown, more and more Indians face the threat of hunger in addition to the virus.

It has been reported that this year's buffer food stock, at 77.72 million tonnes, is three times the statutory requirement.[13] However, it is unable to reach those in need because of the choking of supply routes. Since the COVID-19 outbreak, there have been a total of 114 reported deaths due to 'starvation and financial distress'.[14] A ground survey shows that half of rural households are eating less than before.[15] Even though the government announced a doubling of Public Distribution System (PDS) rations for three months, many remain excluded from the net. In Jharkhand, an estimated 7 lakh households have pending ration card applications, rendering them ineligible for PDS.[16]

Labourers who have been migrating back to their villages because of the sudden loss of livelihood are especially vulnerable. In a survey of 11,000 migrant workers in April, more than three quarters reported that they would run out of food in two days.[17] Of them, 98 per cent had not received cash relief from the government, 96 per cent had not received government rations, while 70 per cent had not received any cooked food.

Taking the Long Road Home: Challenges of Reverse Migration

The images of millions of workers walking back home due to the hunger and helplessness brought on by the lockdown has shaken the conscience of the country. This mass exodus from cities demonstrates their long-standing distrust in the state apparatus - its inability to provide food and shelter, and a reprieve from poor working condition over the years. This will impact India's economy and society in many ways.

Firstly, it is going to make reopening of industries in an already tight economic situation, more difficult due to labour shortages.[18] Secondly, with rural areas experiencing a complete disruption of the supply chain and a shortage of input materials which may delay the process of sowing and harvesting, there is hardly scope to accommodate the surplus labour. Already low, farm incomes are expected to fall further. Higher unemployment in States with higher out-migration will make it incredibly challenging for them to absorb the returning migrants.[19]

MGNREGS, which is touted as a possible solution, has been under performing for myriad reasons since its inception. While it is necessary to provide some relief at the current moment, it is not sufficient. The migrants were earning much more in the cities. The impact of being pushed to destitution after the harrowing journey is worsening their mental condition.[20] News of migrants committing suicide[21] on the way back has surfaced and poverty is likely to push more people to take the extreme step. Additionally, authorities have already flagged the impending threat of land disputes.[22] Most importantly, their return is increasing the threat of infection in rural areas.

Agrarian Crisis Exacerbated

The setback caused by the COVID-19 pandemic has affected the agriculture sector heavily. Though agricultural and allied activities and agriculture marketing operations were exempted from lockdown restrictions,[23] the poor implementation on the ground have pushed a large number of farmers and farm workers in distress. Due to overlapping of lockdown period with the harvest time, on one hand, farmers are facing shortages of labours, machineries, cash and credit; and on the other, millions of landless agricultural labourers are losing out on income.

Post-harvest operations are also heavily impacted due to the lockdown. Though government agencies have begun procuring the *Rabi* crop, farmers are facing difficulties in transportation, cleaning, grading, packaging and loading of crops in *mandis* due to labour shortage.[24] Due to social distancing norms, few farmers are allowed to come to the *mandis* every day and, there too, operations are interrupted by closing of the *mandi* for detection of COVID-19 cases.

Blockades in transportation routes due to lockdown have impeded small farmers' access to the market, preventing them from selling their marketable surplus. Inter-state movement of agricultural produce and inputs is also hampered. Distortion of the supply chain has resulted in major losses to producers of perishable products - such as milk, fruits, vegetables and fish. Over the lockdown period,[25] due to price crash, many farmers were unable to sell their produce, pushing some to commit suicide.

Demands on the WASH Sector Intensified

COVID-19 is also a water, sanitation and hygiene (WASH) emergency. It is a major determinant of health and a key measure to combat the virus. Maintenance of recommended hand hygiene requires access and availability of water and soap. In India, the situation is dismal,[26] with only one in every five households having access to piped water connections. The demand for safe, potable water and sanitation is huge and the condition in low income urban and urban settlements is bleak.

Disturbing reports on the lack of gloves, masks and PPEs for sanitation workers[27] in hospitals shows the government's gross neglect towards providing even basic safety equipment during the pandemic. Sanitation workers and the 40 lakh waste pickers in the informal sector are at a high, direct risk of getting infected with COVID-19 as a result of handling unmarked medical and contaminated waste. The availability of water and toilets in quarantine facilities has also not been adequate, overburdening the already struggling line departments in districts and putting the migrants at an even greater peril.[28]

Widening and Deepening of the Learning Gap

To control the spread of COVID-19, the Government of India has ordered for a nationwide closure of all educational institutions. This has affected around 32 crore learners, 86 per cent of whom are the enrolled in primary and secondary schools.[29] To compensate, the Indian school system has shifted from classrooms to digital platforms. However, the majority of students do not have access to the internet, smartphones or a computer like device. In fact, only 8 per cent of the households with children in the 5-24 age group have a computer with internet connection,[30] excluding a large number of children from online education. The closure has disproportionately affected children who already experience barriers in accessing education, including children with disabilities, students in remote locations, children of migrant workers, or those whose families who have lost income as a result of job loss. Thus, for many children, this crisis has brought limited or no education, or falling further behind their peers. A large number of children would likely discontinue studying even after normalcy is restored.

Plight of Women, Children and Other Marginalised Sections of the Society

While the virus itself does not discriminate, its impact on the human society, which is divided along various axes of difference, has been differential.

Women

While the fatality rate of COVID-19 is reported to be lower for women, the pandemic has introduced many other factors that stack the deck against them. Women are the primary care givers in India and since families have been forced to stay at home, the burden of unpaid care work on them has increased. Additionally, women comprise about 60 per cent of the food insecure people, putting them at a greater risk of malnutrition during public health emergencies.

The shutdown of informal sectors, where women constitute a significant share of the workforce will reduce access to income by women, marginalising them further. Globally, and in India, women dominate the healthcare workforce be it in the form of nurses, mid-wives, ASHAs or *Anganwadi* workers. This puts them at an increased risk of getting infected and a deteriorating mental health. Since the imposition of the lockdown, there has been a spike in cases of domestic violence reported by the National Commission for Women (NCW). In 25 days between March 23 and April 16, the NCW received 239 complaints, mainly through email and a dedicated WhatsApp number.[31] These numbers are expected to shoot up once the lockdown is not in place as more women will be able to reach out for help.

Children

COVID-19 produced disruptions are adversely affecting children's wellbeing and protection, especially those belonging to vulnerable social groups like scheduled castes, scheduled tribes and children of migrant workers. Childline India, the government's emergency helpline for children, reported a 50 per cent increase in distress calls from children for protection from abuse and violence during the lockdown.[32] Children with poorer immunity due to deficiencies are at a greater risk of getting infected with COVID-19 and developing more severe infection. According to NFHS-4, only 62 per cent of children aged 12 to 23 months receive all basic vaccinations, and 10 per cent of children aged 6-23 months receive a minimum acceptable diet in India, rendering them more vulnerable. Further, paediatric ICUs are in short supply and as of March 2018, there was an 83 per cent shortfall of paediatricians in India.[33]

62.8 per cent of the India's child labour workforce between 15-18 years is engaged in hazardous work, 10 per cent of whom are engaged in family enterprises. Recently, many state governments are in the process of extending working hours at factories from a maximum of 8 hours to 12 hours a day with a limited workforce. Such a provision, seen in the context of adolescent child workers, will mean more work at lower wages, as children are the cheapest labour force.[34]

Religious and Racial Minorities

Reports show that the pandemic has exacerbated the challenges faced by racial and religious minorities in the entire world[35] due to poverty, living conditions that are not conducive to social distancing and greater incidence of co-morbidities in them. Similar is the case with India, with respect to the scheduled caste and scheduled tribes population. Many of them still have to perform their duties often without protective gear. Additionally, the crisis has unleashed increased targeting and marginalisation of Muslims and North East Indians.[36][37]

Elderly and Persons with Disabilities

This is a particularly challenging time for people with specific healthcare requirements because the system has been overwhelmed by COVID-19. India's 10.4 crore elderly and 2.7 crore persons with disabilities are at a remarkably higher risk.[38][39] Large proportions of them might be unable to follow basic guidelines of handwashing and social distancing due to their dependence on others. Additionally, they are at a greater risk of hunger, poverty, discrimination and isolation[40] during this time.

LGBTQIA Community

Trans and queer people, who largely depend on begging have lost their livelihood, and are under extreme duress. Many of them have had to stay with their abusive or non-supportive families during lockdown, adding to their mental trauma. Sex workers have been pushed further towards the margins and are now solely dependent on charity.[41] Constituting one of the highest HIV positive groups, the inaccessibility of healthcare has adverse consequences for them.

Aggravating the Challenges in Public Resource Mobilisation

State governments are at the forefront of the fight against COVID-19, but they are struggling for resources. State finances were not in the best shape even before the pandemic, and the economic crisis caused by the lockdowns have aggravated this problem.

A larger part of central taxes is raised through cesses and surcharges not sharable with States. Following the implementation of the Goods & Services Tax (GST), States have had limited autonomy in raising additional resources, even if they want to. With the countrywide lockdown, the GST collections are expected to dip substantially, spelling more trouble for the States. A study shows that the Centre owes around Rs 30,000-34,000 crore to States as the GST compensation for December 2019 and January 2020.[42] The revenue collection of States from the sale of alcohol and fuel, which are the largest sources of States' own revenue, has also been hampered due to lockdown. The limit of three per cent of Gross State Domestic Product (GSDP) for borrowing for States (which has recently been revised to five per cent of GSDP) was not allowing States to generate additional resources to meet the COVID-19 contingency. Even with increased limits, many States will not be able to utilise the higher borrowing because of the conditions attached.

Other than the poor fiscal situation, a number of regulations imposed by the Centre have also affected States' efforts. For example, States' failed to get expected corporate funds as contributions made to CM relief fund and state relief funds are not eligible for tax deductions under Corporate Social Responsibility (CSR). Likewise, suspension of Members of Parliament Local Area Development Scheme (MPLADS) and diversion of these funds to the Consolidated Fund of India has disallowed States from implementing locally tailored solutions to the crisis.[43]

The nation's success at handling the pandemic depends not only on how many people can be saved from COVID-19, but also how well it is able to respond to other vulnerabilities that the lockdown has exposed. The unprecedented deprivations and precariousness highlighted here necessitate a policy response which is equally exceptional in nature. Both the Centre and States have already taken steps with fiscal implications to mitigate some of these issues. The adequacy of their response must be assessed carefully to identify gaps and outline the future course for fiscal policy.

Section 2

Policy response by the Centre and the States?

This section documents mainly the fiscal policy measures taken by the Union, State and Local Governments to fight the COVID-19 pandemic, until the last week of May 2020.There is a lot of emphasis in this documentation on capturing those policy initiatives that have direct implications for the poor and the marginalised sections of the population.

Fiscal and Monetary Policy Measures Taken by the Centre

(i) Key elements of the Pradhan Mantri Garib Kalyan Yojana (PMGKY) and other policy measures announced by the Centre

The Union Finance Minister announced a Rs 1.70 lakh crore relief package under PMGKY. Provisions under PMGKY are given as under:

Supply of foodgrains:

- Poor and needy will get 5 kgs. of wheat / rice and one kg. of pulse free for the next three months (April-May-June), in addition to the ration received by them under the National Food Security Act. About 80 crore individuals, i.e., roughly two-thirds of India's population would be covered under this provisioning.

Cash transfer:

- Ex-gratia payment of Rs. 1,000 (in two instalments over 3 months) to be made to 3 crore widows, pensioners and person with disabilities, costing the exchequer Rs. 3000 crore.
- Ex-gratia payment of Rs. 500 per month, for three months (total of Rs. 1,500), to be made to about 20.4 crore women who have *Jan Dhan* bank accounts. Further, three free cylinders, one for each month, under *Ujjwala* scheme has also been announced.

Liquidity support to organised sector workers:

- Government of India will pay the Employees Provident Fund (EPF) contribution, both for employer and employee's parts, i.e. 24 per cent contribution per month for next 3 months for all establishments with upto 100 employees with 90 per cent being those earning less than Rs. 15,000 per month. An estimated 80 lakh employees of 4 lakh firms will be benefitted through this.
- EPFO scheme regulation will be amended to allow workers to draw non-refundable advance of 75 per cent of amount outstanding or 3 months of wages, whichever is lower.

Insurance scheme for health workers:

- *Safai Karamcharis*, ward-boys, nurses, ASHA workers, paramedics, technicians, doctors and specialists and other health workers would be covered by a Special Insurance Scheme with an amount of Rs 50 lakh.

Building and Other Construction Workers Welfare Fund:

- To provide cash assistance to the construction workers and protect them from economic disruptions, an advisory to State Governments to utilise cess funds for building and construction workers of Rs. 31,000 crore has been issued. An estimated 5.3 crore registered workers will be benefitted from this provisioning.

Support to farmer and MGNREGS workers:

- Government to front-load Rs 2,000 paid to farmers in first week of April, under existing PM KISAN Yojana, to benefit 8.7 crore farmers.
- Wage rate under MGNREGS has been increased from Rs. 182 to Rs. 202,with effect from 1 April, 2020,which will benefit 13.62 crore families. An amount of Rs. 4,431 crores of pending wage liabilities to States has been released.
- About 63 lakhs Self Help Groups (SHGs) belonging to 6.85 crore households will get collateral free credit of Rs 20 lakhs.

District Mineral Trust Fund:

- The State Government will be asked to utilise the funds available under District Mineral Fund (DMF) for supplementing and augmenting facilities of medical testing, screening and other requirements in connection with preventing the spread of COVID-19 pandemic as well as treating the patients affected with this pandemic.

The Government of India issued necessary guidelines and instructions to the State Governments to carry out the implementation of PMGKY, which was announced on 26th March, 2020. In the meantime, the Union Government also took some crucial policy measures which have been documented below.

Food and shelter for urban poor

- Provision of free food to homeless during lockdown with a provision of an amount of up to Rs.100 per homeless person per day from National Urban Livelihood Mission Funds.
- Around 7200 new SHGs of urban poor have been formed. Further, gainful employment has been provided to 12,000 SHGs by employing urban poor to produce 3 crore masks and 1.2 lakh litres of sanitizers.

Cash benefit to ASHAs

- Additional incentives of Rs. 1000 per month for six months (Jan-June, 2020) have been announced for the ASHA workers for participating in combating COVID-19, using National Health Mission fund.

Extended interest subvention scheme to farmers

- Provision of a 2 per cent Interest Subvention (IS) to banks and 3 per cent Prompt Repayment Incentive (PRI) to all farmers upto 31st May, 2020 for all crop loans upto Rs.3 lakh given by banks due for payment between 1st March and 31st May.

Additional measures to ensure smooth implementation of MDM and Anganwadi Services

- The cooking cost of Mid-Day Meals is to be increased by 10.99 per cent over and above the existing cooking cost under National Programme of Mid -Day Meals in schools w.e.f. 1st April, 2020 for the year 2020-21. The cooking cost will be shared between the Centre and States as per the existing fund sharing ratios. The revised cooking cost per child per day now stands at Rs. 4.97 and Rs. 7.45 for primary and upper primary school students, respectively.
- Distribution of food and nutrition items has to be ensured once in 15 days, at the door step of beneficiaries for all the beneficiaries' children, women and lactating mothers by the Anganwadi workers.

Release of SDRMF and PM CARES fund to States:

- Central Government released Rs. 11,092 crores[44] under State Disaster Risk Management Fund (SDRMF) to all States and has allowed the State Government to use SDRMF for providing food and shelter to homeless people including migrant labourers.
- An amount of Rs. 12,390 crore has been released to eligible 14 States under Post Devolution Revenue Deficit Grants.
- An amount of Rs. 3,100 crore has been allocated from PM CARES Trust Fund, out of which Rs. 2,000 crore is meant for purchasing 50,000 ventilators to be distributed to government hospitals at various districts, Rs. 1,000 crore for migrant workers (distribution of this Rs. 1,000 crore is based on a normative approach), and Rs. 100 crore for vaccine development.

(ii) Policy measures announced by the Centre as part of Atma Nirbhar Bharat Abhiyan

On 12th May 2020, Prime Minister announced Rs. 20 lakh crore package for farmers, cottage industry, MSMEs, labourers, middle class etc., titled the *Atma Nirbhar Bharat Abhiyan*. Subsequently, the Finance Minister announced specific measures in tranches for various sectors of the economy. These measures contain both fiscal and monetary measures combined into a single package.

(a) The monetary policy measures:

Measures pertaining to infusion of liquidity for business and workers

- An amount of Rs. 6,750 crore liquidity infusion due to reduced EPF contribution for employee and employer. Statutory PF contribution of both employee and employer to be reduced to 10 per cent each from 12 per cent for all establishments for next 3 months except Central Public Sector Establishments and State Public Sector Undertakings. This scheme to be applicable for workers who are not eligible for 24 per cent EPFO support under PMGKY. This will help relief to about 6.5 lakh establishments covered under EPFO and to benefit about 4.3 crore employees.

Liquidity through expanding loan facility to farmers and MSMEs:

- Farmers to gain access to institutional credit at concessional interest rate. Rs. 2,00,000 lakh concessional credit boost to 2.5 crore farmers out of PM-KISAN beneficiaries through Kisan Credit Cards (KCCs). Fishermen and animal husbandry farmers will also be included in this drive.
- Three months loan moratorium of Rs. 4.22 lakh crores availed by 3 crore farmers and interest KCC with loan limit of Rs. 25,000 crore sanctioned and 63 lakh agricultural loans of Rs. 86,000 crores approved in March-April, 2020.
- Working capital up to Rs. 10,000 for nearly 50 lakh street vendors for which Rs. 5,000 crore special credit facility is being provided for street vendors.
- Credit linked housing subsidy scheme for middle income group extended till March 2021. This will benefit 2.5 lakh families and will boost Rs. 70,000 crores in the housing sector. Further, it is expected to create jobs and stimulate demand for steel, cement, transport and other construction materials.

(b) The fiscal policy measures:

- Increased Liquidity for State Governments.
- Ways and means advance limits of States increased by 60 per cent and enhanced overdraft duration limits.
- Increased fresh borrowing limits of States from 3 per cent to 5 per cent of the GSDP, for the year 2020-21. This will give States extra resources of Rs. 4.28 lakh crore.
- Rs 40,000 crore increase in allocations for MGNREGS has been announced to provide a boost to employment. It will help generate nearly 300 crore person days in total, by addressing the need for more work including those of returning migrant workers in monsoon season.
- About 8 crore migrants are expected to benefit with 5 kgs. grains per person and 1 kg. chana per family / month for two months. Rs. 3,500 crore has been provisioned for this intervention and the entire cost will be borne by the Union Government.
- Jobs for Tribals/Adivasis, worth Rs. 6,000 crore, have been planned to facilitate afforestation, plantation, forest management, soil and moisture conservation works, forest protection, forest and wildlife related infrastructure development, wildlife protection and management etc. using Compensatory Afforestation Management and Planning Authority (CAMPA) funds.
- Under PMGKY, payment of 12 per cent each of employer and employee contributions made into EPF accounts for the period March, April and May 2020. This support will be extended by another 3 months to salary months June, July and August, 2020. An amount of Rs. 2,500 crore direct cash support to EPF for business and workers, which will benefit 3.67 lakh establishments and for 72.22 lakh employees.

Key Policy Initiatives by Some of the State Governments

A host of policy measures have been taken by various State Governments to address the challenges thrown up by the pandemic, across several sectors. The key initiatives have been discussed below.[i]

Initiatives for the poor and the marginalised families: Several initiatives like provision of free rations, one-time cash grants, etc. have been taken by a number of State Governments. A few important such initiatives in this direction are the following:

- The Government of Andhra Pradesh has announced the provision of ration along with a kg. of dal per month free of cost, whereas, Telangana government provides 12 kgs. of rice to all the ration card holders free. A one-time cash support of Rs. 1,000 provided by Andhra Pradesh, Telangana provides Rs. 1,500 for all rice card holding families, for buying essential commodities such as groceries and vegetables
- In Bihar, an assistance of Rs. 1,000 to the families holding a ration card through DBT,but only after the aadhaar-seeding. The marginalised families who do not have ration card shall be identified through *Jeevikasamuh* and arrangements for payment of Rs.1,000 to them shall be made. The families without ration card that have been listed by the *Jeevikadidis* shall be provided with relief funds immediately.
- A cash assistance of Rs 1,000 for all ration card holders through FPS, registered auto drivers and construction workers, members of Tamil Nadu Cine Welfare Board, and match factory workers extended by the Tamil Nadu Governments.
- In West Bengal, a one-time ex-gratia financial assistance of Rs. 1,000 have been announced under the initiative *Prachesta*, to those labourers / daily wage earners / workers who do not have any alternative sustainable source of income during the lockdown.
- Government of Madhya Pradesh has taken the initiative of providing a one-time financial assistance of Rs 2,000 to the families of Sahariya, Baiga and Bharia tribes. Provision of ration has also been made unconditional without the requirement of eligibility slips as mandated under the National Food Security Scheme.
- In Chhattisgarh, dry ration comprising of rice for two months to be provided in April to all ration card holders and sugar and salt to be provided to all *Antyodaya* & *Annapurna* ration card holders for two months starting in April.
- Odisha Government has taken up the responsibility of providing food for all sick, indigent, destitute persons and migrant workers stranded due to lockdown at Rs. 60 per adult per day and Rs. 45 per child per day (till 12 years of age), with the SDRF funds. Free kitchens are being run in every Gram Panchayats of the State to provide cooked meals to needy people.
- Jharkhand Government has allocated Rs 3.19 crore to operationalise 498 "*daal-bhaat*" centres (to serve rice and daal) in all the 24 districts. Each such centre will provide food to

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[i] The various measures taken up by states have been researched and collated from a number of sources like government orders (https://covid-india.in/) and notifications (https://prsindia.org/covid-19/notifications), newspaper articles, state government websites, etc.

around 200 people every day, with a total of 1,68,000 people in the state for two months. In distant villages, where it is not possible to supply cooked food, the State Government has made arrangements for providing ration packets consisting of 2 kgs flattened rice, jaggery and whole black gram.

- Delhi Government has made arrangements for providing *Jan Aahar* to 500 people at each of the 56 government schools designated as hunger relief centres, through Mid-day Meal vendors from 11 am - 5:30 pm daily. The prices for these meals are capped nominally at Rs. 20.
- Kerala Government announced free ration to all ration cardholders in the State. BPL cardholders would get an additional 35 kgs of rice in April. Other cardholders including those above the poverty line (APL) and those holding non priority cards to get up to 15 kgs of rice. Further, the State Government has also made provisions for distribution of funds, up to Rs. 2,000 per person, to fishermen registered with Fishermen Welfare Fund in the State for the loss of their livelihood.

Measures for Women, Children, Elderly, Persons with Disabilities, and Transgender Persons: A few initiatives taken by different States for vulnerable communities like women, children, elderly and persons with disabilities at the backdrop of COVID-19. These are listed below:

- Tamil Nadu Government announced a cash assistance of Rs. 1,500 per month to be credited into the bank accounts of differently-abled persons. Transgender without ration cards are also eligible to receive 12kgs rice, 1kg dal, and 1 litre cooking oil, from FPS.
- Government of Kerala has made provisions for Rs. 1,320 crore towards disbursement of two months 'welfare pension in advance'.
- Andhra Pradesh will provide free ration of 10 kgs rice and one kg red gram dal, per resident to NGOs running old age homes and child care institutions.
- Gujarat Government has taken the initiative of providing take home ration to children of age 0-3, 3-6, pregnant and lactating mothers and adolescent girls till the lock down continues.
- In Haryana, beneficiaries registered under *Mukhyamantri Parivar Samriddhi Yojana* (MMPSY) are being provided Rs. 4,000 with contributions to the different insurance and pension schemes with 12.38 lakh registered beneficiary families.
- West Bengal has taken steps in distributing ration of 2 kgs rice and 2 kgs potato (maximum At Rs. 18) to each beneficiary of the Supplementary Nutrition Programme, irrespective of categories, up to 15 April, 2020.
- Government of Delhi has doubled the pension under the widow pension scheme for 2.5 lakh beneficiaries, old-age pension scheme for 5 lakh beneficiaries, and disability pension scheme for 1 lakh beneficiaries.
- In Delhi, the Juvenile Justice Committee under the High Court of Delhi has instructed institutions having children in conflict with the law to provide interim relief to the children during the lockdown period, at the time of their release on bail/parole/ discharge. In this

regard, cash amount of Rs 1,500 is to be paid to each such case from the Juvenile Justice Fund as well as dry ration, including 5 kgs rice, 2 kgs dal and 1 kg sugar.

Employment measures under MGNREGS and Construction Workers Welfare Fund: Apart from the announcements for MGNREGS, various State Governments have also initiated steps to complement the Union Government's efforts. A few such initiatives are noted below:

- Chhattisgarh sanctioned a net amount of Rs 101.51 crore for the development of 704 Gram Panchayat Bhawans under MGNREGA and RGSA, in the newly constituted Gram Panchayats.
- Punjab Government has initiated income support to the tune of Rs. 3,000 to each registered construction worker in the State to be transferred to bank accounts directly for which, Rs. 96 crore has been earmarked.
- In Jharkhand, in the *Birsa Munda Harit Gram Yojana*, under MGNREGA, an honorarium of Rs.19,400, for 100 workdays, will be given to *Bagwani Mitra* appointed in every village for protection of plants and trees.

Initiatives to provide relief to migrant workers: Migrant workers and daily wage earners have faced the brunt of the lockdown in terms of loss of job opportunities, income loss, lack of proper shelters and food. Different State Governments have instituted a number of steps to provide immediate relief to them, mainly in the form of providing night shelters, in hand cash relief and ready to eatfood. A few of the key policy initiatives in this regard are the following:

- Transfer of Rs.1,000 to migrant workers through various modes like registration through an application in Bihar, registering with the Deputy Commissioner of the district on a portal in Haryana and Rs. 2,000 per migrant workers in Odisha once they complete the quarantine period. Similarly, Tamil Nadu government provides a onetime support of Rs. 500 to all migrant workers residing in the State.
- In Uttar Pradesh, the State Government has announced that ration cards for all migrant workers will be issued through the Revenue Officer or Gram Panchayat for distribution of ration.
- Government of West Bengal has announced an initiative named *Sneher Paras* to provide one-time ex-gratia financial assistance of Rs. 1,000 for those migrant workers from the State who are stranded in different parts of the country through DBT.
- Government of Delhi has created night shelters for the migrant labourers and made provisions for free food at these shelters in addition to providing cash relief of Rs. 5,000 for these communities.

Protective measures for frontline health workers and other health initiatives: In the fight against the pandemic, each State has put forward measures to protect, incentivise and facilitate the working of the frontline health workers, i.e., the doctors, nurses, paramedics and others. A few such initiatives are as follows:

- In Odisha, each health worker will be given a four months advance salary. Government of

Uttar Pradesh has announced a maintenance allowance of Rs. 1,000 for all under home quarantine after the required data is collected.

- The employees of the Department of Medical and Health of Telangana were given an additional 10 per cent of their gross salary as an incentive for March and April. Similarly, the sanitation employees of Greater Hyderabad Municipal Corporation were given 7,500 rupees and the sanitation personnel of other local bodies were provided 5,000 rupees as incentives for the months of March and April. The police personnel were awarded an additional 10 per cent of their gross salary as an incentive for April.

- Government of Delhi has initiated a system of incentives for frontline health workers whereby they are to receive Rs. 100 per sample collected by them. Within a team, the sample collectors who are exposed to the greatest risks are to receive a higher share of the incentive. The State Government has made provisions for these funds from the National Health Mission.

- Government of Kerala has started giving free provision kits to those under home quarantine irrespective of their income status. The bags comprise of rice, wheat, sugar, salt, edible oil, pulses and spices required for a week or month. Moreover, the State has tasked the elected Local Self Government representatives to ensure that subsidised rations reach the targeted homes.

- Government of Tamil Nadu made an additional COVID-19 related recruitment of doctors and lab technicians. The recruited members were to join within three days of the notification. On April 25, an additional 1,323 nurses were also recruited. Further, a two-month extension was announced to the tenures of medical professionals retiring on March 31 and April 30.

Measures for agricultural and women empowerment: A few States have taken their own initiatives to provide relief to those associated with agricultural sector. The initiatives have been mentioned below.

- Government of Karnataka has announced a relief of Rs. 25,000 per hectare for flower growers in the state.

- In Andhra Pradesh, a sum of Rs 1,400 crore has been provisioned under the scheme zero interest rate in which each SHG will receive sums ranging from Rs 20,000 to Rs 40,000 towards the interest component on their loans. A total of 8.78 lakh women SHGs will be benefitted out of this.

State initiatives on Mid-Day Meal distribution: With the closing down of the schools due to the lockdown, provision of cooked food under the Mid Day Meal programme has been a challenge across States. Different States have taken up innovative solutions in this regard, a few of which have been documented below:

- States like Maharashtra and Gujarat have taken the route of depositing the money equivalent of Mid Day Meal entitlements in the bank accounts of the families whose children are in primary and upper primary schools.

- A few other states like Chhattisgarh, for instance, have taken steps to provide dry ration for students. The State Government has earmarked 4 kgs rice and 800 grams pulses for primary school students and 6 kgs rice and 1.2 kgs pulses for middle school students in the State at one go for a duration of 40 days.
- Government of Odisha has announced the provision of dry ration to the students of Class I to VIII of government and government aided schools for 90 days at one go. Fair Price Shops / PDS outlets are being utilised to provide ration of 3 kgs rice (per month) for primary school student and 4.5 kgs rice (per month) for each of the upper primary school student. It is worth mentioning that this provision is over and above a child's entitlement under the NFSA.[45]

Other Measures: A few other specific measures, taken by states, in the backdrop of the COVID-19 crisis have been mentioned below:

- States like Andhra Pradesh (75 %), Delhi (70%), West Bengal (30 %) Assam (25 %), Karnataka (11%), Uttar Pradesh, Uttarakhand, Rajasthan etc. have moved in the direction of mobilising additional resources through sale of liquor at hiked prices.[46] Government of Chhattisgarh has launched a web portal for home delivery of liquor in green zones of the State to avoid crowding at wine shops during the lockdown.
- **Using of Contingency Fund and MLALAD Funds:** Government of Odisha has expanded the budget for Contingency Fund to Rs. 2,000 crore from the present level of Rs. 4,00 crore to use on the COVID front. There has been inclusion of projects which would help prevent the spread of COVID-19 and related treatment in the MLA LAD funds guidelines, which would enable the district administration to use the MLALAD fund for the COVID-19 treatment.
- **Initiatives for MSMEs:** Government of Kerala has announced a special package for the revival of MSMEs in the State against the backdrop of the Covid-19 pandemic. Existing MSMEs will be offered interest exemption for additional loans with Rs 3,434 crore. The Kerala State Industrial Development Corporation Ltd (KSIDC) and Kerala Industrial Infrastructure Development Corporation (KINFRA) will offer one-time settlement on loans and six month's extension on repayment of loans and interest. KSIDC will also offer a moratorium on loans and interest to all operating units for three months without penal interest. Further, loans of more than Rs. 50 lakhs will be offered to MSMEs by the Corporation.
- **Dilution of Labour Laws:** In the face of the pandemic, several states have started diluting the State labour laws and bringing in amendments to central laws. As many as seven States, Uttar Pradesh, Assam, Gujarat, Madhya Pradesh, Rajasthan, Punjab and Himachal Pradesh, have been in this group. The following have been the key points of dilution in the states:
    - The Uttar Pradesh ordinance allows companies, enterprises and employers to unbound most labour laws for the next 3 years;
    - Factories Act, 1948, dealing with safety, healthcare and wellbeing of workers;
    - The Shops and Commercial Establishments Act where the previous norm of 8 hours

daily work and 48 hours weekly work has been changed to 12 hours of daily work and 72 hours weekly;

- Industrial Disputes Act, 1947 which was enacted to investigate and resolve disputes like firings, retrenchments and strikes; and
- Minimum Wages Act, 1948 for setting the floor for wages to be paid to skilled and unskilled workers.

Policy Initiatives by Some of the Local Governments

The Government of India has issued notification for the use of unutilised funds with the Gram Panchayats (GPs) given under the 14th Finance Commission Grant period,[47] for containing the spread and treatment of COVID-19. In lines with this, the following are the key policy initiatives taken by the local government of various States.

- Government of Odisha has conferred upon the Panchayat Sarpanch, the powers of District Magistrate. Free kitchens opened in every GP of the State to provide cooked meals to needy families during lockdown along with the migrant workers who are under quarantine.
- In Punjab, the Sarpanch has been authorised to spend Rs. 5,000 per day, subject to a maximum of Rs. 50,000, out of their Panchayat Funds for COVID related measures, and have also been given powers to issue passes / letters for medical emergencies in their respective villages from 7 pm to 6 am every day, to allow people to visit doctors or hospitals for treatment and medicines.
- Government of Punjab has also empowered the Urban Local Bodies (ULBs) in the State to buy medicines and food for urban daily wagers, labourers and poor, as well as fodder for *Gaushalas,* out of the Municipal Funds at their disposal. A volunteer team called "*Aarogya Sena*" consisting of local youth has been formed to use the ground-level resources of the local self-governments to make sure that nobody, the socially and financially downtrodden in particular, starves as a result of the lockdown.
- In Kerala, community kitchens were set up with the support of *Kudumbashree* programme and Local Self Government (LSGs) to provide free cooked food.
- In Bihar, instructions were given to utilize the fund of State Finance Commission for purchasing of Gloves, Masks, and Sanitizers etc. Awareness generation camps being organised by *Anganwadi, ASHA, Panch, Sarpanch* and ANM within the village.[48]

Section 3

Assessing the fiscal response by the Centre and the States

Stronger Fiscal Policy Measures were Needed

The crisis brought on by the pandemic and the subsequent lockdown is unprecedented in scale and nature. While, on the one side, it has disrupted the supply chains, on the other, it has led to millions losing their livelihoods and a slump in consumption demand. In the case of India, where consumption demand (i.e. private final consumption expenditure)accounts for more than 60 per cent of the GDP, relieving the gargantuan humanitarian crisis and reviving the economy require putting money in the hands of the people to increase their purchasing power. However, a major portion of the *Atma Nirbhar Bharat Abhiyan* (ABY) package totalling a financial support of Rs. 20.97 lakh crores announced by the Government of India focuses on providing credit to farmers, Micro Small and Medium Enterprise (MSMEs), etc. and increasing liquidity in the financial sector.

As per SBI Ecowrap,[49] for instance, the direct fiscal impact of the package comes to a little more than Rs. 2 lakh crore or a scanty 1 per cent of GDP. The rest of the package is basically loans of the financial institutions or monetary support to these institutions or, at best, expenditure to be incurred in future.

Breaking Down the Stimulus Package (in Rs. Crore)

	Figure announced	Direct fiscal impact
Measures announced in March (I)		
Revenue loss due to tax concessions	7800	7800
PM Garib Kalyan Yojana	170000	60000-70000
Health sector workers	15000	15000
Total (I)	**192000**	**82800-92800**
RBI measures (II)	**801603**	**0**
Atmanirbhar (III)		
Tranche I	594550	25000-30000
Tranche II	310000	8000-10000
Tranche III	150000	30000-40000
Tranche IV	8100	8100
Tranche V	40000	40000
Total (III)	**1102650**	**111100-128100**
Total Package	**2097053**	**193900-220900**

Source: Merwin, Radhika, 2020[50]

As many analysts have pointed out, monetary policy measures such as these (i.e. the measures for promoting credit and liquidity), which simply help provide cheaper credit to businesses, will be of little value unless consumption demand increases. Since loans need to be repaid, in situations when the future seems uncertain, neither businesses nor consumers are likely to borrow, even if they get collateral free loans. A fiscal stimulus, which entails increased spending by the government (or cuts in taxes), on the other hand, directly puts money directly in the hands of people.

Therefore, increase in purchasing power of the people, through fiscal policy measures, is the only way to generate demand as well as alleviate distress of the people.

Measures Taken So Far for MSMEs and Artisans Leave Much to be Desired

However, the flurry of liquidity related measures such as collateral free loans, credit guarantees, etc. to support businesses including the MSMEs, misses the operational bottlenecks that continue to plague these enterprises. In addition to extreme solvency issues faced by many of the smaller enterprises, the lockdown has imposed several logistical challenges[51] like requisitioning permits for inter-State movement of trucks carrying essential raw materials, inordinate delays, sometimes as long as 20-30 days, in receiving approvals for starting operations and for the entire intermediary channels to operate. The criss-crossing of containment zones and the lack of clarity on central guidelines in different States and districts add to the complications on ground.

These operational issues only compound the problem of MSMEs being one of the most indebted sectors. In such a situation, as some commentators[52] have noted, "loans would only add to their indebtedness". It is surprising that while the government has announced Rs. 3 lakh crores for providing credit, it has not yet paid MSMEs the amount owed to them amounting to as much as Rs. 5 lakh crores.

The artisans sector too, being outside the purview of essential commodities, has faced challenges in sustaining both the production cycle as well as the order cycle due to the lockdown. The Export Promotion Council for Handicrafts has estimated a loss[53] of Rs. 8000-10,000 crore for this sector with as many as 60-80% of the smaller units closing up this year. The lockdown has led to a piling up of summer stocks and cancellation of existing orders which in turn has resulted in near zero cash inflows in this sector and a severe crunch of working capital. Further, production challenges like lack of access to raw materials and water will prove to be an impediment to service orders even once the lockdown ends. In such a backdrop, the Union Government announcement of developing an e-market for artisans, though a welcome step, is not enough to revive this sector. It must be supplemented with cash/income support.

An Adequate Fiscal Response has to Come Primarily from the Centre

There are a number of reasons why a fiscal response to deal with the COVID19 pandemic crisis has to come primarily from the Centre. Tax and other revenue of States have been under strain owing to decelerating growth and less than adequate collection under GST, even in the pre-pandemic period. With economic activity coming to a complete halt due to the stringent lockdown, tax and other receipts of State governments have obviously plummeted further. Adding to their problem is the fact that States have not even received their due share of GST and GST Compensation Cess from the Centre. The increased limit of borrowing by States from 3 per cent to 5 per cent of GSDP for FY 2020-21 is also not adequate.

For instance, in the case of Kerala the increased borrowing limit will cover only about half of the revenue loss it faces on account of the pandemic.[54]

Further, the multiple conditions put by the Centre for availing this facility, also makes the move less than adequate. As per SBI Ecowrap report,[55] a large number of States are not in a "position to fulfill all the conditions of Government to avail 2 per cent of GSDP as extra borrowing". As a result, of the additional Rs. 4.28 lakh crore that this measure provides, only about "Rs. 3.13 lakh crore might be actually borrowed by the State Governments" in FY 20-21.

No doubt the Centre too has been affected by the shortfall in tax revenue.

At the same time, the Centre also enjoys many more taxation power and has a lot more fiscal flexibility than the State governments do.

The Centre, for instance, can resort to a larger borrowing from the market. It can also undertake extra borrowing, financed entirely by the Reserve Bank of India (RBI) printing money, which the State governments cannot. Similarly and unlike the States, the Centre also has the power to impose major direct taxes, without it affecting consumption demand much.

Thus, the Centre can also increase tax rates on the super rich and even introduce new taxes on the wealthy, without leading to undue contraction in demand.

Measures Announced for Those Hit the Hardest are Grossly Inadequate

As many have pointed out the two most critical measures required to address the hardships faced by people and the inadequacy of the earlier-announced PMGKAY, are universal food provision and cash transfers. A number of grand sounding announcements have been made for migrants and workers in the ABY package, including

- Rs. 500 per month for three months for 20 crore women Jan Dhan account holders
- An ex-gratia of Rs. 1,000 to 3 crore poor senior citizen, poor widows and poor disabled
- Front-loading Rs. 2,000 paid to farmers in first week of April under existing PM *Kisan Yojana* to benefit 8.7 crore farmers
- 5 kg wheat or rice and 1 kg of preferred pulses for free every month for the next three months for those migrants who are not beneficiaries of the National Food Security Act (2013)
- State Governments to use Building and Construction Workers Welfare Fund to provide relief to Construction Workers

However, as analysts have noted many of these measures are way too inadequate.

> "Of the Rs. 2 lakh crore of direct fiscal impact, only Rs. 76,500 crore (including free ration) involves direct money transfer to the people. This constitutes 0.38% of the GDP".[56]

The provisioning of Rs. 500 for three months to poor women, for instance, is too little to tide over the problems facing them. Besides, these measures, announced in late March, come to an end by end of June 2020. While some measures such as provisioning of 5 kilograms of free extra foodgrains per head to migrant workers have been announced thereafter, the amount allocated for it is paltry, as the government would spend merely Rs. 3,500 crore for this.

> Going by official figures of eight crore migrant workers, the amount of Rs. 3,500 crores translates into a meagre sum of Rs. 437.5 per capita[57] to be spent on the migrant workers. The per capita spending obviously is even more measly if one were to take the unofficial figures for the migrant population to be 14 crore.

Stimulus for Reviving the Economy is Not Sufficient

As mentioned earlier, in the stimulus package announce by the contribution from the government exchequer is very small. Estimates by economists and various organisations suggest that government's contribution in this Rs. 20 lakh crore kitty is in the range of 0.75 per cent of GDP to 1.5 per cent of GDP,[58] and it is still not known whether this additional expenditure amount is over and above what is budgeted or will it be funded by expenditure cuts elsewhere. Nonetheless given the resources required to revive the sharp decline in GDP, even an additional expenditure of 1.5 per cent of GDP is not sufficient. An NCAER-NIPFP study[59] shows that the crisis will result in a 12.5 per cent decline in GDP figure and to regain a modest and positive GDP growth in 2020-21, the government needs to spend at least an additional three per cent of GDP.

In short, even though the economic stimulus was portrayed as a "responsible package" which will directly benefit the poor and middle-class, in design, the focus is more on long-term policy measures rather than addressing immediate needs of the most distressed sections of the economy or revive the economy.

Conservative Fiscal Policy a Serious Impediment at Present

A major feature of the neo-liberal policies adopted by the successive governments has been to control the fiscal deficit, as detailed out in the 'Fiscal Responsibility and Management (FRBM) Act, 2003. The FRBM act mandates that both Central and State governments reduce their borrowing to three per cent of GDP(or GSDP for States), over a period of time. It also prohibits the Reserve Bank of India (RBI) from directly lending money to the government, a process known as debt monetisation. Even though the act[60] provides an escape clause in cases of national security, act of war, or national calamity, the government has been reluctant to either increase borrowing from the market or monetise the debt. In view of the pandemic, the Central Government recently announced[61] a higher borrowing target, and increased the limits for States' borrowing conditional on meeting certain criteria.[62] The combined effect of these will still be severely inadequate to provide resources for COVID-19 response measures, compensate for the fall in tax and non-tax revenue, and engage in counter cyclical measures when India's GDP is expected to contract[63] significantly this year.

In fact conservative fiscal policies will only increase the fiscal deficit, for the less the government spends, more GDP will fall and larger will be the deficit as a share of GDP.

Tax Related Measures Taken in Response to COVID-19 Crisis

Tax policies present contradictory challenges to the policy makers in the economic crisis caused by the COVID19. While on the one hand, there is a need for larger revenue to be able to spend on health and welfare programmes; on the other hand, tax revenue itself is falling due to the crisis. And not only there is a genuine fall in revenue collection arising out of the crisis, such situation also leads to more tax abuse by those who can and should pay taxes.[64]

At the same time, as several economists have pointed out “the Centre cannot at the moment resort to enhanced taxation to finance these expenditures, since business too is reeling under the effects of the shock”.[65]

In its response the Central Government has announced the following steps[66]–

- Extension of the deadline for filling tax returns
- Reduced rate of interest for certain tax payments
- Deferment of GST for SMSEs till last week of June
- Extension of due date for '*Vivaad se Vishwas* Scheme'
- Temporary relaxation in compliance standards[67]

Out of the four measures, only the second one is likely to have a revenue impact, while other three measures are more in line with providing extra time to fulfil the obligations. While the extension of dates and compliance requirements should help in the short term, the long-term prospects for taxpayers are more dependent on the evolving economic situation and not just tax policies.

Consequences of the Dilution of Labour Laws

Amidst lockdown and severe health crisis, several States have chosen to address problem of economic revival by rolling back many of the existing labour laws. While many States have announced partial suspension of various labour laws, in Uttar Pradesh, Gujarat and Madhya Pradesh almost all the labour laws are to be suspended for three years.[68] In Madhya Pradesh units can operate without many of the requirements of the Factories Act implying that working hours may extend to 12 hours, establishments can hire and fire according to their need, etc.[69] Barring a few, the entire gamut of labour law is to be suspended in Uttar Pradesh for three years. Similarly, in Gujarat, new Industrial establishments are exempted from almost all labour laws. Other States are also extending working hours to 12 hours.

The suspension of labour laws, applicable to organised employees, will lead to further informalisation of the Indian workforce, which in any case is high at 90 per cent. The immediate consequences of the dilution of labour laws will be worsening of bargaining power of workers, basic working conditions, safety of workers, security of work and declining wage rates, at the time when workers are reeling under severe crisis brought on by the lockdown. One of the arguments that have been put forward to justify the rolling back of labour laws is that it will attract investment and generate employment. However, the experience of the States that have relaxed the labour laws in the past does not support this argument. It will also not even help attract foreign investment as wages and labour laws are already relatively flexible in India compared to China and other countries.[70]

Most importantly, the worsening of wage rates and related benefits will lead to a decline in the share of wages and hence a rise in profits in national income. That in turn will further lower the overall demand in the domestic economy, as the lesser-off consumer a higher proportion of their income compared to the better off. In sum this move could only lead to squeeze in economic activities and reduction in employment.

Some State Governments Show the Way by Adopting More Pro-People Policy Measures

Various State Governments have stepped up efforts to not just contain the pandemic but also to ease the troubles being faced by citizens during the crisis. While the government of Kerala have made headlines for initiating welfare measures to ensure that socially and financially backward sections are not left to fend for themselves during the lockdown, administrations in Chhattisgarh, Punjab, Odisha, Maharashtra, Tamil Nadu and some other States too have announced relief packages.

Kerala is among the front-runner as it announced a package of Rs. 20,000 crore much before the Central Government did. Kerala has set an example how providing continuous thrust to social sector development built its strong capacity to handle health or any unforeseen shocks to the population.

> Among all States, Kerala has shown foresightedness by encouraging ASHA workers with additional incentives for months of April to June 2020. Rajasthan and Sikkim have followed suit.

Andhra Pradesh Government has taken over facilities and human resource available in all private hospitals in the State.[71] In Maharashtra too, one of the States with high COVID-19 cases, the government has taken over 80 percent of private hospital beds[72] and also capped costs of treatment of COVID -19 patients. Similarly, in view of the shortage of beds for COVID patients, the Delhi Government has directed private hospitals and nursing homes with a capacity of 50 or more beds to reserve at least 20% for such patients.[73]

Some of the initiatives taken by State Governments for the poorer segments of the population across sectors are

- Kerala Government has issued guidelines to field level functionaries to track children missing regular vaccination due to confinement and provide the required dose after lockdown is lifted.
- Odisha Government has arranged for home delivery of pension and ration under the PDS. Post office services are to be used for home delivery.
- Maharastra Government has increased the limit of financial aid under nucleus schemes for tribal households.
- Andhra Pradesh Government is providing rice and red gram dal to NGOs running Old Age Homes and CCI during lockdown period.[74]

Section 4

What kind of fiscal measures have been taken by some of the other countries?

The health and economic crisis caused by COVID-19 has spread throughout the world. While there are differences in terms of the severity, the fact remains that this crisis has affected almost all countries across the world; and, each of them has tried to deal with it in its own way. There are some similarities in terms of dealing with the health aspects of the crisis, such as physical distancing, testing of people with symptoms, lockdown measures, etc.; there are a lot of differences in the economic policies adopted by various countries.

Broadly, the governments' policy responses can be divided into three categories –

a) Fiscal Policy measures – carried out by the government and have implications for the budget

b) Monetary Policy measures – carried out by the central banks, and not likely to have a significant impact on the budget

c) Exchange Rate and External Sector Policy measures – these are more likely to be regulation either by the government or by the central bank, and are not likely to have budget implications.

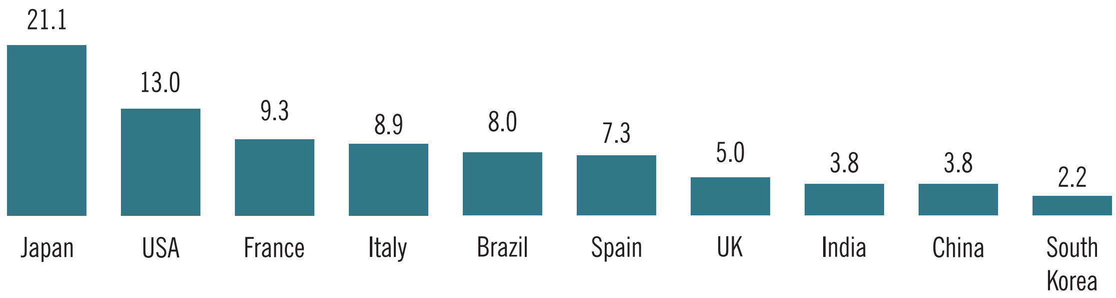
Among the three, fiscal policy measures by the governments are most directly linked with the funding of health sector and other welfare programmes. Because of its direct bearing on people's well-being, fiscal policy response is the most important of all three types of policy responses to the ongoing crisis. Keeping that in mind, this section tries to look at the fiscal policy responses across the world. It first looks at the scale of fiscal policy response in 10 select countries, then it reviews some of the more pro-people initiatives across the countries, and finally it comments on the role of international finance and its implications for the policy response ability of the governments.

Scale of the Fiscal Stimulus Packages in Other Countries

For a review of the scale of fiscal policy responses, 10 countries have been selected, including India. The remaining nine countries are selected on the basis of a combination of the level of economic development, taking larger economies, severity of COVID-19 crisis in the country, and the nature and size of the country's policy response.

Figure 1 provides the scale of fiscal response adopted in the select 10 countries. The data for the table has been taken from 'The Covid-19 Economic Stimulus Index'.[75] This index has been created based on the information provided by the International Monetary Fund (IMF), and has been cross-checked from other sources wherever such information is available.

Figure 1: Size of Governments' Fiscal Policy Response to COVID-19 (as % of GDP)



Source: Elgin, C.; Basbug, G. and Yalaman, A. (2020), The Covid-19 economic stimulus index.

Notes: (i) The chart only focuses on the fiscal measures, and not the monetary policy measures which are announced by the Central Banks in respective countries.

(ii) There have been lot of commentaries about the difference between the headline numbers as reported and the actual fiscal spending. For example – in case of Japan, some estimates suggest that actual additional spending will be much less at the level of 3-4 per cent of GDP instead of 21 per cent claimed.[76] Similar case occurred in India where government announced the *Atma Nirbhar Bharat Abhiyan* package as 10 per cent of GDP, but estimates suggest the actual spending to be at 1-2 per cent of GDP. The reason for this difference arises because of the following fact – suppose government provides a guarantee for loans worth Rs. 10,000 crores, this will be announced as package of Rs. 10,000 crores. However, the government will need to pay only for the borrowers who default. Hence the actual government spending would be much less, suppose Rs. 50-60 crore. So, the announced number will be Rs. 10,000 crores but actual government spending will be Rs. 50 crores. Because of this reason, these numbers should be taken as current best estimations, and not necessarily the spending committed by the government.

It is important to note here that since these packages have been announced in relatively short time, many of those have not been adopted through the usual budgetary process, and it is difficult to ascertain the exact impact of the same on the governments' budgets. In case of countries, where the packages announced have not yet been approved (by the legislature) through the budgetary process, the numbers should be taken as close approximations rather than exact projections of government spending.

For example – India's number of 3.8 per cent of GDP has been arrived at by summing up four different components, namely 0.8 per cent of GDP announced in late March, 0.1 per cent announced for health spending, 0.2 per cent announced by States, and 2.7 per cent estimated in the *Atma Nirbhar Bharat Abhiyan* package announced by the Union Finance Minister in mid-May. However, different estimates put the impact of the *Atma Nirbhar Bharat Abhiyan* package in the range one to two per cent of GDP.[77] Hence, the exact impact of the same on government's budget can only be ascertained once Supplementary Budgets for 2020-21 are presented and approved, or, more definitively, when we get the actual revenue and expenditure figures for FY 2020-21 along with the Union Budget for 2022-23.

The following table depicts the focus areas of the policy announcements made in each selected country.[78] These areas are not exhaustive and refer only to the major announcements or highlights.

Table 1: Focus Areas of the Policy Measures Taken in Select Countries

Brazil	• Income support to vulnerable households • Partial compensation to workers temporarily suspended • Tax breaks and credits for firms who preserve employment • Transfer from federal government to state to support medical facilities • Guarantee on bank loans
China	• Increased spending on epidemic prevention and control • Production of medical equipment • Accelerated disbursement of unemployment insurance • Tax relief and waiver of social security contributions
France	• Increased spending on health supplies • Postponements of social security and tax payments • Expansion of unemployment benefits • Support for wages of workers under the reduced-hour scheme • Direct financial support for affected microenterprises and self-employed • Postponement of rent and utility payments for affected enterprises
India	• In-kind (food, cooking gas) support to poor households • Cash transfers to lower-income households • Additional funding for rural employment programme • Additional funding for health facilities • Deferment of tax and social security contributions by organised sector workers • Loan Guarantee for businesses, and MSMEs
Italy	• Funds for health care system • Income support to laid-off workers and self-employed • Tax deferrals and postponement of utility bill payments • Measures to support credit supply • Income support for families

Japan

- Additional spending on prevention and cure
- Protection of employment and businesses
- Cash handouts to every individual and affected firm
- Deferral of tax payments and social security contributions
- Concessional loans from public and private financial institutions

South Korea

- Loans and guarantees for affected businesses
- Support for affected households
- Wage subsidies and assistance for the unemployed
- Creation of 1.56 million more public sector jobs
- Tax relief and social security contribution relief

Spain

- Additional spending on health
- Unemployment benefit for temporarily laid off workers
- Increased sick pay for those affected by covid19
- Tax relief and Social Security Contribution Relief

UK

- Additional spending on health
- Measures to support businesses
- Direct grants for small firms and firms in the most-affected sectors
- Compensation for sick pay leave
- Up to 80% of the salary payment for income below 2,500 pound per month

USA

- Forgivable loans for SMSEs
- Additional spending on healthcare
- Tax relief
- Expanding unemployment benefits
- Transfer to states and local governments
- Suspension of loan payment

Pro-People Measures in Other Countries

The economic impact of COVID-19 has been devastating for many countries, leading to humanitarian crises emerging in some of them. The initial set of policy measures announced in most of these countries (like cash transfers, deferment of tax payments, early benefits to pensioners etc.) have been supplemented with additional measures, with sizable public spending implications, in the subsequent weeks. The fiscal response to this crisis in most countries has combined broadly two approaches – helping firms reduce their fixed costs for economic activities, and helping people directly with monetary and/or in-kind support.

The following is a brief account of a few innovative/noteworthy measures being taken in some of the other countries towards helping people directly.

- **Robust public health framework prescribing necessary state action (EU, UK, Australia)**

A pandemic-driven crisis such as COVID-19 calls for immediate, flexible and substantive regulatory measures across sectors. It is important to note, in this context, that the European Union, the United Kingdom, and Australia have the necessary legal/regulatory frameworks to deal with public health crises. In Spain, all private hospitals have been nationalised in the wake of the pandemic. It has been argued in this regard that a country's public health laws, besides the regulatory framework, should also incorporate innovative mechanisms and good practices in the health sector.[79]

- **Shielding the poor by taxing the rich (Argentina)**

Argentina is trying to shield the poor, in part by taxing the rich. It has given bonus payments to welfare recipients, informal workers and people who work in healthcare, policing and supermarkets. It has imposed new freezes on prices of food and medical supplies. Soon, It has been reported that soon the Congress may reconvene to levy a tax on Argentines' worldwide assets.[80]

- **Cash transfers to a host of vulnerable sections of the population (Kenya)**

Kenya has used an existing cash transfer programme, Inua Jamii, to boost payments to more than one million vulnerable people, who are elderly, disabled or orphaned. The COVID-19 Support Stipend has earmarked $ 93 million for the fund that will target informal settlers, street hawkers, food vendors, motorbike taxi drivers and other labourers who have lost their jobs with weekly payments.[81]

- **Shifting to a four-day workweek (New Zealand)**

New Zealand is mulling a four-day workweek and other flexible working options to help employees address persistent work-life balance issues in the aftermath of COVID-19.[82] It is also being looked at as an innovative way to stimulate domestic tourism, and help the industry recover as the country begins to reopen with strict border measures still in place.

- **Kurzarbeit [Germany]**

Amidst the COVID crisis, Germany has relaxed the criteria for Kurzarbeit. Small service companies like restaurants, temporary workers, and social-security contributions by companies on behalf of affected workers are going to get covered under the scheme.[83] The Kurzarbeit (German phrase for short-time working or short time) scheme worked well during the 2008 recession, to prevent massive layoffs by struggling firms. As per this scheme, people are sent on leave, or required to work for shorter than the usual working time, but they remain employed (instead of being laid off), with the state funding around two-thirds of their salary. This provides income security to the employee and greater security to the employer to plan the next months during a period of economic contraction.[84] This scheme is likely to get used by other European countries as well this time.

Need for Global Cooperation to Check International Finance Capital

The pandemic has laid bare our pre-existing fault lines, and exposed us to crises of unprecedented magnitude and duration. The depth of the downturn, and the timing and shape of the recovery remain uncertain. The scale of health and economic crises caused by COVID-19 has not been seen in generations. In fact, researchers in England are estimating this to be the worst economic crisis since early 18th century, or in nearly 300 years.[85] Such severity requires governments' response to be proportional, or at least as much as can be done. This urgency can be seen in case of some countries in terms of scale of response, i.e. – Japan and USA, and in terms of nature and design of policy such as in New Zealand. While countries differ in their approaches and capabilities in carrying out the policies needed, a number of factors complicate matters further. For instance, the dominance of global finance capital and institutions like rating agencies, exert significant constraints on the ability of governments, especially those in developing countries, to be able to carry out the needed fiscal policies.

In the Indian context, which would also apply to most other developing countries affected by the pandemic at present, the government needs to follow a liberal or expansionary fiscal policy, i.e. to borrow a lot more than it usually does, and spend the borrowed money both towards helping firms reduce their costs for economic activities and helping people directly with monetary and/or in kind support. In terms of revival of economic activities, this kind of debt-financed expansionary fiscal policy is required not only for boosting demand for consumption (by enhancing purchasing power with the people) but also for addressing the disruptions on the supply side.

It has also been argued by several world-renowned economists that, in such an unprecedented crisis, the governments should even opt for monetisation of the deficit to an extent (i.e. getting a part of their debt through additional printing of money by the country's central bank). This policy prescription has been given strongly for countries like India, which can afford some devaluation of their currencies because of low global oil prices and that are not likely at all to default on their public debts. More importantly, in case of India, it can be argued that the economic challenges due to depressed consumption demand appear to be far more acute than those due to disruptions in supply chains at present. Hence, there seems to be a strong case for additional government borrowing, with a part of it monetised by the central bank.

However, the governments in many developing countries, including India, have significantly recalibrated their policy regimes over the last three decades to attract international financial capital. This aspect of neoliberalism, the rise of finance capital, has led to a visible shrinking of fiscal policy sovereignty of developing countries. For instance, the credit rating agencies in the west might downgrade India's ratings if India goes for a drastic increase in the magnitude of government borrowing and especially if it opts for monetisation of a part of the deficit. Any drastic downgrading by the credit rating agencies could then lead to an exodus of foreign portfolio investment from Indian financial markets causing havoc with stock and bond prices.

Credit rating agencies have come to assume undue influence over the financial flows. Rating agencies play the role of providing information regarding the credit-worthiness of borrowers, including governments, corporations and other entities which borrow large amounts from the market. The ratings are supposed to serve as a guide to lenders in deciding which entities they should lend to or not. However, not only the ratings are not only are the ratings not as objective as they are claimed to be; but also rating agencies have been accused of corruption,[86] conflict of interest[87] and having inconsistent methodology.[88] In fact, they have even been blamed of playing a significant role in causing the global financial crisis of 2007-08.[89] Despite these concerns, rating agencies continue to have disproportionate influence in driving financial flows globally. There is an urgent need to evaluate the role played by these actors, and having prudent regulatory measures in place as these have significant implications on capital controls that must be implemented by countries.

Hence, there is a need for global coordination and cooperation among countries to ensure that the sovereign fiscal policy strategies of low-income countries towards recovering from this crisis are protected. Despite the G20 regulatory reforms adopted in the aftermath of the 2007-08 financial crisis, the international financial system remains ever so fragile and vulnerable. A direct result of the neoliberal design of the last four decades, this system constantly puts profits over people and accumulation over redistribution. It is engineered to serve the interests of rich and powerful at the cost of the rest of the global population. More importantly, the economic effects of past epidemics provide little guidance on how to deal with the disproportionate impact of COVID-19.

The international financial system is standing at crossroads, where piecemeal reforms on regulation alone will not suffice any longer. This pandemic has echoed the need for a globally coordinated response to tackle the humanitarian crisis that has unfolded in especially developing countries.

While governments are responding to the crisis with fiscal plans amounting to trillions of dollars, with some countries spending more than 20% of their GDP in stimulus packages, a marked feature of these fiscal responses are corporate bailouts being offered to big businesses and multinational corporations. However, with such bailouts becoming a decadal phenomenon, corporations privatize profits but socialize losses. Therefore, taxpayers' money should not bail out corporations (as bankruptcy for large corporations does not necessarily mean liquidation)[90] but should instead be directed at those who are most vulnerable to the impact of the crises.

Capital flight from developing countries has long-lasting effects on their recovery. Moratorium packages announced on debt payments for low income countries until the end of the year too fall short as significant debt restructuring and relief is crucial for low and middle-income countries right now.

Our unsustainable production, consumption and development trajectories must be consciously left behind to give way to more environment-conscious, just, equitable policy alternatives that help realize human rights universally. The post-COVID world must be deliberately constructed by governments with sound national solutions and meaningful international cooperation.

Section 5

What kind of fiscal policy measures India needs right now?

A Bold, Liberal Fiscal Response for the Unusual Times

The crisis brought on by the pandemic and the subsequent lockdowns is making an unprecedented impact on the Indian economy. And that calls for bold policy decisions. The response from the government has to be intrepid as the expenditure needs are unusual. These encompass not just medical and healthcare expenditure to combat the health impact of the virus, but also large magnitudes of public expenditure to alleviate destitution and hardships of millions of people who have lost their livelihoods as well as budgetary support to restart and revive the economy. However, a comparison with some of the other countries shows that while India's lockdown has been the most stringent, its fiscal support and stimulus package is among the smallest in proportion to GDP.

Even though the Central Government has increased its borrowing for the current fiscal year by Rs. 4.2 lakh crore recently, a large part of this additional borrowing could get utilised merely for filling the gap arising from a major shortfall in collection of tax revenues and disinvestment proceeds projected in the Union Budget for 2020-21.[91] If the extra borrowing done so far goes mostly towards filling this gap, it "cannot be counted as a fiscal stimulus".[92] The government, therefore, needs to undertake additional borrowing in order to meet the additional public expenditure needs (including those of the State Governments).

There is near unanimity, among economists following different schools of thought, that in view of the risk of the enlarged fiscal deficit financed by market borrowing driving up interest rates (and, consequently, negatively impacting economic recovery), a part of the borrowing should be financed by monetising the deficit, i.e. by the RBI printing more money.

This policy prescription of monetising the fiscal deficit has been made strongly (by a number of renowned economists) for India, also on the ground that it can easily afford some devaluation of the Rupee because of low global oil prices at present and that India is not vulnerable to a public debt default. Hence, there seems to be a strong case for additional government borrowing, with a part of it monetised by the central bank.

> It is now widely held that monetising a part of the deficit will help the government provide cash transfers and other income support to a sizeable section of the population, generate consumer demand and support economic revival through the multiplier effect. For countries all over the world, additional borrowing is the key to fiscal stimulus. That is exactly what India needs as well, and if necessary, India should monetise a part of the additional borrowing by printing money.

Imperative to Share Larger Magnitude of Resource with States

Given the federal structure in India, States do not have much scope to augment resources required to address the present crisis. Since it is the State Governments that are at the forefront of dealing with the crisis, it is crucial that the Union Government shares a much bigger quantum of resources with the States compared to what it did before the crisis. Therefore, the vertical distribution of tax proceeds should go up to 50 per cent (as demanded by many State governments), from the present 41 per cent fixed by the 15th Finance Commission (FC) for Financial Year (FY) 2020-21.

For FY 2020-21, the 15th FC had recommended that an amount of Rs. 74,340 crore be given to fourteen States as Post-Devolution Revenue Deficit Grants. While, two monthly equated instalments of Rs. 6,195 crore each have been shared with these States,[93] given the quantum of resources required by the States (all States, not only these fourteen States) to plug their revenue account deficit, the Union Government should consider sharing more resources under this head as well. Moreover, the entire amount of revenue deficit grants should be devolved to the States in three instalments (April-June, 2020)[94] as advance, instead of following monthly equated instalments.

There is also an urgent need for revisiting the quantum of grants proposed by the 15th FC to the rural and urban local bodies for FY 2020-21. Since the local governments have been bearing much of the burden of accommodating migrant workers coming back home as well as provisioning of basic necessities, it is imperative that higher quantum of resources is devolved to these local governments. However, the local governments will be able to utilise or absorb the devolved funds fully, only if they are allowed to spend from these grants for hiring human resources. Restricting them from spending on human resources, and utilising the grants only towards direct programmatic costs, have constrained their resource absorption capacities over the last several years.

An independent committee could be constituted to recommend the additional resources to be devolved to the States and local governments (in addition to the resources to be devolved based on the first report of the 15th Finance Commission) to address the needs and requirements due to COVID-19. Further, the criteria[95] used in sharing PM CARES resources of Rs. 1,000 crore with the States seem a little ad-hoc and do not follow appreciable standards of transparency in the use of public resources. Hence, more nuanced and transparent ways of devolving resources to States and local governments need to be followed by the Centre at present.

One-Size-Fits-All Approach to Fiscal Deficit Limits for States Not a Good Idea

Recently the Union Government has expanded the borrowing limits[96] for States from the current three per cent of GSDP to five per cent of GSDP. Estimates show that the lockdown would cost around Rs. 971 billion total revenue loss for 21 major States for the month of April 2020 alone.[97] Thus, to the revenue-trodden States, a fiscal space of Rs. 4.28 trillion in the current fiscal year is certainly a relief. However, this long-standing demand from States has come to realisation along with a set of conditionalities. While 0.5 percentage point of the extra borrowing window will be available to all States unconditionally, the rest will be linked to 'specified, measurable and feasible reforms' in four areas – universalisation of 'One Nation One Ration card', ease of doing business, power distribution and augmentation of urban local body revenues and complete achievement of these specified reforms. Linking additional borrowing with conditionalities could be problematic for the States that have already accessed State Development Loans at high interest rates. For them knocking market for funds might be difficult.[98]

Besides, setting a uniform limit for State's fiscal deficit as a proportion of State's GSDP might not help in the current situation. This is so because, the wide disparity in GSDPs of States (with Maharashtra, Karnataka, Tamil Nadu, Gujarat etc. recording much higher GSDPs compared to those of the fiscally weaker and less industrialised States like Assam, Bihar, Jharkhand and West Bengal etc.) will lead to the uniform borrowing limit (defined as per cent of each State's GSDP) translating into much smaller magnitudes of additional resources for the poorer States, some of which could be in much greater need for augmenting public expenditure at present.

> The Centre, while prescribing the expanded fiscal deficit limits for States, needs to take into account the different degrees of estimated revenue loss due to COVID-19 across States, and the varying needs for expanding public expenditure across States in the current fiscal.

Tax Those Who Have the Ability to Pay

Going ahead, once the lockdown is lifted entirely and economic activities resume on a large scale, the government also needs to take innovative measures to augment its tax revenue. As several analysts have noted, different sections of the population, including those in the middle class, will find sustenance difficult owing to job / income losses. Under these circumstances, trying to augment tax revenue through indirect taxes could hamper consumption demand and hence revival of the economy. Therefore, more tax revenue has to be raised through direct taxes, levied on the relatively better off. In fact, the need of the hour is not only to levy higher taxes on those who have the ability to pay, but to also re-introduce some of the progressive taxes that have been suspended / abolished in the past.

India has the unimpressive distinction of being the country with largest[ii] [99] number of poor people in the world, while also having the fourth largest[100] number of dollar billionaires. As such, the move to abolish wealth tax in 2015, based on the argument of insufficient collections, was a short-sighted policy measure. A well-defined wealth tax of just one per cent on the 100 odd dollar billionaires alone has the potential to generate adequate revenue. Therefore, the government now needs to bring back wealth tax to finance recovery of the economy.

> Over the last few years, there has been an increasing centralisation of Centre's tax collection. This has mainly been driven by imposition of more cesses and surcharges on direct taxes such as corporate and personal income taxes.[101] Since revenue generated through such cesses and surcharges do not get shared with the States, it is essential that these are removed, and new tax slabs with higher tax rate on the rich are introduced in their place.[iii] [102] This will ensure that a larger proportion of the total tax revenue collected by the Centre is shared with the States.

[ii] According to some other estimates, India ranks second after Nigeria

[iii] This calculation was based on rates before the 2019-20. The 2019-20 budget increased the surcharge rates

Another way, in which the government can raise more revenue without burdening a large proportion of the population is by re-introducing Inheritance Tax set at a relatively high threshold level. Inheritance tax can not only raise additional resources, it has been identified as an essential policy intervention against the growing concentration of wealth in fewer and fewer hands. As pointed out in the policy paper titled “Fiscal Options & Response to Covid-19 Epidemic (FORCE)”, “earlier, procedural issues and information asymmetry led to the tax being abolished” (the Inheritance Tax had been suspended in India in 1985).

> “However, in today's digital age, information is easily accessible, and with the improvements in administrative framework over the last few decades, such a tax is enforceable and implementable now”.[103]

Similarly, the tax imposed on online companies that have been doing well even during the lockdown, under the equalisation levy or “Google Tax” can be increased from the present rates. As these businesses are likely to flourish even after the lockdown is lifted, the hike in tax rates will likely contribute a good amount of increased revenue.[104]

Union Budget Outlays for the Central Schemes in Social Sectors Should Not Be Reduced

There is a possibility that the Centre becomes more stringent with the States this year, in the process of releasing the Union Budget outlays approved for various Central Schemes for FY 2020-21, on the ground that States are sitting over some amounts of unspent funds from the previous one or more fiscal years. The argument would be to ask States to first show full utilisation of the unspent funds and then ask for complete shares of Central funds for the various development schemes that have been approved for FY 2020-21.

It must be noted, in this context, that such a measure, if followed strictly by Central Ministries, could result in sizable reductions in total public expenditure on social sector schemes in the States. This is possible because, the entire amount of funds not accounted for as 'utilised' or 'spent' by a State in any sector is unlikely to be lying idle in the State's Treasury; while a part of this 'unutilised' or 'unspent' amount could be awaiting utilisation certificates (UCs), another chunk of this amount could be scattered across district level and block level authorities. In such a situation, tough measures by Central Ministries in the process of releasing the approved Union Budget shares for Central Schemes to various States could then lead to a significant fund crunch on the ground in social sectors, hitting the payments of salaries to frontline staff among other things. A similar situation, of mismatch of the Centre's expectations and States' preparedness on public financing of social sector schemes, had arisen in 2015-16 with visible adverse impact in a number of social sectors.

Hence, instead of the Central Ministries acting tough with State Government Departments on 'unutilised funds', cash-strapped States coping with the COVID -19 influenced crisis should be given more flexibility this year - for tweaking the expenditure norms and guidelines in Central Schemes along with relaxation in timelines to present UCs - so as to protect the already under-resourced delivery of public services in the social sectors.

Reprioritisation of Expenditure Budgets

Given the severity of the ongoing crisis and its multi-dimensional nature, the main objective of all tiers of government should be to protect the underprivileged sections of the population from the serious challenges on health, livelihood and food security fronts. in this regard, some degree of public expenditure reprioritisation will be inevitable not only for FY 2020-21, but possibly also for the next couple of years. Among a few such measures possible, one would be to downsize public expenditure this year on new Capital Outlay projects (e.g. construction and procurement of capital assets etc.).

As per an SBI analysis, total capital expenditure of the 19 large States for FY 2020-21 was budgeted at Rs. 8.8 lakh crore.[105] This capital expenditure should undergo some amount of revision to enable higher public spending towards medical and public health, food security, income support to the poor, and relief and rehabilitation etc. Government of Maharashtra has already taken such a measure and ordered its Departments to withhold new capital expenditure projects.[106] However, capital expenditure on projects that are employment intensive (in terms of the requirement of labourers) should not be cut down drastically, given the acute need for generating wage employment through public expenditure.

Universalising MGNREGS and Providing Direct Income Support

Even after ensuring some relaxations in the lockdown and announcing a stimulus package, the unemployment level has remained as high as 24.6 per cent[107] as on May 23, 2020. So, it is essential to make the employment of last resort programme, i.e. the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) universal[108], which implies introducing it in urban areas as well.

In response to the pandemic-induced crisis, the governemnt has increased the Union Budget allocation for MGNREGS for 2020-21 by Rs. 40,000 crore. However, as demand for MGNREGS work has increased significantly in some States, more funds need to be allocated for this crucial scheme. Further, as mentioned above, MGNREGS should be extended to urban areas as unemployment level in urban areas is reportedly higher than that in the rural areas. Increased demand for work under this programme should be met immediately by identifying new work-sites.[109]

Likewise, direct income support through various schemes such PM-KISAN must also be expanded in coverage and scale. There is also an argument in favour of universalising it so as to ensure that the most vulnerable in the agrarian sector (viz. landless agricultural labourers and farmers) do not get excluded. These policy measures would help a lot in improving the aggregate demand in the economy by enhancing purchasing power, particularly of the poorer and more vulnerable sections of the population.

"Cash transfers in the form of income support are equally essential at a time when many people have lost their jobs or have not been paid for the past month or two. Experts have recommended that a cash transfer of at least Rs 7,000 per household should be made for two or three months to help people tide over the economic stagnation".[110]

Universalising the Public Distribution System (PDS)

Two months into the lockdown, several starvation deaths have been reported and lakhs of others face prolonged hunger, even as buffer stocks of foodgrains lie unutilised. With State Finances under considerable strain, the Centre must release extra quantities of Food Corporation of India's foodgrain stocks to States at zero or nominal rates.

As per recent data, 86 per cent of vulnerable households are receiving PDS ration.[111] However, PDS leaves out around 500 million people, many of whom are very poor.

> It is estimated that if PDS is universalised, an additional 20 per cent of India's population would be able to avail food grains, while the top 20 per cent income category would self-select out of the process.[112]

Universalisation would also minimise exclusion errors and leakages, already evidenced in States with higher PDS coverage such as Tamil Nadu and Chhattisgarh. The current food stocks are deemed to be more than sufficient to provide at least 10 kgs. of grains for six months to 80 per cent of the population.

Special provisioning should be made for States such as Uttar Pradesh and Bihar, which have a large number of returning migrant workers, and for landless households that may not have ready access to essential commodities in villages. Besides food grain rations, the government should also arrange for community kitchens and home delivery of midday meals to school children.

Spending More on Protection of Women, Children and Other Vulnerable Sections

The pandemic has disproportionately affected women, children, person with disabilities, people from Scheduled Castes (SCs) and Scheduled Tribes (STs) communities, and religious minorities. Across every sphere, from health to the economy, security to social protection, the impacts of COVID-19 are exacerbated for the vulnerable sections of the population.

Due to the huge revenue shortfalls likely for both the Centre and the States this fiscal, there is a possibility of the overall quantum of budgetary spending on the social sectors getting squeezed. The vulnerable sections of the population depend on public services and interventions across sectors a lot more than the better off sections. Thus, any curtailment in public spending on the social sectors this year will affect the vulnerable sections disproportionality, which needs to be averted.

Interventions like the Rs. 6,000 crore fiscal stimulus for employment generation of adivasis in areas of afforestation and regeneration activities under the Compensatory Afforestation Fund Management and Planning Authority (CAMPA) and an additional Rs. 40,000 crore for MGNREGA will certainly provide some economic relief for the vulnerable sections of the population.[113] But given the high degree of vulnerability of the disadvantaged sections in the wake of the COVID-19 crisis, both Centre and States need to allocate larger budgetary outlays for the social sectors this year.

Need for Much Higher Public Spending on Health and Related Sectors

The pandemic presents an opportunity to reverse the decades-long trend of under funding of public sector healthcare in India. In its 2020-21 budget, the Centre allocated only 0.3 per cent of GDP towards health.[114] As state finances are likely to be under strain for some time, the Centre needs to increase its share of India's total public expenditure on health at least to the level of one per cent of GDP.

In addition to pandemic-specific investments suggested by the World Bank,[115] the Centre needs to invest in horizontal strengthening of health systems to handle co-morbidities and reduce the general disease burden. Allocations must be made towards filling up persisting staff vacancies at sub-centres, Community Health Centres (CHCs), Primary Health Centres (PHCs) and district hospitals, as well as shore up basic infrastructure at these facilities.[116] Investments in health information systems and health supply chains must also be prioritised.

The government also needs to finance the recruitment of more mental health specialists and incentivise them to work in public facilities, as mental illness cases have risen by 20 per cent since the lockdown began.[117]

Closely related to public health, the WASH sector is also in need of higher public investment. Critical demands from a recent PIL in the Supreme Court should be addressed: providing PPE to sanitation workers, stopping all manual scavenging activities and ensuring water remains cost-free.[118] Higher allocations should be made for Jal Jeevan Mission to achieve its target of providing piped water supply to all households. The government must also improve fund utilisation under Swachh Bharat Mission – Urban (SBM-U), where the initial allocation in 2019-20 was revised downwards by nearly half because of underutilisation.[119] Finally, the government should invest in frontline WASH staff and capacity building of local government functionaries, particularly Gram Panchayats.[120]

Enhancing Fiscal Transparency and Accountability in Every Sector

Budget transparency is an important parameter of measuring quality of fiscal governance. High degree of budget transparency leads to increased level of positive impact of fiscal policies on the lives of people, particularly for the most vulnerable sections of the population. At the time of a serious crisis like the COVID-19 pandemic, budget transparency assumes greater significance. However, the creation of a separate trust fund-PM CARES and the process through which its resources are shared with States have drawn criticisms on lack of transparency. An example of this is the point that while donations to PM CARES Fund qualify for Corporate Social Responsibilty (CSR), those to CMs' Relief Funds do not.[121] Similarly, as it has been pointed out by several commentators and analysts, the fiscal stimulus package of the Centre is difficult to discern and there is lack of clarity about the costs to be borne by the government this year under each component.[122] In such a context, it is necessary for the Centre to take strong measures to enhance fiscal transparency in all domains of policy response to the crisis; State Governments too need to enhance the level of fiscal transparency in actual utilisation of funds at the district and sub-district levels significantly.

Consulting CSOs, CBOs and the Communities in Framing the Revival Policies

At this crucial juncture, government policies and actions will determine how many lives are saved, how many people fall into poverty, how well inequality in access to resources is reduced, and how well the problems of the marginalised sections are addressed. These policies are too important to be made without adequate inputs and participation from the public at large and representatives from Civil Society Organisations (CSOs) and Community Based Organisations (CBOs).[123] Further, it has been well acknowledged that providing adequate space for public to participate in priority setting and accumulating resources from various sources could lead to effective public financial management and result in better outcomes from public spending. In order to save lives and revive livelihoods of the masses and formulating appropriate and relevant policies for them, the practice of public consultations should be institutionalised by the State Governments as well as Central Ministries. The NITI Aayog reaching out to the CSOs and seeking their support to assist the government in the fight against COVID-19[124] is certainly a welcome step; the insights emerging from the government's consultations with CSOs should be incorporated in policy formulation and implementation. Designing and institutionalising mechanisms for citizens' feedback on policy formulation, implementation and monitoring, and expanding the means and coverage of public consultations, as has been carried out by the NITI Aayog in the recent past,[125] will also help revive the economy faster.

Section 6

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