A time for extraordinary action

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An unprecedented scale of state investment is required to lift up the Indian economy

Migrant workers and their family members line up outside the Anand Vihar bus terminal in New Delhi on March 28, 2020. | Photo Credit: AFP

An unprecedented scale of state investment is required to lift up the Indian economy

Even before the full impact of COVID-19 on the health of Indians is clear, the economic impact of the measures required to deal with the pandemic are already posing grave problems. The Indian economy was in dire straits even before COVID-19 reached our shores. Specifically, the lockdown and other movement restrictions, backed by scientific and political consensus on their inevitability, have directly led to a dramatic slowdown in economic activity across the board. What is their impact on the Indian economy? This question calls for an urgent answer.

Methodology

We provide an initial, quantitative response, using a methodology that is based on the technique of input-output (IO) models, first elaborated by the economist Wassily Leontief. Such models provide detailed sector-wise information of output and consumption in different sectors of the economy and their inter-linkages, along with the sum total of wages, profits, savings, and expenditures in each sector and by each section of final consumers (households, government, etc.). Crucially, it pays attention to intermediate consumption, namely consumption by some sectors of the output of other sectors (as well as consumption within their own sector).

Coronavirus | Needed, greater decentralisation of power

The key advantage of such a model is that it allows the calculation of the impact of any change in any sector in both direct and indirect terms, which has made this model somewhat ubiquitous in the computation of the economic impact of disasters. This also renders it well-suited to estimating the economic consequences of COVID-19. Regrettably, the last officially published IO table for India was for the year 2007-2008. In our estimates, we use the IO tables for India published by the World Input-Output Database for the year 2014 that updates the IO tables for individual countries using time series of national income statistics.

To calculate the impact of the lockdown, we proceed by constructing four different scenarios of the number of workdays lost in different sectors. Assuming that the estimated annual output is distributed uniformly across the year, it is possible to calculate the daily output and therefore the daily output loss. The direct and indirect impacts of the lockdown are then estimated using IO multipliers which are assumed to be constant. We then calculate the percentage decline in the national gross domestic product (GDP) of 2019-2020 that this impact amounts to.

Impact on various sectors

Our model (see table) shows that the loss of GDP ranges from ₹17 lakh crore (7% of GDP) in the most conservative scenario, where the average number of output days lost is only 13, to ₹73 lakh crore (33% of GDP) in the most impactful scenario, where the number of days of lost output averages 67. In intermediate scenarios of 27 and 47 days of lost output, the GDP decline is ₹29 lakh crore (13% of GDP) and ₹51 lakh crore (23% of GDP), respectively. We emphasise again that the number of days of lost output noted here is only an average across all sectors, and that we do input in the calculation of different numbers for each sector, based roughly on the available information in the public domain and exercising some judgment. Further details can be accessed at https://bit.ly/2UXK5WR). These, of course, need more accurate representation, an exercise that can undoubtedly be best carried out by national statistical institutions and their State-level counterparts. These estimates also accord well with other estimates, such as those of the OECD that suggest a 20% loss to GDP for India.

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Even assuming that sectors will have varying lockdown periods, all sectors face serious losses due to their interdependence. If we take the scenario where a prolonged lockdown happens, averaging about 47 days across sectors, we find that the mining sector faces the largest drop of 42% in value added despite that sector itself being shut down for, say, 35 days as we have assumed, which is less than the economy-wide average. The electricity sector sees a 29% fall in value added, even though it faces no shut down per se. Losses are expected across all sectors in terms of both wage compensation and availability of working capital.

The linear character of our estimates, intrinsic to IO analysis, does not allow incorporation of feedback effects and assumes that output commences where it left off without further constraints. We have attempted to correct for this by using varying number of days of output loss across sectors, but this is quite possibly inadequate to capture the continuing economic impact. We are faced today with the unique situation where both supply and demand have collapsed in several sectors. In some sectors such as agriculture, the impact may manifest in delayed fashion, if the anti-COVID-19 measures, or the pandemic itself, affects agricultural operations in the next kharif season, even if, as reports suggest, much of this year's rabi has been successfully harvested. Given the database we are using and the initial character of our analyses we have also not explicitly accounted for possible shortfalls in exports due to lack of demand elsewhere in the world, as well as the unavailability of intermediate imported goods that are crucial for the Indian economy. Nor are we able to adequately separate the impact on the informal sector, that is partially aggregated with the formal sector in the database that we are using and partially unaccounted for due to lack of data. Dealing with the travails of the informal sector will require separate sector-wise considerations.

But the most striking feature of even this simple calculation is the all-round pervasive impact on the economy of the anti-COVID-19 measures that we are currently undertaking and that are likely to continue in modified form for a short period. Measures such as debt relief, postponement of revenue and tax collections, immediate relief in cash and kind to the poor, and revamping and scaling up public distribution are all undoubtedly necessary but far from sufficient. Our numbers suggest that the resort to huge stimulus packages that developed countries have already started putting in place is by no means mistaken.

Coronavirus | A key arsenal in rural India's pandemic fight

The way forward

India needs a similar strategy. As Kerala Chief Minister Pinarayi Vijayan pointed out, extraordinary times need extraordinary action. We need to compensate and pump cash into the hands of not only wage workers in the formal and informal sectors, and also into the livelihood activities of the informal sector, but businesses too need to be primed with handouts in the case of small and medium enterprises, and with a variety of concessions even in the case of larger businesses. It is critical to preserve the productive capacities of the Indian economy across the board. The annual budget of the current year, already passed, clearly cannot cope with such a massive effort and needs to be revisited by suitable parliamentary measures.

Redistributing expenditure, seeking to keep the fiscal deficit "under control" as it were, through measures such as cutting back on government salaries, are unlikely to be helpful. Apart from sending the wrong signal to private sector employers, who have so far been exhorted to maintain salaries and wages during the lockdown, it is quite likely to lead to further reduction in demand since the government is the biggest employer in the country.

Coronavirus | A different economic approach

Finally, one must note that the current crisis is not a transformatory moment for the Indian economy, even if the scale of the impact and recovery process will undoubtedly push the economy in new directions. But "greening" the economy or more radical transformative measures are not particularly relevant in its current state. What is needed is ensuring the key role of the state to lift up an economy that is in danger of being brought to its knees, and to restore some semblance of its normal rhythm, by an unprecedented scale of state investment.

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