Go Bolder and Bigger on Relief

This is not the time for deficit worries

The relief package announced by finance minister Nirmala Sitharaman is welcome news. It is the beginning of pushing purchasing power into the hands of some of the most vulnerable sections of society to help them out of the Covid-19 pandemic and the resultant lockdown. However, it is incomplete and insufficient to shield the poor, particularly the urban poor, or to provide a boost in purchasing power and, therefore, productivity. While it has been welcomed by the government and RBI who had announced a comprehensive package of relief, rather than what would appear to be a piecemeal rollout of the proposed relief.

Transferring ex gratia payments to pensioners and women holders of Jan Dhan accounts would be effective. The amounts could be larger. Dipping into superfund grain stocks—30 million tonnes against the buffer stock norm of 21 million tonnes—to offer additional rations is the sensible thing to do. Raising rural employment outlays would help, after the lockdown is over. Offering greater collateral-free credit to women self-help groups is welcome. Holloving out the pension pot is not a great idea, however. The construction workers' fund and the district mineral fund have large amounts of untapped money. It makes sense to deploy this, but strict guidelines must guard against wastage of funds. The offer to provide provident fund contributions might not be the best way to guard against layoffs, cheaper working capital might work better. The actual outcome from the government would be a 7.5% hike in the MPR at 14.1%.

The US fiscal package, in contrast, is 10% of GDP.

The poor do not live in isolation from the non-poor. Just the opposite. The greater the dynamism of the non-poor parts of the economy, the greater the benefits that flow to the poor. This is why for six years on the trot, over 2010-14, the Centre’s social security programmes were quite cheap. Relevantly, During the Covid-19 crisis as well, the support offered to industry and other productive sectors of the economy would determine how the poor would be able to survive the crisis. This is the time to think big.

TReDS Route to Discourage Layoffs

The best way for the government to induce employers not to lay off workers réduced by the Covid-19 slowdown and lockdown would be to provide greater working capital relief to small companies by operationalising and fully realising the potential of the Trade Receivables Discounting System (TReDS). It should adopt a carrot-and-stick approach. To ensure that large companies release the payments due to their small-scale suppliers without delay, they must be mandated to come into the TReDS platform. Small suppliers raise their invoices on the TReDS platform and sell them, and the government gives them as collateral, ensuring that the medium and small enterprises (MSMEs) are protected. The government will give them the government of India’s guarantee, which means the banks will give them the working capital they need. This will reduce the risk of closure or bankruptcy for the small and medium enterprises (MSMEs). Big banks will also help to provide much-needed backing liquidity.

Go(lish) will be willing to relax the fiscal deficit targets to 6% in 2020-21. The Indian government has not had automatic economic stabilisers such as universal health coverage and unemployment insurance. Therefore, it is important to support small and micro enterprises, and the risk of closure or bankruptcy for the largest enterprises.

Finally, the Indian government should be willing to relax the fiscal deficit targets to 6% in 2020-21. The government can also support small and micro enterprises by reducing the risk of closure or bankruptcy for the largest enterprises.