

MARXIST

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PRABIR PURKAYASTHA is the Founder Member, Delhi Science Forum, and President, Free Software Movement of India.

C.P. CHANDRASEKHAR is Professor at the Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, Delhi.

For subscription and other queries, contact

The Manager, Marxist, A.K. Gopalan Bhavan, 27-29 Bhai Veer Singh Marg, New Delhi 110001
Phone: (91-11) 2334 8725. Email: pdpbln@gmail.com

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C.P. CHANDRASEKHAR

The Indian Economy

Before and After the Pandemic

Despite deploying diversionary rhetoric, the NDA government has not been able to conceal two aspects of the Indian economic situation. The first is that the Indian economy is in a deep crisis, with the Covid-19 shock only intensifying a recession that had engulfed it even before the pandemic. The second is that the while a crucial driver of the pre-pandemic recession were the extreme inequalities that characterize a class- and caste-ridden, patriarchal society. The recession itself and the crisis precipitated by the effects of the pandemic and the government's response to it has hugely aggravated those inequalities in ways that would remain true for the long term.

THE ECONOMY BEFORE THE PANDEMIC

The provisional estimates of GDP for 2019–20 released at the end of May made clear that growth in *pre-Covid lockdown* year 2019–20, as captured by a national income data series which in any case exaggerates the size and pace of expansion of the economy, was down to 4.2 per cent, the lowest since the new GDP series was launched. Since the Centre's recognition of and response to the pandemic occurred in the last week of March, this slowdown clearly predates the Covid-induced crisis.

Pre-Covid discussions on that growth slowdown attributed it to demand compression, reflected in sharply falling offtake of commodities ranging from capital goods, to cars and biscuits. A long view must trace that demand compression to the failure of successive governments pursuing the capitalist path to address the extreme asset and consequent income inequalities that characterized Indian society. Moreover, after 1991, accelerated liberalization accentuated those inequalities by allowing further asset concentration (especially in the non-agricultural sector), withdrawing redistributing fiscal interventions, and engineering income redistribution in favour of the rich through regressive taxation policies and explicit and implicit transfers. Agriculture languished, not so much because of poor production performance, but because prices for farm produce remained depressed and the government's minimum support prices failed to provide a remunerative floor. Underemployment was high and most jobs precarious. Agricultural and industrial wages recorded sluggish growth or even declines in real terms. And petty producers found it increasingly difficult to eke out a decent livelihood from their occupations. The adverse effect that this had on the growth, by depressing mass consumption demand and new investment in productive activities, was compounded by the effects of trade liberalization on domestic production and of the adherence to the neoliberal tenet that pro-active state spending financed with borrowing had to be reined in at all costs.

The long-term crisis these trends had triggered remained concealed, however, in the years after 2003, when large capital inflows from abroad, facilitated by financial liberalization, increased the volume of liquidity in the system. The increased liquidity triggered a credit boom, which financed not just consumption spending and housing investment, but large capital-intensive investments by large corporate groups, especially in the now deregulated infrastructure sector. It hardly needs emphasizing that growth of this kind led by private, debt-financed spending and

riding on a credit bubble is not sustainable. That fact was, however, suppressed by the financial sector in general and the banking sector in particular, which concealed evidence of large volumes of non-performing assets resulting from debt defaults, using legitimate and illegitimate means. When that strategy was no more feasible, recognized defaults or non-performing assets spiked, forcing banks to provide for the losses, with resultant erosion of their balance sheet positions. This forced them to cut back on lending, in order to forestall any further losses, resulting in the end of the credit boom and of the growth process riding on that bubble. The fundamental weaknesses characterizing the Indian development path—failure to generate a mass market for consumption goods by redressing gross asset and income inequalities and inability to finance much-needed government expenditures by appropriating a part of the surpluses accruing to the private sector resulting in dependence on debt-financed spending—asserted themselves and the system reverted to the long-term normal of low growth. To make matters worse, even as the recession overwhelmed the economy, the Modi government adopted the misguided and/or irrational policies of demonetization and a Goods and Services Taxes regime, intensifying the crisis.

THE FISCAL CRISIS

The unwillingness of the government to give up its fiscal conservatism in the wake of recession only deepened it. Provisional estimates from the Controller General of Accounts of actual revenues collected in financial year 2019–20, or the fiscal year that ended March 2020, point to an erosion of revenue receipts of crisis proportions. As compared with the original budget estimate of Rs 19.6 lakh crore, and a revised estimate (or late-in-year projection) of a lower Rs 18.5 lakh crore, actual revenue receipts are currently placed at just Rs 16.8 lakh crore. This implies that the actual figure is more than 14 per cent short of projections in the first budget

of the second Modi government and nine per cent short of the projection (revised estimates) for financial year 2019–20 in the Budget presented by Finance Minister Nirmala Sitharaman this February. The revenue shortfall has meant that the Centre's revenue receipts grew by just 2.9 per cent in 2019–20 when compared with the previous fiscal year, which implies that real revenues (adjusted for inflation) have in fact fallen. This deceleration in revenue growth occurred in a year for which only about a week fell in the lockdown period, so that the serious revenue shortfall was a pre-Covid phenomenon and cannot be blamed on the sudden stop induced by the pandemic.

Given the government's obsession with realizing unrealistic fiscal deficit targets, this compression of revenue growth has meant that the Centre's dependence on exceptional transfers from the Reserve Bank of India and on receipts from the sale of public assets to meet even routine expenditures has increased significantly. When these 'exceptional' sources of receipts fall short of expectations, as happened in 2019–20, meeting even unambitious expenditure plans requires window dressing budgetary figures. On the ground, capital expenditures and welfare expenditures, including on health, would have fallen even relative to woefully inadequate budgetary allocations.

Underlying this fiscal mess is the failure to mobilize adequate resources through taxation at a time when the need is for substantial additional resource mobilization. A casualty of the business-friendly taxation stance of the NDA government has been a substantial loss of buoyancy with respect to direct tax generation, with tax revenues falling despite the low levels of Centre's direct tax to GDP ratio and rising income inequality in the country. Net direct tax collection, or gross direct taxes adjusted for tax refunds, declined in nominal terms from Rs 11.36 lakh crore in 2018–19 to Rs 10.49 lakh crore in 2019–20, or by close to eight per cent. The factor dominantly responsible for this decline was the decision, in the midst of a demand recession, to seek to stimulate the economy

with corporate tax concessions announced in September 2019.

That September 'stimulus' took the form of a huge reduction in the corporate tax rate from 30 per cent (or an effective rate of 34.61 per cent after surcharge and cess) to 22 per cent (or an effective rate of 25.17 per cent) for domestic companies that do not avail of tax incentives or exemptions. New domestic manufacturing companies incorporated on or after October 1, 2019, will pay corporation tax at the reduced rate of 15 per cent (which is an effective rate of 17.01 per cent) so long as they do not avail of incentives and exemptions. And the minimum alternative tax (MAT) applicable to companies that do avail of incentives and exemptions has been reduced from 18.5 per cent to 15 per cent. This is a huge bonanza, which dominantly explains the contraction in direct tax revenues.

The second contributor to the compression in tax revenues is the limited buoyancy of indirect tax revenues garnered through the Centre from Goods and Services Tax (GST) imposts. In fact, in four of 12 months, central revenues from GST in 2019–20 were lower than the sum collected during the corresponding months of the previous year. Overall, the Centre's revenues from GST rose by eight per cent in 2019–20, despite the lower than projected base level in 2018–19. To recall, the government had promised states a 14 per cent annual increase in revenues from a base level GST estimate, failing which they were to be compensated with collections from a special cess. This suggests that, at the minimum, the Centre too would have expected a 14 per cent growth in GST revenues. The eight per cent realized in 2019–20 is, therefore, way short of expected revenue growth. The GST regime was launched in July 2017. So, the argument that teething troubles and initial glitches in implementation of a new 'game changing' measure are responsible for shortfalls in GST receipts no longer apply. Clearly, the GST regime has proved a failure, even while it has substantially curtailed the limited space that was available for states to increase their 'own tax revenues', in pursuit of an unrealizable 'one nation, one tax' goal. That failure is now haunting the Centre as well, besides

severely damaging the fiscal position of the state governments.

The poor performance with respect to corporate tax revenue generation and generation of revenues from GST, is a fall-out of the shift to a neoliberal policy regime. A defining feature of such a regime is a lenient corporate tax structure, ostensibly aimed at incentivizing private investors and unleashing the animal spirits they are presumed to possess. That also explains why when a demand recession is dampening investment and curtailing growth, the government decides not to spend to revive demand, but hand over money to the corporate sector with tax concessions, which firms will not divert to investment in depressed market conditions.

The GST too is a neoliberal measure. The United States had a role to play in the spread of the Value Added Tax that inspires GST. The Shoup mission to occupied Japan after the Second World War argued for its introduction. Subsequently, the USAID promoted VAT and sought to popularize the system through financial and technical assistance to developing countries. All through that period, the US government was unwilling to implement the system at home. Later the World Bank and the IMF played a role in pushing the system. More than half the countries that introduced VAT in the 20 years starting 1991 did so on the basis of advice and assistance from the IMF's Fiscal Affairs Department. Thus, the spread of VAT does seem to have a lot to do with the transition to market fundamentalism and market-friendly polices starting in the 1980s.

Once these neoliberal shifts on the taxation front began to adversely affect government revenues, within a neoliberal fiscal framework of caps on fiscal deficits or spending financed with borrowing, a corollary was sluggish government spending and lower growth. That sets up a feedback loop, with low revenues which curtails government spending reducing growth which then reduces revenues further, for any given level of fiscal buoyancy, or responsiveness of revenues growth to income growth. Revenue growth shrinks both because neoliberal fiscal reform reduces fiscal buoyancy *and* because growth itself begins to fall.

These trends have other external effects. Neoliberal governments seek to address sluggish revenue growth with the short-sighted measure of selling profitable, revenue earning public assets to obtain what are euphemistically termed ‘non-debt creating capital receipts’. As the fiscal crisis intensifies, the dependence on privatization receipts increases. The central government pursued that trajectory successfully in 2018–19 when as compared with budgeted receipts of Rs 80,000 crore from privatization, the government actually managed to mobilize close to Rs 95,000 crore, hawking profitable assets and riding on a buoyant stock market. But as growth falters, so does investor enthusiasm for public equity or the firms themselves. In 2019–20, the government had hiked the budgeted receipts from privatization to Rs 1,05,000 crore. But as the economy slowed it managed to mobilize only a little more than Rs 50,000 crore.

The picture is now clear. As the government gave up its role as development leader within a neoliberal growth strategy, growth rode on a credit bubble. With that bubble going bust and precipitating non-performing assets in the banking system, the credit-led boom gave way to a slowdown. The neoliberal fiscal response curtailed government revenues and expenditures further. Growth fell sharply and so did revenues. In the event, the government was trapped in a fiscal crisis and the economy in a recession.

THE COVID SHOCK

It was an economy and government in these straits that were hit by the Covid-19 shock. Initially, it appeared that the coronavirus had put economic decision-makers and their advisors in a kind of no man’s land. In the absence of either a cure or a preventive vaccine, the virus, which quickly moved across frontiers, overwhelmed underfunded and/or unprepared health systems. This made national isolation through closures of borders, and aggressive

intra-border social distancing culminating in lockdowns, the widespread means of addressing the effects of the pandemic.

As expected, this meant a sudden stop in economic activity. Even without lockdowns, with trade and global value chains disrupted, production was adversely affected because of loss of market access or shortage of raw materials. With airports closed, flights banned, and even domestic transportation restricted, the travel and tourism businesses were crippled. Social distancing and full-scale lockdowns then shut down production and closed a host of businesses. Masses of workers lost their jobs, especially given the rise in the share of casual and precarious employment in recent decades.

Unofficial estimates from the Centre for Monitoring Indian Economy placed the unemployment rate at close to 25 per cent in April and May when the lockdown was most intense. Without jobs and already at the margins of subsistence, overexploited migrant workers at the lower ends of the job market, engaged on terms with no security of employment and no social security were reduced to dependence on crowded soup kitchens and community shelters.

The developments affected both supply and demand. With production chains broken, factories shut down and businesses forced to close, the supply of a range of goods and services, barring those considered essential, was suddenly blocked. This had its spin-off effects on upstream and downstream sectors. Even suppliers of essential goods, facing problems in transportation and distribution, curtailed production.

This supply shock soon translated into demand compression, for energy and for most goods, especially an opaquely defined large set of 'non-essentials'. With incomes and earnings curtailed or wiped out, consumption demand fell. The halt in production cut demand for intermediates. And with capacity idle and economic activity disrupted, investment froze. This was an unusual situation. In the past, exogenous supply-side shocks that reduced production and availability, such as the effects of adverse weather conditions

on monsoon-dependent agriculture, were limited to a few sectors and a few regions in the country. This unevenness allowed for quick action that transferred goods from surplus to deficit regions. Where national reserves could not address such shocks, trade came to the rescue, with national supply enhanced through imports from abroad. In this crisis, with the Covid-19 infection present worldwide there was much less flexibility. With social distancing a global guideline, and with stringent lockdowns in different cities, regions or countries restricting almost half the world's population to their homes, production shortfalls were globally widespread, and amplified through their transmission through global value chains. Moreover, trade was limited as transportation links were cut off or weakened. This led to a synchronized reduction in production and supply, except for essentials, which too were flying off the shelves in many locations.

IMPLICATIONS FOR POLICY

This situation was idiosyncratic from a policy point of view. Normally, in capitalist economies, crises are driven predominantly either by demand constraints or supply constraints and shortfalls, with the former the norm. This calls for a countercyclical, expansionary response from the state, which in the face of demand inadequacies does not, like the private sector, hold back on investment spending, but expands both consumption and investment spending to revive demand, reduce unutilized capacity and kickstart private investment. But with both demand and supply constrained under Covid, it was not clear this was the right option. Would increased spending not run up against blocked production and supply and worsen the situation with inflation?

However, the perspective behind that question was misplaced. The lockdown was not a cure for the pandemic but a means of preventing it from galloping at a pace which would overwhelm health systems. So, spending (i) to ramp up testing, tracing and

isolation to contain the infection, (ii) to substantially enhance and improve hospital facilities, and (iii) to protect health workers and doctors was imperative. The lockdown itself results in a sudden stop in economic activity, resulting in large-scale unemployment and pushing informal sector businesses and small and medium firms to bankruptcy. Hence, it is imperative that the state protects all in need of basic necessities through direct provision of essential goods free of cost as well as through money transfers to substitute for a part of the lost earning. To support that effort and simultaneously sustain the viability of agriculture, large-scale procurement at reasonable prices is a must. It must also ensure that the huge informal sector and small business entities that do not have the reserves and the wherewithal to stay afloat and restart business as and when normalcy returns must be provided the support needed to survive. This would involve not just credit, but subsidies and transfers, so that whenever the time comes individuals and business would be in a position to return to managing their economic lives. Finally, expenditure to ring-fence essential economic activities so that they can continue to function and revive in the midst of the pandemic would be needed. Once all this is ensured spending to boost demand and accelerate the recovery can be effective and is needed. In sum, the issue is not whether the government should step up spending, but by how much and in what areas.

In sum, the government's policy response cannot but entail a sharp increase in expenditure to cope with the medical fallout and the 'sudden stop' in a wide range of economic activities that the virus attack imposes. That response had to come primarily from the Centre, which has far greater fiscal flexibility than the state governments, whose revenue receipts are under strain for multiple reasons and are subject to stringent borrowing limits. Not surprisingly many countries across the world opted for large stimulus packages, combined with monetary easing and a lowering of interest rates, to help households and business access liquidity

and stay in place during the worst phase of the epidemic. But without the fiscal push, the lockdown can at most postpone the health emergency, and monetary measures can only help relatively stronger players.

That a fiscal push was not seen as the dominant component of the crisis response became clear with the Reserve Bank of India making the initial intervention with an off-cycle, emergency announcement of a monetary policy package, which included a significant 75 basis points reduction in the policy (repo) rate, a cash reserve ratio reduction that freed liquidity and allowed banks to lend more, and permission to the banks and non-bank financial companies to postpone payment of the next three equated monthly instalment (EMI) payments on a host of loans including housing, auto and durable purchase loans.

This monetary policy push is related to the conservative fiscal stance. An important component of the economic policy perspective that advocates fiscal conservatism is a stress on the role of monetary policy in macroeconomic management. When inflation is moderate and the economy is in recession or growth is slow, it is argued, central bank intervention injecting cheap liquidity at extremely low interest rates through measures like 'quantitative easing' is the way to drive recovery and growth. It is this perspective that has determined policy in the developed nations during the recession years since the 2008 financial crisis, with limited or marginal impact. The real effect of this injection of cheap liquidity was an asset price bubble in financial and real estate markets which has been only partially corrected even after the coronavirus shock. Yet, the grip of finance has meant that there has been little deviation from these unconventional monetary policies for more than a decade.

A similar emphasis on monetary policy in the current situation in India, reflected in the RBI's Covid-19 response, would also not work. If production is stalled because of the effects of the crisis and demand is falling because many are being deprived of their wages

and earnings, pumping money into the system is unlikely to serve any of the government's purposes. Banks are unlikely to lend to those without the means to service such debt. At most some who need marginal support to prevent default on debt and producers who need some credit to last through the worst of the shock may be backed. But whether even they get the support promised would depend on whether the banks take up the options offered by the RBI's policy initiatives. Burdened with NPAs and expecting more loan defaults due to the crisis, they may prefer to go slow on credit provision. Attempting to outsource part of the effort to address the crisis to the banks may not yield significant results.

In practice, the government chose a rather damaging and ineffective policy mix. A severe lockdown was imposed early, all on a sudden with just a few hours' notice. Business froze, workers lost their jobs, many could not survive more than a few days and could not avail of the only social security they had, which was to return to families in the villages from which they came, since transport links were shut down. Large numbers had no option than to walk or cycle hundreds of miles in the middle of summer. The lockdown was combined with monetary measures aimed at increasing the flexibility of banks and non-bank financial companies to provide credit, which was unlikely to be effective since banks were already saddled with large volumes of non-performing assets.

CALLOUS FISCAL CONSERVATISM

On the fiscal front, after much delay, the Finance Minister unveiled a package on March 26. A close look made clear that the package was like a hastily put together and incomplete laundry list, that was woefully inadequate even as an initial response. To summarize, there were five broad components the package claimed to include. One was a set of measures aimed at reaching essential food requirements to those who just cannot access or would find it difficult to access them through the open market. The second

was to quickly put money into the pockets of chosen sets among poor, so that they can meet essential expenditures. The third was to facilitate economic activity of the self-employed, assuming they can undertake them in the near future, by giving them access to liquidity via credit channels. The fourth was to provide financial assistance to the state governments, which are the principal agencies working to contain the spread and mitigate the effects of the virus. And, the fifth was to support the frontline medical workers, doctors, nurses and paramedics, who are addressing the health impact of the virus at much personal cost.

As part of the first of these components, the government declared that it would provide, free of cost, the 800 million beneficiaries of the National Food Security Scheme, five kilograms of rice or wheat per person per month and one kilogram of pulses per household, for the next three months. (This was extended for another five months on June 30.) This was in addition to the five kilograms they were eligible to access on payment through the public distribution system. Beneficiaries of the Ujjwala scheme were also to be provided one free LPG cylinder per month for these three months.

The elements constituting the second component of the package included making an ex-gratia payment of Rs 1,000 per individual to poor senior citizens, widows and the disabled, and transferring an even smaller sum of Rs 500 to 200 million Jan Dhan accounts held by women. Besides, the government brought forward to April 1 payment of the first instalment of three of Rs 2,000 to be paid to 87 million farmers under the PM Kisan Yojana. It also allowed those organized sector workers who are covered under the Employees Provident Fund Scheme to avail of a non-refundable advance amounting to 75 per cent of their contribution or the equivalent of three months' wages, whichever is lower. In addition, the government promised to cover the contribution due to the EPF from both employers and employees in companies with less than 100 workers for three months. Finally, it announced

an increase in the wage to be paid for employment under the MGNREGS by Rs 20 per day from Rs 182 to Rs 202.

Signalling the third component was a single announcement that the ceiling on loans without collateral available in principle to self-help groups is to be raised from Rs 10 lakh to Rs 20 lakh.

Elements of the fourth component were bald announcements that states can use funds from the Rs 31,000 crore available under Building and Other Construction Workers' Welfare Fund to provide relief to workers in that sector who are badly affected, and from the District Mineral Fund for financing medical initiatives.

And, finally, in the fifth component, the government recognized the work being done and risks being taken by health workers, by providing them with medical insurance of Rs 50 lakh each.

There are four features that undermined the value of the package. The first is that the best of its components fell short of what was needed and what was potentially possible given the circumstances. The second is that some of the measures announced could not be implemented given lockdown conditions, and therefore did not deliver benefits during the period when they are needed most. The third was that many elements of the package were not new initiatives, but a mere extension or rescheduling of benefits available under schemes that were already in place. Finally, there was nothing in the announcement which indicated how exactly the government, using the potential benefit from the lockdown of delaying an expected explosion in infection and disease rates, was going to either protect frontline workers dealing with the crisis or ramp up facilities to deal with those requiring to be tested and needing treatment. These features made the package a half-hearted response to an unprecedented health, economic and humanitarian crisis. It was almost as if the government felt that having imposed a lockdown, only marginal interventions were needed to address the crisis.

The crisis resulting from the pandemic was severe because

it affected both demand and supply in the economy. With the population locked down and economic activity near frozen, the flow of incomes to unorganized workers and even some formal sector employees and of earnings of small and medium businesses and agricultural producers had stopped. This meant that there were many, such as informal sector, especially poor migrant, workers, who have little means to meet their essential requirements and there were others who were having to hold back on consumption because their incomes had shrunk, and their savings had been eroded.

Simultaneously, as a result of the sudden stop in economic activity, stocks in some sectors were dwindling, were being held back in others because of hoarding, and were not being transported and delivered in adequate quantities where needed in yet others. So, despite reduced demand the prospect of shortages confronted even those who had the wherewithal to buy and consume.

This unusual crisis, the intensity of which is still to be gauged, required a huge outlay of physical and financial resources, the magnitude of which had to be decided without consideration of principles the government may adhere to in normal times. But undeclared considerations seemed to be holding the government back. A crucial component of the package announced was doubling the quota of rice or wheat available through the PDS to around 80 crore beneficiaries from five to 10 kilograms a month and providing a kilo of free pulses to somewhere around 16 crore households. But, restricting the access to foodgrain to only those holding the required cards, not only deprived those, such as migrant workers, who are known to be excluded from the scheme, of the benefits of the measure, but also those who may not be eligible to be enrolled in the scheme when circumstances are normal but had been pushed into a dire situation by the impact that the crisis had on their livelihood, and needed the support. Some way of including such sections, or universalizing access ought to have been found.

Moreover, given the crisis, there is no reason why the

government could not have considered providing all 10 kilograms available to each beneficiary free of cost. For three months that would have required around 25 million tonnes of grain. The government was then sitting on a huge amount of foodgrain stock, with some undoubtedly rotting, and was expecting to procure large quantities of Rabi wheat because of a good crop. According to the prevailing buffer stock requirements, the Food Corporation of India is required to have as on April 1, a total of 16 million tonnes of rice and wheat as operational stock to service the PDS, and an additional five million tonnes as a strategic reserve, making for a total of 21 million tonnes. As of that month, stocks with the government stood at around 60 million tonnes.

So even if the requirement for the three months had been distributed immediately, stocks would have been above buffer requirements. This physical resource could have been deployed to not just provide individuals and households with a reasonable quantity of free grain, but also ensure supplies to a vastly expanded initiative to provide cooked meals to the homeless, the destitute and to migrant workers displaced from work and seeking to return home. But this opportunity seems to have been lost, even while images of return migrants fearing starvation walking home and thronging locations in the hope of finding transportation flooded the airwaves. The most favourable explanation for this failure would be that the government did not want to outlay the finances required to support the operation for fear of widening its fiscal deficit. And that would not be a reasonable justification in the midst of the unprecedented and still evolving crisis.

What is disconcerting is that even the niggardly push on the food front appeared positive when compared with what was available in the rest of the package. When a crisis of unprecedented proportions throws a large number out of work and leaves them without an income, the obvious solution is a direct income transfer that allows them to manage through the crisis and protect themselves as best as they can. In a city like Delhi, where even

the official minimum wage for unskilled workers is close to Rs 15,000, a transfer to take account of an absence of incomes should aim to cover at least half that sum. The fact that the shortages that were resulting from the lockdown were pushing up prices suggests that it should be even more. So, Rs 7,500 per month per eligible adult was a reasonable floor to target, with the scheme being made applicable to individuals registered under different schemes of the government without a protected source of income. What we had instead is a one-time Rs 1,000 ex-gratia payment for the most disadvantaged and a one-time transfer of Rs 500 to poor women with Jan Dhan accounts. That definitely was little more than tokenism.

The increase in the ceiling on loans without collateral for SHGs was also a non-starter to say the least. When all services and production units other than those engaged in essential services are closed, and when production is expected to contract even after the lockdown is lifted, because of severely depressed demand conditions, expecting poor women organized in SHGs to borrow to launch or expand businesses is to stretch imagination.

This suggests that the Rs 1.7 lakh crore figure as the size of the relief effort was an exaggeration. But that figure too, amounting to less than one per cent of GDP, was far from adequate. Meanwhile, the Finance Minister graciously allowed states to use resources that were already at their command through the Building and Other Construction Workers' Welfare Fund and the District Mineral Fund to provide relief and finance testing, containment and treatment. The states possibly did not need the permission at least in the case of construction workers. The inclusion of these in the package appear to be a means of sidestepping requests from the states, that largely drive the effort to contain the virus attack and mitigate its medical and economic fallout, for more resource transfers from the Centre and relaxation of FRBM norms relating to the maximum size of the fiscal deficit and volume of borrowing they must adhere to.

CENTRALIZING POWER AND DECENTRALIZING ACTION

In fact, among the many damages wrought by the inapposite Central government policy response to the Covid pandemic in India is that on the fragile framework of economic cooperation between the Centre and the states. It is clear that the real task of mitigating the effects of the pandemic on the health and lives of citizens has fallen on the states. That is inevitable. As India prepares to lift the lockdown to stall the economic collapse it has caused and face the inevitable spike in the number Covid-positive cases, 'the key to success . . . would be the preparedness of local governments in suppressing and managing outbreaks at the community level', as David Nabarro, the World Health Organization's Special Envoy on Covid-19 said. Only state governments and decentralized governance structures can handle the task of managing the pandemic.

Yet the Centre has been presenting itself as leading the battle against the virus. Two moves have been central to that propaganda offensive. The first was the legal sanction it gave its self-assumed role of leader, by declaring the pandemic a disaster and invoking provisions of the Disaster Management Act. Armed with those powers, it promptly resorted to the issue of mandatory, but frequently revised, 'guidelines', followed that by transporting Central teams to monitor the performance of ostensibly recalcitrant state governments. There was to be no doubt as to who was calling the shots. The second move was to declare, with no preparation and warning, a stringent nation-wide lockdown, covering badly affected and unaffected parts alike, which had hugely adverse effects not merely on the economy but on the livelihoods and lives of the poorest sections, especially migrant workers.

Setting aside the debate on whether such actions were justified, the least that could be expected of an agency that wants to concentrate in its hands the emergency political powers that it claims are needed in the midst of this crisis, is that it also shoulders the collateral responsibilities. Principal among the latter was the

responsibility to hugely hike expenditures from its own budget and to transfer substantial additional resources to the states faced with collapsing revenues at a time when their expenditures are rising sharply, since they are the ones called upon to address the Covid-induced crisis on the ground.

Most states have made requests for large transfers from the Centre. Since it is the states that have to carry much of the burden of dealing with the crisis, the Centre must give priority to mobilizing and transferring a large proportion of the additional resources needed to the states. Support was crucial because, as noted, even prior to the Covid crisis, over 2019–20 as a whole, slowing growth and a failed GST regime had led to shortfalls in states' share in central taxes of more than Rs 1.25 lakh crore and reduced states' own tax collections by 1.6 per cent relative to the previous year. This meant that many states were approaching or even exceeding their fiscal deficit target limit of three per cent. With revenues collapsing starting April, this tendency intensified. Yet, central fiscal support was near-completely absent, even to the extent where state governments were being required to pick up food from the FCI at market prices, and the Centre was not even willing to cover the rail fares of migrants departing from different states, as they return home because they have no jobs, no incomes and no places to stay.

The state that has been the most successful in addressing the pandemic, among those prone to its spread because of international travel by students, workers and tourists, is Kerala. With a well-developed public health system and experience with dealing with the Nipah virus, it was also one which could appropriately plan to contain the pandemic. That state assessed that in the first instance it would need to spend an additional Rs 20,000 crore on containment and relief. Other states, much larger in size, had provided estimated expenditures that are much less but still would have to significantly step up their budgets as the war on the pandemic is waged.

These are huge sums that need to be spent when not only is support from the Centre missing, but when their own revenues have collapsed. Delhi obtained Rs 320 crore as revenues in April 2020 as against Rs 3,500 crore in the same month of the previous year. The corresponding figures for Kerala are around Rs 150 crore and Rs 1,500 crore respectively. Moreover, the states are facing difficulty borrowing their way out of the crisis. To start with, there are strict limits set on their borrowing relative to their state domestic product set by the unequal financial powers given to Central and state governments. But more important, when they choose to frontload borrowing permitted over 2020–21, they find that there is not much enthusiasm for state government bonds in the market, pushing interest rates for borrowing by Kerala, for example, to close to nine per cent. With revenues collapsing, the Centre not offering the required support and interest rates soaring, the governments that must respond to the Covid-pandemic are trapped in a fiscal crisis.

There is an easy way out for the interim when the crisis is faced up to. That is for the Reserve Bank of India to print money and buy into the bonds of the state governments at relatively low rates of interest, or for the Central government to borrow from the central bank and make transfers to the states, which is the easier and better option. Even conservative economists who normally oppose such ‘monetization’ of government deficit-spending now agree that this is the only way to go. But, neither the central bank, nor the government that *de facto* controls its decision-making, are willing to accept the obvious.

In sum, Covid-19 has severely intensified a disproportionality that is built into the distribution of powers and responsibilities characteristic of the Indian federal arrangement. There has always been a recognition that while the state governments were crucial players in the design and implementation of economic policy in India, there was considerable disproportionality between the capacity to mobilize resources at the Central and state levels

and the spending responsibilities that these tiers of government had to shoulder. The Finance Commissions were to decide on what proportion of resources raised by the Centre had to be transferred to the states to address this disproportionality. As has been repeatedly pointed out, in the process of centralization of power within India's quasi-federal framework, two among many tendencies have been operative. First, an effort by the Centre to increasingly mobilize resources through means of imposts that do not require the resulting revenues to be included in the pool of revenues that must be shared with the states. Second, efforts, in violation of what the Constitution originally envisaged, to frame the terms of reference of the Finance Commissions in ways that make them agencies that can impose fiscal austerity, defined as 'discipline', by limiting states' right to borrow and linking transfers to them to performance with respect to fiscal austerity targets.

That the Centre is failing to fulfil its own direct responsibilities is clear from the fact that the only Covid-package it has announced is part a revamp of already existent schemes, and part a small increase in new expenditures. The combined total of these two sets of expenditures is short of one percentage point of GDP, which is anywhere between one-fifth and one-tenth of what estimates suggest is actually needed. The Centre has clearly shirked on its direct fiscal responsibility.

Besides shirking when it comes to its own responsibilities, the Centre is in the middle of the crisis holding back on resources that are rightfully due to the states and those that the states need to be provided with given their dominant role in addressing the adverse impact of the pandemic on health and the economy, and therefore on livelihoods and lives. The Centre has been delaying transferring the statutory share of the taxes collected by the Centre to the states. It has not been paying the states the compensation due to them as per agreement because of shortfalls in GST revenues that accrue to them relative to what was projected for the first five years of the GST regime. The Centre's justification for renegeing on the

compensation, that the resources available in the compensation cess fund are not adequate to compensate the states is without basis, given the understanding that in the event of any such shortfall the Centre would borrow money, compensate the states and extend the duration over which the cess is levied in order to garner the funds to pay back the debt incurred.

And, to rub salt on their wounds, when, after much delay, the Centre released a second instalment of Rs 6,195 crore due to the states as part of the Rs 74,340 crore fiscal deficit grant awarded to them by the 15th Finance Commission in its interim report for 2020–21, the Finance Ministry statement said: ‘This would provide them additional resources during the Corona crisis.’ The fiscal deficit grant had nothing to do with the Covid-crisis and was legitimately due to the states. Most recently, the Centre has made clear that it would not cover the states’ share of the expenditure in Centrally sponsored flagship schemes, which would bring many of these to a halt. In fact, the Finance Ministry has directed the concerned central ministries to check whether the states were in a position to cover their share of outlays in order to utilize funds released by the Centre for these schemes. It is only if they are convinced that they have been utilized should additional funds be allocated.

As a consequence of all this, as of now, as the case load spikes in India, the state governments are collapsing into a fiscal and developmental crisis, and grasping at straws like state levies on petroleum products and alcohol, that are still outside the GST regime. But that is small recompense for the revenue losses they are running up, undermining their ability to continue the war against the virus.

The fall out of this Centre-made crisis in the middle of a larger and near-unprecedented health-cum-economic emergency is likely to be three-fold. The first is pressure on at least some state governments to contemplate exit from the GST regime that has deprived them not just of revenues but of even minimal

fiscal flexibility in the middle of a great crisis. The second is the strengthening of incipient tendencies for states to work around or even break from the social compact established by the Constitution that includes the increasingly fragile power and revenue sharing relationship which no more works. And the third is a huge setback to the small 'gain' India has recorded in postponing the main force of the Covid crisis, which was meant to give the country the time to build the wherewithal to test, trace, isolate and treat adequately to slow the pace of infection, while the world awaits the coming of a vaccine.

CONCLUDING REMARKS

While capitalism, with its focus on private gain and its atomistic structure of decision-making, is fundamentally incapable of handling a Covid-19-type crisis which requires planned and coordinated action and allocation of resources, the Indian experience suggests that matters have been made worse by the limited scope and nature of the State's response. The consequence has not only been that the health emergency has been poorly addressed with considerable delays, but also that the economic crisis triggered by the pandemic has been far more severe than need have been the case with devastating effects on the poor. The pandemic response has been inequalizing in multiple ways, hurting the poor the most in ways that accentuated extreme deprivation and worsening the economic position of the states while subjecting them to increased control by the Centre. That this is not merely the result of ineptness comes through from the fact that in the middle of the pandemic that calls for focused intervention, the government has chosen to massively hike duties on petroleum and products that are universal intermediates, change labour laws and environmental regulations in regressive directions, and accelerate the process of privatization, including in the railways. The intensity of the crisis reflects the engineered redistribution of income in

favour of the rich that that government's neoliberal agenda entails. As of now, the crisis still is unfolding, and the full extent of the devastation it inflicts because of the government's warped policy offensive will be clear only much later.