

'States floating global tenders for vaccines will lead to higher cost,' says economist M. Govinda Rao

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M. Govinda Rao,
Chief Economic Adviser at Brickwork Ratings.

'It is not the delay in vaccination, but our overconfidence that caused the problem,' says the former member of the Economic Advisory Council to the Prime Minister.

M. Govinda Rao, a former member of the Economic Advisory Council to the Prime Minister and a member of the 14th Finance Commission and now chief economic adviser at Brickwork Ratings, says in an email interview that for a second year in succession the Budgets presented have become irrelevant even before the ink has dried.

The Central government has resisted calls for a nation-wide lockdown, allowing States to take the decision. As different States imposed lockdown at different periods, in your view what's the overall impact on Indian economy and that of States?

The strictest lockdown declared last year caused untold misery to livelihoods of a large numbers of workers, particularly in unorganised sectors. The decision was centrally made under the National Disaster Management Act and the objective was to save lives and provide the time required to ramp up health infrastructure to deal with the pandemic. The impact of the lockdown on the economy was the most severe as the contraction in GDP was 24.4% in the first quarter and there was a severe increase in unemployment particularly, in the unorganised sector. This year, the States have been allowed to decide on the extent and severity of the lockdowns depending upon the situation to avoid the severity of the restrictions on the economy. Surely, the impact of the restrictions this year will be lesser as economic activities in many regions and sectors have continued.

According to you, which are the sectors most adversely affected owing to lockdown? What will be the growth projections in agriculture, industry and service sectors in 2021-22?

The most severely affected sectors include those that require observance of social distancing norms and those that get affected by disruptions in supply chain. Sectors such as trade, transport and hospitality industry fall in the first category. There are a number of industries which depend upon the supply of crucial inputs from other countries, notably China. The diversion of liquid oxygen from manufacturing to hospitals affects industries like steel, cement and mining. The construction industry gets affected due to the shortage of labour. As many small and medium industries cannot provide accommodation to the labourers at work sites, they are forced to close down. Similarly, many unorganised sector activities in the services sector cannot carry on businesses due to lockdown restrictions on production (supply) or poor demand for their products.

The Centre and States are facing stress on the financial front owing to COVID-19 lockdowns. What kind of measures do you suggest to the Centre and State governments to mobilise revenue?

This is the second year in succession when the Budgets presented have become irrelevant even before the ink has dried. Although the Union budget has allocated 35,000 crore for vaccination, and the Fifteenth Finance Commission has allocated 70,051 crore health grants through local governments for five years, the massive spread of the pandemic in the second wave has required substantial additional allocations to ramp up the health infrastructure by the State. Further, as the vaccine policy of the Centre requires the States to procure the vaccine for those in the 18-44 age group and with severe production capacity limitations of the two domestically produced vaccines, many States have had to float global tenders for vaccines and the cost is likely to be substantially higher. Restrictions on economic activities are likely to reduce the revenue generation both from own tax sources of the States and from the devolution of Central taxes. The Central government will have to fast track the programmes of disinvestment and privatisation, take an inventory of the assets that can be monetised either directly or through its entities like the National Highway Authority of India, the Airport Authority of India and the Indian Railways. The States will have to continue to monetise the assets like land and leased buildings, quickly negotiate and generate revenue by charging fees for resolving irregularities and disputes that have existed for several years. The time is opportune to close down or privatise the large number of commercial enterprises and liquidate the assets like land to generate revenues. The Finance Commission has recommended that the States can borrow up to 4% of their GSDP in 2021-22 and an additional half a percent on improved performance of the power sector. The time is opportune to fast track the power sector reforms to reduce ATC losses and reduce the difference between marginal cost and marginal revenues to avail the additional fiscal space. There are some States with huge power subsidies which have been crying for rationalisation.

Lockdown in States impacted the people in unorganised sectors. What kind of financial support/package will benefit people? Do you consider one-time cash payment or staggered payments or release of free food items under a public distribution system will benefit the poor most?

Release of free food items should be a priority. Financial packages may also be necessary through Jan Dhan Yojana and PM-KISAN. There may also be a need to provide cash transfers to the severely affected like auto and taxi drivers and other unorganised workers. The problem here is of targeting. What is needed is a one-time cash payment because, once the second wave of the pandemic wanes, the economic activity will pick up again. The most important requirement is that the unorganised workers should have free and quick vaccination.

It is largely argued that delay in taking up vaccination caused a surge in COVID-19 cases in India. Did the Central government's lack of vision and failure to fund the private sector companies to undertake R&D and manufacture vaccines cause the delay in the arrival of vaccines? What is your suggestions to the Narendra Modi-led government on vaccination policy?

In fact, overconfidence of the government as well as careless and apathetic attitude of the general public has led to lowering of the guard by the end of January 2021 itself. The Economic Survey presented in end January had declared, "India has been able to avoid the second wave while ably managing to flatten the epidemiological curve, with its caseload peaking in mid-September." Further, it talked about the V-shaped economic recovery and estimated the economy to register 11% growth during FY 2022. The Prime Minister in his address to the World Economic Forum had stated, "Today, India is among countries that have succeeded in saving the maximum lives. The country, which comprises of 18% of the world's population, has saved the world from disaster by bringing the situation under control." Thus, it is not the delay in vaccination, but our overconfidence that caused the problem. Even as the pandemic was raging, we continued unprotected electioneering and Kumbh Melas. The unprecedented speed at which the second wave of the pandemic spread completely took the governments as well as the people off guard. There was and still is no clear vaccine policy. Vaccine is a public good, it must be made freely available to all and should be entirely financed through taxation. The limited production capacity of the two domestic vaccine producers cannot meet the requirements and action on the imports and giving licences for domestic production of vaccines approved elsewhere should have received the priority.