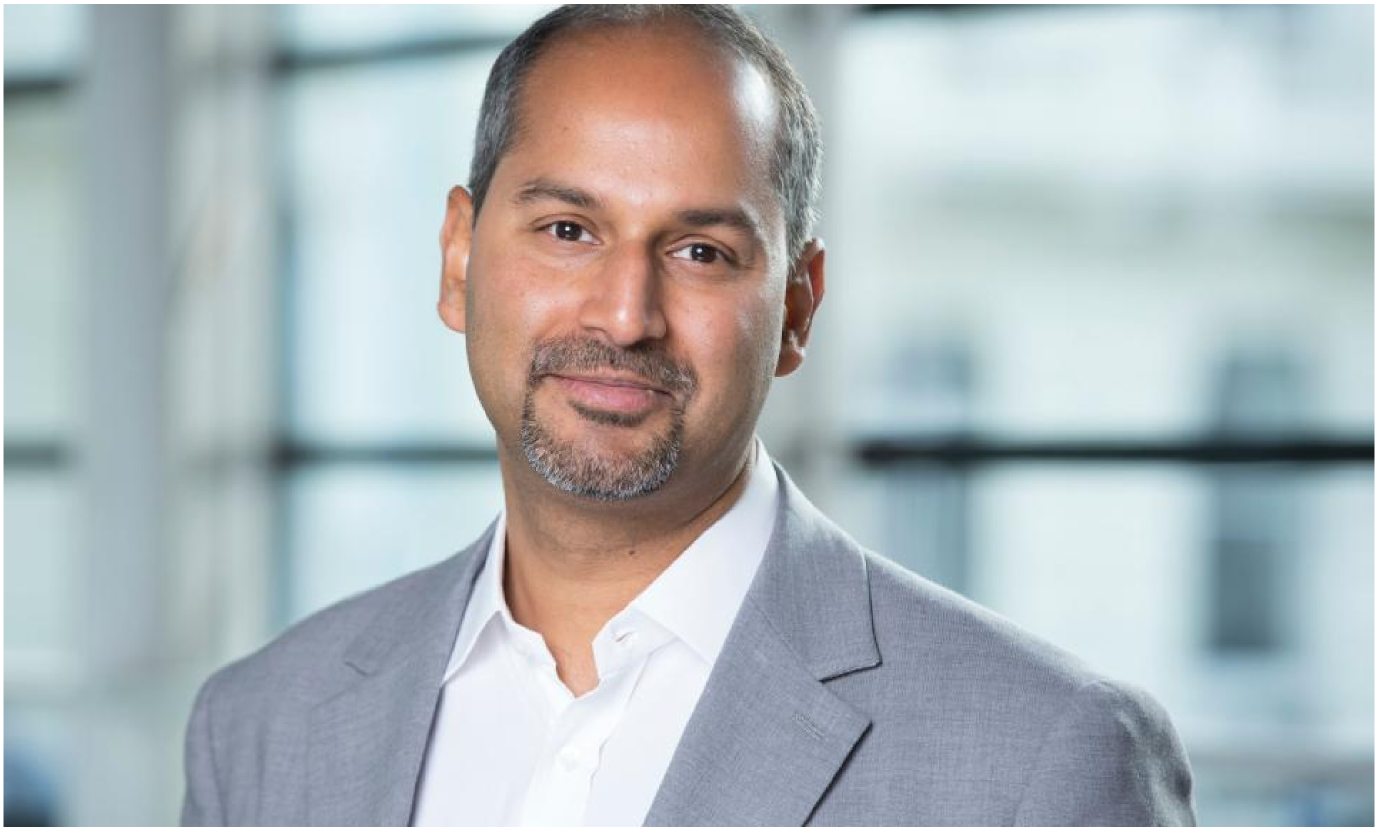
Coronavirus vs. poverty: Is India doing enough to incentivise isolation?



Written by

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Published

15 April 2020

Category

Health

Key topics

COVID-19, Health

A coronavirus lockdown in India may have been essential, but low-paid workers need an incentive to stay at home if it's going to be effective

On 25 March, India entered lockdown to combat the spread of coronavirus. At the time, India had comparatively few reported cases – around 500, with 10 reported deaths. However, as one of the world's most densely populated nations, lockdown was an essential and inevitable step.

Even with these measures in place, the figures had increased tenfold by the lockdown period's halfway mark, with around 5,000 reported cases and 150 deaths. Forecasts suggest that this could rise to anywhere between 100,000 and a million cases by the end of May, with up to 18 per cent of people in their 80s and three per cent of people in their 20s and 30s hospitalised, depending on how well social distancing measures are observed and enforced.

> Millions who live on the breadline may find themselves forced to choose between complying with government distancing orders and feeding their families

However, this pressing need to contain the spread of coronavirus has raised a parallel issue. In spite of its economic growth over the past decade, India has significant levels of poverty. With the nationwide lockdown preventing many precarious workers from earning money, millions who live on the breadline may find themselves forced to choose between complying with government distancing orders and feeding their families.

With the knock-on effect of overwhelming the country's healthcare capacity, this would spell economic disaster for India. In other words, for India, even more than in the rest of the world, it's not a question of choosing between public health or economic stability – the objectives are now the same for both.

Low household liquidity

In order for India’s lockdown and broader social distancing measures to work, the country’s people need to be given sufficient incentive to comply. The lockdown announcement itself, for example, did not contain sufficient clarity on whether and how access to food and other essentials would be regulated, leading to mass panic buying and crowding in direct contravention of the announcement’s aim.

Similarly, large swathes of city workers have since moved back to rural areas, seeking the relative comfort of established community networks in the absence of economic incentives to stay where they are, increasing the cross-country spread of coronavirus.

> Large numbers of people are unable to survive even a few days without income

In response to these warning signs, the Indian government announced a £19 billion stimulus package that included direct cash payouts and food distribution to the country’s poorest and most vulnerable. In principle, this is the right approach given the circumstances, and has followed the familiar path implemented by other countries in similar situations.

However, research into household finance in the developing world shows that a common feature of these economies is low household liquidity, combined with high levels of unsecured debt. This means large numbers of people are unable to survive even a few days without income, and unable to take on further debt. In such situations, an even bigger fiscal response by the government becomes the only practical solution.

"Time is in short supply"

The success of India’s relief package is yet to be seen, and hindsight will reveal whether it was sufficient in amount and delivered on time. The government has committed to fiscal measures equivalent to one per cent of GDP, compared to three per cent in China and 15 per cent in the UK, which is worrying given the aforementioned household liquidity shortfall.

This relief also needs to cover public annexation of private medical facilities, PPE for healthcare staff and equipment such as ventilators, so an increase is likely to be demanded sooner rather than later. Meanwhile, the announcement of economic support measures has not thus far correlated with public health messaging, which seems to be one step ahead. This will need to be addressed if India wants to avoid wide-ranging panic causing unnecessary crowding and supply chain issues.

> The announcement of economic support measures has not thus far correlated with public health messaging

There still may be time to address these potential pitfalls – in some ways the state has acted unusually fast in responding to the crisis, but it may not be fast enough given the ever-changing global situation. In the long term, deficits might be necessary to avoid far more significant losses, both economically and – more importantly – in terms of human lives.

India could serve as an example to other emerging economies by embracing and planning for this reality, preparing for the worst and mitigating it rather than hoping for the best and reacting after the fact. Only time will tell which path the country chooses, or perhaps has already chosen, but time is a commodity in increasingly short supply.

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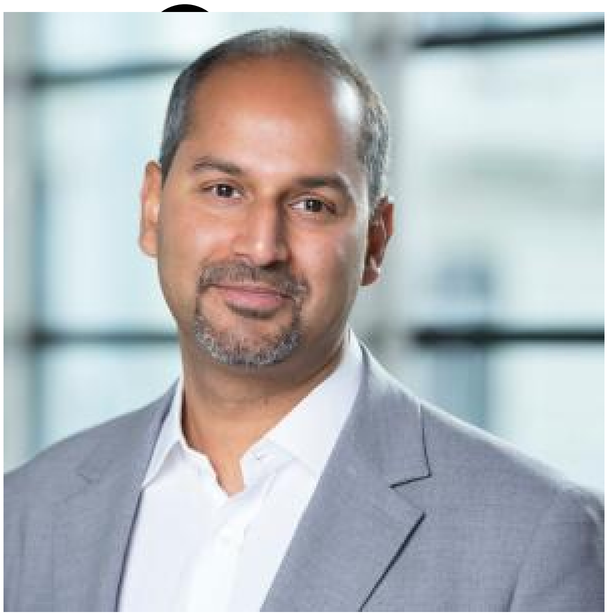

About Tarun Ramadorai

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Tarun Ramadorai is Professor of Financial Economics at Imperial College London. He has a broad range of research interests in the areas of household finance, asset pricing, and international finance. He is greatly interested in finance and economics issues in emerging markets, with a particular focus on India.

You can find the author's full profile, including publications, at their Imperial Profile

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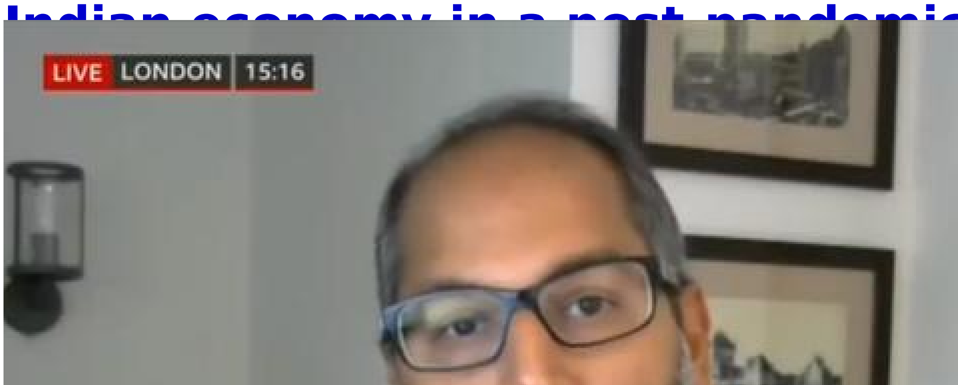

Tarun Ramadorai discusses how the Indian economy will be hit by the coronavirus (COVID-19) pandemic on BBC World News.

5 May 2020

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