Economy’s Immunity against COVID-19

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This is in response to the editorial “Economics, Prudence, and a Pandemic” (EPW, 21 March 2020).

The novel coronavirus, popularly known as COVID-19, has crossed all borders in a very short period of time and has spared no continent except Antarctica. Some countries are affected more severely than others, with China, Iran, and Italy being the worst affected of all and a few more, including Spain, have also joined them. Traditionally, the spread of infectious diseases was seen in abundance among the poor and people living in vulnerable conditions. However, many of the people who tested positive for COVID-19 are largely celebrities, athletes, politicians and white-collar professionals across the globe and those who have a foreign travel history. The economic impact of COVID-19 on the world economy can be examined from the demand side as well as from the supply side. However, considering the statistics concerning the number of positive cases and deaths in different regions across the globe, the additional factors of uncertainty and threat are also added. With various advanced countries using fiscal measures and quantitative easing in order to limit the impact of the predicted recession, we would expect to see unprecedented shifts in aggregate demand and supply parameters, with upward pressure on prices of goods and services in general and of healthcare services in particular.

Lockdowns result in the forced closure of production facilities, resulting in a shrinkage in supply. Hotels and tourism are the worst affected industries, which will have a knock-on effect on allied industries such as processed food, beverages, and transport. In the context of the present COVID-19 pandemic, the problem is compounded for certain commodities like masks, sanitisers, hand soaps, antibiotics, etc, and medical and paramedical services. There is an increase in demand on the one hand, and on the other hand, there is an extreme shortage of supply despite the manufacturing units for these goods and medical service facilities operating at 100% or more of their capacities. Another fallout of lockdowns is that their announcement results in panic, causing the prices of essential food, groceries and other necessities to escalate.

The people worst affected by the pandemic are the daily wage earners and ad hoc employees, especially the unskilled workers belonging to the informal and gig economy. These are most likely to be the people living below or close to the poverty line. A negative shock like COVID-19 would push them to extreme poverty. These people do not constitute a significant share of private demand, but they do depend on the public healthcare system when requiring care as inpatients. Those in regular permanent employment would continue to receive their income regardless of the lockdown. Therefore, they too do not influence private demand during the pandemic or in the short run after the pandemic is over. Stimulating private demand during the pandemic or in the post-pandemic period would largely be inflationary rather than stimulating growth. This is because supply shocks would be eliminated only after a lag in the post-pandemic period.
The exponential growth in the number of COVID-19 cases and the resultant deaths have put tremendous pressure on healthcare systems across the globe. A challenge faced by developing countries like India is the size of population. However, India has healthcare infrastructure facilities close to the World Health Organization (WHO) norms. The Government of India has been adopting expansionary fiscal measures, albeit gradually, in recent years, with the launch of Ayushman Bharat scheme in 2018 being a notable example. A large number of private hospitals are empanelled under the said scheme, which takes care of the supply side in terms of the scale of infrastructure as well as medical and paramedical staff. If required, the Ministry of AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy) would add to the supply of required medical and paramedical staff. The Government of India has already asked volunteer doctors to come forward, taking care of the supply side to a considerable extent. Moreover, the government has announced an emergency healthcare package of `15,000 crore.

The demand for healthcare for COVID-19 can be controlled by the use of Economics Nobel Laureate Richard Thaler’s “nudge” theory applied to healthcare. Conveniently, India established a “nudge” unit in 2019 and initiatives such as working from home and paid holidays for workers are already implemented by organisations and the government to prevent the spread of COVID-19. The Janata Curfew of 22 March across the whole of India was observed as a precautionary measure. Either incentives or sanctions are necessary for enforcement. In the context of the current pandemic, sanctions for violating the government’s precautionary measures would enhance the efficacy of nudges.

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