COVID-19 Impact on Indian Economy and Health: The Emergence of Corona-Economics

GUMBER, Anil <http://orcid.org/0000-0002-8621-6966> and BULSARI, S.

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Gumber, Anil and Bulsari, Smruti

Sheffield Hallam University

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COVID-19 Impact on Indian Economy and Health: The Emergence of Corona-Economics

Anil Gumber (Senior Health Economist, Sheffield Hallam University, Sheffield, UK. a.gummer@shu.ac.uk)

Smruti Bulsari (Former Assistant Professor, Department of Human Resource Development, Veer Narmad South Gujarat University, Surat (Gujarat, India).

20th April 2020

The Novel Corona virus, popularly known as COVID-19, has crossed all borders in a very short period of time and has spared no continent except Antarctica. Though COVID-19 originated from a small locality in China in late December 2019 has affected some countries more severely than others; with United States of America, Spain, Italy, Germany, France, UK and China being the worst affected of all in terms of total number of deaths due to COVID-19 (Table 1).

Traditionally, the spread of infectious diseases was seen in abundance among the poor and people in vulnerable living conditions. For the first time, COVID-19 has broken the myth by infecting largely the affluent classes and international travellers in the first instance. The people 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. Corona virus has not reached the poor, the slums and the countryside yet; if it did, the spread would be uncontrolled and the effect would be devastating especially on national healthcare systems. 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 regarding the number of infected cases worldwide (over 2.4 million affected) and shocking 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 health care services in particular.

The Supply Shock

Lockdowns result in a forced closure of production facilities, resulting in shrinkage in supply. Hotels and tourism are the worst affected industries, which will have a knock on allied industries such as processed food, beverages, and transport. Vacation bookings are compulsorily cancelled and the refunds are being given for the pre-booked facilities. Wedding, social events are cancelled and refunds are to be given for that too. All these have a cascading effect on allied industries – processed food, beverages, hotels and transportation. In fact, in India, all public transport services

are suspended until March-end. Travel & Tourism contributes to 10.4% of the world’s economic activities and 3.6% of the total employment (WTTC, 2019).

On the other hand, Pharmaceutical industry, which is already witnessing a growth despite economic slump, contributes to 5% of the gross value added (IFPMA, 2017). In the context of the present COVID-19 pandemic, the problem is compounded for certain commodities like masks, sanitizers, hand soaps, antibiotics etc. and medical and paramedical services. There is an increase in demand on the one hand, and on the other hand on 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.

The other fallout of lockdowns is that their announcement results in panic causing the prices of essential food and groceries and other necessities to escalate.

**The Demand Side**

The immediate and worst impact on demand side is observed in aviation and transportation sector, following the lockout; it has touched zero.

The people worst affected by the pandemic are the daily wage earners, ad hoc employees, especially the unskilled 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 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 post-pandemic period would largely be inflationary rather than growth stimulating. This is because supply shocks would be eliminated only after a lag in the post-pandemic period.

**Impact on Healthcare Services**

The exponential growth in number of COVID-19 cases and resultant deaths has put tremendous pressure on healthcare systems across the globe. Each country is trying to cope up with their existing healthcare infrastructure and medical as well as paramedical staff. The number of doctors in India falls far short of the prescribed WHO norms, though healthcare infrastructure, by and large, complies. In India, healthcare services are available in both – government setup as well as private sector. During pandemics, the burden of healthcare largely rests with the government. However, India a unique healthcare initiative, Aayushman Bharat Yojana (ABY scheme), empanels private hospitals to cater to secondary and tertiary healthcare services. Often, statistics on healthcare services exclude the private healthcare infrastructure and staff which are a part of the AB scheme. This reduces the burden of healthcare on government alone, while providing an assurance for its credibility. 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 would add
to the supply of required medical and paramedical staff. The Government of India has already asked healthy and young person to volunteer, taking care of the supply side to a considerable extent.

**Economic Impact and Policy Implications**

One may take cognizance of the fact that as per IMF reports, the economies across the world are experiencing a slump since 2018, though they were expected to grow slowly and steadily in 2020 and onwards. COVID-19 has led the expectations and estimations awry. The financial and stock markets worldwide are down by more than 40%, and reverted back to the 2016 level.

Apart from COVID-19 hitting the economy hard, the technological innovations involving artificial intelligence, resulting in automation is expected to take toll on employment. While COVID-19 would have immediate and short-term adverse effect on employment, the effect of automation would be relatively long-term and would therefore, affect private demand on a sustained basis compared to that during the pandemic.

Coming to the discussion of expansionary fiscal measures, especially in the context of poor in the form of social security nets, they already exist in most European countries in the form of free medical services and unemployment allowances. In a country like India, social security nets are available for the poor and vulnerable in the form of free access to school education and health care (the ABY scheme), distribution of basic necessities and food grains through the fair price shops, housing schemes etc. Developing countries can’t afford free housing and unemployment allowances. Moreover, the issue with developing countries is that reduction in tax rates would increase the total tax revenue only up to a certain level because of the limited number of tax payers. A reduction or stagnation in tax revenue would most likely be compensated by higher current account deficits. Therefore, so far as the government promises to provide with the supplies of essential commodities and food grains; healthcare is already being taken care of by the government, expansionary fiscal measures don’t seem to be the need of the hour in the context of the COVID-19 pandemic. Thus, neither the measures to boost private demand nor an expansionary fiscal measure to widen the safety nets seem convincing, given that pandemics are not a regular feature of the economy. Moreover, fiscal measures have long-run implications on deficits, spending and economic development and therefore Keynesian approach be adopted with caution. Despite, some states in India has started announcing packages: (1) a package of Rs 1000 per person for all daily wage labourers and construction workers is announced in Uttar Pradesh and (2) Delhi has announced to provide free ration and pension in addition to already existing free water and electricity. In fact, what requires to be monitored is the human behaviour.

The demand for healthcare for COVID-19 can be controlled by the use of Economic Noble 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 organizations and government to prevent the spread of COVID 19. The Janata Curfew of March 22
across the whole of India was observed as a precautionary measure. Subsequently the Indian Government implemented total lockdown from March 25th initially for 21 days and thus observed a complete curfew situation in entire country with strict restriction on travel and maintaining social distancing. India is still in the second phase where early infected cases might have unknowingly spread the infection to a few others, of which some could be elderly and some with premedical condition or both. Even if the infections stop at this stage, the existing healthcare infrastructure and available medical and paramedical staff augmented with alternative facilities, AYUSH doctors, ASHA workers and other healthcare worker and volunteers should suffice. Moreover, the Government has announced an emergency healthcare package of Rs 15000 crores for strengthening individual protection equipment for medical personnel, increasing isolation wards and ICU units and training of paramedical personnel. We need measures to bring about change in human behaviour rather than changing our fiscal architecture. Either incentives or threats are necessary for enforcement. In context of the present pandemic, threats for violating the government precautionary measures would enhance the efficacy of nudges. In context of the present pandemic, threats for violating the government precautionary measures would enhance the efficacy of nudges.

Table 1: COVID-19 Cases for Top 12 Countries (on number of deaths), January 2020 to 20th April 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Cases</th>
<th>Number of Deaths</th>
<th>Recovered Cases</th>
<th>Cases Per Million Population</th>
<th>Deaths Per Million Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2,437,191</td>
<td>167,316</td>
<td>638,078</td>
<td>313</td>
<td>21.5</td>
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<tr>
<td>USA</td>
<td>767,402</td>
<td>41,229</td>
<td>71,396</td>
<td>2,318</td>
<td>125</td>
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<tr>
<td>Italy</td>
<td>178,972</td>
<td>23,660</td>
<td>47,055</td>
<td>2,960</td>
<td>391</td>
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<tr>
<td>Spain</td>
<td>200,210</td>
<td>20,852</td>
<td>80,587</td>
<td>4,282</td>
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<tr>
<td>France</td>
<td>152,894</td>
<td>19,718</td>
<td>36,578</td>
<td>2,342</td>
<td>302</td>
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<tr>
<td>UK</td>
<td>124,743</td>
<td>16,509</td>
<td>N/A</td>
<td>1,838</td>
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<td>Belgium</td>
<td>39,983</td>
<td>5,828</td>
<td>8,895</td>
<td>3,450</td>
<td>503</td>
</tr>
<tr>
<td>Iran</td>
<td>83,505</td>
<td>5,209</td>
<td>59,273</td>
<td>994</td>
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<tr>
<td>Germany</td>
<td>146,200</td>
<td>4,669</td>
<td>91,500</td>
<td>1,745</td>
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<td>China</td>
<td>82,747</td>
<td>4,632</td>
<td>77,084</td>
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<td>Netherlands</td>
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<td>3,751</td>
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<td>1,950</td>
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<td>Brazil</td>
<td>39,384</td>
<td>2,504</td>
<td>22,130</td>
<td>185</td>
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<td>Turkey</td>
<td>86,306</td>
<td>2,017</td>
<td>11,976</td>
<td>1,023</td>
<td>24</td>
</tr>
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</table>

References
