

A Mammoth Task for the Task Force

The Prime Minister of India addressed the nation on COVID-19 and said that a task force has been created to address the economic hardship caused by the virus.

Indeed, leaders around the world are responding to combat the economic impact of COVID-19 outbreak through stimulus packages and policy reliefs. As the Canadian Prime Minister aptly put it in his address to nation – *“if you're worried about making ends meet, we've got your back”*.

Illustratively, Canada has rolled wage subsidies for those hit by the pandemic, GST Tax credit to low income groups, moratorium on certain loan payments, and other solutions equivalent to 3% of the Canadian GDP. The United States has proposed/working on pay-outs to individual residents, industry bailouts, business interruption loans, cuts in payroll taxes and other similar measures. Other countries like UK, Italy, France, Germany, Australia and Japan too have rolled out a plethora of subsidies to stabilize their economies.

India is particularly vulnerable for two reasons – first the fact that the Indian economy has a large proportion of workers who are not from the organized sector who are the most vulnerable and second that the Indian growth rate was slowing prior to the outbreak. This indubitably presents a case for urgent fiscal & monetary stimulus in India.

Prime Minister Modi tacitly acknowledged this fact when he addressed the nation, on Thursday, on the issues relating to pandemic and Indian measures in response. He urged employers not to lay off contract or daily wage earners or deduct wage or salaries.

The Indian judiciary also unilaterally took its own stab at alleviating the hardship caused by COVID-19. The High Court of Kerala passed an order asking authorities not to levy taxes and recover banks' dues from people till April 6, 2020. Alarmed by this unilateral act of the judiciary, the Government moved the Hon'ble Supreme Court, and the order was stayed. The Solicitor General assuring the Court that the Government was conscious of the difficulties faced by the people and would be addressing the situation, stated that people should have no difficulty paying taxes, as most of it was done online anyways.

However, there are several real issues in rolling out a mammoth stimulus package at times like this.

The established principles of fiscal & monetary stimulus that have been advocated by various researchers and scholars are that it should be: Timely, Targeted, Temporary and Sufficient. Present times will test these principles to the hilt:

TIMELY: Policymakers should act in a timely manner to diminish any economic downturn. The stimulus package should not be enacted precipitately, delayed too long, or consist of tax cuts or spending increases or protection assurances that would take too long to boost the economy.

TARGETED: From a purist's perspective, the endeavor of a stimulus policy should be to ensure that each buck, that is infused in the system artificially, goes on to weather the financial and economic concerns in the greatest possible way. It has to be understood that the stimulus should aim at complementary goals of increasing the output and boosting the consumer's purchasing power. Further, prioritizing the most vulnerable sectors and sections of industry & society respectively is equally relevant.

TEMPORARY: These policy changes should not linger as an acute budget deficit in the long run. Inflation is a real threat in a growing economy like India. Allowing for a larger long-term deficit could reduce the extent of

short-run stimulus by raising interest rates, and it would reduce long-run living standards by crimping national savings.

SUFFICIENT: Sufficiency of the stimulus cannot be overemphasized. The stimulus needs to be adequate to help the sectors recover fully. The pool for stimulus will have many claimants. Some sectors will need greater assistance than others. Micro and small enterprises which employ contract workers will have a compelling case – others from the travel and tourism sector will have a chain reaction in the entire banking system. Spreading the stimulus too thin may be popular but little for recovery.

There are high expectations for a tax holiday or tax cut, lower interest rates, moratorium on payments, relief in performance of commercial contracts with public and private enterprises and a direct infusion of cash to the work force – both for survival and to drive consumption and in turn industrial activity. It is also that the stimulus will be in more than one phase – first a general one for the entire economy and the others for specific sectors.

Though India does not have a history of stimulus packages as large as one that is required today, if we have to stand shoulder to shoulder with the big boys of the world, the size of our actions also need to match in a commensurate manner.

India stands at the crossroad of becoming an attractive investment destination in wake of several players looking to deleverage their dependency on China. The stimulus package and the speed of recovery could thus also be a bold statement in terms of how we handle exceptions and that becomes an extremely critical factor in ensuring the investment makes its way to India.

The expectations on the Task Force are enormous. There is great optimism that they will deliver. The option to that is very grim.

*(*This is one of a two-part note. The second part will analyze the stimulus package as and when announced by the Government.)*

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