Indian States Must Shoulder Greater Responsibility and Accountability for Managing Covid-19 Pandemic and Its Aftermath

The Theme

This column argues that in managing Covid-19 pandemic and its aftermath, the states must shoulder greater responsibility and accountability. Some states are indeed commendably moving in this direction, as elaborated below. It is strongly urged that each state should consider constituting an Economic Restructuring Task Force to provide advise to policymakers on a regular basis.

The Context
India has so far (as of 6 May 2020) managed the Covid-19 global pandemic relatively well through timely, proactive, and decisive measures, while sustaining high level of public trust in PM Modi’s leadership. With well-considered calibrated resumption of livelihood and economic activities, India is entering a new, more complicated and riskier phase in managing the pandemic. There is consensus that the Covid-19 pandemic is likely to be there for some time, and that it is essential to resume these activities livelihood and economic activities in a responsible manner.

As of May 6th 2020, India’s total cases and total death per million population were 36 and 1 respectively, as compared to the global average of 478 and 33.1 respectively. India’s recovery rate is 28.9 percent as compared to the global average of 33.3 percent.

As of 6th May 2020. Four states, Maharashtra (36%), Gujarat (13%), Delhi (11%), and Tamil Nadu (8%) constituted over two-thirds of active (total cases less recoveries) virus cases. Four states, Maharashtra (36%), Gujarat (22%), Madhya Pradesh (10%, and West Bengal 8%), accounted for over three-fourths of the deaths from the virus.

This is worrisome as these states account for disproportionate share of industrial, agricultural, and financial sector activities.

Death rate for Covid-19 virus among different states exhibits wide variation. (Figure 1). Kerala (0.11), Haryana (0.21), Uttar Pradesh (0.25) have especially low rates compared to the India average of 1.31, while Maharashtra (5.05), and Gujarat (5.77) have especially high rates.

Figure 1
Imperatives of Reviving Livelihood and Economic activities

In a meeting with Chief Ministers on April 27\textsuperscript{th} 2020, PM Modi emphasized the importance of reviving economic activities, while continuing to fight the virus. He also stressed that this is an opportune time to introduce substantive reforms at both the Centre and the States. Each state will need to consider which reforms it wants to prioritize. Implicit in PM Modi’s interactions with the CMs was the proposition that in managing the Covid-19 crisis by each state, its governance quality rather than political manoeuvring would have an impact on the outcome, and in securing trust of the people.

Selected labour-intensive sectors, such as agriculture and related manufacturing and other activities; construction sector, including highways and road construction; upgrading and maintenance of railway tracts; and some infrastructure projects such as Mumbai's coastal road project, had resumed activities earlier.

India, which was not manufacturing even a single personal protective equipment (PPE) kit domestically earlier, has now achieved a \textit{daily} production capacity of more than two lakh units by first week of May 2020. India became World's second largest PPE kit producer in just two months.
This is helping to advance the goal of Make in India program; and contributes to potential diversification of the exports.

The Agriculture Ministry has indicated that by Mid-April 2020, over two-thirds of the wheat crop has been harvested and other crops of the Rabi season, including pulses have also made good progress. The Ministry has also indicated that the summer crop sowing is in progress, and area under it across the country has exceeded over 14% compared to last year during the corresponding period. Agriculture accounts for around one-sixth of GDP, but for over half the livelihoods in the country. So, the progress in this sector is a positive sign for not just livelihoods but also for food security, an essential objective, particularly in this pandemic.

It is also reported that more than three-fourths of cotton produced in Maharashtra has been sold till 25th March, 2020. Similarly, a large proportion of cotton produced in Gujarat has also been procured. This augurs well for labour extensive textile sector, which is also globally competitive.

India is gradually reviving economic activities across the country in a decentralized and differential manner. The country has been divided by districts into Green, Orange, and Red zones for the week of May 3rd 2020. The list is to be revised every week. States must have a sound strategy and management to shift districts from red to orange to green. In effect, the exit strategy from Lockdown is now locally devolved.

In each zone, even in Red zones, containment zones within it may be specified to facilitate different economic activities. Thus, Bangalore, classified as Red zone, has made particularly good use of containment zones within it to restart economic activities.

Figure 2 provides an overview of activities permitted under each zone; while figure 3 provides distribution of the zones by states. There are 130 Zones (18 percent) classified as Red; 284 (39 percent as Orange, and 319 (44 percent) as Green. Figure 2 exhibits wide variations in zone distribution among and within states, Thus, Uttarakhand has only 1 out 13 zones designated as read, but West Bengal has 10 out of 23 zones designated as Red. Not all zones however have same weight in generating overall economic activity.

Many urban and industrial areas are in Red zones. But even in these zones, such as Pune-Chinchwad area, some firms have been permitted to operate. The automobile companies have started operations in a staggered manner. In the Union Territory of Jammu and Kashmir’s Kathua district designated as in Orange Zone, industrial activity as of early May 2020, resumed. Many more examples of economic activity resuming are evident, but not elaborated here.

Some states, such as Uttar Pradesh, and Bihar will need to address issues of their workers returning from other states; while some states, such as Kerala and Punjab will need to address issues arising from their residents returning from abroad, particularly from the Gulf Region. The pandemic has brough out the important economic contribution made by domestic migrants.
There will be issues for both domestic and foreign returning workers to these states relating to screening and then safely absorbing them in the larger population; and addressing possible fiscal and household income loss of inward remittances.

Uttar Pradesh government has assured the migrant workers who have returned from other states to be provided employment opportunities within the state. It is reported that Uttar Pradesh Expressway and Industrial Development Authority (UPEIDA) has restarted the construction of 340 km-long Purvanchal Expressway by engaging over 50 per cent of the workforce. The strength of workers before the lockdown was 10,000, of which about 5,000 have returned to work.\(^3\)

Karnataka has strongly urged migrant workers not to return to their states as construction and other economic activities have resumed in the state. In Ludhiana, there are reports that some of the migrant workers are staying back, as economic activities have resumed.\(^4\)

Figure 2  Source: https://twitter.com/amishra77/status/1256644721109327880/photo/1
Accessed on May 5
(https://twitter.com/amishra77/status/1256644721109327880/photo/1%20Accessed%20on%20May%205)
Figure 3

The States Must Shoulder Greater Responsibility and Accountability
The above brief overview makes it evident that the individual states will need to bear great responsibility and accountability towards structuring strategy, policy priorities and initiatives, specific measures, including augmenting fiscal space by using tax, non-tax, asset monetization, and revenue from regulatory powers, better expenditure management, and measuring citizen-centric outcomes, albeit within overall national guidelines.

Raising excise taxes on liquor and on petrol by the states is not a substitute for more fundamental reform of their fiscal structure. The combines tax revenue from states own sources has been fairly stagnant at around 6.5 percent of GDP since 2004-05, suggesting lack of necessary fiscal reforms for a long period. This inertia needs to be broken, and the current virus crisis should focus the minds.

The Union government has on-the-whole undertaken commendable varied fiscal, monetary, regulatory, logistic and sector-specific initiatives to manage the adverse impacts of the virus, and these will continue as economy and society gradually progress towards full functioning. Thus, about 390 million low income have people received financial assistance of INR 348 billion under the Pradhan Mantri Garib Kalyan Package (PMGKP) as on May 5, 2020.

But there is little doubt that the individual states will need to raise their professional management capabilities in all areas, and give empirical-evidence based decision making much greater importance. The economy, society, and political economy of the country and of each state will not return to the pre-pandemic situation, and neither will current globalization characteristics. Some of the current locations of high economic activities globally, and therefore provider of jobs, may undergo a drastic change, and the new locations may emerge.

Delivery of many services and amenities, especially healthcare, and education, and internal security, including policing, will undergo major changes, with investments in technology and in human resources as major instruments. Supply and logistic chains are likely to shorten and become simpler, with greater weight given to food security, livelihoods, and risk-diversification.

Performance of state governments (and of the Union government) in managing the virus, including citizen-centric nature of governance, and meeting of quality of living concerns, are likely to have an important bearing on the future political dynamics in individual states and in India.

There will be opportunities for individual states to create new growth nodes, and enhance value chains, through technology as well as mitigating potential situations of activities which may diminish in importance. There are, for example, questions being raised about Mumbai’s current pre-eminence as a financial centre continuing in the future. Can Mumbai restructure to avert this possibility? It will be up to the Maharashtra government and Mumbai municipal authorities to take the lead in averting the possibility. Tourist states such as Goa and Uttarakhand, and key sites such as pilgrimage places of Tirupati, Ajmer and Shirdi, will need to innovate to gain their share of visitors.

The location of manufacturing activities will also undergo change once the pandemic crisis is over.

Reform Initiatives by the States
Some states have taken commendable reform steps to advance economic freedom of the farm producers, and to secure greater share of value chain for the farmers. Select examples follow.

**Agriculture Reforms:** In Madhya Pradesh, far reaching reforms of agriculture marketing have been announced by the Chief Minister Shivraj Singh Chauhan.

Farmers in MP will now be allowed to sell their crops to any individual or entity willing to buy them, without having to approach a *mandi*. The traders or bulk buyers can negotiate prices directly with the farmers. Of course, the farmers will still be allowed to sell in the *mandis*, which will fetch them government-approved minimum support prices (MSP). The new system will be good for farmers who had significantly higher quality crops being sold sub-optimally at MSP in local *mandis* mandatorily. The state has also provided for creation of private *mandi* defined in a liberal manner. These measures should help in increasing higher value-added agricultural exports from the state, and therefore from India.

- Similarly, Karnataka has permitted farmers to sell their produce directly, and thus aligned its agriculture marketing policies with the Union Government’s Model Act.

- Uttarakhand has approved the Contract Farming Act 2018, which enables contracts with farmers. Farmers can sell in the open market. These increases the economic freedom of the farmers, and lets them benefit more from the value chain.

- Haryana, a state with issues of water accessibility and quality, is reportedly providing INR 7000/ per acre to farmers if they stop growing paddy. This is an important step in moving farmers away from the water guzzling crop.

There is an urgent need to widen such reforms which give farmers greater economic freedom and control. There is also need to institutionalise these initiatives, and to use technology platforms such as E-NAM (e-National Agriculture Market) to help widen the market for the farmers. The government has reported that As of Early January 2020, 585 mandis (agri-markets) across 16 states and two Union Territories have been integrated on the e-platform. The government plans to link 22000 mandis with E-NAM by 2021-22. On this portal more than 16.5 million farmers and 0.13 million traders have already registered. Through this platform trading of INR one trillion was completed in early May 2020.

17 states have joined ‘One nation, One- ration card’ initiative of the Union Government by early May 2020. Under this scheme, eligible beneficiaries would be able to avail their entitled food grains under the National Food Security Act (NFSA) from any fair-price shop in the country. The aim is to implement it throughout the country by the end of this year. But for this, remaining states will need to take initiatives.

**The Role of the States in attracting Domestic and Foreign Investments:** In India’s efforts to attract foreign firms, including those relocating from China, states have a crucial role to play. The importance of diversifying risks in designing supply and logistic chains has been sharply underlined by the Covid-19 pandemic. India aims to be one of the important locations for global manufacturing and exports, including of agricultural goods. India has reportedly developed a land
pool nearly double the size of Luxembourg to attract domestic and foreign firms. This is significant as large size land availability has been a major constraint in converting investment proposals into actual completion.

Some states have been pro-active in attracting investments. Select examples include the following.

- The state government of Uttar Pradesh held a video conference with over 100 American companies for locating in Uttar Pradesh on April 28th 2020. Uttar Pradesh government has promised variety of benefits to multinational companies such as FedEx, UPS, Cisco, Adobe, Lockheed Martin, Honeywell and Boston Scientific, if they shift their manufacturing facilities to Uttar Pradesh. Aviation giant Lockheed Martin for example have been offered space in the Uttar Pradesh defence corridor and logistic companies UPS, FedEx will be allowed to start operations in the upcoming Jewar Airport.

The Uttar Pradesh state government is planning to set up a new investment promotion and facilitation agency that will focus on bringing new investments and creating employment.

The Uttar Pradesh government has exempted industries in the state from all except four labour laws for the next three years. The exceptions are: Building and Other Construction Workers Act; Section 5 of Payment of Wages Act; Workmen Compensation Act; and Bonded Labour Act.

- The Tamil Nadu government has set up a task force, with a report to be submitted in a month (early June 2020) to recommend measures to attract investments into the state. The task force has been entrusted with task of identifying potential investors, formulate guidelines for expeditious single-window clearances for projects, design special incentive package for attracting new manufacturing unit and identify key infrastructure projects including dedicated industrial townships necessary to attract investments. The task force includes representatives from the international business associations and companies from USA, Japan, South Korea, and Taiwan.

- The Chief Minister of Madhya Pradesh Shivraj Singh Chouhan has imitated far reaching labour reforms, an area that has hampered existing businesses, and restrained formation of new businesses. One reform measure as an illustration extends the Industrial Planning Act to establishments having more than 100 workers. This will provide relief to small industries and they will be able to employ workers according to their needs. Trade unions and factory managers will be able to resolve disputes as per their convenience. They will not have to go to the labour court to resolve the disputes. New business formation, and reducing operating and transaction costs of existing businesses can be expected to result in more net business formation, providing livelihoods and creating new growth nodes.

The labour reforms by Madhya Pradesh can be expected to put competitive pressures on neighbouring states such as Gujarat and Rajasthan.

India’s Public Finance Structure
In structuring fiscal response to the Covid-19 pandemic, its federal fiscal structure must be taken into account. The state level expenditure and tax revenues have been traditionally higher than that of the Union Government. The combined total expenditure of the Centre and all states combined was INR 48.6 trillion (28.5% of nominal GDP of that year) in 2017-18. The Centre’s share in this total was 43%, and the combined share of the states was 57%.

In the same year, the combined tax to GDP ratio was 17.6% of GDP, of which Centre’s share, net of constitutionally mandated tax revenue transfers to the states, was 7.2% of GDP. All states combined had tax to GDP ratio of 10.4% of GDP, of which their own-source tax revenue was only 6.4% of GDP 10.

States also had relatively low and stagnant capital receipts, including dividend income generated from state enterprises. There has been little monetization of assets, particularly land assets; and willingness or ability to expand revenue from property taxes, and from regulatory levies. Such fiscal reforms by the states are long overdue11.

Thus, while the Central or Union government should undertake fiscal (and monetary) measures which are expansionary, and supportive of flow of credit to businesses, including MSMEs (micro-small-medium enterprises) and other sectors, expectation in some circles that India should generate at the Union government level fiscal stimulus package of around 4 to 8% undertaken by industrial countries (the OECD average tax-to-GDP ratio was 34.3% in 2018), needs very careful assessment. Ensuring that MSMEs outstanding dues, individuals and businesses with tax refunds to be given, and clearing receipts due to public enterprises could be of significant help.

The states within their capacities should also undertake stimulus measures. If their policy priorities permit, they can seek larger debt limits within the current FRBM (Fiscal Responsibility and Budget Management) Acts. But once they make their fiscal choices, they should take responsibility and accountability for them.

The Karnataka Chief Minister B. S. Yediyurappa’s announcement of INR 16.1 billion COVID-19 stimulus measures is a to be commended, and deserves emulation.

**States Urged to Constitute Economic Restructuring Task Force**

The above analysis strongly suggests the given the disruptions caused to each state, urgency of managing known and new risks to the economy and fiscal position of the states, need to find new growth niches, sources of livelihoods, and more strategically leveraging Union government schemes, and programs, each state is urged to constitute an Economic Restructuring Task Force for advising the policymakers on a regular basis. Data quality and timely availability of disaggregated data at the state and its constituent levels needs to be addressed on priority basis, as evidenced by the data constraints in responding to the pandemic.

**Concluding Remarks**
This column has argued that in managing Covid-19 pandemic and its aftermath, the states must shoulder greater responsibility and accountability. Some states are indeed commendably moving in this direction, as elaborated in this column. It is strongly urged that each state should consider constituting an Economic Restructuring Task Force to provide advice to policymakers on a regular basis.

Exclusive and excessive reliance on the Union government to undertake all the initiatives and measures is neither efficient given wide variations in the impact of the pandemic, and needs of the 733 districts, nor it is equitable given India's public finance structure.

Each state is strongly urged to constitute an Economic Restructuring Task Force to advise policymakers on a regular basis.

In managing the Covid-19 crisis by the Union government and by each state, it is quality of governance rather than business-as-usual political operations which would impact on citizen-centric outcomes, and in securing trust of the people.


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