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Online panel discussion on “ COVID-19's Impact and Way Forward for India: An Economic Assessment” on 13th May organized by The Bengal Chamber

Lot will depend on how India exits from lockdown: Former chief economic advisor Kaushik Basu

The basic issues at present are the concerns about the food chain, jobs and migrant workers, which have to be resolved immediately, he said. "The first move of a quick lockdown made by India was right. It was called for. Now, a lot will depend on how India exits from the lockdown as landscape of the global economy will change by then," Basu, a professor of economics at Cornell University, said.

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"Just giving tax benefits is not enough. Poor people should be given cash.

But, this will not lead to hyper inflation," the former World Bank chief economist said.

Kolkata: India took the right call by announcing a prompt lockdown in March in the wake of the COVID-19 pandemic, but a lot will depend on how the country makes an exit from it as the landscape of the global economy will change by then, former chief economic advisor Kaushik Basu said on Wednesday.

The basic issues at present are the concerns about the food chain, jobs and migrant workers, which have to be resolved immediately, he said.

"The first move of a quick lockdown made by India was right. It was called for. Now, a lot will depend on how India exits from the lockdown as landscape of the global economy will change by then," Basu, a professor of economics at Cornell University, said during a webinar hosted by the Bengal Chamber of Commerce.

He said extending tax benefits might not be enough as the poor need direct support.

"Just giving tax benefits is not enough. Poor people should be given cash. But, this will not lead to hyper inflation," the former World Bank chief economist said.

"I am optimistic about the long-run indicators of the economy of India. The problem is with the perception of the people, who perceive more danger and risk than economy. That can jeopardise the entire process of recovery. The issue is how we balance these," Basu added.

Basu said he is happy that India is now looking at the economic aspect as the country prepares to gradually exit the lockdown.

"It is needed for unlocking the lockdown quickly. Quoting an Oxford study, there are different categories of lockdown. We can't stop lockdown altogether. But, this has to be differentiated," he said.

The former chief economic advisor said if business remains halted, the food chain will be disrupted and there could be a famine. Food shortage will also cause deaths, he added.

"India is now looking at a new face of lockdown by allowing the economy to prosper," Basu said.

Prime Minister Narendra Modi, while announcing a Rs 20-lakh crore economic package on Tuesday, had said that the next phase of lockdown will have a different look with a new set of rules and regulations.

Basu said India does have a remarkable bureaucracy and this advantage can be harnessed.

"I am glad that money is set aside as we know by the PM's announcement. But, fiscal deficit is a worry," he said.

"... India has a good law FRBM (Fiscal Responsibility and Budget Management Act) that does not allow governments to overspend. But, this is a natural calamity. States and the Centre can spend more. RBI can also opt for printing money," the former World Bank official said.

Basu said India is a highly interlinked economy in which small firms are connected with the big corporations in terms of goods and services.

"Markets should be allowed to run on their own as a natural mechanism. If that is not done, it will be a story of disaster."

Although India's growth has been falling over the last two years, there are bright signs on the ease of doing business front, he said.

"We have to address the issue of inequality. Global players are worried about that. A lot of money is going to other countries...", he said.

Basu said credit has to be directed to the MSMEs or else "within weeks, they will crash".

He also called for increasing savings and investment rates in the country.

To a query, he said China is now a "vacating space".