

Assignment 2

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What may be the possible impacts of COVID 19 on poverty and inequality in India? Discuss, with a focus on the Lorenz Curve, Gini Coefficient, and Poverty Line.

The development goals set to eradicate poverty would face a real challenge. Based on the previous data, poverty would increase for the first time since the 1990s, depending on the poverty line, such an increase could represent a reversal of approximately a decade in the current progress of reducing poverty.

Though the impact will be on everyone, it's much more deeper and long lasting among the poor. The poor primarily live in rural areas, so although the potential exposure to covid might be a bit less, it also implies that they have limited access to health care services. The poor living in urban areas would face higher risk to exposure by covid. Food supply and availability is also a concern for them. Though most agriculturists would be fine initially, the decline of demand from the urban areas would definitely affect them. Education of many students is halted as they don't have access to any other alternative sources, like the internet. Many school children also depend on government meal plans. In the long run, these also affect human capital development and their earning potential. Another major issue is the lack of access to insurance and limited savings to deal with the crisis.

In general, the gini coefficient would increase. The COVID crisis is responsible for the current economic and labour market shock, impacting not only supply (production of goods and services) but also demand (consumption and investment). This results in a huge decrease in both available jobs (both unemployment and underemployment) and the quality of work (e.g. wages and access to social protection). According to FICCI

survey, up to 53% of businesses have specified a certain amount of impact on its operations due to COVID.

It is particularly more difficult for the small and medium enterprises to sustain business operations. Most of the jobs in the primary sector in the labour market segmentation, are currently working from home while those from the secondary sector are in recession. Especially those in the aviation, tourism and hospitality industries, have a real threat of significant declines in revenue, insolvencies and job losses.

An estimated loss of ₹3,000 crores was reported by the live events industry. Many young startups have been severely affected due to funding issues. India's annual fuel consumption shows a heavy decline. Even the e-commerce websites have declared to stop the sale of non-essential items. Stock market in India faced one of the worst losses in its history.

Due to the ongoing lockdown, many people belonging to the secondary sector, are losing months of salary. Total estimates are around 10-25% loss of average Monthly per Capita Expenditure (with the assumption that we would recover from the covid crisis in the coming months). Labour supply is declining because of the current quarantine measures which follows the fall in economic activity. Based on the above discussion we can conclude that it would result in a greater share of income for the rich and lower share of income for the poor. Hence, resulting in increase of gini coefficient signifying an increase in inequality.

As a matter of fact, some business articles estimate that the poverty in India might be doubled which is higher than even the 1993-94 levels. The poverty line is not affected by much, but the increase in poverty is attributed to the loss of jobs and reduced income. Adar Poonawalla, CEO of Serum Institute of India said that "the economic danger of the outbreak was exponentially greater than its health risks". If the lockdown continues, India may potentially see more death due to hunger than from the pandemic. One of the ways of fixing this would require the government to increase the cash transfers helping the poor recover from the economic damages resulting from the pandemic while also assuage their poverty in addition to other benefits like increased PDS entitlements, subsidy on cylinders, etc. Care must also be taken that such support is reachable for both the existing and the new poor as the current programs only account for the existing poor. I agree with the proposition by the Confederation of

Indian Industry (CII), to use creation of a special purpose vehicle (SPV/SPE) to limit "Government exposure while providing adequate liquidity to industry". It will aid in economic recovery. It was indeed a very quick response from the finance minister, Nirmala Sitharaman in announcing Rs 1.7 lakh crore relief package for the poor during the lockdown. Although, if the covid crisis is not dealt within this month, then the relief package wouldn't be enough to deal with the situation. Slowly but eventually, the secondary jobs should be allowed with some serious monitoring/regulations, easing the economic shock. Though it's not feasible to immediately provide internet access/resources for students studying in government colleges, the government can initiate plans for free internet by setting up hotspots allowing restricted access to various educational resources. Doing so would prevent any malicious use, while allowing the government to have enough budget to extend such plans to remote places.

The latest available data on poverty recognized by the government dates back to 2011-12 (2017-18 NSSO Survey report is pending for release). According to the data, India had about 270 million poor people, or about 21.9% of the population. This might result in loss of a complete snapshot of our economy before the covid epidemic, making it unable to compare the correct progress of many ongoing development goals from the last decade. Most projections made on poverty will become invalid as they are highly dependent on assumptions.

The former chief of Reserve Bank of India, Raghuram Rajan has said that the coronavirus pandemic in India may just be the "greatest emergency since Independence". Swift and coordinated policy responses have to be made at state and national level with deeper institutional and policy reforms.

sources

<https://blogs.worldbank.org/>

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