
Analysis of the Macro and Microeconomic Principles in wake of COVID-19

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Abstract

This paper starts by dealing with various macroeconomic and microeconomic factors that determine the performance of the government and how efficiently the government tried to resolve the problem of the people. Then this paper refers to various such indicators like the unemployment rate and the GDP of the country during a particular time period to determine such type of growth. Then the paper deals with how these factors play an important role in assessing the situation of Covid 19 in India. This also helps in assessing whether the steps that are taken by the government would help to improve the situation in the long term and using these factors the long term impact on the economic growth of Covid-19 is discussed in this paper.

Introduction

Before looking into what are the factors that help in determining and analysing the economic situation in the country. It is important to first understand what macroeconomic and microeconomic means and what is the difference between the two. So , microeconomics as the name itself suggests “micro” is the study of economics at an individual level. Whereas on the other hand macroeconomics deals with the study of economics of the nation’s economy as a whole. Microeconomics focusses more on the allocation of resources within the economy which makes us understand the gap that is prevalent between the rich and the poor in a country and which helps to determine the standard of living. On the other hand macroeconomics looks at the whole economy tracks the progress of the economy as a whole for example GDP which helps us to analyse the growth of the economy as a whole. Now, we would start by underling the various macroeconomic factors that influenced the growth of the economy since the past five years.

During the last five years of the government the macroeconomic factors have shown a wide or drastic difference when it comes to the growth or slowdown of these macroeconomic tools , they can also be very well or profoundly used to analyze the performance of the government during the last five years as to how efficient it was when it comes to solving the problem of the people at large. First, we look at how the unemployment scenario has fared during the past five years of the government it being the major factor which decides how vibrant the economy is functioning. The data is though highly disappointing in nature as according to the latest survey by the national sample survey office (NSSO), the unemployment rate in 2018

was at a 45 year high at 6.1 %, this record is clearly worse and reflects the poor performance of the government in providing jobs¹. Another major report given by the center for managing Indian economy (CMIE) India lost around or close to 11 million jobs in the year 2018, the rural part which comprises of the majority of the Indian population lost around more than 8 million jobs, while the urban part around 1.6 million². Clearly it shows the government was incompetent when it came to handling unemployment. Now we look at how the GDP growth rate fared during the five years of the government, if we look at the average GDP from the last five years 2014-2018 it was at an average of 7.5%³, while if we look at the recent September quarter it was at lowest of 4.5%, which is clearly a sign of worry for the people of the country⁴. There are 3 major reasons behind this major debacle of the GDP growth rate of the economy , first being the demonetization factor, after which the country suffered huge loss in terms of the money flow from the rest of the world , as according to the report published to the government officials corporate investment suffered a 60% downfall, following the demonetization policy of the government . The second major reason for the falling GDP was the implementation of the GST policy of the government. According to the report published by the World Bank, GST is one of the most complex, with the second highest tax rate in the world, implementation of different tax rates is a task that many governments have terribly failed at⁵. The third and the final reason given by the government for the economic fallout is the ongoing global crisis and the trade wars between USA and China , so the adverse effect of it has also affected the Indian , GDP, but if we look at the economic growth of china it was at 6.1%, it being a far larger economy than India , still it fared much better than Indian economy , which goes to show that the trade war had nothing to do with the downfall of Indian GDP⁶. Now we look at price control or Inflation whether the government has been able to handle the prices during the last five years. The inflation as it seems according to the data or stats published that the government did it pretty well when it came to controlling the prices of the essentials as the financial year 2018 the inflation rate was around only 3.5% as compared to the financial year of 2012 the prices were skyrocketing around 10.21% , so the performance report is very good⁷. However, the major reason behind the inflation rate being so high was the global inflation at the time, specially the crude oil prices that were at the average of US \$ 100 per barrel, Metals too ruled high and crashed after 2015, so these factors also lead to the high inflation rate⁸. But if we look at the prices of certain commodities during 2018 too, they were at their peak, despite the low inflation rate

¹<https://www.business-standard.com/article/economy-policy/unemployment-rate-at-five-decade-high-of-6-1-in-2017-18-nssso-survey-1190>

² <https://www.businesstoday.in/current/economy-politics/india-lost-11-million-jobs-in-2018-rural-areas-worst-hit-cmie/story/306804.html>

³ <https://www.cnbctv18.com/videos/economy/nda-or-upa-whos-better-for-indias-economy-2611761.html>

⁴ <https://economictimes.indiatimes.com/news/economy/indicators/gdp-growth-slips-to-4-5-in-september-quarter-slowest-expansion-in-26-q>

⁵ <https://www.livemint.com/Politics/99hZqzvxfdwMzKgbWORrO/GST-one-of-the-most-complex-and-second-highest-tax-rate-in.html>

⁶ <https://www.thehindu.com/news/international/china-gdp-growth-slows-to-62-27-year-low/article28433823.ece>

⁷ <https://www.firstpost.com/business/four-years-of-narendra-modi-10-charts-that-show-how-the-economy-fared-under-the-nda-regime-vis-a-vis-upa-rule-4479509.html>

⁸ <https://www.cnbctv18.com/videos/economy/nda-or-upa-whos-better-for-indias-economy-2611761.html>

such as the LPG gas cylinders, for the non-subsidized cylinders the prices sky-rocketed to above rupees 1000 in many areas⁹. While the petrol prices crossed the 90 mark across the 12 cities in the state of Maharashtra¹⁰. Now we look at the exchange rate and how it functioned during the last five years of the government. It was a matter of high concern for the government when it came to controlling the exchange rate as fell to 70 rupees per dollar in 2018, the maximum during the whole five year period of the government, while still the government says and made remarks that it was not a matter of concern because it rose due to external factors, the public has no need to fear anything. This was a major disappointment as during 2014 it was around 61 rupees and since then there has been drastic change¹¹. Now we look at another important macroeconomic tool of fiscal deficit. In this matter the government has fared better than its counterpart government as falling from the average fiscal deficit of over 5% during 2012-13 to a recent average of 3.7% in the period of last five years, this is a very impressive report, but it is also highly reliable as the government can be seen to be hiding many of its loan under the name of food corporations and many public sector undertakings, this makes the official data a little less trustworthy and unreliable. Also, during the recent there was estimation of tax revenue by the government officials by 19%, which adds to the unreliable or the shady business of the government and the data despite being impressive is a little hard to digest.¹²

The steps taken by the Indian government to deal with the Covid-19 crisis includes a handful of measures which the government also had earlier promised to fulfill in its previous budgets and policy announcements, relating to agricultural schemes, providing employment in rural areas, and various other provisions for farmers and street vendors of our country, which are the most hard hit in these time of crisis. To cover the economic crisis, that the country is currently going through the government of India announced an economic package of around 20 lakh crores of rupees, so as to revive the economy and make it financially vibrant. Under this finance Minister announced 1 lakh crore of funds for the agriculture infrastructure of the country, this included a boost of 2 lakh crore of institutional credit for around 2.5 crore farmers through Kisan Credit card schemes¹³. Then the government announced a special facility of 5000 crore for the street vendors, under which around 50 lakh street vendors would be provided for. It also introduced a working capital of around 10,000 to be given to each street vendor¹⁴. For the migrant workers of the nation the policy of one nation, one ration card was introduced for their benefit, it allowed interstate portability of the ration card, so

⁹ <https://www.financialexpress.com/market/commodities/lpg-prices-go-through-the-roof-be-ready-to-pay-over-rs-1000-for-non-subsidised-cylinder->

¹⁰ <https://www.hindustantimes.com/mumbai-news/petrol-crosses-rs-90-mark-in-12-cities-across-maharashtra/story-DfSPbcEoI6RbxW4B7LbmyM.html>

¹¹ <https://www.hindustantimes.com/india-news/opposition-sharpens-attack-on-modi-govt-as-rupee-sinks-to-70-per-dollar/story-8nMTRIEVCf5ux>

¹² <https://www.cnbctv18.com/videos/economy/nda-or-upa-whos-better-for-indias-economy-2611761.htm>

¹³ <https://www.livemint.com/news/india/fm-sitharaman-announces-rs-1-lakh-crore-fund-for-farm-gate-infrastructure-11589540317327.html>

¹⁴ <https://www.financialexpress.com/economy/fm-nirmala-sitharaman-press-conference-live-updates-on-modis-20-lakh-crore-economic-land-labour-law-liquidity-package/1958089/>

that it can be used in all the states for the Ration , In addition to that the state announced that it would give 3500 crore so as to provide free pulses and food grains to the migrant population ¹⁵. Another measure taken by the government so as to reduce the economic pressure on the government is to reduce the employers provided fund rate from 12% to 10%, this has been pointed by the finance minister as a measure to infuse around 6,750 crore rupees in the economy as a part of the government's policy during the lockdown¹⁶. Apart from that so as to boost the economy, the government announced a 40,000 crore increase in allocation for MNREGA for the jobs to be boosted post the lockdown or the pandemic gets over¹⁷. Government also raised viability gap funding up to 30% for the development of social infrastructure projects in the economy, such as building schools or hospitals, or renovating or upgrading them to better standards as compared to international standards. ¹⁸ Government introduced new measures for the privatization of coal, defense and even space organizations so as to make Bharat atmanirbhar , which is self-reliance on home made products. For the coal industry, the government was keen on liberalizing the entry of private firms, so that more amount of foreign direct investment could be attracted in the country, similarly for the defense sector , the government increased foreign direct investment from 49% to 74% so as to attract more foreign investors in the economy and reduce the monopoly of government institutions, this was followed by privatization of space and electricity industry on the similar lines¹⁹. While the rest of the states are struggling continuously when it comes to the health care management, Kerala, has always outshine the other states and in dealing with the Covid-19 situation it has also proven to be a benchmark for the rest of the country. Kerala, was ranked 1st in the Health index by the survey conducted by Niti Ayog .²⁰ similar was the process of the state in dealing with the Virus situation , the travelers were tested on a regular basis and on a big level before they could enter the domain of the state , contract tracing of the people was done , whomsoever came in contact with the infected people, strict isolation of the suspects was done , the panchayat was also involved in the rural areas , so as to gather strong community support , to support the crisis situation. Another major step that the Kerala, government took was to provide for or arrange counselling sessions for those suffering from anxiety issues, no other state reportedly had taken these measures²¹. When the migrant workers reacted in anger while dealing with the not appropriate food taste, or other issues

¹⁵ <https://www.firstpost.com/business/nirmala-sitharaman-on-rs-20-lakh-crore-package-fm-announces-one-nation-one-ration-card-for-migrants-loans-for-vendors-and-farmers-in-second-tranche-key-takeaways-8369171.html>

¹⁶ <https://economictimes.indiatimes.com/wealth/invest/govt-notifies-cut-in-epf-contribution-to-10-for-may-june-july/articleshow/75811802.cms?from=mdr>

¹⁷ <https://www.hindustantimes.com/business-news/rs-40-000-crore-increase-in-allocation-for-mgnrega-for-job-boost-fm-sitharaman/story-NZCseR79UT9ZHj49mIHJeL.html>

¹⁸ <https://www.cnbctv18.com/economy/govt-to-raise-viability-gap-funding-by-up-to-30-in-social-infrastructure-projects-5938791.htm>

¹⁹ <https://www.indiatvnews.com/business/news-govt-unleashes-major-privatisation-reforms-in-coal-defence-power-distribution-and-space-sectors-617791>

²⁰ <https://www.thehindu.com/news/national/kerala-best-state-on-health-parameters-up-worst/article28136791.ece>

²¹ <https://www.hindustantimes.com/india-news/with-lakhs-under-home-quarantine-kerala-employs-counsellors-to-help-quell-anxiety/story-7kWuREW4v1Spzw9PcRDqoN.html>

such as they be allowed to go their home towns , the Kerala, government dealt with them by resorting to measures such as providing Rotis and north Indian food along with ration so that the migrants could make food according to their taste. Similar actions of distributing carrom, mobile recharges of up-to 100 or 200 rupees a month was carried out so as to maintain an environment of peace in the overall situation²². The major key factors in the winning for the Kerala government was there was no stigma or discrimination involved as such while dealing with the economic crises and the Covid-19. Another major step taken by the government was the imposition of the Alcohol tax so as to generate revenue and this measure in particular did pretty well. First was the state of Delhi to introduce new measure such as special corona tax on the alcohol which was as high as 70%, so as to generate revenue for the government as during the past years, many governments throughout India have generated huge amount of revenue just from the alcohol tax imposed by them²³. As apart from generating revenue through alcohol tax, the government had very few other measures through which it could generate revenue. One of the measures through which the state generated its revenue was through the implementation of GST, and as reported according to the April statistics , the GST collections of many states saw a major decline which was around 80-90% in some states , which was a major cause of the government resorting to impose such high alcohol taxes. Another industry which suffered a major downfall was the automobile industry with the sale dropping to zero, this was reported by the leading car manufactures as the whole country was in the state of a lockdown²⁴. This economic slowdown highly affected the revenues of the different states for instance Punjab witnessed a major fall of around 88% as reported by chief minister Amrinder singh²⁵. Similarly, in Delhi, the statement by CM Arvind Kejriwal was made regarding the fall in revenue by 300 crores in the month of April as compared to 3,500 crores of revenue generated during the April month of the previous year²⁶. As before the Covid-19 crisis the Delhi government expected a revenue of around 5000 crores from the 14% excise duty imposed by it on the alcohol, another reason why there is a so drastic fall in the revenue during Covid-19²⁷. Some of the prudent measures which were introduced were by the Chhattisgarh government so as to reduce the crowding at wine shops it introduced portal for home delivery of Wine shops²⁸ . Another measure which was taken by the several state governments was to cut down on the salaries of their employees. First to do so was the Kerala, government as it passed an ordinance to cut salaries of their employees so as to deal

²² <https://theprint.in/india/rotis-mobile-recharges-carrom-boards-how-kerala-fixed-its-migrant-worker-anger/403937/>

²³ <https://www.theguardian.com/world/2020/may/05/india-imposes-70-alcohol-tax-as-covid-19-lockdown-relaxed>

²⁴ <https://www.bloomberg.com/news/articles/2020-05-01/biggest-india-carmaker-clocks-zero-local-sales-in-april>

²⁵ <https://www.bloomberg.com/news/articles/2020-05-01/biggest-india-carmaker-clocks-zero-local-sales-in-april>

²⁶ <https://www.livemint.com/news/india/revenue-fell-to-rs-300-cr-in-april-how-will-delhi-govt-function-kejriwal-11588512754178.html>

²⁷ <https://www.thehindu.com/news/cities/Delhi/delhi-govt-expects-highest-share-of-tax-revenue-from-alcohol-in-fy20/article30171308.ece>

²⁸ <https://www.news18.com/news/india/chhattisgarh-govt-launches-website-for-home-delivery-of-alcohol-to-stop-crowding-at-wine-shops-2607879.html>

with the Covid-19 situation , it also proposed 30% reduction in salaries of the ministers involved²⁹. This was followed by the suspension of direct allowances given by the government to its employees and pensioners³⁰. Also the government in many states was not able to handle the high cost of conducting a Covid-19 test , as reported in Mumbai a covid-19 patient was charged with a bill of around 16 lakh rupees³¹ , this clearly highlights the state of private medical services in our country and how we need to make public health care more strong. Another measure taken by the government of India was to increase Taxes on Petrol and diesel , which turned out to be a massive 69%³² , that was the highest in the whole world. Apart from the measures taken by the government which are definitely praiseworthy, I would like to suggest some personal measures which the government can take so as to deal with this economic slowdown. First would be introducing the ultra-rich tax , this would definitely help in generation of revenue for the government and also lower the burden on the people belonging to the lower income group of the society. Second would be the fast food tax , which could be imposed by the government on foods with high calories or high sugar level intake , this would not only help in improving the health of the people of the nation but also generate revenue in high demands as the fast – food chains are in abundant in the economy of India. Thirdly the government should stop wasting its money on useless statues and projects like central vista , which was reported to cost around 20,000 crore³³. Fourth measure would be the money generated through the PM care fund what about that , what is the government doing with all the money donated by the celebrities , leading business groups, an enquiry should be made to analyse the distribution of that particular money fund. Finally the government rather than promoting atmanirbharta , should set an example towards the other economies of the world by opening and extending its arms of trade to the rest of the world , so as to share its set of ideas and policies throughout the world, rather than restricting trade and finance with the rest of the countries. Also many renowned economist have promoted the idea of direct transfer of money into the accounts of the needy so as to generate cash flow again in the economy , the only way the lower section of labourers could function as with the lockdown getting extended day by day, they have little or no source of remuneration left so that they could feed themselves. To fully understand the economic package of the government we need to understand few economic principles or measures by which the government functions , first is the austerity measures, these are the measures introduced by the government to take money from the people so as to deal with its deficit year around . This includes increased tax rates, and reduction in salaries and pensions of the common people of the country, this may lead to severe backlash or revolt by the public . Second we need to

²⁹ <https://indianexpress.com/article/india/kerala-govt-to-issue-ordinance-for-cutting-salary-of-its-staff-in-emergencies-6385802/>

³⁰ <https://www.livemint.com/news/india/tamil-nadu-govt-freezes-da-till-july-2021-suspends-earned-leave-encashment-11587999796689.html>

³¹ <https://english.jagran.com/india/mumbai-hospital-accused-of-overcharging-covid-patient-kin-deceased-told-to-pay-rs-16-lakh-bill-10011448>

³² <https://www.businesstoday.in/current/economy-politics/69-india-now-has-highest-taxes-on-petrol-and-diesel-in-the-world/story/402995.html>

³³ <https://www.financialexpress.com/india-news/govt-fast-tracking-rs-20000-crore-centra-vista-project-amid-corona-crisis-scrap-it-congress/1945865/>

understand what is the meaning of a liquidity infusion , it is a measure in economics so as to convert an asset of the government into cash , so that it can be used by the people of the country. Now we understand what is the meaning of a monetary or a fiscal policy. First a monetary policy is managed by the central bank of India, which is the reserve bank of India , whereas the fiscal measures are introduced by the government , the monetary measures target inflation, whereas the Fiscal measures do not have a specific target in mind. Monetary measures are mostly independent from political process , while the fiscal measure often have a political motive behind them. So when we look at the economic package of 20 lakh crore we have to keep in mind that it was a monetary measure, as around 8 lakh crore was given by the RBI from its own pocket to the government³⁴, this is done by lowering the interest rate by the RBI , so that more and more amounts of banks can take the loan from it and give it to the people at a lower rate , so that there is more amount of money in the economy, the rate at which the RBI lends money to the Banks is called the Repo rate.

Conclusion

After analysing the situation of the country in this pandemic through the lens of economics it is clear that the steps that are taken by the government to overcome this unprecedented situation are adequate but which can be improved so as to overcome this economic burden that has come with the pandemic. It is obvious that while taking such measures they are always opportunity costs that are associated and therefore a close and more detailed analysis is to be done while taking such steps as mentioned above to improve the situation of the nation not only in the economic sphere but to help it to recover from the pandemic and return life back to at least the new normal.

³⁴ <https://economictimes.indiatimes.com/news/economy/policy/economic-stimulus-package-includes-rs-8-lakh-crore-liquidity-measures-by-rbi-fm-sitharaman/articleshow/75786026.cms>