

Thought Experiment – Solving the lockdown problem

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Abstract

With Rajiv Bajaj, the Managing Director, Bajaj Auto, went on record¹ stating that no company can continue to pay the salary to its employees while they stay safe sitting at home. This statement raises an important question: till when do you allow the lockdown to continue, especially in a country such as India, where the majority of the workforce are 'temp' on the rolls? To address this problem, this paper works on a Thought Experiment and uses the non-technical – non-mathematical aspect to help find a solution to the problem.

Introduction

The Lockdown in Phases

- Phase 1: 25 March 2020 – 14 April 2020 (21 days)
- Phase 2: 15 April 2020 – 3 May 2020 (19 days)
- Phase 3: 4 May 2020 – 17 May 2020 (14 days)
- Phase 4: 18 May 2020 – 31 May 2020 (14 days)
- Phase 5 (only for containment zones): 1 June 2020 – ongoing (28 days); scheduled to end on 30 June 2020

As a nation of over 130 Crore (1.30 Billion), India was at a very awkward position when the first attack of Corona Virus swept through its major cities. In the last 6 days alone, India has added over 100,000 cases, with an active 200,000 cases of Covid19 infections in total².

With the density of population in certain cities amongst the top in the world, the risk of community spread of the Virus was quite high. The Government at the center was left with no choice but to address the issue with a lockdown. Little did we knew that the first lockdown of 21 days was just the beginning. Since 21st of March 2020, India has seen five such lockdowns, enforced by the Centre and the State Governments, to ensure the stage of community spread is avoided. Even though the figures related

to the infections and deaths of Covid19 patients released by the State Government and the Central Government raised eyebrows, the greatest loser was the Industry with almost negligible activity happening in the first and second lockdown periods. The Government at the center was quick in issuing the diktat that the companies must not cut the salary or delay the salary of its employees, but the pandemic forced the organizations to relook at the workings from a new perspective.

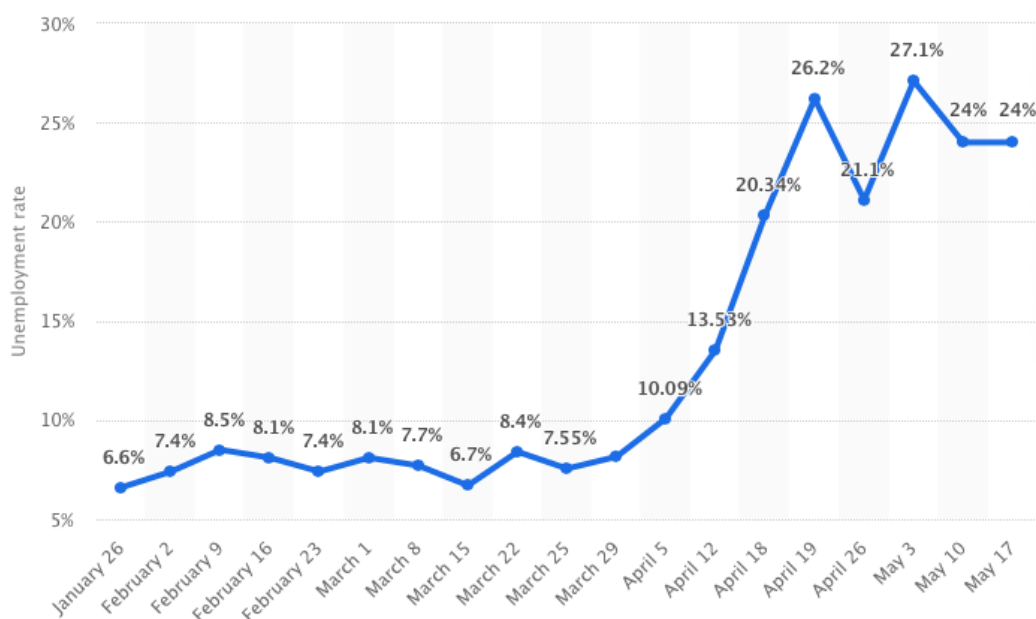
Many organizations, big and small, were forced to look at the issue through the lens of reducing the costs, and the first act they did was to cut the flab³. Organization such as Reliance Industries decided to cut the salary of its

¹ The Economic Times, 29th June, 2020

² https://www.business-standard.com/article/current-affairs/data-story-the-march-of-covid-19-across-indian-states-since-march-15-120041700449_1.html

³ <https://scroll.in/latest/962452/coronavirus-lockdown-ola-to-layoff-1400-employees-says-ceo>

employees by almost half to companies such as Ola sacking 1400 employees, WeWorks reduced its strength by 20% in India, Swiggy sacked 1200 employees, Uber reduced its headcount by over 6500 employees worldwide. Were these companies really trying to reduce the headcount to save costs? Or, were they trying to rediscover the new normal?



The Complications gets further highlighted when we consider the displacement of workforce, especially the ‘Temp’ or temporary, unskilled and skilled laborer working with thousands of MSMEs and large factories across the country. The Economic Survey of 2017, using a new Cohort-based Migration Metric (CMM) and railway data, it put interstate migration at 60 million⁴. As of June 8th, 2020, the Chief Labour Commissioner put the figure at 26 lakh migrants stranded across the country, of whom 10% are in relief camps, 43% on work sites and 46% in other clusters. The Solicitor General, on the other hand, informed the Supreme Court of 97 lakh who had been transported back home⁵. These different figures released by competent authorities raise another set off questions, which is not a part of this paper.

With these labourers on the road or back in their homes, the most that has suffered is the manufacturing. A damaging impact on an economy as large as India’s caused due a total lockdown was imminent. Unemployment went up to 24 percent on May 17, 2020. This was possibly a result of a decrease in demand as well as the disruption of workforce faced by companies⁶. 58 Lakh labours working daily under the Mahatma Gandhi National Rural Employment Guarantee Act⁷ (MGNREGA) as of now, the flagship scheme of the Government of India, that helps the labours get basic work to earn their living. The scheme states that in the Financial Year 2020-21, the total household worked stood at 4.12 Crores⁸ (41.2 Million). It may be noted that MGNREGA targets the same

⁴ <https://indianexpress.com/article/explained/coronavirus-how-many-migrant-workers-displaced-a-range-of-estimates-6447840/>

⁵ <https://indianexpress.com/article/explained/coronavirus-how-many-migrant-workers-displaced-a-range-of-estimates-6447840/>

⁶ <https://www.statista.com/statistics/1111487/coronavirus-impact-on-unemployment-rate/>

⁷ <http://www.youtube.com/watch?v=xMT8xB8bnjQ>

⁸ http://mnregaweb4.nic.in/netnrega/all_lvl_details_dashboard_new.aspx

population that gets work as skilled/ unskilled labours predominantly driven by MSME and large manufacturing corporates. These are the same labourers who tried to return back home when the lockdown was announced in Mid-March, 2020, leaving the employers scouting for workers, if and when they were allowed to operate. Many of these players moved into manufacturing essentials such as Sanitisers and PPE kits⁹ during these difficult times, trying to hold on to the migrant labourer. But this situation changed when the Government announced the extension of the lockdown again and again. This is when the migrants started moving back home, leaving the manufacturers wanting for more, thus raising the wages related outflow moving northwards, thus increasing the cost of production.

Present Situation

With many migrant labourers either at their home or on the road way back, the corporates and MSMEs are left with limited workforce. Couple this with the new rules and regulations implemented by the State and Central Governments, the complications grow even further. The major problem faced by the corporates today is directly related to supply chain. Leaving aside the China factor¹⁰, the manufacturers are in a bit of fix, with the spread of the Virus inching towards community spread. Bajaj Auto's plant in Waluj, Aurangabad, has seen an exponential rise in the number of Covid-19 cases with three of its employees succumbing to the disease¹¹. If the manufacturers keep insisting on running the factories, the spread of the Virus will increase and this would have a long-term impact on recovery from the present situation. The question here is, can the lockdown solve the problem? The answer is simple: it won't and here's the argument: The population density of the country is 382 per Square Kilo Meters. When we compare this average to that of Mumbai, it stands at 32,874 per square kilo meter. Delhi is at 29,259 per square kilo meter. With such a high population density, the contacts between the citizen becomes an unavoidable possibility and lockdown seems to be the only logical solution. As of June 29th 2020, Delhi and Mumbai are the most affected areas. With lockdowns and sealing of borders, the problem gets exponentially increased. In effect, one problem (taking care of lives) leads to other problem (low manufacturing of goods and low delivery of services). Both have a severe impact on the economic performance of the country.

Thought Experiment

To address this Catch22 situation, I am presenting a thought experiment that may help us find a solution to the problem of lockdown due to spread of the Virus across the nation.

⁹ <https://www.vox.com/the-goods/2020/4/6/21207135/factories-face-masks-ventilators-hand-sanitizer-coronavirus-manufacturing>

¹⁰ With the Central Government creating a barrier for China originated goods, the manufacturers are finding it difficult to manage the product of finished goods. Source: <https://www.hindustantimes.com/india-news/india-takes-another-step-to-block-china-products-with-new-rules/story-w4HFrMuTQncPlmfbDz39cM.html>

¹¹ https://www.business-standard.com/article/companies/it-s-not-the-lockdown-but-enabling-of-a-false-theory-says-rajiv-bajaj-120062900043_1.html

Hypothesis

H_0 : Revival is the key, even if there are deaths

H_1 : Survival is the key to better economic growth in the future

The Thought experiment revolves around two aspects, Revival and Survival. Both these words have a depth in their understanding. For any economy to create an impact, consistency in performance is what is required. With the spread of the Virus across the globe, many countries have stopped or reduced the trade, thus having a negative impact on the performance of the economy. This, coupled with the issue of the manufacturing plants shut due to the Centre and State imposed Shut-Downs since March 2020, has impacted not just the trade internationally but also impacted local consumptions, with the buyers deferring buying decisions, even for non-essential goods¹². This is possibly due to the drop in the income across socio-economic segments. With no manufacturing of goods and non-delivery of services, the income reduced thus impacting the overall demand across product categories. If we allow the manufacturing to go on at normal pace, the income of the segment in questions would not get impacted and this would lead to the revival of demand thus contributing to the growth of economy.

Survival, on the other hand, is all about taking care of the lives of people. As getting affected by Covid19 Virus may result in death, the primary issue faced with the governments, Centre and State both, is to keep the spread to minimum. If this is taken care of, the issue of bad hospital infrastructure is also taken care of. It may be noted that the Governments across the country are working overtime, putting in time and money to help the patients recover from the virus. India has already lost many such 'Warriors' who worked overtime to help the patients fight the Virus, and as a country, we would not like to lose more. According to this theory, the recovery may get delayed but saving lives matter the most.

Theory

Can India afford de-growth in economic terms? The Indian Economy will shrink by 3.2% in the Financial Year 2021 according to the study estimate published in the month of June, 2020¹³, given the complications arisen by the spread of the Virus. This study does take into consideration all the steps that the Government can take to register the de-growth going forward. In other words, the World Bank has assumed that the Government will take whatever it takes to ensure low impact of the virus on the economy by helping the industry reach pre-covid production. Any further lockdowns will challenge this assumption and this is when the issue pushes us to create a theory: What if we continue with our normal lives? Live the way we were living during pre-covid days? Allow the manufacturers to work at pre-covid levels? Allow the workers, blue and white collar, to work they have been all these years?

¹² <https://www.telegraphindia.com/opinion/coronavirus-falling-demand-for-goods-and-services-sharp-rise-in-unemployment-and-inadequate-liquidity-have-hit-businesses-across-board-during-covid-19-lockdown/cid/1770953>

¹³ https://www.business-standard.com/article/economy-policy/covid-19-impact-world-bank-sees-india-s-economy-shrinking-by-3-2-in-fy21-120060801688_1.html

One of the scenarios that we can think of is 'Community Spread' of the Virus. This would mean, more infections and more deaths. Let's treat this as a war... on the virus!

Over 40 million people died during the World War I. During the World War II, over 85 Million people lost their lives. During Gulf War, over 200,000 people died. During the Indo-Pak war of 1971, over 3 million people lost their lives. In India, so far, over 16,400 people have lost their lives getting infected by Virus. When we look at it from the perspective of Death per 100,000 population, it stands at One.¹⁴ Even if this doubles because of the spread of the virus, it would be at Two deaths per 100,000 population, which would be less than half of Global average of 4.9 deaths per 100,000 population. This increase will, of course, move the world average as well, but the impact would be lesser than the usual.

Looking at these figures, if we allow the country to work their normal ways, the deaths would go up, but this would help the nation regain the lost grounds, when it comes to the economic activity. This becomes more important because every time the Government talks about a lockdown, the average income of the citizen goes down, thus impacting the spending and this, in turn, impacts the overall economy.

Conclusion

The Thought Experiment considers both, Survival and Revival, and concludes that as a nation, it is difficult to excel in both the parameters. Either the government concentrates on Survival, by extended restrictions and lockdowns, or work towards reviving the economy by helping the citizens live with the virus. In both the cases, the mid-to-long term impact is very high for the government not to consider the other. As a decision maker, you are expected to take a call. I would have encouraged the population to live with the virus, taking all the precautions. Statistically, it would still work in country's favour.

¹⁴ <https://timesofindia.indiatimes.com/india/india-has-1-covid-death-per-lakh-against-worlds-6/articleshow/76541692.cms>