

Covid-19 lockdown, service sector dualism and migrant crisis in a developing economy: A general equilibrium analysis

Sushobhan Mahata

University of Calcutta, India
sushobhanmahata@gmail.com

Ranjanendra Narayan Nag

St. Xavier's College (Autonomous), Kolkata, India
rnnag12@gmail.com

Abstract:

COVID-19 has posed severe challenges not only to research in the field of medicines and natural sciences but also to policymakers. In almost all nations of the world, the lockdown has been chosen as an immediate response to this pandemic crisis. The COVID-19 pandemic, the subsequent lockdown and physical distancing measures have had a significant impact on the contact-intensive service sector while the non-contact-intensive high-skilled service sector circumvented the pandemic inflicted lockdown. Against this backdrop, a multi-sectoral general equilibrium model with a non-monocentric service sector has been constructed for a distortion ridden developing economy in the presence of capital market imperfection and open unemployment. The lockdown has been conceptualized as a government-controlled exogenous policy instrument to restrict human mobility in the contact-intensive economic activities that have multi-dimensional effects in the form of high transaction cost in the production sector, reduced labour supply, adverse demand shock and an unprecedented psychological cost on labour. The effects are examined on skilled-unskilled wage disparity, regional migration and unemployment. Finally, using this structure we critically analyze and compare the effectiveness of an expansionary credit policy and direct cash transfer to workers in controlling the damage caused by the lockdown.

Keywords: COVID-19 pandemic, unemployment, migration, service sector dualism

JEL Codes: D50, J31, J61