'Firm believer in need for a fiscal council'

RATHIN ROY, member of the NK Singh committee on a new Fiscal Responsibility and Budget Management (FRBM) law and Director, National Institute of Public Finance and Policy, talks to **Arup Roychoudhury** on their recommendations. Edited excerpts:

Q&A

RATHIN ROY
Member of the N K Singh committee on FRBM law

The committee has recommended a debt to GDP ratio of 60 per cent for governments in general by 2023. This comprises 40 per cent for the Centre and 20 per cent for states. Given the current debt levels, does adopting this path mean the burden of reducing the public debt falls squarely on the Centre?

No. For reasons elucidated in the report, states, collectively, will have to consistently reduce their fiscal deficits by at least 0.16 per cent of GDP each year, to maintain the current debt level at 20 per cent. The path for individual states can be specified by the 15th (next) Finance Commission and the government can take a view on the extent of fiscal consolidation to be undertaken in the interim.

The committee has recommended maintaining the fiscal deficit at three per cent of GDP from FY18 to FY20. Does this give the finance minister the leeway to keep the deficit at 3.2 per cent in his next Budget, since he has already done that much in this year's?

It absolutely does not and the minister is well aware of this, if you see his remarks on the subject in this year's Budget speech.

The report mentions certain escape clauses under which the government may deviate from the path of consolidation. One such clause is structural reforms in the economy. Could events like GST (the coming goods and services tax) or demonetisation constitute these?

It is the responsibility of governments to assess the fiscal consequences of policy actions and take account of these when planning the future macro-fiscal envelope. It is only if these plans are 'shocked' (a) by events outside their control or (b) by developments that a government could not reasonably be expected to anticipate, and (c) such shocks are of a magnitude that cannot be made up for by policy actions that keep a government on the FRBM path, that such an escape clause can be invoked.

If a government does not satisfactorily explain that deviations are due to such unforeseen events or exogenous shocks, then this would imply that it had not done its job of crafting these reforms adequately in the first place. This process will, therefore, act as a check on a government's use of this clause. The (proposed) Fiscal Council will also serve a useful purpose, in making sure this clause is invoked with demonstrable cause by a government.

Will the proposed Fiscal Council be modelled on the lines of the Budget Office of the US legislature? Is formation of such a Council possible in India?

I am agnostic as to the precise model but a firm believer that there must be such a Council. There are several alternatives, based on international experience, that we have discussed in the report.

Chief economic advisor Arvind Subramanian has written a dissent note. He seems in favour of using the primary deficit as indicator.

He has articulated his minority dissent and the reasons for it. The majority has responded to his views in Annex 6 of the report.

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