

We are now repurposing from a business as usual economy to a warlike economy: NIPFP's Roy

RATHIN ROY, director, National Institute of Public Finance and Policy, was one of the members of a committee chaired by NK Singh that reviewed the FRBM Act. The committee's report formed the basis to the amendment of the Act two years ago. In an interview to P VAIDYANATHAN IYER, he strongly recommends wide ranging support that will cost far more than 1 per cent of GDP. Edited excerpts:



Rathin Roy. File

As a member of the FRBM review committee, based on which the Act was amended, do you think the situation today, given the coronavirus health pandemic, and the subsequent lockdown, warrants a substantial easing?

I do not think that in the present situation an analytical framework that talks about "easing" and "tightening" is relevant. As I have said before, we are now repurposing from a business as usual economy to a warlike economy. In these circumstances money needs to be directed to the purposes of fighting the pandemic and dealing with the consequences of fighting the pandemic. We first need to clearly identify what needs to be done and what it will cost. We then address the problem of how (not how much) finance will be mobilised.

What are the main pain points, which need immediate relief?

The first priority is to make sure we have the medical equipment and personnel to execute the measures needed to identify, diagnose, and treat those seeking medical attention. As the number of cases grow, we need a massive transitory increase in healthcare financing. We need more beds, quarantining facilities etc., but going forward, the binding constraint will be our healthcare workers. Each healthcare worker who falls sick, breaks down, or is unable to perform his/her job, retards our effort. You do not want a situation where, to use a war analogy, you have aircraft that are idle because

there are no pilots or ground crew. So, we need to ensure that finance is not a constraint in increasing our spending on securing the health and lives of these personnel. I estimate we need to increase the CTC spending on these personnel by 350-400 per cent.

The second priority is to maintain supply chains such that people are able to get essential commodities and, going forward, other things needed to live a normal life. We need to spend on integrating unutilised supply chains and making sure these deliver from farm and factory to home. This is going to be expensive if social distancing is to be maintained. Third, we need to make sure all migrant workers are secure in decent surroundings and have access to counseling, communication facilities, and government services on a priority basis. This will be expensive because our migrant workers lived in cramped and insanitary conditions in the first place and we need to hence create this infrastructure.

The government announced a relief package, which was less than 1 per cent of GDP. What is your assessment of the fiscal relief requirement?

Again, "fiscal relief" is not an appropriate framework. In a warlike economy, government needs to do two things. One, protect national wealth and two, alleviate loss of national income as far as possible. This would encompass wage support, compensatory payments to those operating their own busi-

nesses and services (which is a significant chunk of the Indian workforce), and the temporary publicly financed coverage of costs associated with maintaining working and fixed capital including, but not limited to, interest relief. This will cost more than 1 per cent of GDP, so I am assuming a much larger publicly financed support package is in the offing. I hope it isn't further delayed. It has been forthcoming for some time now.

What are the avenues for fundraising?

It is important to understand that financing will have to be provided at an elevated scale and therefore "fundraising" through relief funds etc. will not do the job at the macro level. Several calibrated steps are possible.

First, the government has considerable unspent balances which should be mobilised. This will take time; therefore, it should immediately use its WMA (Ways and Means Advances) window with the RBI to mobilise these finances. The RBI has enhanced the WMA limits but it is desirable that fiscal prudence be secured by linking the extinguishing of WMAs to specific resource mobilisation by government. States are the frontline fighters of this epidemic.

The RBI should open a Rs 1 lakh crore zero interest WMA window for the states. The window should be for 11 months and its rollover can be reviewed in the ninth month. States could access this window according to some criteria. The simplest would be to use per capita population and then develop criteria according to need going forward.

Second, the government could design a specific purpose bond to raise debt resources. The current debt mobilisation system should be ring-fenced from this COVID-specific debt instrument. My preference will be for a consol-a bond that pays interest during its lifetime, has no date of expiry, and can be traded.

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