

DO WE NEED A FISCAL COUNCIL?

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

Two medical professionals wearing protective suits work together to fit a protective mask over the Indian currency symbol, while another takes the temperature of the Indian currency symbol with a thermometer.

The government needs to borrow and spend more now in order to support vulnerable households and engineer economic recovery. But that will mean a steep rise in debt which will jeopardise medium-term growth prospects, an issue prominently flagged by all the rating agencies in their recent evaluations. It is possibly the fear of market penalties that is holding the government back from opening the money spigots.

Many economists have faulted the government's fiscal stance, arguing that this is no time for restraint; the government should spend more to stimulate the economy by borrowing as may be necessary, but at the same time come out with a credible plan for fiscal consolidation post-COVID-19 in order to retain market confidence. But will the market be persuaded by the government's assurance of future good conduct? Like St. Augustine who prayed, "god, give me continence, but not yet!", will the markets instead see the government as asking, "god, give me fiscal rectitude, but not yet?" Not necessarily, say the commentators. The government can signal its virtue by establishing some new institutional mechanism for enforcing fiscal discipline, such as for example a fiscal council. The suggestion of a fiscal council actually predates the current crisis. It was first recommended by the Thirteenth Finance Commission and was subsequently endorsed by the Fourteenth Finance Commission and then by the FRBM (Fiscal Responsibility and Budget Management) Review Committee [headed by N.K. Singh](#).

Also read | [An independent fiscal watchdog for Parliament](#)

According to the International Monetary Fund (IMF), about 50 countries around the world have established fiscal councils with varying degrees of success. Abstracting from country-level differences, a fiscal council, at its core, is a permanent agency with a mandate to independently assess the government's fiscal plans and projections against parameters of macroeconomic sustainability, and put out its findings in the public domain. The expectation is that such an open scrutiny will keep the government on the straight and narrow path of fiscal virtue and hold it to account for any default.

Do we really need a fiscal council? Sure, we do have a chronic problem of fiscal irresponsibility, but is a fiscal council the answer? Recall that back in 2003 when FRBM was enshrined into law, we thought of that as the magic cure for our fiscal ills. The FRBM enjoins the government to conform to pre-set fiscal targets, and in the event of failure to do so, to explain the reasons for deviation. The government is also required to submit to Parliament a 'Fiscal Policy Strategy Statement' (FPSS) to demonstrate the credibility of its fiscal stance. Yet, seldom have we heard an in-depth discussion in Parliament on the government's fiscal stance; in fact the submission of the FPSS often passes off without even much notice. If the problem clearly is lack of demand for accountability, how will another instrumentality such as a fiscal council for supply of accountability be a solution? It can be argued that a fiscal council will in fact be a solution because it will give an independent and expert assessment of the government's fiscal stance, and thereby aid an informed debate in Parliament. A fair point, but do we need an elaborate permanent body with an extensive mandate for this task?

Consider for example the model suggested by the FRBM Review Committee. As per that, the fiscal council's mandate will include, but not be restricted to, making multi-year fiscal projections, preparing fiscal sustainability analysis, providing an independent assessment of the Central government's fiscal performance and compliance with fiscal rules, recommending suitable changes to fiscal strategy to ensure consistency of the annual financial statement and taking steps to improve quality of fiscal data, producing an annual fiscal strategy report which will be released publicly.

Also read | [Governing India through fiscal math](#)

An institutional behemoth with such a wide job chart will likely add more to the noise than to the signal. For example, the fiscal council will give macroeconomic forecasts which the Finance Ministry is expected to use for the budget, and if the Ministry decides to differ from those estimates, it is required to explain why it has differed. As of now, both the Central Statistics Office (CSO) and the Reserve Bank of India (RBI) give forecasts of growth and other macroeconomic variables, as do a host of public, private and international agencies. Why should there be a presumption that the fiscal council's forecasts are any more credible or robust than others? Why not leave it to the Finance Ministry to do its homework and defend its numbers rather than forcing it to privilege the estimates of one specific agency? Besides, forcing the Finance Ministry to use someone else's estimates will dilute its accountability. If the estimates go awry, it will simply shift the blame to the fiscal council.

Another argument made in support of a fiscal council is that in its role as a watchdog, it will prevent the government from gaming the fiscal rules through creative accounting. But there is already an institutional mechanism by way of the Comptroller and Auditor General (CAG) audit to check that. If that mechanism has lost its teeth, then fix that rather than create another costly bureaucratic structure.

Let us, despite my arguments above, grant that a fiscal council will indeed add value. Then the way forward is to start small and scale it up if it proves to be a positive experience. I would suggest the following low cost and reversible start-up.

Also read | [No plan to ease fiscal deficit targets](#)

A week before the scheduled budget presentation, let the CAG, a constitutional authority, appoint a three-member committee for a five-week duration with a limited mandate of scrutinising the budget after it is presented to Parliament for its fiscal stance and the integrity of the numbers, and give out a public report. The CAG's office will provide the secretarial and logistic support to the committee from within its resources. The Finance Ministry, the RBI, the CSO and the Niti Aayog will each depute an officer to serve in the secretariat. The committee will be wound up after submitting its report leaving no scope for any mission creep.

Bureaucratic expansion is a one way street. It is wise to cross the river by feeling the stones.

The writer is a former Governor of the Reserve Bank of India

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