The phasing of three categories of expenditures by Govt is important to avoid catastrophe

Devil, Us, the Deep Blue Sea

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cision. If a person is infected, the government should immediately order the person to self-isolate. If the person refuses to self-isolate, the government should impose a fine or other penalties. If the person continues to refuse to self-isolate, the government should take legal action to force compliance.

The escape clause? In the amended Fiscal Responsibility and Budget Management (FRBM) Act, the government can delay increased expenditure. The government can increase expenditure to combat the virus, but it must be done within the limits of the act. The government can increase expenditure to combat the virus, but it must be done within the limits of the act. The government can increase expenditure to combat the virus, but it must be done within the limits of the act.

On what kinds of expenditures that Govt must undertake, there is a plethora of advice. Added up, it amounts to a sizable increase in expenditure. Should the government undertake such an increase? And more particularly the Reserve Bank of India (RBI)? How will the money be raised? How will it be spent? How will it be used? These are all questions that need to be answered before the government makes any decisions.

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Credit Where It’s Due

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The required government expenditure cannot be classified into two categories: (1) healthcare expenditure, (2) relief to people directly affected, mobility wagers and migrant labour, and (3) expenditure to stimulate aggregate demand and revive affected sectors. Govt must immediately address the first two categories. The first set of expenditures is paramount. There is some concern among experts on the extent of testing that is being done currently. Many experts feel that the magnitude of testing must increase materially to reduce transmission rates. The first priority is to mobilise adequate resources to meet all health-related expenditures, including supplies of essential medicines, vaccines, personal protective equipment, and personal protective equipment for health workers. The challenge here is not only to health but also organisational. The second set of expenditures should be designed to make people who have been directly affected by the lockdown. The announcement made by the Finance Minister Nirmala Sitharaman earlier last month directly addressed it. Here again, there is a feeling that problems of people thrown out of employment have not been adequately addressed. It is a heart-rending sight to see migrants walking all the way to their home states from their place of work. More needs to be done in this front.

Spend When You Must

The third category of expenditures can wait until we have had some success in containing the virus. Once the lockdown is lifted, and when businesses units are ready to expand their activities, additional liquidity from RBI as well as some supportive expenditure by Govt can help. The phasing of expenditures by the government, thus, becomes important.

There is the dilemma of having to choose between the devil and the deep blue sea. This is not "fiscal fundamentalism". We are thinking of upwards of 6% of GDP as fiscal deficit. We may end up with more than twice of the mandated level. We should be conscious of the inflationary impact. We can, however, soften the impact of the choices by appropriate phasing.

The writer is former governor, Reserve Bank of India.