My own judgement is that we should have used the oil windfall for more public investment but I lost that battle to those who wanted fiscal consolidation: Arvind Subramanian

Subramanian, who had often batted for policy rate rate reduction, said tighter monetary and fiscal policies were needed to hold the line at the time of shocks

Ishan Bakshi & Abhishek Wagmare | New Delhi | July 12, 2018 Last Updated at 00:00 IST

Amid the demand for cut in taxes on fuel, outgoing chief economic advisor (CEA) Arvind Subramanian on Wednesday said oil windfall should have been used for stepping up public investment, an opinion which he felt did not find favour with fiscal puritans.

“My own judgement is that we should have used the oil windfall for more public investment but I lost that battle to those who wanted fiscal consolidation,” Subramanian said at an event organised by the National Council of Applied Economic Research (NCAER).

He said oil windfall is used for fiscal deficit reduction, enhancing public investment and executing the pay commission’s report.

The Centre’s fiscal deficit widened to 3.5 per cent of the gross domestic product in 2017-18 against the Budget estimates of 3.2 per cent. However, this was attributed to less revenues that came from the goods and services tax (GST) as one month’s collections was received in 2018-19. The deficit is projected to come down to 3.3 per cent of the GDP in the current financial year. However, this would be higher than the original target of reducing it to three per cent.

The CEA, however, said the government withstood pressure on oil prices.

Subramanian, who had often batted for policy rate rate reduction, said tighter monetary and fiscal policies were needed to hold the line at the time of shocks.

In conversation with Karthik Muralidharan, Tata Chancellor’s Endowed Chair at the University of California, the CEA said public sector banks are handicapped by their ability to recruit.

He narrated an incident of former Reserve Bank of India (RBI) governor Raghuram Rajan inviting him for a lecture at the National Institute of Bank Management (NIBM). At a lunch on the occasion, Rajan told him that it is an irony that RBI invests in NIBM but public sector banks can't recruit from the institute as these lenders have their own entrance exam.

The CEA said the political case for privatisation of public sector banks has now become even more difficult after the happenings in ICICI Bank.

He said the RBI has done a good job of bringing 11 public sector lenders under the prompt corrective action and felt that recapitalisation of banks has to be linked to reforms.

Subramanian said he was in favour of the bad bank, an idea junked by the government now. “But I have realised that insolvency and bankruptcy code (IBC) is a way forward because the executive would have been in the front role in the bad bank. Now, decisions are taken by the judiciary and quasi-judiciary bodies. We need a judicial way to overcome stigmatised capitalism.”