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CREATING JOBS BY INCREASING CAPEX

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

If we had to look for one single metric that held the key to us achieving our immense economic potential as a nation, creation of gainful jobs, particularly for our underemployed youth and women, would perhaps be a strong candidate.

Data from the International Labour Organization (ILO) suggest that India's employment to population (over the age of 15) ratio has steadily dropped from 55% in 2005 to 43% in 2020. In 2020, it was 52% in Bangladesh, 63% in China and 73% in Vietnam. Specifically, women form just 20% of India's workforce, while they comprise between 30% and 70% of the workforce in the other three countries. Further, CMIE data suggest that across manufacturing and services, India lost nearly 1 crore jobs between December 2016 and December 2021.

Amidst a global and domestic context muddied by the COVID-19 pandemic, Finance Minister Nirmala Sitharaman, and indeed the entire administration, has their job cut out, trying to enable creation of sustainable jobs over time. In the 2022-23 Budget speech, she went all-in on allocating ample money towards productive infrastructure investments as the way forward.

Before we get into that, let's start with some good news. Data released by the Controller General of Accounts (CGA) shows that for the first nine months of the current fiscal year 2021-22 (FY22), the Centre's revenue receipts across taxes and dividends already stood at 17.3 lakh crore, just shy of the full year budget of 17.9 lakh crore. There are many factors that contribute to this remarkable outcome. First, higher income tax and Goods and Services Tax (GST) collections are on the back of a robust performance of India's organised sector, amidst increased formalisation of the economy. Second, the government deserves full credit for the conservative Budget projections of last year, even as it enhanced credibility by coming clean on expenditures hidden in off-balance sheet in the books of the Food Corporation of India. Put together, for the first time in many years, notwithstanding the pandemic and the intense hurt amongst the unorganised sectors, tax collections for this fiscal year will end well ahead of the original Budget projections.

This Budget, therefore, revised up FY22 Central revenue receipts to 20.8 lakh crore, nearly 3 lakh crore higher than the original Budget. Given the momentum in tax collections till December, notwithstanding the Omicron wave, actual revenue receipts may exceed even this number by an additional 0.5 lakh crore-0.7 lakh crore. All this will more than make up for the projected shortfall in the government's disinvestment Budget for this year.

Despite the much higher revenue receipts than budgeted, the overall FY22 fiscal deficit is projected to end at 15.9 lakh crore (6.9% of GDP), higher than the Budget Estimates of 15.1 lakh crore. Additional spending towards food and fertilizer subsidies, increased allocations towards the National Rural Employment Guarantee Scheme and export incentives, and a clean-up of the books of Air India prior to its sale all contributed towards increased expenditures.

Going forward, however, a sustained momentum in tax collections will provide additional degrees of fiscal policy freedom to the Finance Minister as she tries to foster domestic jobs and output. She has chosen to back investments into capital expenditure as the way to achieve this.

For the next fiscal year FY23, she has increased her capital expenditure budget – or investments into productive capital creation – to 7.5 lakh crore, 24% higher than the FY22 revised estimate of 6 lakh crore. Alongside she has pencilled in just 1% increase in revenue expenditure, i.e., into items such as salaries, pensions, interest, and subsidies. In this regard, she is continuing a trend that she started in last year's Budget. Between FY11 and FY21, capital expenditure averaged just 12% of the government's overall expenditure. For the current FY22, that ratio increased to 16%, and for FY23, the Finance Minister has proposed to take it to 19%.

The intent and commitment behind this strategy is clear and laudable. The expectation is that sustained investment in roads, railways, freight corridors, power, renewable energy along with initiatives such as Production-Linked Incentives (PLI) and other enabling legislation, will create the conditions for drawing in private sector investments into manufacturing, and foster job creation and sustainable growth.

But as with everything else, this strategy does come with a few caveats and risks.First, not all the headline capital expenditure is indicative of fresh greenfield investments. The 0.5 lakh crore of clean-up of Air India's books this year counts as capital expenditure. Similarly, for FY23, the government has set aside 0.8 lakh crore to partly clean up the books of NHAI and BSNL. Nevertheless, the transparency this brings about is still very welcome.

Second, while there is a visible thrust on hard capital expenditure, the outlays towards critical areas such as education, healthcare and urban infrastructure remain subdued. One would think investments in these areas are equally, if not more critical, than hard infrastructure alone.

Third, the thrust on capital expenditure has resulted in notably higher fiscal deficit numbers than expected. Notwithstanding the intent and commitment, such high fiscal deficits can put pressure on interest rates and the Reserve Bank of India, even as it raises the risk of inflation, higher current account deficits, and the attendant threats to financial stability.

Ultimately, the key lies in execution. The Finance Minister has provided ample funds for the infrastructure thrust. It is up to the entire administration – Central, State, and local – to ensure that the funds are utilised in a timely fashion, and result in delivery of world-class infrastructure. Alongside, ease of doing investments have to be continually addressed, especially around key areas such as land acquisition, contract enforcement, and policy stability. Sustained investments in manufacturing and value-added services hold the key for the growth of small businesses, jobs, and our economic well-being.

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