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Avatars of capital expenditure in the budget

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The Central budget has put forth PM GatiShakti, a "transformative approach for economic growth and sustainable development" that is to be powered by the 'seven engines' of roads, railways, airports, ports, mass transport, waterways, and logistics infrastructure. It hopes to trigger a virtuous investment-led output and employment growth by arguing in favour of the "crowding-in" effect of public investment on private investment. Budget seeks to boost public investment by 35.4% at current prices over last year to raise its share in GDP to 2.9% from 2.2% last year. With grant-in-aid for state investments, it hopes to increase public investment share to over 4% of GDP. The 50-year interest-free loan to the states for the fiscal-year 2022-23 will help in deploying capital in places with greater multiplier effect as states are in a position to better evaluate the needs of local community.

We argue that the budget rightly but lately recognises the 'crowding-in' power of public capital expenditure but is not cognisant of its mechanisms and thus of nature and composition of expenditure that is needed in current context. These projects have high gestation periods and thus can help boost the aggregate demand in the longer term. It is important and should be done but along with this there is need to sustain higher level of aggregate demand in the immediate terms via social expenditure. There is need for a good balance between capital and revenue expenditure which is missing in this budget.

The question of employment generation

One of major impact of pandemic in economy was the job loss among unskilled labours. The budget was expected to announce more initiatives and measures for increasing employment for this section of the society. The heightened demand for MGNREGS during last two years demonstrates such a trend. Actual or Revised Estimate (RE) or for MGNREGS has been way higher than budget estimate in 2020-21 and 2021-22. In 2020-21 actual expenditure stood at 111,169.53 lakh Crs against the BE of 61,500 Crs. Similarly for 2021-22 the BE is Rs 73,000 Cr against the revised estimate of Rs 98,000 Cr. Despite these overshooting in last years the 2022-23 budget reduced allocation for MGNREGS by 25 per cent from revised estimate of 2021-22 to Rs 73000 crore implying unnecessary delays if additional demand for funds arises under this head.

The mega capital investment projects can foster economic growth but will it foster employment in line with needs of the hour? Capital intensity of mega infrastructure projects such as roads and bridges have increased significantly due to increased level of mechanisation of such projects. They now employ much less unskilled labour than yesteryears. So, ticking the hope of raising employment generation via these projects is bound to cause embarrassment for government in future.

As per current consensus among economists the best way to regain economic growth path is to spend in ways that will trigger aggregate demand in the economy in immediate term which can be done through raising employment. The infrastructure projects, given their low employment elasticity and long gestation period, will not help boost employment and consumer demand in the economy. Government's assumption about multiplier and employment effect of these highly capital-intensive project are not well grounded in reality of the context which economy faces. In addition to focusing on highly capital-intensive projects government could have complemented it by creating opportunities for investment on wage good sector or MSMEs which will deliver direct employment opportunities for the millions those who are badly hit by the pandemic, thereby we can reduce inequality in the society.

Pandemic not only affected the production and employment in MSME sector but also caused obliteration of sector's fixed capital. Loss of income for a sustained period led to distress sale of fixed assets by many self-employed owners of MSME. This caused major disruption in value chain in various product lines. Perhaps this may have also contributed to recent build-up on inflation along with oil prices as cost of procurements may have gone up. Government is trying to build fixed capital in this year's budget but it has been oblivious to evaporation capital assets of MSME sector during the lockdown and second wave. Preserving value chains and fixed capital while it remains dormant is critical for faster recovery of the economy. This is exactly what most developed countries did through wage subsidies resulting in immediate recovery after vaccination targets were achieved.

The question of equity and human capital

Disappointing performance in social indicators and equity has been a major dampener to India's otherwise much celebrate story of economic growth. According to world inequality report India is now one of the most unequal countries for both income and wealth inequality. The income share of the bottom half of the Indian population was estimated to have fallen to only 13%, while the top 10% captured 57% of national income.

The budget's proposition to bolster investment in mega infrastructure projects without giving due attention to social sector and MSME sector implies that government still believes in debunked 'trickle down' theory while it conveniently ignores global and India's own experience that such a strategy led to 'vacuuming-up' of resources within the economy propelling inequality to unsustainable levels. In the 1970s Indira Gandhi had to resort to political slogan of 'Garaibi hatao' after inequality had risen to very high levels by the mid-1960s as a result of disproportionate emphasis on 'capital goods' since second five year plan. R K Hazari in his book The Structure of the Corporate Private Sector: A Study of Concentration, Ownership, and Control carefully studied the process and dynamics that led to centration of wealth among a few business houses which became the precursor of MRTP act as well.

India's performance in Child undernutrition is considered as a matter of national shame by previous PM Manmohan Singh. India's child wasting or body mass faltering prevalence (17%) has been one among the highest in the world. There is no data but COVID19 induced lockdown may have further accentuated the nutritional deprivation among children as ICDS and MDM was disrupted during the pandemic. As per NFHS-5(National Family Health Survey) nearly 34% of children remain stunted i.e., faltered in height. Additionally, incidence of anaemia among children (6-56 months) rose from 58.6% (NFHS 2015-16) to 67.1% (NFHS 2019-21). Thus, by deciding not to tackle these deprivations head on, budget is willing to endorse a stunted growth of human capital formation. This will adversely affect the equity and productivity of the economy in the longer run. India's low labour productivity is well documented in economic literature.

At this juncture the budget was expected to announce measures to reduce inequality and malnutrition. However, the budget fails to make any statement in countering these challenges. Allocations on child nutrition such as mid-day meal (MDM) scheme and ICDS have reduced not only in real terms but also in nominal terms. Similar is the case for spending on mothers and women in general. The budget allocation for Nutrition in revenue account for 2022-23 reduced to 9.00 crore from 12.09 crore in 2020-21(actual) and allocation for PM Poshan shakti Nirman (includes MDM scheme in schools) has been reduced by almost 11%. The consequent reduction in allocations in social sector will delay the recovery of consumption demand from very bottom of the society having highest marginal propensity to consume.

The direct implication of such boost to infrastructure investment without much employment elasticity and reduced social sector spending is adverse impact on inequality and social indicators. And in India's case given its embarrassing performance in social sector particularly in the area of child nutrition, revenue expenditure in social sector can be as rewarding as capital expenditure via increased future productivity of labour and earnings.

Expenditure on physical capital at the cost of human capital?

The additional capital expenditure can either be financed by postponing fiscal consolidation process or by increasing revenue. The budget decided to do none of the above. Budget did not propose measures for taxing super rich to increase revenue receipt and reduce inequality. Neither it tries to postpone the fiscal consolidation. Instead, it has been decided to shrink the revenue expenditure on welfare and human development in immediate aftermath of COVID. The reduced allocation in food subsidies, current expenses in social and economic services will immediately affect the overall welfare of the society, level playing for the bottom half and human capital formation in the long run.

The allocations depict exclusive focus of the budget towards physical dimension of the capital. Even within this dimension budget seems to be very narrowly focused on outlays instead of outcomes. The budget is blissfully ignorant of historical experience of massive time and cost overruns of such projects as there was no discussion of tackling roadblocks for these projects. Instead, budget could have envisaged more balanced expenditure between physical and human capital for optimally tapping the demographic dividend for a sustained and equitable growth.

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