The thrust on capital expenditure

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(Mains GS 3 : Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.)

Context:

Allocating ample money towards productive infrastructure investments holds the key to achieving immense economic potential as a nation, creation of gainful jobs, particularly for our underemployed youth and women.

Employment dropped:

- 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 and 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.

Tax collections:

- 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 like 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.

Ahead of projections:

- 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.
- Therefore, this Budget 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, 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.

Sustain momentum:

- 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.
- However, a sustained momentum in tax collections will provide additional degrees of fiscal policy freedom to the Finance Minister to foster domestic jobs and output.

Capital expenditure:

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

- 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.

Execution is key:

- While there is a visible thrust on hard capital expenditure, the outlays towards critical areas such as education, healthcare and urban infrastructure remain subdued.
- The thrust on capital expenditure has resulted in notably higher fiscal deficit which can put pressure on interest rates and the Reserve Bank of India.
- 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.
- In Addition, ease of doing investments have to be continually addressed, especially around key areas such as land acquisition, contract enforcement, and policy stability.

Conclusion:

Sustained investments in manufacturing and value-added services hold the key for the growth of small businesses, jobs, and our economic well-being.