A Big Push in Budget for Infrastructure to Lift Indian Economy

Feature
Budget 2015-16

*G.Srinivasan

The pre-budget Economic Survey, presented to Parliament a day prior to the General Budget, hoisted the perfect signal and set the stage by highlighting the irony of India's growth story that while "financial and digital connectivity are surging ahead, basic physical connectivity appears to lag behind" in the country. There can be no two opinions or glaring differences in the view pertinently noted by the Union Finance Minister Mr. Arun Jaitley that "our infrastructure does not match our growth." Even as it is widely recognized that private investment must remain the primary vehicle for long-term growth, the Survey pitched for public investment in the interim to revive growth and to deepen physical connectivity. That is also the plain reason why Mr. Jaitley emphasized the "pressing need to increase public investment" in his budget speech and made commensurate allocation in this context.

The case for public investment is unexceptionable. In a brilliant monograph, a Nobel laureate in Economics and Professor of Economics at New York University's Stern School of Business, Mr. Michael Spence has identified a major reason behind the global economy's anemic performance as under- investment particularly by the public sector. He said while in the US infrastructure investment remains sub-optimal and Europe is constrained by excessive public debt and weak fiscal positions, India and Brazil in the emerging economies are just two examples of economies where inadequate investment has kept growth below potential. He, however, hastened to add that this might be changing in India, even as if by a clairvoyant clue Mr. Jaitley has made available a massive Rs 70,000 crore public investment in infrastructure for the next fiscal. This is also predicated on the plausible conjecture of Mr. Spence that "properly targeted public investment can do much to boost economic performance, generating aggregate demand quickly, fueling productivity growth by improving human capital, encouraging technological innovation and spurring private sector investment by increasing returns".

Mr.Jaitley's pronounced penchant for public investment in the infrastructure domain was also inspired by the earlier reports of the Mid-Year Economic Analysis 2014-15 and the Survey, both authored by the Chief Economic Adviser, Ministry of Finance, Dr.Arvind Subramanian, who has held distinguished academic positions in US universities and research institutes earlier. Dr.Subramanian made a strong pitch and a convincing case for "reviving targeted public investment as an engine of growth in the short-run not to substitute for private investment but to complement it and indeed to crowd in". Inspired by such intellectually robust ideas, Mr. Jaitley took the budget opportunity to implement them with a series of proposals to give a genuine goad to the country's rickety infrastructure as the road to traverse for the development of the domestic economy by building durable assets and generating demand.

The Survey has argued aptly that what the previous NDA government did for roads, the present NDA government could do for the railways, reinforcing the physical connectivity of the Indian populace, with enormous associated benefits in terms of higher standards of living, greater opportunities and augmented potential for human fulfillment. Mr. Jaitley proposed augmented outlays on both the roads and the gross budgetary support to the railways by Rs 14,301 crore and Rs 10,050 crore respectively for 2015-16. Besides, the capital expenditure of the public sector units in various manufacturing segments is likely to be Rs 3,17,889 crore, an increase of roughly Rs 80,844 crore over the revised estimates of 2014-15.

In consonance with the emerging thinking on public investment for infrastructure, the Railway Minister Mr. Suresh Prabhu who had earlier presented the Rail Budget on February 26 also came out with a hefty and unprecedented hike of 52 per cent in the plan size of the Railways for fiscal 2015-16 at one lakh crore of rupees as part of a medium-term plan of Rs 8.5 lakh crore capital investment over the next five years. Overall, infrastructure investments in the Budget are likely to be higher by 19 per cent. With the Survey citing econometric evidence to establish that the railways public investment multiplier is around 5, the economic multiplier for other infrastructure investment sector is not going to be any way different. The expectation grounded on realistic estimate is that infra spends will be the driver for job generation and building manufacturing sinews that together redound to the success of “Make in India” motto of the Prime Minister Mr. Narendra Modi.

Not merely content with higher allocation for infrastructure investment, Mr. Jaitley promised to put in place a plug-and-play model for big–ticket infrastructure projects such as power plants, roads, ports, rail lines and airports. This meant all clearances and linkages would be made available before the project is awarded by a transparent auction system so that the promoters do not have to run from pillar to post to secure sanction from one authority or another wasting their energy and resources in file-chasing instead of commissioning the project on time. As a start, the Government proposes to set up five new Ultra Mega Power Projects, each of 4000 MW in the plug-and-play mode, which would unlock investments to the extent of one lakh crore of rupees.

A major move in the Budget is to revisit the public-private partnerships (PPP) mode of infrastructure development that had rendered many good projects incomplete due to sticky issues. A case in point is the toll model for roads where the toll risk is turning out to be a dampener for the flow of fresh private funds into the sector, particularly when economic growth slows down and logistics suffer. This changing dynamics need to be tackled to the comfort of private investors who feel jittery if their business calculations are beset with problems of unknown. Alongside rationalization of the PPP, the proposed Public Contracts (Resolution of Disputes) Bill and the Regulatory Bill would go some way in surmounting the obstacles plaguing stalled projects. This coupled with the proposed plan for a bankruptcy code would provide ideal ground for easing business constraints particularly to project executioners by making exit rules reasonable and timely.

The budget has also proposed a National Investment and Infrastructure Fund with an annual inflow of Rs. 20,000 crore. This will help beef up the balance sheet of infra finance companies such as the National Housing Bank (NHB) and the Indian Railway Finance Corporation (IRFC). This new fund with its capacity to leverage itself ten times to become a two lakh crore fund will have a positive effect down the line. This also signals that the authorities have grasped the nettle that sovereign seed capital can be resourcefully deployed to spur such structures and provide unconventional financing opportunities for capital-intensive long-gestation infra projects. The Railway Minister Mr. Suresh Prabhu, a chartered accountant himself, plumped for the same proposal when he declared the Railways’ bid to structure a whole spate of special purpose investment vehicles with public sector undertakings, state governments, private sector and long-term funding institutions to glean investment from non-traditional sources. He has backed up his plan with prompt action by signing an agreement with LIC by which the latter would invest more than one lakh crore of rupees for building railway infrastructure over the next five years.

To cap it all that have been unveiled in both the Railways and General Budgets for a big push to infrastructure through public investment and tapping innovative financing to vastly improve physical connectivity, the Government had earlier accepted the 14^{th} Finance Commission (FFC) recommendations giving higher share in the devolution of divisible tax proceeds to States. More than the money, the States will now get the leeway in the design and projects of their choice instead of being party to a host of centrally-sponsored schemes in which they had to fork out their share even if those projects and programmes do not hold priority in their scheme of things. This will definitely go a long way in encouraging locally relevant initiatives tailored to local needs and endowments in areas such as urban infrastructure, sanitation, roads and bridges, urban transportation, water supply, irrigation and electricity distribution. In fine, India's infrastructure players can look forward to a healthy and holistic development in the short to medium terms, with the thrust and impetus from the Rail and General Budgets, as also the FFC all came in a span in the last week of February boosting their morale and finding ways and means to marshal the wherewithal.

*Shri G. Srinivasan is a free-lance economic journalist based in New Delhi, available atgeeyes34@gmail.com

(PIB Features)