{ EAR TO THE GROUND }

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Welfare spending cut could pose significant livelihood challenges

Since the 2021-22 Budget, the Union government has steadily pivoted from welfare spending to capital expenditure. The first big push came in FY 2021-22 when allocations for capital expenditure (capex) increased from 1.83% of the Gross Domestic Product (GDP) in 2020-21 to 2.49%. This reached 2.91% in FY23, and finally 3.3%, as per Wednesday's announcement.

Underlying this re-prioritisation is a significant shift in the macro-fiscal stance of the Budget. The increase in capex is not driven by a simultaneous expansion in government spending. In FY21, pandemic pressures pushed the Union government to significantly expand spending from 13.4% GDP in FY20 to 17.73% in FY21. Since then, and well before the pandemic was firmly behind us, the effort has been to slowly contract this spending, reaching the current FY24 estimate of 14.92%.

As a result, the fiscal space for enhancing capex has been carved out through a massive cutback in revenue expenditure (which accounts for the bulk of government consumption, including welfare) — down from 87.5% of total expenditure in the FY20 Budget (pre-pandemic) to 77.77% for FY24.

Significantly, the revenue deficit is projected to reduce from 4.1% GDP (revised estimate) in FY23 to 2.9% GDP in FY24. In other words, the bulk of government borrowing, which had helped finance revenue expenditure, will now be deployed for investment.

But revenues have not risen enough to fund revenue expenditure. They have stagnated, and, therefore, the only way to increase capital expenditure has been to squeeze welfare spending. Given that the committed expenditure is almost half the total expenditure, welfare spending has faced the guillotine.

This is prudent macro-fiscal management when revenues are static. But it is by no means optimal or reflective of robust fiscal health. Hence the trade-offs for the average citizen may be significant.

The Mahatma Gandhi National Rural Employment Guarantee Scheme and food subsidies, the mainstays of the social security system, have seen severe cuts. This is despite indicators highlighting continued distress in the rural economy, including stagnant, possibly declining, real rural wages and elevated demand for work under the rural jobs scheme.

Moreover, though the pandemic exposed the limits of the public health system and the significant learning loss (mentioned in the Budget speech) that school-going children suffered, allocations for the National Health Mission and *Samagra Shiksha* are virtually static compared to last year's Budget estimates.

In essence, welfare spending is now relegated to the margins, in the hope that investment in infrastructure will, to quote the finance minister, have a "large multiplier impact on growth and employment and ramp up the virtuous cycle of investment and job creation."

From the perspective of job creation, this is a risky proposition. For one, despite taking this bet since FY21, employment numbers have not improved. Data from the Centre for Monitoring Indian Economy pegged unemployment rates at 8.3% in December 2022. As this newspaper has reported, even the government's quarterly Periodic Labour Force Survey (PLFS) data for urban employment, which showed an increase in labour force participation and worker participation rate, as highlighted in the *Economic Survey*, is on account of the near-subsistence level of self-employment, which includes unpaid family labour, rather than quality jobs. It is worth noting that even in January, we only have annual (rural and urban) data up to June 2021. There is an urgent need for a more rapid and disaggregated release of PLFS data to help fully understand the employment impact of capex.

Welfare has now been relegated to the margins of government spending HT PHOTO

The job-multiplier effects of capex rely on the extent to which such investments are labour-intensive. This is not a matter of enhanced allocation, but also its spread. For example, about 40% of capex in railways is allocated to stores and manufacturing, essentially components in stock or work in progress on shop floors. In the short run, this is unlikely to create new employment, especially in the railways with a limited vendor ecosystem. Conversely, other labour-intensive and job-generating investments — particularly in rural areas such as rural roads and rural housing — are yet to see concomitantly large hikes in investments.

The employment effects of capex will also depend on how state governments respond. And in this context, the finance minister's decision to continue with the 50-year interest-free loan to states for infrastructure creation is extremely welcome. But the outcome will depend on the nature and extent of Centre-state cooperation and how states respond to policy reforms incentives built into the loans.

Beyond the capex push, the Budget offers new policy direction in some critical areas with long-term potential. One that deserves mention is the 100% mechanical desludging of septic tanks and sewers in all cities and towns with a focus on scientific management of dry and wet waste. This is a commendable step toward improving urban sanitation and city infrastructure, which will have significant real multiplier effects, including on health.

In re-prioritising expenditure with its big push on capex, the finance minister is taking a bet on the Indian economy, one that, for the moment, has significant risks for the livelihoods of India's poor and vulnerable. Let's hope it pays off.

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The views expressed are personal