# Infrastructure Matters. As a Fiscal Stimulus?

Ask a set of housewives braving summer in Delhi without reliable power or a group of people carting a heavy load of kerosene on their back, walking on narrow mountain lanes for two days to light small lamps in their homes in Nepal. The simple answer is – infrastructure matters. About half of infrastructure generates services that are directly used by people: the other half is used to produce goods and services. A more precise way of stating the obvious is that infrastructure matters for modern life and infrastructure matters to improve production efficiencies in the economy. Infrastructure matters for economic development.

Precisely because of this, the next few years will see a global boom in infrastructure: everywhere governments seem to see infrastructure spending as their way out of the current recession. The US expects to spend $150 billion, China some $585 billion and India close to $500 billion. There is an implicit belief here that some $2 trillion spending on infrastructure will generate high impact in the next 24-60 months because of the underlying positive macroeconomic externalities: Large infrastructure spending will make industries and services more competitive globally in the medium- to long-term and it will create the much needed jobs immediately.

However nobody seems to worry about small details at this stage. Even though there is ample empirical evidence to show that infrastructure bottlenecks affect the growth potential of any region, positive linkages between infrastructure and growth rates are neither certain nor automatic. One must not forget that there are large and often undefined lags. It takes a fairly long time to identify and approve the right type of infrastructure projects. Once done, projects usually take a few years to build, and even when projects are completed, the final growth impacts are realized only in the long term. The previous experience of the great depression confirms this, at least in the US. Though a large part of public expenditure was spent on building highways, parks, water and sewage, schools and public building, creating jobs and building physical assets, it did not immediately lead to economic expansion. According to Michael Bernstein, "*New Deal traditionally has been given high marks for its relief policies, and to an extent the same can be said for its reform components. But economic recovery was not one of its accomplishments*."

So why do people support investments in infrastructure without having any idea about linkages with economic growth and development? A simple answer is that what people value are services infrastructure provides, delivered reliably – and that too at a reasonable cost. Most also believe that governments need to ensure that these basic services are made available to citizens. At individual level, infrastructure is seen to be too complicated to worry about: i.e., the common citizen is not going to worry about these details. Politicians everywhere love infrastructure projects (well, almost everywhere) so there are not going to be many questions about these linkages from that quarter. Civil society groups ask these and many other questions, but most go unanswered. There are large lobbies, comprising associations, chambers of commerce, and others who support the infrastructure boom because it is good business. Academics usually debate about these important issues but often messages get lost in long and often frightening models. There is just not enough material available for meaningful public debates: for informed public debates, even less so.

Even if we agree that infrastructure matters for economic growth and development, at this juncture, debates should be about the efficacy of infrastructure spending as a fiscal policy tool. If creating jobs and stimulating aggregate demand is an important and immediate objective today, which infrastructure initiatives are best at delivering these outcomes? One year on, how many new jobs are actually created from these billions? These questions are important in their own right, but they are even more crucial because fast-flowing infrastructure money often end up in political rents, corruption, or at best, in unwanted projects.

Posted by Rita Nangia on December 4, 2009