

# Links between investment in infrastructure and job creation



**ASSIGN  
BUSTER**

- Sourav Roy (13060242044)
- Sourav Das (13060242043)
- Saptarshi Maiti (13060242036)
- Devika Kannan (13060242013)

### Executive summary

The effective tool to create jobs is counter-cyclical spending on infrastructure. As the demand for private sector is weak, the government helps the people with jobs and also aggregate demand. Investments of infrastructure are divided into two parts:

1. Economic sectors include increasing efficiency in transportation, including roads, railways and waterways,
2. Social sectors such as education, water and sewage system.

Investments in a local scenario and their impact on development strategies lead to creation of more jobs, greater ownership, and can rapidly boost up the local economies. This is particularly applicable in times of crisis.

Decentralized public investment should be favored where ever possible. It is very important to assess the resultant labour output of these investments with respect to its impact on direct as well as indirect and employment, not only to assess their productivity in short run, but also to assess the long run impact on growth and other subsidiary effects. There are number of infrastructure projects in low and medium-income countries which are financed fully or partially by IFI. Institutions like these should make an effort to allow for larger labour participation in infrastructure development. Fiscal decentralization can be defined as a two-dimensional policy:

- 1). Decentralization of tax instrument.
- 2). Decentralization of expenditure.

The relation between decentralization and government efficiency can be divided into two large areas:

- a) The classical theory: There are three main contribution where this theory can be restricted, those are Tiebout's model of local public good provision where decentralization coupled with mobile households solve the problem of the efficient provision of public goods. The second most influential contribution is of Oates'(1972) Decentralization Theorem that involves the tradeoff between centralized and decentralized provision of public goods in favour of former if average preferences across citizen of different region are equal. The theorem stresses on to maximize social welfare. And the last is Leviathan hypothesis where it shows the mechanism for constraining the expansionary tendencies of government mechanism.
- b) The second generation theory: The effect of fiscal decentralization has been modeled to embody the political process and the possibility of asymmetric information across political agents.

## **Description of Policy Challenges**

According to the paper, on an average major percentage of total stimuli package in infrastructure is spent in emerging economies as compared to developed economies. The policy-brief paper tried to link infrastructure spending to job creation across economies. In this section the paper mentioned the main challenge of gestation period of the infrastructure

projects. It viewed the time differential in processing of such projects as a challenge, as it failed to produce the expected outcomes on the stipulated time during a crisis situation.

It later pointed out how infrastructures in different areas bear different results. Infrastructural Investment in rural area created more jobs than in urban areas as the jobs in rural areas are more labour intensive. It said, “The policy challenge is to match the targeting of infrastructure investments with the targeting of employment creation, be it by category or geographic area.”

It explained the challenge with the help of examples of policies in three economies: USA, Indonesia and Egypt. The paper said that in USA infrastructure expenses consists only a minor portion of the total fiscal stimulus. According to the paper, expenditures on infrastructure accumulated up to 30 September 2009 amounted to US\$4.44 billion or 2.6 per cent of the total fiscal stimulus during the period. However, according to a few articles in Forbes and Bloomberg Obama is planning to spend highly on infrastructure like science research and education and upgrade bridges, ports and roads to create more jobs. (Runningen, 2013) (Lenzner, 2011). The amount spent by USA in infrastructure is huge but, if we consider the share of infrastructure in GDP is only 2.4%.

In USA American Recovery and Reinvestment Act was passed in 2009 which was a stimulus package to help recover the country from the Great Recession. The Act followed Keynesian macroeconomics wherein high public expenditure was necessary for improving the unemployment condition and

further economic deterioration. USA's planned stimulus package after revision was 831 billion dollars and according to Paul Krugman it was too less though he was supportive of the law. (Nobel Laureate Paul Krugman: Too Little Stimulus in Stimulus Plan, 2009) Some of the critics for this policy said that it was too slow and had a huge price tag but according to the data the policy had resulted in decrease in unemployment as the unemployment rate is around 6 and half percentage points lower. (Blinder & Zandi, 2010)

The policy paper further gave examples of Indonesian and Egyptian stimulus package. The Indonesian Government spent 7.6 billion dollars to boost aggregate demand and this spending on infrastructure was 17% of the GDP. Estimation of the government to set a job creation target of over one million workers was surpassed. As for the Egyptian government the stimulus package was worth 2.82 billion dollar in the financial year 2008-09.

According to various estimates it stated that the complete stimulus package is expected to create between 661,420 and 729,650 new job opportunities.

This section of the policy paper concluded by mentioning that some amount of public expenditure (read infrastructure spending) is good as it helps in growth and development of economy through skill development of the labour and promotion of SMEs (Small and Medium Enterprises). It further wrote " spending cuts in such forms of investment would have a serious negative impact on employment and recovery unless ways could be found to maintain services with reduced costs."

Policy Options to address the challenge

The examples illustrated above clearly reflect the issues related to the number of jobs created and the targeting of different sections of labour force. The focus of policy making in this area should shift from the amount of money spent to the number of jobs created relative to the set of employable workers and to the amount of public services provided. A prolonged strategy needs to be developed whose objective would be to provide short term relief from unemployment and long term creation of jobs aiming to meet the structural infrastructure deficits.

### *Measures to guarantee timely implementation*

Higher public spending in periods of crisis for job creation involves a lag which is inherent in the cycle of identifying, formulating and approving projects. Therefore, objective should be a speedy and timely implementation, as an economy which is already in recession can deteriorate even quickly. The rate at which jobs can be created depends on the type of projects (large construction projects versus small or medium maintenance projects). Another important factor which determines the pace of the projects is the distribution of public tender procedures.

A number of countries experience effective execution of public investment at less than 50% of the amount budgeted. Therefore, the short term objective is to achieve full execution of available resources rather than just allocation of additional resources. In order to ensure the timely implementation and to reap benefits from the existing administrative structures, public work schemes can be given additional funds to scale up. Taking up planned infrastructure and improving the efficiency of implementation of works

formulated in public investment programmes are few of the features of the fiscal stimulus package.

Decentralization of standard administrative procedures and dividing them into small grants at local levels to employ small-scale local contractors, labourers and local resources to efficiently enhance the employment opportunities of the infrastructure component of the packages is often a more effective than centrally planned and executed projects.

### *Targeting*

Traditionally, the options of targeting were limited in public investment programmes, since majority of the works were generally executed by private enterprises. As objectives of targeting can be influenced to a certain degree through innovations to procurement systems hence, Public Employment Programmes, in which special targeting mechanisms can be applied, play an important complementary role.

An important means of targeting constitutes the prioritization of investment projects in areas most affected by crisis. Subcontracting small works to local labourers allows for the targeting of special groups, such as women. In regular maintenance activities, women may take a larger share of job opportunities.

### *Impact of infrastructure spending*

An investment in infrastructure is the first stepping stone towards the long run development and also takes into account immediate social needs.

Generally, investments in infrastructure includes those in economic, such as, <https://assignbuster.com/links-between-investment-in-infrastructure-and-job-creation/>

improving transportation viz. roads, railways and waterways and social sectors, such as health and education, treatment of water and sewage, and other public sectors. These investments depend mostly on the urgent requirements of the country. A major part of these expenditures can be executed through small-scale or medium-scale enterprises and thereby promoting them.

Investments in infrastructure with a focus on the employment have a strong employment multiplier effect, since it leads to job creation both directly and indirectly. Increased usage of local goods and services creates a high indirect employment effect, which in turn leads to higher local incomes and thereby stimulates the local demand and consumption.

However, this has to be taken cautiously as the way a job is defined varies from one country to another. There is no valid way to measure the direct employment created because of the fiscal stimulus package, as most countries face problems in gathering reliable data. Therefore, we need a consolidated effort to improving our way of understanding and documentation of the effects, in order to provide better guidance on the measures where the effects of multiplier are most prominent, given the requirements of the particular country.

## Conclusion

Investments in infrastructure should be launched to build up capital for sustainable development and inclusive growth: human capital including skills, employment (including green jobs) and entrepreneurship



development, and physical capital such as construction, rehabilitation and maintenance of infrastructure.

As told earlier decentralized public investment should be preferred:-

First, because decentralized decision-making processes are faster and local population more committed to the projects. It improves targeting and its proper use and maintenance.

Secondly, the works undertaken are usually on a smaller scale and involve less expensive tenders, which mean there is less need for heavy machinery.

Third, decentralized tenders are more likely to be executed by local firms using workers from the area, thus boosting the local economy as a whole.

Because many infrastructure projects in low and medium countries are co-financed by international financial institutions, these institutions should make sure that their regulations allow for an increase in labour content in infrastructure development. Readjusting the design, procurement and contracting modalities of such products could have a major effect on employment.

## **Works Cited**

Blinder, A. S., & Zandi, M. (2010, December). *Stimulus Worked*. Retrieved from [www.imf.org](http://www.imf.org/external/pubs/ft/fandd/2010/12/blinder.htm): <https://www.imf.org/external/pubs/ft/fandd/2010/12/blinder.htm>

Council-on-Foreign-Relations. (2014, March 4). *Infrastructure*. Retrieved from [www.cfr.org](http://www.cfr.org/infrastructure/infrastructure/p26178): <http://www.cfr.org/infrastructure/infrastructure/p26178>  
<https://assignbuster.com/links-between-investment-in-infrastructure-and-job-creation/>

Lenzner, R. (2011, October 23). *A \$1. 2 Trillion Infrastructure Plan Creates 27 Million Jobs In 5 Years*. Retrieved fromwww. forbes. com: <http://www. forbes. com/sites/robertlenzner/2011/10/23/the-u-s-wont-be-able-to-grow-again-until-2016-18/>

*Nobel Laureate Paul Krugman: Too Little Stimulus in Stimulus Plan*. (2009, February 19). Retrieved from<http://knowledge. wharton. upenn. edu/article/nobel-laureate-paul-krugman-too-little-stimulus-in-stimulus-plan/>

Runningen, R. (2013, November 9). *Obama Urges Infrastructure Spending to Spur U. S. Economy*. Retrieved fromwww. bloomberg. com: <http://www. bloomberg. com/news/2013-11-09/obama-urges-infrastructure-spending-to-spur-u-s-economy. html>

*Spending on transport infrastructure: Latest Data Released*. (2013, July 11). Retrieved fromwww. internationaltransportforum. org: <http://www. internationaltransportforum. org/Press/PDFs/2013-07-11Spending. pdf>