Indian Economy

Evaluate the role of public capital expenditure in promoting employment generation and sustainable economic growth. How should India balance infrastructure investment with fiscal consolidation and tax-policy considerations?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 17/11/2026	—	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Public capital expenditure, infrastructure multiplier, crowding-in effect, employment elasticity, fiscal deficit, revenue mobilisation, LTCG taxation, labour-intensive manufacturing, inclusive growth, fiscal sustainability.

Model Answer

Introduction

Public capital expenditure creates productive assets and can stimulate aggregate demand, employment and long-term economic growth. Its effectiveness depends on the quality of spending and the sustainability of public finances.

Role in Economic Growth

1. **Infrastructure development:** Investment in roads, railways, energy and logistics reduces production costs and improves economic efficiency.
2. **Employment generation:** Infrastructure projects create direct construction jobs and indirect employment through supply chains.

3. **Crowding-in effect:** Improved infrastructure can attract private investment by reducing business costs and uncertainty.
4. **Regional development:** Connectivity and public infrastructure can reduce regional disparities and expand market access.

Balancing Fiscal and Tax Priorities

- **Fiscal prudence:** Capital spending must remain consistent with a credible medium-term fiscal consolidation path.
- **Revenue mobilisation:** Stable and predictable taxation, including capital gains taxation, supports government revenue.
- **Expenditure quality:** Projects should undergo cost-benefit assessment and timely implementation.
- **Labour-intensive sectors:** Textiles, food processing, tourism and construction can complement infrastructure-led growth through employment generation.

Way Forward

India should prioritise high-multiplier infrastructure, strengthen public-private partnerships and improve project monitoring. Tax policy should provide predictability while balancing investment incentives with revenue requirements.

Conclusion

Sustainable growth requires a combination of productive public investment, responsible fiscal management and stable taxation. The objective should be to maximise employment and economic productivity without compromising long-term fiscal stability.

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