Highlights of Economic Survey 2018 - Part IV

Click here for Part III

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What to look for?

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- Health
- Sanitation
- Fiscal Federalism
- Financial Savings And Investment
- Science & Technology
- Net Producer Of Knowledge
- 'Late Converger Stall'

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HEALTH

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- The Survey reiterates India’s commitment to achieve the targets under Sustainable Development Goals-3 (SDG-3).
- Some of the goals are aligned with the National Health Policy 2017.
- The Policy recommends increasing State sector health spending to more than 8% of the States’ Government Budget by 2020.
- Strengthening health delivery systems and achieving universal health coverage are the objectives.

- **Expenditure** - Government healthcare providers accounted for about 23% of the Current Health Expenditure (CHE).
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- This reflects the prominence of private hospitals and clinics among health care providers.
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- **OoPE** - Out of Pocket Expenditure (OoPE) has declined approximately 7 percentage points during 2004-05 to 2014-15.
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- However, its share is still around 62% in total health expenditure.
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- The higher levels of Out of Pocket Expenditure (OoPE) on health adversely impact the poorer sections and widen then inequalities.
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- Lack of affordable diagnostic facilities consumes a significant part OoPE.
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- Average prices of diagnostic tests widely vary across cities, despite government's efforts to regulate prices of Drugs and Diagnostics.
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- **DALYs** - The concept of Disability Adjusted Life Years (DALYs) helps analyse the disease burden and associated risk factors.
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- It is the sum of years of potential life lost due to premature mortality and the years of productive life lost due to disability.
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- The Survey advocates understanding the efficiency of public spending with respect to DALYs behaviour across major States.
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- This is to assess whether high spending by States on health results in better health outcomes.
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- **LEB** - There has been significant improvement in the health status of individuals in India.
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- Evidently, life expectancy at birth has increased by 10 years during the period from 1990 to 2015.
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- States with higher life expectancy are reflecting lower DALYs rates i.e. lower incidence of diseases and vice-versa.
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- **Risk factors** - Malnutrition still remains the most important risk factor, despite the drop in rate from 1990.
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- Integrated Child Development Services, Pradhan Mantri Matru Vandana

Yojana, National Nutrition Mission are efforts at addressing this.
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- The contribution of air pollution to disease burden is high in India with levels of exposure remaining among the highest in the world.
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- Pradhan Mantri Ujjwala Yojana is a measure in this regard.
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- The other key risk factors include dietary risks, high blood pressure and diabetes etc.
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- The Survey points to a shift in disease burden from Communicable Diseases to Non-Communicable Diseases over last two decades.
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- **Way Ahead** - The disease burden can be reduced substantially, if the risk factors related to health loss are addressed effectively.
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- Also, ensuring the efficiency in use of resources towards health care is essential to translate expenditure into improved outcomes.
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- In this context, the increase in use of antibiotics and resultant Antimicrobial resistance is a cause for concern.
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SANITATION

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- The Survey asserts the importance of quality of hygiene and sanitation for improving the health outcomes.
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- **Coverage** - Sanitation coverage in rural India is stated to have increased from 39% in 2014 to 76% in January, 2018.
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- It is mainly attributed to Swachh Bharat Mission (SBM) (Gramin) launched in 2014.
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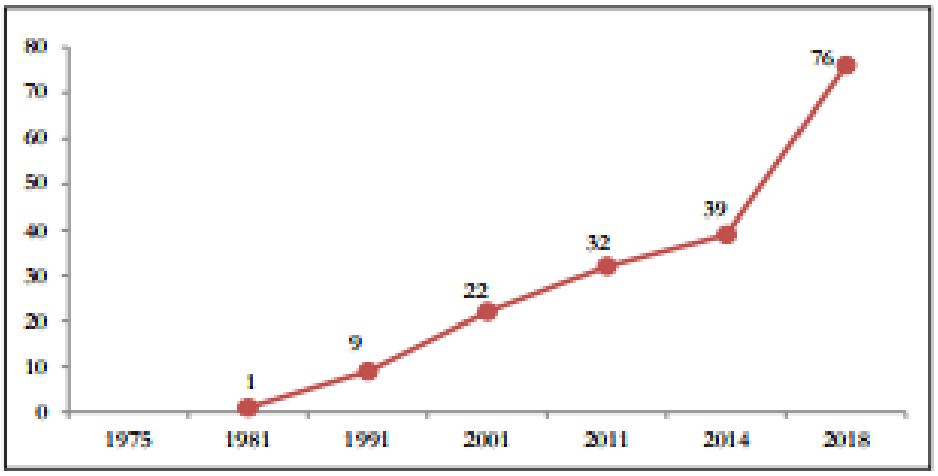
Figure 15: Rural Sanitation Coverage in India over the years (per cent)



Source: **Ministry of Drinking Water & Sanitation (As on 10.01.2018)**

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- **ODF** - The number of persons defecating in open in rural areas has significantly declined, creating positive health and economic impact.
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- So far, 296 districts and around 3 lakh villages all over India have been declared Open Defecation Free (ODF).
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- 8 states (Sikkim, Himachal Pradesh, Kerala, Haryana, Uttarakhand, Chhattisgarh, Arunachal Pradesh, Gujarat) are declared ODF completely.
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- 2 Union Territories (Daman & Diu and Chandigarh) also join this category.
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- The NSSO and Quality Council of India's surveys reported more than 90% of individuals, who have access to toilets, using them.
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- UNICEF report, 'The Financial and Economic Impact of SBM in India', estimated that a household in an ODF village saves Rs 50,000/- a year.
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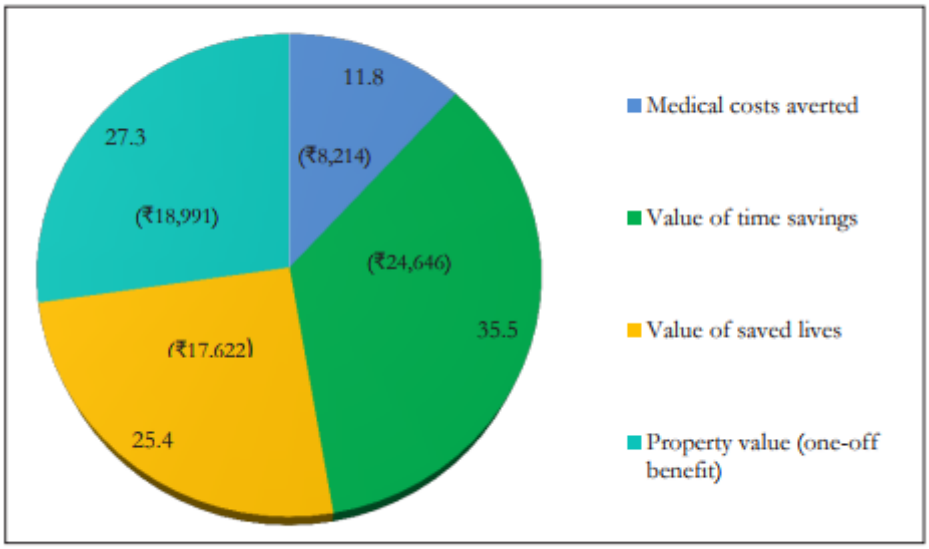
Figure 17 : Annual Benefits of 100 per cent Toilet Use (per cent and ₹)



Source: **UNICEF.**

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FISCAL FEDERALISM

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Concern

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- **RLGs** - The Survey highlights the low level of tax collections by the Rural Local Governments in India.
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- RLGs received about 95% of their revenues from the devolved funds from the Centre/State.
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- RLGs in India generate only about 6% of revenues from own resources compared to 40% in Brazil and Germany.
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- **ULGs** - On the other hand, the urban local governments generate 44% of their total revenue from own sources.
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- ULGs also collect 18% of total revenues from direct taxes, much closer to International norms.
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- This highlights the difference in fiscal empowerment between urban local governments and rural local governments in India.
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- **Direct Taxes** - Direct Taxes account for only about 35% in India as against 70% in Europe.
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- Indian States generate only about 6% of their revenue from direct taxes as against 19% and 44% in Brazil and Germany respectively.
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- Moreover, unlike in other countries, reliance on direct taxes in India seems to be declining.
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- This trend will only be reinforced if GST proves to be a buoyant source of revenue.
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- **Development** - Economic and political development has been associated with a rising share of direct taxes in total taxes.
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- When countries rely on non-tax sources of government revenues, economic and institutional development could remain stunted.
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Own Revenue and Direct Taxes of Lower Tiers
(In per cent of total revenue)

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Cause

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- Some State Governments have not devolved enough taxation powers to the Panchayats.
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- Notably, permissible taxes for Panchayats include Property and Entertainment Taxes but not Land Taxes or Tolls on roads.
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- Even in cases where more powers are devolved, land revenue collection remained low.
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- This is due to low base values applied to properties and also low rates of taxes levied.
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- Other reasons that the Economic Survey suspects are

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i. unwillingness to tax by the state, possibly due to close proximity between the state and the citizens
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ii. unwillingness by abled citizens to pay because of dissatisfaction with the quality of services they are receiving
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iii. Centre and States' desire to use their devolution powers to control lower levels of government
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Suggestion

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- Low tax collections at lower levels are certainly posing a challenge in reconciling fiscal federalism and accountability.
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- The Survey calls for better data and evidence to evaluate the impact of 73rd and 74th Constitutional Amendments.
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- This is to assess the fiscal empowerment of Rural and Urban local governments, India’s federal structure, its governance and accountability.
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- The Survey emphasized the importance of fiscal decentralization.
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- Fiscal decentralization is grounded on the idea that spending and tax decisions must reflect local preferences as far as possible.
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- This is essential to address the issue of low tier governments remaining stuck in a 'low equilibrium trap' depending largely on outside resources.
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FINANCIAL SAVINGS AND INVESTMENT

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- India witnessed an unprecedented climb to historic high levels of investment and saving rates in the mid-2000s.

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- However, this has been followed by a gradual decline and slowdown still continues.
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- **Savings** - The ratio of domestic saving to GDP fell from the peak 38.3% in 2007 to about 29% in 2016.
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- **Investment** - In India, the investment slowdown started in 2012.
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- There is an overall investment decline of the 6.3 percentage points over 2007-08 and 2015-16.
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- Out of this, the private investment accounts for 5 percentage points.
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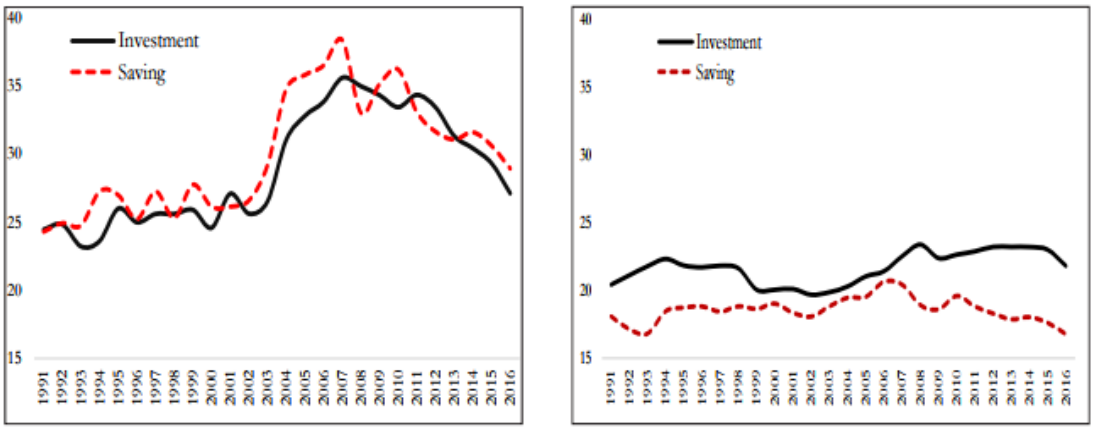
Figure 1. Investment & Saving (as percentage of GDP): India (left panel) and average for sample economies (right panel)[3]



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- **Trend in India**- The current slowdown where both investment and saving have slumped is the first in India's history.
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- India's current investment/saving slowdown episode has been lengthy compared to other cases and it still continues.
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- The cumulative fall over 2007 and 2016 has been milder for investment than saving.
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- However, India's investment slowdown is unusual.
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- It is so far relatively moderate in magnitude, long in duration, and started from a relatively high peak rate of 36% of GDP.
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- Moreover, it has a specific nature, in that it is a balance sheet-related slowdown indicating financial stress of companies.
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- **Response** - Policy priorities over the short run focused on mobilizing the locked up savings.
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- This was through attempts like unearthing the black money and encouraging the conversion of gold into financial saving.
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- **Need** - The share of financial saving is already rising in aggregate household saving.
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- There is a clear shift visible towards market instruments, largely driven by demonetization.
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- The concern is that, investment slowdowns are more detrimental to growth than savings slowdown.
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- So, given the changing trend in savings side through recent measures, the need now is to focus more on investment revival.
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- **Suggestion** - The policy conclusion is urgent prioritization of investment revival to arrest the more lasting growth impacts.
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- This is essential for India to move towards 8-10% growth.
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SCIENCE & TECHNOLOGY

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- The Survey records transformation of Indian Science & Technology in the last one year in the outputs.
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- **Publications** - In 2013, India ranked 6th in the world in scientific publications and its ranking has been increasing as well.
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- The growth of annual publications between 2009 and 2014 was almost 14%.
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- This growth increased India's share in global publications from 3.1 % in 2009 to 4.4 % in 2014.
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- Broadly, the publication trends reveal that India is gradually improving its

performance.
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- In addition to increasing publications, trends in quality are also stated to be slowly improving.
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- The Nature Index that assesses counts of high-quality research outputs ranked India at 13 in 2017.
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- **Patents** - According to the WIPO, India has the world's 7th largest Patent Filing Office.
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- However, India produces fewer patents per capita.
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- One major challenge in India has been the domestic patent system.
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- While India's patent applications and grants have grown rapidly in foreign jurisdictions, the same is not true at home.
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- Indian residents were granted over 5000 patents in foreign offices in 2015.
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- But the number of resident filings in India was little over 800.
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- Residential applications have increased substantially since India joined the international patent regime in 2005.
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- However, the number of patents granted fell sharply post-2008 and has remained low.
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- **Measures** - The government has recently hired over 450 additional patent examiners.
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- It has also created an expedited filing system for Indian residents in 2017, which are welcome interventions.
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- Beyond patent filing side, addressing patent litigation issues will be crucial to ensure patent system effectively rewards innovation.
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NET PRODUCER OF KNOWLEDGE

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- The Survey calls for the need to gradually move from being a net consumer

of knowledge to becoming a net producer.
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- There is a sluggish pace and expansion of scientific research and knowledge on the one hand.
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- On the other hand, generally higher importance is given to careers in engineering, medicine, management and government jobs.
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- India thus needs to rekindle the excitement and purpose that would attract more young people to scientific enterprise.
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- Laying this knowledge foundation is essential to address some of India's most pressing development challenges.
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- Investing in science is also fundamental to India's security:
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i. the human security of its populations
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ii. national security challenges from emerging threats ranging from cyber warfare to autonomous military systems
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iii. the resilience to address the multiple uncertainties due to climate change
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LATE CONVERGER STALL

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- **What** - The present era is one of 'economic convergence'.
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- It is a condition where the poorer countries have grown faster than richer countries and closed the gap in standards of living.
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- E.g. India moved from being a low income country in 1960 to a lower middle income country in 2008.
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- It is now attempting to make a transition to middle income status.
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- Notably, India is one among the countries that are trying to make this

transition after the global financial crisis (2008).
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- There are now apprehensions that this process of convergence may slow down for the 'late converger' countries like India.
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- This is termed as the fear of "late converger stall".
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- **Challenges** - The Survey notes that India needs to take on four challenges to ward off this fear.
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- The four challenges in the process of economic development are:
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1. the backlash against globalization which reduces exporting opportunities
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2. the difficulties of structural transformation of transferring resources from low productivity to higher productivity sectors
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3. upgrading human capital to the demands of a technology-intensive workplace
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4. coping with climate change-induced agricultural stress
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- **Globalisation** - Some 'early convergers' were able to post average export growth rates of over 15% for 30 years of their convergence periods.
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- These include the countries like Japan, South Korea and China.
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- However, a backlash in advanced countries against rapid globalization has led to a fall in world trade GDP ratios since 2011.
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- This means a decline in exporting opportunities.
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- Thus the advantage of favourable trading environment that early convergers had has begun to reverse.
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- This could be a challenge for the late convergers like India.
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- **Structural Transformation** - There is a difference in correlation between

overall growth and 'good growth' between the early and late convergers.
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- Dynamic sectors are those with high levels of productivity and potential for unconditional convergence.
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- Good growth comprises growth accounted for by labour share shifts into these good sectors and their productivity growth.
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- In this context, manufacturing is a critically important sector for ensuring a desired, successful transformation.
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- However, "premature de-industrialization" is the scenario with manufacturing in many late convergers.
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- The tendency for late convergers in manufacturing is to peak at lower levels of activity and earlier in the development process.
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- This is a cause for concern.
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- Because the shift is from informal, low productivity sectors to sectors that are only marginally less formal and only marginally more productive.
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- This is a case of "thwarted structural transformation" which India needs to reckon with.
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- **Upgrading human capital** - Late convergers like India have failed to provide even the basic education necessary for structural transformation.
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- Evidently, in India, roughly 40 to 50% of rural children in grades 3 to 8 cannot meet the basic learning standards.
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- Technology-intensive workplace will increasingly favour skilled human capital in the coming years.
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- However, given the skilling shortfall, human capital frontier for the new structural transformation will shift further away.
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- There is, however, some optimism that the trend has started to improve since 2014.
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- **Climate change** - Growth rates of agricultural productivity for richer

countries have been consistently greater than for developing countries.
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- For India, agricultural productivity growth has been stagnant, averaging roughly 3% over the last 30 years.
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- India is also vulnerable to temperature increase and still heavily dependent on rainfall.
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- For late convergers, agricultural productivity is critical for feeding the population.
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- But more importantly, it is essential in human resource aspect.
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- This is given the transfer of human resource from agriculture to the modern sectors.
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- Also, improving agricultural productivity is a key to achieving sustainable growth, given climate change and water scarcity.
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- The Survey concludes that as of now India may not be faced with a “Late Converger Stall”, but need to act in time to ward it off.
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Source: PIB

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