Highlights of Economic Survey 2018 - Part IV

Click here for Part III

\n\n

What to look for?

\n\n

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

\n\n

HEALTH

\n\n

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

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

\n\n

SANITATION

\n\n

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

\n\n



\n\n

\n
- **ODF** - The number of persons defecating in open in rural areas has

significantly declined, creating positive health and economic impact.
\n
- So far, 296 districts and around 3 lakh villages all over India have been declared Open Defecation Free (ODF).
\n
- 8 states (Sikkim, Himachal Pradesh, Kerala, Haryana, Uttarakhand, Chhattisgarh, Arunachal Pradesh, Gujarat) are declared ODF completely.
\n
- 2 Union Territories (Daman & Diu and Chandigarh) also join this category.
\n
- The NSSO and Quality Council of India's surveys reported more than 90% of individuals, who have access to toilets, using them.
\n
- 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.
\n

\n\n

\n\n

FISCAL FEDERALISM

\n\n

Concern

\n\n

\n
- **RLGs** - The Survey highlights the low level of tax collections by the Rural Local Governments in India.
\n
- RLGs received about 95% of their revenues from the devolved funds from the Centre/State.
\n
- RLGs in India generate only about 6% of revenues from own resources compared to 40% in Brazil and Germany.
\n
- **ULGs** - On the other hand, the urban local governments generate 44% of their total revenue from own sources.
\n
- ULGs also collect 18% of total revenues from direct taxes, much closer to International norms.
\n
- This highlights the difference in fiscal empowerment between urban local

governments and rural local governments in India.
\n

- **Direct Taxes** - Direct Taxes account for only about 35% in India as against 70% in Europe.
\n
- Indian States generate only about 6% of their revenue from direct taxes as against 19% and 44% in Brazil and Germany respectively.
\n
- Moreover, unlike in other countries, reliance on direct taxes in India seems to be declining.
\n
- This trend will only be reinforced if GST proves to be a buoyant source of revenue.
\n

\n\n

\n

- **Development** - Economic and political development has been associated with a rising share of direct taxes in total taxes.
\n

\n\n

\n

- When countries rely on non-tax sources of government revenues, economic and institutional development could remain stunted.
\n

\n\n



\n\n

Cause

\n\n

\n

- Some State Governments have not devolved enough taxation powers to the Panchayats.
\n
- Notably, permissible taxes for Panchayats include Property and Entertainment Taxes but not Land Taxes or Tolls on roads.
\n
- Even in cases where more powers are devolved, land revenue collection remained low.
\n

- This is due to low base values applied to properties and also low rates of taxes levied.
\n
- Other reasons that the Economic Survey suspects are
\n

\n\n

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

\n\n

Suggestion

\n\n

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

\n\n

FINANCIAL SAVINGS AND INVESTMENT

\n\n

\n

- India witnessed an unprecedented climb to historic high levels of investment and saving rates in the mid-2000s.
\n
- However, this has been followed by a gradual decline and slowdown still continues.
\n
- **Savings** - The ratio of domestic saving to GDP fell from the peak 38.3% in 2007 to about 29% in 2016.
\n
- **Investment** - In India, the investment slowdown started in 2012.
\n
- There is an overall investment decline of the 6.3 percentage points over 2007-08 and 2015-16.
\n
- Out of this, the private investment accounts for 5 percentage points.
\n

\n\n



\n\n

\n

- **Trend in India**- The current slowdown where both investment and saving have slumped is the first in India's history.
\n
- India's current investment/saving slowdown episode has been lengthy compared to other cases and it still continues.
\n
- The cumulative fall over 2007 and 2016 has been milder for investment than saving.
\n
- However, India's investment slowdown is unusual.
\n
- It is so far relatively moderate in magnitude, long in duration, and started from a relatively high peak rate of 36% of GDP.
\n
- Moreover, it has a specific nature, in that it is a balance sheet-related slowdown indicating financial stress of companies.
\n
- **Response** - Policy priorities over the short run focused on mobilizing the locked up savings.
\n

- This was through attempts like unearthing the black money and encouraging the conversion of gold into financial saving.
\n
- **Need** - The share of financial saving is already rising in aggregate household saving.
\n
- There is a clear shift visible towards market instruments, largely driven by demonetization.
\n
- The concern is that, investment slowdowns are more detrimental to growth than savings slowdown.
\n
- So, given the changing trend in savings side through recent measures, the need now is to focus more on investment revival.
\n
- **Suggestion** - The policy conclusion is urgent prioritization of investment revival to arrest the more lasting growth impacts.
\n
- This is essential for India to move towards 8-10% growth.
\n

\n\n

SCIENCE & TECHNOLOGY

\n\n

\n
- The Survey records transformation of Indian Science & Technology in the last one year in the outputs.
\n
- **Publications** - In 2013, India ranked 6th in the world in scientific publications and its ranking has been increasing as well.
\n
- The growth of annual publications between 2009 and 2014 was almost 14%.
\n
- This growth increased India’s share in global publications from 3.1 % in 2009 to 4.4 % in 2014.
\n
- Broadly, the publication trends reveal that India is gradually improving its performance.
\n
- In addition to increasing publications, trends in quality are also stated to be slowly improving.
\n
- The Nature Index that assesses counts of high-quality research outputs

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

\n\n

NET PRODUCER OF KNOWLEDGE

\n\n

\n
- The Survey calls for the need to gradually move from being a net consumer of knowledge to becoming a net producer.
\n
- There is a sluggish pace and expansion of scientific research and knowledge on the one hand.
\n
- On the other hand, generally higher importance is given to careers in

engineering, medicine, management and government jobs.
\n
- India thus needs to rekindle the excitement and purpose that would attract more young people to scientific enterprise.
\n
- Laying this knowledge foundation is essential to address some of India's most pressing development challenges.
\n
- Investing in science is also fundamental to India's security:
\n

\n\n

\n
i. the human security of its populations
\n
ii. national security challenges from emerging threats ranging from cyber warfare to autonomous military systems
\n
iii. the resilience to address the multiple uncertainties due to climate change
\n

\n\n

LATE CONVERGER STALL

\n\n

\n
- **What** - The present era is one of 'economic convergence'.
\n
- It is a condition where the poorer countries have grown faster than richer countries and closed the gap in standards of living.
\n
- E.g. India moved from being a low income country in 1960 to a lower middle income country in 2008.
\n
- It is now attempting to make a transition to middle income status.
\n
- Notably, India is one among the countries that are trying to make this transition after the global financial crisis (2008).
\n
- There are now apprehensions that this process of convergence may slow down for the 'late converger' countries like India.
\n
- This is termed as the fear of "late converger stall".
\n

- **Challenges** - The Survey notes that India needs to take on four challenges to ward off this fear.
\n
- The four challenges in the process of economic development are:
\n

\n\n

\n
1. the backlash against globalization which reduces exporting opportunities
\n
2. the difficulties of structural transformation of transferring resources from low productivity to higher productivity sectors
\n
3. upgrading human capital to the demands of a technology-intensive workplace
\n
4. coping with climate change-induced agricultural stress
\n

\n\n

\n
- **Globalisation** - Some 'early convergers' were able to post average export growth rates of over 15% for 30 years of their convergence periods.
\n
- These include the countries like Japan, South Korea and China.
\n
- However, a backlash in advanced countries against rapid globalization has led to a fall in world trade GDP ratios since 2011.
\n
- This means a decline in exporting opportunities.
\n
- Thus the advantage of favourable trading environment that early convergers had has begun to reverse.
\n
- This could be a challenge for the late convergers like India.
\n
- **Structural Transformation** - There is a difference in correlation between overall growth and 'good growth' between the early and late convergers.
\n
- Dynamic sectors are those with high levels of productivity and potential for unconditional convergence.
\n
- Good growth comprises growth accounted for by labour share shifts into these good sectors and their productivity growth.

\n
- In this context, manufacturing is a critically important sector for ensuring a desired, successful transformation.
\n
- However, "premature de-industrialization" is the scenario with manufacturing in many late convergers.
\n
- The tendency for late convergers in manufacturing is to peak at lower levels of activity and earlier in the development process.
\n
- This is a cause for concern.
\n
- Because the shift is from informal, low productivity sectors to sectors that are only marginally less formal and only marginally more productive.
\n
- This is a case of "thwarted structural transformation" which India needs to reckon with.
\n

\n\n

\n
- **Upgrading human capital** - Late convergers like India have failed to provide even the basic education necessary for structural transformation.
\n
- Evidently, in India, roughly 40 to 50% of rural children in grades 3 to 8 cannot meet the basic learning standards.
\n
- Technology-intensive workplace will increasingly favour skilled human capital in the coming years.
\n
- However, given the skilling shortfall, human capital frontier for the new structural transformation will shift further away.
\n
- There is, however, some optimism that the trend has started to improve since 2014.
\n
- **Climate change** - Growth rates of agricultural productivity for richer countries have been consistently greater than for developing countries.
\n
- For India, agricultural productivity growth has been stagnant, averaging roughly 3% over the last 30 years.
\n
- India is also vulnerable to temperature increase and still heavily dependent on rainfall.
\n

- For late convergers, agricultural productivity is critical for feeding the population.
  \n
- But more importantly, it is essential in human resource aspect.
  \n
- This is given the transfer of human resource from agriculture to the modern sectors.
  \n
- Also, improving agricultural productivity is a key to achieving sustainable growth, given climate change and water scarcity.
  \n
- 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.
  \n

\n\n

\n\n

Source: PIB

\n

