Misguided Priorities - Union Budget 2018–19

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A close examination of the recent trends in government finances suggests that the expenditure pattern of the government does not provide any assurance for the future in terms of building adequate social capital. The regressive nature of taxation policy in recent years along with reduced government spending has put additional burden on out-of-pocket expenditure of individuals.

If the size of government is measured by expressing total government receipts and expenditure as a percentage of gross domestic product (GDP) at market price, we would see that it has been reducing in recent times. Receipts and expenditure together constituted 30% of GDP in 2011–12, and declined to 26% of GDP in 2014–15. It remained nearly at that level, thereafter (Table 1). This is budgeted to go down to 25.8% of GDP in 2018–19. Except in 2014–15, total receipts generally remained higher than total expenditure. According to budget estimates, total receipts as percentage of GDP is expected to be fractionally lower than total expenditure.

In both receipts and expenditure, the revenue component is dominating. Revenue receipts remained at about 8.8% of GDP between 2011–12 and 2014–15, and this marginally rose to 9% in 2017–18. It is expected to go up to 9.2% in 2018–19. This is largely because of the increased collection of tax revenue that went up from 6.9% of GDP in 2015–16 to 7.6% in 2017–18, and is budgeted to go up further to 7.9% in 2018–19.

At the same time, the size of non-tax revenue has come down in 2017–18 due to reduced dividend and surplus from government-owned institutions, including Reserve Bank of India (RBI) and nationalised banks. There has also been a decrease in the revenue from other communication services such as the collection of licence fees from telecom operators and spectrum usage charges. In particular, the government expects to realise licence fees and spectrum charges to the tune of ₹30,737 crore in 2017–18 against budget estimates of ₹44,342 crore and actual collection of ₹70,241 crore in 2016–17. Revenue target from communication service is pegged at ₹48,661 crore in 2018–19.

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Table 1: Trends in Government Finances									
Sl No	**Major Heads**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18RE**	**2018-19BE**
As % of GDP at market price									
1	**Revenue Receipts**	**8.6**	**8.8**	**9.0**	**8.8**	**8.7**	**9.0**	**9.0**	**9.2**
2	**Tax Revenue**	**7.2**	**7.5**	**7.3**	**7.2**	**6.9**	**7.2**	**7.6**	**7.9**
3	**Non-tax Revenue**	**1.4**	**1.4**	**1.8**	**1.6**	**1.8**	**1.8**	**1.4**	**1.3**
4	**Dividend and Profits**	**0.58**	**0.54**	**0.81**	**0.72**	**0.81**	**0.81**	**0.63**	**0.57**
5	**Other Non Tax Revenue**	**0.58**	**0.63**	**0.77**	**0.68**	**0.83**	**0.88**	**0.69**	**0.65**
6	**Other Communication Services**	**0.20**	**0.19**	**0.36**	**0.25**	**0.40**	**0.46**	**0.18**	**0.26**
7	**Capital Receipts**	**6.5**	**5.9**	**5.0**	**3.9**	**4.2**	**3.9**	**4.2**	**3.6**
8	**Recoveries of Loan**	**0.22**	**0.15**	**0.11**	**0.11**	**0.22**	**0.12**	**0.10**	**0.07**
9	**Disinvestment Receipts**	**0.21**	**0.26**	**0.26**	**0.30**	**0.31**	**0.31**	**0.60**	**0.43**
10	**Borrowing and other Liabilities**	**5.9**	**4.9**	**4.5**	**4.1**	**3.9**	**3.5**	**3.5**	**3.3**
11	**Total Receipts**	**15.1**	**14.7**	**14.1**	**12.7**	**12.9**	**13.0**	**13.4**	**12.8**
12	**Total Expenditure**	**14.9**	**14.2**	**13.9**	**13.3**	**13.0**	**12.9**	**13.2**	**13.0**
13	**Revenue Expenditure**	**13.1**	**12.5**	**12.2**	**11.8**	**11.2**	**11.1**	**11.6**	**11.4**
14	**Interest payments**	**3.1**	**3.1**	**3.3**	**3.2**	**3.2**	**3.2**	**3.2**	**3.1**
15	**Capital Expenditure**	**1.8**	**1.7**	**1.7**	**1.6**	**1.8**	**1.9**	**1.6**	**1.6**
16	**Revenue Deficit**	**4.5**	**3.7**	**3.2**	**2.9**	**2.5**	**2.1**	**2.6**	**2.2**
17	**Effective Revenue Deficit**				**1.9**	**1.5**	**1.0**	**1.5**	**1.2**
18	**Gross Fiscal Deficit**	**5.9**	**4.9**	**4.5**	**4.1**	**3.9**	**3.5**	**3.5**	**3.3**
19	**Gross Primary Deficit**	**2.8**	**1.8**	**1.1**	**0.9**	**0.7**	**0.4**	**0.4**	**0.3**
			Growth rate						
1	**Revenue Receipts**		**17.0**	**15.4**	**8.5**	**8.5**	**15.0**	**9.5**	**14.6**
2	**Tax Revenue**		**17.8**	**10.0**	**10.8**	**4.4**	**16.7**	**15.3**	**16.6**
3	**Non-tax Revenue**		**12.9**	**44.8**	**-0.5**	**27.0**	**8.6**	**-13.5**	**3.9**
4	**Dividend and Profits**		**6.2**	**68.2**	**-0.7**	**24.8**	**9.7**	**-13.5**	**0.8**
5	**Other Non Tax Revenue**		**23.7**	**37.8**	**-2.7**	**35.1**	**17.4**	**-13.2**	**5.7**
6	**Other Communication Services**		**8.6**	**112.2**	**-23.7**	**80.0**	**27.4**	**-56.2**	**58.3**
7	**Capital Receipts**		**2.3**	**-3.1**	**-14.1**	**20.3**	**3.2**	**18.5**	**-5.5**
8	**Total Receipts**		**10.7**	**8.0**	**0.5**	**12.1**	**11.6**	**13.8**	**6.3**
9	**Total Expenditure**		**8.1**	**10.6**	**6.7**	**7.6**	**10.3**	**12.3**	**10.1**
10	**Revenue Expenditure**		**8.5**	**10.3**	**6.9**	**4.8**	**9.9**	**15.0**	**10.2**
11	**Interest payments**		**14.7**	**19.5**	**7.5**	**9.7**	**8.8**	**10.4**	**8.5**
12	**Capital Expenditure**		**5.2**	**12.5**	**4.8**	**28.6**	**12.5**	**-3.9**	**9.9**
13	**Gross Fiscal Deficit**		**-5.0**	**2.6**	**1.6**	**4.3**	**0.5**	**11.1**	**4.9**
	GDP		**13.8**	**13.0**	**11.0**	**10.4**	**10.8**	**10.0**	**11.5**

Note: RE stands for Revised Estimates; and BE stands for Budget Estimates
Source: Author's estimates based on data extracted from *Union Budget 2018-19*

It is not clear why such vast reduction in revenue from communication services has occurred despite rising teledensity and demand for a wide range of telecom services. As for capital receipts, they are mostly accounted by borrowing and other liabilities representing gross fiscal deficit. The proceeds from disinvestment had nearly doubled from 0.31% of GDP in 2016–17 to 0.6% in 2017–18 and are budgeted to remain at 0.43% of GDP in 2018–19. Of the total revenue to the government, tax revenue has increasingly become a major source; it used to account for 53.1% of total revenue in 2015–16 and 56.2% in 2017–18. It is further expected to go up to 61.7% in 2018–19.

Declining Corporate Taxes

Direct taxes such as "corporation tax" and "income tax other than corporation tax," used to be the major source of gross tax revenue accounting for about 5.5% of GDP till 2016–17 and 6% in 2017–18. This has been budgeted to remain nearly at the same level (Table 2). As a percentage of GDP, corporation tax collection exceeded that of other direct taxes by nearly one percentage point in 2011–12. This gradually reduced to 0.7 percentage point in 2017–18, and to 0.5 percentage point in 2018–19. If this trend continues, the importance of corporate tax will be replaced by income taxes other than corporate taxes.

Table 2: Trends in Gross Tax Revenue (as % of GDP at market price)

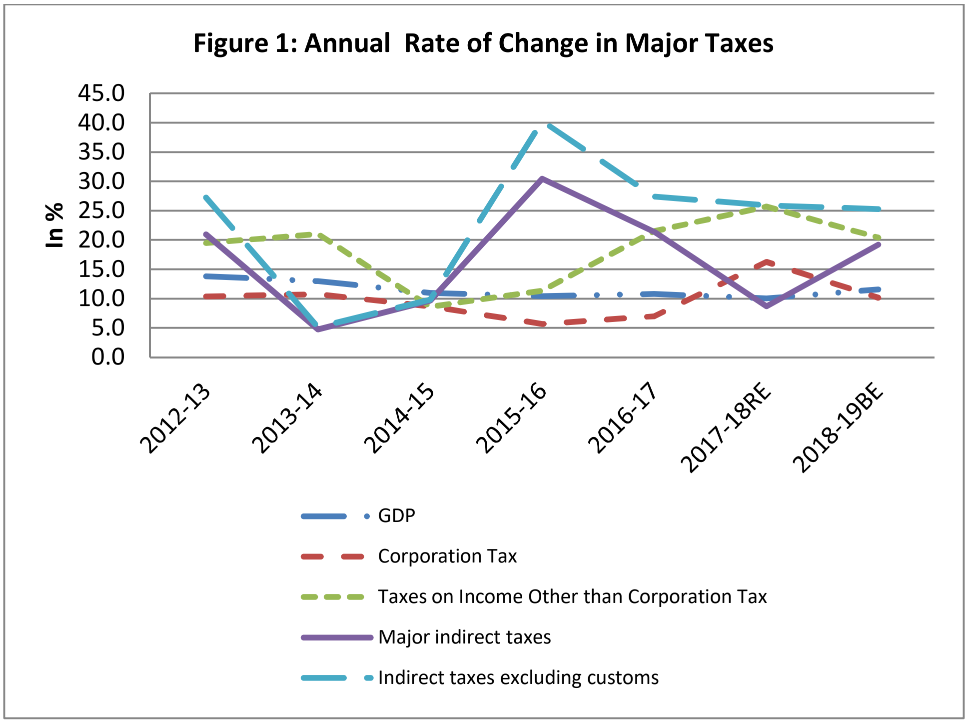
	Major Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18RE	2018-19BE
1	Gross Tax Revenue	10.2	10.4	10.1	10.0	10.6	11.2	11.6	12.1
2	Corporation Tax	3.7	3.6	3.5	3.4	3.3	3.2	3.4	3.3
3	Taxes on Income Other than Corporation Tax	1.9	2.0	2.1	2.1	2.1	2.3	2.6	2.8
4	Customs	1.7	1.7	1.5	1.5	1.5	1.5	0.8	0.6
5	Union Excise Duties	1.7	1.8	1.5	1.5	2.1	2.5	1.7	1.4
6	Service Tax	1.1	1.3	1.4	1.3	1.5	1.7	0.5	
7	Goods & Service Tax							2.6	4.0
	Memo:								
8	Major direct taxes (2+3)	5.6	5.6	5.6	5.5	5.4	5.5	6.0	6.1
9	Major indirect taxes (4+5+6+7)	4.5	4.8	4.4	4.4	5.2	5.6	5.6	6.0

Note and Source: Same as Table 1.

The magnitude of differences between major direct taxes and indirect taxes has of late become marginal. Indirect taxes have gone up by nearly 1.2 percentage points from 4.4% of GDP in 2014–15 to 5.6% in 2016–17. With the introduction of goods and services tax (GST) from 1 July 2017, the tax accrued in a month is payable by the tenth day of the succeeding month. Thus, tax collectables in March 2018 will be paid in April 2018. The budget would have made provision for this. Had this been included along with the GST of the current fiscal year, the size of indirect taxes would have been higher than the estimated 5.5%.

Of the various indirect taxes, customs duty is expected to be in the order of 0.8% of GDP in 2017–18 compared to 1.5% in 2016–17. This is budgeted to go down to 0.6% of GDP in 2018–19. Thus, bulk of indirect taxes has been accounted by union excise duties and service taxes (clubbed together and now known as GST, with an exception that union excise duties continue to be levied on fewer items such as motor spirit, high speed diesel oil, crude oil, and so on). Tax policies that increase government's reliance on indirect taxes are regressive in character, as such policies impact everyone equally (Rajakumar and Krishnaswamy 2015).

This coupled with increased reliance on taxes on income other than corporation tax signals changes in government taxation policies that aim to tax individuals at the time of earning an income, and at the time of spending. The rate of growth of taxes on income other than corporation tax and major indirect taxes has far exceeded the rate of growth of GDP (Figure 1), whereas corporate taxes grew at a pace slower than that of GDP's growth. In a nutshell, the recent fiscal policy relies more on tax revenue collected, either directly or indirectly, from individuals. This will have a direct bearing on the consumer surplus.

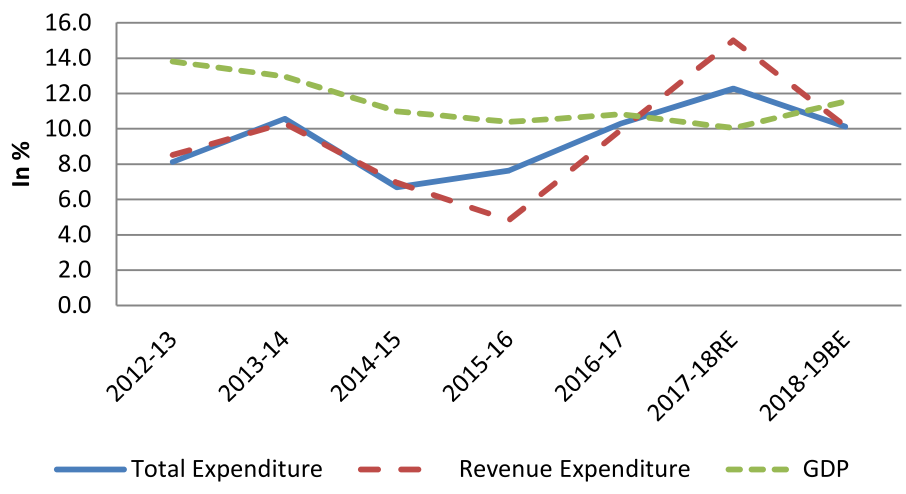


Subdued Government Spending

Not only have tax policies become regressive in recent times, government spending has remained subdued as well. As a percentage of GDP, total expenditure of the government was 14.9% in 2011–12, lower than that of total receipts by a fraction of 0.2 percentage points (Table 1). This has been steadily declining over the years to 12.9% in 2016–17, and stood at 13.2% of GDP in 2017–18. According to the budget estimates, total expenditure is expected to be 13% of GDP in 2018–19, a further deterioration in government spending in the ensuing fiscal year. No major change is noticed in the case of capital expenditure, which hovered around 1.7% of GDP. Therefore, reduction in the size of revenue expenditure has dragged the overall size of government spending.

Revenue expenditure has gone down by 2 percentage points between 2011–12 and 2016–17 from 13.1% of GDP to 11.1%. It is budgeted to remain marginally higher at 11.4% in 2018–19. The rate of growth of total expenditure and revenue expenditure remained less than the growth of GDP (Figure 2). Although revised estimates for 2017–18 show that these expenditures have grown more than GDP, they are expected to be lower than GDP growth according to budget estimates for 2018–19.

Figure 2: Annual Percentage Change in Expenditure



The government appears to have remained firm in its fiscal consolidation stance; gross fiscal deficit has been steadfastly brought down from 5.9% of GDP in 2011–12 to 3.5% in 2017–18, and further to 3.3% in 2018–19. While growth in tax revenues (direct and indirect) mostly from individuals has outpaced GDP growth, growth in government expenditure has remained subdued compared to the GDP growth. This has jointly contributed to the reduction in gross fiscal deficit as a percentage of GDP.

Reduced Thrust on Social Capital

In strict adherence to fiscal consolidation, the government is losing the thrust on building social capital by means of spending. This is amply clear when we express various heads of expenditures, under both revenue and capital, as a percentage of GDP (Table 3, p 81).

Table 3: Trends in Major Heads of Expenditure)

There are broadly four major heads under which revenue expenditure of the union government are reported, namely, general services, social services, economic services and grants-in-aid and contributions.

General services are the major revenue expenditure items consisting of accounts mostly related to public administration along with interest payments and servicing of debt. Interest payments used to account for about 3.1% of GDP (and about 24.3% of total expenditure) and it remained at that level over the years. Defence spending remained at about 1.1% for a long time, and is expected to dip marginally in 2018–19. Pension and other retirement benefits show an increase from 0.7% of GDP in 2011–12 to 0.9% in 2017–18 (or from 4.7% of total expenditure in 2011–12 to 6.6% in 2017–18, budgeted to go up to 6.8% in 2018–19). Overall, the general services expenditure alone accounted for 5.6% to 5.8% of GDP (that is, 37.6% of total expenditure in 2011–12, and 43.7% in 2017–18).

Revenue expenditure of social services includes education and health-related items. Spending on social services has not only remained abysmally low but declined. Accounting for 1.2% of GDP in 2011–12, it declined to 0.6 in 2017–18, and is budgeted to remain at that level in 2018–19. Till 2014–15, social services expenditure used to exceed pension and other retirement benefits. Of various items reported under social services, education is the largest. In the early part of this decade, spending on health-enhancing measures such as medical and public health, family welfare, and water supply and sanitation used to account for nearly 0.3% of GDP (or 2.2% of total expenditure). This gradually fell to 0.1% of GDP (or 0.8% of total expenditure) in the recent years.

Next to general services, spending on economic services appears to be an important form of revenue expenditure. On the whole, economic services expenditure was about 4.2% of GDP in 2011–12 and this has gradually declined to about 3% in recent years. No major change is provided for in 2018–19. Such reduction in the importance of economic services is largely due to the reduced share of energy, as well as roads and bridges. Individually, expenditure on rural employment accounted for the bulk of rural development spending, which remained at about 0.3% of GDP.

The grants-in-aid are largely aids provided to state governments under various schemes. This has virtually remained at about 2% of GDP. Thus, there appears to be no perceptible transfer

of responsibilities from the union government to sub-national governments. Although capital expenditure has remained at around 1.5% of GDP, there is an increased spending on transport aimed at improving facilities of Indian railways and roads and bridges. Capital expenditure for social services constituted only a fraction of GDP.

The above analysis shows that government expenditure has been reduced and much of the reduction has taken place in their spending on social and economic services. Thus, the entire responsibility of building up social capital is now left to private initiatives. On the supply side, infrastructure has to be built by private players, and on the demand side, households are made to incur frequent and higher out-of-pocket expenditure to access these services.

Ignoring Primary Healthcare

It is in this context of reduced government responsibility of building social capital that one needs to closely look at the National Health Protection Scheme (NHPS) announced by the finance minister in the Union Budget 2018–19 speech. The NHPS aims to provide an insurance coverage of ₹5 lakh per family annually for secondary and tertiary care hospitalisation for 10 crore "poor and vulnerable families."

The NHPS is essentially a health insurance cover. The business of health insurance is yet to make a meaningful breakthrough in the country, as is evident from the low level of health insurance penetration. Gross health insurance premium measured as percentage of GDP was 0.15 in 2011–12 and has increased to 0.18 in 2015–16. Prima facie, introducing NHPS is undeniably a welcome step towards achieving inclusive healthcare.

In the Indian context, there are three tiers in the healthcare system. Primary healthcare is provided through sub-centres and primary health centres (PHCs) in rural areas and family welfare centres in urban areas. These centres are designed to cater to the multiple needs of maternity and childcare, administering immunisation, treatment of common diseases, and so on. In most of the cases, these centres are the first point of contact between the patient and the physician. Secondary healthcare involves referral from primary healthcare centres and such care is generally provided in district hospitals and community health centres at the block level. Tertiary healthcare is basically specialised consultative care provided in advanced medical research colleges and institutes, based on referrals from either primary or secondary care centres.

As the NHPS aims to cover both secondary and tertiary healthcare, it requires that the primary healthcare centres should have adequate facilities to address preliminary requirements. However, the present status of health infrastructure and health personnel do not aspire any confidence in the delivery of primary healthcare. Rural PHCs, for instance, suffer from several deficiencies in health infrastructure (Table 4) and health personnel (Table 5). These statistics represent situations at the all-India level. The conditions vary considerably from state to state, with some states performing quite well on this front.

It is widely accepted that providing preventive care is the main function of the PHCs. Any shortfall in these centres needs to be amended and failure to do so will be inimical to achieving desirable outcomes at the secondary and tertiary healthcare level. Given the intended ambitious coverage of the NHPS in terms of number of persons and sum assured, the government will have to commit a great deal of resources, though Union Budget 2018–19 purportedly makes a modest beginning. What is more important to achieve better health outcome is to ensure that all PHCs, be it in rural or urban areas, do not suffer for the want of adequate health personnel and infrastructure facilities. Any initiatives to redress the healthcare system in the country should begin from PHCs that suffer from sheer neglect. Without having attained satisfactory levels of providing primary healthcare services to all, committing large resources to NHPS may find little justification.

Table 4: Status of Facilities Available in Rural Centres (As on 31st March, 2017)

Types of Facilities	Number	% to respective total
Sub-Centres:		
Number of Sub Centres Functioning	156231	100.0
With ANM Quarter	86525	55.4
With ANM living in Sub Centrer Quarter	48781	31.2
Functioning as per IPHS norms	17204	11.0
Without Regular Water Supply	31985	20.5
Without Electric Supply	37387	23.9
Without All-Weather Motorable Approach Road	15536	9.9
Primary Health Centres (PHCs):		
Number of PHCs Functioning	25650	100.0
PHCs functioning on 24X7 basis	10044	39.2
With Labour Room	17688	69.0
With Operation Theatre	9422	36.7
With at least four beds	19559	76.3
Without Electric Supply	920	3.6
Without Regular Water Supply	1695	6.6

Without All-Weather Motorable Approach Road	1361	5.3
With Telephone	13918	54.3
With Computer	16688	65.1
Referral Transport	14171	55.2
Registered RKS	22077	86.1
No. of PHCs Functioning as per IPHS norms	3303	12.9
Community Health Centres (CHCs)		
Number of CHCs Functioning	5624	100.0
With all four Specialists	454	8.1
With computer Accountant	4843	86.1
With functional Laboratory	5303	94.3
With functional Operation Theatre	4696	83.5
With functional Labour Room	5186	92.2
With functioning Stabilization Units for New Born	2237	39.8
With New Born Care Corner	4722	84.0
With at least 30-beds	4083	72.6
With functional X-Ray machine	3122	55.5
With quarters for specialist Doctors	2816	50.1
With specialist Doctors living in quarters	1770	31.5
With referral transport available	5217	92.8
With registered RKS	5116	91.0
Functioning as per IPHS norms	912	16.2

Notes: ANM is Auxiliary Nurse Midwife; RKS is Rogi Kalyan Samiti and IPHS is Indian Public Health Standards
Source: Ministry of Health and Family Welfare (2017)

To conclude, taxation policies of government in the recent period are regressive in their character and this has been accompanied by reduced thrust on government spending on social services, thus putting additional burden on out-of-pocket expenditure of individuals, particularly for accessing better healthcare services. Though the NHPS could ameliorate access to super special healthcare facilities, attention should be paid on improving primary healthcare services that suffer from several deficiencies. Lack of provision for adequate primary healthcare services can jeopardise the intended outcome of the NHPS and will, in no way, contribute to social capital formation in the country.

Table 5: Vacant and Shortfall in Health Personnel in Rural Areas
(As on 31st March, 2017)

Types of Manpower	Vacant	Shortfall
Health Worker [Female] / ANM At Sub Centre	26172	6104
Health Worker [Female] / ANM At Sub Centres & PHCs	28741	10112
Health Worker [Male] At Sub Centres	33448	99572
Health Assistants [Female] / LHV at PHCs	7552	11712
Health Assistant [Male] at PHCs	10731	15592
Doctors at PHCs	8286	3027
Surgeons at CHCs	2138	4866
Obstetricians & Gynaecologists at CHCs	1816	4170
Physicians at CHCs	2150	4760
Paediatricians at CHCs	2046	4554
Total Specialists at CHCs	8105	18347
Radiographers at CHCs	2061	3629
Pharmacists at PHCs & CHCs	4582	7092
Laboratory Technicians at PHCs & CHCs	5753	12511
Nursing Staff at PHCs & CHCs	11288	13194

Note: Vacant means Sanctioned *less* **In Position; and Shortfall means Required** *less* **In Position**
PHCs are Primary Health Centres and CHCs are Community Health Centres
Notes: ANM is Auxiliary Nurse Midwife; LHV is Lady Health Visitor; IPHS is Indian Public Health Standards
Source: Ministry of Health and Family Welfare (2017)

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