Budget 2018: broad look at social goals

India’s 2018-19 Budget is the first one after the implementation of the Goods and Services Tax (GST) in July 2017. It continues the government’s aim of making the Budget event not the sole economic and political event of the year; and to continue to shorten the Budget speeches. As a result of the GST, minimal indirect tax proposals needed to be made in the Budget, as these proposals are now being undertaken by the GST Council, a landmark forum under the Cooperative Federalism initiative.

Continuing the broad approach to social protection: The Budget continues the government’s focus on enabling households, particularly low and middle income households, to gain access to a bundle of services (and to opportunities) needed to cope with various risks, including in old age. Instead of focusing on pension amounts or money per say, this approach focuses on services needed by the households, including elderly households. This is indeed more promising approach, well accepted in the pension literature. The Budget’s ‘pension sector’ proposals should therefore be not construed too narrowly, but as a part of broader concept of progressing towards a more robust social protection system for households.

In the above context, two most significant social protection initiatives in the Budget, under the ‘Ayushman Bharat’ programme, concern mitigating health care risks, and making healthcare more accessible and affordable. The first proposal would set up 150,000 health centres across the country to bring healthcare services closer to the households. As these will also provide free (at point of consumption, not in economic terms as there are still resource costs) essential drugs and diagnostic services, the household expenditure on this area, particularly for the elderly, is likely to be reduced. This is equivalent to an increase in household income, while providing essential healthcare and health promotion services.

The Budget allocation of Rs1,200 crore is to be supplemented with CSR (Corporate Social Responsibility), and philanthropic funds. More than funds, it is the managerial and technological expertise of the corporate and philanthropic sectors that could be useful. It is suggested that individual states set up specialized task forces to bring about synergy of these two sectors with these health centres. The second proposal is the initiation of National Health Protection Scheme (NHPS) to cover around 100 million families (that’s 500 million beneficiaries assuming an average family size of 5). The NHPS is an ambitious scheme to mitigate the risk that a major health episode could potentially push even middle-class households into poverty and in debt. Many middle income countries such as Indonesia have prioritized extending health coverage through similar sets of initiatives.

The NHPS proposes to provide coverage up to Rs5 lakh per family per year. The scope of NHPS is substantially larger than the health insurance schemes operating currently, such as the (Rashtriya Swasthya Bima Yojana, which provides annual coverage of only Rs30,000 per year per family. While insurance mechanism does provide risk-pooling benefits, much depends on how the premiums are set (and how they are shared), and on the policy coherence and coordination among the central government and the states.

The global experience suggests that minimizing opportunistic behaviour by various stakeholders; and using NHPS to facilitate more empirical analysis driven health insurance programme would be critical factors in achieving desired outcomes. The supply-side issues, particularly improving human and physical resources in healthcare, and improving quality of health organizations in both public and private sectors, would also need to be better addressed. Professional periodical actuarial evaluation of the programme, and flexibility to minimize contingent fiscal liabilities on the state of NHPS in case expenditure exceed receipts will also be needed.

For the elderly, mitigating health risks is even more essential as health care expenditure as share of household expenditure increases with age.

The focus of the Budget on accelerating focus on mitigating health risks is therefore appropriate. But health system management is complex as global experience suggests, and simply setting up an insurance method is insufficient. The Budget recognizes this. It is hoped that the NHPS initiative progresses in the spirit of Cooperative Federalism, the way the ambitious GST has been relatively successfully implemented.

Specific measures affecting pensions: The proposals made in the Budget for the conventionally defined pension sector may be summarized as follows. They are relatively small, but of significant value to relevant groups of pension members. It is the cumulative impact of these that is of relevance in assessing the proposals.

It is noteworthy that several of these proposals have time limits. This is sound design as it gives opportunity to review the relevance of the proposal in light of empirical evidence.

First, income tax exemption on interest on fixed deposits, without TDS, up to Rs50,000 on deposits with banks and post offices, a significant five-fold increase. This will assist lower middle-income senior citizens as they tend to rely on this method of income for household expenses. Second, all senior citizens can now avail of deduction of health insurance premium of up to Rs50,000 (up from Rs30,000) under section 80D (of income tax Act). Third, the Budget also extends the Pradhan Mantri Vaya Vandana Yojana up to March 2020, under which 8% assured return by the LIC (Life Insurance Corporation of India) is provided for up to Rs15 lakh, double the current amount. This will mainly benefit the middle class. Fourth, the National Pension System (NPS) has a partial withdrawl provision, under which a member can withdraw up to 25% of own contributions for specified reasons including education, marriage, and healthcare. Such partial withdrawals will be tax exempt from 1 April 2018.

It is suggested the partial withdrawal be permitted not just on the own contribution of the member, but also on accumulated returns obtained on this. This will increase the amount for withdrawal, particularly for home ownership, without significantly affecting final accumulation for pension. Appropriate prudential safeguards could be built into the withdrawal provisions to minimize unintended use of this privilege.

Fifth, India's Labour Force Participation Rate (LFPR) for women at less than 25% in 2015-16 needs to be increased significantly for both social and economic reasons. In the Budget, relatively small but significant steps to help improve India's LFPR for both men and women, and to reduce cost of formal employment to the employer, have been proposed.

(i) Government will contribute 12% of the wages of all new employees, men and women, to the Employees' Provident Fund (EPF) for all sectors for the next 3 years. Combined with the provision for fixed term employment in all sectors, this could help enhance labour market efficiency.

(ii) Contribution to the EPF for first 3 years of employment for women employees will be 8% as compared to 12% or 10% depending on the sectors.

In conclusion, the Budget does continue promising broader approach to social protection and pensions sector. But concomitant reforms to help achieve desired outcomes, particularly for the Ayushman Bharat initiatives, will need to be carefully designed and implemented.

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