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MOVING AWAY FROM 1%

Relevant for: Developmental Issues | Topic: Health & Sanitation and related issues

India’s neighbours, in the past two decades, have made great strides on the development front. Sri Lanka, Bangladesh and Bhutan now have better health indicators than India, which has puzzled many. How could these countries make the great escape from the diseases of poverty earlier than their much bigger neighbour? India’s health achievements are very modest even in comparison to large and populous countries such as China, Indonesia or Brazil.

Framing the right prescription for health expenditure

Therefore, it is imperative to understand why India is not doing as well as these countries on the health front. Looking at other developed and transitional economies over many years, two important trends can be discerned: as countries become richer, they tend to invest more on health, and the share of health spending that is paid out of the pocket declines. Economists have sought to explain this phenomena as “health financing transition”, akin to demographic and epidemiologic transitions. The point to be noted is that similar to these transitions, the health financing transition is not bound to happen, though it is widespread.

As with the other two transitions, countries differ in terms of timing to start the transition, vary in speed with which they transition through it, and, sometimes, may even experience reversals. Economic, political and technological factors move countries through this health financing transition. Of these, social solidarity for redistribution of resources to the less advantaged is the key element in pushing for public policies that expand pooled funding to provide health care. Out-of-pocket payments push millions of people into poverty and deter the poor from using health services. Pre-paid financing mechanisms, such as general tax revenue or social health insurance (not for profit), collect taxes or premium contributions from people based on their income, but allow them to use health care based on their need and not on the basis of how much they would be expected to pay in to the pooled fund.

Breathing life into health care in India

Hence, most countries, which includes the developing ones, have adopted either of the above two financing arrangements or a hybrid model to achieve Universal Health Care (UHC) for their respective populations. For example, according to the World Health Organisation’s recent estimates, out-of-pocket expenditure contributed only 20% to total health expenditure in Bhutan in 2015 whereas general government expenditure on health accounted for 72%, which is about 2.6% of its GDP. Similarly, public expenditure represents 2%-4% of GDP among the developing countries with significant UHC coverage, examples being Ghana, Thailand, Sri Lanka, China and South Africa.

Unlike these countries, India has not invested in health sufficiently, though its fiscal capacity to raise general revenues increased substantially from 5% of GDP in 1950-51 to 17% in 2016-17. India’s public spending on health continues to hover around 1% of GDP for many decades, accounting for less than 30% of total health expenditure. Besides low public spending, neither the Central nor the State governments have undertaken any significant policy intervention, except the National Health Mission, to redress the issue of widening socioeconomic inequalities in health. But the NHM, with a budget of less than 0.2% of GDP, is far too less to make a major impact. And worryingly, the budgetary provision for the NHM has decreased by 2% in 2018-19 from the previous year.

Providing health for all

Last year, the Union government launched the Pradhan Mantri Jan Arogya Yojana with much fan-fare but only 2,000 crore was allocated to this so called ‘game-changer’ initiative. This assumes importance as the National Health Policy 2017 envisaged raising public spending on health to 2.5% of GDP by 2025. Certain key indicators suggest that public health expenditure has stagnated since the National Democratic Alliance came to power in 2014.

As a percentage of GDP, total government spending (Centre and State) was a mere 0.98% in 2014-15 and 1.02% in 2015-16. Although the revised estimate of government expenditure for 2016-17 and budget estimate for 2017-18 show an apparent increase in allocation (1.17 and 1.28%, respectively), actual expenditure might turn out to be quite less. This could be explained by looking at the difference between the revised allocation and actual expenditure for the years 2014-15 and 2015-16. Actual expenditure dropped by 0.14 and 0.13 percentage points, respectively.

Assuming that the trend did not change in the last couple of years, India’s public expenditure on health would be around 1.1% even in 2017-18. This ‘sticky public health spending rate’ of 1%, which does not increase despite robust economic growth for years, is partly due to a decline in the Centre’s expenditure, which fell from 0.40% of GDP in 2013-14 to 0.30% of GDP in 2016-17 (As per 2018-19 budget allocation, 0.33% of GDP).

If this sluggish public health spending has to be reversed, there is a need for a substantial increase in the allocation for health in the forthcoming Union Budget. However, the rise in government health spending also depends on health spending by States as they account for more than two-thirds of total spending.

Hence, both the Centre and States must increase their health spending efforts, which would reduce the burden of out of pocket expenditure and improve the health status of the population. Else, the 2019 Budget would also see public health spending sticking at 1% of GDP. This would mean India, would, without doubt, miss the 2025 target, and thereby fail to achieve UHC in a foreseeable future.

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Pakistan’s identity crisis, going back to the debates since its creation, remains unresolved

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