RAISING TAX REVENUE

REPRIORITISATION

Innovative Financing for Health System

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According to a 2015 IMF report, government spent 6.5 percent of the world's GDP to subsidise energy and energy subsidies exceeded public spending on health and education. Re-allocating fuel subsidies towards clean fuels and eliminating subsidies on those items which have direct harmful effect on health is necessary to improve health and save scarce resources

Improving health care and increasing the number of people who are healthy is the development goal of any country. In case of fast developing economies like India, external aid is drastically getting reduced and there is a little capacity to increase per capita spending on health as these economies have limited capacity to raise tax revenue.

In India, additional funds for health would be reprioritisation which may mean curtailment of funds in other social sectors which are already constrainted for resources. Innovative ways of health care financing to create more money for health and enhancing capacity and efficiency to get more health for money are the options to support developing economies to deal with unfinished agenda of Millennium Development Goals (MDG) and to create a roadmap for Sustainable Development Goals (SDG).

Progress towards the MDGs, on the whole has been remarkable especially on the front of poverty reduction, education improvements and increased access to safe drinking water. The progress on health goals and targets has also been considerable. Globally, the HIV, TB and malaria epidemics were addressed to an extent. Child mortality and maternal mortality decreased 53 per cet and 44 per cet respectively since 1990. In case of India, Infant Mortality Rate (IMR) reduced from 88 per 1000 live births in 1990 to 35 per 1000 live births in 2015 and Maternal Mortality Ratio (MMR) reduced from 556 per 100,000 live births in 1990 to 167 per 100,000 live births in 2015 but failed to achieve the target of reducing IMR by 2/3rd and MMR by 3/4th in 1990.

The paper deals with achievements of health care system made during the MDG era and innovative means of generating resources to address the unfinished agenda of MDGs carried forwarded to be achieved during the era of SDGs. India is undergoing a demographic, epidemiological and nutritional transition.

Health care spending in India including public and the private sector was 4.7 per cet of the country's GDP in 2014 which translates to about 75 USD per capita and three fourths of this is from the private sector. The National Health Account for 2013-14 reports that Government health expenditure in India is 3.8 per cet of the Total Government Expenditure (TGE) including State and Central government. Considering India's federal structure, share of State governments in government health expenditure is about 66 per cet. National Health Policy 2017, has committed increasing health expenditure to 2.5 per cet of the GDP by 2024-25.

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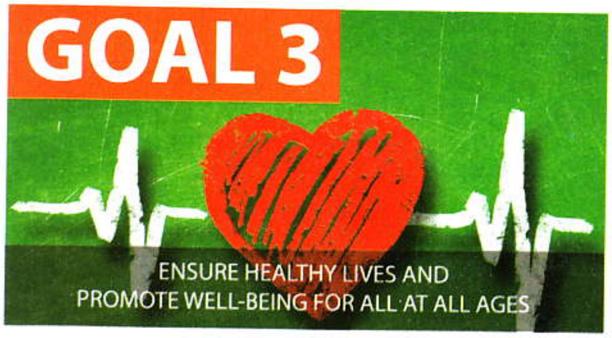
Health in MDG: Achievements and Limitations

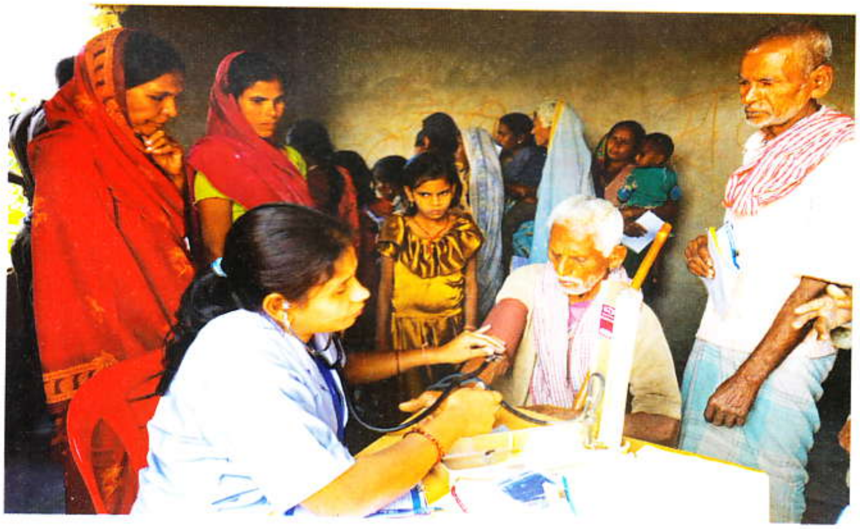
In September 2000, the United Nations General Assembly (UNGA) adopted the Millennium Declaration which established a global partnership of countries and development partners committed to achieve eight voluntary development goals to be achieved by 2015. The MDGs called for action to (a) eradicate extreme poverty and hunger, (b) achieve universal primary education, (c) promote gender equality and empower women, (d) reduce child mortality, (e) improve maternal health, (f) combat HIV/AIDS, Malaria and other diseases, (g) ensure environmental sustainability and (h) develop a global partnership for development.

Three of these eight MDGs focused on health whereas health also remained a component of other MDGs. In India, health is not solely in the hands of Ministry of Health and Family Welfare and parallel systems in States and local Governments but also on counter sectors like water and sanitation; women and child development; social welfare; tribal affairs; urban development; agriculture; industry; environment; rural development and transport etc. Therefore, health outcomes are much beyond the allocation towards health sector.

Other sectors also have cross building effect on health. In India, to generate more resources for health, there is need to consider review of taxes and subsidies which play a preventive role in controlling communicable and non-communicable diseases. For example, commodities that harm health needs to be declared sin and heavily taxed and taxes to be earmarked for preventive and promotive health care whereas those beneficial need to be subsidised. In India, as per 2017-18 budget document, 10 per cet of government spending is earmarked for subsidies for food, fertilizers and petroleum etc. which have direct and indirect health effects. The subsidies during 12th Five Year Plan (FY 2012-13 to 2016-17) accounted for Rs. 2,43,152 lakhs crore annually which is 1.74 times more than the central, State and local budget on health; hence subsidies need to be reviewed periodically.



Raising taxes on harmful commodities may not only improve health but can generate more fiscal space for health. In case of India, taxes on alcohol, tobacco, salt and sugar will not only generate additional resources but would be preventing communicable and non-communicable diseases and contribute to easing burden on health systems. At present, communicable and non-communicable diseases cause more than 65 per cet deaths, the fiscal deficit created due to raised taxes would be impacting socio-economic and cultural factors in a low and middle class society. The revenue generated through tobacco taxes may be earmarked for health sector to deal with cancer and cardiovascular diseases and for agriculture sector to shift farmers from tobacco cultivation to other crops which yield high returns and are sustainable ecologically.



Similarly, taxes generated from alcohol, may also be used for health. No doubt taxes generated from tobacco, alcohol and unhealthy food play an important role in economy but epidemiology transition has brought the society at a juncture where 62 per cent deaths in India are due to Non-Communicable Diseases and the risk factors attributed are tobacco use, harmful use of alcohol, high blood pressure due to high salt intake, obesity, unhealthy diets like sugar sweetened beverages and physical inactivity.

Subsidies on commodities such as sugar, diesel, kerosene and coal needs to be reviewed and savings to be diverted to nutritious food and clean renewable energy sources. Government needs to subsidise LPG heavily instead of diesel, kerosene and coal for cooking and fruits, dairy products and protein sources to be promoted for healthy life style.

Government has levied taxes on tobacco, alcohol, unhealthy diets and sugar contained beverages to generate revenues but this could be enhanced to the level to make them beyond the reach of people. Turning point in the era of taxation would be when these taxes, labelled sin tax, are levied to move towards assuring healthy behaviour which act as preventive health providers, save society from

Sl. No.	Product	Risk factor	Outcome	Burden on health system	Preventive measures or Solution
1	Tobacco	Smoking Chewing	Cancer, heart diseases	Curative, Palliative, rehabilitative	Imposition of heavy taxes
2	Harmful use of Alcohol	Drunk driving, unsafe sex, substance abuse	Traffic accidents, cancer, liver diseases, Sexually Transmitted Infections (STI)	Curative	Imposition of heavy taxes
3	Salt	High BP	Stroke	Curative	Imposition of heavy taxes
4	Sugar sweetened beverages	Obesity	Cancer, Heart diseases, Diabetes	Curative, Palliative, rehabilitative	Imposition of heavy taxes
5	Food grains	Obesity	Diabetes	Curative, Palliative	Imposition of heavy taxes
6	Trans fats	Obesity	Diabetes, Heart Diseases	Curative, Palliative	Imposition of heavy taxes
7	Fuel Diesel	Air Pollution	Chronic Obstructive Pulmonary Diseases (COPD)	Curative	Imposition of heavy taxes
8	Condoms	Unprotected/ unsafe sex, Unwanted pregnancy	Sexually Transmitted Infections (STI)	Primary, Secondary, Tertiary care	Subsidy
9	Vaccines	Measles other preventable disease Pneumococcal diseases	Infectious diseases	Primary, Secondary, Tertiary care	Subsidy
10	Essential drugs to treat infectious diseases	Lack of treatment	HIV/TB/ Malaria/ bacterial infections	Primary, Secondary, Tertiary care	Subsidy
11	Early diagnostics of TB	Lack of diagnostic	Undiagnosed hidden TB	Primary, Secondary, Tertiary care	Subsidy
12	LPG as a substitute for Kerosene and fossil fuel	Air Pollution	TB/COPD	Primary, Secondary, Tertiary care	Subsidy

Non-Communicable Diseases, protect human resources from disability at a juncture when India is at an advantage of demographic surplus which in a way would get converted into demographic dividend. Ethically, it is inhuman to generate revenue from tobacco and alcohol for investment in developmental activities and construct cancer hospitals and palliative and rehabilitative centres in parallel.

At the policy level, marginal increase in taxes may not yield desired results/outcomes. Therefore, increase in taxes need to be substantial to achieve the desired changes in consumption and move towards phasing it out from life. In a country like India, inflation suppresses small increases; hence inflation needs to be adjusted to avoid tax ineffectiveness. Planning of such taxation would yield outcomes if a mechanism of strict adherence of regulation at centre and State is in place to avoid non-compliance on grounds of loopholes specially against smuggling and bootlegging as large tax collection allures pilferages. Formulation of a policy on raised taxes may not achieve defined results unless its implementation and enforcement is monitored effectively and coordinated till it yields desired outcomes to reduce transport and trade illegally. Raised taxes on tobacco, alcohol, salt and sugar and unhealthy products are justified not only to address the bad effects on society from the abuse of these substances but also to enhance collection of government revenue. Revenue raising on these products should be as high as the component that mitigate the bad effects of consumption/ abuse. The design of taxes must take into account all products leading to obesity and further diabetes and cardiovascular diseases. Adolescents and adults respond most to price increases on unhealthy foods and beverages, tobacco and alcohol.

For the productive utilization of tax resources, part of tax collection could be earmarked to preventive and promotive health care, improvement for air and water quality, nutrition and treatment of diabetes, Cardiovascular Diseases, Cancer and Chronic Obstructive Pulmonary Disease (COPD).

In a similar way, another front of resources mobilisation is review of subsidies which is a burden on growing economies and may provide some fiscal space. Food substances that contribute to obesity including refined grains such as white flour and white rice are highly subsidised and these subsidies need to be reviewed and reoriented towards improving the nutritional content of subsidised food.

Production and consumption of pulses have stagnated in India while the output of food grains and sugar has increased. In India, under the National Food Security Act (NFSA), 2013, the government is projected to spend $25 billion a year to subsidize food grains, whereas this food subsidy can be used towards subsidies on pulses, fruits, vegetables and milk which will have a far more beneficial impact on nutrition.

It is not only what consumers eat, drink or smoke that can harm health and whose effects can be modified by taxes or subsidies. India subsidises coal, gasoline and their fossil fuels which are the leading products of particulate matter which causes lower respiratory tract infections, COPDs, cancers, heart diseases and exacerbates the risk of tuberculosis.

According to a 2015 IMF report, government spent 6.5 percent of the world's GDP to subsidise energy and energy subsidies exceeded public spending on health and education. Re-allocating fuel subsidies towards clean fuels and eliminating subsidies on those items which have direct harmful effect on health is necessary to improve health and save scarce resources.

Review of subsidies and later removal or reduction and imposition of heavy taxes may not favour political agenda but the health and economic burden of tobacco and alcohol use falls heaviest on the poor. Heart disease and stroke are the leading causes of catastrophic expenditure in India and the main reasons of families falling below the poverty line trap into poverty.

A second concern is that, removal of agricultural subsidies would adversely affect farmers and small scale manufacturers including those who make bidis and other tobacco products. Farmers of tobacco and sugarcane do well as these crops are cash crops in India but they should be assisted to switch over to such crops that are not harmful to human health and just a substitute of their livelihood by allocating part of earmarked revenue collected through taxes for the orientation of these farmers for smooth transition from these cash crops to other crops without putting them into financial hardship. Policy makers need to document explicitly pros and cons of these reforms of reorienting tax revenue and subsidies and explain provisions on how the losers from these changes would be compensated to ensure that their livelihoods are not compromised. ❑

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