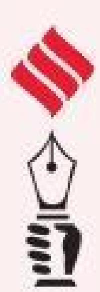

Opinion

WEDNESDAY, JANUARY 15, 2020

THE REAL THREAT

Congress leader P Chidambaram

The sliding economy is an even greater threat to the country. If unemployment rises and incomes decline, there is the danger of youth and students exploding in anger

Push fertiliser DBT to save subsidies and also the soil

A big reason for why govt is not too keen on genuine DBT is that it can no longer pay its dues of around ₹60,000 cr

IT IS NOT clear whether the government plans to go back on its ultimate plan to use a genuine direct benefit transfer (DBT) to deliver fertiliser subsidies, but it would be unfortunate if it does not implement a full-fledged DBT. Right now, the government has a quasi-DBT that involves the beneficiary farmer identifying himself using an Aadhaar biometric while buying the subsidised fertiliser, after which the government makes the payment of the subsidy to the fertiliser company. This helps ensure the subsidy is not being siphoned off by another beneficiary, but it doesn't help the larger issue of farmers overusing urea many times over as there is a huge subsidy on it. Ideally, in a full-fledged DBT, farmers would be paid the per unit subsidy in cash, and the fertiliser would then be sold at the market price. Since this would mean a dramatic increase in urea prices, farmers would buy only the amount of urea they really need and more of other fertilisers; since farmers will get the subsidy in cash, there will be no extra cash outgo for them. Interestingly, while most believe farmers benefit tremendously from the huge urea (N) subsidy—per unit subsidies on phosphatic (P) and potassic (K) fertilisers are much less—the reality is that, with Indian urea fertilisers costing a lot more than the global costs, the bulk of the urea subsidy is actually a subsidy to Indian fertiliser firms and not to farmers.

The unacceptably large urea subsidy, according to a recent Icrier paper by Ashok Gulati and Pritha Banerjee, has ensured that against the ideal N:P:K ratio of 4:2:1, the average is 6.1:2.5:1, and it is as much as 25.8:5.8:1 in states like Punjab. This has resulted in a sharp fall in productivity due to the nutrient balance in the soil worsening. While farmers got 13.4 kg of grain for each kilogram of fertiliser used in 1970, this fell to just 3.7 kg in 2005; it is even lower today. Apart from this, Gulati and Banerjee show (*bit.ly/2Tk2mNz*), the excess nitrogen from urea leaching into the soil, and the deficiency of sulphur, iron, zinc, and manganese—caused by use of too little non-urea fertilisers—is responsible for stunting and, due to nitrate contamination of water, even blue babies.

Ideally, there is no reason why the government should not implement a full-fledged DBT for fertilisers given the benefits from doing so. One possible problem, as Uttam Gupta has argued in this newspaper (*bit.ly/3a6RLLO*), could relate to the government being cash-strapped. In FY20, Gupta estimates, the government could end up owing the industry around ₹60,000 crore. While it is possible to accumulate such dues in the current system where fertiliser firms sell the NPK at a subsidised rate to farmers, in a full-fledged DBT—where farmers pay the full fertiliser price—the government will have to make this payment upfront to the farmers. If farmers don't get the subsidy before they buy the fertiliser, they will never buy it as doing so will mean a big dent in their budgets. It would be a pity if the government being cash-strapped is the reason for putting off a major reform whose impact, going far beyond pure economics, has major health ramifications as well.

Why just stop at Andhra?

Govt must penalise SEBs that are not paying dues as well

IT IS NOT clear what action, if any, the central government plans to take to ensure the Andhra Pradesh government reconsiders its decision to revise the renewable energy contracts signed by the Chandrababu Naidu government since, evidently, the state has not heeded the Centre's advice. One option, *Mint* reported earlier this month, was that the central-government-owned NTPC would buy around 300 MW of renewable power from the state, but the story has not been confirmed by either NTPC or the Andhra government. Another option, *Mint* reports, is to try and restrict either supplies of coal or, possibly, even loans from big electricity PSU funding agencies PFC and REC. Such a plan, it appears, is not to be restricted to Andhra Pradesh, but is valid for any state that tries to renege on contracts/PPAs.

It is not clear if this will stand legal scrutiny, but the central government would be well-advised to broaden the scope of its attempt to fix the power sector. The central government's Praapti website, for instance, says that state electricity boards/discoms owe power generators (gencos) ₹81,000 crore; of this, ₹71,673 crore is beyond the allowed grace period of 60 days and represents a 45% jump over that a year ago. Indeed, the Association of Power Producers says the Praapti data is not complete—it shows the dues to private gencos at ₹23,000 crore—since it does not include the late payment surcharge of ₹6,000 crore, nor does it include the 'change in law' claims of ₹17,000 crore. The latter refers to hikes in power costs due to a change in the law, say, a new cess; these have to be paid by the SEBs/discoms since even the electricity tribunals have okayed this.

These late payments, in turn, have ensured that the private sector gencos are finding it difficult to service their loans to banks. The SEBs remain cash-strapped since, despite the Uday promises, they either did not cut losses by enough or did not raise tariffs to economic levels. As a result, they are also buying less electricity which, in turn, has further depressed the earnings of the gencos; around 14,700 MW of power plants also do not have PPAs because cash-strapped SEBs aren't signing fresh contracts. Ideally, as happened in the early 2000s for PSU utility firms, the government should force the SEBs to sign a tripartite agreement that allows RBI to deduct any electricity overdues from the accounts of state governments with it—all tax devolutions from the central government flow into this account—and then pay it directly to the genco. While Uday was an attempt to ensure SEBs reformed by giving them a very generous interest rebate—banks were asked to replace loans on which a 12-14% interest had to be paid with state government bonds that paid 8.5% interest—it had no real penalties for states that failed to reform. It is time to penalise states that don't pay suppliers, not just the states that want to renege on contracts with foreign investors; the interests of Indian investors also need to be safeguarded.

AgeWISE

Digital de-ageing, of the scale in *The Irishman*, has opened a debate on how tech is influencing the perception of art

WHAT TO MAKE of the way technology is influencing the way art is perceived? Take, for instance, the case of the Netflix original feature length film, *The Irishman*. It has bagged 10 Oscar nominations, including for visual effects. There is almost everything going for it—a stellar cast, including Al Pacino, Robert De Niro, and Joe Pesci, one of the GOAT directors, Martin Scorsese, and is made on a $160-million budget. But, critics are divided over the use of the de-ageing technology that allows the film to feature decades-younger Pacino, De Niro, and Pesci for a significant length in the film. Some critics feel this deprives the viewer of a more authentic experience of the film—you have these stars looking 40 years younger than they are, but these young characters don't move with age-typical agility because the stars playing them are old! The scenes, thus, seem "faux".

It is not the first time the technology is being used—it was used in 2006, in *X-Men*, and another Oscar-nominated movie, *The Curious Case of Benjamin Button* (2008), had Brad Pitt looking decades younger than his real age at the time. But, this is perhaps the first time that it has been used so extensively—indeed, a big chunk of the movie's budget went to visual effects. But, does such technology make an actor's performance less real, or, more correctly, are viewers likely to perceive it that way? De-ageing technology has evolved a lot, but, clearly, there are aspects of the performance that this technology can't bring in sync with youth. And, if the use of the technology is going to make performances seem less credible, it would be a loss to the art and the beholder. It is ironic that De Niro shot to fame playing the younger version of Marlon Brando's iconic character, Vito Corleone, in the *Godfather* series. Today, his performance as a digitally-altered younger version of himself is nominated for an Oscar, but opinion seems divided.

THE REAL MAINSTREAM

MANY PARTS OF INDIA SHARE THE SAME ECOSYSTEM AND CONDITIONS THAT HAVE SET AUSTRALIA ABLAZE. WE NEED TO LEARN LESSONS TO AVOID SIMILAR CATASTROPHES

Australia lessons for India

CHANDRA BHUSHAN

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Views are personal

DEEP ORANGE HUES enveloping the sky, fire tornadoes, terrified people being evacuated from beaches, a charred joey (baby kangaroo) hanging on a fence wire, a scorched koala on fire, and cities engulfed in thick smoke. These are the poignant images of the devastating forest fires raging in Australia since September 2019. While mainstream media is calling it 'bushfire', I believe this term undervalues the scale and nature of the devastation. The terms 'inferno' or 'firestorm' seem more appropriate to describe the catastrophe.

The scale of the devastation that the forest fires have inflicted on Australia is unheard-of. About 11.5 million hectares of forests have gone up in smoke so far. This is an area bigger than the whole of Punjab and Haryana put together. Though the loss of life and property is relatively low—about 30 people are dead, and around 2,500 homes have been destroyed or damaged—the destruction of wildlife has been colossal. More than one billion animals—mammals, birds, and reptiles—have lost their lives in the inferno. In New South Wales, a third of all koalas are believed to have perished, and one-third of koalas' habitat has been wiped out. What implications it will have on the future of this species, listed as vulnerable on the IUCN Red List, only time will tell.

Air pollution has become another disaster. On January 1, Canberra, Australia's capital, recorded the worst pollution it has ever seen, with the air quality index 23 times higher than "hazardous level". As I write this column, Melbourne is still blanketed by hazardous smoke. The smoke has reached New Zealand, 1,000 miles away, and has drifted across the South Pacific Ocean, reaching Buenos Aires.

The fact is, the continent has been burning continuously for the past five months, and Australians have not been able to defeat the blaze even with all their resources and technological might. They are now praying for the rain gods to come to their rescue.

Forest fires are part of Australia's ecology. Eucalyptus forests in Australia have a unique relationship to fire; the trees actually depend on fire to release their seeds. Every year, some or other part of the forests catch fire and are quelled naturally or by firefighters. This year's fires, however, are unprecedented. They started much earlier and got very big very quickly, and have continued uninterrupted till now. The weather conditions feeding the fires are also historic. 2019 was the continent's hottest and driest year on record. The annual mean temperature was 1.5°C above the long-run average—the highest since records began in 1910. The amount of rainfall, meanwhile, was 40% below the long-term average, the lowest since 1900. The extreme heat and drought created more tinder to fuel fires.

There is a definite tell-tale sign of climate change in Australia's forest fires. Higher temperatures, extreme dryness, lengthening fire seasons, and the rapid spread of forest fires fall precisely in the scenarios that the climate models have predicted for decades. But, these predictions are not only for Australia; they hold true for a large number of countries, including India.

Many regions of the world share similar conditions that have set Australia ablaze. The west coast of the US, the Mediterranean, South Africa, parts of Central Asia, and parts of South and Central India, have predispositions for the similar firestorm. These parts of the world are already experiencing increasing forest fires. In 2018, California had its deadliest forest fires in history, and over 100 people died in wildfires in Greece. India, too, has experienced some of its worst forest fires in 2018 and 2019. In fact, incidents of forest fires in India have more than doubled since 2015—from 15,937 incidences in 2015 to 29,547 in 2019. There is a clear signal of increasing forest fires in central and southern states.

> The older ways of containing forest fires will become obsolete. Australia's forest fire management rules are considered the best in the world, yet they failed to control fires

So, what do we do to avoid the tragedy that has befallen Australia? The first and foremost thing to do is to learn lessons, and there are many important ones to learn.

The first one is that the climate crisis is not something that will happen in the future; it is happening now, in front of our eyes. We are witnessing the worst impacts of climate change at a much lower temperature increase than what has been predicted by IPCC.

Two, as the world gets warmer and drier, forest fires will become more frequent and severe. We will have to learn to live with forest fires. This means, we will have to zone our forests based on their propensity for fire, and design management systems accordingly. For instance, about one-third of India's forests are fire-prone. We should quickly assess these areas carefully for habitation and infrastructure.

Three, the older ways of containing forest fires will become obsolete. Australia's forest fire management rules are considered the best in the world, yet they failed to control fires. For example, in Australia, the fire lines and fire breaks didn't work because the fire was of the 'Crown Fire' type. Crown fires burns the tops of trees and spread rapidly via wind.

Four, our forestry practices will have to change drastically. For instance, we have been promoting eucalyptus plantations across the country. We will have to seriously look into this practice, as eucalyptus plantations have been singled-out for crown fires. Similarly, knowing how to deal with invasive alien species like Lantana has become more critical than ever. In some parts of Australia, Lantana is being linked with the severity of the forest fires.

Lastly, the firestorm in Australia is a clear reminder of our inability to deal with large-scale extreme events. Even with all our technological might, we will not be able to save lives, properties and ecosystems. It is, therefore, essential that we do everything possible to contain global warming within 1.5°C. This is the only chance to avoid large-scale death and destruction.

RBI Watch: Oi Food!

Inflationary pressures in half of India's food basket could abate when the next vegetable crop arrives; however, one-third of the basket could remain inflationary for longer

PRANJUL BHANDARI

Chief India economist, HSBC
Views are personal

IN DECEMBER, CPI inflation soared to 7.4%, its highest print in over five years. This has come at a time when economic growth has slowed to 4.5% year-on-year (y-o-y), well below India's potential growth rate of c.6.5%. With such weak growth, where has all this inflationary pressure come from? How long will it last? And, can it unsettle the monetary easing cart?

A quick look suggests that food inflation has risen from 3% y-o-y in August to 12.2% in December, explaining much of the rise in headline. We divide the rise in food inflation into two parts: The spike following the vegetable price shock, and the rise in food inflation predating the vegetable price shock.

The sharp rise in the price of vegetables since August seems to have driven much of the spike in inflation. This was not a big surprise. Insufficient rain at the start of the monsoon season, followed by floods later on, played havoc with vegetable crops.

However, this is not where it ends. A careful look reveals that it is not just vegetable prices that are rising—in fact, the rise in food inflation is widespread across several categories. Moreover, food prices had started to tick up even before the vegetable price spike. This complicates the picture. Why is food inflation becoming generalised at a time when wage growth, and economic growth are sluggish?

The spillover from the vegetable shock

Vegetable prices have risen sharply since August. As mentioned above, this did not come as a big surprise given reports of flooding hampering vegetable crops. However, the rise in inflation is not limited solely to vegetables, which account for 13% of the food basket. Inflation in 50% of the food basket, which is comprised of cereals, oil, vegetables, sugar, and spices, has been rising since August.

We are not overly concerned. We find econometric evidence that when inflation rises in an important constituent of the food basket, like vegetables, it spills over into other items in the food basket due to substitution effects.

In an Ordinary Least Squares (OLS) econometric framework, we regress non-vegetable food inflation on vegetable inflation (while controlling some of the other variables that impact food prices). We find that a spike in vegetable prices can spill over into non-vegetable inflation, with a lag of one month. Our results are statistically significant.

By the same argument, when a new vegetable crop arrives over January and February, the price of all these food items could decline. In fact, the price of vegetables tends to fall during winter months, leading to a fall in the overall food index.

As a consequence, this spike should not concern RBI too much.

> We find that a spike in vegetable prices can spill over into non-vegetable inflation, with a lag of one month

Implications of a supply-side adjustment

However, one-third of the food basket—comprising milk, fruit, eggs, meat, fish, and pulses—has seen a rise in inflation that pre-dates the vegetable shock. What is going on there?

We find that trend inflation for each of these food items has fallen sharply over the past few years.

Over the last few quarters, actual inflation has fallen well below the (already low) trend for milk and fruits, and is, now, just about catching up. The rise in inflation can, therefore, be labelled normalisation.

However, it is a bit different for protein rich pulses, eggs, meat, and fish. For these items, actual inflation has overshot trend inflation. Here, we see signs that production is being cut. Given the sharp decline in food prices over the past few years, producers have either planned a production cut, as in the case for eggs, where production is likely to be down 25-30% this year, or had unplanned production cuts due to supply-side issues like untimely monsoon rain damaging pulse crops.

This supply-side, adjustment-driven food inflation could linger for longer, in our view. That being said, because the demand side is weak, we do not think inflation in these items will rise too sharply.

RBI could still find room to ease

All told, 50% of the food basket could see some disinflation when the new vegetable crop arrives over the winter months. Conversely, one-third of the basket could continue to see higher inflation while a supply-side adjustment is under way.

Meanwhile, the growth momentum remains weak and will likely keep a lid on core inflation. In the December reading, too, core inflation (headline, excluding food, fuel, petrol, diesel, and housing) actually fell to 3.5% versus 3.8% last month.

Putting food and core inflation together, we expect headline inflation to fall to the 4.5% area by mid-2020, moderating further towards the end of 2020 as a high base kicks in.

With growth well below potential, this is likely to open up space for easing again. We expect RBI to cut the policy repo rate by 25bps in June, taking the repo rate to 4.9%.

Excerpted from HSBC Global Research's India: RBI Watch: Oi Food!, December 2, 2019

LETTERS TO THE EDITOR

Gotabaya's unitary politics

After having been elected as the president of Sri Lanka, Gotabaya Rajapaksa had declared that he was the president of all Sri Lankan people despite the fact that the minorities such as Tamil population and Muslims had not voted for him. But, his recent announcement that national anthem will no more be sung in Tamil, the second official language of the country at the National Day ceremony on February 4 had raised legitimate doubt about president Gotabaya's stated commitment towards inclusiveness in his governance. As a measure of inclusiveness and an effort towards promoting reconciliation, Gotabaya's predecessor had introduced the singing of country national anthem in Tamil. Respect for linguistic diversity and sincere attempts towards reconciliation with a thrust on addressing the political aspirations of Tamil population and Muslims holds the key to usher in an era of permanent peace and stability in Sri Lanka.

— M Jeyaram, Sholavandan

On PSB privatisation

Apropos of "Budget 2020: Don't blame FM.." January 14, the budget ought to break new ground, among them privatisation of PSBs—a prerequisite for attracting private ownership of PSBs is to make them a desirable acquisition.Their overhang of NPAs has to be cleared as the first step.The concept of Bad Bank needs to be pursued with speed. Once PSBs are rid of the millstone on their necks,they can spring back to energetic and intelligent lending. The empowerment and accountability of top echelons of the banks need to be laid down in parallel. With an established progressive work ethos,some banks can even occupy a pride of position in public financing. Others, too, will gain the favour of the investing public.

— R Narayanan, Navi Mumbai

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R.N.I. Reg. No. 6188/61 Printed for the proprietors, The Indian Express (P) Ltd by Vaidehi Chintaman Thakar at The Indian Express (P) Ltd Press, Plot No. EL-208, TTC Industrial Area, Mahape, Navi Mumbai-400 710 and published from Express Towers, Nariman Point, Mumbai-400 021. Editorial & Administrative Offices: Express Towers, Nariman Point, Mumbai-400 021. Phone: 22022627/67440000. Fax: 022-22856323.
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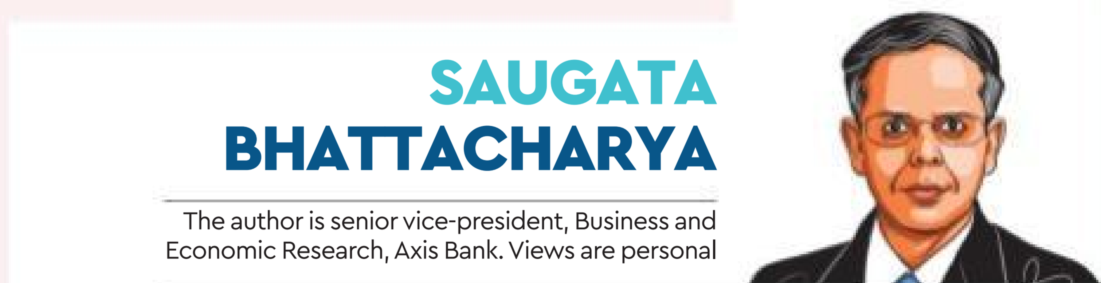


SAUGATA BHATTACHARYA

The author is senior vice-president, Business and Economic Research, Axis Bank. Views are personal

To spur growth in FY21...

...the FY20 fiscal deficit might need to be taken to 3.8% of GDP, a slippage manageable without recourse to additional market borrowings

A SHALLOW RECOVERY seems under way, but bringing growth back towards potential will require continuing policy response. Further monetary easing in the near term is likely to be limited, given the risks of latent inflationary pressures and expectations. Hence, attention has now shifted to the scope for a fiscal stimulus in the FY21 Union Budget. While the FY20 fisc is now mostly of academic interest, insights on the likely contours of the FY20 RE, which will set the base for FY21 growth assumptions, is useful.

First, can the Centre breach (and by how much) the BE fiscal deficit of 3.3%? Both the original FRBM Act and the NK Singh review committee recognised the need for fiscal support during cyclical downturns, and allowed a slippage of 0.5 percentage points, provided real growth in any quarter fell 3 percentage points below the moving average of the preceding four quarters. This would require the Q3 growth to print at 2.5%, since the Q3FY19 to Q2FY20 GDP growth averaged 5.5%. This is unlikely, given our current forecast of Q3 growth (at 4.7%). However, an escape clause allowing slippage in case of structural reforms with unanticipated fiscal consequences might be invoked; the corporation tax cut might be compliant.

Second, the FY20 AE nominal growth forecast pegs GDP at ₹204.4 lakh crore, versus the BE GDP of ₹211.1 lakh crore. This lower estimate adds 0.1 percentage point to the RE fiscal deficit to 3.4%. Hence, FRBM will allow an additional gap of about ₹82,000 crore.

The following is one scenario of likely FY20 Budget RE numbers, based on judgemental extrapolations of the reported April-November trends, with deviations entirely possible, given the complexity. The accompanying chart is a summary of the expected slippages in tax and non-tax revenues and the heads through which some of this can be offset. The net slippage estimated is ₹80,000 crore, in line with the FRBM leeway.

On the revenue side, total gross taxes collected by the Centre (before transfer to states) will likely miss BE targets by ₹4.2 lakh crore. Material shortfalls are expected in income tax, excise collections (despite the ₹2 per litre hike in petrol and diesel taxes), and corporation tax (given the tax rate cut and weak corporate profits). Shortfall of GST balances used by the Centre might be 0.3% of GDP. On non-tax revenues, the expected shortfall from disinvestments is largely matched by higher dividend incomes from RBI and other PSUs.

Part of this gap will be plugged by the 42% (of central taxes collected net of cesses and surcharges) lower required transfer to states, ₹1.4 lakh crore, meaning the effective shortfall on the Centre's budget will be limited to ₹2.8 lakh crore. Albeit in the domain of conjecture and hence probably prudent to consider as contingent, a further potential saving on transfer to states might be an adjustment of excess transfers last year and a lower, more realistic RE estimate for FY20.

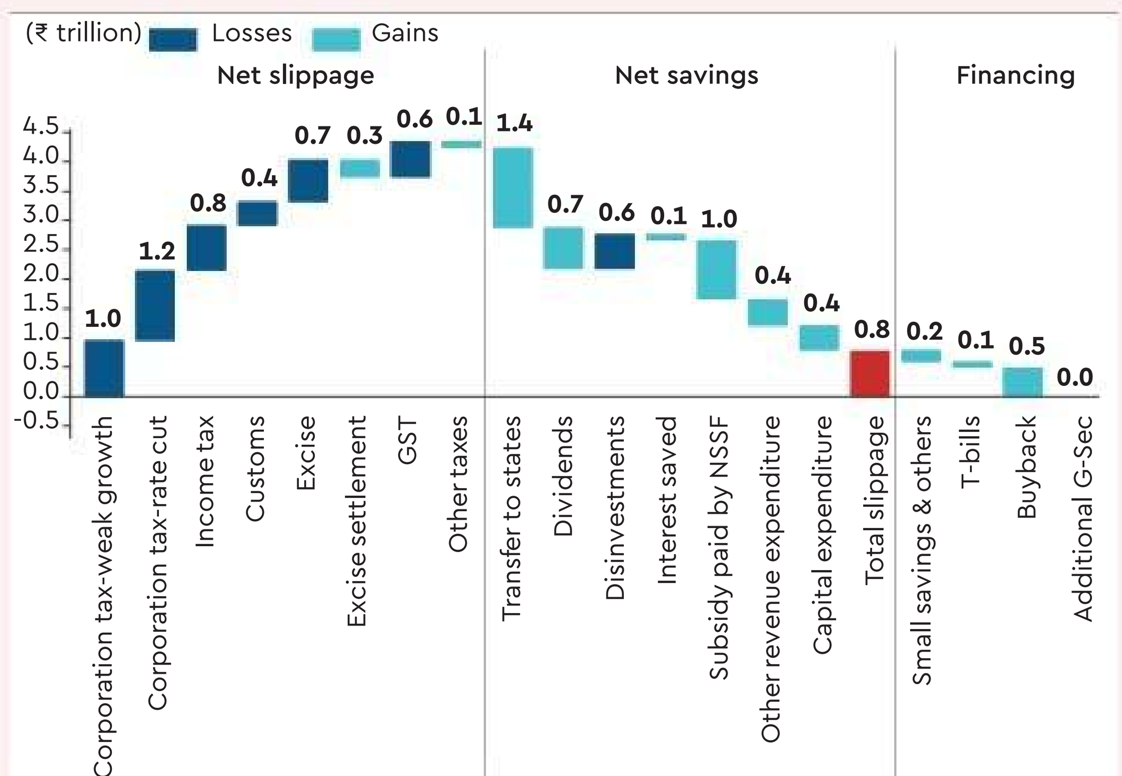
Hence, expenditures will have to be suitably moderated by around ₹2 lakh crore to get a more realistic 0.4-0.5% slippage (taking the effective deficit to 3.8%). However, expenditure growth over April-November have only slowed very modestly. Media reports suggest that government departments have been asked to cut revenue expenditure in Q4 to 25% of annual budgets (from the 33% normally spent). Even here, the scope for meaningful expenditure cuts remains limited to the PM-KISAN and PMAY schemes (which might be politically difficult), while pensions payouts appear likely to overshoot targets. Lower yields might also allow for some modest savings interest payments. Capital expenditures appear to have limited room for cutbacks.

The most likely modus operandi for spending cuts, it appears, will once again be a transfer of some expenditures to the National Small Savings Fund (NSSF). Given April-November collections in small savings of ₹1.56 lakh crore, projections for the year are much higher than the FY20 BE of ₹2.09 lakh crore, probably an extra ₹50,000 crore. The Food Corporation of India (FCI) is budgeted to pay back ₹27,000 crore of past borrowings to the NSSF, but it is possible for the NSSF to re-inject around ₹1 lakh crore back to the FCI as fresh lending, reducing outgoes for food subsidy by around ₹1 lakh crore. The NSSF can also be used for disbursing funds of around ₹48,000 crore to other revenue and capital expenditure heads. Recourse to small savings to cut actual government expenditure to this extent is a stretch, but not impossible.

Given these revenue and expenditure changes, the fiscal deficit will slip by around ₹80,000 crore. This can be financed without recourse to excess G-Sec borrowing: ₹50,000 crore from cancelling the budgeted buyback of bonds, ₹20,000 crore additional borrowings from the NSSF, and ₹10,000 crore additional T-bill issuance.

Looking forward to FY21, projecting nominal GDP growth at 9.4%, and allowing additional buoyancy of 2.5% in most taxes and modest growth in expenditure, the FY21 fiscal deficit can be brought to 3.6% without further increasing off-balance-sheet financing from the NSSF. However, owing to large maturities, the gross G-Sec issuance is likely to be above ₹8 lakh crore in FY21. This algebra needs to be looked at in greater detail.

(*Tanay Dalal contributed to the article.*)



HEALTH INFLATION

Should India also subsidise pharmacy costs?

BORNALI BHANDARI & AJAYA K SAHU

Bhandari is senior fellow and Sahu is senior research analyst at NCAER. Views are personal

ANALYSING RISING HEALTH inflation points to price rise in medicines, which form a significant share of medical expenditure of households. This raises the question, whether India should subsidise medicine costs of households?

The NCAER-India International Centre Mid-Year Review 2019-20 had pointed out that miscellaneous inflation was the biggest contributor to overall retail inflation in the first half (H1) of 2019-20 (40.7%). Within miscellaneous items, the health sub-category had the largest weight (25.1% and 16.3% in rural and urban areas, respectively). Health inflation contributed 40.2% and 26.9% of miscellaneous inflation in rural and urban areas, respectively. The component health has a weightage of 5.89% in the overall CPI; 6.83% in rural CPI and 4.81% in urban CPI.

Health inflation is important because expenditure on health comprises a significant part of total household expenditure. According to the National Sample Survey (NSS) 71st and 75th rounds, it was 12.49% and 8.14% in 2014 and 2017-18, respectively. The share of household health expenditure showed a downward trend between the two periods. Within health expenditure, the share of in-patient (lives in hospital while in treatment) was 36.7% and out-patient (seeks medical treatment without staying in hospital) health expenditure was 63.3% in 2017-18. This ratio was similar to 2014. Rural health inflation had averaged around 5.2% between April 2015 and September 2018, but experienced a steep rise in October 2018 (7.8%). It averaged around 9.3% between the period October 2018 and September 2019, before falling sharply to 6.1% in October 2019. The increase in rural health inflation for only one year is quite puzzling, and demands more research.

The overall health inflation mirrored the movements of rural health inflation. Looking at the components of overall CPI health inflation, we find that hospital and nursing home charges and medicines (non-institutional) experienced the highest rates of inflation in 2018-19 H2 (see graphic).

Plus, the 75th round of NSO data shows that medicines formed 70.3% of medical expenditure in non-hospitalisation cases. Out-patient health expenditure forms the majority of health expenditure and within that expenditure on medicine forms the lion's share of expenditure. Further, given the continued rise in inflation of that component, shouldn't medical insurance programmes also cover medicine costs in cases of out-patient healthcare?

The Medicaid programme in the US provides coverage for outpatient prescription drugs to all categorically eligible individuals and most other enrollees within their state Medicaid programmes. Australia has the Pharmaceutical Benefits Scheme. Since the second component of the flagship scheme of the central government, Pradhan Mantri Jan Arogya Yojana Ayushman Bharat, covers hospitalisation costs, perhaps state governments may envisage subsidising pharmacy costs of out-patient treatment via direct benefits transfer for a targeted population.

Components of health inflation

2017-18:H1 to 2019-20:H1 (% y-o-y)

Year	2017-18 H1	2017-18 H2	2018-19 H1	2018-19 H2	2019-20 H1
Hospital and nursing home charges	6.3	6.7	7.6	11.1	10.7
Medicine (non-institutional)	3.2	4.4	5.3	9	9.1
Family planning devices	6.5	3.9	3.6	4.3	18.4
Spectacles	4.5	4.6	4.3	4.2	4.3
Other medical expenses (non-institutional)	1.8	3.2	2.3	5.8	6.6
Doctors/surgeons fee-first consult (non-institutional)	6.5	6.6	8.4	6.1	3.8
X-ray; ECG; pathological test; etc (non-institutional)	3.8	3.7	3.9	6.3	5.6

Note: H1 stands for April-September and H2 stands for October-March periods
Source: Authors' computations from MoSPI

CHARADE OF AUSTERITY

Here comes the slogan again

Ruling class remains austere on austerity: instead of making austerity a way of life, it chants the slogan from time to time, to no effect

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YET AGAIN, AN ineffectual ritual of an austerity package for a 20% cut in non-development expenditure has just been notified by the Department of Expenditure in the Union finance ministry. Following a decision of the Cabinet Committee on Investment and Growth, all ministries at the Centre have been directed "to reduce wasteful expenditure on travel, food and conferences by 20%." And, as on umpteen occasions in the past, the directive has characteristically evoked a cynical reaction, "There goes that song again!" Hasn't the finance ministry just retrieved the template of "unpopular steps" for curbing "wasteful expenditure" that, much like most of the predecessors, the NDA finance minister prescribed in 2014 with aplomb towards a belt-tightening in the government? Shouldn't the custodians of nation's finances first ask, why it is necessary to reissue the circular; when and by whom the older fiats on the subject were withdrawn and, if not, how come these circulars become just effete routine rituals, petering out, coming to naught?

Austerity and economy is an axiomatic ingredient of administrative probity and productivity. Why should it surface only in a crisis, and not be a way of life? An austere lifestyle is essential and relevant not merely to demonstrate an abiding identity with the *aam aadmi*, but also as a lasting virtue in public life and governance.

What is austerity? Let us see what austerity is not. It is not audacious adulations so often splashed in newspaper advertisements at huge public cost. It is not ministers and leaders collecting a vast retinue of hangers-on and a battery of officials in tow, spending public money on travel, entertainment, extravagance in renovation of offices and bungalows. Austerity is not parliamentary committees vying with each other for jaunts and junkets to salubrious climes within the country or, still better, far-off overseas locales. It is not huge expenses incurred on frequent state visits and jaunts in grandeur, or urge to add newer models to the fleet of cars for those in high authority. It is not judicial commissions, enquiry committees or retired bureaucrats remaining ensconced in sinecures for years. Nor is it the councils of ministers and public institutions and enterprises at the Centre and the states to bloat and expand. Keeping excessive lakhs of employees in government offices and companies is no austerity.

It is not having a bevy of commandos and guards securing the ever-growing tribe of VIPs. It is not jumping queues, nor whisking the privileged away from the essential security drill at airport. It is no austerity that some representatives of common people get narcissistic, vainly erecting monuments. Such acts potentially cause revulsion; nemesis comes about, sooner or later.

On the other hand, austerity is also no stark puritanism or parsimony. It requires no self-flagellation of hermits or the silence of monks. Austerity is certainly no sanctimonious hypocrisy. Austerity in public life is essentially the practice of restraint by people whose actions are in public domain, who must view public funds and property as public trust, whose every move is watched, perhaps emulated, and who set an example from above. You may have a large private income or inherited wealth, but its ostentatious display or a sign of conspicuous consumption just does not become you, if you are a representative of the people or a public servant.

From the time of Independence, the lifestyles of people in power or position have changed dramatically. Pre-1947, we had the pomp and circumstance of the British Raj (excusable in a sense as they had an empire to rule and a corresponding message to send down to the ruled) and the grandiose panoply of the Maharajas and Nawabs (understandable, but not excusable). The lure of an easy and extravagant lifestyle with an urge to grab loaves and fishes of office has captivated all sections of political leadership. As the virus has rampaged, it has sucked in its vortex bureaucrats and all others in public life. Today, frugality, thrift and husbandry are considered old-fashioned fads. VIP culture has caught the entire nation in its trap with all its accompanying ills. Basic governance itself has been hit hard.

So many of our *netas* pay obeisance to Mahatma Gandhi and invoke his legacy to eke popular acclaim, but few comprehend how Gandhi derived immense moral power, awe and respect from an exemplary austere lifestyle. As Rabindranath Tagore explained, "Gandhi*ji* sat at the thresholds of the huts of the thousands of dispossessed, dressed like one of their own. He spoke to them in their own language."

Austerity and economy is indeed an imperative ingredient of administrative probity and productivity. Examples need to be set by the highest in the State, by ministers, legislators and senior civil servants. Why must they not ensure that "wasteful expenditure" in the government is frowned as a rule? There can, and should be, a blanket ban on official entertainment, display advertisements, avoidable travel by special aircraft and special trains, meetings and conferences being held outside the central or state headquarters. There is a case for substantial reduction in the ever-increasing fleet of cars. There should similarly be a restraint in furnishings and renovations of offices and official residences, and a real cut of, say, 50% in the consumption of paper in government offices. Again, the country can well do with far less number of holidays. As the Fifth Pay Commission stipulated, there be just three national holidays in a year, in addition to a few restricted holidays for employees to choose from, of their own volition. Likewise, in regard to other important recommendations it made, for example, downsizing the bloated bureaucratic apparatus, including secretary-level posts, by 30% over a 10-year period. An imperative need there is thus to usher the country in a new work culture and productivity ethos.

The austerity package that the finance ministry has prescribed will address just about peripheral aspects—a directive to cut non-development expenditure, also foreign and domestic travel, purchase of vehicles, arranging conferences and seminars, et al. Albeit important for an attitudinal reorientation, these prescriptions tantamount to be only cosmetic. Let us not delude ourselves. Confronted with the ballooning fiscal deficit, the finance ministry needs to come out with some lifesaving therapy. The Narendra Modi government has a daunting task of measuring up to people's Himalayan expectations of *achhe din* to dawn.

The very credibility of government fiats and professions is today in question owing to similar sermons in the past having achieved little. The government is expected to govern, more resolutely so, in adverse circumstances when the going is not good. Nothing of substance is ever achieved unless people in position are prepared to rise above the circumstance and walk on the edge. As Barack Obama said, every day, families sacrifice to live within their means; they deserve a government that does the same.