



Vaccines: Prepare for the worst case

Vaccination must be free for citizens, while vaccine manufacturers must be subsidised

There is an ongoing debate in India around vaccine prices. Should vaccines be provided free or should they be minimally priced, ensuring only a normal profit? Alternatively, should vaccine producers be allowed to earn more than normal profits by fixing high prices? A number of views have emerged on these questions.

There are actually two different issues here. The first — how much should citizens pay to get themselves vaccinated? The second — how much should vaccine producers charge for the vaccines? It is useful to adopt a two-pronged approach to address these issues separately.

Let's start with the first, the amount citizens should have to pay to get vaccinated. Here, three factors are important to note.

First, the majority of Indians have very low income levels, making it difficult for them to afford two paid shots of a vaccine. Second, a policy of vaccination can have a massive impact on controlling the pandemic, reviving economic growth and boosting tax revenue for the government. Third, even if the governments — either the Centre or states — have to pay the higher prices that vaccine manufacturers are now asking for,

the total cost to them will be a small part of their budgeted annual expenditures.

Clearly, it makes complete sense to provide vaccines for free, with the governments — either the Centre or states, but preferably the former — picking up the tab.

The more contentious part of the debate is about the price that vaccine producers should get from the government. In particular, there is concern about whether high prices that help the producers make super-normal profits are justified in the middle of an enormous humanitarian crisis. It is relevant to note here that the transactions are between governments — Centre or states — and the private sector. This means that a price ensuring super-normal profits is equivalent to covering the costs of production, plus an additional subsidy from the government. So the question is, are there grounds for providing such a subsidy to vaccine producers?

To answer this, it is important here to start with a clear description of our policy objectives at this point. The biggest lesson from the devastating second wave in India, and from countries such as Brazil that are already experiencing a third wave, is that we need to plan for possible worst-case scenarios. This is what India did not do in 2020, for which it is paying a price.

What could such scenarios be? First, while the science is not yet fully

clear on this, there are reports that immunity from the current vaccinations may last only for a limited period, perhaps less than a year. This means we may need to be vaccinated more than once a year, for multiple years. Given that the adult Indian population is close to a billion, for two initial shots of the vaccine, followed by perhaps one or two additional shots later on in the year, we will need about three to four billion shots per year.

If, with newer mutations of the virus, our younger population — those below 18 years — also become vulnerable and science suggests that they can be vaccinated, we will need close to five billion or more vaccines per year.

Can this policy objective be fulfilled without the government subsidising producers? Given the current capacity of vaccine makers, and their current plans to scale up based on support from the government, this objective cannot be fulfilled without additional capacity, over and above that which is planned for now. And remember, at the moment, the support is only in terms of advance supplier credit against deliveries and not grants.

Will vaccine producers create this additional capacity without any subsidisation? We cannot be sure. And under the current circumstances, we need to be sure. So the only way to do this is through a subsidy regime that supports capacity creation.



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Of course, the producers may just take the subsidy but not deliver on capacity creation. To prevent this, the government will need to maintain pressure on producers to ensure that the subsidy is indeed used productively. This can be done in two ways. First, the governments should agree to price contracts — including the subsidies — for a specific period, with the possibility of renegotiation after that. These renegotiations should be based on the fulfillment of additional capacity creation.

Second, the central government should also additionally create capacity in public sector firms that specialise in vaccine production. This will take some time but help keep the private sector firms competitive.

There have been suggestions that an alternative way by which capacity creation can be ensured is through the government providing additional

grants to vaccine makers. Is this a better option than higher prices? Actually, it is not a different option at all. As long as the money is paid by the government to the producers, whether through a higher price or through a grant, the implication is the same.

It is subsidisation of vaccine production by the government. Thus, whether through a grant or through a higher price, the government will have to subsidise vaccine producers, in order to make sure that we do not allow a crushing third wave of the pandemic in India. India can't afford to make more mistakes and must do all it can to protect citizens through a smart vaccine policy.

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