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India and ageing

The Union Budget provides valuable insight into the government's view of social protection

AT HOME ABROAD

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The wonders of the internet are by now a commonplace. It was nonetheless impressive to sit at home in The Hague early on a Saturday in late February and to watch the finance minister's Budget speech streamed live on any number of Indian news channels. While there was much to digest for a policy wonk such as me, what I found particularly striking were the minister's comments on precariousness, vulnerability and ageing.

As he observed, "A large proportion of India's population is without insurance of any kind, health, accidental or life. Worryingly, as our young population ages, it is also going to be pension-less … I propose to work towards creating a universal social security system for all Indians that will ensure that no Indian citizen will have to worry about illness, accidents or penury in old age."

There were two reasons why I found this section of the speech particularly resonant.

First, at the time I was reading a marvellous book about Amsterdam's pivotal role in the creation of liberal, capital bourgeois society in the 17th century[1]. While the Dutch Golden Age (as that era is called) is known for many things, one of its signal achievements was to reduce uncertainty and insecurity. This was achieved through the rule of law, the rise of civic consciousness and governance in the towns and cities of the Netherlands, and through the invention of financial instruments for managing income risk.

These achievements extended the time horizon of investors and allowed a capital market to develop. It is worth noting that this took place in a society for whom nature – the sea and the rivers – were a constant threat, and which had only recently triumphed in an epochal struggle against the Spanish crown. Living in the Netherlands has stimulated my interest in understanding how social organisation and institutional development have turned a region similar to the Ganges delta in vulnerability into one of the wealthiest parts of Europe and indeed the world. The Shorto book provides insight into one of the foundations of this success.

The second reason was my participation a month earlier in the latest edition of the Emerging Markets Symposium (EMS). As regular readers of this column would perhaps recall, this is an annual event hosted by Green Templeton College in Oxford, in which I am privileged to participate as a member of its Steering Committee.

As the EMS website notes, "The EMS was created in 2008 because human welfare problems – which, given the scale and trajectory of emerging markets, are global problems – were not being systematically addressed in any existing forum." The topic chosen this year was "Ageing in emerging markets" (*ems.gtc.ox.ac.uk/ageing.html*; a list of earlier topics covered by the symposium can also be found on the same site). India is one of the 21 countries that the EMS has chosen to include in its grouping of emerging markets.

The conviction that the state had a role, even a duty, to provide income support for the elderly is normally attributed to Otto von Bismarck, the architect of German unification. While social protection is normally seen as a socialist crusade, Wikipedia advises that in Germany it was introduced in the 1880s to outflank the socialist movement. Bismarck's idea was to implement welfare programmes that were acceptable to conservatives without any socialistic aspects (*en.wikipedia.org/wiki/Otto_von_Bismarck*)[2].

Arun Jaitley is, thus, operating in a venerable tradition of conservative politics. Bismarck was particularly interested in addressing the insecurities of the urban worker, as that was the recruiting ground for socialism. His programme included sickness insurance, accident insurance, disability insurance and a retirement pension, none of which were then in existence to any great degree. Here, too, Mr Jaitley is being shrewd and far-sighted, preparing the country for the tidal wave of urbanisation (and, ideally, industrialisation) that lies immediately ahead.

The conclusion that I draw, therefore, is that the Bharatiya Janata Party's brand of conservatism is much closer to European notions of solidarity than it is to the radical individualism of the tea-party conservatives in the United States.

There are other aspects of the Bismarck legacy, though, which are less appropriate for the India of today. Two of these figured prominently at the symposium.

The first is the arbitrary definition of 65 as the date of normal retirement. The second is the flexibility and nature of the fiscal commitments assumed by the state. The two issues are deeply interconnected. The rigid adherence to 65 as the "normal" age of retirement has proved immensely costly to advanced country governments as life expectancy has increased, and continues to increase.

The marker of 65 has been pernicious and misleading in another way as well: in the definition of the old-age dependency ratio (OADR). This is conventionally defined as the ratio of the population above the age of 65 to the assumed "working-age population", conventionally defined as the share of the population between 20 and 64.

The relentless focus on the OADR is the source of much commentary on an "old-age crisis", not unlike the earlier hand-wringing on the "population bomb" that was going to engulf the world. The proposal at the symposium was to move from a static, arbitrary and dated concept of the OADR to a more dynamic measure, the prospective old-age dependency ratio (POADR) that calibrates old age to the evolution of life expectancy. India would seem ideally positioned to start giving this concept greater currency.

To conclude, I believe it was appropriate and reasonable for Mr Jaitley to include these proposals in his Budget; also that they represent a shift in tactics from the rights-based approach of the previous government. As such, they appear to represent a centrist consensus that is in itself reassuring.

Yet both in health and in old-age pensions, the advanced countries have found themselves making fiscally unsustainable commitments from which retreat has become well-nigh impossible given the realities of electoral calculations. It will take vigilance and clever design to ensure that India does not wander into the same quicksand.

*1.*Amsterdam: A history of the world's most liberal city*; Russell Shorto, 2013; Doubleday/Vintage Books, New York*

2.According to the calculations of Angus Maddison, the real per capita income of Germany under Bismarck was approximately equal to that of China in 1992, and that of India a decade later. In The World Economy: Historical Statistics*; Angus Maddison, 2003; Development Centre Studies, OECD, Paris*

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