SOCIAL SECURITY IN INDIA
WITH REFERENCE TO
FISCAL SUSTAINABILITY AND AGEING

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DECLARATION

‘I hereby declare that the thesis titled *‘Social Security in India With Reference to Fiscal Sustainability and Ageing’* is my original research work on the subject. The work has not been submitted previously in part or full in this or any other institute or university for the award of any other degree or diploma. Wherever contributions of others are involved, I have indicated the same with due acknowledgement and reference’.

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CERTIFICATE

This is to certify that the thesis titled *'Social Security in India With Reference to Fiscal Sustainability and Ageing'* submitted by Mr. Hitesh I. Bhatia, has been carried out by him under my guidance for the award of the degree of Doctor of Philosophy in the Department of Business Economics, Faculty of Commerce, The Maharaja Sayajirao University of Baroda, Vadodara, Gujarat. The work has not been submitted previously in part or full in this or any other institute or university for the award of any other degree or diploma.

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ABBREVIATIONS

AABY	Aam Admi Bima Yojana
AITUC	All India Trade Union Congress
ASI	Annual Survey Of Industries
BMHA	Bombay Mill-Hands Association
CAG	Comptroller And Auditor General Of India
CAGR	Compound Annual Growth Rate
CSS	Centrally Sponsored Schemes
CWS	Current Weekly Status
DB	Defined Benefit
DC	Defined Contribution
DESA	Department Of Economic And Social Affairs
DGET	Directorate General Of Employment & Training
EDLIS	Employees Deposit Linked Insurance Scheme
EPFMPA	Employees Provident Funds And Miscellaneous Provisions Act
ESI	Employee State Insurance Act
FRBM	Fiscal Responsibility And Budget Management Act
FYP	Five Year Plan
GER	Gross Enrollment Ratio
GSDP	Gross State Domestic Product
HDR	Human Development Report
ICESCR	International Covenant On Economic, Social And Cultural Rights
ICLS	International Conference Of Labour Statisticians
IGNOAPS	Indira Gandhi National Old Age Pension Scheme
ILO	International Labour Organization
IPOP	Integrated Program For Older Person
IPR	Industrial Policy Resolution
JRY	Jawahar Rojgar Yojana
LDR	Less Developed Regions
LFPR	Labor Force Participation Rate
MDR	More Developed Regions
NAREGA	National Rural Employment Guarantee Act

NCEUS	National Commission For Enterprises In The Unorganized Sector
NCL	National Commission On Labor
NCRL	National Commission On Rural Labor
NDC	National Development Council
NFLMW	National Floor Level Minimum Wage
NPS	New Pension Scheme
NSAP	National Social Assistance Program
NSC	National Statistics Commission
NSSF	National Social Security Fund
NSSO	National Sample Survey Organization
OASDI	Old-Age, Survivors, And Disability Insurance
OASIS	Old Age Social & Income Security
OECD	Organization For Economic Co-Operation And Development
PAYG	Pay-As-You-Go
PDSD	Public Distribution System
PFRDA	Pension Fund Regulatory And Development Authority
PSR	Potential Support Ratio
SDRD	The Survey Design And Research Division
SOR	States Own Resources
TFR	Total Fertility Rate
UDHR	Universal Declaration Of Human Rights
UPS	Usual Principal Status
UPSS	Usual Principal Subsidiary Status
UWSSA	Unorganized Workers Social Security Act
VRS	Voluntary Retirement Scheme
WCA	Workmen Compensation Act
WDR	World Development Report
WFPR	Work Force Participation Rate
WHO	World Health Organization

CHAPTER – I

INTRODUCTION
AND HISTORY OF SOCIAL SECURITY

1.1 INTRODUCTION

The future may not necessarily be always uncertain and insecure. It may be viewed full of attractive and promising new opportunities. However insecurity and uncertainty are focal points of any social order. These are also notions which link present with the future (Benda Beckmann, Franz von and Keebet von, 2007). The way in which individuals and social institutions determine insecurity and uncertainty also indicate how they will conceptualize and prepare for the future. For societies and social organizations, insecurity and uncertainty are dealt with cultural history, inherent belief system and prolonged ideologies. Cast groups and joint family system are suitable examples for the same. However, both societies and social organizations can only extend partial security. On the other hand individuals have always deferred in their perception towards insecurity, ability and willingness to deal with them; a lot will depend upon present economic situation of an individual, his psychological and sociological foundation.

The term risk or uncertainty[1] should be used in its widest form, including both predictable and unpredictable factors (Sinha and Lipton, 1999). A seasonal drought or retirement or even death of the earning member for that matter may result in welfare loss, as the source of earning gets held up. Some of the most distressing insecurities which concern people the most, are lack of basic necessities of life such as food, shelter and health care. Beyond that, the major feeling of uncertainty arises due to sudden economic loss, reduction in the means of existence and dependency on others (either individual or social institutions). We can also add upon the uncertainty towards upbringing of children, provision for their meal, education, illness, employment, marriage and so on.

[1] The terms Risk and Uncertainty were first used by Frank Knight in his influential book titled *Risk, Uncertainty, and Profit,* published in 1921. Knight distinguished between the two considering them measurable and immeasurable respectively.

More recently a new term ‘vulnerability’[1] is used to indicate the future uncertainties which a large group of people in the society are expected to face. It is also defined as the possibility of experiencing a socio-economic loss in the future, with reference to some minimum welfare (Alwang, Siegel & Jorgenson 2001). The degree of vulnerability depends upon the nature of risks, ability of individuals and institutions to respond to these risks and the available time frame. However, insecurity and uncertainty are concerns not only towards the material aspects of life, they also and perhaps in a more fundamental way, have to do with people’s feelings of trust and ‘existential security’ (Giddens, Anthony 1991). In other words people may continue to remain insecure even after fulfilling their materialistic wants.

The capacity of society and individuals towards handling the risks depend upon large number of factors as well as the type of risks involved. For ages, mankind has always dealt with varied kind of risks. The events caused by nature which were beyond human control had a massive impact on the economic sustainability of those who were affected by it. Some of the traditional risks faced by the society include natural disasters like earthquakes, climatic changes like floods and famine, health hazards like epidemics and flu. The modern industrialized world has opened new vistas of risks such as economic risks originating from globalization, social risks originating from environmental changes and demographic risks arising from changing demographic structure. The thematic representation of important dimensions of risks is as follows (Figure 1.1).

[1] The term Vulnerability is used in various forms depending upon its application, like in terms of economic viability, sustainable livelihood, food security, sociology, anthropology, disaster management, environment, health and nutrition etc (Robert Holzmenn, 2001)

Figure – 1.1 Dimensions of Risk

Economic	• **Unemployment, Crop failure, Business losses, Retirement, Industrial sickness, Self - employment, Agricultural landless laborers etc.**
Health	• **Illness, Injury, Maternity, Malnutrition, Disability - Occupational, Accidental, By Birth, Epidemics, complete or partial disability etc.**
Social	• **Crimes, Riots, Domestic violence, Dependents, Widows, Orphans etc.**
Life – Cycle	• **Birth, Old age, Death etc.**
Environmental	• **Pollution, Climatic Changes etc.**
Political	• **War, Coup, Caste-Class discrimination etc.**
Natural	• **Calamities- Floods, Famine, Earthquakes, Landslides etc.**

Source: - Compiled from McHale, John (1999) & Holzmann, R, and Jorgensen, S. (2000)

The pure economic risks further include work related sickness, injury, disability, death and unemployment among working individuals. Similarly social and demographic risks include uncertainty of minimum living standards and a long post retirement life respectively. All dimensions of risks, natural or man-made, correlated or uncorrelated, spread and repeated over a period of time or having low frequency involve huge welfare loss (Holzmann and Jorgensen, 2000).

Of all the risks mentioned above, only economic risks depend on exactly the same factors which determine the individual's income. For instance salary and wage earners income depend on the nature of their employment, while entrepreneurs profit depends relatively more upon nature of demand than on his skill and efficiency of doing business. Similarly income of farmers will depend on soil fertility, seasonal changes and other factors beyond their control. But above all economic security of wage earners mostly depends on their ability and opportunity to find and hold a job for a longer period of time. Once the person is employed, the economic security then will depend on how effectively and efficiently his employer can minimize his misfortunes like sickness, disability due to accidents, death and post retirement life (Burns, 1956).

1.2 NEED FOR SOCIAL SECURITY

There has been a drastic transformation over the years in the structure and the size of family. The traditional extended family in many parts of the world has been replaced by the nuclear family – typically consisting of couples and their children. Accompanying the decline of the extended (joint) family has been the breakdown of the social security net and the support it provided to its members (HDR, 1990). In many countries, especially developing countries, with the advent of the nuclear family system, the corresponding benefits of health and unemployment insurance and other social services could not emerge. This uneasy transition has often been marked by considerable hardship, especially for the children, the elderly and the disabled. Now, the nuclear family is itself breaking up in many countries and being replaced by two parents and children or single-person households and single parent households. The condition of the family further deteriorates while facing any foreseen or unforeseen contingencies. Sickness, accident or death of the earning member of the family coupled with social compulsions and adverse climatic conditions often compel poor to take loans. This is also because their income levels are too low to finance any savings on which they could depend during such contingencies.

Historically, India is a poor country. The money wages of Indian workers are low; their real wages are significantly lower. Almost 90% of workforce which belongs to the unorganized sector has miserable standard of living, without any social security coverage whatsoever. Presently the range of Minimum Wages[1] for unskilled workers in different states varies between Rs 175/- to Rs 195 /- (during 2012-13). The National Floor Level Minimum Wage was revised from Rs.100/- per day to Rs.115/- per day (since 01.04.2011). For the workers employed in construction, loading & unloading and non-coal mining, the revised rates of wages are in the range of Rs. 146/- to Rs. 310/- per day (Ministry of Labour & Employment, 2011). It is impossible for such poor wage earners to satisfy basic minimum requirements of their families out of such trivial income.

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[1] The Minimum Wages Act, 1948 was enacted to defend the interests of workers mostly in the unorganized sector. Both the Central and the State Governments are authorized to fix, revise, review and enforce the payment of minimum wages to workers in respect of scheduled employments under their respective jurisdictions. There are 45 scheduled employments in the Central sphere. In addition, to have a uniform wage structure and to reduce the disparity in minimum wages across the country, a concept of National Floor Level Minimum Wage was developed on the basis of the recommendations of the National Commission on Rural Labor (NCRL) in 1991 *(Annual Report, Ministry of labour and Employment, 2009-10).*

The Non-Working population including children, aged and disabled who are presently not part of working age group should be given priority in social security benefits. These are the people who form a substantial part of country's population and are unable to produce for themselves. Next are those who belong to unorganized sector with casual and irregular employment (including some of those who are self employed) with no earning security. Lastly, there are workers with regular and assured income, but they need protection against contingencies and old-age. Human rights are universal (UDHR, UN)[1]. Irrespective of the work classification any human being who is unable to secure basic amenities for him has a right to get food, health and old-age security. It is always suggested that social insurance schemes are suitable for those who can afford to make some contributions towards his security in times of contingencies and social assurance schemes for those who are completely dependent on society and state for their livelihood (2nd National Commission on Labour Report, 2002). These developments have generated a great need of sound and effective social security system.

The increased risk of bodily harms, injuries, loss of limbs and life demands specific and adequate health and safety measures at workplace, along with an ideal social security net. It is not only the worker who alone is affected due to the contingencies involved in the occupation, but largely it's the family and those economically dependent on the worker who are at a beating. The Fatal Accidents Act, 1846 and Accident Insurance Act of 1883 introduced by Britain and Germany respectively gave much needed boost for enacting suitable legislations to provide compensation to workers engaged in hazardous industrial units. By making employer liable for any work related injury caused to the employee in or outside the working premises, the employer was identified as a suitable source of funding the social security benefits (Dixon, John 1999). Though the concept of social security benefits remained narrow i.e. restricted to only those who were employed in modern industries and for short term i.e. till the period of employment, yet it was a significant development in building a broad and exhaustive social security policy in times to come.

The concept of social security in the modern era has come out of the clutches of industrial acts and has become social in true sense. What originally started only for industrial workers, the concept now include the benefits for even those who do not

[1] United Nations adopted and proclaimed the Universal Declaration of Human Rights (UDHR) on 10th Dec, 1948 considering them as a common standard of achievement for all people and all nations.

participate in the workforce like senior citizens, unemployed persons, women and children. The social security has provided a major support system to single mothers, divorcee, and elderly by making them proficient and empowered with due economic independence. Most of the social security policies have remained gender sensitive; still the need for tailored policy for the fairer sex has always been felt[1]. On the other hand, children receiving social security benefits as a child of deceased worker or as a member of a dependent family is considered a desirable measure for building human capital. Hence social security benefits have acquired overriding importance both economically and socially in the post-industrial era.

World Development Report of 1997 presented the concept of social security in a new light[2]. It considered the social security schemes as an investment towards human capital rather a simple approach of improving human welfare. The notion of social security in modern times includes all crucial aspects of human development. The social security today is directly linked to healthcare, employment benefits, unemployment assistance, maternity and sickness allowances, old age pension, economic assistance to widows and landless labourers etc, at the micro level, and rise in capital formation, redistribution of income, industrial peace and harmony, *and* socio-economic justice at the macro level. Contrary to developed countries where the social and physical infrastructure is very strong, in developing economies the scope of social security is still wider, as it includes indirect objectives of poverty alleviation, creation of employment opportunities, raising of educational levels and improvement in standard of living.

The expenditure of state on society will provide a more productive and efficient labour force considering human beings the most active agents of production**.** The social security investment has provided a positive and vital relationship between human capital accumulation and economic growth (Lucas, 1988). The investment in the human capital extends over a long period of time (Becker, Gary S. 1964). However investment in education and nutritional diet of children is the minimum

[1] The Hindu Marriage Act, 1956 grants equal right to women in the division of property in a Hindu joint family structure. Similarly Maternity Benefit Act, 1961 protects the need of maternity leave for a working woman during and after childbirth.

[2] 'Public policies and programs must aim not merely to deliver growth but to ensure that the benefits of market – led growth are shared, particularly through investments in basic education and health. They must also ensure that people are protected against material and personal insecurity' World development report 1997: *the state in a changing world*, World Bank.

requisite for higher productivity. It is the productive age group of the population which contributes maximum to the country's prosperity and growth. The life of these in productive age groups is exposed to several risks throughout the working period and beyond. It could lead to mental peace and confidence in the labour, if his socio-economic risks are well insured.

"Social protection could be instrumental in motivating the workers to work better and to increase productivity in so far as it would enable them to work free from domestic worries to a great extent"(11h Five Year Plan, Vol-II, 2007, p 149).

In addition, social security measures help in maintaining favorable labour relations for industries, reduce the scope of illegitimate means of income generation, and substantially reduce the chances of labour unrest (ILO, 2003). In several developed economies such measures attract foreign immigrants, who replace the existing ageing workforce, and successfully contribute to the nation's wealth.

The social funds provide replacement income to the labour and his family during the period of recession and job loss. This helps in preventing the aggregate demand from falling in the economy. The unemployed, disabled, elderly and other dependents contribute significantly in stabilizing aggregate consumption not only in recession but even otherwise. The social security funds like pension and provident funds are also a major source of liquidity in financial markets, resulting into redistribution of income and a rise in capital formation. Thus a sound social security set up may act as a vital instrument for boosting overall economic development.

1.3 PRINCIPLES AND STRATEGIES OF SOCIAL SECURITY MEASURES

Taking a clue from what ILO (1942) defined social security, all countries must ensure that the community resources are utilized for protecting its people from falling below subsistence level, making it a fundamental principle for enacting different social security measures. Providing benefits in cash, insurance against contingencies, health support, housing, etc, will then be a matter of political and social order of the state, its ability to do so notwithstanding. The state should provide everything that the individuals cannot provide for themselves given their limited resources. Even for those things which individuals can somehow manage, the state must extend all possible support. Social security should be regarded not as an end in itself but as a means of promoting individual initiative and self reliance (Richardson, Henry 1960). All major enactments including ILO's approaches to social security 1942, UN's

Universal Declaration of Human Rights, 1948 and Directive Principles of State Policy, and the Constitution of India, 1950 have argued for vigorous role of state in ensuring the social security for everyone.

Another aspect in selecting appropriate principle or strategy will be to identify the beneficiary. Who should be provided social security benefits? Sir William Beveirdge in his report on Social Insurance and Allied Services (1942)[1] classified the population in six different categories based upon their employment status.

I. Employees, that is, persons whose normal occupation is employment under contract of service.
II. Others gainfully occupied, including employers, traders and independent workers of all kinds.
III. Housewives, that is married women of working age.
IV. Others of working age not gainfully occupied.
V. Individuals below working age.
VI. Retired and individuals above working age.

The benefits of retirement & pensions, unemployment allowances, health assistance, disability, maternity, sickness, etc, will then depend upon the category to which the individual belongs. Since then the classification has become one of the guiding principle in identifying the needy.

Over the years social security has evolved in its significance and so have the principles and strategies which determine the very existence of these measures. The United States social security program since 1935 is based on some primary set of principles. Since then onwards the set of non-exhaustive principles have inspired the policy makers to frame adequate social security measures for their members. Following is a brief coverage of selected social security principles and strategies.

1.3.1 <u>Social Assistance and Social Insurance</u>

At any given point of time there will be at least some people in the society who will need some kind of assistance either in cash or kind. 'Assistance to the needy is the oldest form of social security' but when financed through state revenue it is termed as social assistance. The assistance is subject to some eligibility condition, mostly income. People earning below a minimum level of income are entitled for some social assistance. In India welfare funds/boards targeting specific beneficiaries like beedi workers and mine workers have been created on this principle. The National Social

[1] The 'Beveirdge Report' submitted in 1942 and was accepted in 1945 by the Labor Party in UK.

Assistance Program (NSAP)[1] comprising old-age pension, family pension and maternity benefits is entirely based on this strategy of social security. Social assistance as a principle is designed with an objective of supplementing individual's resources so that they do not fall below a minimum level of subsistence. On the other hand the principle of social insurance is based on collective approach towards financing economic security of employees. It comprises contributions from employees, employers and state for insuring essential contingencies like sickness, disability, death and also retirement and old age. In India social insurance was adopted in the form of Employee State Insurance Act (ESI)[2] in 1948 and Pension and Deposit linked insurance schemes framed under Employees Provident Funds and Miscellaneous Provisions Act (EPFMP), 1952. It was focused on setting aside compulsory contributions from wages for purpose of common insurance fund. The distinct feature of social insurance scheme is that the benefits are not part of any charity. The members are granted benefits as a matter of right in proportion to their contribution. Social insurance advocates compulsory contributions from all the stake holders while social assistance calls for unilateral obligation of the society towards the dependents. Thus both the principles are quite different in their approaches although, the goals remain the same. A detailed discussion on both the terms is done later in the chapter.

1.3.2 Social Equity and Social Adequacy

Both the terms complement the objectives of social security. Fulfillment of one leads to expansion of other. Social equity is identified when each individual's benefits are equal to the contributions he or she makes towards the society **(**Burch, Hobart A 1999**)** while the term 'social adequacy' refers to transfer of income from those with surplus to the needy groups without a *quid-pro-quo*. Being a welfare concept social adequacy refers to minimum standard of living below which society does not tolerate. According to The American Academy of Actuaries (2004) in case where individual's contribution does not make him eligible for socially desired set of benefits, social

[1] The NSAP was launched in 1995 with an objective of providing minimum social assistance to aged and other dependents. It's a 100% central sponsored scheme.

[2] The ESI act 1948 is a 'need based social insurance scheme that would protect the interest of workers in contingencies such as sickness, maternity, temporary or permanent physical disablement, death due to employment injury resulting in loss of wages or earning capacity' *ESI Act 1948.*

equity and social adequacy behave inconsistently. This conflict, of late, has been biased more towards social adequacy than towards social equity.

1.3.3 Social Justice and Social Safety Nets

Popularized by John Rawls (1971), the concept of social justice is primarily based on the principles of human rights and equity. Social justice is part of a larger social order. It pre-supposes the concept of social security. Social safety net on the other hand is wide in its coverage. It includes poverty alleviation and removal of inequality as its major objectives. It attempts to redistribute income among the poorest and most vulnerable (World Bank, 2007). In India, Public Distribution System (PDS)[1] provides the largest social safety net. It was evolved during the period of food crisis of 1960's with an objective of stabilizing prices of food grains (Radhakrishna & Subbarao, 1997). Several people are put to miserable conditions (mostly temporarily) due to economic changes; appropriate social safety nets provide them required protection. The safety nets as discussed above attempt to counter the critical effects of economic cycles.

1.3.4 Protective and Promotional Social Security

In 1989, Jean Dreze and Amartya Sen coined two new approaches towards the concept of social security, Protection and Promotion[2]. The 'Protective' social security measures refer to the policies which can limit or prevent the decline in living standards of the poor. All social assistance schemes directly financed by the state are basically 'protective' in nature, as they intend to prevent people from falling below minimum subsistence level. The 'Promotional' social security measure is long term; it refers to promoting the socio-economic capabilities of the people so that they can enhance their living standards. Primarily based on social insurance principle this approach calls for collective contributions from both the individuals and society. India, since beginning relied too much on promotional social security approach (Dev, Mahendra 1995 and Prabhu, Seeta 1996). This included employment programs like Jawahar Rojgar Yojana (JRY) and Employment Guarantee Scheme (EGS), self

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[1] PDS ensures availability of essential food grains at subsidized prices to the people living below poverty line. Operated with over 5 lakh Fair Price shops, PDS is a budgeted program managed by respective state governments, (Ministry of Consumer Affairs, Food and Public Distribution, India).

[2] 'The former is concerned with the task of preventing a decline in living standards as might occur, in say, an economic recession, or most drastically in a famine. The latter refers to the enhancement of general living standards and to the expansion of basic capabilities of the population and will primarily have to be seen as a long term challenge' (Dreze and Sen, 1989, p.16)

employment schemes, education and health related programs, PDS and mid day meal scheme. Though lately, the importance of protective social security is gaining importance. This includes old-age pension, provident fund schemes, insurance against disability, accidents and death. Such programs provide a great degree of security to the poor during adverse contingencies.

1.3.5 Universal Coverage and Compulsory Participation

Universality of coverage is an important principle for any social security program to be effective. It needs to be compulsory for one and all. By presumption, universal coverage refers to complete coverage of entire population. But practically the principle considers only targeted population, for example, those above certain age, those below certain income, those contributing or not contributing a certain amount, those employed in certain type of industries etc. This is also known as categorical coverage (Dixon, John 1999). Further those who are self employed may be extended voluntary coverage and thus remain excluded from the principle of universal coverage. Voluntary coverage may lead to failure of social security program at large, as large number of people for various reasons may not associate themselves with the program and later on face severe risks. In India, unfortunately lack of coverage is found in the area where social security is most needed. Only less than 10% of employed population (i.e. those working in organized sector)[1] is covered under any formal social security program. Those excluded from the group include people working in agriculture, self employed, those employed in small enterprises, unpaid family labour, casual and contractual labourers and a large group of female workers (Ginnekan, Wouter 2003). The road towards universal coverage of social security programs requires a dynamic approach and the process involved is tedious, lengthy and time consuming. In short term this can be possible for some sections of population by providing micro-insurance schemes. But plans should be made towards universal coverage and compulsory participation in a gradual manner. Micro-insurance schemes should be encouraged to develop in a way that will facilitate their possible integration into the national scheme and eventually submerge into the general stream of compulsory coverage. (Reynaud, Emmanuel 2002).

[1] Informal economy workers are not covered by social security for a variety of reasons. One is the extreme difficulty of collecting contributions from them and, as the case may be, from their employers. Another problem is that many of these workers are unable to contribute a relatively high percentage of their incomes to financing social security benefits and unwilling to do so when these benefits do not meet their priority needs (ILO, 2001).

1.3.6 Benefits and Contributions

Social security benefits based on contributions jointly made by the employees and employers is an imperative principle of present-day social security system. However the contributions paid out of wages of the employee or from the profits of the employer are basically taxing in nature. Benefits become a 'matter of right' as they are paid out from employees pay-roll taxes[1]. The contributions may be a fixed percentage or proportional to the income of the employee. Another advantage of the contributory principle is that it provides incentive to save and invest for financing future uncertainty and maintaining a minimum standard of living post retirement. All social insurance schemes are based on the contributory principle of social security[2]. Although in any economy there will always be people who cannot contribute adequately towards their own insurance, instead they would need some social assistance. Thus, a partial contribution towards financing the benefit needs to come from the state revenues. This can be in the form of providing a subsidy in social security contributions (i.e. employee share will be contributed by the state) or a direct contribution by the government in a fixed proportion in addition to the employee and employers contribution. Most of the social security benefits on maturity are free from taxes. Thus an implicit cost is born by the government by forgoing huge tax revenue[3] Government contribution towards social security program increases its viability and worthiness. More people trust and willingly contribute to the scheme which is managed or financed (partly) by the government. It should be noted that government contribution to such scheme is different from other social assistance schemes like National Social Assistance Program, 1995 which are wholly financed out of state's revenue. These schemes are said to be non-contributory in nature. The major non-contributory social security measures are provided for under the Workmen's Compensation Act, 1923, the Maternity Benefit Act, 1961, and the Payment of Gratuity Act, 1972.

[1] Payroll Taxes were introduced for the first time under the US Social Security Act, 1935

[2] In India, Pension and Provident Fund schemes are based on this model. Under EPFMP Act 1952, the employer is supposed to deduct 12% of the wages of employee towards contribution of the fund. In addition to that the employer has to contribute another 12% of wages and deposit the cumulative amount with the Regional Provident Fund Commissioner. The contributions are eligible for an annual 9.5% interest return, while both the principle and the interest amount is fully exempted from taxes

[3] Employee contribution to EPF is exempted from tax under sec 80C, while interest earnings are exempted under sec 10 (a) of Income Tax Act.

Contributions from the employees are based on a simple principle of 'reducing present consumption to finance future consumption'. Proportion of employee's contribution depends upon several factors like income (primary), nature of employment, age, benefits to be covered etc. Similarly employer's contribution would primarily depend upon his economic capacity and collective wage bargaining between employers and employee (Richardson, Henry, 1960). Generally, employer's contributions are in equal proportion to the employee's contribution, if not more. This helps in reducing employee's grievances and promoting positive industrial relations. Henry Richardson in his much commended international research titled 'Economic & Financial Aspects of Social Security' published in 1960 concluded that '…the most appropriate method of financing many social security schemes is by contributory insurance on a tripartite basis (employer, employee & government). Contributions by beneficiaries should generally not be less than one-third of the total.'

The terms which are commonly used in defining the benefits and contributions in any social security structure are Flat Rate Benefits, Variable Benefits, Defined Benefit (DB), Defined Contribution (DC), Funded and Unfunded Benefits, Pay-as-you-go (PAYG), among others. Traditionally the social security plans have been based on the flat rate benefits principle. The Britain's *Social Insurance and Allied Services* scheme of 1942[1] had the fundamental principle of flat rate benefit. The principle does not make any differentiation among the beneficiaries in terms of their employment or income levels. The objective is to meet a minimum subsistence level for all; it provides scope for individual with high incomes to make private contributions towards other social insurance schemes and make supplementary provisions for future contingences. All social assistance schemes are based on flat rate benefit principle. They are funded from state revenue and do not call for a discriminatory approach. On the other hand the variable benefit principle is more recent. Benefits, under this principle are in direct proportion to the contributions made by an individual, depending upon his ability and willingness to contribute. Mostly wages are taken as a base for deciding variable benefits. This principle is also called as wage-differential benefit.

The Defined Benefit (DB) principle provides for a guaranteed and fixed benefit to the member based on a pre defined formula, mostly taking his wages as base. In case of

[1] Also Known as the *Beveridge Report, 1942*

Defined Contribution (DC) principle no fixed amount is guaranteed to the member at the time of joining the scheme. In DB, the benefits to be provided are explicitly stated while contributions are undefined. Mostly the employer or the sponsor will bear the investment. While in case of DC, the contributions are explicitly defined but benefits are not. The contributions made by the member are invested in the market and thus returns remain undetermined (Asher, Mukul 2006). The Defined Benefit plans are further classified into funded and unfunded plans. In funded plans contributions made by the employer or employee or both are invested for paying the benefits in long term. Unlike this, in case of unfunded plans the benefits are paid directly from the present contributions. This is also called 'Pay-as-you-go' (PAYG) approach, under which the taxes collected from the present tax payers (mostly those in the working age group) are used to finance the pension and security benefits of those who have retired or are out of the working age group. The PAYG financing is most appropriate in short term, for example, maternity and health insurance benefits, but for pensions and other old-age benefits PAYG becomes highly vulnerable to demographic changes. The principle is highly criticized in ageing economies as it becomes unaffordable for the Government (ILO, 2001). Declining fertility rates and increasing life expectancy have exerted financial pressures on traditional pay-as-you-go defined benefit (PAYG DB) systems, threatening their sustainability (Estelle, James 2001).

The social security system of an economy cannot be based on any isolated principle. In practice a mix of all above mentioned principles and strategies is required for an efficient and sustainable social security.

1.4 HISTORY OF SOCIAL SECURITY

"Praja sukhe sukham rajna:
Prajanam ca hite hitam;
Natm a priyam hitam rajna:
Prajanam tu priyam hitam."
Arthasastra (1.19.34)

"In the happiness of the subjects lies the happiness of the king;
In the welfare of the subjects is the welfare of the king;
Not his personal desires and ambitions,
but what is desirable and beneficial to the subjects,
That is desirable and beneficial for the king."

The history of social security is as old as the history of mankind. Since ancient times the *quest for survival* has forced mankind to devise ways of protecting himself against various eventualities of life. The primitive men who lived in caves intended to protect themselves from wild animals and other natural risks. The notion of social security in those times was based on the principle of individual adequacy. Each one depending upon his need persuaded a particular activity. Thus, the means to safeguard one-self against the contingences were largely self-centered and limited. Even death of one didn't lead another into destitution, leaving the principles of sharing and caring intact.

Gradually men started recognizing the power of nature and invented agriculture as a source of livelihood. Intensive farming led to division of labour which further resulted into surplus production of food grains. Both production and consumption of food grains intensified the need of a new social order. People compelled by social and economic insecurities started living together as a family in a common neighborhood. Thus, from a wandering group of individuals to a civilized society the concept of social security saw continue evolution. It was no more a self centered issue of sustaining and looking after oneself; the concept of protection was now becoming a collective responsibility.

In the pre industrial era, the joint family system, religious and caste based groups along with the village guilds provided the much needed emotional security to those who otherwise were unable to look after themselves. The institution of family had this deep rooted custom of providing a multiple security net to all the members of the family. The extended (joint) family system where the other family members would depend upon the head of the family remains a guiding example of the traditional social security system in India. Father, the head of the family was primarily responsible for upbringing the children. Though the daughter ceased to be the members of her father's family after her marriage; the son inherited the leadership of the family. The son then owned a larger responsibility towards parents and other members of the family. The dependency of members on the head of family was not coercion but a custom.

The ancient Indian history demonstrates several cases similar to parental responsibility towards extending multiple securities to its members, for example, the lord to his disciple, the king to his subjects, the master to his servant and the patron to his clients (Bhattacahrya, 1970).

The first official reference of social security as responsibility of state towards its citizens dates back to 4^{th} century during the rule of Chandragupta Maurya (320 BC to 298 BC). Chanakya (pseudonym as Kautilya) the architect of Maurya Empire, wrote Arthashastra as a treatise on Politics and Economics. The author devised the concept of welfare as an essence of social order having wide ranging implications. It included protection of weaker sections of society such as children, women, aged, slaves, prisoners, etc. According to Kautiliya a king should look after his subjects like a father. Special mention has been made about the adversities of nature such as floods and famine. The king and the state were collectively responsible for safeguarding the subjects from destruction caused by the calamities. Public distribution of food grains, concessional distribution of seeds, fodder, etc, from the royal stores and the food for work program was first referred in Arthashastra (Drekmeier Charles, 1962). Another great scholar Sukracharya in his discourse on justice (Sukraniti) has referred to various social security benefits extended by the rulers during 8^{th} to 12^{th} century in India. Chapter II, lines 822-827 clearly refer to sickness benefits, old age pensions and family pensions. Regarding sickness benefits Shukracharya has stated that no deductions should be made from the wages of the employees (Chansarkar M.A 1960). Lines 832-833 further states the importance of family maintenance allowances after the death of the worker. The likes of Pratiharas, Palas, and Rashtrakutas, who ruled the kingdoms of Rajasthan, Bihar, and Karnataka respectively, were popular for granting social assistance on account of old age, sickness and premature death of servants (Singh, U.B 1998).

The state assisted social care system started collapsing since 16^{th} century on the advent of Mughal rulers in India. It was during this era that the institution of marriage, joint family system, religious guilds, village panchayat, and caste based groups become stronger. The much needed social support was no longer the sole responsibility of the state as these socio religious groups started dominating and often providing the required social support.

1.5 HISTORY OF STATE-LED SOCIAL SECURITY

The industrial revolution which started from Great Britain at the end of 18^{th} century engorged into entire Western Europe, North America, Russia, Germany and Japan by the middle of 19^{th} century (Coleman, D.C 1992). Every aspect of human life got drastically changed due to industrialization (Lucas, Robert, Jr 2002); not only agriculture, manufacturing and transportation but even societal arrangement and economic setup were heavily influenced by the advent of machines. In the following two centuries the world witnessed surprising growth in its income levels, by over 10% (Maddison, Angus 2003). The living standard of masses improved considerably for the first time in history (Lucas, Robert, Jr 2002). High economic growth sustained by technological innovation brought with itself large scale production and consumption of goods like energy, metals and machines. However it was also equally responsible for a number of industrial risks. Inhuman working conditions, unhygienic and overcrowded workplaces, women and child labour abuse and fatal accidents soon became the evil face of industrial revolution[1]. In the absence of any kind of social policy, the workers were suspended without any prior intimation, victims of industrial accidents were deprived of any compensation, and aged were left dependent upon poor relief program if any (Richardson, Henry 1960).

The break-down of joint family system coupled with rising life expectancy on the face of diverse health problems has reinitiated the discussion to constitute a self-contained social security system for the society. From a humble beginning in the late 19^{th} century in handful of industrial countries, the state led social security has now become a way of life for millions across the globe. All sovereign nations have endorsed social security measures depending upon their economic capacity and understanding of the issue. However, the structure of social security system differs from country to country

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[1] The battle between the flesh and metal which started during the industrial revolution was for sure to continue in modern times too. Presently every year about 270 million cases of occupational accidents and over 160 million cases of occupational diseases are recorded worldwide, *(most of which from developing countries)* around 2 million died due to various work related disasters (ILO, 2009).

and largely depends upon its political will, level of economic development, inclination towards international conventions and standards, and social consciousness at large. Owing to the urge of balanced economic growth and emergence of welfare state, the concept of social security has evolved to become a major socio-economic demand of every society. Social security is a multidimensional concept, therefore it is important to examine its variants and components which lead to its present meaning.

The two most important and effective techniques of modern social security system are social assistance and social insurance. The two concepts being strategically similar in their approach have varied functional implications. However, over the years both social assistance and insurance have blended together to provide effective protection to all against socio-economic insecurity (Bhatia, Hitesh 2012b).

The concept of 'social assistance' is one in which the sole responsibility of providing a 'floor security' lies with the state. Both individual and group benefit schemes are floated targeting every citizen of the country. Enforced In 1598, the English Poor Law[1] is one of the first forms of state sponsored social assistance program (ILO, 2009). During the 15th century in England, income and employment opportunities failed to keep pace with rising prices, poverty levels, and population. The bad harvest of 1596 turned the ongoing economic adversity into a crisis, demanding immediate government assistance (Slack, Paul 1995). The English Poor Laws existed in different parts of England in the form of the Medieval and Tudor poor laws and finally unified in 1598 after the adoption of 'Welfare State' approach by the Great Britain. The strategy of social assistance is a selective approach to social security at large (Dixon, Jhon 1999). Social assistance is extended to the needy by providing them support in cash or kind directly out of the state revenues. Thus a clear distinction has to be made between the deserving and non-deserving citizens based on their ability to finance their living independently. The principles of classification may include periodic income, ownership of assets, employment uncertainty, health hazards, need for special allowances like education, house rent etc. Basically social assistance provides a supplementary income to the needy and dependents so that they can maintain a life of minimum subsistence level.

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[1] Under English Poor Laws the poor were classified into those who deserve the benefits, which included, the elderly, unemployed, dependents who non their own were not in position to satisfy their basis needs and require social assistance. The undeserving poor included those who indulge into criminal act and remained idle in spite of being able-bodied, both were punished harshly (Slack, Paul 1995).

The program of ‘social insurance’ is based on the traditional social order in the form of collective social help. It is based on the thought that certain risks cannot be countered by workers in their individual capacity but can be dealt collectively by groups of persons. The policy is a set of cooperative and collective efforts on part of employees, employer and sometimes the state. Under social insurance each member of the scheme has to subscribe some amount of money for assurance of support in case of contingency. Members of the scheme have to contribute in proportion to their wages and are entitled to benefits for a given amount. Germany became the first country in the world to embrace the concept of social insurance[1].

The size of industrial workers in Germany increased notably, from 0.8 million to 6.0 million during the middle of the 19th century (Beaud, Michel 2004). Due to the fast growing urban population German government feared insurgency and came under pressure to defeat the socialist opposition. Germany's first Chancellor, Otto von Bismarck presented the first ever ‘Social Insurance Program’ for the industrial workers of Germany in parliament on 17 November 1881 (Moritz Busch, 1898). Bismarck’s social insurance policy was supported in parliament by none other than the emperor of Germany himself, *William Frederick Louis.* In his much acclaimed letter to parliament in 1881, the emperor stated *". . . those who are disabled from work by age and invalidity have a well-grounded claim to care from the state*” (Fulbrook, Mary 2004).

In his address to the parliament on 20th March, 1884 Otto von Bismarck clearly described the need for state lead social insurance program for its people.

‘The real grievance of the worker is the insecurity of his existence; he is not sure that he will always have work, he is not sure that he will always be healthy, and he foresees that he will one day be old and unfit to work. If he falls into poverty, even if only through a prolonged illness, he is then completely helpless, left to his own devices, and society does not currently recognize any real obligation towards him beyond the usual help for the poor, even if he has been working all the time ever so faithfully and diligently. The usual help for the poor, however, leaves a lot to be desired, especially in large cities, where it is very much worse than in the country’ (Frederic B. M. Hollyday, 1970 p. 65)

As a symbol of authoritarian and paternalistic state, German government felt that a scheme like social insurance can satisfy the much instigated social insecurity among its people. Three landmark schemes were introduced by the then government over a

[1] In 1889, Germany became the first nation in the world to adopt an old-age social insurance program, designed by Otto von Bismarck. The German Chancellor was motivated to introduce social insurance in Germany both to promote the well-being of workers in order to keep the German economy operating at maximum efficiency, and to stave off calls for more radical socialist alternatives. Coupled with the workers’ compensation program established in 1884 and the “sickness” insurance enacted the year before, this gave the Germans a comprehensive system of income security based on social insurance principles (ILO, 2009).

period of time; Sickness Insurance in 1883, Accident Insurance in 1884 and Disability and Old-age insurance in 1889 were targeted specially for industrial workers (Holborn, Hajo 1969).

Post World War I, social insurance schemes were floated across the countries wherever organized industrial labour could pressurize the government, and social assistance programs were implemented by the democrats to counter the socialist movement. The difference between both is limited to the membership and funding of the program. The social insurance is mostly extended to those who subscribe to the membership of the program by paying a premium for it and the benefits are provided only at the time of occurrence of contingencies. While in case of social assistance the membership is to be qualified by passing a 'means test' and is getting directly assisted from the government's revenue. Gradually both the strategies started getting merged to develop an integrated social security policy for all (Bhatia, Hitesh 2012b). An attempt was made by the US President Franklin D. Roosevelt signing The Social Security Act, 1935[1] which combined social insurance with economic security to the poor and the deserving. The Great Depression of early 1930's in USA created a nationwide crusade for state led assistance for unemployed and poor. The Social Security Act, 1935 enacted in the middle of crisis to meet the risks of old age, death, disability and unemployment (Mitchell and Meyers, 1999). Inspired by the new economic theories of J M Keynes of providing full employment through public funding as a basic tool of recovery, the social security act went on to become a landmark development in the history. It is also referred to as federal Old-Age, Survivors, and Disability Insurance (OASDI) program. In addition, the major objectives of the program included:-

- Unemployment benefits
- Temporary Assistance for Needy Families
- Health Insurance for Aged and Disabled
- Grants to States for Medical Assistance Programs
- State Children's Health Insurance Program
- Supplemental Security Income

In the US social security is primarily a social insurance program funded through federal pay roll taxes, under the Federal Insurance Contributions (FICA) Act. Tax collections are deposited to the respective Trust Funds. Social Security taxes are

[1] It is a legislative Act, enacted on 14th August, 1935 during the first term of President Franklin Roosevelt. It instituted the Social Security System in US.

imposed on employee and employer in equal proportion and in case of self employed persons, entire tax is to be paid by him. This system of funding social security benefits is in line with the declaration made by President Franklin D. Roosevelt in his message to the congress on June 17, 1935.

'Three principles should be observed in legislation on this subject. First, the system adopted, except for the money necessary to initiate it, should be self-sustaining in the sense that funds for the payment of insurance benefits should not come from the proceeds of general taxation. Second, excepting in old-age insurance, actual management should be left to the States subject to standards established by the Federal Government. Third, sound financial management of the funds and the reserves, and protection of the credit structure of the Nation should be assured by retaining Federal control over all funds through trustees in the Treasury of the United States' www.ssa.gov/history.

The President did not want the US Social Security Act to be purely a social insurance program. Therefore in the same message to the congress he insisted on Federal government sharing half of the old-age benefits.

'In the important field of security for our old people, it seems necessary to adopt three principles: First, non-contributory old-age pensions for those who are now too old to build up their own insurance. It is, of course, clear that for perhaps thirty years to come funds will have to be provided by the States and the Federal Government to meet these pensions. Second, compulsory contributory annuities which in time will establish a self-supporting system for those now young and for future generations. Third, voluntary contributory annuities by which individual initiative can increase the annual amounts received in old age. It is proposed that the Federal Government assume one-half of the cost of the old-age pension plan, which ought ultimately to be supplanted by self-supporting annuity plans' www.ssa.gov/history.

With the similar objectives and (in particular), to create a post war welfare state, The Great Britain implemented the recommendations of The Beveridge Report[1], in 1945. Submitted in 1942 by Sir William Beveridge it was an inter-departmental report on Social Insurance and Allied Services. It was only after the victory of labour party in 1945 general election that the recommendations were accepted for implementation (Abel-Smith, Brian 1992). The Report highlighted the concern for everyone having a basic minimum income, below which social support becomes essential. Subsequently Britain went on to include host of social security laws under the idea of *welfare state*. These included the Family Allowances Act 1945, National Insurance (Industrial Injuries) Act 1946, National Health Service Act 1946, and Pensions (Increase) Act 1947 etc. Such polices led to massive expenditure on part of government towards

[1] The Report made three major recommendations: 1. Proposals for the future should not be limited by "sectional interests" ….. 2. Social insurance is only one part of a "comprehensive policy of social progress". The five giants on the road to reconstruction were Want, Disease, Ignorance, Squalor and Idleness. 3. Policies of social security "must be achieved by co-operation between the State and the individual", the state "should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family". (Sir William Beveridge 1942, *Social Insurance and Allied Services*, London)

fulfilling its social responsibility. The concept of Welfare State was a commitment of the then British Government towards health, education, employment and social security. (Field, Frank 2010). Unlike the US Social Security Act 1935, which was primarily a social insurance program (except for old-age pension benefits) the Britain's Social Insurance and Allied Services Program established the first unified social security system (ILO, 2009). The Beveridge Report insisted on the state not being excluded from providing direct assistance to the needy. In his own words Sir William Beveridge said…

'However comprehensive an insurance scheme is, some, through physical infirmity, can never contribute at all and some will fall through the meshes of any insurance. National assistance is an essential subsidiary method in the whole Plan for Social Security…' (Beveridge William, 1942).

The report suggested that for the administration a social security one needs to be sympathetic in his judgment on deciding upon the needy and the nature of assistance to be provided. The report also suggested that over the years the extent of assistance should reduce as the system of social insurance will establish itself to guarantee the support at the times of contingencies (Beveridge, William 1942).

Over the years as various countries started adopting a unified model of social security the gap between the two concepts of social assistance and social insurance gradually narrowed down depending upon the possibility of private contributions on the one hand and fiscal adequacy and the states' willingness on the other. Private contributions largely depend on factors like employment and disposable income whereas, the pace and levels of economic growth of a country should influence the extent of direct assistance.

The order and timing of instituting social security programs in different countries indicate that large number of socio-economic and political factors must have influenced the growth of social security system.

Table – 1.1
Evolution of State Sponsored Social Security – A Time Line

1	1598	England becomes the first country in the world to initiate a government financed social assistance program by merging its landmark Medieval and Tudor poor laws.
2	1889	Germany becomes the first country in the world to launch a social insurance program. Germany's Chancellor, Otto von Bismarck designed a comprehensive system of social insurance by merging compensation program of 1984 and sickness insurance program of 1983.
3	1889	The International Congress of Industrial Accidents (ICIA) creates a full time international committee on Social Insurance in Paris. This was later renewed into International Social Security Association (ISSA) in 1927.
4	1905	France launches first ever national unemployment scheme.
5	1911	Italy launches first ever compulsory insurance and maternity benefit scheme for working women.
6	1919	The First Session of the International Labor Conference (ILO) adopts the first ever international labor Convention on social security.
7	1924	China adopts first ever national compulsory insurance law in Western Hemisphere.
8	1926	Japan initiates The Japanese National Health Insurance Law of 1922
9	1935	US President Franklin D. Roosevelt became the first president to initiate the protection of the elderly by signing the Social Security Act.
10	1938	New Zealand becomes the first country to protect its total population through cash benefits financed through a universal income tax.
11	1942	First unified social security system based on the twin principles of social insurance and social assistance is implemented by UK in the name of its creator Lord William Beveridge
12	1945	Australia establishes The Unemployment and Sickness Benefits Act.
13	1946	France implements National Social Security system.
14	1948	Universal Declaration of Human Rights incorporates right to social security
15	1952	Social Security (Minimum Standards) Convention, No.102 is adopted by ILO, setting minimum standards for 9 branches of social security
16	1967	Uganda's Social Security Act comes into effect.
17	1971	European Council applies social security schemes for employed and self employed people and their families throughout Europe.
18	2001	The ILO launches a Global Campaign on Social Security and Coverage for all.
19	2003	Brazil launches 'Bolsa Familia', the world's largest cash transfer program benefiting over 11 million poor families.

Source: - Social Security Administration, USA

Development of social security programs across the major countries has been extremely complex and heterogeneous in nature. Except USA, where the Social Security Act has been supported by all political parties, the employers and labour unions, in all other countries such social security programs are based on the country's political and constitutional philosophy, economic conditions and other institutional factors (Haber & Cohen, 1948). These programs have been amended several times since they were first proposed.

1.6 SOCIAL SECURITY IN COLONIAL INDIA

The Industrial Revolution in Europe during 18th and 19th century had significant impact on Indian economy. With the advent of foreign capital investment in Railways and Communication in the middle of 19th century the industrial sector in India also got revolutionized. The first Steel factory in 1808 and the first Iron factory in 1839 were the stepping stones of Indian Industries. Soon the first Jute mill was established in Bengal in 1850 and the first Cotton mill was established in Bombay in 1854. Coal mines had started functioning in Bengal and Bihar by 1814. Machine based production of paper started in Hoogly by 1870. During the same time major developments were seen in plantation industries with the production of rubber, tea, coffee and indigo getting a boost (Bansal and Bansal, 1984). The period during 1850 to 1900 witnessed the growth of English capitalist entrepreneurs in India. The World War-I increased the demand for industrial goods. As a result the profits of industries increased. Unfortunately, the working conditions of Indian labours deteriorated. Labourers were made to work for longer hours and were paid extremely low wages. The government and employers remained indifferent towards labour welfare during the early days of industrialization in India. The Indian Fatal Accident Act, 1855 (originally implemented in England in 1846) was the only major assistance provided to the dependents of the deceased, provided it was proved in the court of law that fatal accident was solely due to hazardous working conditions and not because of negligence of worker (Mishra, 1993). The Government of Bombay in 1875 appointed a commission to inquire about the working conditions in factories, with managers, supervisors, workers and medical officers as the members of the commission (Punekar, and Varickayil, 1990). The Bombay Factories Commission, 1875 reported that the workers were forced to work for as much as twelve hours a day, without any weekly holiday. Factories were found encouraging child labours and providing extremely inhuman work conditions. The British government enacted The Factories Act in 1881. It was the first ever labour welfare act during the colonial rule in India (Sinha, *et* al 2006). The act prohibited the employment of child labour in the factories but did little for the adult labourers, whose conditions continued to remain deplorable.

Several strikes and lock-outs in the industries were witnessed during 1881 and 1890. In 1884, Bombay Mill-hands Association (BMHA) was instituted by Mr N. M. Lokhande, who is also known as the father of Indian trade union movement. Labour unions compelled the government to enact laws protecting the interest of labour and forced the employers to accept trade unions as legitimate organizations of industrial workers (Narayana Chetty, 2004).

With the start of 20th century, the proportion of industrial workforce and the demand for labour rights increased concurrently. The International Labor Organization (ILO) was established as a specialized agency of United Nations in Geneva in 1919 to take forward labour welfare issues in its member countries. Immediately after its existence, ILO held several conventions with an objective to set International Labor Standards in relation to a broad range of labour issues. Back in India the All India Trade Union Congress (AITUC) was founded in Bombay in 1920 by affiliating over 64 small labour unions with membership of over 1.5 lakh workers, under the leadership of Lala Lajpat Rai. The AITUC acted more as a representative of ILO in India and played a major role in compelling the British government to implement the resolutions of ILO conventions and its recommendations on labour rights in Indian industries. Based on the convention no. 17 & 18 of ILO, the British government enacted The Workmen's Compensation Act, 1923 in India. Implemented in 1924, the act can be regarded as commencement of first social security provisions in India. Based on the lines of similar act in Great Britain; it makes the employer liable for any personal injury caused to the employee 'arising out of' or 'during the course' of employment. The British Government enacted special social security legislation namely the Provident Fund Act, 1925, for those working in railways and state owned industries. The act was based on the principle of defined contribution, were all employees were supposed to subscribe to the fund and deposit a minimum amount for financing their retirement benefit. In 1924, a bill prohibiting the employment of women in hazardous industries, including mines and tea plantation and providing some maternity allowance during and after the birth of child was introduced in legislative assembly in Bombay by N. M. Joshi[1] (Sinha, *et al* 2006). Though the bill got rejected at that point of time, it became a precursor to the Maternity Benefit Act, 1929 first enacted in Bombay and

[1] Popularly Known as Nana Saheb Joshi, was instrumental in establishing several organizations like Workingmen's Institute, the International Labour Organization, All-India Trade Union Congress, the Indian Federation of Trade Unions, the Bombay Textile Labour Union. He also contributed significantly to the Royal Commission on Indian labour, 1929 (EPW, 4th June, 1955).

followed in Madhya Pradesh. The implementation of this legislation across India was suggested for the first time in the report of Royal Commission on Labour in India, 1931. Soon most of the provinces enacted the act. In 1941, the first industry specific central maternity benefit legislation was passed for the women working in mines, known as Mines Maternity Benefits Act, 1941. An important development had taken place in Great Britain in 1929; the imperial government had instituted the first Royal Commission on Labour in India, with an intention to inquire the prevailing conditions of labour in industries. The report was submitted in 1931. The report strongly suggested need for systematically collected labour statistics.

'It observed that the policy must be built on facts as the uncertainty of facts would lead to confusion and conflict regarding its aim. The Commission recommended the adoption of suitable legislation enabling the Competent Authority to collect and collate information regarding the living, working and socio-economic conditions of industrial labour.' (Labour Bureau, Government of India, 1931).

Furthermore, the commission recommended provision of old-age pensions and provident fund for industrial workers and insisted that the government should encourage more employers to provide such benefits to their employees (Royal Commission on Labour, 1931). Other major developments leading to social security movement which took place during the colonial rule in India included, Bombay Textile Labour Inquiry Committee 1937, which suggested sickness and insurance schemes. Cownpore Labour Inquiry Committee, 1937 recommended health insurance for workers. Bihar Labour Inquiry Committee 1938, under the chairmanship of Dr Rajendra Prasad, also suggested for contributory sickness insurance scheme. The Employers Liability Act, 1938 was enacted by the British government in India, based on a similar act in its home country. The First, Second and Third Labour Ministers Conference in 1940, 1941 and 1942 respectively discussed health insurance, sickness benefits and the international development in social security legislations across the world. Considering these recommendations the British government announced an independent commission and appointed Prof B.P.Adarkar, an officer on special duty, as its chairperson in March, 1943. The objective was to construct a composite health insurance plan for the workers in Textiles, Engineering and Minerals and Metals. The Adarkar commission submitted its '*Report on Health Insurance'* on 15th August, 1944 suggesting a compulsory and contributory social insurance scheme covering medical care, maternity, accident and sickness benefit for the workers. As per the scheme the employers were supposed to contribute a certain amount for all categories of workers- permanent, temporary and casual. The workers' contribution was to be based on their earning and government was to bear about two third cost of the scheme. Though the report was highly appreciated, the government before implementing its recommendations appointed two ILO experts on social security M. Stack and R. Rao (Planning Commission, 2001). The Experts agreed to the fundamental principles of the scheme proposed by Adarkar. However they suggested integration of health and maternity benefits and workmen compensation into one broad scheme with an extensive coverage across all the industries. They also suggested that the scheme be managed by the respective state governments as they would be contributing two third to its cost (Aviva Ron, Brian Abel-Smith, Giovanni Tamburi, 1990). In 1943 itself, based on the recommendation of The Tripartite Labour Conference, a Labour Investigation Committee was appointed to examine the adequacy of wages and issues of housing, employment and other social conditions. The committee was chaired by D.V. Rege. Prof Adarkar was a member to this committee. The committee submitted the report in 1946, but failed to make any mark, as it casually referred to social security, without recommending anything significant (Sinha, *et al* 2006). However the suggestion made by the ILO experts along with Prof. Adarkar's Scheme was included in the Workmen's State Insurance Bill of 1946. It was passed by the Legislative Assembly in April 1948 as the Employees' State Insurance Act. This was in fact the first social insurance legislation adopted by the country after independence (Planning Commission, 2001).

1.7 SOCIAL SECURITY IN INDEPENDENT INDIA

The state shall direct its policy towards securing that the citizens, men and women equally, have the right to an adequate means of livelihood. The state shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness, disablement etc. (Article 39 & 41: Directive Principles, The Constitution of India)

Most of social security measures during the colonial rule were intended towards gaining the faithfulness of industrial workers and government employees, hence rural labourers and other deprived sections largely remained ignored (Venkata Ratnam, 2006). Nonetheless it laid a strong foundation for providing social security benefits by the state to the people. An interim government was appointed for the period from 2nd September, 1946 to 15th August, 1947 for the purpose of smooth transition of India from British Raj to Independence (Anant, 2010). The interim government adopted a five year plan for labour welfare. Its main objectives included revision of Workmen's

Compensation Act, constitution of uniform Maternity Benefit Act and recommendations of health insurance schemes for industrial workers (Rao, Madhava 2007). In 1948, along with ESI Act, another landmark provision ensuring after retirement benefits was enacted for coal mine workers. The Coal Mines Provident Fund and Bonus Act 1948 proposed to offer economic security to the workers after retirement and to their dependents in case of death.

1.7.1 Constitutional Provisions

The Constitution of independent India itself stands to guard the interest of its citizens towards the fundamental right of adequate livelihood. With 12 schedules and 395 articles, preceded by a rich preamble, the Constitution ensures equality, justice, fraternity, and liberty to its citizens irrespective of caste, religion and income. The overall spirit of the constitution guarantees admirable social order in both explicit and implicit manner. Article 14 to 47 of the constitution are specifically devoted to social security, starting with the right to equality, (*article 14),* freedom of speech and association ,(a*rticle 19),* right against discrimination (*article 15),* right against traffic in humans and forced labour (*article 23),* and right against child labour (*article 24).* The Constitution necessitates that the state should endeavor towards promoting welfare of its people by securing socio-economic justice. The state is to ensure that the health and age of workers are not compromised and they are not forced by economic necessity to enter any activities not suited to their age or strength (*article 39 (a), (b) and (e)).* Further the constitution through *article 4* asks the state to make effective provisions for protecting their right to work, education and public assistance in case of unemployment, old age, sickness and disablement. The constitution also seeks to secure compassionate conditions of work and maternity relief (*article 42),* of effective social provisioning for living wage and ensuring a decent standard of life (*article 43).* Finally the state should work for improving condition of nutrition and the standard of living of its people and improvement of public health in general (a*rticle 47).* The constitution made its intentions apparent about providing adequate socio-economic security to the people of India. But the execution depended upon the policies and measures the state and central government could take in the ensuing years.

1.7.2 Social Security through the Five Year Plans

The Planning Commission was established in 1950 to enforce the Fundamental Rights and other Directive Principles of State Policy as guaranteed in the constitution. The Planning Commission in its subsequent five year plans paid adequate attention towards policy making in this direction. The intention of attaining 'socialistic pattern of society' was the main goal of initial five year plans, and provisions to this effect were made accordingly (Planning Commission, 2001). The First Five Year Plan (1951-56) appreciated the legislative measures undertaken to promote the well being of the workers. These included the Industrial Disputes Act, 1947, the Factories Act, 1948, the Coal Mines Provident Fund and Bonus Act, 1948, the Minimum Wages Act, 1948, the Employees' State Insurance Act of 1948, the Plantation Labour Act, 1951, and the Provident Fund Act of 1952[1]. It also advised both Centre and State Governments to 'remain alive to the needs of workers'. The plan, in its objective laid emphasis on provisions for basic needs like food, clothes and shelter for the workers, to enable them to remain healthy and efficient. Moreover, 'workers like other section of society must have their due share of improved health services, wider provision of social security and better educational opportunities'. The plan also referred to the need of healthy and safe work place conditions to safeguard workers from any occupational hazard. Thus, the first plan extensively discussed better standard of living and social justice for workers[2].

The Second Five Year Plan (1956-61), commended the development made by the Centre and states during the last five years in relation to constitution and implementation of 'socio-economic security laws'. In addition, the Industrial Disputes (Amendment) Act, 1953, provided much needed relief to the workers in case of loss of employment. The second plan also recognized the efforts of state governments in setting up welfare centers for providing housing facility to the industrial workers.

The gap between existing wage and 'fair wage' remained a concern for the planners. For the first time after its inception, the planning process dedicated a separate Paragraph on Social Security[3].

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[1] A detailed discussion on these social security measures is been done in later chapters

[2] *…..State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life, and shall direct its policy towards securing, among other things…..First Five Year Plan, 1951.*

[3] Chapter 15, Para 20-26, Third Five Year Plan 1961-66.

The Third Five Year Plan (1961-66) initiated the idea of integrating various provident fund schemes into one comprehensive scheme focusing on old-age and pension. The plan for the first time highlighted the need to provide additional social security to the workers in unorganized sector. According to the plan 'the social security approach had so far extended mainly to wage earners in organized industry[1]'. The plan took social assistance as a strategy to deal with the issue of providing social security to the people at large; this was unlike the previous plans which were based on the principle of social insurance.

'…….the State and local bodies, both urban and rural, will need to participate in schemes undertaken by way of social assistance and social security. Even at this stage, it would be desirable to make a modest beginning in respect of three groups of persons—the physically handicapped, old persons unable to work, and women and children-where they are altogether lacking in the means of livelihood and support. Assistance for them will have to come from voluntary and charitable organizations, municipal bodies and panchayat samitis. With a view to enabling these organizations to develop their activities with the help of local communities, and giving them a little support, it might be useful to constitute a small relief and assistance fund'.(Third Five year Plan, 1961-66)

Moreover the plan criticized the government for not being able to fix minimum wages for certain section of workers as suggested in the earlier plan. The third plan appreciated the progress done in ESI and EPF scheme and set new targets during the course of next five years.

The Fourth Five Year Plan (1969 to 1974) insisted on continuing the 'protective legislative measures introduced in earlier plans'. A brief mention of Payment of Bonus Act, 1965, Shops and Commercial Establishments Act and Labour Welfare Fund Acts as enacted in various states was made in the plan document. The plan referred to the preparation of the Report by National Commission on Labour[2] in 1969. The report was expected to suggest vital changes and recommend new measures of providing social security.

The Fifth Five Year Plan (1974-1979) stressed more on eradicating poverty and creating employment opportunities; it made a passing comment that only 'stray progress' had being made in social security measures.

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[1] The organized sector includes primarily those establishments that are covered by the Factories Act, 1948, the Shops and Establishments Acts of the States, Industrial Employment Standing Orders Act, 1946, etc. Workers under the organized sector are covered under the Institutionalized social security provided through Employees Provident Fund Organization (EPFO), and the Employees State Insurance Corporation (ESIC) (Planning Commission, 2001).

[2] The Government of India appointed first National Commission on Labour in Dec, 1966, to study various aspects of labour, including wages, working conditions, welfare, trade union etc in both organized and unorganized sectors and also to make necessary recommendations. The commission set under the chairmanship of Shri Ravindra Varma submitted its report in Aug, 1969.

The Sixth Five Year Plan (1980-85) once again insisted on multiple advantages of social security. It suggested a gradual expansion of EPF and ESI schemes to rural areas and lower income class. The plan also suggested integration of social welfare and social security schemes especially in the area of health care, sickness and disability benefits. Both third and sixth plan referred to integrated social security measures, but failed to provide any policy or road map in this regard.

In the Seventh Five Year Plan (1985-90) planning commission's core focus was on education. The National Policy on Education was formulated in 1986 to pursue the objective of free education for all. The plan also insisted on making provisions for welfare and living conditions of unorganized workers[1] both in rural and urban areas. The plan suggested various policy packages for the unorganized sector workers in urban area along with effective implementation of the existing legislation, particularly the Contract Labour (Regulation and Abolition) Act, 1970, the Minimum Wages Act, 1948 and the Inter State Migrant Workmen (Regulation of Employment and Conditions of Services) Act, 1979.

Framed in the backdrop of New Economic Policy 1991, the Eighth Five Year Plan (1992-97) stressed on modernization and technical development in all areas including industrial employment. The plan linked working conditions, provision of welfare and social security measures directly to the quality of labour and productivity. During the eighth plan period an important development took place in extending social security benefits to the people. The National Social Assistance Program (NSAP)[2] was launched on 15th Aug, 1995 with an objective of ensuring 'minimum national standard assistance' to the aged, women and those living below poverty line. Based on the principle of social assistance, NSAP is centrally sponsored and implemented through panchayats and municipalities across the country.

The Ninth Five Year Plan (1997-2002) initiated in the 50th year of India's independence, was critical about the developments in the area of social security. The plan pointed out that 'benefits from existing labour laws reach only to a minor part of

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[1] The Unorganized Labour includes the landless labourers and small and marginal farmers, share croppers, rural artisans, forest labour, fishermen and persons engaged in self-employment like beedi workers, leather workers and handloom workers (7th Five Year Plan, 1985-89).

[2] NSAP is an integrated scheme comprising benefits of Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS), National Family Benefit Scheme (NFBS) and Annapurna. (NSAP, GOI)

the workforce (organized sector) due to administrative difficulty in their implementation'. The plan accepted that it is impossible to adopt a uniform social security system in line with those prevailing in developed countries. Unlike other countries, in India, informal sector dominates the employment scenario; moreover half of those employed are self-employed which makes it difficult to incorporate them in any of the prevailing social security schemes (9th FYP, 1997-2002). The plan proposed to expand the scope of NSAP and cover casual and self-employed from informal sectors for both rural and urban areas.

'The objective will be to cover the economically active population outside the organized sector. To begin with, the beneficiaries will be those having income at a level below the average income. As discussed earlier, such a scheme will have to have requisite contribution by local authorities and the State Governments. Since the objective is to cover economically active population, the role of employers and the local authorities is crucial in identification of beneficiaries' (9th FYP, 1997-2002).

The Tenth Five Year Plan (2002-2007) emphasized upon review of labour laws. It categorically stated that the 'employer-employee relationship cannot be left entirely upon the market forces'. The fact that in an overpopulated country employee is on a weaker side of collective bargaining, the plan aimed for laying minimum standard obligations in the area of social benefits, health and safety of the workers etc. The plan dedicated significant attention towards skill development and vocational training of those working in unorganized sector. The tenth plan stated that a budgetary financed comprehensive social security system is not feasible in case of India. Unfortunately the plan failed to provide any concrete reason for stating it's in ability in framing and executing comprehensive social security. On the whole the tenth plan remained silent on any specific social security measure.

The Eleventh Five Year Plan (2007-2012), dedicated an entire chapter on social security (Nutrition and Social Safety Net, Chapter 4, Vol II, 11th FYP). The plan affirmed social security to be an inclusive concept covering housing, drinking water, sanitation, health and educational facilities in addition to basic social security benefits. The plan advocated concept of 'living wages' distinct from the minimum wages which can guarantee decent living to every worker. The tenth plan commented upon the existing schemes as 'ambiguous and overlapping' and excluding large number of those in critical need of support. The plan pointed out that the present schemes provide social protection to only 5-6% of those working in the informal sector. It criticized the inability of states to extend a comprehensive social security to the needy in unorganized sector. Except Kerela and Tamil Nadu, 'no other state offers old-age pension or other form of protective security to the unorganized poor'. The plan concluded on social security, by highlighting three government initiatives, namely Unorganized Sector Workers Social Security Bill, 2007, the Aam Admi Bima Yojana (*AABY*), 2007, and Health Insurance Scheme for Unorganized Sector BPL workers, 2007, to be implemented during the plan period[1].

'Social security for unorganized sector workers should be seen as a form of social uplift. Absence of a viable and comprehensive social security arrangement is not merely the problem of individual workers and their families. It also has wider ramifications for the economy and society…..' (11^h Five Year Plan, 2007-12, p 152).

Since 1951, the successive Five Year Plans have helped in shaping a sound (if not complete) social security structure in India. Both Centre and state governments have enacted several legislations, schemes and plans to provide social security to the working class in the country. Constitution of Pension Fund Regulatory and Development Authority (PFRDA)[2] in 2003, New Pension Scheme (NPS)[3] in 2004, the National Commission for Enterprises in the Unorganized Sector (NCEUS)[4] in 2004, National Rural Employment Guarantee Act (NREGA)[5] in 2005, the Unorganized Workers Social Security Act (UWSSA), 2008[6] and, National Social Security Fund (NSSF)[7], 2008 are significant steps in this direction.

The Government is undertaking several initiatives to widen the social security coverage through protective approach of creating employment and contributory pension funds. However, much more efforts are to be made to provide health care

[1] The schemes were launched in 2008, 2009 and 2007 respectively.

[2] PFRDA is appointed as a regulator for the pension sector to promote old age income security by developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for other related matters (PFRDA, 2003).

[3] NPS is a defined contribution based pension system launched by PFRDA. It was initially limited only to the government employees, in 2009, NPS was extended to all citizens of India.

[4] NCEUS has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.

[5] NAREGA provides a 'legal guarantee of 100 days of wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work' (NAREGA, 2005). In 2009, NAREGA was renamed as The Mahatma Gandhi National Rural Employment Guarantee Act, 2005 marking a tribute to the Father of Nation.

[6] According to the provisions of the act central government shall formulate welfare schemes including insurance for life and disability, maternity and health benefits, old-age protection for the unorganized sector workers. Similarly the state governments are supposed to formulate suitable welfare schemes related to provident fund, housing, education etc for the workers of unorganized sector. These schemes may be wholly funded by the central government or state government, partially funded by both or be contributory in nature, based on contributions from Centre, state, employer and worker (UWSSA, 2008).

[7] The NSSF was created under the UWSSA, 2008 to provide financial support to unorganized sector workers in times of distress.

services and improve delivery mechanism for providing a fiscally sustainable and comprehensive coverage (Asher, Mukul 2009). Among others the scheme promoted by NCEUS is hailed as the first ever-comprehensive social security scheme for the unorganized sector in India (Kannan et.al, 2006). It is legally enforceable i.e. compulsory in nature with universal coverage making all unorganized sector workers eligible for social security. A detailed discussion on all the social security schemes has been undertaken in the third chapter.

CHAPTER – II

LITERATURE REVIEW, OBJECTIVES AND RESEARCH METHODOLOGY

2.1 INTRODUCTION

'Security' means freedom from worry and
'Social' refers to political society thus
'Social Security' is the freedom of society itself from worry.
(Maurice, Stack 1941)

The subject of social security has a vast scope both for conceptual and empirical research. Unfortunately, in India social security as a discipline remains ignored in academic circles. There has been not much research done in this area and the topic remains confined to brief discussions in the text books of labour welfare. However, with the provision of various social security measures as stated in the previous chapter such as NPS (2004), NREGA (2005), UWSSA (2008), NSSF (2011), and establishment of PFRDA (2003) as regulatory institution, the research interest in the subject has gathered momentum. Further the NCEUS has collected and disseminated necessary inputs strengthening the foundation for further research. Considerable amount of the work done in the area is informative in nature.

NREGA is just one example of contemporary policy based on quality research in the area of social security, for which the outcomes are yet to be scrutinized. Prof Jean *Dreze*[1], an eminent economist and an architect of NREGA, modeled the program by providing guaranteed cash transfers through creating employment opportunities for rural poor. Apart from NREGA, PFRDA and NCEUS were also government initiatives in the direction of providing extensive social security to the people of India, and providing scope of further research and deliberation in framing adequate security policy for the betterment of people in unorganized sector.

G.D.H. Cole (1971), a highly acclaimed social scientist, opined that 'Social Security is Government'. He symbolized government as a representative of society and responsible for setting up minimum standard of living for all citizens. In the countries such as Germany, USA, UK, India (among others) the constitution has defined the concept of social security and framed various strategies to execute the same.

[1] Jean Dreze is a Developmental Economist from Belgian, has remained influential in India's policy making, and is a member to National Advisory Council of India.

However, these countries adopted only selective strategies and not a unified social security model. International laws endorsed by institutions like ILO and UN are also limited to the extent of defining independent schemes and not the concept as a whole. Individual research works in the subject are restricted to discussions on the meaning and concept of social security. The social security in terms of policy, instruments and implementation is an extremely complex subject. Added to this is the intricacy of fiscal burden, ageing and poverty. These matters of immense importance have been grossly ignored in the individual research works. In relation to evaluation and effectiveness of social security, individual labour welfare schemes have been reviewed.

2.2 REVIEW OF BISMARCK, ROOSEVELT AND BEVERIDGE APPROACHES

The record of formal social assistance dates back to The English Poor Law, 1536 (Elton, 1953) and The Elizabethan Poor Law, 1601. The term 'impotent poor' was coined to identify those aged or unfit to work as they were eligible for poor relief program through cash payment or food distribution. Between 16th and 18th century these poor laws continued to dominate social policies of England. They influenced both government and people's understanding about social welfare. Paul Slack (1935) studied economic and social history of United Kingdom (U.K) and concluded that 'The English Poor Law played a central role in English social and political development from the Reformation to the Industrial Revolution'. Gradually, the importance of Poor Laws declined (*Boyer, George 2001).* The subsequent record of social security is found in the policies adopted by the first German Chancellor *Otto von Bismarck* who remained in the office from 1871 to 1890[1]. On 17th Nov, 1881 in his royal message to the parliament Bismarck insisted upon 'necessity of positively complementing the anti-socialist laws and envisaged three mandatory social insurance schemes, namely, accident insurance, health insurance and old age & disability insurance' (Moritz Busch, 1898). In his own words Bismarck (1884) states insecurity of income as a vital reason for the state to provide minimum economic security to the worker.

[1] The background to the Germany's Social Insurance policies is discussed in chapter I

Though Bismarck's social security legislation is considered path breaking, many critics have observed that it was politically motivated with less people actually qualifying for the benefits. (Scheck, R. 2008). But the fact remains that Bismarck's approach was adopted in various forms by several European countries such as Denmark, Belgium, France, Britain and Sweden (Schulz, James 2001).

Fifty years later the idea of social security reached United States of America (USA). *Franklin Delano Roosevelt* the 32nd president of USA as part of his 'New Deal'[1] gave the much needed importance to social insurance programs (Livingston, Steven 2008). In his address to the congress on 8th June, 1934 President Roosevelt stated his perception of social security which included; shelter, employment and protection against unforeseen contingencies as three important aspects of social security.

'Among our objectives I place the security of the men, women and children of the Nation first. This security for the individual and for the family concerns itself primarily with three factors. People want decent homes to live in; they want to locate them where they can engage in productive work; and they want some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours' (Franklin Roosevelt,1934).

President Roosevelt managed to enact the landmark Social Security Act[2] in 1935 after getting it passed in the congress. He strongly stood by his belief that 'government should and could protect people' against economic adversity. He advocated for a 'clear finance model' for effective enforcement of the act and laid emphasis on financial sustainability of the social security program (Livingston, Steven 2008). He insisted on a contributory program through insurance premiums which would be self sustaining and impose minimum burden on the state exchequer. Even the earnings from taxation should not be used to finance the scheme. However the President suggested for strong monitoring of the funds through appropriate federal control.

William Henry Beveridge, Indian born British economist, in his landmark report titled *Social Insurance and Allied Services*[3] published in 1942 laid the basis for 'Welfare State'. He advocated for government's responsibility in eradicating five 'Giant Evils' i.e. Disease, Ignorance, Squalor, Idleness, and Want (Beveridge, 1942). In other words he argued for a comprehensive security which provides for health, education, better living conditions, employment and removal of poverty. Beveridge adopted

[1] 'New Deal' refers to series of socio-economic programs implemented to counter depression during the first term of President Roosevelt 1933 to 1938.

[2] The Act was subsequently known as Old-Age, Survivors, and Disability Insurance (OASDI) program.

[3] Popularly known as Beveridge's report

income as a tool to measure insecurity and provide for social security. In his own words

'*The term 'social security' is used to denote the securing of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident, to provide for retirement through age, to provide against loss of support by the death of another person, and to meet exceptional expenditures, such as those connected with birth, death and marriage. Primarily social security means security of income up to a minimum, but the provision of an income should be associated with treatment designed to bring the interruption of earnings to an end as soon as possible' (Beveridge,William 1942).*

The concept of social security according to Lord Beveridge was based on three basic principles- First, social insurance should be provided to all for fulfilling their basic needs; second, national social assistance should be provided in special cases and third, adequate scope should be given to the people for taking up voluntary insurance. Social insurance was meant to be a contributory program based on compulsory contributions 'by or on behalf' of the insured person, whereas national assistance would be provided from the government's revenue based on the need. Beveridge insisted on social insurance to be the main instrument of guaranteeing income security. However the debate on social insurance versus social assistance continued over a period of time. Researchers and policy makers had different views on the subject. Some considered them to be independent social security approaches while others continued to view them as a measure towards achieving common objective.

Recently Frank Lechner (2009) summarized the three landmark approaches of social security. Bismarck approach in Germany was restricted to only 'family breadwinners' while Roosevelt model in United States concentrated more specifically on old-age insecurity. It was Beveridge however who managed to draft a comprehensive social security for all. Nevertheless, all the three models of social security adopted in Germany, USA and UK respectively proved to be 'milestones' in the growth of social security in other industrial economies (Ghai, Dharma 2002). Gradually, social security measures became more comprehensive to protect people against poverty, unemployment, sickness and injuries etc. The scope of social security has also widened to 'provide for health care and maternity benefits, family allowances, housing subsidies and old age pensions' depending upon the country's capability (Dixon, John 1999; ILO, 2000).

The social security models discussed above were basically tailored according to the needs and requirements of developed countries. None of the three models of social security are suitable for developing countries (Guhan, S 1994). According to Guhan ‘social security in poor countries will have to be viewed as a part of and fully integrated with anti-poverty policies……….’

W. A. Robson (1943) also emphasized upon poverty based approach for social security. He defined social security ‘as a way of ensuring freedom from want or poverty which is a formidable obstacle in the way of progresses.’ He further said that ‘social security implies insurance against those misfortunes to which an individual remains exposed even when the condition of society as a whole improves.’ Social security according to him does not focus only on measures like ‘employment, minimum wage, factory laws, public health, housing, education’ (Robson, 1943). Robson considered social security more from an individuals’ point of view. He stressed upon improving individual welfare for dealing with social inequalities.

2.3 REVIEW OF ILO AND UN APPROACH TO SOCIAL SECURITY

The International Labour Organization (ILO) promoted the concept of social security outside the terrain of industrialized countries specially Europe and America (Seekings, Jeremy 2008). ILO in its Declaration of Philadelphia[1] (1944) affirmed that social security and social protection were its fundamental principles. ILO (1944) defined social security as one ‘Which the society furnishes, through appropriate organization, against certain risks to which its members are exposed. These risks are essentially contingencies against which the individuals of small means and meager resources cannot effectively provide by own ability or foresight alone or even with private combination with his fellows. …’

In 1952, ILO adopted minimum standards for providing a comprehensive social security world-wide under Social Security (Minimum Standards) Convention (no. 102), 1952. The convention expanded the scope of social security to include nine core contingencies including sickness, unemployment, old-age, employment injury, maternity, invalidity and survivor’s benefits for all. Social security therefore is a ‘protection given by society to its members during the period of substantial reduction or loss of earnings resulting from above said contingencies; the provision of medical care and the provision of subsidies for families with children' (ILO, 1984). Defining the scope of social security in the preface of the report entitled ‘into the 21st Century:

[1] The Declaration of Philadelphia was adopted in the 26th Conference of the ILO in Philadelphia, USA in May 1944. It provided the guiding principles of ILO by defining its aims and purposes in reference to ILO’s social policy and international economic planning.

the Development of Social Security' ILO stated 'Social Security is an instrument for social transformation and progress and must be preserved, supported and developed. Further, far from being an obstacle to economic progress, as is all too often said, social security organized on a firm and sound basis will promote such progress, since once men and women benefit from income security and are free from anxiety for tomorrow, they will naturally become more productive' (ILO, 1984).

In the successive conventions, ILO continued to modify the concept and scope of social security. The critics pointed out that ILO's approach towards social security is limited to the assumption that 'members of society have already reached a minimum standard of living' and thus the objective is to protect the members from falling below this minimum level, rather than helping them to achieve higher standard of living (Jutting, Johannes 2005). ILO definitions also failed to include insurance against environmental and medical contingencies like droughts, floods, earthquake and epidemics (Leliveld, 1991). ILO approach of social security has stronger implications for industrialized country with full employment levels, where continuity of employment is the main cause of worry, while in developing countries getting employment, in the first place is the biggest insecurity (Madhav Rao, 2007). Also the positive effects of social security on economic development have largely been ignored by ILO (Holzmann & Joergensen, 2000). However, Maurice Stack (1948), emphasized upon social security as an important element for human development with strong inter-generational linkages. According to his 'Each country must create, consume and build up the intellectual, moral and physical vigor of its active generation, prepare the way for its future generations, and support the generation that has been discharged from productive life. This is social security; a genuine and rational economy of human resources and values'. Maurice Stack's approach is appreciated for its ideology, but is quite difficult to put in practice. Years later, UNDP released its first Human Development Report and promoted a new micro term called 'human security'[1] as an extension of social security. HDR (1994) defined human security as '…safety from such chronic threats as hunger, disease and repression, and protection from sudden and hurtful disruptions in the patterns of daily lives, whether in homes, jobs or communities'. The report argued that the scope of security should be expanded to include 'economic security, food security and health

[1] Dr. Mahbub ul Haq referred to human security in the United Nations Development Programme's 1994 *Human Development Report.*

security'. Similar to ILO Declaration of Philadelphia, 1944, The United Nations Universal Declaration of Human Rights, 1948 (article 22) affirmed that 'every individual has the right to social security'. The UN declaration of Human Rights further expanded the scope of social security by closely associated it with broader concerns for social justice and human rights. Yet another initiative of United Nations, the International Covenant on Economic, Social and Cultural Rights (ICESCR)[1] also recognized 'the right of everyone to social security, including social insurance' (Article 9). The article claims 'for adequate and accessible benefits to be provided to all without any discrimination via both contributory and non-contributory schemes against major socio-economic contingencies.' However the article has not received its due attention in international arena. Eibe Riedel (2007) criticized the article for being 'shortest in the entire Covenant and is formulated in highly abstract and vague language'.

The thought endorsed in various definitions of ILO (1944, 1948, 1949, 1958 and 1984) and in the declarations of United Nations is that the core responsibility of providing adequate social security to its citizen lies with the entire society in general and the state in particular. John H. Richardson (1960) opined that '……. resources of community should be used to prevent any person from falling below a subsistence level, and that this purpose can be achieved mainly by method of providing him cash for his maintenance and with various health services.'

These provisions may be regarded as fundamental social security measure. Richardson's approach advocated social security mainly through income maintenance to provide medical care and protection against risks and contingencies. Another definition influenced by ILO's income and community based approach was given by Ronald Mendelson (1954). According to him social security is 'any form of organization designed to ensure income security for the whole or part of a community by means of compensation designed to restore the sufferer to full earning capacity and to prevent him and his dependents from incurring undue costs of maintenance of health'. Walter A Friedlander, (1968) precisely summed various Social Security definitions as 'a program of protection provided by society against the contingencies of modern life……against which the individual cannot be expected to protect himself and his family by his own ability or foresight'.

[1] ICESCR is a UN multilateral treaty adopted on December 16, 1966, and in force from January 3, 1976.

2.4 REVIEW OF OTHER GLOBAL STUDIES ON SOCIAL SECURITY

Studies on the subject of social security have recently concentrated upon the issues of sustainability rather than debating upon its scope and coverage. Vladimir Rys (2010) highlighted the issue of financial sustainability of major social security schemes worldwide. His study comes at a time when the world is still attempting to recoup from the financial crisis now termed more serious than that of the Great Depression of thirties (World bank, 2009). Rys categorically pointed that the developed countries have failed to devise any new social protection strategy to prevent its people from contemporary economic crisis; and have continued to struggle for extending the primary social security coverage to wider group. Rys argued that 'the state is reducing its direct involvement in running the social security programs and is more becoming a regulator for private arrangements. And the responsibility is fast shifting back to the employees, families, social groups to provide for the betterment of its members'. Rys further warns about the 'progressive decline in the performance of social security schemes during the last decade.' The perception towards the state sponsored social security is fast changing and thus the prevailing method of tax-financed approach may need a relook. He suggests that 'it would be irresponsible in the light of recent experience (global financial crisis 2008-09) to entrust this task to private arrangements'. The study upholds the state's role in providing the basic security and calling for financial participations from other stake holders namely employer, while placing the need for higher standard of living on the efforts of individual. Rys also suggests for generating sufficient reserves for the economic sustainability of social security institutions through taxes levied on speculative investments.

The issue of financial sustainability was taken up by Jagadeesh Gokhale (2010) in a detailed and independent evaluation of US social security system. The study does 'micro-simulations' of USA's demographic and economic features for understanding how they will interact and evolve over the period of time to determine the future working of US social security program. He commented that 'social security financial problems are much bigger than officially acknowledged'. His study also focused on ageing, another vital aspect of the future social security programs. On one hand financial instability and rising unemployment has resulted into falling pay-roll taxes, on the other hand increase in life expectancy has augmented the projected benefit payments. This calls for an urgent reinventing of the social security program.

A similar concern was raised by Diamond and Orszag (2005) who commented that the present model suffers from a ‘long term deficit’. The study attempts to compare, increase in taxes against drop in benefits as a major step towards improving the financial sustainability of social security programs. The authors warn that ‘not addressing the long-term deficit would put both the program and the nation's budget on the back foot.’

A comparative review of global social security systems was done by John Dixon (1999). It was the study of 172 countries with an objective to encompass global patterns, developments and future issues involved in social security. Dixon criticized the social insurance policies of developing countries for not reaching the poor and getting themselves restricted to only industrial workers in the urban areas. Social assistance was found inadequate to uplift the poor. According to Dixon ‘unless periodic payments are adequate to meet basic human needs, inflation will aggravate their inadequacy’. He also argued that most of the developing countries are not interested in harmonizing social security strategies into one common policy. This has made ‘social security irrelevant to any anti poverty program and economic development context’. Dixon concluded that the major challenge for the economies is to make the social security programs cost effective in order to meet the changing needs of the society. This would demand for a change in government’s perspective away from a state-led initiative towards privatization. Based on his research, Dixon claimed that already several countries had ‘adopted market provision of social security benefits either as a complement or replacement for the public provision’. In his later work on the theme of Privatization or Commercialization of social security, Dixon and Mark Hyde (2001) continued to argue for ‘mandatory social security by private sector’. They referred to the challenges faced by the governments in moving towards privatization. They argued for adequate regulatory provisions that can protect the public interest over and above the private interest.

Haber and Cohen (1948) identified Social Security to be ‘a controversial and dynamic subject with various facets - philosophical, theoretical, humanitarian, financial, actuarial, medical, biological and legal’. This made social security an interesting multidisciplinary subject. William Saletan (2005) observed that ‘Biology can solve social security debate.’ Referring to the US social security policy, he advocated for increasing the age limit from the current 65 years to 70 years for getting entitled for various social security benefits. According to Saletan, ‘Raising of retirement age would honor the principles of productivity and self-sufficiency'. A similar approach was seen in the work of Alicia Munnell (2000). While comparing social security against other sources of retirement income, the author raised two significant questions. First, how long the pay-roll taxes could continue to finance the benefits especially when the proportion of retired population starts exceeding the working population? Secondly, whether the regressive nature of pay-roll taxes is justifiable? These taxes, according to her, does not meet the basic purpose of social security i.e. redistribution of income and equity goals. Martha Derthick (1990) while presenting a comprehensive analysis of American Social Security program and its influence on policy making suggested for a 're-examination of long established doctrines and policies'. The author emphasized on the fact that the social security programs should not be considered as just another government initiative and must be structured on the basis of expert suggestions. She was futuristic in her approach, as she was concerned about the financial viability of social security program. She was critical about the fact that taxes were being raised to suppress fiscal deficits only.

A more contemporary and valid argument for social security reforms was presented by Emmanuel Reynaud (2007), Senior Advisor on informal economy with ILO. He attempted to reinvestigate the principle of right to social security under the current challenges in an international perspective. He argues for re-designing of current social security models, considering the fact that most of them were framed during the World War II. In his paper he claimed that 'the economic, social and political transformations taken place lately have dramatically changed the context in which social security issues arise today'. He referred to financial un-sustainability in most of the economies as one of the reason to reframe the social security financing mechanism. He gave an example of the Asian Crisis 1997-98, which led to 'widespread social distresses'. Another concern is population ageing, especially in industrialized countries, which demands immediate reforms in pension programs. The credit is given to World Bank (1994) for redesigning the pension model based on 'three-pillar model'[1]. According to Reynaud, 'the WB model has become new reference point and has taken a leading international role in pension reforms; indeed it has overshadowed the ILO, which was earlier the major international authority on this subject'. The social security model on the one hand has expanded the scope to include

[1] World Bank. 1994, Averting the Old Age Crisis

poverty alleviation as a critical objective and on the other hand brought in new stakeholders like banks, insurance companies and pension fund managers in the field. Lastly the paper puts emphasis on the issue of inadequate coverage of existing social security schemes. To overcome the same, the paper suggests for micro-insurance, community based schemes and cash transfer programs especially in Asian countries.

A gender based approach towards reformation of social security was suggested by Estelle James *et al* (2008). While studying the gender related impact of current social security program, the authors argued that 'women live longer than men, on average, but often have smaller life time incomes.' Thus it is essential to incorporate the gender impact while reforming the current model. Participation of women in the labour force is far less than that of men. Therefore prevailing social security model financed through pay-roll taxes and based on defined contribution approach will benefit the women less during their old-age. In absence of a direct approach towards the gender issue, most of the women will be left dependent upon social assistance and publicly funded old-age benefit schemes, which are hardly sufficient. The authors asked for joint pension programs under 'new multi-pillar system that combine a publicly managed benefit and a mandatory private retirement saving plan' targeting women from the poor sections of the society.

2.5 REVIEW OF INDIAN STUDIES ON SOCIAL SECURITY

In India, an important view was taken in reference to the issue of social security by Prof. B. P. Adarkar[1](1944). According to his report on the subject 'the state must assure the responsibility of providing the fundamental or basic security to the common man in the economic sphere'. He suggested for providing financial assistance to those (especially workers) engaged in hazardous occupations. Though Prof Adarkar's scheme was limited to the industrial workers it laid the foundation for state's accountability in relation to employees insurance. The report of First National Commission on Labour (1969) made a similar argument while defining the scope of the subject. It said 'citizens who have contributed or are likely to contribute to the country's welfare should be given protection against certain hazards'. The NCL report

[1] In March 1943, the Government of India appointed Professor B P Adarkar, an officer on special duty, to prepare a health insurance scheme for industrial workers. The Adarkar Report along with suggestions from ILO were later used to frame the Employees' State Insurance Act 1948, passed in April 1948.

further foresees social security as a measure of protection through 'collective action against social risks causing undue hardships and deprivation to individuals whose prime resources can seldom be adequate to meet them'. Four decades later, The Second National Commission of Labour was instituted, which submitted its report in 2002. It retained emphasis on 'social security as a fundamental right.' The primary responsibility of providing the same rests with the state, although it suggested scope for contributory schemes as well. For ESI, the report asked for expanding its coverage and benefit structure. It also suggested umbrella legislation for all Provident Fund schemes - 'an integrated insurance scheme providing for gratuity, unemployment benefits lay off and retrenchment compensation'. The integrated schemes may be entrusted to the EPFO (Report of the Second National Commission on Labour, 2002). In India, the State continued to accept the significance of providing adequate social security to their people but failed to execute or design a foolproof methodology of doing so. This conclusion is drawn by various independent studies of EPFO, ESI and other major social security enactments in India. Hasan (1964) among others studied prevailing social security system in India and made a comparative study of ESI schemes across vacuous states. Srivastava (1964) studied social security with multiple perspectives like sociology, economics, politics, philosophy, finance and legal. His study focused on the two landmark social insurance schemes of India ESI and EPF. Several independent studies were conducted during the same period which simply focused on the administrative procedures and coverage of ESI and EPO schemes. None of these studies gave any concrete suggestion as to how such schemes can provide effective security on sustainable basis to the poor and needy section of the society. G. C. Hallen (1967) did a comparative study of social security schemes across the countries. His study stressed upon the historical evolution of social security in India from joint family system model to the present insurance structure. Hallen termed poverty and illiteracy as major causes of insecurity and their removal was necessary for effective provisioning of social security. A similar conclusion was made by Bhattacharya (1970) who studied social security in developing economies and identified population, unemployment, illiteracy as major obstacles in achieving the goal of inclusive social security for all. Akhori & Srivastava (1982) studied implementation of ESI schemes in parts of Uttar Pradesh. They concluded that low coverage and lack of awareness among the beneficiaries were the issues of concern. Bhatnagar (1985) did a similar study for the state of Rajasthan and came out with almost similar conclusion. Gupta (1986) highlighted major difficulties in the implementation of the schemes and suggested need for changing the functioning methodology of schemes. Sharma (1985) also studied the social security schemes from legal perspectives. Mamoria & Mamoria (1987) in a similar study suggested for strong and specific legal binding as far as execution of schemes are concerned. An interesting study of various social security legislations from legal point of view was conducted by Varandani G (1987) with special reference to giving minimum benefits to the industrial workers. Biranchi Mishra (1993) attempted to study dynamics of social security administration in India with special reference to an empirical study of ESI scheme in the state of Orissa. However, the study failed to give any concrete suggestions to improve the effectiveness of the scheme.

Recently Madhav Rao (2007) did a comprehensive study on the administration of Social Security in India, particularly covering the functioning of EPFO. The study considered the need for 'covering entire workforce in a viable and feasible manner' in the liberalized economy and demanded significant changes in the administration of the current programs. The author has criticized the basic function of Provident Fund. He stated that PF contributions from both employee and employer has been a source of finance for the government which is paid back only in case of death or retirement of the employee. 'The provident fund legislation has sent in frustration, dissatisfaction and discontentment among all the concerned – employer, covered and uncovered employees' (Madhav Rao, 2007). The study draws attention towards the problem of ageing. With rising life expectancy more and more aged will be dependent upon the young for their pension finances, posing yet another challenge to the present system. Furthermore it also pointed towards the trend of increase in labour force along with decrease in employment in the organized sector. The major challenge of the current social security setup is to provide major chunk of social security fund to unorganized sector which is difficult considering its bias towards the organized sector. Wouter Van Ginneken (2003, 2011) in an ILO publication had categorically stated that 'the availability of contingent social security in India is extremely skewed in favor of public employees and workers in organized sector who constitute less than 10% of workforce. The poor in the unorganized sector, who are the bulk of the workforce, depend on self-employment and casual labour and have recourse only to limited social assistance schemes of state governments which lacks effectiveness'. Ginnekan, even criticized the organized private sector for underplaying social security benefits to large member of casual and contractual employees who comprise a majority in the sector. The study focused on exclusion of women and workers of unorganized sector from the prevailing social protection structure. In his other works Wouter Van Ginneken (2010, 2011) claimed that ‘the large majority of workers in developing countries are excluded from social security protection’. His study comprised of case studies of different developing economies including India. He suggests different approaches of extending the formal security to the informal sector workers, especially self-employed. He explored the ways to promote benefits of social assistance programs to include children, disabled and elderly. The study came out with innovative policy suggestions for designing and implementing new programs, such as, area based social insurance schemes to ensure a complete coverage of a geographical area.

In the context of India, some experts like Jayati Ghosh (2005) and Mukul Asher (2006) have written extensively on social security and its related aspects like pension reforms, fiscal sustainability, food security, unorganized workers etc. Unlike others, the contemporary experts don’t limit themselves to the discussion of the concept of social security or pros and cons of a particular scheme. Instead, they intend to motivate broader policy actions through their research works.

Among others, Guhan, S (1994), Prabhu, Seeta (1996), Dev, Mahendra (1995, 2002b), and Kannan (1999 & 2007) emphasized on a wider social security approach in developing countries in comparison to those adopted in developed countries. The most influential among all has been the approach of Prof Amartya Sen and Jean Dreze (1989, 1991) on the subject. They differentiated between two diverse aspects of social security, i.e. protection and promotion in providing for better socio-economic benefits for the people.

‘The former is concerned with the task of preventing a decline in living standards as might occur, in say, an economic recession, or most drastically in a famine. The latter refers to the enhancement of general living standards and to the expansion of basic capabilities of the population and will primarily have to be seen as a long term challenge’ Dreze and Sen (1989).

India, for a long time has relied on protective approaches and has shielded a small section of population in organized sector. This has also been because India is predominantly a poor economy with high incidence of unemployment; any comprehensive social security policy based approach on protective approach like unemployment compensation would be fiscally unsustainable (Mahendra, Dev 2002b). This proves the argument of Dreze and Sen, 1989. Thus, India has been compelled to undertake ‘promotional’ forms of direct anti-poverty programs as opposed to ‘protective’ interventions. Some experts resist this rigid classification. Prabhu (1996) suggested time period as a crucial factor in classifying the two approaches. She explained ‘providing food during famine or scarcity is a protective measure, while the same in the long run promotes human welfare’. Hirway (1995) and Guhan (1995) in separate studies introduced third dimension of social security. They suggested that food subsidies and public distribution system are in the nature of ‘Preventive measures’ which could avoid deprivation.

Dreze and Sen (1989) further referred to two alternative strategies useful for improving uncertain living condition i.e. ‘Growth-Mediated Security and Support-Led Security’. The former is based on ‘trickle down’ principle following high economic growth, that is, benefits would be ripped in the form of employment opportunities and high wages. The expansion of public support in the direction of health, nutrition and education will become possible during the time of high economic growth. The Support-Led Security takes a direct approach through wide ranging public measures in all the above areas. Mahendra, Dev (2002a) extended the arguments of Dreze and Sen to include policy measures targeting unorganized sector workers. Moreover, under Growth Meditated Strategy, ‘Government is supposed to act as facilitator for higher private investment. Removing anti-poor laws, identifying growth engines, taking care of market failures (labour, credit, and commodity/product) and infrastructure constraints, training and skill improvements, etc.’ (Mahendra, Dev 2002a). Support-Led Security will push for self-employment programs, land reforms, provision for basic needs etc.

Kannan (2004) suggested a different classification model for developing countries in the form of Basic Social Security (BSS) and Contingent Social Security (CSS). The former is to provide for minimum socio-economic requirements and meet basic deficiencies. It would take care of deprivation and vulnerability comprising of Food, Housing, Health and Education. Extending these concepts in the backdrop of globalization, Kannan (2007) emphasized upon social security for unorganized sector workers. Unlike developed countries, where modernization, technology and trade have benefited the skilled labour, in developing countries unorganized sector workers are mostly negatively affected, mainly due to higher labour supply. The concept of

‘Social Floor’[1] has been suggested below which no individual should be allowed to fall. Income is one of important criteria in measuring ‘Social Floor’. Kannan and Pillai (2007) came out with an exhaustive paper on the historical and contemporary conditions of social security in India. They argued for adopting measures for poverty reduction as a perquisite for providing social security. The paper concluded by referring to the importance of a universal social security system but failed to provide any road map for the same.

2.6 REVIEW OF STUDIES ON SOCIAL SECURITY REFORMS

There are interesting additions to the perspectives of social security reforms. Burgess and Stern (1991) referred to the importance of time period while making strategies for social security. Policies involving human capital formation and economic growth affect deprivation over a period of time. Often policy makers need to choose between the measures which protect people in short run, for instance cash transfers, etc, and those providing for high economic security in long run. Errol D’souza (2001) suggested social and economic infrastructure development in areas like roads, water, electricity, health, schools and financial services for effective functioning of various social security schemes. Seeta Prabhu (2001) conceived socio-economic security as an extension of the traditional concept of social security. Her concept is based on four measures including education, health & nutrition, employment, statutory measures of social protection and social assistance for the dependents. Socio-economic security then is defined as ‘measures that enhance social capabilities, ensure economic security and enable the vulnerable sections of the population to survive’.

Coming back to the discussion on social security for unorganized sector workers, the most difficult challenge is to provide measures of social security to over ninety per cent of workforce employed in the economy without any job guarantee and income sustainability. Jhabvala, Renana (1998), Unni & Rani (2002), Dev, Mahendra (2002) and others have emphasized upon the fact that future employment would be created more in unorganized sector and this demands restructuring the definition and scope of social security. ‘In general, social security is available with a degree of certainty to

[1] A minimum level of social protection for individuals and families needs to be accepted and undisputed as part of the socio-economic ‘floor’ of the global economy, including adjustment assistance to displaced workers (World Commission on the Social Dimension of Globalization, ILO 2004).

those in government employment and in specific industries and classes of establishment in private sectors. It is its availability to those in the informal sectors or the unskilled unemployed that social security is subject to budgetary constraints and far from certain. There is a need to have some sort of social security for unorganized workers.' (Dev, Mahendra 2002).

Pointing to the present system that violates the constitutional provisions of non-discrimination and equity Ravi Duggal (2006) stated that 'the only way towards universalizing social security is through extension of social security laws to entire workforce in the country on compulsory bases'. The argument can be concluded stating that the present social security system is not only biased towards the organized sector but is also against the principle of social justice as most workers are living with appalling working conditions (Sharma, Alakh 2009). Sakthivel & Joddar (2006) pointed towards the risk of shifting from 'defined benefit' social security schemes to the method of 'defined contribution', especially for unorganized workers who have uncertain income and inadequate savings. They argued that 'given the poor affordability and lack of institutional mechanism, any design of social security that relies heavily on contributory basis is bound to fail dismally'.

Experts and policy makers are now unanimous in stating that the burden of social security provisioning should not lie upon the state alone. Burgess and Stern (1991) argued that 'neither it is feasible nor desirable' for the state to do so. Dreze and Sen (1991) suggested 'public action' as an important strategy for effective social security. They defined the role of public action by including 'not only what is done for the public by the state, but also what is done by the public for themselves'. The term public here includes family, community groups, non-governmental organization and individuals. People through social and political movement can put pressure on the state for providing the basic social security and focusing on the issues which otherwise may be overlooked (Dreze & Sen 1989, 1990, 1991). Seeta Prabhu (2001) emphasized upon a larger role of community in ensuring that the 'voices of poor are heard by the policy makers'. Unni and Rani (2002) suggested institutional mechanism for delivering social security; this includes market, government and civil society as the means through which such deliveries could be guaranteed.

The change in approach towards the execution of social security measures has fuelled the demand for social security reforms. Time and again experts have asked for urgent reforms under different areas of social security. Ramgopal Agrawala *et al.* (2004)

insisted on constitution of an alternative social security framework for unorganized sector workers which is both comprehensive and financially viable.

Ajay Shah (2000, 2005, & 2006) claimed that 'Pension reforms should be a centerpiece of second generation reforms.' He highlighted the deficiencies in present social security schemes for the formal sector and suggested immediate need for a sustainable and scalable pension system. Mukul Asher (2005, 2009 & 2010) demanded professionalism and technocratic orientation of social security organizations. He advocated for a cohesive social security system, and suggested reforms in labour market, financial market, and fiscal policies, etc. to complement broader social security reforms in pension and health care sector. Earlier Seeta Prabhu (2001) also argued for 'synergy and integration' as prerequisite for social security reforms. Apart from demanding social security for the unorganized sector workers and building an integrated system, the focus of experts has been towards two important aspects of social security reforms- ageing and fiscal sustainability[1].

The conventional system of Pay-as-you-go (PAYG) is under severe criticism due to the fact that people are expected to live a long post retirement life. Thus, the burden of financing their social security remains implicit on the present workforce. Mukul Asher (2009, 2012) argued that 'large number of people without current income' put pressure on the available public resources committed to social security. Irudaya Rajan (2003) raised the issue regarding the prospective elderly for whom a sustainable social security scheme is imperative. Moneer Alam (2006) made a pragmatic study on socioeconomic, health, and public-policy aspects of ageing in India. His study suggested specific and long term deposit schemes for retirement with provisions of tax free interest earnings such as LIC's Varisht Pension Bima Yojana[2]. Moneer also concluded that 'many of the fundamental issues that need to be addressed by a country with a large ageing population are not fully understood by public agencies'. P Madhav Rao (2007) integrated the problem of ageing with financial viability of pension and other social security programs. Demographic changes especially mortality and ageing along with the benefit payment has increased due to people living much longer over their contribution period. Rakesh Mohan (2004) claimed 'Perhaps the most significant impact of population ageing is on the pension system, in

[1] A detailed discussion on the issues of Ageing and Fiscal Sustainability would be done in respective chapters.

[2] Varishta Pension Bima Yojana has been discontinued, It has been replaced by "Senior Citizen Savings Scheme (SCSS)"

particular, and on the fiscal situation, in general’. The government spending on health care and other welfare programs has been substantially increasing which clearly reflects the fiscal impact of population ageing. Mahendra Dev (2002a) pointed that government method of financing pensions is neglecting the ‘actuarial valuation regarding the adequacy of contributions and sufficiency of returns. Incremental benefits and longer life span may make these schemes a *financial time bomb’***.**

The financing of social security schemes, therefore, has become the focal point of deliberation on the subject. The Human Development Report (1990) supported World Bank’s ‘three pillar framework’ for financing social security. These are

Pillar I: a publicly – managed - tax-funded safety net with compulsory participation.

Pillar II: privately –managed – contributory model.

Pillar III: individual - voluntary saving schemes.

The report considered the problem of financing the pension program more from the perspective of the participants than from the pension providers (UN, DESA 2000). Guhan (1994) suggested a cut in the countries budget for defence and subsidies for non-poor to provide for doubling the social security funds. Jha & Bhattacharyya (2010) made an international comparison of social security and concluded that India lacked financial diversification, professionalism and belief that pension funds can be treated as an asset too. The policy makers continued to refer to social security system only as a welfare measure and thus ‘the average income earner was unable to replace his pre-retirement earnings with pensions compared to others in developed countries’.

The literature review for social security cannot be completed without referring to some major institutions which influence the state policy on the subject. The first among these is the Planning Commission Report (2001) on social security. It upholds the responsibility of state for providing protection to the needy. ‘Social security has been recognized as an instrument for social transformation and progress and must be preserved, supported and developed as such’ Planning Commission (2001).

The report of Old Age Social and Income Security (2000) also called as Project OASIS accepted that the government programs cannot provide for adequate income and social security to the aged and called for ‘self-help’, whereby, the people themselves can contribute for their post retirement benefits. It envisaged that government should play an important role in providing necessary institutional infrastructure in the form of a regulator. Based on its suggestion the New Pension Scheme (NPS) was launched with PFRDA as its regulator.

'The pension sector reforms were initiated in India to establish a solid and sustainable social security arrangement in the country against the backdrop that only about 12-13 per cent of the total workforce was covered by any formal social security system. The New Pension System (NPS), which was introduced by the Government from January 1, 2004 for new entrants to the Central Government service, except the Armed Forces, was to be extended gradually to the remaining 87 per cent of the total workforce on a voluntary basis. The design features of the NPS are self-sustainability and scalability. Based on individual choice, it is envisaged as a low-cost and efficient pension system backed by sound regulation. It is a pure "Defined Contribution" product with no defined benefit element, returns would be totally market-related. It could provide various investment options and choices to individuals to switch over from one investment option to another or from one fund manager to another, subject to certain regulatory restrictions'. The Economic Survey (2008-09)

Based on the principle of protectionism the NCEUS (2006)[1] in its report on social security for unorganized sector workers proposed for a national minimum social security and divided the problem of social security into the categories of deficiency and adversity. The former occurs due to limited employment opportunities while the later takes place due to inadequate support system. The NCEUS scheme is contributory and based on 'collective care arrangement'. It calls for participation from state governments, industry associations, employers and employees in the unorganized sector.

2.7 OBJECTIVES OF THE STUDY

The literature review presented above suggests that many countries particularly developing ones have got influenced by the success of USA's and UK's social security programs and have adopted unified model of social security comprising the features of both social insurance and social assistance. The success of attaining social security objectives depends upon not only making a sensible mix of these features, but also mobilizing adequate funds from all sources of revenues.

The review of literature and considering the gap to be filled in, the present study attempts to integrate three crucial issues namely;

- Specific social security basket considered indispensible for living.
- Budgetary allocation towards social security basket with reference to fiscal sustainability.
- Future burden towards financing social security basket with reference to ageing.

[1] NCEUS 2006 Report And Draft Bill On Social Security For Unorganized Workers

The present study focuses on attainment of the following objectives:

1. To study the evolution of social security as a concept in a historical perspective.
2. To trace social security references in the Constitution of India and in the Five Year Plans.
3. To study the changing dynamics of labour market especially during the post reform period in the context of social security.
4. To look into various social security measures adopted in India for organized and unorganized sector workers.
5. To highlight dichotomy between the understanding of informal and unorganized sector/workers.
6. To study the problem of ageing particularly with reference to social security implications.
7. To investigate budgetary allocation of central and state governments towards social sector as a whole.
8. To constitute and analyze major social sector items into a group called Social Security Basket.
9. To study the trends of social security expenditure of central and state governments with reference to GDP/GSDP, Total Revenue, States Own Resources, Debt Burden and Interest Payments.
10. To evaluate trends and growth rates of old-age population and social security expenditure of the governments and determine the need for financing social security basket considering the problem of ageing.
11. To make a comparative study of states to evaluate social security in the context of fiscal sustainability and ageing.

Descriptive analysis is done in the initial chapters of introduction and review of literature for examining the first two objectives of the study. The next set of three objectives is studied in chapter three and four. A separate chapter is dedicated to study the problem of ageing and the last five objectives are addressed in chapter six of the study.

2.8 HYPOTHESIS

The following hypotheses have been worked out for the purpose of the study:

1. The evolution of social security both as a measure and as a concept has relevant implications for the developing countries such as India.
2. Unorganized workers, massive unemployment, poverty and old age remain the key issues for any discussion on social security.
3. The present social security system is biased towards the organized employment.
4. Social security in the context of population ageing is less pronounced.
5. Expenditure on social security by the government has increased over the years.
6. Social expenditures are not targeted adequately towards the basic social security items such as health care, housing, nutrition, labour and family welfare.
7. The fiscal burden of social security has become insurmountable.
8. Large and economically advanced states are more prone to fiscal risks than others.

2.9 RESEARCH METHODOLOGY

The present study is divided into three parts. The first part presents a descriptive analysis emphasizing on the historical evolution of social security concept and measures through the years and across major countries.

The second part attempts to trace the fiscal behavior of Centre and 15 selected states. The states selected for the analytical purpose are a mix of rich and poor states. These states are: Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Bihar, and West Bengal. Together these states contribute around 82% of country's GDP as per 2010-11 and 88% of country's population as per 2011 census survey. Attempt has been made to capture the historical data wherever available and plausible. However, the crucial data analyzed in this context refers to a period of 14 years from 1999-00 to 2012-13. The time period comprises both high growth years and low growth years and thus serves as a suitable basis for the comparative analysis of states. Analytical tools such as ratios and percentages, averages and growth rates are used to examine the changes of different variables during the reference period. We have also used Borda Rank Aggregation method in the penultimate chapter for the purpose of better understanding of state performance under different indicators.

2.10 SOURCES OF DATA

For the present study variety of secondary sources are used for getting data on social security expenditure, present status of employment and unemployment, classification of population and projected old age population. The major sources of data include RBI Report on State Finances – A Study of Budgets, Reports of various Finance Commissions, RBI's Handbook of Statistics on Indian Economy (various issues), Indian Public Finance Statistics, Reports of NSSO (various rounds), Planning Commission Studies and Reports and United Nations Population Divisions reports on Ageing.

2.11 DETAILS OF THE CHAPTER SCHEME

The present study makes a modest attempt to study the whole gamut of social security system in India. The study relates social security to the alarming issues of labour market, changing demographic structure, and rising fiscal burden of the government. The study seeks to benefit diverse groups of academicians and policy makers. Notwithstanding the limitations, it is believed that the study would open new avenues for furtherance of research at higher level.

Chapter one elaborates about evolution of social security from a mere welfare scheme during pre –industrialization period to a universal concept of socio-economic support at present. The chapter dwells on various definitions and concepts of social security prevailing over the years and across the globe. It also attempts to trace historical references of social security and finds out how it was first introduced as a principle of welfare in Germany and UK, and later conceived and developed as governments' responsibility towards the citizens. The chapter presents a lucid detail of the concept of social security as it evolved in India, starting from the period of Kautilya and Sukracharya during 320th B.C to the present times. In order to comprehend further the origins and dimensions of social security in India, we have also peeped into the Indian Constitution and various Five Year Plans of India.

In the **second chapter** a review of literature on important works on social security has been done. The works of various researchers, policy makers, governments and institutions have been reviewed in detail to highlight the significance of the topic. The Literature review suggests that such an important subject has remained marginalized and most of the literature is confined to the discussion of the concept of social and labour welfare. However, in recent years, the subject has been hotly debated among academicians and policy makers due to wider and perhaps deeper implications of social security in contemporary societies. Further, second chapter also elaborate upon the objectives of present study, proposed hypothesis, research methodology, sources of data and limitations of the study.

The **third chapter** analyses in detail the present social security system in India. The chapter differentiates between the social security measures for organized sector workers and unorganized sector workers. The analysis highlights lack of comprehensive social security polices for unorganized workers. On the other hand, those working in organized sectors do enjoy a multiple of benefits. Most of the time they end up providing multiple coverage and benefits to the same targeted group. The unorganized sector workers are scattered across the industries and sectors making it difficult to frame and target policies for sponsoring their socio-economic security. However the argument does not allow the state to escape from its responsibility of providing minimum social security to all its citizens both on moral and constitutional grounds.

The **fourth chapter** highlights the issues of labour market structure in India. The chapter discusses not only the size and composition of labour force but also its trend over the period. It highlights several important issues like problem of unemployment during the planning period, multiple estimates of unemployment, relationship between population, poverty and employment etc. The chapter, using the data of planning commission and NSSO draw attention to the fact that significantly high proportion of employment opportunities are created only in the unorganized sector. Also, the jobs created in the organized sector are mostly informal in nature, characterized by low and uncertain earnings, poor working conditions and negligible social security.

The **fifth chapter** studies in detail about the problem of ageing. It gives an understanding of the concept of ageing with reference to theory of demographic transition. The chapter studies various determinants of ageing such as Total Fertility Rate (TFR) and Life Expectancy. Median age and the Ageing index are studied to indicate symptoms of ageing, while Old-Age Dependency Ratio and Potential Support Ratio (PSR) are studied to determine the social burden of ageing. The chapter highlights the fact that India being a young country still holds advantage in comparison to other developed countries of the world. However, in order to reap this demographic dividend the country will have to invest significantly on socio economic parameters such as education, food, water, health care and sanitation so as to cope up with the changing social and demographic structure.

The **sixth chapter** discusses the vital link between fiscal sustainability and social security in the context of ageing. It gives an account of expenditure incurred by government on various items of social sector specifically culminating into a Social Security Basket. Issues related to labour, health and pensions are also understood in this chapter. The chapter relates present status of social sector expenditure to the working population and old age population to determine its significance. It also attempts to analyze social sector expenditure and seeks to dwell upon the issues of adequacy of social security spending in relation to fiscal and ageing risks.

The last chapter (**chapter seven**) summarizes the work and provide suggestions and recommendations.

2.12 LIMITATIONS OF THE STUDY

The literature available on the subject of social security is limited. In relation to Indian economy, most of the individual research on the subject have confined to the analysis of social security schemes like ESI, Provident Fund, Maternity benefits etc. A comprehensive research on the subject including government's total expenditure on social sector as a whole in the context of social security has not been conducted. However there are some important works done by various experts as mentioned in the literature review.

The data related to the state and central government expenditure on the subject is available through the budget documents and other reports of RBI, Ministry of Finance and Planning Commission. These sources disclose only broad items of social sector to which funds are allocated. These documents fail to list out the schemes and programs under each of the components of social security. This has made the study of social security targeting a difficult task.

In the light of these limitations the present study is solely dependent on the composite data provided through the budget documents and focuses specifically on government's priority and financial sustainability towards the area of social security.

In spite of the limitations the study has successfully integrated the concepts of social security measures with financial burden and problem of ageing. The study highlights the importance of providing social security for selected items to each individual in the society in spite of his/her employment, income level, caste, and age structure. The study has also attempted to determine the future implications on social security due to projected rise in the old age population. The results call for an urgent attention towards constructing a comprehensive social security package for everyone.

CHAPTER – III

EVALUATION OF PRESENT SOCIAL SECURITY SCHEMES IN INDIA

3.1 INTRODUCTION

Providing adequate safeguard against socio-economic uncertainty is a constitutional guarantee of state to its citizens, although, the situation of social security policy and its execution is highly ambiguous both at the Centre and state level. A wide range of schemes framed by several departments under various ministries of union government and the states reveal only half hearted efforts towards constitution of a comprehensive policy on social security. The prominent ministries directly or indirectly providing various social security schemes are Food & Public Distribution, Health & Family Welfare, Housing & Urban Poverty Alleviation, Social Justice & Empowerment and Ministry of Labour & Employment. The last one mentioned here has the core responsibility of framing and implementing the labour laws. However, experts have observed that the Indian labour laws have always remained too 'voluminous' and therefore, ineffective. They provide scope for corruption, and financial instability (Sharma, Alakh 2009). Each single scheme under the gamut of labour laws has been designed with specific purpose of targeting a group of beneficiaries, but most of the time they overlap each other in terms of the coverage and benefits. The same group gets covered in multiple schemes and those in dire needs of support end up being excluded from the planning process either due to practical or political reasons (11^{th} Five Year Plan, 2007).

Due to absence of any concerned statute or act, the social security laws in India are part of labour laws. There is no separate ministry of social security either at center or the state level. The related matters are taken up by the ministry of labour and other concerned ministries. Except the Ninth Five Year Plan the rest of Indian planning has overlooked the term social security (Report of Second National Commission of Labour, 2002). The existing social security system in India covers only the elite group of organized sector workers, mainly civil servants (Debi Saini, 2005). Over 90% of India's workforce remains deprived of any substantial wage security. This is further threatening with the fact that the proportion of workforce in organized sector has reduced from 10 to 7 percent in recent years. This is contrary to the objectives of Indian constitution to build a non discriminatory egalitarian social order.

Various social security schemes irrespective of the promoter, sponsor or beneficiary can be primarily classified into following heads –

1. Health Care Benefits
2. Employment Injury Benefits
3. Unemployment Benefits
4. Old Age Benefits
5. Dependents Benefits

All the schemes under the above mentioned heads are financed through a structured arrangement either by the Centre or state governments or by the employer. Sometimes these schemes are also financed by the employee in his/her individual capacity. The state sponsored social security schemes are more popular in developed countries. Due to large size of population, workforce and fiscal constraints in developing countries especially India, both self financed and government funded schemes are promoted.

Figure – 3.1 Broad Classifications of Social Security Schemes

Schemes	Promoter	Sponsor
Central	Central Government	Union Budget - Plan Expenditure
	Central Government	Union Budget - Non-Plan Expenditure
State	State Governments	State Budget - Plan Expenditure
	State Governments	State Budget – Non-Plan Expenditure
Insurance	State Governments	Employer and Employee Jointly
	Insurance Companies	Individuals – Self Financed
Pension Schemes	Insurance Companies	Individuals – Self Financed
Private Schemes	Labour Union – Trade Bodies	Workers – Self Financed
Welfare Funds	Various	Charity and Self Financed

All major social security benefits in the country are targeted towards the organized sector workers. This is largely because it is easier to indentify the beneficiary. The unorganized sector workers are scattered and shift across the industries and sectors making it difficult to frame and target policies for sponsoring their socio-economic security. However the argument does not allow the state to escape from its responsibility of providing minimum social security to all its citizens both on moral and constitutional grounds.

3.2 SOCIAL SECURITY SCHEMES FOR ORGANIZED SECTOR

The organized sector consists of government, public sector *other than government* and private organized sector in the country. The government sector consists of central, state and local government. The social security benefits for the government (organized) sector are clearly mentioned under article 309 of the constitution. In addition to this, every ten years, the pay commission recommends its pay revision after the detailed study of structure of pay and other allowances. The social security benefits for public enterprises are mostly budgeted by the government; some are unilateral liability of the employers while others are financed through a joint contribution from employees and the employers.

The Directorate General of Employment & Training (DGET)[1], National Sample Survey (NSSO)[2] and Annual Survey of Industries (ASI)[3] consider the most accepted definition on organized sector as given under the Factories Act, 1948. Section 2 (I & II) of the act defines organized sector as 'enterprises employing 10 or more workers using power or 20 or more workers without using power'. However it is interesting to note that no similar definition for service industry is available (National Statistics Commission, 2012). Though various social security schemes in India provide extensive protection to those working in the organized sector, these are not free from administrative inefficiencies and sustained weaknesses.

Figure – 3.2 Major Social Security Schemes for Organized Sector

Sr No	Prevailing Social Security Acts for Organized Sector	Contingency	Nature	Liability
1	Workmen Compensation Act 1923	Death & Disablement	Defined Benefit	Employers Unilateral
2	Employees State Insurance Act 1948	Death & Disablement	Defined Contribution	Employers and Employees
3	Employees Family Pension Scheme 1971/1995	Death & Disablement	Defined Contribution	Provident Fund
4	Industrial Disputes Act 1947	Lay-off & Shutdown	Defined Benefit	Employers Unilateral

[1] The DGET functions under the Ministry of Labour and its core objective is 'to collect and disseminate information concerning employment and unemployment and prescribe uniform reporting procedures'.

[2] The National Sample Survey Organization (NSSO) under the Ministry of Statistics and Program Implementation of Govt of India established in 1950 is the largest organization conducting periodical socio-economic surveys in India.

[3] The Annual Survey of Industries (ASI) is the primary source of industrial statistics in India specifically for organized manufacturing sector. Established in 1959 under Collection of Statistics Act 1953 it conducts annual surveys of manufacturing industries in India.

5	Maternity Benefit Act 1961	Maternity	Defined Benefit	Employers Unilateral
6	Employees PF and Miscellaneous Provisions Act 1952	Old Age	Defined Contribution	Provident Fund
7	Payment of Gratuity Act 1972	Old Age	Defined Benefit	Provident Fund

3.2.1 Provident Fund and Miscellaneous Provisions Act 1952

It was under the 1st five year plan that a formal beginning of providing social security was started with the enactment of The Employees' Provident Fund & Miscellaneous Provisions Act, (EPFMP) 1952[1]. The EPFMP Act is based on protective approach of social security with a sole objective of safeguarding the interest of worker and his family. Till date it has remained an important labour welfare legislation enacted by the Indian parliament.

With about 4 schedules, 22 sections and 46 sub-sections applicable to 180 classes of industries and other establishments, EPFMP Act is the smallest social security legislation in the country extending largest social security coverage and benefits in the world (Rao, Madhav 2007).

Box – 3.1

Coverage under EPFMP Act 1952

- The Act is applicable / restricted to industries specifically mentioned under Schedule I – sec 2(i) and 4 of the Act. The establishment or business units mainly belong to industries engaged in manufacturing cement, cigarettes, electrical, mechanical or general engineering products, iron and steel, paper and textiles.
- The act is applicable to units employing 20 or more employees.
- The act is not applicable to cooperative societies employing less than 50 persons and working without power.
- The act does not apply to employees of central, state or local bodies. However the central government is empowered to apply the act after giving a two months notice of its intent to do so.
- If an industry which is otherwise not eligible, voluntarily seeks to extend the benefits to its employee it may be allowed to do so under sec 1 (4) of the Act.
- Applicability of the act is compulsory for employees drawing pay not exceeding Rs 6500/- pm at the time of joining. Even if the employee is earning more than 6500/- pm at the time of joining he/she is entitled for the benefits with mutual consent of his employer.
- Every employee of the factory or establishment to whom the act applies becomes a member of the fund at the time of joining.
- However once the act becomes applicable on the business unit it does not cease even if the No of employees falls below 20.

[1] The act was primarily an extension of Provident Fund Act 1925 and Coal Mines Provident Fund and Bonus scheme of 1948 as both these had limited coverage.

EPFO[1] today stands out to be world's largest organization in terms of membership and volume of financial transactions it undertakes (11th Five Year Plan). Since its inception in 1952, the Act underwent several amendments. Apart from Employees Provident Fund Scheme of 1952 it also includes other schemes like Employees Family Pension Scheme, 1971 and Employees Deposit Linked Insurance Scheme, 1976 to provide for a comprehensive social security to the workers in the old-age. The Employees Family Pension Scheme of 1971 which used to extend pension benefits to the family members of the deceased employee is now replaced with Employees Pension Scheme, 1995. Under the revised scheme the employee himself can enjoy pension benefits during post retirement, while the benefit of family pension remains intact.

A) Employees Provident Fund Scheme, 1952

The provident fund as a tool of social security legislation is based on the concept of protection. Unlike promotional approach, it tries to compensate economic loss of the member due to death of employee, resignation, retrenchment, closure of the establishment or fall in income due to reasons beyond his control.

Box – 3.2

Contributions and Benefits under EPF Act 1952

EPF is a defined contribution scheme as per para 29 of the Act. Employer should deduct 12% of the wages of employee towards contribution of the fund. The employer has to contribute another 12% of wages and deposit the cumulative amount with the Regional Provident Fund Commissioner. To safeguard the interest of the employee, sec 11 of the act assigns priority of payment of contributions made by employers over any other debt of his organization. The employer should first deposit the money to the employee's account with the PF commissioner before making payments of his other dues.

The term wage (on which the contribution of 12% is calculated) includes basic wage and dearness allowances.

The contributions towards the fund are eligible for a monthly interest of presently 8.6% (revised fror 2012-13 financial year) and is exempted from income tax.

All establishments or employees covered under EPFMP Act are eligible for the benefits of EPF.

According to the provisions of the Act advances on the fund are allowed for buying house, medical expenses, marriage of childrens, etc. On expiry of the membership, the benefits can be availed in the form of monthly pensions. The cummulative fund is diverted to Employees Pension Scheme 1995. Alternatively the employee can withdraw complete amount to his credit in following events.

- Retirement from service after attaining the age of 55years;
- Retirement on account of permanent and/or total disability;
- Migration from India;
- Termination of service in the course of mass or individual retrenchment;
- Termination of service under a voluntary retirement scheme framed by the employer.

[1] Employees Provident Fund Organization is a Statutory Body under the Ministry of Labour and Employment, Govt of India.

B) Employees Pension Scheme, 1995

Pension benefits provide social security to the individuals during his old age. After serving the organization during his productive years, it is in this time of his life that individual needs financial support. British government is credited to bring the concept of old-age pension to India. The Bureaucrats from Britain on their deputation to India were eligible for the pension after their retirement. Gradually British Government extended the same benefit to Indian bureaucrats. After independence the Indian government continued the benefits to Indian civil servants, employees of Indian railways and those working in other government bodies.

The EPF scheme enacted in 1952 was a defined contribution scheme which used to provide accumulated savings along with interest at the time of retirement. However the scheme failed to provide the continued support thereafter. In the 2nd Five year Plan (1956-61) the planning commission had observed that *'It needs to be examined whether the present provident fund contributions could be converted so as to form a basis for suitable pension scheme.'* The accumulated PF amount could be used towards financing the commitments made by the employee over the period leaving nothing to fall upon in post retirement years. A need for alternative pension scheme was felt during the early years of planning itself.

However it took long time before Family Pension Scheme came into existence in 1971. Though the pension scheme improved the condition of dependents after death of the earning member, the scheme failed to qualify for a complete social security system in the country. The major concern against the family pension scheme was that it provided economic support only after the death of the earning family member and not during his life time. The problem of social dependence more or less remained same during his lifetime. After studying the pension schemes world wide the government of India on 16th November, 1995 brought into existence the Employees Pension Scheme 1995. It provided pension benefits to the member during his life time. The employee is entitled to draw pension from the time of his retirement till death; later his family continues to remain entitled for a family pension. The EPS, 1995 not only replaced the existing EPS, 1971; it was instrumental in amending sec 6A of the Employees Provident Fund and Miscellaneous Provisions Act of 1952. According to the revised scheme, employer's share to the extent of 8.33 percent in the Provident Fund contribution shall be diverted to the pension funds. The EPS 1995 guarantees a defined monthly pension based on employees last basic pay. After the death pension is paid to the dependent family members in the manner as prescribed.

Box – 3.3

Contributions and Benefits under EPS, 1995

Based on defined benefit approach the pension fund will always be adequately available to make pension payments to all the pensioners, this is irrespective of the amount contributed by the current members. 'Suggestions made by independent actuaries appointed by EPFO are considered and a general formula based on individual contribution of number of years and amount of earnings during the period is taken into account'.

The pension contribution is a diversion from employer's share of provident fund contributions. The wage ceiling of Rs 6500/- of EPFMP 1952 automatically gets applicable to EPS 1995. The ceiling is kept to protect small employers from getting economically burdened and at the same time incorporating them into organized social security.

However the large establishments and those who can afford to contribute on a higher wages (above 6500/-) are free to do so. The employer shall ensure a contribution of 8.33% from the employee's salary to be remitted to Employee Pension Fund every month. In addition the Central Government will also contribute at the rate of 1.16% of the employee's salary to the fund.

The pensionable salary also called insurable earnings is the amount on which contributions have been made. For calculating the monthly pension benefit the pensionable salary is calculated by taking average of last 12 months of service prior to the date of retirement or exit. Irrespective of the ceiling; average of the amount which is paid as salary should be taken as pensionable salary if employer has paid contributions on the salary above Rs 6500/- (EPS 1995, Para 11-3).

According to sec 16 of EPFMP Act 1952, the EPS 1995 is applicable to all employees of factories and other establishments which fall under EPFMP Act 1952.

Following major types of pension benefits are provided under EPS, 1995

- Superannuating Pension/Benefit
- Retirement Pension/Benefit
- Permanent Disability Pension
- Family Pension

C) The Employee's Deposit Linked Insurance Scheme, 1976

In addition to those covered under Employee's Provident Fund and Miscellaneous Provisions Act, 1952 all other establishments with at least 10 full-time permanent employees have a statutory liability to subscribe to Employee's Deposit Linked Insurance Scheme (EDLI), 1976.

Box – 3.4

Contributions and Benefits under EDLIS, 1976

The EDLI 1976 is an insurance benefit scheme in which employer should make a contribution of 0.51% of each employee's wages (Basic + Dearness Allowance), subject to a maximum of Rs.6,500 per month, to the Provident Fund Authorities.

The employer contribution should increase over 1% of the employee's wages. The employer cannot deduct his contribution from the wages of employees, as the employees are not required to contribute to this scheme.

If eligible the employer may get an exemption from EDLI scheme under section 14 (2-A) of the PF Act. This is possible if the Central Provident Fund Commissioner is satisfied that the employees of such establishment, without making any extra contribution or payment of premium, enjoy life insurance benefits more favorable than the benefits under the scheme.

The EDLI Scheme provides Assurance Benefit to the member and his dependents in event of his death. The nominee or any other person entitled to receive the benefits will, in addition to the Provident Fund, receive the Assurance Benefit under EDLI Scheme.
The death benefit payable under the scheme is based on the provident fund account balance of the member, subject to a maximum of Rs.60,000. The amount of Assurance Benefit payable is equal to the average balance in the provident Fund account during the preceding 12 months from the death.
In case where the average balance exceeds Rs. 35,000/- the actual amount payable shall be Rs. 35,000/- plus 25% of the amount in excess of Rs.35, 000/- subject to a ceiling of Rs. 60,000/-.

In addition to above, following sector specific PF enactments provide a wide coverage of employees and suggest a multiplicity of Provident Funds in the country:

- The Coal Mines Provident Funds Act 1948
- Seamen's Provident Fund Act 1966
- The Assam Tea Plantations Provident Fund Act 1955
- The Jammu and Kashmir Employees Provident Fund Act 1961

3.2.2 Employees State Insurance Scheme 1948

The first ever structured health insurance scheme for industrial workers was submitted to government of India by Prof B. P. Adarkar on 15th Aug, 1944. The scheme intended to provide medical benefits and covered workers earning below a certain wage ceiling. It targeted three major industries- Textiles, Mineral & Metals *and* Engineering. Prof Adarkar's scheme was framed in the background of Royal Commission on Labour appointed in 1929 and publication of the Beveridge Report in 1942- both emphasizing a health insurance scheme for industrial workers in the UK. The government of India before accepting the scheme wanted to have an expert opinion from ILO. M. Stack and R. Rao ILO experts on the subject agreed with the fundamental principles of the scheme. At the same time they suggested to incorporate contemporary practices on medical benefits into the scheme. However Prof Adarkar's scheme failed to find a place in any of the British Governments plan but later on became a foundation stone to social security schemes in India. Later, the Government of independent India incorporated Prof. Adarkar's scheme and the suggestions made by the ILO experts into the Workmen's State Insurance Bill which was passed by the Legislative Assembly in April 1948 as the Employees' State Insurance Act. This was first of its kind of social legislation adopted by the country in the post independence period.

Box 3.5

Coverage, Contributions and Benefits of ESI, 1948

Employees' State Insurance Corporation administers the entire scheme. It has members representing employers, employees, central & state governments, medical professionals and the Parliament. The ESI Act of 1948 was originally applicable to non-seasonal factories using power with 20 or more employees. Presently the act covers non-seasonal power using factories with 10 or more employees and factories not using power with 20 or more employees. The scheme has been extended to shops, hotels, restaurants, cinemas including preview theatre, road motor transport undertakings and newspaper establishment employing 20 or more persons (u/sec 1(5)). The wage ceiling for the coverage under the scheme has been increased up to Rs 10000/- pm since 2006.
The amount of contribution payable to the ESI Corporation shall comprise of employer and employees contributions at the prescribed rate. Presently the employer's contribution is 4.75% and employees' contribution is 1.75% of his wages. Employees drawing wages up to Rs.50/- per day are exempted from any contribution; however, employers are required to make their share of contribution. The medical benefits under ESI may be provided through a direct chain of dispensaries and hospitals or through a panel of private clinics. The direct chain generally includes the local government hospitals and those directly managed by ESI Corporation. In addition cash benefits are available to the members on grounds of sickness, maternity, disablement, and rehabilitation. According to sec 58 of ESI Act, the agreement between the ESI Corporation and the state government is to share the burden of medical benefits to members in the ratio of 7:1. This is subject to a ceiling amount which can be revised regularly and the actual expenditure of the state government, whichever is less. The present ceiling is of Rs 900/- per family per annum, as revised on 1st April, 2005.

3.2.3 The Payment of Gratuity Act, 1972

Derived from the word 'gratuitous' (meaning a gift), the term Gratuity has been more than just a gift in the Indian context. It represents a mandatory social obligation on the part of employer towards his employees. The Payment of Gratuity Act of 1972 applies to all kinds of business establishments functioning with minimum 10 or more employees since last 12 months. The Act once applied shall remain effective even if the strength of employees falls below ten.

The payment of Gratuity applies only if the employee has rendered continuous service of minimum five years; however the condition of five years of service does not apply in case of death or disablement of the employee. The Gratuity is calculated for every completed year of service. The wages drawn for the last days of the year is taken for computation of gratuity. At the end of service the total gratuity payable would be derived by multiplying monthly wage by 15 and dividing it with 26. The maximum amount of gratuity payable to the employee cannot exceed Rs 10 Lakhs[1]. As per the amendment (1987) in the Act, it is compulsory for the employer to insure his liability

[1] Payment of Gratuity (Amendment) Act, 2010 (No. 15 of 2010), dated 17-5-2010

towards the payment of gratuity to his employees, although the employer, if he belongs to central or state government, is exempted from such insurance.

3.2.4 **Workmen Compensation Act, 1923**

In order to protect the workers working in hazardous occupations, and to make employer liable towards the workers, the Workmen Compensation Act, 1932 was enacted. It is a central act but administered by the state governments. The Act was amended in December, 2009 to be called as Workmen's Compensation (Amendment) Act 2009. The amendment also substituted the word 'workmen' with the word 'employee'. Sec 2 (1) (dd) of the act defines the 'employee' as one who is a full time employee and not just casually employed for the business of employer specified in schedule II of the act. Also every worker (except those in clerical jobs) who works in a hazardous activity for over 6 months is eligible for the compensation. The Act excludes those working in armed forces and those covered under ESI act, as disablement and dependent benefit is already available to them. According to the Act the employer is liable to monetarily compensate the worker who meets with an accident during the course of employment. The term disablement refers to both partial and total disability, which results into loss of earning capacity of the worker. The Schedule IV of the Act defines the maximum compensation in case of death to Rs 1.2 Lakhs and in case of permanent total disablement to Rs 1.4 Lakhs. In case of injuries caused to the employee in the course of employment the actual medical expenditure shall be reimbursed to the employee.

3.2.5 **Maternity Benefit Act 1960**

This act is one of its kinds enacted specifically to provide job security to women employees due to absenteeism during the pregnancy. The act promotes the welfare of female workers by safeguarding their income during the time. The act strictly prohibits the female employees from working for a period of six months before and after the delivery. In addition to the maternity leave the female employees are eligible for a monetary benefit also.

3.3 SOCIAL SECURITY SCHEMES FOR UNORGANIZED SECTOR

Article 41 of the Directive Principles of state policy proclaims

'The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want'.

Unfortunately the state fails to make social security a must for all. The formal social security support is available to a small fraction of India's labour force working in the organized sector. A massive 93% of labour force still works in the unorganized sector (NSSO, 62nd Round, 2008) and continues to remain deprived of any exhaustive social security program. Due to ambiguity over its coverage and absence of any consistent and coherent definition (Hussmans 2004) the interpretation of unorganized sector has remained controversial. Both, the intellectuals as well as the government have shown their concern regarding social security benefits for unorganized sector, mainly because of its ability to absorb a huge chunk of country's population and its contribution to the GDP (NCEUS, 2008). These reasons justify the need to frame appropriate policies to identify and provide minimum security to the workers. Over the years the employment opportunities in organized sector especially public sector has reduced. From 1994 to 2005 the growth rate of employment in PSU has been 0.7% and for total organized sector the growth rate has been- 0.31% (11th Five Year Plan, Vol I, p 67). The trend indicates the growing burden of employment in the unorganized sector. It is thus desired that after six decades of economic planning due attention needs to be paid towards unorganized sector.

The unorganized sector is identified by the heterogeneous nature of employment where the workers are spread all over the industries doing irregular and low paid jobs. The Ministry of Labour, Government of India recognizes the need for basic social security for the employees of unorganized sector as they are devoid of minimum wages and other benefits, but fails to define the same. According to the labour Ministry the - *'unorganized sector workers are those who have not been able to pursue their common interests due to constraints like casual nature of employment, absence of definite employer-employee relationship, ignorance, illiteracy, etc (The Unorganized Sector Social Security Bill, 25th Report, 2007).*

For effective social security schemes and benefits for the unorganized workers *The Unorganized Sector Social Security Bill 2007* states the presence of variety of characteristics of employment.

Box – 3.6
Characteristics of Employment as per *Unorganized Sector Social Security Bill 2007*

(i) Occupation: Small and marginal farmers, landless agricultural labourers, share croppers, fishermen, those engaged in animal husbandry, in beedi rolling, beedi labeling and beedi packing, workers in building and construction, etc. (ii) Nature of Employment: self employed, attached agricultural labourers, bonded labourers migrant workers, contract and casual labourers come under this category. (iii) Specially distressed categories: Toddy tapers, scavengers, carriers of head loads, drivers of animal driven vehicles, loaders, and unloaders belong to this category; and (iv) Service categories: Midwives, domestic workers, fishermen and women, barbers, vegetable and fruit vendors, newspaper vendors, etc., come under this category.

Though some of these characteristics (Box 3.6) have been considered to frame social security legislations[1] in the past, the coverage and effectiveness of these enactments have been insignificant. Based on their funding, the present social security schemes for unorganized sector are classified into following major categories by both planning commission and ministry of labour:

I) Centrally Funded Social Assistance Program

II) Social Insurance Schemes

III) Social Assistance through Welfare Funds of Central and State Governments

IV) Public Initiatives

V) Other Measures

3.3.1 Centrally Funded Social Assistance Programs

The centrally funded schemes for both rural and urban India are monitored by National Social Assistance Program (NSAP). Launched on 15th August, 1995 by Government of India, the NSAP is a centrally sponsored scheme. The scheme adheres to Article 41 of the constitution for providing state assistance to the citizens during unemployment, sickness, disablement and old age. The scheme was initiated with the objective of safeguarding minimum livelihood and standard of living of poor people, supporting their health care and providing free education to the children. The NSAP, a welfare program is administered by the ministry of Rural Development under the central government targeting the poor both in urban and rural areas. The central government allocated Rs 6,158 crores under the union budget for 2011-12 which was

[1] Workmen Compensation Act, 1923; the Minimum Wages Act, 1948; The Bonded Labour System (Abolition) Act, 1976; The Inter-State Migrant Workmen (RECS) Act, 1979; The Building and other Construction Workers (RECS) Act, 1996.

increased by over 37% in union budget in 2012-13 up to Rs 8,447 crores. The execution and administration of the schemes under NSAP is the responsibility of the respective state governments, thus the coverage of the same is not uniform across the country.

The NSAP covers a variety of social assistance schemes, mentioned as under-

1) National Old Age Pension Scheme (NOAPS)[1]: The old and poor members of the society who are deprived of financial support either from their own sources or from family members are eligible under this scheme to get a pension of Rs 200/- per month. The beneficiaries of the scheme must be identified by the state governments. They can be from rural or urban areas, aged above 60 years and notified as BPL (Below poverty line). For the beneficiary above 80 years the pension amount is revised to Rs 800/- in the central budget of 2011-12.

2) National Family Benefit Scheme (NFBS): A lump sum of Rs 20,000/- (revised in union budget 2012-13) is paid to the family, on death of its primary bread earner. The member should be the sole earning member in family notified as BPL and aged between 18 to 65 years for being eligible under the benefits of NFBS.

3) National Maternity Benefit Scheme (NMBS) Under this scheme cash assistance of Rs 500/- up to first two live births is provided to the poor women aged 19 years and above. The scheme is now transferred to the Department of Family Welfare since 2001.

4) Indira Gandhi National Widow Pension Scheme (IGNWPS): Launched in February, 2009 the scheme targeted the widows aged 40 to 59 years, belonging to the household notified as BPL in either urban or rural areas. A pension of Rs 300/- per month (revised in budget 2012-13) will be given to the widow under the administration of gram panchayat and municipalities. An equal amount is to be contributed by the state government and the total amount is to be paid to the widow through a post office or a nationalized bank account.

5) Indira Gandhi National Disability Pension Scheme (IGNDPS): Launched in February, 2009, under this scheme, a pension of Rs. 300 per month is provided to physically or mentally handicapped individuals aged 18-59 and notified as living below poverty-line.

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[1] NOAPS from September 2007 is known as Indira Gandhi National Old Age Pension Scheme.

Both IGNWPS and IGNDPS schemes shall provide benefit up to the age of 59 years, beyond which the beneficiary will be transferred to National Old Age Pension Scheme (NOAPS).

6) Annapurna Scheme: Launched in April 2000, the scheme targeted the senior citizens for providing food security by giving 10 kgs of food grains per month.

Though the above schemes are not specifically designed for unorganized sector workers the intention is to marginally rescue the workers and their family members from getting destitute. The three schemes IGNOAPS, NFBS and NMBS are primarily based on formal social security schemes like Employees Pension Scheme (1995), Employees Family Pension Scheme (1971) and The Maternity Benefit Act (1961) respectively.

Table – 3.1

Budgetary Allocation and Coverage under NSAP

		Coverage of Beneficiaries				
Year	**Combined Allocation (Rs. in lakhs)**	**IGNOAPS**	**IGNWPS**	**IGNDPS**	**NFBS**	**Annapurna**
2002-03	68000	7471509	**	**	85209	796682
2003-04	67987	6534000	**	**	209456	958669
2004-05	118987	8079386	**	**	261981	850768
2005-06	119000	8002561	**	**	272828	857079
2006-07	248097	8645371	**	**	171232	750319
2007- 08	289148.2	11514026	**	**	334168	1076210
2008-09	450000	15483836	**	**	395460	883232
2009-10	520000	16333578	3213467	699680	343726	1015655
2010-11	516200	17059756	3425390	1328310	334924	963689
2011-12	615757	9116385	2134256	471205	77052	466286

Source: - Ministry of Rural Development, Government of India, 2011

The central government's allocation on various schemes under NSAP has increased significantly during the last one decade.

In addition to the above following social security schemes are promoted by the Ministry of Rural Development, The Ministry of Urban Employment & Poverty Alleviation and The Ministry of Textiles

a. Employment Assurance Scheme (EAS): Launched in 1993 in a few Pilot Regions. The scheme was later extended to entire India. The scheme intends to generate additional employment through manual work by investing in infrastructure. Both Centre and state share the cost in the ratio of 75:25.

b. Swarn Jayanti Gram Swarojgar Yojana (SGSY): Launched in 1999 the SGSY is a merger of earlier employment schemes like DWCRA, TRYSEM, SITRA, GKY and MWS[1]. The objective is to increase the income levels of rural poor by providing them assistance for self-employment through credit cum subsidy program.

c. Jawahar Gram Smridhi Yojana (JGSY): Launched in 1999 the JGSY is a refined version of earlier JRY ensuring wage employment for rural poor.

d. Schemes for Handloom Weavers and Artisans: The office of Development Commissioner for Handlooms, Handicrafts and Weavers, Ministry of Textiles extends following financial assistance and insurance schemes under a central plan to its employees.

- The *work-shed-cum* housing scheme – provides subsidized loan through HUDCO to its members.
- The *Thrift Fund* Scheme – a welfare measure for handloom weavers where the member contributes 8 paisa per rupee of wage earned and the Central and the State governments contribute 4 paisa each to the fund is monitored by Weavers Cooperative Societies.
- The *Health Package* Scheme - similar to medical insurance, the scheme is to protect the members from health related problems arising due to their weaving profession.
- *New Insurance* Scheme - executed through United India Insurance Company for the benefit of handloom weavers with an annual premium of Rs.120 shared by the center, state and the weavers at the rate of Rs.60, Rs.40 and Rs.20 respectively.
- *Group Insurance* Scheme - with an annual premium of Rs.120 shared equally by the center, state and the weaver with a sum assured of Rs 10,000/-.

e. Sampoorna Grameen Rozgar Yojana (SGRY): Launched in 2001, the SGRY targeted to create additional wage employment in rural areas along with adequate food security, and socio-economic security.

f. Indira Awas Yojana (IAY): The scheme intends to provide free of cost housing facilities and dwelling units to SC, ST, bonded labourers and others below poverty line.

g. National Rural Health Mission (NRHM): Launched in 2005 NRHM seeks to provide effective health care to rural population including unorganized sector labourers throughout the country.

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[1] DWCRA – Development of Women & Children in Rural Area, TRYSEM - Training of Rural Youth for Self Employment, SITRA – Supply of improved Toolkits of Rural Artisan, GKY – Ganga Kalyan Yojana, MWS – Million Wells Scheme,

h. National Rural Employment Guarantee Act (NREGA)[1]: Launched in 2005, NREGA has so far been a landmark scheme of central government for providing employment to rural poor. The act ensures guaranteed wage employment of 100 days per year for unskilled work to every household in rural India.

i. Pradhanmantri Gram Sadak Yojana (PMGSY): Launched in December 2000, the PMGSY intends to build all weather roads to connect rural India. The scheme along with creating infrastructure provides huge employment opportunities to rural poor.

j. Swarna Jayanti Shahari Rozgar Yojana (SJSRY) Launched in 1997 and targeted as poverty alleviation program, the SJSRY is a combination of The Urban Self-Employment Program (USEP) and the Urban Wage Employment Program (UWEP). The scheme is funded in the proportion of 75:25 between the Centre and state respectively. The schemes provide self employment assistance to urban unemployed youth.

3.3.2 Social Insurance Schemes

The Following social insurance schemes are available for those employed in the unorganized sector.

1) Social Security Group Insurance Scheme-

Workers across 24 selected categories including Lady Tailors, Fishermen, Cobblers, Beedi workers, etc, between the ages of 18 to 60 years are eligible for this scheme. The scheme is offered by LIC with a premium of Rs 10 per thousand, 50% of which is paid from social security fund and rest by the individual or the sponsoring agency.

2) Krishi Shramik Samajik Suraksha Yojana-

The scheme was launched in 2001 jointly by Minstry of Labour and Minstry of Finance in association with the LIC to provide insurance cover to 20,000 agricultural labourers. The beneficiary contributed Rs 365/- per annum and central government provide Rs 730/- per annum from social security fund. Against the premium, the beneficiary is entitled for a monthly pension based on his age at entry, or compensation on death or permanent disability. The scheme completed its first phase in 2004 and awaiting its renewal since then.

[1] A detailed discussion on NAREGA is done later in the chapter.

3) Janshree Bima Yojana (JBY)

It is a Central Government scheme sponsored through LIC for those living below or marginally above the poverty line and aged between 18 to 60 years. 50% of premium is contributed by central government and the rest is paid either by the beneficiary or in some cases, by the state government. Apart from paying a death benefit, the scheme sponsors the education of children of beneficiaries studying in classes 9th to 12th and in ITI under Shiksha Sahyog Yojna.

4) Aam Admi Bima Yojana (AABY)

Launched in 2007 for providing insurance to all rural landless households, the scheme is financed equally by the Centre and state. The amount of premium is Rs 200/- and covers the individuals in the age group of 18-59 years. A sum of Rs 30,000 and Rs 75,000 is paid in case of natural or accidental death respectively.

3.3.3 Welfare Funds

The Ministry of Labour, Government of India at present runs following welfare fund schemes for the benefit of workers belonging to specific sectors:

a) The Mica Mines Labour Welfare Fund Act (1946),
b) The Lime Stone and Dolomite Mines Labour Welfare Fund Act (1972),
c) The Iron Ore, Manganese Ore and Chrome Ore Mines Labour Welfare Fund Act (1976),
d) The Beedi Workers Welfare Fund Act (1976),
e) The Cine Workers Welfare Fund Act (1981).

The funds are sponsored through proceeds of cess levied on the sale of beedis, export of mica, consumption of limestone & dolomite, and consumption and export of iron ore, manganese ore & chrome ore, and feature films. The fund so collected is utilized for providing housing, health and medical care and education to the children of those employed in production of these products.

- **Group Insurance Scheme for Beedi Workers**

The Central Government through Social Security Fund and the Beedi Worker Welfare Fund (BWWF) share equal cost for the premium of Rs 18/- per annum per worker for providing Group Insurance Scheme for Beedi Workers.

- **Integrated Housing Scheme for Beedi and Mine Workers**

A subsidy of Rs 20,000/- per worker or 50% of the actual cost of construction whichever is less is provided to the workers of Beedi, Iron, Manganese ore, Chrome ore workers through an Integrated Housing Scheme.

- **Welfare Fund for Building and Other Construction Workers**

Construction workers form a major group of the total unorganized workers in the country. The central government through The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996, *and* The Building and Other Construction Workers' Welfare Cess Act, 1996, allow the state governments to constitute welfare funds for the benefit of construction workers. A cess of 1% is imposed on all construction activities costing above Rs 10 lakhs. The fund so collected is to be used for giving benefits against accident, old-age, housing loans, etc to construction workers.

3.3.4 <u>Public Initiatives</u>

Other than central and state governments a number of NGOs and Corporate as part of CSR provide various social security benefits to the selected groups.

Self-Employed Women's Association (SEWA)

Started since 1975 with an objective of providing maternal protection to the women, SEWA continues to provide health care, child care and other insurance schemes at a single premium to its members.

3.3.5 <u>Other Measures</u>

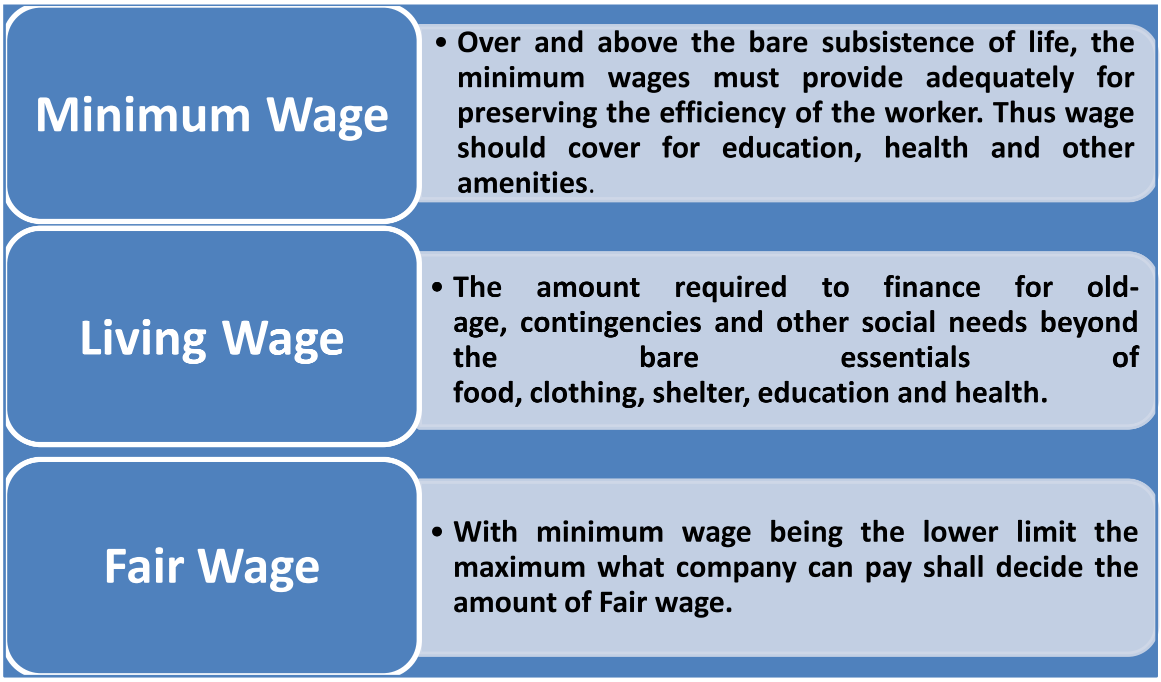
1) <u>Minimum Wages Act 1948</u>

With an objective to provide 'need based minimum wages' to those working in unorganized sector The Minimum Wages Act was enacted in 1948. The act is applicable to those who otherwise are not in a position to bargain reasonable wages for themselves due to ignorance and illiteracy and are vulnerable to exploitation (Report on10th Five Year Plan). The act ensures that the wages are paid by the employer as fixed or revised under the statue by either central or state government for the employments under their respective jurisdiction.

Applicable to only those industries which employ 100 or more workers, the Act covers 46 scheduled employments under the control of central and 1530 scheduled employments under the control of state governments. The provisions of minimum wages are equally applicable to male and female workers without any discrimination.

The Act never defined the term 'minimum wages', nor has it prescribed any criteria for fixing minimum wages. Though the committee of Fair Wages 1948, in order to avoid any confusion between minimum and fair wages defined following concepts of wages –

Figure – 3.3 Types of Wages



The Indian labour Conference 1957 recommended the fixation (and revision thereafter) of minimum wages by considering following criteria -

a) 3 consumption units for one earner.

b) Minimum food requirements of 2700 calories per average Indian adult.

c) Clothing requirements of 72 yards per annum per family.

d) Rent corresponding to the minimum area provided for under Government's Industrial Housing Scheme.

e) Fuel, Lighting and other miscellaneous items of expenditure to constitute 20% of the total minimum wage.

In addition to the above provisions the central advisory board of the Minimum Wages Act set a working group to give its recommendation for fixing the minimum wages and revising the same from time to time. A concept of National Floor Level Minimum Wage (NFLMW) is recommended by the working group to have a uniform rate across the country. Since November 2011 the national floor minimum wages fixed are Rs 115/- per day. The concept of NFLMW is a non-statutory measure; hence the state governments are supposed to fix and revise the same from time to time in such a way that in no case it shall fall below the national minimum wages.

'The regional disparity in minimum wages is attributed to differences in socio-economic and agro-climatic conditions, prices of essential commodities, paying capacity, productivity and local conditions influencing the wage rate'. (Ministry of Labour & Employment, 2010).

To minimize the difference between the minimum wages offered by various state governments, in May, 2010 the Union Government announced constitution of five Regional Committees[1] to monitor the wage differentials and bring uniformity among them.

2) The Shops and Establishments Acts 1948

The Act defines the rights and responsibilities of employees and employers respectively for all shops and establishments (mostly unorganized) coming within the state jurisdiction. It applies to all the employees of the establishment covered under the act. It lays down working hours, holidays, leave benefits, etc. Every shop and establishment needs to get it registered under the act within 30 days of opening.

3.4 RECENT DEVELOPMENTS IN SOCIAL SECURITY SCHEMES

Lately significant developments have been made and initiatives have been taken by the Government of India in broadening its approach towards Social Security. This includes constitution of the following.

Pension Fund Regulatory and Development Authority (PFRDA) in 2003

PFRDA has been appointed as a regulator for the pension sector**.** It has been established by the Government of India to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for matters connected therein or incidental thereupon (PFRDA, 2003).

New Pension Scheme (NPS) in 2004

NPS is a defined contribution based pension system launched by PFRDA. Initially it was limited only to the government employees. In 2009 it was extended to all citizens of India. Any one between the ages 18 to 55 can enroll in the NPS. One can approach any of the 22 Points of Presence (Pops), mostly the nearest branch of a recognized bank and get oneself registered. A minimum investment of Rs 6000 per annum in four quarters is mandatory. However there is no upper limit to invest either in terms of

[1] Eastern Region (6), North Eastern Region (8), Southern Region (6), Northern Region (9), Western Region (6)

money or times during a year. The NPS has fixed the retirement age at 60 years, at which one will have to invest 40% of its accumulated savings to buy a life annuity from an insurance company. For those willing to exit before 60 years of age can withdraw 20% of accumulated savings but the rest has to be invested in life annuity. In case of death of the subscriber the nominee gets the entire corpus of pension. A major hitch in NPS presently is that the investment is covered under section 80CCD of the Income Tax Act and a tax will be levied on every withdrawal (PFRDA, 2009). However one can avoid tax by investing in life annuity post withdrawal.

The National Commission for Enterprises in the Unorganized Sector (NCEUS) in 2004

NCEUS has been established as an advisory body and a watchdog of the unorganized sector to recommend improvement in the functioning of these enterprises so they further generate large scale employment opportunities on a sustainable basis.

The National Commission for Enterprises in the Unorganized Sector (NCEUS) was constituted by the central government in 2004 to review, the "social security system available for labour in the informal sector and make recommendations for expanding their coverage" as one of its core terms of reference. The commission submitted its report in 2006 which was formulated in a draft bill and presented in parliament for approval[1]. In a landmark judgment, on 30th December, 2008 the Ministry of Law & Justice enacted The Unorganized Workers Social Security Act, 2008. The scheme promoted by NCEUS is hailed as the first ever-comprehensive social security scheme for the unorganized sector in India (Kannan et.al, 2006). It is based on the joint principle of social insurance and social assistance, is both contributory as well as non-contributory in nature, and is legally enforceable i.e. compulsory in nature with universal coverage making all unorganized sector workers eligible for social security.

The Unorganized Workers Social Security Act (UWSSA) in 2008

According to the provisions of the act central government shall formulate welfare schemes including insurance for life and disability, maternity and health benefits, old-age protection for the unorganized sector workers. Similarly the state governments are supposed to formulate suitable welfare schemes related to provident fund, housing, education etc for the workers of the unorganized sector. These schemes may be wholly funded by the central government or state government or partially funded by

[1] The Unorganized Workers' Social Security (Draft) Bill, 2006 is a substantive step towards provision of social security to informal sector workers (EPW, 2006).

both or be contributory in nature, based on contributions from Centre, state, employer and worker (UWSSA, 2008).

National Rural Employment Guarantee Act (NREGA)[1] in 2005

The Act provides a ‘legal guarantee of 100 days of wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work’ (NAREGA, 2005). The act legally promotes the constitutional provisions of the right to work and right to live with dignity. Based on the principle of non-contributory and social assistance, the government is accountable to provide for unemployment compensation in case the employment is less than 100 days. NAREGA is an apt example of reaching the targeted population through low administration cost; it offers unskilled manual labour employment at lower wages only for 100 days, this will attract only the neediest people thereby successfully covering the target group (United Nations, 2009).

National Social Security Fund (NSSF) in 2008

The NSSF was created under the UWSSA, 2008 to provide financial support to unorganized workers in times of distress. The 2010-11 union budget, allocated Rs 1,000 crore to the fund for initiating schemes for workers such as weavers, toddy tappers, rickshaw pullers and bidi workers.

1. In 2009, NAREGA was renamed as The Mahatma Gandhi National Rural Employment Guarantee Act, 2005 marking a tribute to the Father of Nation.

CHAPTER – IV

THE ISSUES OF LABOUR MARKET

4.1 INTRODUCTION – EMPLOYMENT AND UNEMPLOYMENT SITUATION IN INDIA

Employment is not just an instrument for achieving socio-economic objectives, it is also a source of well being and a measure of providing human dignity to those employed, their family members and the society at large (Kapila & Kapila, 2002). However, India has always struggled to achieve the desirable level and growth of employment both in the private and the public sector. As a consequence, the unemployment rate has remained in double digits for most of the planning period. Two important observations regarding the growth of employment in India are worth noting. First, the backlog of unemployed workers created during the second stage of demographic transition (high birth rate and low death rate) has not been cleared. The labour force increased from 308.64 million in 1984 to 406.05 million in 1999-00. During the same period the total employment increased from 302.75 million to 397.00 million. It was estimated that before the beginning of 8th Five Year Plan (1992-97) the backlog of unemployed was about 28 million (Planning Commission, 1992). Second, the growth of employment in the first two decades of post reform period (1991- 2011) has not been satisfactory. The average growth rate of employment during the period 2004-05 to 2009-10 was 0.22% as against 1.84% during the period 1993-94 to 2004-05 (Papola, T. S and Partha Sahu, 2012).

Table-4.1
Unemployment and GDP Growth Rates

Various NSSO Rounds	Unemployment Rates as a % of labour force (CDS)	GDP Growth Rate at factor cost
1972-73	8.35	-0.3
1977-78	8.18	7.4
1983	9.22	7.9
1993-94	6.06	5.7
1999-2000	7.31	6.4
2004-05	8.28	7.5
2009-10	6.52*	8

*Source: - Various NSSO Rounds, Economic Survey 2010-11, *Papola, T.S and Sahu 2012.*

It is a matter of greater concern that even during those years when the Indian economy attained higher growth rate in GDP, employment could not be increased indicating a bias towards the use of capital incentive technology in production. This has serious repercussions on access and availability of social security to the people.

The growth–employment nexus on which the planners depended initially to create adequate employment opportunities had started fading out by 1970's. The economic growth remained within the shell of 'the hindu rate of growth' (Table-4.1). This was largely inadequate of what was required for the nation to overcome the problems of unemployment, poverty and other socio-economic issues.

Another critical observation made by the Task force on employment opportunities 2001[1] was regarding the quality of labour force. During the planning years (both pre and post reform) the emphasis was largely on the quantitative growth, ignoring largely the quality of labour force. The fact that poverty rates have always remained higher than the unemployment rates in the country makes it apparent that people are largely underemployed and/or earn wages which is insufficient for them to finance their living. They are in constant search of new productive employment opportunities. These working poor people are deprived of basic necessities. The employment rates, unfortunately fail to reflect the severity of this problem

Table-4.2
Working Poor (UPSS)

1999-00				2004-05			
Self-Employed	Regular Employed	Casual Labour	Total	Self-Employed	Regular Employed	Casual Labour	Total
20.19	11.29	37.34	24.52	17.47	10.73	31.9	20.51

Source: Eleventh Five Year Plan, Page 85

The problem of working poor is core to the overall employment and specifically to the unorganized sector employment. There is a possibility that these people will fall to distress during the times of high inflation. The data for working poor clearly indicates that it is the casual nature of employment which is largely responsible for creating this situation. If these people are provided with full time employment, a large part of workforce can be taken out of poverty. This clearly shows that employment has not generated enough opportunities for the people to escape poverty and this raises serious doubts on the quality of employment itself (Planning commission, 2002).

Significant contradiction can be seen in the employment trends during the pre and post reform period. The capacity of organized sector, especially government

[1] The Task force on Employment Opportunities was constituted by the Planning Commission under the chairmanship of Montek Singh Ahluwalia; the report was submitted in July 2001.

organized sector (public sector) in creating employment opportunities has declined sharply. The steering committee on labour and employment[1] constituted by the planning commission has accepted the inability of public sector in creating adequate job opportunities due to fiscal constraints. The public sector has always been overstaffed which has resulted in great fiscal burden to the exchequer. Thus, there is limited scope to absorb manpower in the public sector. The employment in public sector decreased from 190.58 lakh persons in 1991 to 178.62 lakh persons in 2006. During the same period the private organized sector has remained sluggish in providing employment opportunities in any substantial manner. The private organized sector employed about 10 lakh persons during the same period (Economic Survey, 2010). These developments have forced people to accept low income, low productive, unorganized employment in both organized and unorganized sectors[2].

The inability of high economic growth rate in generating adequate qualitative employment opportunities during the post reform period has remained a matter of concern. The public sector employment is expected to fall further as government has withdrawn itself from several productive areas and may continue to do so due to fiscal burden. The globalization strategy too has failed to a large extent in generating employment in organized private sector. This is largely due to defective labour policy which has resulted into rise of contractual employment and casual employment even within the organized sector.

4.1.1 The Problem of Unemployment during the Planning Period

The First Five Year Plan (1951-56) firmly established 'labour' as a principal instrument in fulfilling the plan targets and achieving economic progress. The plan stated the 'Effective utilization of man-power, having regard to the requirements of both industry and workers, is a question of national importance'. The plan further accepted that the problem of unemployment is common to all countries. However, it is strange that in developing country like India, the problem is dual faced. On the one hand there is deficiency of goods and services in desired quantity and on the other hand there exist unutilized labour force. The plan outlined deficiency of capital and

[1] The Steering Committee on Labour and Employment was constituted by the Planning Commission for framing the 10th Five Year Plan under the chairmanship of S P Gupta, the report was submitted in December. 2001.
[2] A detailed discussion on the terms organized and unorganized is done later in the chapter.

backward technique of production as major causes of unemployment in India. The first plan was upfront in admitting the fact that the quantitative data on the subject was not available mainly due to existence of a vast rural economy and disguised unemployment and underemployment.

'Fairly reliable statistics of employment are available only in respect of organized productive activities. In respect of unorganized processes of production and distribution such as, agriculture, forests, fishing, animal husbandry, small-scale industries, trade, etc, the information can be had fully from Census Reports for the year of enumeration but there is no machinery to keep this information up-to-date. About unemployment, practically no data are available.'(Chapter 39, First Five Year Plan, 1951)

The two successive Five Year Plans, commencing in 1956 and 1961 respectively, highlighted employment generation as one of the key objectives but made no attempt to identify an independent employment strategy. It was largely assumed that high economic growth will naturally increase employment. The planners emphasized more on a comprehensive objective of economic growth rather than employment growth as an isolated objective (Pandey, 1987). However, they soon realized the need for considering a three dimensional view on the problem of unemployment - One, to address the backlog of unemployment at the beginning of each plan; two, to take a distinct view for rural and urban unemployment, and three, focusing on the problem of underemployment in all areas of occupation (Second Five Year Plan, 1956). Till the Fourth Plan (1969-74), planning commission ignored the need for any national employment policy. The fourth plan observed that the need for employment assistance for illiterates, and also for the people with low levels of school education and without any vocational training. The plan suggested higher levels of investment in human capital especially in rural areas, along with increased investment in labour intensive industries (Fourth Five Year Plan, 1969). Employment generation was considered to be one of the major objectives and several policies and programs were designed focusing on employment generation. The Fifth Plan (1974-79) acknowledged that there exists certain conceptual and statistical difficulty in the estimation of unemployment and the country needs a multifaceted approach. The plan emphasized on the fact that the problem of urban unemployment can be resolved to a large extent by providing alternative employment to the people in rural area. The plan suggested for modernization of agriculture and rural development as essential measures for creating new employment opportunities. It also advocated for limiting migration to urban areas.

The Sixth Plan (1980-85) appreciated the government's efforts of enacting new labour laws' in the areas of child labour, bonded labour, contract labour, migrant labour, etc. It also recognized the rising proportion of unorganized workers and recommended integration of multiple social security schemes. The plan gave a comprehensive understanding on various concepts, definitions and measurement of employment and unemployment in the country. On the issue of creating new employment opportunities, the plan firmly stated that the public sector will have to create direct employment in the light of mixed economic system that India has. But at the same time co-operative and private sector will also have to expand their scope of economic activities and create more employment opportunities. The plan emphasized upon self employment as an important measure for creating non-farm employment in the country.

The Seventh Plan (1985-90) once again depended upon the traditional growth theory for creating employment opportunities by itself. The plan surprisingly took a backward move by emphasizing upon agricultural development for absorbing the surplus labour. The plan suggested development of irrigation, credit and infrastructure facilities, and raising the pace of capital formation for speedy rural development, which in turn, would create new employment opportunities.

The Eighth Plan (1992-97) came in the backdrop of economic reforms. Instead of signifying any concrete strategy for creating new employment opportunities, the plan only highlighted the reasons for high unemployment in the country. The plan also stated the need for improving the productivity of labour through education and training for making them more employable.

The Ninth Five Year Plan (1997-2002) gave a broad statistical picture of employment situation in India and touched upon the issues of Labour Force Participation Rate (LFPR) and employment elasticity. However the plan remained silent on the strategies for creating new employment.

The Planning Commission constituted a Special Group[1] targeting ten million employment opportunities during the 10th Five Year Plan (2002-07). The special group suggested much needed reforms in the country's employment policy. The group recommended for increase in the expenditure on job creation through special employment programs and labour reforms. The group identified additional sectors

[1] The special group was constituted under the chairmanship of Dr S.P.Gupta member planning commission.

like information technology, small and medium enterprises, tourism, financial sector, and health & education for generating fresh employment. However it restored the faith on traditional sectors like agriculture & allied activities and construction for employing large number of workers. The special group's recommendations on skill development to match the qualitative demand of labour were also incorporated in the Eleventh Plan. The Eleventh Plan (2007-12) once again highlighted the problem of growing informal employment even in the private organized sector. The plan insisted on having stringent labour laws for employment contract and overall working conditions of labourers. The plan extensively referred to the report of NCEUS (2007) as of 'paramount importance'. The plan summarized the 13 point recommendations of NCEUS stressing upon the issues such as focused employment strategy for informal sector, review of Indian labour laws and review of social security systems for unorganized workforce.

4.1.2 Estimates of Unemployment

Three important data sources on labour market are available in India. They are population census, various surveys conducted by NSSO (National Sample Survey Organization) and the labour market information program of DGET (Director General of Employment and Training) under the Ministry of Labour and Employment.

Among these, the surveys conducted by NSSO form the main data source for employment and labour market conditions in India. Based on the recommendations of Dantwala Committee, setup by Planning Commission in 1970, the NSSO since its 27th Round (1972-73) has been conducting surveys on employment and unemployment conditions in the country (SDRD, NSSO 2008).

The NSSO calculates four different measures of employment and unemployment based on the number of days a person is employed. These include – Current Daily Status (CDS)[1], Current Weekly Status (CWS)[2], Usual Principal Status (UPS)[3], and Usual Principal Subsidiary Status (UPSS).[4]

[1]CDS measures unemployment in terms of person days for all persons during the reference week.
[2] CWS refers to unemployment measures in which a person is unemployed if he is willing to work but unable to find work even for one hour during the reference week.
[3] Under UPS a person is considered employed if he/she was engaged in economic activity during the major part of preceding 365 days.
[4] UPSS refers to usual principal status (PS) plus usual subsidiary status (SS) of workers. The activity on which a person spent relatively longer time during the reference period is considered as principal

Figure – 4.1 Unemployment Measurements

Sr No	Concept	Reference Period	Criteria
1	Current Daily Status (CDS)	Each Day of Last Week	No of Man days
2	Current Weekly Status (CWS)	Last 7 working days	Minimum 1 hour in labour force
3	Usual Principal Status (UPS)	Last 365 days	Time spent in workforce
4	Usual Principal Subsidiary Status	Last 365 days	Minimum 30 days of work

So far, there is there is no agreement among the academicians and the policy makers as to which of the above measures is most accurate in describing the employment and unemployment situation in the country (Rangarajan, 2006 and Sundaram, 2009).

Table – 4.3
Unemployment Rates (Alternative Measures) ***(as % of Labour force)***

All India	UPS	UPSS	CWS	CDS
1977-78	4.23	2.47	4.48	8.18
1983	2.77	1.90	4.51	8.28
1987-88	3.77	2.62	4.80	6.09
1993-94	2.56	1.90	3.63	6.03
1999-00	2.81	2.23	4.41	7.32
2004-05*	3.19	2.3	4.4	8.2
2009-10*	2.5	2	3.6	6.6

*Source: - Planning Commission Report on Labour and Employment, 2002 *Planning Commission, Report on Employment, Planning & Policy, for the Twelfth Five Year Plan, 2011*

Two distinct committees of Planning Commission used different approaches while suggesting the measures to create adequate employment. The Task Force on Employment Opportunities, 2001 used UPS and UPSS while the Special Group on 'targeting ten million employment opportunities per year' used CDS data.

There exists a considerable degree of variation among the four different measures of unemployment rates. The difference largely exists depending upon the nature of measure used. For example, the unemployment rate calculated on the basis of percentage of labour force i.e. UPS for 1999-00 comes to 2.81 while the same calculated on the basis of person days i.e. CDS is as high as 7.32. However the fact remains that during the post reform years, between 1993-94 and 1999-00 the unemployment rate has increased on both the accounts i.e. UPS and CDS, from 2.56%

activity status. While the activity on which person spent only minor time during the reference period is said to be subsidiary status.

to 2.81% and 6.03% to 7.32% respectively. However the last two rounds of NSSO indicate a comparative fall in the unemployment rates irrespective of the measures used.

The concept of Current Weekly Status (CWS) is one of the oldest measures of employment. It is based on the recommendations of Dantwala Committee. The ILO uses CWS data for international comparisons. This measure takes into account shortest reference period of just a week and includes both working and those seeking to work during the period. Ina way, it gives less priority to work itself. This makes the measurement of CWS less relevant, as one who has worked even for an hour during the preceding week will be termed as employed. If a person has not worked at all for all seven days of the week then only he/she will be to be qualified as unemployed.

The Usual Principal and Subsidiary Status (UPSS) were actually adopted to widen the scope of Usual Principal Status (UPS). The UPS required workers to recall over a long reference period i.e. 365 days. The UPS measure often missed the inclusion of those who found less work. The UPSS was modified in the 61st Round of NSSO to include all those who were employed even for 30 days during some part of year. The persons who were unemployed or out of labour force but had worked for at least a minimum of 30 days were treated as subsidiary status workers and considered as employed in UPSS. By the Ninth Plan UPSS remained the most important tool for estimating employment and unemployment rates. It studies the activity status of a person during the reference period of a week or the year and provides person specific features of employment.

The Special Group constituted before the Tenth Plan recommended the use of Current Daily Status (CDS) measure in order to address the issue of underemployment. It was observed by the group that UPSS overestimates the employment levels as it includes even those who are not gainfully employed. To avoid this, use of CDS was suggested. Additionally, the UPSS measure fails to consider the seasonal fluctuations in employment whereas the CDS measure provides average daily picture of employment (10th Five Year Plan). The CDS was originally recommended by Dantawala Committee for studying intensity of work. The 14 half days reference period was used to record employment. A person working for an hour or more but less than four hours is considered to have worked only for half a day. Persons working for more than four hours qualify for a day’s work. The method signifies the time quotient more than the work. In 2002 Planning Commission officially adopted CDS as the basic measurement of employment and unemployment in the country stating that '*If the gainfully employed are defined as those who are near fulltime employed, then the CDS definition on employment given by the NSSO will give more realistic estimate at least directionally'*.

Globally CDS is the second basic concept of measurement next to CWS. It not only includes underemployment but also takes care of seasonal changes, as NSSO rounds are conducted uniformly over the year.

4.2 SIZE AND COMPOSITION OF LABOUR FORCE

India stands as the second most populated country with over 1.21 billion people (Census, 2011), comprising of 17.5% of world's population (US Census Bureau, IDB, 2011). The annual growth rate of population for last decade 2001-2011 has decelerated by 1.76% as compared to 2.15% for the period 1991-2001. The growth rate of population has been remarkably low in rural areas as compared to urban area. The size and the growth rate of population determine the proportion of working age group and labour force.

Table – 4.4
Size and Growth Rate of Population *(in millions)*

Sector	1961	1971	1981	1991	2001	2011
Rural	360.3	439.08 (2.00)	524.11 (1.79)	628.19 (1.84)	742.49 (1.81)	833 (1.22)
Urban	78.9	109.08 (3.29)	159.22 (3.85)	217.61 (3.17)	286.12 (3.15)	377 (3.18)
Total	439.2	548.16 (2.48)	688.33 (2.47)	846.30 (2.38)	1028.61 (2.15)	1210.0 (1.76)

Source: - Census of India, 2011.
Note: Figures in brackets indicate average annual rates of growth

The population of the country is divided into two broad groups in terms of those in the labour force and those not in the labour force. The labour force is further divided into employed and unemployed. However, those who are not working and not seeking an employment for varied reasons are considered to be 'out of labour force'. These include, students, children, disabled, too young and too old, those engaged in domestic work and those dependent upon pensions and remittances (NSSO, 66th Round). For effective classification of population into these categories, it is important to specify the reference period and nature of activity, as the status of students not in the labour force and middle aged people presently in labour force may alter at some later stage. The labour force in a country comprises of the population in the working age group (normally above 15 years) and below official retirement age (about 60 to 65 years). This group of population is either employed or seeking employment. This is also referred as Currently Active Population or Economically Active Population (ILO, 1982).

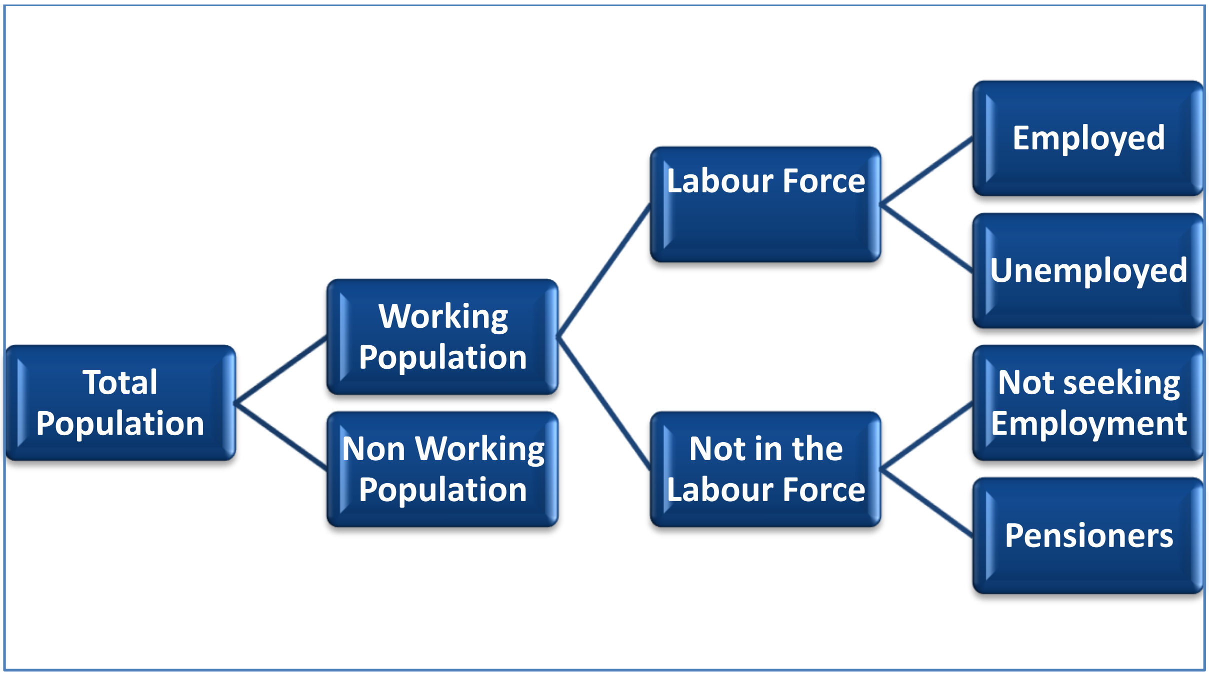
Table – 4.5
Age wise classification of India's Population

Age Groups	1971	1981	1991	2001	2011
0-14	40.73	39.61	37.67	34.29	30.21
15-64	55.98	57.21	58.49	61.41	64.79
65 +	3.29	3.63	3.85	4.3	4.99

Source: - Census of India, Various Reports

The age-structure is the most significant component for classifying country's population. All the major demographic features like birth and death rates, sex ratio, marital status, literacy rates, enrollment rates to higher education and employment are age specific.

Figure – 4.2 Classification of Population



The growth rate of employment has fallen by more than 1.5% during the post reform period of 1993-94 to 1999-00 in comparison to the previous available data from NSSO for the period of 1987-88 to 1993-94. The fall in growth of employment opportunities during the decade of 90s became a focal point of criticism of economic reforms. Critics termed it as the era of 'jobless growth'. The rate of employment generation was dramatically lowest since the decade of 70's. However the recovery is visible since 1999-00, although, the fact remains that during the same period the growth of labour force also declined by over 1%. NSSO data explicitly shows that the growth of employment had been much lower than the growth of labour force resulting in a significant rise of unemployment rate.

Table – 4.6
Rate of Growth of Population, Labour Force and Employment

Period	Rate of Growth of Population (% per annum)	Rate of Growth of Labour Force (UPSS) (% per annum)	Rate of Growth of Employment (UPSS) (% per annum)
1972-73 to 1977-78	2.27	2.94	2.73
1977-78 to 1983	2.19	2.04	2.17
1983 to 1987-88	2.14	1.74	1.54
1987-88 to 1993-94	2.10	2.29	2.43
1993-94 to 1999-2000	1.93	1.03	0.98
1999-00 to 2004-05*	1.68	2.84	2.81
2004-05 to 2009-10*	1.70	Nil	0.22

Source: Report of Task Force On Employment Opportunities, (1999), Planning Commission, p-19
* Papola and Sahu, 2012.

The change in labour force growth rate and population growth rate has been directly proportionate. The fall in the growth of labour force from 2.29% to 1.03% during periods 1987-88 to 1993-94 and then till 1999-00 is widely explained by many experts in terms of a decline in population growth rate from 2.10% to 1.93% for the same period and low participation of population in labour force for different age groups (Kapila & Kapila, 2002 and Rangarajan, 2006). In more recent times the annual growth rate of population has slipped to 1.76 percent[1]. Growth of labour force witnessed an increase for the period 1999-00 to 2004-05, but remained stagnant during 2004-05 to 2009-10 due to fall in LFPR.

[1] Papola and Sahu have calculated the p.a growth rate of population to 1.68 and 1.70 for 1999-00 to 2004-05 and 2004-05 to 2009-10 respectively.

The structure of labour force can be analyzed with the help of following indicators:

- Labour Force Participation Rate (LFPR)
- Work Force Participation Rate (WFPR)
- Unemployment Rate
- Employment Status (UPS, UPSS, CWS and CDS) and
- Non-participation in the labour market.

The Labour force participation rate (LFPR) is defined as the number of persons in the labour force per 1000 persons.

LFPR = L/P, were L = no of employed + no of unemployed and P = population.

The Work Force Participation Rate (WFPR) is defined as the number of persons actually employed per 1000 persons.

WFPR = E/P, were E = no of employed and P = population.

The size and growth of labour force provides an important basis for framing employment strategies for any country. The concept of LFPR is used for the purpose of knowing the exact proportion of population which is eligible and willing to work at the prevailing wage rate.

Table – 4.7

Labour Force & Participation Rates as % of population on UPSS Basis

	LFPR (in %)				Labour Force (in millions)	
Sector/sex	**1983**	**1993-94**	**2004-05**	**2009-10**	**2004-05**	**2009-10**
Rural Males	55.5	56	55.4	55.6	222.5	235.7
Rural Females	34.1	32.7	33	26.5	126.2	106.2
Rural Total	-	-	40.1	41.4	348.7	341.9
Urban Male	54	54.3	57	55.9	93.9	102.7
Urban Female	15.8	16.4	17.8	14.6	26.4	24.2
Urban Total	-	-	36.6	36.2	120.3	126.9
Total Person	42.9	42.5	42.8	40	469	468.8

Source: - Challenge of Employment in India, NCEUS 2009 and NSS KI: Key Indicators of Employment and Unemployment in India, 2009-10.

As a predominantly agrarian economy, India witnessed a major shift in employment trends and patterns during early nineties due to economic policies of liberalization and globalization. Labour force participation rates for rural males remained more or less stagnant around 56%. However for urban males it has increased by about 2% since

1983. For both rural and urban females the LFPR slipped significantly by over 6.5% and 3.2% respectively between 2004-05 and 2009-10.

Till 2004-05 the LFPR for urban female had increased largely due to rise in employment opportunities; the fall thereafter requires thorough investigation. Several reasons have been put forward by the experts. These include increase in self-employment, un-paid employment, enrolling for higher education, smaller number of females offering themselves to labour market and the females forced out of labour force due to economic slowdown. Similarly, the sharp decline in overall LFPR between 2004-05 and 2009-10 from 43% to 40% is also surprising. The period witnessed high economic growth rate, higher wages and higher employment opportunities. In spite of these developments the LFPR fell by almost 3%.

As the labour force determines the supply of labour in the country based on the proportion of population offering themselves to work, the demand of labour can be determined in terms of work force who is actually employed. During the last reference period, 2004-05 to 2009-10, the labour force has declined marginally and work force has declined by about 1.1 million.

Table -4.8

Work Force & Participation Rates as % of population on UPSS basis

	WFPR (in %)				Work Force (in millions)	
Sector/sex	**1983**	**1993-94**	**2004-05**	**2009-10**	**2004-05**	**2009-10**
Rural Males	54.7	55.3	54.6	54.7	231.9	218.9
Rural Females	34	32.8	32.7	26.1	104.5	124
Rural Total	44.6	44.4	43.9	40.8	336.4	342.9
Urban Male	51.2	52	54.9	54.3	99.8	90.4
Urban Female	15.1	15.4	16.6	13.8	22.8	24.6
Urban Total	34.3	34.7	36.5	35	122.6	115
Total Person	42.2	42	42	39.2	459	457.9

Source: - Challenge of Employment in India, NCEUS 2009 and NSS KI: Key Indicators of Employment and Unemployment in India, 2009-10.

Since 1983 and up to 2004-05, WFPR has almost remained stable at 42, but post global recession (2008) it has shown a decline of about 2 percent. Gender wise assessment of WPFR shows similar results as of LFPR. For both rural and urban males the WFPR has largely remained unchanged during the last two reference periods. However it is the female WFPR which has declined significantly both in rural and urban areas. Trade openness in post reform era has generated opportunities that encourage employment of women, particularly in service and export oriented activities. The female work force participation rates have improved in most of the countries of the world such as Canada (73%), Australia (70%), New Zealand (72%) and UK (69%), in last two decades (OECD, 2006). The experience of India in this context is disappointing as WFPR for females in both rural and urban area collectively stands to 23% (NSSO, 66th round, 2011) as against the total female population of over 48% in the country (Census, 2011). Both labour and work force participation rates are low by any international standard (Planning Commission, 2008). In addition to the reasons stated above for falling female LFPR it's also the non recognition of work done by millions of Indian women in the household. The scope of economic activity does not include host of women centric work like cooking, collection of fodder, cleaning house and utensils etc (DGET, 2009).

Age specific LFPR provides a greater understanding of productive allocation of population in the country. The age specific labour participation rates would also present a more realistic picture of the job market (Mitra, Arup, 2008).

Table – 4.9
Age-Specific Labour Force Participation Rates by Sex (all India) (UPSS)

Age/Year	Males			Females			Persons		
	1983	1993-94	2004-05	1983	1993-94	2004-05	1983	1993-94	2004-05
0-4	0.19	0	0	0.13	0	0	0.16	0	0
5 - 9	2.18	0.98	0.26	2.07	1.19	0.28	2.13	1.08	0.27
10 - 14	22.54	12.02	6.57	19.95	11.38	6.32	21.35	11.73	6.46
15-19	63.77	53.89	48.1	38.25	30	27.33	51.86	43.11	38.68
20-24	90.01	86.05	84.76	42.54	39.94	37.69	65.89	62.78	61.54
25-29	97.96	97.33	97.33	47.71	45.04	44.76	72.94	70.6	71.28
30-34	98.85	98.67	98.78	51.85	49.93	50.66	75.89	74.43	73.89
35-39	99.01	99.02	98.91	54.72	51.58	54.99	77.61	76.32	77.18
40-44	98.26	98.72	98.47	55.03	52.54	52.77	77.4	76.45	76.66
45-49	97.98	98.14	98.03	53.4	52	50.73	76.11	75.81	75.98
50-54	95.32	96.4	95.57	48.14	47.51	46.95	72.77	73.1	72.62
55-59	90.01	92.03	90.28	43.33	40.59	42.44	66.96	66.33	66.87
60+	63.65	64.28	57.09	20.77	20.84	21.04	42.26	42.82	39.05
Total	55.13	55.5	55.84	29.82	28.46	28.8	42.92	42.48	42.84

Source: - Challenge of Employment in India, NCEUS 2009

Fall in the participation rates in younger age groups is a desirable change. At the same time a rise in the participation rates at older age group (specifically 60 plus) is a strong indicator of inadequate social security measures.

In United States, from 1950 to 1970, the LFPR had dramatically declined from 46% to 17% for those aged 65 years and over and from 87% to 67% for those aged 55 to 64 years (Lumsdaine and Wise, 1990). For decades economist continued to investigate the reasons for the fall in employment participation among elderly and a major reason identified was extensive coverage of social security program announced through the 'New Deal[1]'. The direct relation between higher social security benefits and early retirement from the labour force has been tested through number of experts including Atkinson (1987), Hausman and Wise (1985) and Burtless (1986).

United Nation defines youth as the population between the age group of 15 to 24 who are the key agents of social change and driving force for economic and human resource development (Dev & Venkatanarayan, 2011). The growing unemployment in this segment is the major problem faced by the countries today (ILO, 2004). The decline in LFPR in the younger age groups especially 5-9, 10-14 and 15-19 clearly indicates a healthy trend in reduction of child labour. At the same time, the decline in WFPR indicates a rise in school enrolment ratio. Over the years, occurrence of child labour in the country has declined from around 5% in 1993-94 to approximately 3% in 2004-05, (DGET). The right to education and mid day meal schemes has been largely effective in this regard.

Table – 4.10

LFPR for Younger Age Group 15-24 (UPSS)

Year	Male	Female	Total
1993-94	68.55	35.45	52.8
1999-00	65.07	30.33	49.06
2004-05	64.98	32.55	49.56
2009-10	53.7	22.2	38.8

Source: - NSSO, Various Rounds.

The employment of youth has remained a critical part of overall economic planning of the country. India is a 'country of youth' and is expected to reap 'demographic dividend' in order to become one of the most productive nations by 2050. At present

[1] The New Deal was a series of economic programs implemented in the United States between 1933 and 1938 including the Social Security Act also known as Old-Age, Survivors, and Disability Insurance (OASDI).

20% of population above sixty years and a vast 60% of population in the age bracket of 15-59 years comprise the labour force of the country. However the current LFPR for younger age groups especially 15-24 is not as encouraging as the overall LFPR. The declining LFPR (in age group of 15-24) for male both in urban and rural areas reflects a great shift towards self employment and to a certain extent higher education[1] (Chaudhary, 2011, Rangarajan et al, 2011, Planning Commission, 2011).

'The dramatic increase in the number of young people in education, and therefore, out of the workforce causing a drop in the labour force participation rate as "one of the most remarkable things" brought out by the 66th round (2009-10) of NSSO survey on Employment' (12th Plan Approach Paper, Planning Commission, 2011 p 10).

Table – 4.11

Gross Enrollment Ratio for Higher Education in India (Alternative Sources)

Sources/Years	SES	NSSO	Census	Sources/Years	SES	NSSO	Census
1991	4.63	Na	10.95	**2008-09**	11.9	-	17.3
2001	7.85	9.91	13.82	**2009-10**	12.9	17.27	18.3
2003-04	9.01	13.22	14.48	**2010-11**	14.1	-	19.4
2006-07	10.5		15.6	**2011-12**	15.5	-	20.6
2007-08	11.1	12.5	16.4	-	-	-	-

Note SES stands for Selected Education Statistics.

The Gross Enrollment Ratio (GER) apparently indicates one reason for falling LFPR, the other being rise in self employment which is discussed later. The problem of youth unemployment for both male and female in rural and urban areas has increased over the period of time. This indicates a serious issue regarding the employability of labour. The improvements in education and literacy levels are insufficient considering the demographic dividend the country is expected to take advantage of. It has been found that unemployment is highest among those who pass higher secondary, diploma holders and graduates (India labour Market Report, 2008). There exists a significant gap between the industries' expectations and quality of labour force. Planning Commission's Task force (2001) highlighted the significance of creating quality employment opportunities for educated labour force. Unless the country makes

[1] The extent of higher education is generally measured by enrolment ratio in higher education. Three alternative methods are used to estimate the extent of access to higher education namely Gross Enrolment ratio (GER), Net enrolment ratio (NER) and Enrolment of Eligible ratio (EER). The GER measure the access level by taking the ratio of persons in all age group enrolled in various programs to total population in age group of 18 to 23. The NER measures the level of enrolment for age specific groups namely those in age group of 18 to 23. While the EER measure the level of enrolment of those who completed higher secondary level education.

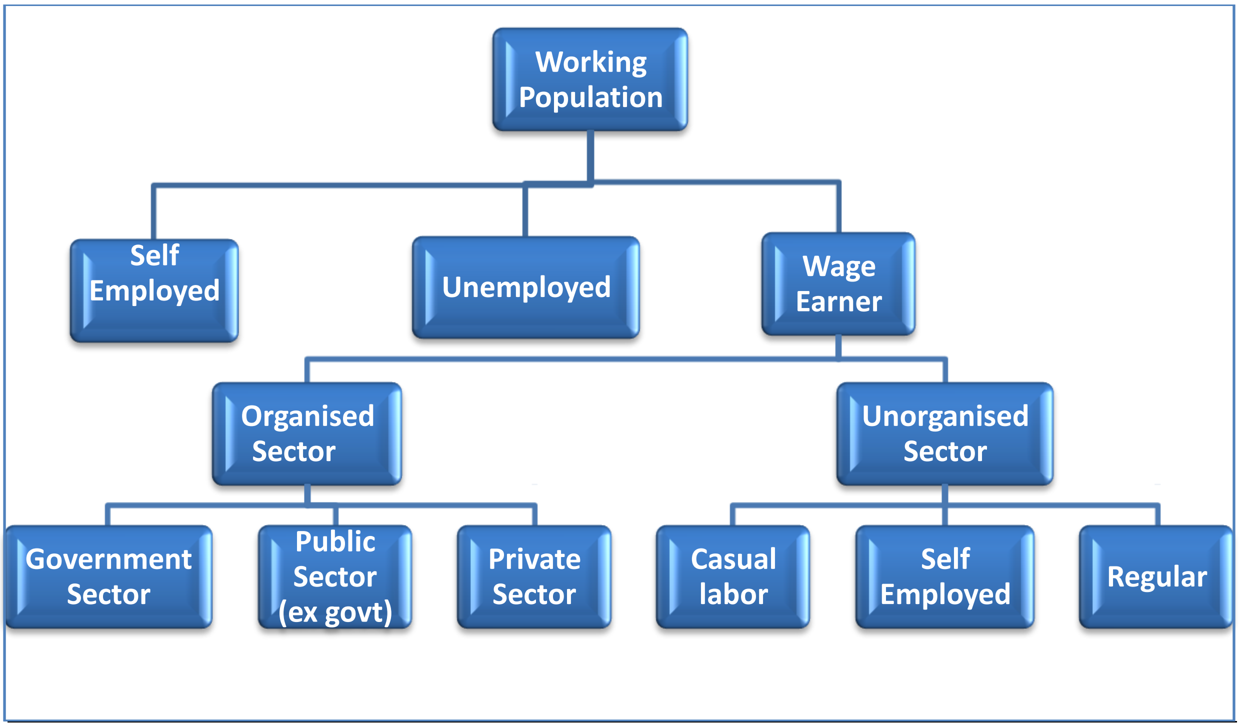
adequate investment in overall education and training of the youth, the current demographic dividend may end soon and result into demographic disaster with a massive unemployable labour force (Debroy, 2007).

The rising gap between LFPR and WFPR on usual status among the youth (15-24) in India has remained one of the most serious problems over the years. For 2004-05, the total unemployed population comprised of 806 million young people i.e. 64% of population of total unemployed belonged to the age group of 15-24. The NSSO's employment and unemployment survey, 2009-10 concludes that over 50% of the total unemployment is in working age group of 15-24. An important observation made in the report is regarding the nature of employment. Of those who are employed, nearly 44% are self employed and 39% are casually employed while only the remaining 17% employed on a regular basis during the reference period.

4.3 COMPOSITION AND STRUCTURE OF LABOUR MARKET

The Second National Commission on Labour Report (2002) based on the classification of population done by Sir William Beveridge Report (1942)[1] suggested the classification of population into Working Population *and* Non-Working Population. The former is further divided into Wage Earners, Self-Employed *and* Unemployed (Figure 4.3).

Figure- 4.3
Classification of Working Population



The Wage Earners include –

a) Those who are employed in the government sector.

b) Those who are employed in the organized sector, public or private, excluding government.

c) Those who are employed in the unorganized sector.

[1] Sir William Beveridge Report (1942) classified the population into six broad groups based on their working age for the purpose of providing them adequate social security. These groups were composed of Employees, Professionals, Housewives, Unemployed, Children, and Old-age people. The classification primarily provided a raw design of the labour market.

The unorganized sector workers are further divided into Casual labour[1], Self Employed[2] and Regular Employed[3] (Salaried and Wage Earner)

The Non Working population is identified as those who are neither working nor available for work due to different reasons (NSSO). This includes children (0-4), students, pensioners and others from older age groups, sick, disabled people and beggars. Moreover a large proportion of women both in rural and urban areas remain out of labour force due to socio-cultural ethos of Indian economy (India Labour Market Report, 2008).

Within the organized sector the regular wage employment creates the maximum employment, while the share of casual employment is low but now growing. At the same time, the unorganized sector comprises of maximum casual and self employment. The fact remains that the share of unorganized employment is increasing rapidly in both the sectors, deteriorating the quality of employment (Chandrasekhar, 2011).

4.3.1 Classification of Employment

The existence of a disproportionately large unorganized sector along with a tiny organized sector in all major segments is a distinctive characteristic feature of Indian economy (6th Five Year Plan). The labour market in India is no exception to this. The total workers in India may be conveniently classified into organized workers and unorganized workers. The dichotomy between the two classes of workers is visibly clear in terms of job and social security- that the former grabs and the latter struggles for throughout his life (Kumar Jayant & Hitesh Bhatia, 2011a, 2012b).

[1] **Casual Wage Labour**: A person who is casually engaged in others' farm or non-farm enterprises (both household and non-household) and, who in return, receives wages according to the terms of the daily or periodic work contract.

[2] **Self Employed** Persons who operate their own farm or non-farm enterprises or are engaged independently in a profession or trade on their own account or with one or a few partners are deemed to be self-employed. Self-employed persons are further categorized as follows:

a) Own-account Workers: Those self-employed persons who operate their enterprises on their own account or with one or a few partners, without hiring a labour. b) Employers: Those self-employed persons who work on their own account or with one or a few partners and, who, by and large, run their enterprise by hiring labour. c) Helpers in household enterprises: Those self-employed persons (mostly family members) who are engaged in their household enterprises, working full or part time and who do not receive any regular salary or wages in return for the work performed. They do not run the household enterprise on their own but assist the related person living in the same household in running the household enterprise.

[3] **Regular Salaried/Wage Employees**: those who work in others' farm or non-farm enterprises (both household and non household) and in turn receive salary or wage on a regular basis. This category includes not only persons getting time wage but also persons receiving piece wage or salary and paid apprentices, both full time and part-time (DGET).

Figure -4.4 Labour Market Situations

1. Organized workers working in organized sector is an ideal situation. Employment in public sector is an example of such a situation in the country. However over a period of time it is becoming difficult for the labour market to realize such conditions anymore both in the public and private sector.
2. Organized workers working in unorganized sector is the best possible situation provided labour laws are effectively implemented yielding productive working conditions for the workers in the unorganized sector.
3. Unorganized workers working in organized sector is the most undesirable situation. The sector is expected to provide reasonable working conditions to the workers employed. In recent times due to rising cost constraints companies are shying away from offering regular employment even in the organized sector.
4. Unorganized workers working in unorganized sector is the worst situation for the labour market in any economy. It clearly indicates the unwillingness of employer and state in providing decent working conditions both economically and socially desirable to the workers.

Over the period, the gap between the organized and unorganized employment has widened and this has caused the problems of inequalities of income and lack of social security provisions.

Table – 4.12
Sector wise Employment of Workers (*in % & million*)

Sector	1999-2000	2004-05	2009-10*
Unorganized Sector	91.5 (362.8)	92.3 (420.7)	91.9 (423.17)
Organized Sector	8.5 (33.6)	7.7 (35)	8.1 (37.25)
Total	100 (396.4)	100 (455.7)	100 (460.42)

Source: NSS Various Rounds and *Kannan 2011.

The overall employment has increased by 60 million during the period of 1999-2000 to 2004-05 with a significant bent towards unorganized sector. The organized sector employment has reduced by 0.8% and the rise in unorganized sector employment has been nearly by 1% during the same period. The employment trends clearly indicate that significantly high proportion of employment opportunities are created only in the unorganized sector. Also, the jobs created in the organized sector are mostly informal in nature, characterized by low and uncertain earnings, poor working conditions and negligible social security (National Employment Labour Policy, 2010).

Table – 4.13
Size and Interconnection between Organized and Unorganized Sector & Employment*

Sector	Informal/Unorganized Worker	Formal/Organized Worker	Total
	1999 – 2000		
Informal/Unorganized	339.7 (99.6)	1.8 (0.4)	341.5 (100.0)
Formal/Organized	23.1 (42.1)	31.8 (57.9)	54.9 (100.0)
Total	362.8 (91.5)	33.6 (8.5)	396.4 (100.0)
	2004 – 2005		
Informal/Unorganized	391.8 (99.6)	1.4 (0.4)	393.2 (100.0)
Formal/Organized	28.9 (46.2)	33.7 (53.8)	62.6 (100.0)
Total	420.7 (92.3)	35.0 (7.7)	455.7 (100.0)
	2009-2010**		
Informal/Unorganized	385.97 (99.5)	1.75 (0.5)	387.72 (100)
Formal/Organized	37.23 (51.2)	35.5 (48.8)	72.73 (100)
Total	423.17 (91.9)	37.25 (8.1)	460.45 (100)

*Source: NSS Various Rounds and **Kannan, 2011* **Total Employment (UPSS) in Million*

This means that the organized sector is finding it increasingly lucrative to employ unorganized workers on contract or even on casual basis. This is a phenomena often referred to as informalisation of workers (NCEUS, 2006).

Over the three reference periods of NSS 55th Round 1999-00, NSS 61st Round 2004-05 and NSS 66th Round 2009-10, the aggregate employment has increased from 396.4 million to 460.45 million. During this period the organized sector employment increased from 54.9 million to 72.73 million of which the unorganized employment witnessed a jump of nearly 14 million, from 23.1 million to around 37 million. The share of unorganized employment in unorganized sector has remained constant around 99.5% irrespective of rise in the employment by 52.1 million; this highlights the fact that more and more people are employed in unorganized manner.

During the last reference period the share of organized workers in unorganized sector has increased marginally by 0.1% from 1.4 million to 1.75 million. This is a positive change as these people will now enjoy better working conditions. During the same period the share of unorganized workers in organized sector has increased by almost 10 percent which is a matter of great concern. This refers to a puzzled trend as on one side it shows rising employment opportunities in organized sector and on other and it increases the casualisation of workforce beyond unorganized sector.

4.3.2 Organized Employment

John Maynard Keynes' proclaimed the idea of government spending for boosting economic growth by pumping additional purchasing power into the economy. Keynes' theory played a vital role during Post World War I and during U.S Depression in 1930s. Keynes' revolutionary approaches towards the depression and business cycle risks were adopted by United States and even other major economies (Von Dehsen, 1999). Keynes suggested that 'active government policy of deficit spending should solve the problems of unemployment in short run rather than waiting for market forces to do the same in the long run'. He stated "in the long run, we are all dead" (Keynes, 1924). The 'Keynesian Multiplier' demonstrates how government spending can stimulate fresh employment through increased production in the economy. This is possible when the people who receive fresh money through government spending use it for consumption. The consumption spending leads to more production and employment in the private sector. This in turn further generates income and employment (Keynes, 1936). The proportion of income which is not used for present consumption will result in induced investment in the economy. This shall be in addition to the autonomous investment created by the government. According to

Keynes (1936), *'while planned investment by government is autonomous of profitability, the induced investment is driven by the return on capital'.* Keynesian economics remained highly dominant over public policy in several countries including India and for several years (Mitchell, 2005). The Keynesian statement on importance of government spending and public sector has provided much needed guidance to several countries including socialist economies of Russia and China.

*'I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative' (Keynes, 1936)**.***

Keynes was also one of the early advocators of mixed economic systems with a predominance of private sector but a strong and crucial role of public sector. This has been reinvented during the global financial crisis since 2008 (Spiegel, 2008). Taking a clue from Keynesian policy, the Planning Commission of India included full employment and higher production as two of the four major long term objectives to attain rapid economic growth (First Five Year Plan, 1951). The role of public sector in economic growth was also emphasized earlier in the Industrial Policy of 1948. A clear division was made between the roles of Private and Public sectors. The policy was so framed that the government had to play a progressively and active role in establishing the base for industrial development in the country. However, it was Industrial Policy Resolution (IPR) of 1956 which clearly demarcated the scope of both Public and Private sectors in India. Based on the Nehru-Mahalanobis model, the Second Five Year Plan 1956-61 along with the Industrial Policy emphasized upon large scale investment in basic and heavy industries. Besides taking the onus of producing the basic goods and services and creating large scale employment, the major objectives of these policies were to prevent private companies from becoming monopolies and attaining self sustained long term growth.

Since then, preference for employment has been in organized sector, mainly public sectors. Not only labour, the entire society is attracted towards the organized public sector employment. The popular belief is that the sector promises higher salary and social security to the employed as compared to those in unorganized sectors. The wage rates for lower skilled jobs in public sectors are much higher than the same in private sectors. Over the years, the scope of central and state public sector units has been widened to include a host of activities in the field of manufacturing, engineering, heavy machinery, machine tools (HMT), steel, fertilizers (GSFC), drugs, textiles, pharmaceuticals, petro-chemicals, extraction and refining of crude oil and services such as telecommunication (BSNL), trading, tourism, warehousing (FCI), Banking (SBI), Insurance (LIC), etc.

Table – 4.14
Growth in Investment and No's of Central PSU's

Period		Total Investment (Rs. Crore)	No of Central PSU
Beginning of 1st FYP	(1.4.1951)	29	5
Beginning of 2nd FYP	(1.4.1956)	81	21
Beginning of 3rd FYP	(1.4.1961)	948	47
Beginning of 4th FYP	(1.4.1969)	3897	84
Beginning of 5th FYP	(1.4.1974)	6237	122
Beginning of 6th FYP	(1.4.1980)	18150	179
Beginning of 7th FYP	(1.4.1985)	42673	215
Beginning of 8th FYP	(1.4.1992)	135445	246
Beginning of 9th FYP	(1.4.1997)	213610	242
Beginning of 10t FYP	(1.4.2002)	324614	240
Beginning of 11th FYP	(1.4.2007)	420771	245
End of 3rd Year of 11th FYP	(31.3.2010)	579920	249

Source – Public Enterprises - Annual survey of CPSEs – 2009-10, Vol. Il

It has been observed that the share of public sector in India was relatively higher than the private investment among the Asian economies (TISS, 2009). Government continued to believe that public sector would be more suitable for creating the much needed employment and achieve the higher growth rate in long run. Hence public sector investment was given boost during the five year plans. Furthermore, the public sectors were required to follow the labour polices, particularly those related to economic and social security of workers, more seriously than those in the private sector. This was intentionally done to become the model employer even at the cost of increasing fiscal burden. At the same time no efforts were made to enhance the productivity and profitability of these industries. The result was mounting surplus labour with falling productivity. The public sector employees are entitled for periodical increase in wages under pay commission[1]. It was due to these reasons that by early 90s most of the public sector units were declared sick.

The public sector went for major structural changes after 1991. The New Economic Policy took a 'U turn' by transferring the ownership of resources from public sector to

[1] Established by the Central Government of India in 1965, Pay Commission is a panel of members under Union Cabinet for review and revision of salaries of central government employees.

private sector. The fall in public sector employment is thus a policy driven phenomena and not a market led event.

De-licensing Indian industry, opening up of the reserved sectors for private participation and disinvestment of public sector have adversely affected employment growth. Further, government's budgetary support to public sector has declined over the period reducing its ability to create fresh employment. What is more a matter of concern is that the decline in public sector employment has not been compensated by a matching increase in private sector employment.

Table-4.15

Employment in Public Sector (*All Figures in Lakhs)*

Public Sector	1991	1995	2000	2003	2005	2008
Central Government	34.11	33.95	32.73	31.33	29.38	27.39
State Governments	71.12	73.55	74.6	73.67	72.02	71.71
Quasi-Governments	62.22	65.2	63.26	59.01	57.48	57.96
Local Bodies	23.13	21.97	22.55	21.79	21.18	19.68
Total in lakhs	190.58	194.66	193.14	185.8	180.07	176.74

Source: - Economic Survey 2010--11

The fall of employment has been highest in central PSUs and local bodies (Table 4.15). The intention of the government while downsizing the labour force employed in public sector was to reduce the fiscal burden and gradually withdraw itself from the commercial activities. Central government initially targeted to reduce employment by 2% per year (Task Force, 2001). In order to meet the diverse market conditions during post liberalization period the central government also initiated Voluntary Retirement Scheme (VRS) to trim down its manpower and make it more cost effective. The government of India through department of public enterprises notified the scheme of VRS on 05.05.2000 and again on 06-11-2001 under which over 3.75 lakh employees opted for voluntary retirement till 31.03.2011 (Public Enterprises Survey, 2010-2011). The average growth rate of employment in organized public sector has been negative i.e. -0.65 % during the post reform period of 1994-2008 in comparison to over 2% in the pre reform period of 1980s (Economic Survey, 2010). Not only in public sector but in the entire organized sector there has seen a considerable fall in employment. The average employment growth rate of total organized sector during the same period has been just 0.05% in comparison to over 1% previously (Economic Survey, 2011).

Table – 4.16

Organized Sector Employment by Industry in Public Sector *(Figures in Lakhs)*

Public Sector	1991	1995	2000	2003	2005	2008
Agricultural Activities	5.56	5.39	5.14	5.06	4.96	4.71
Mining and quarrying	9.99	10.16	9.24	8.47	10.14	11.21
Manufacturing	18.52	17.56	15.31	12.6	11.3	10.44
Electricity, Gas and Water	9.05	9.35	9.46	9.13	8.49	7.96
Construction	11.49	11.64	10.92	9.48	8.94	8.52
Wholesale and Retail Trade	1.5	1.62	1.63	1.82	1.82	1.65
Transport, Storage and Comm	30.26	31.06	30.77	29.39	26.75	26.34
Finance, Insurance and Real estate	11.94	12.83	12.96	13.77	13.9	13.47
Community, Social and personal services	92.27	95.04	97.71	96.09	91.76	88.54
Total in lakhs	**190.58**	**194.66**	**193.14**	**185.8**	**180.07**	**172.84**

Source: Economic Survey 2010-11

Except mining, in all major traditional sectors like agriculture, electricity and gas, construction, transport and storage, community and personal services the proportion of organized public sector employment has fallen. The fall has been highest in case of manufacturing. The service sectors like those of Finance, Insurance and Telecommunication have seen a considerable rise in employment both in public and private organized sector. But it should be noted that most of this rise is informal in nature (NCEUS, 2007).

Table – 4.17

Organized Sector Employment by Industry in Private Sector *(Figures in Lakhs)*

Private Sector	1991	1995	2000	2003	2005	2008
Agriculture, hunting etc	8.91	8.94	9.04	8.95	10.28	9.92
Mining and quarrying	1	1.03	0.81	0.66	0.95	1.11
Manufacturing	44.81	47.06	50.85	47.44	45.49	49.7
Electricity, Gas and Water	0.4	0.4	0.41	0.5	0.4	0.51
Construction	0.73	0.53	0.57	0.44	0.55	0.69
Wholesale and Retail Trade	3	3.08	3.3	3.6	3.87	2.72
Transport, Storage and Communication	0.53	0.58	0.7	0.79	0.87	1.04
Finance, Insurance and Real estate	2.54	2.93	3.58	4.26	6.52	10.96
Community, Social and personal services	14.85	16.03	17.23	17.56	18.78	21.73
Total in lakhs	**76.77**	**80.59**	**86.46**	**84.21**	**87.71**	**98.38**

Source:- Economic Survey 2010-11

The average growth rate of employment in private organized sector has been around 1% in the pre reform period and around 1.75% during 1994-2008 (Economic Survey, 2011). Though the fall in private organized sector employment is comparatively less than that of in public sector, the fact remains that private sector fails to provide any noticeable organized employment. There has been considerable fall in construction and retail trade. Even other sectors' role in generating organized employment has been limited.

Nevertheless, the role of private organized sector in creating new productive employment cannot be disregarded. Among the new sectors, finance, insurance and real estate have witnessed significant employment growth. Transport, storage & communication, education and other services are other areas where the workers were absorbed. India being an emerging economy with high potential growth, there is an opportunity to create large number of organized employment in private sector through proper policy measures.

4.3.3 Unorganized Employment

The composition of unorganized workforce employed in different sectors clearly indicates a significant bias towards Unorganized Sector Employment. In the agricultural sector, for example, a large percentage of workers (99 %) are employed. At the same time, the continuous fragmentation of land has resulted into faster marginalization of farmers; a large proportion of them being converted into unorganized workers for their livelihood either in agriculture itself or in any other sector where casual workers are absorbed.

Table – 4.18

Industry -Wise Composition of Unorganized Sector Workers (2004-05)

Industrial Sector	% of Unorganized Sector Employment
Agriculture, forestry & fishing	99.42
Trade, hotels & restaurants	98.81
Construction	93.29
Manufacturing	84.67
Transport, storage & communication*	79.63
Financing & real estate	67.13
Community, social & personal service	65.64
Mining & quarrying	55.31
Elect, gas & water supply	4.76

Source: -Computed from NSS 61st Round for Unorganized workforce, 2004-05. & NCEUS, 2007

The sectors such as construction, trade, hotels, restaurants, transport, storage and communication which employ more than 90% of workforce as unorganized workers are the probable sectors which absorb the migrating workers from the agriculture. It is for this reason these sectors have shown a high positive growth in employment in post reform period in comparison to that manifested by the agricultural sector. In addition Manufacturing, construction, trade, hotels and restaurants and transport & communication are the group of four sectors which due to nature of their operations depend heavily upon unorganized workforce. The sector employs nearly 126 million workers constituting 30% of unorganized workforce. An important sector employing massive unorganized workforce is of community, social and personal service. This sector comprises of domestic servants, cook, gardener, watchman, etc. Most of these workers are migrants to other states in search of employment opportunities. Illiteracy, lack of skill or vocational training and poverty are the main reasons for such high concentration of unorganized workforce into these segments.

4.3.4 State Wise Comparison of Unorganized Workers

High degree of concentration of unorganized sector employment has been a special feature of almost all Indian states. The data for the top twenty states comprises of those which have employment in unorganized sector over 80%. 17 out of 20 states have employment over 90% with lowest in Tamil Nadu with 89.9% and highest in Bihar with 97.5%.

Table – 4.19
State Wise % of Unorganized Workers (2004-05)

State	Male	Female	Total	State	Male	Female	Total
Andhra Pradesh	92.5	96.1	**94**	Kerala	82	79.6	**81.3**
Assam	89.8	91.4	**90.2**	Madhya Pradesh	93.1	98.2	**94.8**
Bihar	97.1	99.2	**97.5**	Maharashtra	86.6	95	**89.6**
Chhattisgarh	92.7	98.6	**95.2**	Orissa	92.9	97.7	**94.5**
Gujarat	88.6	97.6	**91.6**	Punjab	89.5	94.3	**90.9**
Haryana	87.4	96.6	**90.2**	Rajasthan	93	98.5	**95.2**
Himachal Pradesh	85.5	95.8	**90.2**	Tamil Nadu	87.2	94.3	**89.9**
Jammu & Kashmir	85.7	96.3	**88.5**	Uttar Pradesh	94.6	98.8	**95.8**
Jharkhand	91.8	98.3	**94**	Uttaranchal	87	97.1	**91**
Karnataka	90	95.3	**91.9**	West Bengal	90.5	93.8	**91.2**

Source: NCEUS, 2007

Kerala is the only model state in terms of qualitative progress in human capital with high level of literacy and health care; the pervasive effect of which can be seen in employment as well (Table-4.19)

A detailed study of the state wise data by NCEUS, 2007 report reveals that female workers surpass the male in terms of employment in unorganized sector. It is due to the fact that female workers get substantially lower wages than their male counterpart. It is an established fact that female workers are not treated at par with the male workers in terms of wage earnings (Shah, K.R and Jayant Kumar, 1996). A larger proportion of unorganized female workers actually points out towards their serious exploitation. This adds to the vulnerability of unorganized sector towards poverty and deprivation.

Table – 4.20

Share of Unorganized Workers among all Non-agricultural Workers in Industry Groups (2004-05) (in %)

States	1	2	3	4	5	6	7	8	9	10	11	Total
Andhra Pradesh	10.8	**74.6**	**70.8**	**94.6**	**93.7**	**77.5**	56.6	24.5	48.6	**93.2**	**98.2**	73.6
Assam	3	**82.4**	**72.3**	**98.5**	**96.2**	**82**	43.5	15.5	32.4	**93**	**95.6**	74.1
Bihar	15.2	**90.8**	**85.5**	**98.1**	**99.7**	**84.7**	59.2	50.7	83	**95.2**	**100**	87
Chhattisgarh	6.3	61.1	39.5	**89.8**	**60.7**	**62.7**	**70.5**	16.7	39.5	**87.2**	**100**	57.2
Gujarat	9.1	45.6	68.1	**97**	**85.2**	**78.3**	57.2	8.9	38.8	**90.6**	**100**	61.3
Haryana	5.3	53.6	**71.6**	**95.2**	**86.3**	**83.5**	61.9	31.5	45.7	**85.1**	**99.1**	67.5
Jharkhand	3.8	**66.9**	**75.9**	**96.8**	**87.6**	**66.7**	52.3	33.2	54.5	**88.7**	**86.5**	68.5
Karnataka	8.4	77	**85.3**	**94.1**	**79.1**	**81.9**	37.7	12.8	40.2	**87.7**	**98.9**	72.8
Kerala	21	**73.2**	**76.5**	**91.3**	**87.2**	**78.2**	53.6	30.9	28.1	**70.7**	**100**	71.5
Madhya Pradesh	11.6	**64.7**	**75.3**	**96.1**	**97.6**	**71.3**	56.2	20.3	36.9	**88.2**	**100**	66.8
Maharashtra	4	55.1	65.6	**93.3**	**71.1**	**64.4**	45	18.6	46.1	**81.6**	**99**	62.4
Orissa	10.3	**87.6**	61.1	**98.1**	**94.2**	**78.4**	49.3	24.3	35.8	**87.6**	**100**	74
Punjab	2.1	**74.4**	**85.8**	**95.2**	**87.9**	**78.7**	53.9	19	52.5	**77.2**	**95.5**	72.8
Rajasthan	22.5	**85.3**	**84.3**	**98.1**	**97.5**	**87.4**	**65.6**	23	39.6	**86.7**	**100**	78.1
Tamil Nadu	3.2	**67.2**	**72**	**93.2**	**91.3**	**65.8**	54.5	19.7	32.6	**86.7**	**99.9**	68.2
Uttar Pradesh	11.3	**83**	**87.5**	**97.7**	**94.6**	**78**	**67.7**	33	63.7	**97.5**	**99.3**	81.4
Uttaranchal	1.1	**72.9**	**71.2**	**95.8**	**80.8**	**77.1**	44.7	15.3	24.7	**73.3**	**100**	62
West Bengal	3.9	**78.6**	**75.4**	**96.5**	**87.4**	**81.8**	56.1	57.9	51.6	**85.3**	**99.1**	77.6
All	8.3	**71.2**	**75.6**	**95.5**	**86.7**	**75.9**	52.7	26.9	44.2	**88.2**	**98.7**	71.6

Source: - NCEUS, 2007

1= Mining, electricity and public administration, 2=Manufacturing, 3=Construction, 4=Trade, 5=Hotels & restaurants, 6=Transport, 7=Financial and real estates, 8=Education, 9=Health & social work, 10=Other services, 11=Private households.

As shown in the figure above, the sectors employing massive unorganized workforce are of private households and other services these sectors mainly comprise of domestic servants, cooks, gardeners, watchmen, etc., who are assisting the comfortable lives of people in urban areas are mostly migrants from poor states or rural areas. As seen in table- 4.20 almost all states have the share of unorganized workers from 90 to 100 percent in these categories. Similarly trade, hotels and restaurants too employ a high proportion of unorganized workers even in the developed states of Karnataka, Gujarat, Maharashtra and Punjab.

Table-4.21 depicts the contribution of each industrial group (activity) to the State Domestic Product. Agriculture as a single sector not only generates maximum employment but also contributes maximum towards state domestic product.

Table – 4.21

Contribution of Industry Groups to State Domestic Product (2004-05) (in %)

States	1	2	3	4	5	6	7	8	9
Andhra Pradesh	27.28	2.88	**10.04**	6.65	1.32	8.88	**14.76**	5.16	8.16
Assam	**31.87**	3.56	8.75	5.92	1.3	0.59	**14.31**	3.55	2.79
Bihar	**33.55**	0.06	4.73	4.91	0.41	6.82	**22.92**	4.03	2.16
Chhattisgarh	21.94	**13.91**	**17.93**	4.16	1.41	6.37	**12.49**	2.87	5.22
Gujarat	17.93	1.88	**25.98**	7.16	1.9	6.99	**17.57**	6.6	4.77
Haryana	25.81	0.21	**17.36**	9.57	0.51	8.48	**17.05**	3.58	8.36
Himachal Pradesh	28.05	0.41	9.71	**20.43**	4.92	2.47	**10.36**	3.79	3.34
Jharkhand	16.57	9.46	**29.76**	6.07	1	7.22	**11.25**	2.17	3.86
Karnataka	20.43	0.99	**13.83**	7.72	1.21	7.23	**15.33**	7.1	1.35
Kerala	17.94	0.13	7.35	**12.38**	1.13	**10.81**	**22.58**	6.31	7.77
Madhya Pradesh	27.85	3.5	8.1	7.48	1.94	7.46	**16.52**	4.89	6.51
Maharashtra	13.91	0.78	**14.96**	6.19	1.92	8.71	**18.44**	**12.58**	**11.27**
Orissa	27.11	6.38	**10.87**	5.61	1.8	8.87	**11.89**	3.98	5.45
Punjab	**36.42**	0.04	**12.4**	6.55	1.95	6.65	**14.08**	5.09	3.21
Rajasthan	**32.26**	2.63	8.59	**10.68**	1.84	6.5	**15.19**	3.99	5.72
Tamil Nadu	13.5	0.78	**16.37**	0.77	8.37	10.13	**19.09**	8.65	7.35
Uttaranchal	23.79	1.17	**11.84**	**12.61**	3.06	6.38	**16.8**	3.85	4.33
Utter Pradesh	**32.68**	0.98	**10.14**	7.13	3.15	8.41	**13.14**	4.44	5.46
West Bengal	27.29	1.21	9.16	6.33	1.09	7.84	**16.36**	6.38	9.5

Source: - NAS, 2007.

1=agriculture, 2=mining &quarrying, 3=manufacturing, 4=construction, 5=elect, gas & water supply, 6=transport, storage & comm, 7=trade, hotels & restaurants, 8=banking & insurance, 9=real estate.

For all major states agriculture contributes more than one-fourth of respective SDP with 99% of workforce employed in agriculture being unorganized. Even sectors like manufacturing employ a substantial number of unorganized workers. Trade, hotels & restaurants collectively is another sector drawing in large number of unorganized workers; the contribution of this sector towards respective SDP is also significant (10% to 23%), with lowest for Himachal Pradesh and highest for Bihar. Among the secondary sector, manufacturing and construction contribute maximum towards SDP. For Gujarat and Jharkhand, manufacturing contributes more than 20% towards SDP. In HP, Kerala, Rajasthan, and Uttaranchal more than 10% of SDP comes from Construction.

4.3.5 Casual Labour, Self-Employed and Regular Employed

The two most vulnerable sections among the unorganized workforce are of casual workers and self employed.

Table – 4.22

Percentage Distribution of Employment by Status- UPSS

Casual Workers						
	Rural		Urban		Total	
	Male	Female	Male	Female	Male	Female
1993-94	33.8	38.7	16.3	25.8	29.3	36.9
1999-2000	36.2	39.6	16.8	21.4	30.7	36.8
2004-05	32.9	32.6	14.6	16.7	27.5	30
2007-08	35.5	37.6	15.4	19.9	30.1	35.1
2009-10	38	39.9	17	19.6	32.2	36.6
Self-Employed						
	Rural		Urban		Total	
	Male	Female	Male	Female	Male	Female
1993-94	57.7	58.6	41.7	44.8	53.6	56.8
1999-2000	55	57.3	41.5	45.3	51.2	55.5
2004-05	58.1	63.7	44.8	47.7	54.2	61
2007-08	55.4	58.3	42.7	42.3	51.9	55.9
2009-10	53.5	55.7	41.1	41.1	50	53.3
Regular Workers						
	Rural		Urban		Total	
	Male	Female	Male	Female	Male	Female
1993-94	8.5	2.7	42	28.4	17.1	6.3
1999-2000	8.8	3.1	41.7	33.3	18.1	7.8
2004-05	9	3.7	40.6	35.6	18.3	9
2007-08	9.1	4.1	41.9	37.9	17.9	8.9
2009-10	8.5	4.4	41.9	39.3	17.7	10.1

Source: Employment and Unemployment Reports Various Rounds, NSSO

For 2004-05 the NSSO data reveals that a majority of workers were either self-employed (56.6 percent) or casual workers (28.1 percent). Only 15.3 percent of the workers were regular workers enjoying assured income. Once again even the rich states like Maharashtra, Gujarat, Karnataka and Haryana have a high proportion of casual workforce.

A high degree of casualty or informality among the workers deprives the labourers and their families from any foundational support for enhancing human capabilities or ensuring economic security (NCEUS, 2006, 2007 & 2008). Self employment occupies nearly 50% of India’s workforce. Most of these are occupied in rural areas and are involved in agricultural activities. Self-employment is also known as non-wage employment as those who are self employed, do not work for wages but to make profits. A large part of self-employment consists of employers cum workers including small and marginal farmers in rural areas and small and petty traders in urban areas (DGET, 2010).

The casual labours are also known as badli workers or daily wage labourers. By definition the casual labour should be employed only for the work which needs to be casually performed. For example in manufacturing and construction, casual labour can be employed on temporary basis to fill the gaps caused by absenteeism. Such employment is usually contractual with lots of uncertainty. Casual employment has become a common feature in both public and private sectors. Even the prominent industries such as Railways, PWD departments, Road transport corporations, Central and State Electricity department employ casual workers (National Commission of labour, 1969). However the earnings and the working conditions of casual labour in public sector are observed to be poor in comparison to the regular labourers (NCEUS, 2006). Firms in order to skip labour laws and reduce labour cost outsource the recruitment on contractual basis to labour contractor. Lately, self-employment has reduced both in rural and urban areas indicating a wide shift towards casual employment. In rural areas this is mainly due to movement of marginal and small farmers towards non-farm employment, and in urban areas this is because of technological advancement and growing competition (Papola, 2007).

As per the NSSO’s 66th Round (2009-10), within the category of self-employed, 57% are employed in agriculture and allied activities followed by 13.5% in wholesale and retail trade. Considering the inability of organized sector in creating adequate employment for the huge labour force, self employment provides a gainful employment. However, self employment seems to be a matter of compulsion. People are forced to take up self employment with uncertain earnings due to lack of regular wage employment. The NSSO report (2006) confirms that large proportions of those in self-employment are vulnerable to adversity. The question is how to ensure decent working conditions with sustainable employment and earnings to the self employed? Amidst market led exploitation of self-employed, how to ensure some minimum returns (similar to minimum wage) adequate enough to sustain them in the long run? A bigger challenge lies ahead to provide adequate social security measures targeting various categories of self employed people.

Table – 4.23
Distribution of the Organized and Unorganized Sector Workers By Industry and Status (2004- 05) (in %)

	Agriculture			Non-agriculture			All		
	Organ	Unorg	Total	Organ	Unorg	Total	Organ	Unorg	Total
Casual Workers	41.8	34.6	34.7	20.7	19.8	20	22.7	29.2	28.3
Self Employed	38.1	64.8	64.2	5.1	62.8	46.4	8.3	64.1	56.5
Regular Workers	20.1	0.6	1.1	74.3	17.4	33.6	69	6.7	15.2
Total	100	100	100	100	100	100	100	100	100
Percentage to total	**2.4**	**97.6**	**100**	**28.4**	**71.6**	**100**	**13.7**	**86.3**	**100**

Source: NCEUS, 2007

A close look at the data computed by NCEUS reveals that, 97.6% of employment in agriculture is unorganized in nature. Out of this a massive 65% is non-wage employment and 35% is of casual workers. Even in the non-agriculture sector the total proportion of unorganized workers is nearly 72% of which 63% are self employed.

Another important aspect of unorganized employment is contractual employment. It is referred as the employment of workers generated through intermediaries called as contractors and not directly recruited by the employer. The contractual labour in India is regulated under the Contract Labour (Regulation and Abolition) Act, 1970; the act is applicable to all contractors and organization employing 20 or more workers.

A new class of employment has emerged that is of contractors who benefits every time a new contractual employee is recruited. The arrangement involves a tripartite relationship between the employers, employee and the contractor and some time even a sub-contractor. Unlike regular employment the workers under contractual employment do not receive wages directly from employer; instead the contractor makes the payment of wages and takes care of working conditions including social security. The proportion of contractual labour is growing fast mostly in organized sector. The system continues to deprive the workers of any social or economic security even in the organized sector (Mitra, 2006).

Sub contracting of workers is often referred to as outsourcing under globalization. Cheap labour is recruited paying lower wages and ensuring long working hours (Bhaduri and Patkar, 2009). Several examples across the globe have shown a rampant exploitation of labour. Many branded shoe companies get their sports shoes manufactured in poor countries like Indonesia; branded shirts and garments are cut and stitched in Bangladesh employing massive contractual labour at low wages (Sanyal, 2007). The demand for regular labour has largely decreased and a clear shift is visible towards contract labour. This has led to a system tantamount to deterioration of working conditions coupled with lower or nil social security provisions.

'The contract and sub-contract systems and invisible and insecure employer-employee relationships leading to exploitation-economic and extra economic forms such as bonded labour, casteism, sexual exploitation etc. and the lack of implementation mechanisms in the existing laws such as the Minimum Wages Act etc' (NCEUS, 2007).

4.3.6 Poverty and Unorganized Employment

Deteriorating quality of employment along with low earnings has been a predominant feature of unorganized employment. It is unfortunate that a massive workforce which contributes significantly to the nation's productive capacity is poverty ridden (Kumar, Jayant and Hitesh Bhatia, 2012b). The DGET's Report to the People, 2010 had pointed out predominance of poverty in unorganized sector. A large part of casual labour force and self-employed workers constitute the poor. The NSSO data shows about 27.5% workers are below poverty line as per 2004-05 figures; of this 32% are casual workers, 18% are self-employed and 13% are regular wage earners.

Among all states irrespective of their development status, the share of unorganized sector workers in the overall poverty is on a higher side. For instance in Maharashtra 24.6 percent of unorganized workers were below the poverty line, which is more than the national figure of 20 percent. A closer scrutiny reflects that in the non agricultural sector, the urban poverty is substantially higher in Maharashtra (34.3%) (Planning Commission, 2007).

Table – 4.24
Poverty in the Unorganized Sector & Unorganized Sector Workers (Non-Agriculture) By Employment Status (2004-05)

State	Poverty Ratios	Poverty Rank	% of Poverty in Unorganized Sector	Poverty Ratios among Unorganized Sector Workers		
				Casual Labour	Regular	Self Employed
Andhra Pradesh	15.8	9	9.9	17.2	16.9	11.6
Bihar	41.4	2	28.9	43.7	33	25.6
Chhattisgarh	40.9	3	32.6	54.4	35.2	31.7
Gujarat	16.8	16	12.5	23.5	8.7	8.5
Haryana	14	19	7.8	25.8	6.1	9.6
Jharkhand	40.3	4	35	43.2	16.4	28.3
Karnataka	25	10	15.6	25.2	18.4	21.9
Kerala	15	18	9.2	12.6	9.2	7.3
Madhya Pradesh	38.3	6	31.1	57	36.6	29.6
Maharashtra	30.7	8	24.6	49.6	25.6	21.7
Orissa	46.4	1	43.4	51.6	29	30.7
Punjab	8.4	21	4.4	7.7	3.3	2.4
Rajasthan	22.1	13	15.6	26.2	24.3	19.5
Tamil Nadu	22.5	12	16.7	18	16.8	15.1
Uttar Pradesh	32.8	7	23.3	37.9	17.3	24.3
Uttaranchal	39.6	5	29.6	53.6	24.6	32.3
West Bengal	24.7	11	19.7	22.6	11	15.8
All India	27.5	-	20.5	32.3	18.4	13

Computed from: - NCEUS, & Planning Commission, 2007 (for % of poverty in unorganized sector and poverty ratios respectively)

This is probably due to large migration of workers from various states to places like Mumbai, Nagpur and Aurangabad. In the last four states as per SDP rank, namely Bihar, Uttar Pradesh, Madhya Pradesh and Orissa record maximum poverty in the unorganized sector. These are also the states that employ a large proportion of unorganized workers. Among the middle income states, Chhattisgarh, Uttaranchal, and Jharkhand reveal substantial poverty ratio of more than 30% in the unorganized sector. These new states were carved out from the traditionally poor states of M P, U P and Bihar respectively. Rajasthan ranks low both in terms of SDP and poverty.

The overall poverty ratios among casual workers are highest at 32% in unorganized sector, followed by 18% in self-employment and 13% among regular wage earners

(NSS 61st Round, 2005). Due to migration and contractual employment, the poverty ratio among casual workers is higher in urban areas than in rural areas (DGET, 2010). 42% of casual workers in urban areas from organized and unorganized sector remained below poverty line. The figure for rural area stands at 22%. The poverty ratios among self-employed in rural areas at about 16% is far less in comparison to that for casual workers. It should be noted that the proportion of self employed is highest in rural areas at about 50%.

Box – 4.1
Dichotomy between Unorganized Sector and Informal Sector

Keith Hart first introduced the term 'Informal Sector' in 1971. Keith referred informal employment to self employment as distinguished from regular wage employment (Hart Keith, 1973). Later, International Labor Organization (ILO) introduced the term 'Informal Sector' to the world in its Kenya Mission Report, 1972. It defined informality as a way of doing things easily using indigenous and labour intensive techniques (mostly family resources) in an unregulated environment (ILO, 1972). Since then many definitions and concepts of informal sector have been developed. These definitions basically imply the absence of characteristics of formal sector like lack of job and earning security (Papola, 1980; Banerjee, 1985).

The first internationally accepted definition of informal sector and informal employment was presented by ILO in 15th International Conference on Labour Statistics (ICLS) 1993. The term informal sector *'include all private unincorporated enterprises owned by individuals or households engaged in the production and sale of goods or services, and with employment size below a predetermined threshold[1]'.* The definition was incorporated in Systematic National Accounts (SNA, 1993) by United Nations Economic and Social Council for adding the contribution of informal sector into GDP.

On the other hand the term 'Informal workers' was defined to include 'those people whose employment relationship is, in law or practice, not subject to labour legislation, social protection and employment benefits' (SNA, 1993). ILO in 2002 attempted to redefine the informal employment as one '*without secure contract, worker benefits, or social protection, both inside and outside informal enterprises'* it includes both self employment and wage employment – that is not recognized, nor regulated nor protected by legal or regulatory framework (ILO, 2002).

In Indian context the concepts of unorganized and informal sector continued to face a dichotomy. Government, institutions and intellectuals went on to define the concepts as per their objectives, scope of study and data collection. According to one definition, unorganized labours are 'those who have not been able to organize themselves…' (1st National Commission on Labor, 1969). The commission also identified the ignorance, illiteracy and casualty of employment as major causes for being unorganized. The National Accounts Statistics (NAS) refers unorganized sector to those enterprises that are not regulated and in whose regard collection of data remains challenging. NSSO defines the same as 'enterprises which are not covered under Annual Survey of Industries (ASI) and all service industries other than those run by Centre, state, local bodies and private corporate sector'.

Unlike NAS which remains ambiguous about the sources of data collection and registration agency, the NSSO is clear in defining the unorganized sector. The inclusion of the term 'enterprise' in both the definitions is vague by itself. However, the scope of NAS is wide as other than unincorporated proprietary or partnership enterprises it also covers the non ASI enterprises run by cooperative societies, trusts, private and public limited companies (Expert Group on Informal Sector Statistics, Delhi Group, 2006).

[1] A minimum 10 to 20 employees depending upon the nature of industry.

Both the national and international definitions of unorganized sector or informal sector have no unanimity over the threshold size of labour, registration of the units, maintenance of account books, filing of returns and paying taxes, etc., which are critical characteristics while defining these terms. The 15th International Conference of Labour Statisticians (ICLS) conducted by ILO recommends the use of (either or both) small size of employees and non-registration of enterprise as criteria to define informal sector. While due to lack of information regarding the registration and other details of enterprises the NAS and NSSO considers those as unorganized whose activities or collection of data is not regulated under any legal provision (Expert Group on Informal Sector Statistics, Delhi Group, 2006). Lately Hussmanns (2001) has given a more exhaustive definition of informal employment 'as jobs for which employment contract are not subject to standard labour legislation, taxation, social protection or entitlement of certain employment benefits. Such jobs are mostly undeclared, casual or of short duration, either without employment contracts or with short-term contracts'

In Indian sense 'enterprise' excludes agriculture from its scope. The 55th round NSSO survey (1999-2000) recognized unorganized sector as a non-agricultural enterprise. With over 60% of country's population engaged in agriculture and majority in the rural areas, the unorganized sector definition should include landless agricultural labourers, small and marginal farmers, share croppers, those engaged in animal husbandry, poultry and fishing activities, rural artisans, forest workers, etc. Along with an exhaustive definition of unorganized sector the term enterprise needs to be defined for agriculture too.

The enterprise based definition of informal or unorganized sector does not consider the characteristics of employment (based on characteristics of enterprise) and excludes those with casual and self employment. Even within the scope of organized sector there are many who are informally employed and similarly in unorganized sector many are formally employed (NCEUS). The NCEUS has used the terms 'organized' and 'unorganized' interchangeably with 'formal' and 'informal' respectively and attempted to give a more acceptable definition for the unorganized sector as well the worker.

According to NCEUS Report, 2007 *'The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers".*

"Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/ social security benefits provided by the employers'.

In fact it is the characteristics of the employment that is important in identifying the unorganized workers. Even in the organized sector there may be several workers who are deprived of any social security benefit or wage and job assurance and thus must be part of unorganized workforce. Besides, other characteristics include fragmented and seasonal employment, lack of knowledge, training and literacy levels required to do the respective jobs, etc.

The Government appointed a National Commission for Enterprises in the Unorganized Sector in the year 2004. The Commission has proposed two draft Bills regarding the conditions of work and social security. These are the Agricultural Workers' Conditions of Work and Social Security Bill, 2007 and the Unorganized Non-agricultural Workers Conditions of Work and Social Security Bill, 2007. The later also covers unorganized workers in the organized sector who are not protected by existing laws applicable to that sector. It is expected that the Commission's report would draw the Government's attention towards the deplorable living conditions of unorganized workers.

Source: Kumar, Jayant & Hitesh Bhatia,(2012c).

CHAPTER – V
THE PROBLEM OF AGEING

5.1 INTRODUCTION

Death is the only certainty in human life 'The Eternal Reality of the Soul is Immortality'[1] however over the period the incidence of death in terms of years has lengthened. According to the *'Dharma Shastra-the laws of Manu'*[2] the life of man (specially a Hindu Brahmin) in traditional Indian society was expected to be of over hundred years. The human life cycle was divided into four 'ashrams' or 'life stages'. The first stage is of a student called 'Brahmacharya', the second is of a householder called 'Grihasta', the third stage comes when a man starts turning old and transfers his social and household responsibilities to the elder son and goes in search of spirituality, this stage is known as 'Vanaprastha'. Finally, when the man gives up all his worldly possessions, he enters 'Samnyasa' or asceticism, the last phase of human life (Doniger and Zola, 1991). Thus, in traditional India, a person was considered aged or old when he has fulfilled his family and social responsibilities of getting his children married. The man will hand over the family assets, business and social liabilities to his son and the women will hand over the keys (often a symbol of domestic responsibilities) to the daughter in-law. This was considered to be the act of retirement from the social and family responsibilities. Ageing was never considered to be a problem during those times and people would happily go in search of spirituality once they start becoming old. However the same cannot be said for the present times.

The bliss of longevity was never the same in the last few centuries. The life expectancy fell to abysmally low levels by the end of nineteenth century. The demography has witnessed a silent revolution during the 20th century. . People are now expected to live longer than they did a century ago, reflecting advances in medicine, nutrition and technology, (UN, DESA, 2007).

A century of advance in the biomedical sciences has dramatically lengthened the human life span from an average expectancy of two decades at the beginning of the second millennium to well past the biblical ***three score and ten***[3]*, in the developed world, a thousand years later* (Current Science, 2000)

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[1] 'For certain is death for the born, And certain is birth for the dead; Therefore over the inevitable, Thou should not grieve'. Bhagavad Gita, *Chapter ,2 Verse, 72*

[2] A 500 BC text comprises of twelve chapters and 2684 verse, preaching the norms of domestic, social, and religious life in India.

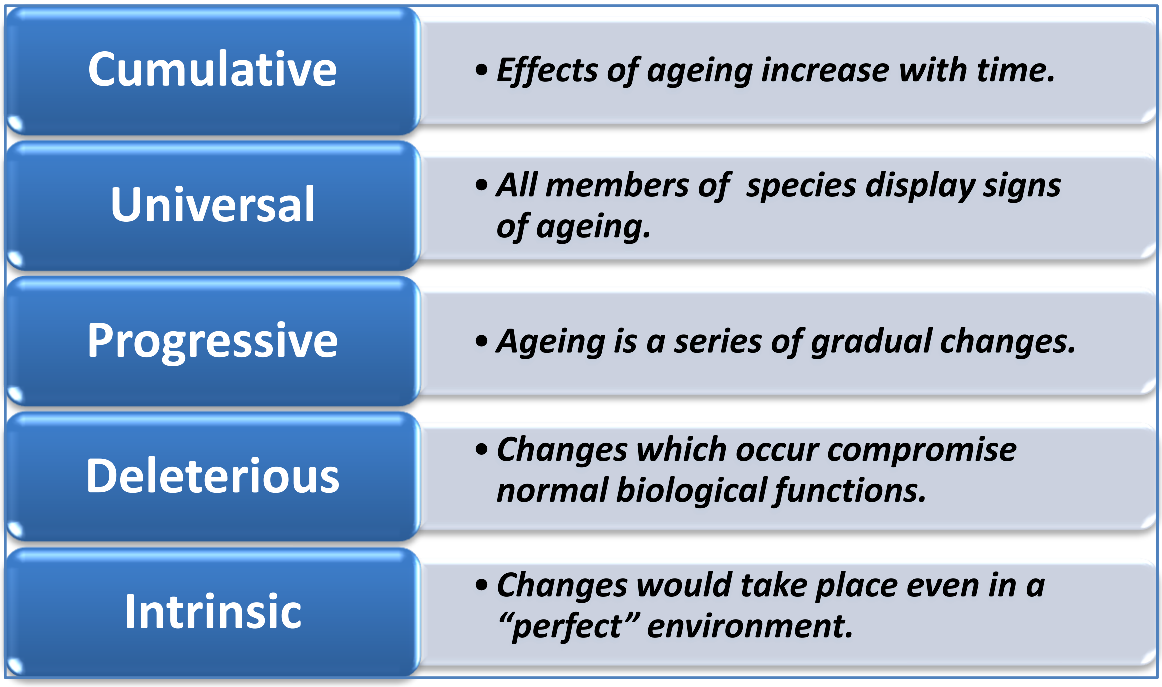
[3] Refers to number 60 in John Wyclif's Bible, 1938

Old-age is one of the major achievements of the present times. However, it symbolizes mankind's victory over delaying death, if not avoiding the same.

Old age is viewed differently in different societies and cultures. Based on the country's demographic phase, for some societies it is a burden (or a liability) whereas, for others it's an asset enriching labour force with their experience.

Longevity may be a great personal boon, but it poses a great societal challenge. Over the next half century, global ageing will divert society's scarce resources from young to old (Ageing Vulnerability Index, 2003). It should be noted here that there is a thin line of difference between 'old-age' and 'ageing'. Old age is an individual story, ageing is a demographic phenomena. Ageing is far more serious subject then old age; contrary to the popular misconception that both ageing and old age are synonyms. Old age merely refers to the people who have crossed certain threshold age beyond the productive age group and are now into the last stage of human life cycle. Ageing is an 'elongated process'. The subject matter of ageing is not about individuals getting older; it's about a process of societal ageing. Strehler (1962) proposed five descriptions of ageing.

Figure – 5.1 Five Descriptions of Ageing



Thus Ageing is not an isolated concept. It has to be studied with reference to the society as a whole to include biological change with respect to natural & physical environment and time.

5.2 CONCEPT AND DEFINITION OF AGEING

Defining the term ‘ageing’ has always remained an intricate problem for most of the gerontologist[1]. Some definitions focus only on number of years individuals are expected to live often called chronological ageing. While others, focus on time by which most of the country’s population will be in the older age group. This is measured through the difference between birth rate and death rate i.e. ‘demographic transition’.

The fact remains that the person does not become old overnight and therefore it is the process of ageing which is more important than the concept of chronological ageing (Hamilton, 2012). By using this logic the process of growing older starts from the birth itself. Ageing can then be defined as the process of growing up and growing older (Oberg, 2004). However, we don’t refer ‘ageing’ for children, even if they grow older with each passing day. Thus, ageing is defined with reference to the process of change, which takes place among the older people only (Hamilton, 2012).

The American Heritage Medical Dictionary (2007) defines the term ageing as ‘The gradual changes in the structure of a mature organism that occur normally over time and increase the probability of death’. In a thorough medical sense ‘ageing is overall process of progressive, generalized impairment of the functions of organs and tissues which results in an increasing age-specific death rate’ (Bittles & Collins, 1986).

For every society one should decide a threshold age limit beyond which people will be identified as old. This creates problem of exclusion and inclusion (Hamilton, 2011). For example, by fixing a number like 65 years, which is normally accepted as a retirement age in most of the countries in the world, we might be excluding those from the group who may be younger than 65 but physically or mentally older. At the same time, we end up including some individuals who are above 65 years of age but much more active and healthy than those who are younger to them. Furthermore, such a threshold limit cannot be universal and will differ from region to region depending upon availability of basic necessities, nutrition levels, health care systems, etc. One of the early references to ‘chronological ageing’ is found in the works of Adolphe Quetelet[2] (1835). He defined old age as ‘being at 60’. In the words of Quetelet *‘From*

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[1] Experts who study the problem of ageing.

[2] A Belgian astronomer, mathematician, statistician and sociologist. In 1835 he presented his theory of the average man in *Sur l'homme et le développement de ses facultés, essai d'une physique sociale*. Accessed from http://en.wikipedia.org/wiki/Adolphe_Quetelet

60 to 65 years of age human body loses much of its energy, that is to say that probability of life then becomes small.' Later on this became the benchmark age for everyone- from researcher to the policymakers (Mullan, 2002). The concept of chronological ageing helps in determining the pensionable age, also known as official retirement age. However, it is not necessary that such an age is one at which people stop working. OECD[1] introduces the concept of 'effective retirement age' a concept distinct from that of an official retirement age. OECD defines retirement age as *'average effective age at which older workers withdraw from the labour force'* though they may continue to enjoy the pension. The official retirement age refers to the age at which people become entitled for pension and other social security benefits (OECD, 2009). In other words effective retirement age may be longer than the official one. The official retirement age is also referred as the pensionable age. It was first referred by Bismarck in Germany in 1889. Britain in 1908 and United States in 1935 followed the same concept.

The 20th century had very conveniently taken the retirement age as a dividing line to discriminate between the adult hood and old age (Mullan, 2002). Throughout the century the retirement age kept on floating from 50 years to 70 years and ultimately settled for 65 years on an average making it a 'birthday for old age to begin' (Giddens, 1994 & Mullan, 2002). The fluctuations in the retirement age have hardly anything to do with the biological process of getting older. It is more a function of various social, political and economic changes which take place in the society and are going to influence the government's policy decisions.

Table– 5.1
Effective v/s Official Retirement Age

Country	Effective	Official	Country	Effective	Official
Austria	58.2	62.5	**Ireland**	63.5	66
Belgium	59.1	65	**Italy**	59.9	62.5
Canada	62.8	65	**Japan**	68.5	63
Chile	66.6	62.5	**Korea**	70.0	60
Denmark	63.1	65	**Luxembourg**	57.7	65
Estonia	64.8	62	**Mexico**	70.8	65
Finland	61.6	65	**Netherlands**	62.4	65
Germany	61.1	65	**Spain**	62.6	65
Greece	60.7	62.5	**Turkey**	65.5	59
Hungary	59.5	62	**India***	-	60

Source: - *OECD (2011), Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries, *for central government employees*

[1] Organization of Economic Cooperation and Development.

The problem with official retirement age being shorter than the effective age is that people generally tend to withdraw themselves from employment much before their biological age peaks, and they start becoming dependents early (Mullan,2002). Thus, various experts started associating old-age to the function of labour markets requirements (Guillemard, 1986).

For most of the OECD countries the effective age of retirement is less than the official retirement age. People withdraw themselves from the labour force much earlier than they are expected to do so. However, countries like Japan, Korea, Mexico and Turkey have remained exception to this. Due to higher life expectancy people are found working for one to ten years after official retirement age.

The above discussion brings out the difference between biological and chronological ageing. The former can be related to effective age of retirement and the latter to official retirement age. The chronological age thus may differ considerably from a person's effective age. Various age-related changes like those in skin and hair occur at different speed and time among different persons. All age-related symptoms do not occur at the same time for all the people of similar age group. In developed countries 60 or 65 years is taken as a dividing line between young and old, basically to separate the productive population from unproductive population. Such a cut off is decided on the basis of country's population, pension eligibility and other social structures. Thus, against chronological constraints 'which mark life stages in the developed world, old age in many developing countries is seen to begin at the point when active contribution is no longer possible' (Gorman, 2000). Old age, then, cannot be defined exactly because the concept does not have the same meaning in all societies (World Economic and Social Survey, 2007).

McPherson (1983) and Ginn & Arber (1995) separated chronological ageing to biological and social ageing. The process of ageing is defined in biological term as 'senescence'[1] (Williams, 1957). Ageing occurs predictably with senescence and has been traditionally associated with the biological changes (Oberg, 2004). The concept of Biological ageing is similar to the medical definition of ageing mentioned previously. It refers to the changes in the structure and functioning of organism, muscles, bones, etc., that influence behavior and longevity (McPherson, 1983). Grafenhofer (2006) and Hamilton (2012) deliberated on various features of biological

[1] The word *senescence* is derived from the Latin word *senex*, meaning *old man* or *old age*

ageing which helps in classifying the population into different groups. This included two distinct groups, Universal ageing and Probabilistic ageing. The former includes common ageing features like wrinkled skin and grey hair which are shared by all who grow older. The latter includes the features which are not necessarily shared by all like the problem of arthritis and diabetes. Yet another definition of biological ageing was given by Robert Arking (1991); he defined ageing as a process which includes *'those series of cumulative, universal, progressive, intrinsic and deleterious functional and structural changes that usually begin to manifest themselves at reproductive maturity and eventually culminate in death'* unless death occurs earlier for reasons other than ageing.

Psychological ageing considerably defers from biological ageing, as it refers to the changes in the mental condition unlike the latter which exclusively focuses on physical changes. Though psychological ageing is also defined in terms of senescence, it includes changes in personality, decline in cognitive ability, memory functions, etc (McPherson, 1983).

Social ageing is an extension of chronological ageing. It represents similar pattern of behavior among large groups or individuals within a given social system (McPherson, 1983). Social ageing is based on 'age norms' developed by the society either for making the individuals eligible for retirement benefits or fixing their expected levels of productivity. For example, at 60 and beyond, people are not expected to be highly productive unlike they were at 30. This is a socially defined age norm that refers to activities considered acceptable for people who are in a particular phase of life (Oberg, 2004). Every society thus has a well defined life phase which is age based (Narvanen, 1994).

The essence of ageing defined in terms of psychological and biological sense is limited to the old age and older people only, which makes it a static concept. Whereas, the concepts based on the theories of gerontology like chronological and social ageing recognizes the term as a process of getting older; they also connect ageing to social and cultural phenomenon which is applicable to all age groups and life phases (Oberg, 2004) and (Sanderson & Scherbov, 2008). The medical practitioner, gerontologist, sociologist and economist all have their individual but overlapping perspectives of ageing (Mullan, 2002).

5.3 THE PROBLEM OF AGEING

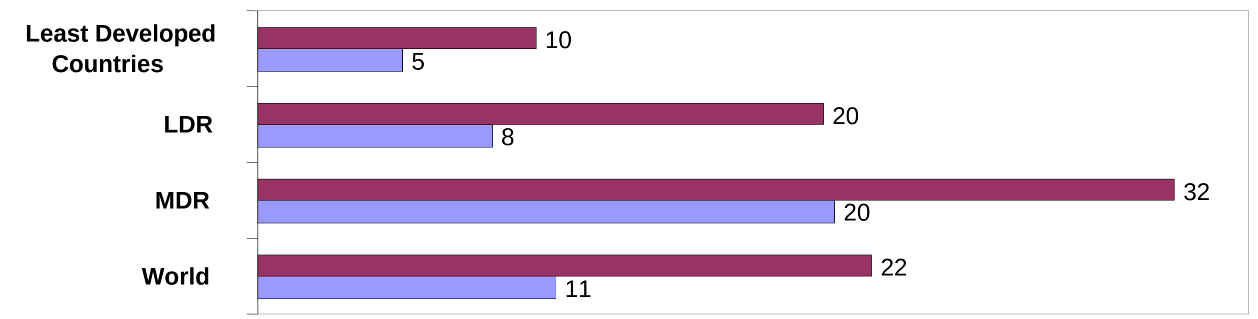
The problem of ageing occurs mainly due to significant changes in the demographic factors particularly Birth and Death Rates. Now, more people are living towards the higher side of age structure. The data on population ageing can never be accurately calculated as it widely depends upon estimates which may not be always comprehensive (Rowland, D.T 1991).

One of the most accomplished works on population ageing has been prepared by Population Division of DESA, UN[1]. In 2002 at World Assembly of Ageing, it identified four facets of global population ageing:

1. Population ageing is unprecedented.
2. It is pervasive.
3. It is enduring and
4. Population ageing has profound implications on human life.

The crux of the study is that population ageing is unmatched and universal. Every country irrespective of its development levels would experience ageing as a problem. However, its impact will be different on different countries, depending upon a host of socio-economic factors and regulatory and protective policies available.

Figure – 5.2 Percentage of Old Age (60+) To Total Population



	World	MDR	LDR	Least Developed Countries
2050	22	32	20	10
2009	11	20	8	5

MDR – More Developed Regions, LDR – Less Developed Regions.
Source: - World Population Ageing, United Nations,2009.

[1] The population estimates and projections, which are prepared biennially by the Population Division of the Department of Economic and Social Affairs (DESA) of the United Nations Secretariat, provide the standard and consistent set of population figures that are used throughout the United Nations system as the basis for activities requiring population information.

According to United Nation's Report on World Population Ageing, 2009 the proportion of old-age people in the total population has been gradually rising from 8% in 1950 to 11% in 2009 and is further expected to rise to 22% by 2050.

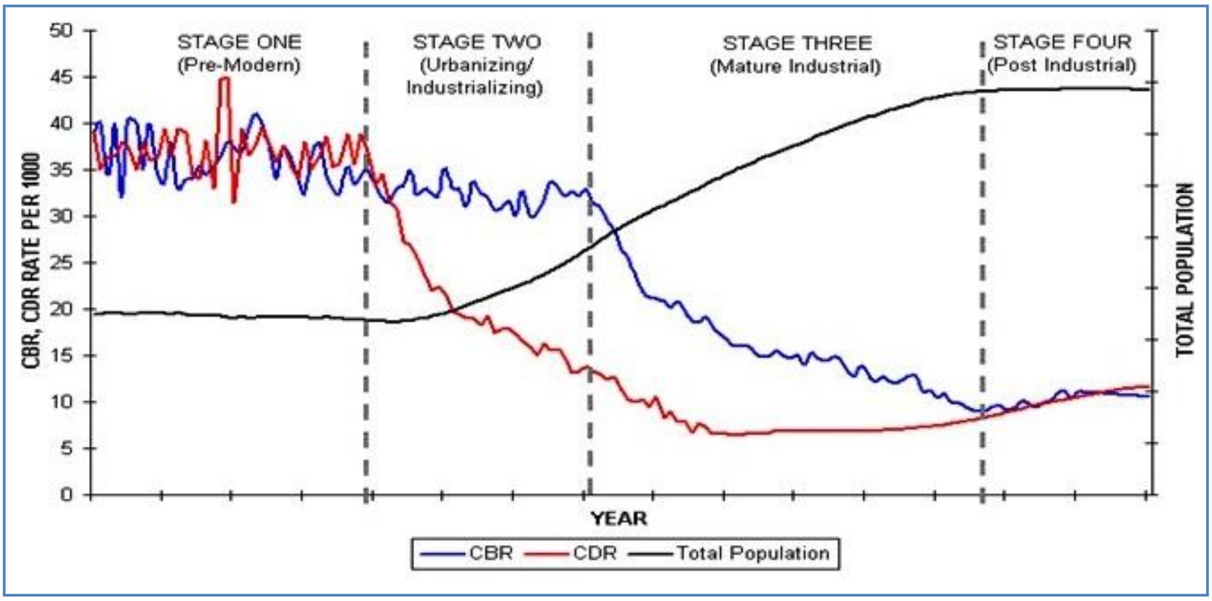
As shown in figure 5.2; More Developed Countries (MDR) which comprise of all regions of Europe, North America, Australia, New Zealand and Japan (UN, Population Division) would be worst affected due to population ageing. By 2050 population over 60 years in these countries will be of about 1/3rd of their total population. The Less Developed Regions (LDR) which comprise of regions of Africa, Asia (excluding Japan) and Latin America would witness the maximum growth rate of population over 60 years. By 2050 the ratio of aged will be two and a half times more than at present. Although due to low levels of fertility the proportion of aged to total population in LDR would remain less than that of MDR by 2050. The Least Developed Countries (LDC), which comprise of 49 countries across Africa, Asia, and the Caribbean, would be having less proportion of aged in their population. Consequently the proportion of those in working age group will increase from 53% in 2009 to 61% in 2050 (World Population Ageing, 2009). This will create huge opportunity for attaining high economic growth rate for the LDC, if the working age population is gainfully employed.

Three common factors have been identified by policy makers, gerontologists, economists and demographers as the probable causes of population ageing (World Economic and Social Survey, 2007). The first two causes relate to demographic changes and the stage in which a country presently exists. These causes may be identified as improvement in longevity or decline in fertility. Improvement in longevity raises the average age the population; in demographic sense it refers to fall in the death rate. This results in rising numbers of surviving older people in the population. At the same time, falling fertility levels reduce the number of births and gradually affect proportion of younger population in the economy. The third is a passive factor- effect of net migration on population. Changes in net migration depend upon a host of complex factors including stage and levels of economic development, demand and availability of employment opportunities, supply of skilled labour force, existence of community groups etc;

5.3.1 Stages of Demographic Transition

The concept of population ageing is based on the 'theory of demographic transition' developed by famous American Demographer Warren Thompson in 1929[1]. The demographic transition theory explains the causes and implications of population ageing (Kirk, 1996). The original theory divided the country's lifespan into four stages, although later some theorists have added fifth and sixth stages too.

Figure – 5.3
Demographic Transition Model



Source: Montgomery, Keith (2000)

Stage one is characterized by pre industrial society with lowest population growth rates. With both birth and death rate remaining high the population growth evens out in the first stage. The second stage commences when death rate starts falling but birth rate continues to remain high. This stage is marked with growing average size of family. The extreme positions of birth and death rate create imbalance and cause 'population explosion' a stage of high population growth rate. Throughout the 19th century, the developing countries continued to be in the second stage (Caldwell, 2006) In the third stage, birth rates starts falling due to better health care facilities, family planning and awareness regarding benefits of small families. This is also due to growing urbanization, female literacy and corresponding change in social attitude towards women in the family. Gradually the growth of population begins to level off.

[1] Warren Thompson (1887–1973) developed the demographic transition theory by studying the changes, or transitions, in birth and death rates in industrialized countries over a period of 200 years.

Developed countries mostly European economies experienced a fall in birth rate during 19th and 20th century. The death rate in the third stage continues to fall gradually. The fourth and the last stage picks up when both birth rate and death rate start to decline simultaneously. This may ease the population growth rate but create a vast force of aged population with it's never ending implications.

Lee (2003) aptly described the phenomenon of demographic transition *'first mortality and then fertility declined, causing population growth rates first to accelerate and then to slow again, moving toward low fertility, long life and an old population'*.

The demographic stage in which the country exists at the time of change is crucial in determining whether the population is ageing or not. Goldstein, J R (2009) stated this simply as the difference between 'Arrivals' and 'Departures'. Rise in population due to birth and migration is referred to as 'arrivals' and death and emigrants as 'departures'. At the mean age, if additional arrivals occur except births (which would always be at age zero) shall make population younger and any arrivals after the mean age will make it older. The departures will have reverse impact, with those departing before the mean age making population older and those after the mean age making remaining population younger (Goldstein, 2009).

The average age at death can make the population look older or younger; if it is greater than the average age of population it will lead to more number of older people in the society. The theory holds true only in short run, as in the long run every new arrival will not only grow old but has the potential of generating more new arrivals. Thus, problem of population ageing is not to be considered in the context of current age structure, rather it is the evolution of population over the years, which is important. The causes of ageing needs to be studied separately, particularly the impact of decline in mortality and fertility, even if both end up increasing the proportion of elderly (Lee, 2003). The fall in mortality rate actually improves the effective life and productivity of elders, whereas fertility decline compounds the aged population without a corresponding increase in productivity of individuals (Goldstein, 2009).

In other words either or both are possible reasons for the problem of ageing, (i.e., rising life expectancy and falling fertility). In fact, the causes of longevity in themselves are partially the solution to the problem of ageing. Better health facilities, sound hygiene, and adequate availability of food, water and shelter are prime reasons for a long and healthy life; these are also the bare minimum requirements in old age. Decline in the total fertility rate will shrink the proportion of labour force over a period of time. It would also increase the proportion of elderly without altering their life expectancy (Lee, 2003). Such a demographic change will not only disturb the potential support ratio (PSR), the ratio of working population to non-working elderly population but will also negatively affect the overall productive capacity of the nation. Population ageing due to decline in mortality improves the functional status of elderly, but it puts fiscal pressure on the government. It is for this reason, many experts feel that problem of ageing due to decline in mortality is largely curable (Lee, 2003). However, falling fertility in terms of its impact on population ageing and its burden is more troublesome. Ageing is influenced largely by the negative changes in fertility levels rather than changes in mortality rates (Mullan 2001). More generally, demographical changes takes place in such a manner, that old age population rises along with a decline in young population.

5.3.2 The Ageing World

The world is fast moving into the last stage of demographic transition, the stage of low birth rate and low death rate. The net addition to population may appear to be falling but the aggregate numbers over the earth are alarming (Bhatia, Hitesh 2009b). According to the revised estimates of UN's World Population Prospects, 2006 the population of the planet will touch 9.2 billion in 2050, a rise of 2.5 billion in next four decades. In last few decades the proportion of those living in the developing countries of Africa, Asia and Latin America has expanded from 68 percent to 80 percent; a billion plus India and China together add up to 37 percent of current world's population. These regional shifts of population are in favor of developing economies and shall continue till 2050. Ageing, unlike in developed countries has not become a serious problem in the developing countries as yet. According to the same projection, by 2026 India will have about 8% aged population which would increase to 21% by 2050. However it won't be wrong to comment that ageing will no longer remains a 'first world issue' considering the rise in number of older people in developing countries (Annan, Kofi 2002).

It would be interesting to note that during the period of 2006 to 2050 the percentage rise in population ageing will dramatically differ across the globe.

Table – 5.2

Percentage Change in Population Ageing 60 + (During 2006 To 2050)

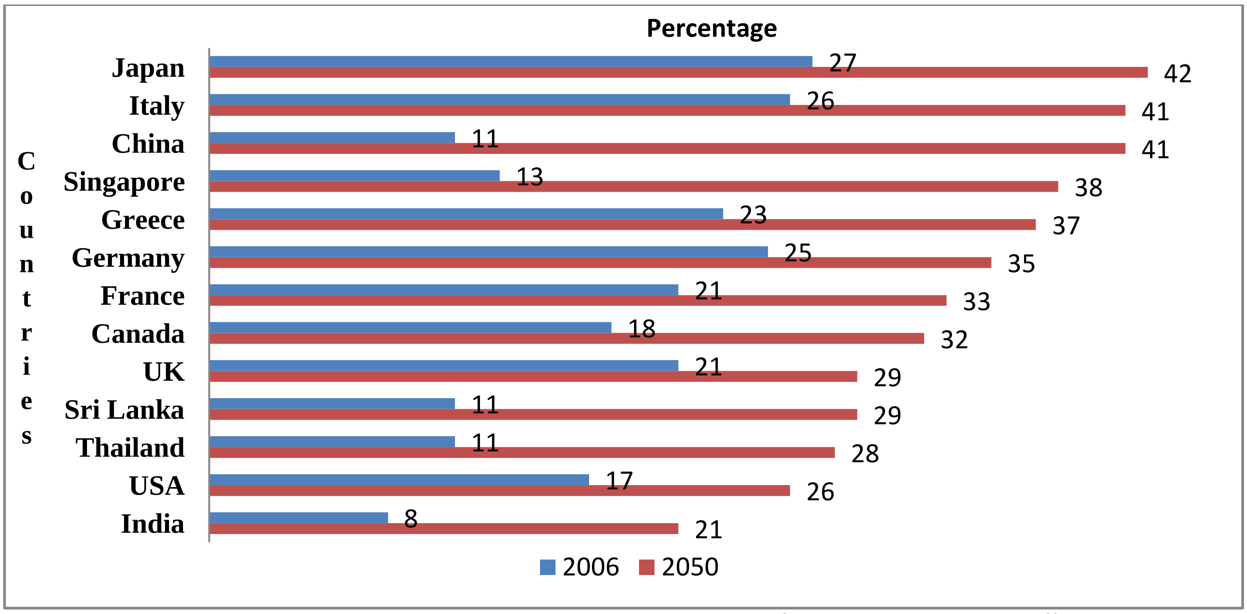
Regions/Country	% Change	Regions/Country	% Change
UAE	1313.39	Africa	89.21
China, Macao SAR [b]	275.43	New Zealand	76.13
Philippines	223.26	Canada	74.64
Malaysia	201.57	Zimbabwe	67.34
Singapore	196.92	USA	56.35
Rep of Korea	191.14	Japan	53.73
China	177.57	Germany	38.78
Brazil	176.83	United Kingdom	37.07
Sri Lanka	168.95	**More developed regions**	**58.62**
Pakistan	161.84	**Less developed regions**	**142.02**
India	157.71	**Least developed countries**	**93.69**
Nepal	142.96	**World**	**106.17**

Source: - World Population Prospects: The 2006 Revision, Department of Economic and Social Affairs, United Nattions.

The more developed regions will see 59% change in those with 60 years and above, which is much lower, compared to those in the less and least developed regions vis-à-vis world as a whole. UAE will see maximum change in its old age population from 2% in 2006 to 23% in 2050. At the same time countries like Japan and Germany are showing much smaller change in terms of growth of old age population. But these figures can be misleading as the actual rise of old age people in these countries is projected to be among the highest in the world.

Figure – 5.4

Country Wise Rise in Proportion of Old-Age (60+)



Source: World Population Prospects: The 2006 Revision, Department of Economic and Social Affairs, United Nations.

In most of the countries shown in figure 5.4 the population of those above 60 years will get nearly double by 2050 compared to the present rates. A few countries like Japan, Germany, Italy, China etc will be having 40% of their population aged 60 years and above. In addition 28 other countries will have 33% of their population above 60 years.

The proportion of people living in developed regions is estimated to fall from present 18 percent to 14 percent by 2050, while the population in developing regions will increase considerably. Nevertheless, such transitions are not uniform; different countries at different times and at different pace will pass or are passing through these changes. (Kalache, 'et.al, 2005) observed that *'industrialized countries became rich before they became old, while developing countries will become old before they become rich'.* Over the next few decades the number of elderly in America, European countries, and Japan will be more than double. At the same time, the proportion of productive labour to pay the elderly their pension and health care benefits will rise by less than 10 percent (NBER, 2003). Globally the number of elderly persons is expected to increase by three times, from 673 million in 2005 to 2 billion in 2050. This is largely due to the global life expectancy which increased from 58 years in 1970 to 67 years in 2005 and now is estimated to surpass 75 years by 2050. In developed regions the elderly will count 33 percent of total in 2050, a rise of 13 percent from present levels. Compared to this in developing regions the similar share will be of 20 percent, a jump of 12 percent from present levels. Among all, Europe will have the oldest population with median age is expected to rise from present 38 years to 49 years in 2050. India with about 8% aged population continue to reap the comparative advantage of having a young population. However this advantage is likely to fade over gradually by 2050 as India then will have over one fifth population as aged.

5.4 AGEING IN INDIA

In developing countries like India ageing has never been a serious subject of discussion. The more serious problems such as poverty and lack of nutrition, health care and shelter, unemployment, etc., have continued to trouble policy makers. Moreover, for ages, elderly people have enjoyed a reputable position in Indian society. Old age is considered as an age of wisdom, experience, knowledge and guidance to the younger generations. Elderly parents are not only respected but cared for by their kin with respect to their health and economic wellbeing. Care was never demanded, Elderly people commanded care in traditional Indian society (Rao, Madhav 2007). However, the last few decades have seen revolutionary change in the manner elderly people are being treated and cared for. The modernization of life has shattered the support system of elderly augmenting inequality, vulnerability, insecurity and deprivation of basic necessities. A. M. Warnes (1993) puts it correctly that ‘two types of burden of ageing’ are to be identified and separated- one which society bears including the fiscal burden of the government; and second, the burden which individual and their relatives bear.

In case of India too, Life expectancy at birth is expected to improve from a meager 38.7 years to robust 75.4 years during the period of hundred years from 1950 to 2050. At the same time total fertility rate is expected to fall from a high of 6 per female to exact replacement level of 2.1 per women during the same period.

The United Nations’ estimates points towards an ageing Indian demography in coming decades. The median age will see a gradual increase of about 15 years by the middle of current century. Likewise, the old age dependency ratio will go up from 8.1 percent to 22.6 percent during the same time. The potential support ratio at 4.4 in 2050 may look good when compared with the rest of the world but the age-child ratio (ageing index) at 105 is certainly not encouraging. This drift will demand a change in the manner resources are to be distributed between the generations.

Table – 5.3
Hundred Years of Population Growth in India (1911 To 2011)

Year	Population in Millions	Population Change in Million	Population Change in %	Avg Annual Growth Rate in %
1911	252	16	5.7	0.56
1921	251	-1	-0.3	-0.03
1931	279	28	11	1.04
1941	319	40	14.2	1.33
1951	361	42	13.3	1.25
1961	439	78	21.5	1.96
1971	548	109	24.8	2.2
1981	683	135	24.7	2.22
1991	844	161	23.5	2.16
2001	1027	183	21.3	1.97
2011	1210	183	17.6	1.64

Source: Census of India, Registrar General of India, GOI, New Delhi, 2011

A retrospective analysis of India's population growth and changes in Crude Birth and Death rate will be helpful in understanding the current phase of demographic transition for India (table-5.3).

Experts have divided India's population growth of over 120 years into four phases relating it with the theory of demographic transition. The first phase of stagnant growth was during 1891 to 1921, when India's population grew by just 15 million at an annual growth rate of 0.19%. The population growth during the period was controlled due to high death rate matching up to high birth rate of around 48 per thousand (table 5.3). India was in the first stage of demographic transition of high birth and death rate resulting into stagnant population during these 30 years.

The second phase of 1921 to 1951, yet again a period of 30 years is referred as the period of steady growth of population. The net addition to the population was about 110 million with an average annual growth rate of 1.22 percent. This marked the beginning of second stage of demographic transition of high birth rate and low death rate. During the period the death rate decreased from 36.3 to 27.4, almost by ten percentage points and the birth rate also decreased from 46.4 to 40, but remained far above the death rate.

India reached at the peak of third stage of demographic transition during the next 30 years that is 1951 to 1981.

Table – 5.4

Birth Rate, Death Rate and Life Expectancy in India (1911 To 2011)

Year	Birth Rate	Death Rate	Life Expectancy
1901-1910	49.2	42.6	22.9
1911-1920	48.1	47.2	20.1
1921-1930	46.4	36.3	26.8
1931-1940	45.2	31.2	31.8
1941-1950	39.9	27.4	32.1
1951-1960	41.7	22.8	41.3
1961-1970	41.2	19.0	45.6
1971-1980	37.2	15.0	51
1981-1990	32.53	11.25	57
1991-2000	27.73	9.21	61
2001-2010	22.5	7.9	64

Source: - Census of India, Registrar General of India, GOI, New Delhi, 2011

The third phase of India's population is termed as the phase of high growth of population. This period added 322 million people at a record annual growth of 2.15

percent, almost double of the growth of 1.22 percent in the previous phase. This phase is rightly marked as the phase of 'population explosion' witnessing the fall in the death rate from 22.8 to 15 compared to the birth rate which fell moderately from 41.7 to 37.2. The birth rate during this period was double than that of the death rate resulting in high growth of population.

The fourth stage of India's population growth started from 1981. It has been characterized as the stage of slowing down of high population growth. During this phase of 30 years the net addition to the population has been about 527 million, a 56% rise since 1981 at an annual average growth rate of 1.9%. The growth rate of population became mild first time since independence. The transformation from a high birth rate and high death rate to falling birth rate and low death rate has pushed the country into the fourth stage of demographic transition. Though the birth rate and death rate have continued to fall the gap between the two has remained large. The birth rate is almost more than three times the death rate posing a serious risk of ageing.

Table – 5.5
Percentage Distribution of India's Population in Age Groups (1911 To 2011)

Year	0-14	15-59	60+
1911	38.8	60.2	1
1921	39.2	59.6	1.2
1931	38.3	60.2	1.5
1961	41	53.3	5.7
1971	41.4	53.4	5.2
1981	39.7	54.1	6.2
1991	36.5	57.1	6.4
2001	35.4	57.7	6.9
2011	29.1	62.6	8.3
2016*	26.8	63.9	9.3
2021*	25.1	64.2	10.7
2026*	23.4	64.3	12.4

*Source: - Census of India, Registrar General of India, GOI, New Delhi, 2011, * Report of the technical group on population projections, May 2006*

Over a period of time the proportion of 60 years and above in the population has steadily increased. From as low as 1% in 1911 to 5.7% after independence and over 8% in 2011, the aged are forming a larger group in the country's overall population. The proportion of aged population is expected to be double during 2001 - 2026, from 6.9% to over 12%.

5.4.1 Aged Population in Indian States

Though in India the proportion of elderly in total population is quite less as compared to the developed country, this is due to the large size of the country's population. In absolute terms the number of elderly in total population is steadily increasing. The number of persons above 60 years of age was 24.7 million in 1961; this number increased by 72 per cent to 42.5 million in 1981. In 2001 it was 75.9 million, i.e. more than three times the size of the elderly population in 1961 (Census 2001). The number of older people has currently crossed 100 million (Census, 2011).

The National Commission on Population constituted a Technical Group for projecting population for the period of 2001 to 2026. The group submitted its report in May 2006 along with some serious observations. During the reference period, the report estimated that the proportion of population aged less than 15 years will decline from 35.4 to 23.4 percent and the proportion of population of 60 years and above will increase considerably from 6.9 to 12.4 percent. The old age population will be more than doubled from 71 million in 2001 to 173 million in 2026. These changes will take place due to fall in the fertility rate to 2 and crude birth rate from 23 in 2001 to 16 in 2026.

Table – 5.6
Population Projection Over 60 for the States of India (in %)

State	2001	2006	2011	2016	2021	2026
Andhra Pradesh	7.2	8	9.1	10.5	12.2	14.2
Assam	5.2	5.8	6.5	7.6	9.1	11
Bihar	5.5	6.3	7.2	8.2	9.5	11
Chhattisgarh	6.5	7.2	7.9	8.8	10	11.6
Gujarat	6.7	7.4	8.4	9.8	11.6	13.7
Haryana	7	7.2	7.6	8.4	9.7	11.4
Himachal Pradesh	8.8	9.4	10.3	11.5	12.9	14.7
Jharkhand	5	6	7.1	8.3	9.7	11.3
Karnataka	7.3	8.1	9.2	10.7	12.5	14.5
Kerala	10.6	11.2	12.3	14	16	18.3
Madhya Pradesh	6.2	6.7	7.1	7.8	8.9	10.4
Maharashtra	8.3	8.6	9	9.9	11.2	12.9
Orissa	7.8	8.3	9	10.1	11.8	13.8
Punjab	8.7	9.1	9.7	10.9	12.6	14.6
Rajasthan	6	6.7	7.3	8.2	9.4	10.8
Tamil Nadu	9	10	11.2	12.9	14.8	17.1
Uttar Pradesh	7.3	7.9	8.5	9.3	10.4	11.7
West Bengal	6.6	7.5	8.5	10	11.9	14.2
India	**6.9**	**7.5**	**8.3**	**9.3**	**10.7**	**12.4**

Source: - Report of the technical group on population projections, May 2006

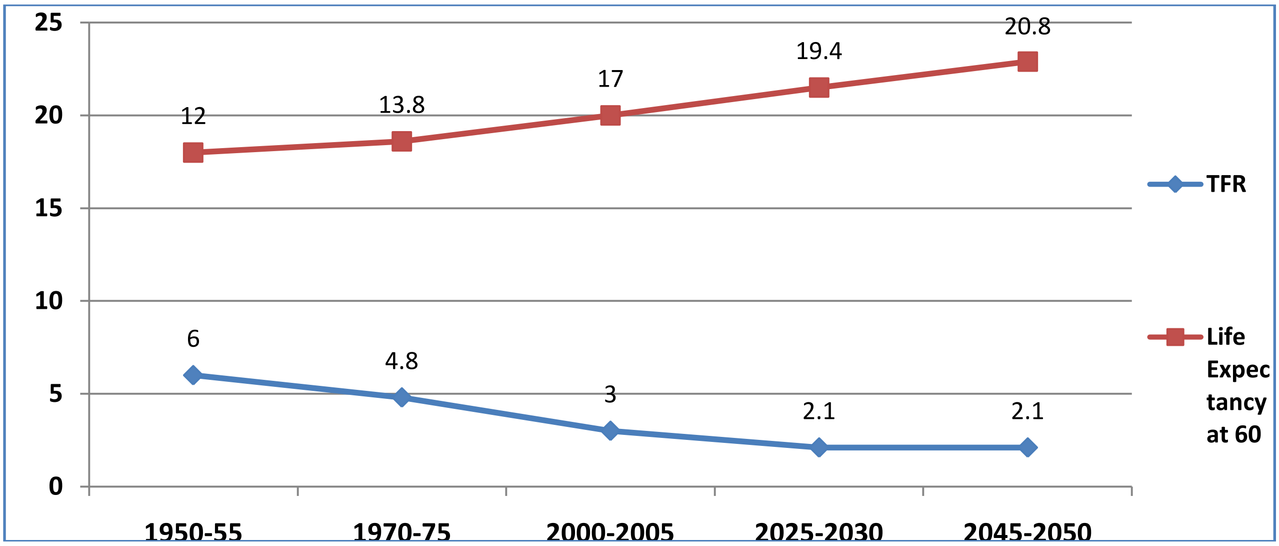
The changes in TFR and life expectancy will have serious impact on the old age population in different states. Kerala with high level human development has already lowered the fertility and mortality rates and achieved high life expectancy. Among Indian states Kerala will have the highest proportion of old age population of around 18%, with second highest being Tamil Nadu at 17% and followed by Himachal Pradesh, Punjab, Karnataka and West Bengal with 14% old age population by 2026. Even states of Assam, Bihar, Gujarat and Orissa will double their proportion of old age people to over 11% of total population, by the year 2026.

5.5 DETERMINANTS OF AGEING

As stated earlier the process of population ageing is mainly determined by changes in fertility rates, mortality rates and life expectancy. It is worth noting that fertility rates and life expectancy are inversely related. Falling fertility and rising life expectancy will add up larger number of older people to total population. Both these determinants are principally affected by improvement in health care systems in the country. The third determinant, that is, mortality rate has already declined in most of the developed and developing countries indicating higher longevity.

Figure – 5.5

Total Fertility Rate and Life Expectancy at 60 Years of age – India 1950-2050



Source: Census of India, various reports for 1950 to 2005, United Nations report on World Population Ageing 2006, for 2025 to 2050.

The trend clearly indicates that not only more people will be living up to old age but they will tend to live longer thereafter. Life expectancy at old age is increasing fast. According to United Nations estimate people who would reach age of 60 can expect to live another 22 years on an average in developed countries and 15 years in less developed countries.

5.5.1 Total Fertility Rate (TFR)

Total Fertility Rate (TFR) refers to average number of children a woman could bear over her reproductive age-band, normally between 15 to 49 years. Having experienced the baby-boom in the decades of 1950s and 1960s, the fertility rates in developed countries declined sharply towards the end of 20th century. The average fertility rates in developed regions declined from 2.8 in post 1970s to 1.5 (below replacement level of 2.1).

Countries like Canada, Japan, Singapore, France and many other countries in Europe have already started relaxed immigration policies to meet the demand of skilled labour force. These countries are currently witnessing TFR levels below 2. At the same time the emerging economies Like India, Brazil, Korea, and Mexico along with USA have reached the replacement level of TFR 2.1.

In case of India the mortality rates have already declined to less than 10. Thus, it is the falling fertility rate which will be playing a crucial role in speeding the process of ageing. India’s ageing process is faster compared to other emerging economies due to improvement in life expectancy at all ages. This will allow more people to survive for longer years (Rajan, Irudaya, 2007). India has brought down the TFR level from 6 in 1950 to around 3 currently and is expected to reduce the same to 2.1 by 2050 (United Nation, 2009). According to Census of India, 2001 projections the TFR is expected to reach the replacement level of 2.1 by 2021 itself and will further fall to below 2 thereafter. Many states including Kerala, Himachal Pradesh, Andhra Pradesh and Maharashtra have already reached the replacement level of 2.1 much before 2001 and are expected to witness TFR below 1.8 by 2025.

Rise in minimum marriage age in most of the developed regions along with the changing dynamics of social relationship, modern life style, popularity of nuclear family and awareness about the difficulties of raring a child etc. have contributed towards lower fertility rates.

Table – 5.7
Selected Demographic Indicators for India - I

Indicator/Year	2001-05	2006-10	2011-15	2016-20	2021-25
Population Growth Rate	1.6	1.4	1.3	1.1	0.9
Crude Birth Rate	23.2	21.3	19.6	18	16
Crude Death Rate	7.5	7.3	7.2	7.1	7.2
Total Fertility Rate	2.9	2.6	2.3	2.2	2
Life Expectancy for Males	63.8	65.8	67.3	68.8	69.8
Life Expectancy for Females	66.1	68.1	69.6	71.1	72.3
	2000-05	**2025-30**	**2045-50**		
Life Expectancy at age of 60*	17	19.4	20.8		

*Source: - Report of the technical group on population projections, May 2006, * UN's Population Division, DESA, 2006*

5.5.2 Life Expectancy

Due to development in health care facilities and advancement in nutritional level it has become possible to control several life threatening diseases. The life expectancy at all ages has increased remarkably due to this. Life expectancy refers to average number of years of life a person is expected to live at a particular age. In common practice life expectancy is calculated at birth and at age 60. The latter is used as one of the primary determinants for determining the ageing population in a country.

By 2050, all over the world life expectancy at age 60 is expected to increase by over 13 percent since 2005, i.e. from 19.7 years to 22.4 years. Japan with life expectancy of 86 years will be the country with highest life expectancy at the age 60, followed by European countries and even Singapore and China. The case of India is no different. Over a period of time the life expectancy has increased due to several factors including education and awareness among people. At 60 years, currently people are expected to live 17 more years; this will further increase to over 20 years by 2050. The estimates of census of India, 2001 suggests that life expectancy at 60 is the highest for Punjab at 20 years, followed by Kerala and Haryana at 19. Increased life expectancy at 60 years suggests high proportion of elderly population in the country in the years to come.

5.5.3 The Median Age

It classifies the country's population in two equal parts; one indicates half of the country's population which is older than (median) age, compared to other half that is younger. According to the revised estimates of United Nations report on World

Population Ageing (2009) currently half of the world population is less than 28 years and it is estimated that by 2050 the median age for the world as a whole will increase by 10 years. The developed regions are expected to see the median age rising by more than 13 years compared to less developed regions and, more than 20 years compared to the least developed regions[1]. Even in the less developed regions the median age is rising fast pushing the population towards higher age groups. The overall median age of developed regions, less developed regions and least developed regions will be 46 years, 37 years and 29 years respectively. Among the countries, Spain will witness highest median age of 55 years followed by Italy at 54 and Japan at 53.Thirteen other countries including China, Singapore and others from Europe will witness more than fifty percent of population above 50 years of age by 2050. On the other extreme, nearly nine countries mostly from Africa will be having lowest median age of 25 years.

At 38 years of median age in 2050, India will be one of the major economies having the median age lower than that of the world, though India's median age would increase by over 13 years from the current level of 25 years (Table-5.8). According to the estimate of Census of India (2001) the median age of the country by 2026 will be 31 years. Twelve major states including Kerala, Tamil Nadu, Punjab, Karnataka, Gujarat Maharashtra and others will have median age over 33 years by 2026. Uttar Pradesh will have the lowest median age of 26 years and 9 other states will have median age lower than the national average.

Table – 5.8
Selected Demographic Indicators for India – II

Indices	1950	1975	2000	2025	2050
Population 60 and above	5.6	6.2	7.6	12.5	20.6
Population 15-59	55.46	54.00	58.89	64.30	59.71
Life Expectancy at Birth	38.7	52.9	64.2	71.6	75.4
Median Age	20.4	20	23.7	31.3	38
Ageing Index	14.4	15.6	22.7	53.6	105
Total Fertility Rate	6	4.8	3	2.1	2.1
Old age dependency ratio	5.8	6.8	8.1	12.1	22.6
Potential Support ratio	17.2	14.7	12.4	8.2	4.4

Source: - UN's Population Division, DESA, 2006

[1] The developed, less developed and least developed regions are classified as per the United Nations Population Division.

5.5.4 Ageing Index

Another measure of ageing population is the Ageing Index, also known as Adult-Child Ratio. This demographic indicator also hints towards serious transitional crisis building up in the present century. Ageing Index[1], estimated as the number of persons aged 60+ years over per hundred persons under 15. For example if ageing index for any country is 55, it means that there are 55 people above the age of 60 for every 100 people less than 15 years of age.

Till the beginning of current century only a few countries like Japan, Germany, Greece and Italy had ageing index above 100, i.e. more aged people than young. However by the middle of the century the ageing index for all developed countries will be above 200, in some cases like Japan and Europe it would be above 300! This means on an average 3 people aged 60+ per child aged less than 15 years. Though the ageing index for developing countries is much less compared to the developed countries, the comparative rise is much greater in developing countries.

India on the other hand will have comparatively a healthier figure of an ageing index just over 100 by 2050. However, the rate of increase in ageing index in India has been quite alarming from 14 in 1950, to 22.7 in 2000 (Table-5.8).. In another fifty years, the ageing index is expected to increase over three times indicating a serious problem of ageing in India.

5.6 SOCIAL BURDEN OF AGEING

The implications of ageing will be serious in nature more significantly from a social point of view. The shift of population towards an older age structure will prove to be burdensome for the family and society as a whole. It will also create political pressure to allocate higher resources for the older age group over the younger age group, thus giving rise to inter-generational conflict (Walker, 1990; Jackson, 1998). This is because the socio-economic support for the aged will have to be increased and will largely be financed by the shrinking working age population. Two indicators useful in determining the social burden of ageing population are Total Dependency Ratio and Potential Support Ratio.

[1] Ageing Index = ([65+/0-15]*100)

5.7.1 **The Old-Age Dependency Ratio**

Dependency ratio is the most popular way of identifying the burden of population ageing. Two distinct groups of people are considered to be dependent- those below 15 years and those above 60 (or 65) years[1]. Those in the middle age group are considered as the productive ones. Both the groups (young and old) are highly dependent upon relatively small group of productive population. The ratio of dependent population to that of productive population is defined as dependency ratio. The dependency ratio will always be on a higher side as not all in the productive population are actually working.

The young age dependency ratio is defined as the ratio of those less than 15 to those between 15 to 64 years expressed per 100 people[2] is not that of a great concern like the old age dependency ratio. The old age dependency ratio defined as the ratio of old to productive or working age population. It refers to the number of persons 65 years and over to those between 15 to 64 years expressed per one hundred persons[3]. The rising old-age dependency ratio is a matter of concern; it will increase the cost on the productive age group to finance the living of those who are economically dependent. Around the world governments are concerned about the challenges for supporting the population that is potentially more dependent (Uhlenberg, 2009). The 'pay as you go' method of pension payments is largely affected by changes in the dependency ratios. The government needs to take care that the tax collected from the small group of working population must be sufficient to finance the pensions and other social security payments of the dependents. However the dependency ratio is just an approximate indicator as not all elderly people are economically dependents and for sure not all adults are productive and financing the living of their parents.

Presently the younger population accounts for a major share in total dependents around the world. Over the years due to falling fertility rates and mounting life expectancy, the balance between young and old population will change inversely. According to the report of United Nations population division the old-age group forms about 20 percent of the world's total dependency ratio; this is likely to get double at 43 percent by 2050. Similar ratios for developed regions of the world (where already the proportion of old-age population is significantly higher) are

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[1] United Nations refers population over 65 years of age as dependents, while Census of India refers population over 60 years as dependent.
[2] Young age dependency ratio = ([0-14/15-64]*100)
[3] Old age dependency ratio = ([65+/15-64]*100)

expected to get worse in comparison to the less developed regions. In Africa the ratio of persons aged above 65 years to working age population is estimated to grow from 6 per hundred in 2000 to 11 per hundred in 2050. In Asia, Latin America and the Caribbean the ratio is expected to change from 9 to 26. Similarly in Northern America old age dependency ratio will increase from 19 to 35 and in Europe from 22 to 51. On the whole the old-age dependency ratio will roughly double, and in some countries become more than three times (Population Division, DESA, UN, 2008).

Presently Japan has a higher old age dependency ratio of 34 old persons per 100 productive persons, followed by Italy and Germany at 31. By 2050, 18 countries will have old-age dependency rate of over 50. Most of these will be in Europe. Japan at 74 will continue to remain with very high old age dependency ratio, followed by China, Korea and Italy. These estimates clearly suggest that in the next three to four decades the proportion of working age population will be substantially less than those of 65 and above increasing socio-economic burden of these countries.

In case of India, the total dependency ratio has shown a falling trend from over 73 in 1950 to 46 in 2025, but is expected to rise thereafter to 52 by 2050. However the old age dependency ratio will continue to rise during this period from 5.8 in 1950 to 22.6 by 2050. It will take just 25 years (2025 to 2050) for the old age dependency ratio to get double.

Table – 5.9

Trends in Dependency Ratio's and Potential Support Ratio (India)

	1950	1975	2000	2025	2050
Total Dependency Ratio	73.2	77.4	62.5	46.1	52.6
Old Age Dependency Ratio	5.8	6.8	8.1	12.1	22.6
Potential Support Ratio	17.2	14.7	12.4	8.2	4.4

Source: - UN's Population Division, DESA, 2006

5.7.2 Potential Support Ratio (PSR)

An alternative method to estimate the burden of rising old-age people is Potential Support Ratio (PSR). It is defined as the number of persons aged between 15 to 64 years over per person aged 65 years or more. Falling PSR is also an important indicator of population ageing. PSR is inversely related to old age dependency ratio, a decrease in PSR implies a rise in the old age dependency ratio. The cost to be incurred on supporting old age people is much higher than that of supporting young population. Thus falling PSR is a matter of concern as it indicates that less number of people will be supporting relatively large number of elderly people by financing their health, pensions and other social security expenses. The government may impose additional taxes or mandatory contributions on the productive age group for financing old age benefits (Baldacci and Lugaresi, 1997).

By 2050, the average number of working person for every 65 years and above is estimated to be 4.1 globally, a fall of 56 percent from 2000. These figures are worse for developed regions compared to those in underdeveloped regions. By and large the developed countries will have 2.2 working persons for every elderly, a fall of 55 percent since 2000. Similar figures for less and least developed regions are 4.6 (fall of 63%) and 10.2 (fall of 41%) respectively. Country wise these numbers look more perilous. In Italy, Japan and Spain 1.5 people will have to finance the living of every 65 and above years of elderly. PSR will fall under two for entire Europe, under three for Northern America, under four for Asia, Latin America and Caribbean. Furthermore 114 countries will have PSR below five.

In case of India though the PSR stands at a comfortable position in comparison to other developed economies, however the rate at which it is reducing is a matter of concern. The potential support ratio for India has fallen by around 25% from 1950 to 2000. It is expected to fall by 33 % between the next 25 years from 2000 to 2025 and by nearly 50% in the next 25 year period till 2050 (Table-5.8).. Thus the pressure over the working age population is about to increase as every elderly will be financed by more than four working age people.

5.7 AGEING – A WINDOW OF OPPORTUNITY

Population ageing poses imperative challenges to the countries, particularly those related to the sustainability of pension systems, the provision of adequate healthcare, and the integration of older people towards overall economic development. However at the same time, in countries with young and growing workforce, mainly those in the developing world, there exists a window of opportunity for higher economic growth (World Economic and Social Survey, 2007). India for now is enjoying its demographic dividend and will continue to do so for a couple of more decades (Kapila, Uma 2009). With fertility rate falling to 2.6 and the working age group population increasing to over 65% (CIA, World Fact Book, 2010), India will have less dependents both in the age group of less than 15 years and above 60 years. This will provide India with a special window of opportunities for business, investment, human development and faster rate of economic growth during the next few decades. To reap the fruits of demographic transition, India needs to raise its investment in health, education and physical infrastructure. This will not only raise the productivity levels but will also make the country more competitive in international markets.

One doesn't need to run a complex demand estimation model to know the basic needs of elderly. As compared to young people, the elderly persons are likely to spend more on housing, health, medical, recreational, physical support systems, safety *and* security items, energy, etc (Bhatia, Hitesh 2009). The growth of old-age is relatively higher than the total average growth rate of population across all the regions of the world irrespective of their level of development. The 60 plus population is growing at an alarming rate of 2.6 % per annum which is far more than the overall growth rate of population at 1.2%. Such a mammoth growth of old-age population will require dramatic socio-economic adjustments in both ageing and young economies. The former will require more goods and services for the older people and, the latter will have the profitable opportunities to produce and supply the same.

It is a well researched matter that the pattern of consumer spending changes significantly over the lifecycle (Fernandez, Jesus & Dirk Krueger, 2002). Similarly ageing also affects the national demand and supply structure of goods and services (Luhrmann, Mmelanie, 2005).

Figure – 5.6
Common Goods and Services Demanded by Elderly

Goods Demanded by Elderly	Services Demanded by Elderly
Easy to wear clothes and accessories	Happy homes
Comfortable Furniture and fixtures	Affordable Hospitals and medical homes
Simple to use gadgets and electronic goods like remote controls	Massage parlors, saloons
Medical goods like walking sticks dentures, hearing machine and spectacles	Recreational centers
Fitness products like wheel chairs, jogging suits and walkers	Life insurance and health insurance
News papers and Books on various issues	Home to Banking services
Affordable and comfortable houses	Religious and spiritual Places
Local shops and supply of basic necessities	Affordable public transport
Home security equipments like alarms and door cameras	Timely Services of Nursing, security guards, aids
Diabetes, BP and other Health monitoring machines	Community halls, parks and places for evening get-together

Compiled from : http://www.seniorshops.com.

It is apparent that the share of health expenditure in total expenditure of an individual, family and the nation will increase substantially due to rising life expectancy. Also the demand for health care products would rise accordingly. At the same time furniture, vehicles, education, fast food, sports equipments and some other durable goods will find few takers in ageing economies.

Moreover ageing economies will also witness a huge demand for unorganized small retail outlets down the lane. This will create employment opportunities in rural areas and in small towns. A small make shift shop-like arrangement can provide adequate supply for the aged in those areas. As age restricts mobility, people will demand simple and basic goods which can be available at their arms length.

A large and growing proportion of old age population is living alone in developed countries. This would further get shoddier by 2050. With so many people living alone at the age of 60+ a new category of demand pattern will emerge. Goods like home security systems will become a must for such category of population. New market for services will come up in the field of nursing, security guards, parks and places for evening get-together, massage parlors, etc. The culture of being single is largely prevalent in more developed economies where around 22% of population is living alone irrespective of gender. Compared to this, only 7% and 6% of elderly population respectively in less and least developed regions are presently living alone.

According to the U.S. Bureau of Labour Statistics, the ageing-services industry comprising home, healthcare, elderly and disabled services and community care facilities for the elderly, is already the 3rd largest industry among top 10 industries with the fastest growth possibilities. The more developed regions of Europe, Germany, Japan, China SAR, Italy, France, USA, etc., are going to face acute shortages of young and productive labour force to stabilize their economic growth and ensure adequate production of required goods and services.

A country like India, can take enormous opportunities by not only exporting goods and services demanded (figure 5.6), but also by allowing easy migration of both skilled and unskilled labour to meet the labour market deficiency in those countries. India is known worldwide to have the best pool of talented and skilled personnel. It consists of largest number of English speaking people in the world, as a result majority of immigrants are destined to the developed counties (Khadria, Binod 2006). English being the ‘World’s business language’, India will stand out above all other industrially developed economies like China, Germany, France, Russia and others.

By even some modest prophecy India would remain one of the most productive nations by 2050. With 20% of population above sixty years and a colossal 60% of population in the age bracket of 15-59 years, India for certain is going to reap the advantage of being the most productive nation. Life expectancy will improve to above 75 years and 19% of population at the age of 60 years will remain actively involved in the labour force. India is already recognized as the low cost producer for most of the goods and services in the world. The time is not far when India will also be known for gigantic production quantities. By some estimates India is already the 2nd largest producer of small cars, auto parts, pharmaceuticals and largest producer of steel. India is also known as 'world's back-office' with about 44% of global IT and BPO offshore work is done in India (Mohan Ram, Alfred Toma & William Roe, 2006)

India is the second largest growing economy after China today. The World has already witnessed India's economic strength in the recent global slowdown. India is going to witness a favorable demographic change in the coming decades. The present competitor China would be having ageing profile similar to the western counterparts. China's one child policy would aggravate the state of ageing by 2050 (Science Daily, 2007). It will witness just 50% of its population in the age bracket of 15-59, which would be 17% less than the present proportion.

India on the other hand will have a pool of skilled and trained manpower. Higher economic efficiency and fiscal sustainability will result in greater utilization of world's resources. Also India's strong public and private sector along with its fundamentally stable government will support in realizing its demographic dividend. However India does have its due share of demographic and other challenges like vast unemployment, mass poverty, low human development, inadequate infrastructure, illiteracy, etc. It is a matter of further research and debate that how India overcomes these limitations (Bhatia, Hitesh 2011, 2012a).

Some other emerging economies will also continue to enjoy demographic advantages. Countries from Latin America and Africa will also have large population in the productive age group. *'But their demographic dividends may be inhibited by political and social instability that impedes efforts to put this young population to productive use; a country with massive numbers of unemployed young people and no constructive economic outlet for their dynamism is headed for trouble' (Strategy +Business, 2010).*

5.8 NEED OF SOCIAL SECURITY FOR THE AGED

The United Nations General Assembly through its resolution 45-106, dated 14th December 1990, designated October 1st as the International Day of Older Persons. It draws attention of various sections of the society towards the elderly; it also evokes sympathy and concern towards the elderly. However, all such efforts are insufficient to mitigate the problems of aged population, unless any honest attempts are made to provide comprehensive social security to them. Unfortunately the phenomena of ageing has failed to attract specific policies and programs targeting the productive well being of older people across the developing countries. An explicit policy focusing on the problem of ageing in developing countries should be able to uphold the minimum human rights of older people, provide adequate resources for their economic security and health care, and promote their contributions towards the society and economy at large. The Government of India executed National Policy on Older Persons (NPOP) in 1999 under the Ministry of Social Justice and Empowerment. The policy guides the state governments to take desired steps for the welfare of old people by providing basic facilities at concessional rates.

The difference between the problem of ageing in developed and developing countries (like India) lies in the fact that in the developing countries the aged people are large in numbers, much poorer, illiterate and dependent for socio-economic needs as compared to those in developed countries. The security of elderly people living with their children in a joint family depends upon the families' economic condition. To a large extent aged people remain protected under the umbrella of a joint family. The problem becomes grave for those living alone. Preference for nuclear families, migration to developed areas, high cost of living & health care, deterioration of customs and value system are largely responsible for isolation of elderly in our society.

A close study of Indian states adds more dimensions to the problem of ageing. Not only do some states have large proportion of people above 60 years (Kerala, Tamil Nadu etc.), majority of people, are engaged in unorganized sector (Table 5.10). Further, a sizeable proportion of the population lives below poverty line. Though current estimates for poverty among elderly are not available, the overall poverty ratio released by planning commission based on the Tendulkar Committee recommendations (2012) suggest that millions of those poor are aged and living largely in rural areas.

Table – 5.10
Intensity of Ageing in Indian States

States/Indicator	Proportion of Elderly to Total Population (1)		Old-Age Dependency Ratio (2)		Proportion of Poor (3)		Proportion of Unorganized Workers (4)
	2006	**2011**	**2006**	**2011**	**2004-05**	**2009-10**	**2004-05**
Andhra Pradesh	8	9.1	126	138	29.6	21.1	94
Assam	5.8	6.5	95	102	34.4	37.9	90.2
Bihar	6.3	7.2	114	122	54.4	53.5	97.5
Chhattisgarhi	7.2	7.9	122	129	49.4	48.7	95.2
Gujarat	7.4	8.4	118	130	31.6	23	91.6
Haryana	7.2	7.6	118	119	24.1	20.1	90.2
Himachal Pradesh	9.4	10.3	149	158	22.9	9.5	90.2
Jharkhand	6	7.1	102	114	45.3	39.1	94
Karnataka	8.1	9.2	127	141	33.3	23.6	91.9
Kerala	11.2	12.3	173	189	19.6	12	81.3
Madhya Pradesh	6.7	7.1	116	118	48.6	36.7	94.8
Maharashtra	8.6	9	137	140	38.2	24.5	89.6
Orissa	8.3	9	134	140	57.2	37	94.5
Punjab	9.1	9.7	144	149	20.9	15.9	90.9
Rajasthan	6.7	7.3	117	122	34.4	24.8	95.2
Tamil Nadu	10	11.2	152	170	29.4	17.1	89.9
Uttar Pradesh	7.9	8.5	133	139	40.9	37.7	95.8
West Bengal	7.5	8.5	118	129	34.2	26.7	91.2

Source: - (columns1&2) *Report of the technical group on population projections, May 2006, (column3) Planning Commission's Estimate 2012 (based on Tendulkar Committee Report), (column4) NCEUS, 2007*

Another dimension to the ageing population is regarding the share of elderly female, which has increased faster than that of elderly male. The demographic situation of aged clearly indicates high vulnerability among females. Their proportion in total population is higher, mostly living in rural areas with higher life expectancy and less participation in economic activity. It has been estimated that life expectancy at 60 years of age is 16.7 years for males and 19 years for females (Situation Analysis of The Elderly in India, 2011). This indicates that females will live longer with poverty, poor health and illiteracy. Their dependency over others will be critical especially in absence of any gender specific social security policy.

The similar disparity is observed in the case of rural and urban areas. Approximately 75% of the aged population lives in rural areas as per the report of situation analysis of elderly, 2011. The literacy rate among elderly is expected to be much lower compared to the overall rate of 82% for male and 65.5% among female (Census, 2011). High illiteracy among ageing population is a cause of concern, because of its wider implications. Difficulty in reading leads to lack of understanding of primary health care information and this compels the aged more dependent on others.

5.9 CHALLENGES OF OLD AGE SECURITY

The challenge for social security provisions for the old-age population has three important dimensions- providing economic securities, health care and very importantly a favorable social environment.

5.9.1 Economic Security

Regular and adequate income in the old age has remained one of the key concerns of most of the people during their prime age. Pension system is the most popular method of old age security. Regular monthly pension based on the contributions made during the working age either through provident funds or insurance schemes provide a minimum guaranteed amount to the elderly. In India majority of workforce occupied in unorganized sector facing income uncertainty and negligible social security to fall back upon during post retirement period has augmented their worries. This will require public and private investments in framing various social insurance schemes largely contributory in nature. Contrary to popular belief that the aged are liabilities and they are the net consumers in the economy, the people in the old age groups have been found to be active agents of economy. Besides providing a consumption market for several age- related goods and services, the aged with sound economic security are taxpayers too. On social front they are caretakers of house and children particularly when both the parents are working.

A person is said to be economically independent when he or she is able to satisfy his or her basic wants independently without depending upon others. Table 5.11 shows that over 30% of males and 70% of elderly females in both rural and urban areas are fully dependent upon others. Over 8 major states have dependents much above the national average.

Table – 5.11
Distribution of Aged Population by Economic Independence (In %)

		Male		Female	
State/Country	**Region**	**Partially dependent on others**	**Fully dependent on others**	**Partially dependent on others**	**Fully dependent on others**
Andhra Pradesh	**Rural**	11	39	11	73
	Urban	10	33	9	65
Assam	**Rural**	24	28	5	81
	Urban	15	29	3	67
Bihar	**Rural**	16	25	12	70
	Urban	12	38	7	73
Gujarat	**Rural**	15	35	10	77
	Urban	11	36	9	78
Haryana	**Rural**	38	24	43	44
	Urban	20	31	29	50
Himachal Pradesh	**Rural**	18	22	15	64
	Urban	8	20	14	55
Karnataka	**Rural**	14	32	11	73
	Urban	10	35	7	79
Kerala	**Rural**	20	43	18	70
	Urban	18	35	16	64
Madhya Pradesh	**Rural**	11	30	12	70
	Urban	7	28	12	67
Maharashtra	**Rural**	17	34	13	68
	Urban	20	29	7	74
Orissa	**Rural**	21	32	12	77
	Urban	15	33	10	80
Punjab	**Rural**	17	36	19	71
	Urban	14	34	6	81
Rajasthan	**Rural**	15	38	13	78
	Urban	14	31	8	79
Tamil Nadu	**Rural**	16	36	17	64
	Urban	14	32	12	69
Utter Pradesh	**Rural**	10	28	8	77
	Urban	10	29	8	77
West Bengal	**Rural**	18	33	8	82
	Urban	10	23	8	72
India	**Rural**	15	32	12	72
	Urban	13	30	9	72

Source: Situation Analysis o f the Elderly in India, 2011

Self dependent elderly reduce the burden on productive age groups to a large extent, as they can be self sustaining with respect to their necessary expenditures. Similarly, regular pension income of elderly will allow the young members of the family to fall back upon it during recessions and economic downturns. Thus, pensions should be considered not only as an economic security it could be a major source of support of household during the times of financial crisis in the family.

Table – 5.12
Disbursement of Pension under IGNOAPS[1] 2009-10

States/Indicator	Minimum age of eligibility (in years)	Amount of pension provided as Central Assistance (in Rs)	Contribution of State Government per pensioner per month (in Rs)	NO. of beneficiaries receiving pension (in Lakhs)
Andhra Pradesh	65	200	Nil	9,19,230
Assam	65	200	50	6,28,949
Bihar	60	200	Nil	21,92,357
Chhattisgarh	60	200	100	5,09,843
Gujarat	60	200	200	2,11,057
Haryana	60	200	500	1,30,306
Himachal Pradesh	60	200	130	85,637
Jharkhand	60	200	200	6,43,000
Karnataka	65	200	200	8,34,405
Kerala	65	200	50	1,76,064
Madhya Pradesh	60	200	75	10,66,051
Maharashtra	65	200	300	10,24,364
Orissa	65	200	Nil	6,43,400
Punjab	65	200	250	1,59,292
Rajasthan	60	200	200	5,28,322
Tamil Nadu	60	200	200	9,04,759
Uttar Pradesh	60	200	100	33,00,260
West Bengal	60	200	200	11,91,716

Source: - Annual Report 2009-10, Ministry of Social Justice & Empowerment

National Old Age Pension Scheme known as Indira Gandhi National Old Age Pension Scheme (IGNOAPS) has been launched since September 2007. It is financed by central government along with some contribution from the state governments. The old and poor members of the society who are deprived of financial support either from their own sources or from family members are eligible under this scheme to get a pension of Rs 200/- per month. The beneficiaries of the scheme must be identified by the state governments either from rural or urban areas, aged above 60 years and notified as BPL (Below poverty line).

Adequate pension provision for old age and consequential fiscal burden to meet the requirement of growing aged population in the country will become a crucial policy

[1] Indira Gandhi National Old Age Pension Scheme

matter in times to come. Even the families with older people will have to deal with the economic problems arising due to longevity. Elderly parents will soon have fewer children to depend upon, situation poor families will find more difficult to handle. The nature of employment in unorganized sector and low income employment opportunities will further aggravate the problem (Alam, 2006).

5.9.2 Health Care

Low income and high cost of health care will make life worse for the elderly. Along with maintaining adequate income levels it is essential to provide for adequate health care benefits to the aged either on public account or at subsidized rate. Medical and health insurance schemes play a significant role in providing the required income support in meeting health expenditure. In absence of adequate resources for financing health care the aged have to counter additional adversities. Both, lack of income and basic health facilities further make the elderly more prone to chronic diseases, physical disabilities and mental distress. Globally over 46% of old age people continue to live with chronic disability. The major disabilities and health problems among elderly include arthritis, visual impairment, hearing loss, heart disease, depression, etc., (WHO, 2011). The problem of inadequate health care facilities is acute in case of elderly in rural areas. For them travelling to urban health care centers is not only difficult but also a costly affair. The health care benefits for elderly needs to be multidimensional, starting from preventive health care facilities through primary health centers to curative and restorative services through public private partnerships and further to rehabilitative services (National Policy on Senior Citizens, 2011).

National Program for Health Care of Elderly (NPHCE) was launched by the Ministry of Health and Family Welfare in 2010 with the objective of providing various preventive, curative and rehabilitative services to the elderly people in the country. The scheme is initially being launched in 100 districts across 21 states and is financed by the central government under 11th Five Year Plan. Rs 400 crores have been proposed for the program under the 11th Five Year Plan, out of which Rs 41.16 crores were allocated during 2010-11 and Rs 75 crores during 2011-12.

5.9.3 Social Environment

In addition to low income and lack of health care benefits, the elderly face a great degree of discrimination, violence and abuse in the society. Protecting basic human rights of elderly and providing them a contented social environment is yet another objective of social security for old age people. United Nation's Madrid International Plan of Action on Ageing, 2008 has observed that contribution of older persons to the society is beyond economic terms. The elderly people play significant role as experienced consultants, ready source of knowledge, mediators, volunteers, caretakers and cultural guardians.

The social deprivation of elderly needs to be eradicated. Declaring them as a valuable resource of the society and creating an environment that offers them equal opportunities in production and consumption, will ensure their respect and rights and will allow them to live with dignity. The state can bring an ideological change in the society towards the manner in which old people should be treated.

NSSO survey on the condition of ageing, 2004 has observed that only 40% of the total old age females are married and live with their spouses; the rest are widowed or single making them dependent on their children or relatives. This highlights the issue of reasonable housing conditions for elderly. Not only adequate housing facilities but its location, design and structures should ensure safety and security of elderly. The condition of housing can be improved with dedicated approach towards building old age homes and day care centers for destitute elders. Stern changes in the laws have to be brought in for controlling abuse and crimes against elderly. The National Policy on Senior Citizen, 2011 has assured that adequate provisions will be made for stringent punishments for elderly abuse. Besides, police, self help groups, community groups and society associations will be required to play a larger role in protecting urban elderly especially those living alone.

Integrated Program for Older Person (IPOP)[1] a Central Government Scheme executed under the Ministry of Social Justice and Empowerment works for the improvement of the quality of life of the older people. The scheme provides basic facilities of shelter, food, health care etc. to the elderly by integrating various NGOs, Panchayati Raj institutions, local bodies and the society at large. However about 90% of the cost will be incurred by the central government and rest will be shared by the institution concerned. The IPOP provides benefits under the schemes of maintenance of Old Age Homes, Day Care Units, Mobile Medicare Units and Maintenance of Respite Care Homes and Continuous Care Homes among others.

[1] IPOP was launched in 1992 and revised in 2008.

Table – 5.13

Beneficiaries Assisted under Integrated Program for Older Person (2009- 10)

States/Indicator	No. of NGO's	Old Age Homes	Day Care Centers	Mobile Medicare Units	Total no of Beneficiaries
Andhra Pradesh	96	86	33	6	7350
Assam	17	16	8	5	2800
Bihar	1	1	0	0	25
Chhattisgarh	2	2	0	0	50
Gujarat	0	0	0	0	0
Haryana	14	9	13	0	875
Himachal Pradesh	0	0	0	0	0
Jharkhand	0	0	0	0	0
Karnataka	33	45	0	2	2175
Kerala	0	0	0	0	0
Madhya Pradesh	4	5	0	0	125
Maharashtra	14	8	6	1	950
Orissa	44	44	50	2	4400
Punjab	5	4	4	0	300
Rajasthan	6	4	2	0	200
Tamil Nadu	47	54	9	5	3800
Uttar Pradesh	16	21	10	0	1025
West Bengal	32	27	27	3	3225

Source: - Annual Report 2009-10, Ministry of Social Justice & Empowerment

Over 33000 aged were beneficiaries under IPOP scheme involving 350 NGOs. Andhra Pradesh had maximum beneficiaries followed by Orissa and Tamil Nadu. Rs 22 crores were allocated by the central government through the Union Budget of 2008-09, 2009-10 and 2010-11 for IPOP. However, the respective expenditures were Rs 17.72 crores, Rs 19.72 crores, and Rs. 20.67 crores for the financial years.

The need is to increase the contributions of the aged both in economic and social production. One of the key policy considerations for the governments and other social groups should be to create an environment in the society to acknowledge and appreciate the presence of older people around as a valuable resource (WHO, 2012). The old age people in the society are the most vulnerable group. The concern is indisputable because with age their helplessness increases. All the above three aspects of economic security, health care and conducive social environment can be helpful in reducing their vulnerability to a large extent. The social security policies targeted especially for elderly needs to be observant in covering these dimensions. The objective of such polices need not be on the grounds of morality and mere assistance.

Box – 5.1
Central Government's Policy Initiatives for Older People

National Council for Older Persons was constituted in 1999 by Ministry of Social Justice and Empowerment as the apex body for advising the government in formulating and implementing policy and programs for the elderly.

National Policy on Older Persons, launched in 1999 by the Ministry of Social Justice and Empowerment seeks to ensure financial support, food security, health care, shelter and other basic needs of the elderly. In addition the policy will work for encouraging individuals for making adequate financial provision for their own and family during the old age, and families for taking care of their older members. The objective of the policy is to ensure the wellbeing of the older people and strengthening their respect in the society with dignity and peace (Ministry of Social Justice and Empowerment, 2012). The policy was revised in 2011 under the title of National Policy on Senior Citizens, 2011. The new policy focused on ensuring income security for the elderly through Indira Gandhi National Old Age Pension Scheme, ensuring food security through Public Distribution System and ensuring sensitivity through income tax rebates.

The Maintenance and Welfare of Parents and Senior Citizens Act, 2007, is a policy initiative of the Ministry of Social Justice and Empowerment with an objective of making the earning adult children and grand children as the care taker of their parents and grandparents. They would be legally liable to provide for basic amenities of their dependents including food, clothing, housing and health care.

CHAPTER – VI

FISCAL SUSTAINABILITY

6.1 INTRODUCTION

The total public expenditure all over the world has grown both relatively and absolutely over the years. However, the concentration (both of academicians and policy makers) has been more on the side of public revenue than on expenditure. Taxes, a major item on revenue side has gained all the attention in recent years. While the items and the nature of public expenditure has always taken a secondary position. Experts in the field of public finance like Samuelson (1954) and Musgrave (1959) remained concerned more about raising public revenue rather than spending the same. The same observation is also true with reference to India; according to D.T. Lakdawala (1954) the area of public expenditure has not obtained deserving emphasis in Indian public finance.

Public Revenue and Public Expenditure are two sides of the study of Public Finance. It has always been a subject of debate whether public expenditure is a function of public revenue or not. In any economy, for that matter, government has no business to make surpluses through revenue. It should earn only that much revenue which is adequate to finance its expenditure. This is because public revenue is largely earned through taxes and tax is always a burden on the people. It is morally incorrect on the part of government to earn more than it requires for spending. Thus, public revenue should always remain the function of public expenditure.

The significance of public expenditure will depend upon what government intends to include in the scope of public expenditure. The word 'public' in its plural form denotes masses and thus the expenditure which is done for the benefit of masses and not for a single individual is termed as public expenditure. In yet another sense, it refers to the expenditure done from public's money. Government as a representative of public undertakes this expenditure at Centre, state and local level. Thus, it is said that public expenditure represents the expenditure done by government or the state.

Public expenditure has diverse effect on different sections of the economy. In India public expenditure serves as a tool for state development. The quasi federal structure of India allows the state to get assistance from the Centre under the gamut of public expenditure. It is under these references that the study of public expenditure assumes great importance.

The significance of public expenditure also rests on the choices made by the government regarding public goods and services. It is undertaken for the benefits of people at large, particularly where individuals are not capable or not willing to spend for the public goods. The private sector due to low profitability and high investment is not willing to participate. Moreover individuals do not spend due to ignorance or lack of future insight, e.g., in case of retirement planning, pension and other social security expenditures. Finally some areas of expenditure require huge investment like defence and railways which in no case can be financed by individual or a private company. Therefore, the state incurs these expenditures and extends the benefits of the same to large number of people and for a long period of time.

6.2 APPROACHES TOWARDS PUBLIC EXPENDITURE

The most important economic work of earlier times which influenced the behavior of governments towards public expenditure was Adam Smith's book 'An *Inquiry into the Nature and Causes of the Wealth of Nations'.* It pioneered the theory of 'The Invisible Hand'. This theory states that the market is governed by an invisible hand, and lesser the intervention of the government in the market, the better the functionality of the economy (Smith, 1776). Adam smith actually advised governments to avoid wrong interventions in commercial activities where private role is more suitable and state should intervene only in specific areas where it is necessary. Adam Smith in his book promoted the role of state in productive and development functions such as defence, construction of roads and public works and administration of police and justice (Reynolds, 2007).

Other Classical economists like Ricardo, Say and Mill continued to advocate doctrine of free market economy and minimum interference of state in economic matters. However the great depression of thirties dented the principle of free market. The period of depression differed among countries, starting from1929 to late 1930s and early part of 1940s (Garraty, 1986). The depression originated from United States and had devastating effects on other countries of the world. Unemployment in US went into double digits; by 1932 it was 23.6% and peaked to 25% by 1933 (Burgan, Michael 2001). With no clarity on way out of depression serious questions were raised over the classical model of ‘invisible hand’. In 1936 J. M. Keynes a British Economist in his work titled ‘*General Theory of Employment Interest and Money*’ argued that the dismal role of government and lower public expenditure were major causes of lower income and higher unemployment during depression. Keynes advocated for governments to run deficit budgets during economic slowdown in order to bring stability in the economy. The private sector is not expected to raise investments to keep production at sustainable levels during such difficult times. Hence, the onus must fall upon the governments to do so. Government spending through public works, public health, education and infrastructure will put money into private sector pockets and create demand for goods. This will result in higher employment, incomes and growth of potential output. Keynes’ key argument was that the government, by incurring public expenditure should solve the economic problems in the short run rather than waiting for the ‘invisible hand’ to resurrect the same in the long run (Keynes, 1924).

6.2.1 Normative and Positive Approach

The scope of public expenditure is studied under two different approaches of normative and positive science. The normative approach of public expenditure is based on the concept of welfare state. This means that the state finances essential services either directly for the people or through state agencies. The smooth working of a welfare state is completed through redistribution of taxes (Encyclopedia of Political Economy, 1999). The normative approach is primarily about the items of expenditure, norms of spending and its consequences upon the people and society at large. However there is no clear consensus among academicians and policy makers upon the outcomes of a welfare state. Amartya Sen (1979 and 1985) advocated Utility, Income and Capability approach as welfare objectives. Whatever may be the outcome of a welfare state, public expenditure should focus on removal of poverty and attainment of adequate health and education (Van de Walle, 1988, 1999).

The welfare objective of public expenditure was revived by Paul Samuelson in his articles on public expenditure (1954, 1955). Samuelson’s theory of using public goods as a tool for promoting public expenditure was based on normative ideology. Rather than focusing on areas of public expenditure, he insisted on concentrating upon the need and criteria for determining public expenditure. The market failures create the need for government intervention in the form of producing goods which can be jointly consumed by all. The paper entitled 'The Pure Theory of Public Expenditure' published in 1954 formalized the concept of 'collective consumption of goods', popularly known as public goods[1]. Such goods, Samuelsson elaborated as non-rival and non-excludable. The former simply means that consumption of a good by one individual should not reduce the availability of that good for others. The non-excludable condition implies that no individual can be excluded from consuming the good even if he fails to pay the price for the same, e.g., roads, parks, defence etc. The role of government in providing these public goods free of cost or at subsidized prices remains unchallenged even today.

The normative aspect of public expenditure for a long time has influenced governments for determining various public policies. Even after several years of economic planning and policy action the governments in several underdeveloped countries including India has failed to reap adequate benefits of public expenditure. Thus, the attention needs to be shifted towards the positive aspect of public expenditure from 'what should be' to 'what it is'. The positive approach towards public expenditure theory has played a crucial role in policy making and has been tested empirically by Adolph Wagner, a German political economist.

Wagner (1883) empirically pointed out positive relationship between economic growth and public expenditure. In other words, public expenditure undertaken by the government is a natural function of economic growth. According to Wagner, the expansion of government expenditure is a practical phenomenon and is not based upon any formula. In case of the progressive states, Wagner argued that the proportionate rise in the state expenditure will be higher than the economic growth rate. Wagner classified the public expenditure into following three categories –

a) Cultural and Welfare activities including education and regulatory functions.
b) General Government and Protection.
c) Direct Provision of Services by the Government.

The English translation by Musgrave and Peacock (1958) brought great deal of attention towards the Wagner's law. The law has been studied and empirically tested by several researchers across the countries. The research on the applicability of the law has produced conflicting evidences. Notwithstanding the criticism of Wagner and Weber (1977) the law has largely remained acceptable. Bird (1971) observed that

[1] *...goods which all enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good...* (Samuelson, 1954)

Wagner's argument remained valid across all the developed countries during 20th century. Among others who supported the law were Gupta (1967), Musgrave (1969), Goffman and Mahar (1971), Mann (1980), Singh and Sahni (1984) and Sahoo (2001).

6.2.2 Public Choice Approach

Among recent approaches towards public expenditure the theory of public choice deserves attention. Anthony Downs a public policy expert in his work titled *An Economic Theory of Democracy* (1957) promoted the concept of public choice in determining political ideologies. The Downs theory outlines specific conditions under which economic theories could be applied to political decision making process. The theory goes on to provide a general framework for the working of public expenditure to maximize chances of political parties winning elections. According to Downs, government will provide what voters want irrespective of benefits arising out of it. Hence the emphasis remained on vote and not the voter's welfare. Thus it indicates that theoretically public expenditure should be a normative science, albeit in real world it takes a positive approach.

6.2.3 Applied Expenditure Approach

Higher level of economic growth shall increase the level of public expenditure unconditionally. However the question arises as to which component of public expenditure will witness higher increase? Musgrave (1969) argued that a common set of factors cannot determine the rise in total expenditure of the state. He classified the total public expenditure into three categories namely expenditure on public capital formation, public consumption and transfer payments and assigned each with special set of determinants. For example, higher level of public capital formation expenditure will be a function of economic growth in a developed country, but the reverse will be true in the case of a developing economy. While in case of public consumption expenditure and transfer payments, they will always remain a dependent factor irrespective of level of economic growth of the country. The volume of these expenditures will depend directly upon the country's economic ability. Bird (1971) suggested, considering the determinants of the components and volume of public expenditure in order to study what goods and services form a part of public expenditure and how the expenditure on them changes over the period of time.

Thus, the applied approach towards public expenditure covers a whole range of budgetary items on which the government intends to spend due to several political, social and economical reasons. For instance public expenditure on various economic overheads like transportation, communication, urbanization, etc., will multiply the economic activities of trade and commerce. This will contribute positively towards the economic growth and provide more room for raising public expenditure. Similarly, expenditure on account of health, education, housing, water and other social sector items will produce a healthier and skilled manpower. This will again contribute positively towards higher economic growth. Government should have the prudence to produce efficient human capital through social expenditure. The effects of public expenditure are not just on production side. Equal if not higher benefits will be reaped on the consumption and investments also. Higher production will create large employment, higher income and saving, ultimately resulting into higher investment and capital formation.

During the post reform period in India, especially during the years of high growth rate the share of total public expenditure in total GDP has almost remained the same (Table 6.1).

Table – 6.1

Total Budgetary Expenditure of Centre and State Combined (as a % of GDP)

Year	GDP at Market Prices (Current Price) in Cr	Total Expenditure In Cr	Total Exp as a % of GDP
1990-91	569624	155142	27.24
2000-01	2102314	552124	26.26
2002-03	2454561	661664	26.96
2003-04	2754620	762765	27.69
2004-05	3242209	824480	25.43
2005-06	3692485	933642	25.28
2006-07	4293672	1086592	25.31
2007-08	4986426	1243598	24.94
2008-09	5582623	1519081	27.21
2009-10	6550271	1833730	27.99
2010-11	7877947	1973762	25.05
CAGR	**0.27**	**0.26**	

Source: Indian Public Finance Statistics, 2010-2011

The combined budgetary expenditure of both Centre and state governments forms almost one fourth of the GDP. This is largely because of rising population, higher demand for both social and physical infrastructure facilities and inability of the private sector to meet the desired expectation. The magnitude of budgetary expenditure is always considered as an important indicator of the scale and relevance of government intervention. However, it would be important to understand the quality of government expenditure especially the proportion of total expenditure on meeting the challenges of socio-economic development for deprived sections of society.

6.3 FISCAL FEDERALISM IN INDIA

India has a unique form of federal structure (Hicks, 1959) based on the principles of political federalism and fiscal federalism. The federal system is ensured by existence of common government for the whole country and independent government for each constituent with 'conciliatory constitutional powers'. Thus federalism in India is both unifying and leveling force as considerable degree of inequality exists among the states (Agrawal, 2012). Based on normative approach, the fiscal federalism is the branch of public finance which deals with vertical division of state's roles and responsibilities. Musgrave (1959) and Oates (1972) identified fiscal federalism as an instrument for welfare maximization with assigned functions to government at different levels. However, the success of federal structure lies in the fact that the powers, functions and fiscal relationship of the states are rightly balanced. Canada, Australia, Switzerland and USA are examples of well designed federal system which provides stability and prosperity (Bagchi, Amrish 2001). However Indian federal structure differs with that of USA[1] which is also known for classical federal structure. The differences between the two are on several grounds including dual citizenship, equality in the eyes of law, multiple constitution, and supremacy of parliament among others.

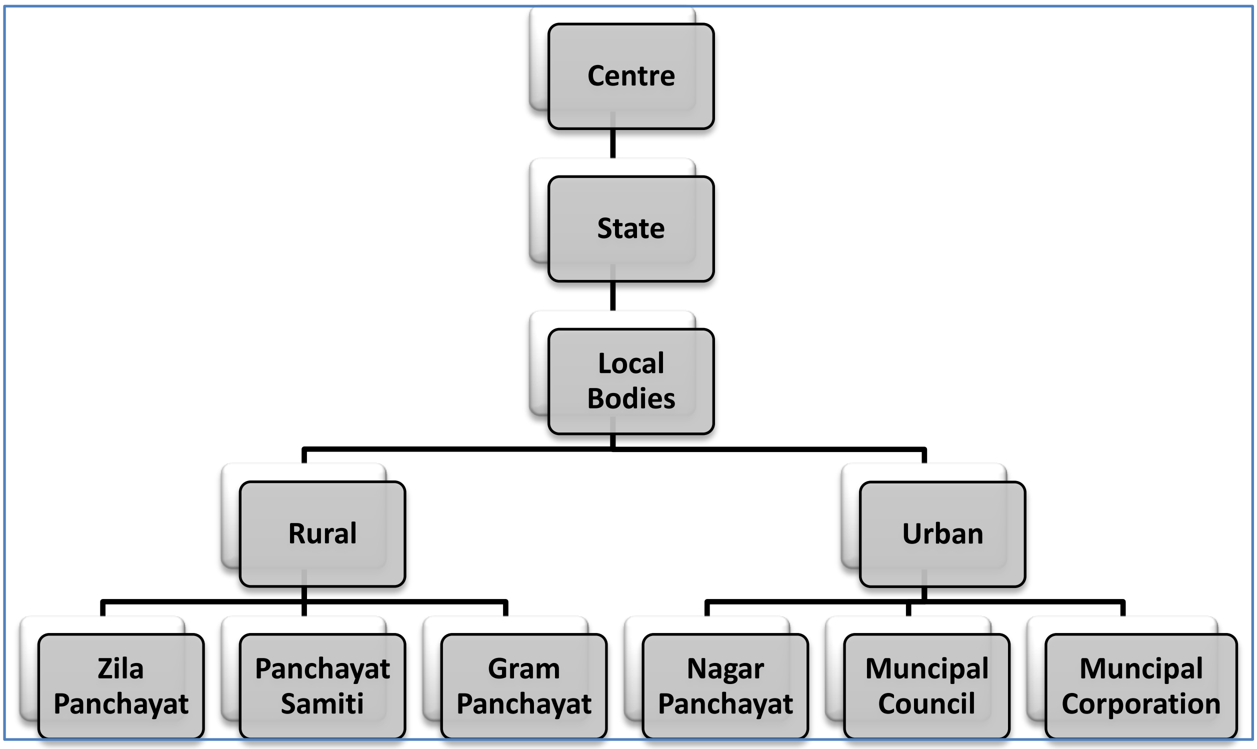
The constitution of India[2] itself demonstrates the federal structure. This is exhibited from the fact that the constitution is supreme and above all forms of government at the Centre, states or local level. The Constitution signifies comprehensible division of power between Centre and state governments.

[1] The United States of America also referred as the United States, the U.S., the USA, America, and just as the States is a federal constitutional republic consisting of 50 states and a federal district

[2] The Constitution of India was enacted by constituent assembly on 26th November, 1949 and came into effect from 26th January, 1950. The Constitution replaced Government of India Act, 1935 and the Union of India became Republic of India. The Indian Constitution is a longest written constitution in the world, comprising of 448 articles in 22 parts, 12 schedules and 97 amendments to be précise (Introduction to Constitution of India, Ministry of law and Justice, Government of India).

Based on the theory of 'subsidiarity'[1] fiscal federalism allocates public resources according to the preferences influenced by local factors. Oates (1972) argues that each public service must be provided by a unit of state within jurisdiction or over a geographic area which can maximize the benefit and minimize the cost of provision. Rondinelli et al (1989) states that local bodies identify people's need more effectively as they are closer to them. However, the central government may continue to perform the two important functions of macroeconomic stabilization and resource allocation as identified by Musgrave (1959).

Figure - 6.1 Government Structure in India



Many experts like Amaresh Bagchi (2001) and several others have pointed out that Indian Federal structure is too Centre oriented and Quasi-Federal as it does not allow the states to function freely in terms of earning and spending. However with the introduction of three-tier federal structure in India, the subject of fiscal decentralization has gained huge significance (Govinda, Rao 2000). It refers to fiscal empowerment of local governments or sub-national governments. In other words it

[1] According to The Oxford English Dictionary subsidiarity is the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

refers to devolution of taxes and spending powers of government at different levels. The fiscal decentralization at different levels has achieved success in delivering public services in different states both in rural and urban areas. It is important to differentiate between fiscal federalism and fiscal decentralization; the former constitutes a set of principles that help in designing financial relations between Centre and local levels government, whereas, the latter deals with a method of practical application.

6.3.1 Centre - State Fiscal Relationship

Federalism in India basically implies the classification of revenue and expenditure between Centre, state and local governments. Article 246 in the 7th schedule of Indian Constitution defines three fold division of legislative power between Centre and State[1]. These are divided into Union List, State List and Concurrent List. The Union List consists of 100 items which exclusively belong to the Centre and come under direct legislation of the parliament[2]. The Union List includes items of national importance like defence, foreign affairs, currency, foreign trade, interstate trade & commerce and banking &insurance. It also includes 13 different forms of taxes such as income tax, custom duties, export duties, excise, corporation tax, taxes on capital value of assets and estate duty among others.

The State List consists of 61 items of regional importance including agriculture, land, water, law and order, healthcare, transportation, electricity, alcohol, land revenue, octroi, and professional tax among others. A total of 19 taxes are listed in the state list.

The Concurrent list includes 52 items which require co-operative resolution such as transfer of property, stamp duty, trusts, education, social security, provident fund, professional tax, supply and distribution and news papers among others.

Though all powers related to inclusion or exclusion of any source of revenue rests with the centre, the Constitution has not allowed any overlapping of taxes between Centre and state. Similarly the roles and responsibilities and sources of finance for

[1] The use of the word 'state' in Indian Constitution has multiple meanings. Schedule I and 7th Amendment to the Constitution calls India as a 'Union of States' while at the same time Article 367 (sec 3) and Part IV of the Constitution identifies whole of 'India as a State'. Similarly, Article 12 of Part III and Article 36 of Part IV refer the term state to the Government of India.

[2] As the budgetary receipts and disbursement for Union Territories (UT) form part of Central Government Budget – there is no separate reference being made regarding UT.

the local bodies both at rural and national level have been stated in the constitution through the 73rd and 74th amendment (1992)[1].

Apart from the independent powers of state governments in generating their own resources, transfers from Centre to states significantly contributes towards the state revenues. These transfers from Centre to state take place through three channels –

a) Planning Commission – through Grants for state plan schemes.

b) Finance Commission – through shared Taxes and non plan schemes.

c) Centrally Sponsored Schemes (CSS) – through Discretionary transfers.

The Planning Commission through various Five Year Plans makes recommendations for transferring adequate resources from Centre to state mostly in the form of grants and loans to meet the plan requirements. The Finance Commission on the other hand recommends the transfers to meet non plan requirements of the states (Bajpai and Sachs, 1999).

Table – 6.2
Distribution of Revenue Transfers from the Centre to States (in %)

	Finance Commission Transfers			Planning Commission Transfers			Total Transfers	Total Transfers as % of GDP
Period	Share in Central Taxes	Grants	Total Finance Commission	Plan Grants	Non Plan Grants	Total Planning Commission		
Eighth Plan (1984-89)	53.48	6.65i	60.13	35.8	4.07	39.87	100	4.83
Ninth Plan (1989-95)	52.98	8.48	61.46	35.91	2.63	38.54	100	4.89
Tenth Plan (1995-2000)	62.06	6.55	68.61	29.52	1.87	31.39	100	4.09
Eleventh Plan (2000-2005)	58.38	11	69.38	28.65	1.97	30.62	100	4.16
Twelth Plan (2005-10)	56.48	11.55	68.03	28.55	3.43	31.97	100	5.21
2005-06	57	14.95	71.94	25.36	2.7	28.06	100	4.69
2006-07	57.93	13.47	71.4	25.54	3.05	28.6	100	5.11
2007-08	58.82	10.21	69.02	27.69	3.29	30.98	100	5.46
2008-09 (RE)	56.04	9.69	65.74	30.92	3.34	34.26	100	5.37
2009-10 (BE)	53.62	11.22	64.84	30.88	4.28	35.16	100	5.23

Source: *Thirteenth Finance Commission, 2009*

[1] A list of 29 subjects for rural areas and 18 subjects for urban local bodies have been separately specified. The constitution clearly mentions that the revenue items for local bodies are in concurrent to the state list and thus each government by appointing State Finance Commission has to recommend devolution of taxes, central grants etc.

The share of total Finance Commission transfers to the state governments has increased by over five percent since 1984-89. For the same period the Planning Commission transfers have reduced by about four percent (Table 6.2). This indicates that the additional resources have to be raised by the states themselves in order to meet its social and economic expenditures.

6.3.2 Allocation of Resources by Planning Commission

The Planning Commission[1] allocates assistance to the states both on plan and non-plan account. The assistance is given in combination of grant and loan in a determined ratio of 30:70 for the big states and 90:10 for the small states (Govinda Rao, 2000). The Planning Commission allocates the plan assistance among states through Gadgil-Mukherjee Formula. Under this method, after setting aside 30% of Central Assistance funds for the special category states [2] the rest is distributed among the non-special category states. The formula suggested that the financial assistance from central government should be distributed among the sates based on the weights assigned on the following items: Population (60%), Per Capita Income (25%), Fiscal Performance (7.5%) and Special Problems (7.5%). The formula is in use since the Eight Plan (1992-97).

Box – 6.1
Gadgil--Mukherjee Formula

The National Development Council (NDC)[3] adopted the Gadgil formula[4] for enabling specific transfers to the state on account of different schemes of central government. Developed in 1969 for allocating central assistance to state plans, the Gadgil formula was used in fourth five year plan (1969-74) and fifth five year plan (1974-78) (Planning Commission, 1997).

The formula suggested that the financial assistance from central government should be distributed among the sates based on the weights assigned on the following items:

Population (60%), Per Capita Income (PCI) (10%), Tax Effort (10%), On-going Irrigation & Power Projects (10%), and Special Problems (10%).

In 1991 a committee headed by Shri Pranab Mukherjee the then deputy chairman of Planning

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[1] The Planning Commission established through a Resolution of the Government of India in 1950, is assigned with the task of making regular assessment of all national resources, recommend balanced allocation of resources and determining opportunities for creating new resources.

[2] The Special category states get preferential treatment in terms of central assistance due to their geographical disadvantage and sharing of international border. The concept was developed under Gadgil formula of 1969. Presently there are 11 states in this category.

[3] Established in 1952, NDC also known as Rashtriya Vikas Parishad, is the highest body for decision making on development matters. It is headed by Prime Minister of the Country.

[4] It was named after the then deputy chairman of the planning commission, Dr D.R.Gadgil.

Commission had suggested a modified version of this formula which was accepted by National Development Council. Thus the present version is known as Gadgil-Mukherjee formula.

6.3.3 Allocation of Resources by Finance Commission

The Finance Commission[1] has upheld the federal nature of Indian Fiscal System. It was established with the objective of determining the methods in which the Centre will distribute the resources between the states and reduce fiscal inequalities among them. Clause (3) of the Article 280 of the Constitution list outs the following major duties of the Commission: –

- To recommend the division of the net proceeds of the taxes between Union and the states', and among the states.
- To recommend the principles regarding grants-in-aid to the states' out of the consolidated fund of India.
- To recommend the measures related to the sharing of resources with the panchayats and municipalities in the State on the basis of the recommendations made by the State Finance Commission.

Article 243 (I) insists the formation of State Finance Commission for each state for every five years term. Its primary objective is to assess the needs of local bodies like panchayat and municipalities and recommend the methods of distributing the tax resources between the state governments and local bodies along with grants-in-aid to local bodies.

[1] The expert committee on the Financial Provisions of the Constitution recommended the establishment of Finance Commission based on the method adopted by the Common Wealth Commission of Australia. Clause (1) of article 280, Part XII of the Constitution of India clearly stated the establishment of Finance Commission by the President of India within two years of enactment of the Constitution and afterwards every fifth year. The Finance Commission (Miscellaneous Provisions) Act, 1951 was passed in the parliament for constituting the Finance Commission in India.
So far there have been 13 Finance Commission appointed. The first commission was established in 1951 for the period of 1952-57 under the chairmanship of Shri K C Neogy. The thirteenth Finance Commission was established in 2007 for the period of 2010-15 under the chairmanship of Shri Vijay Kelkar.

6.3.4 Allocation of Resources by Centrally Sponsored Schemes (CSS)

The Central government transfers resources to the state government for adequately implementing the Centrally Sponsored Schemes (CSS) in their states. These resources are in addition to the recommendation of Planning and Finance Commission. The flagship schemes of Central government are designed to fill the much needed socio-economic and infrastructural gap in the country's economic development. The execution of these schemes is done by the concerned ministry while the funds for its implementation are shared between the Centre and the states, of which Centre does 75% to 90% funding.

Table – 6.3
Flagship Schemes Sponsored by Central Government

<table>
<tr><th>Sector</th><th>Name of the Scheme</th><th colspan="3">Budgetary Allocation</th></tr>
<tr><td rowspan="4">Agriculture & Rural Development</td><td rowspan="4">Rashtriya Krishi Vikas Yojana (RKVY),
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA),
Pradhan Mantri Gram Sadak Yojana (PMGSY),
Indira Awaas Yojana (IAY)</td><td>Year</td><td>No of CSS</td><td>Central Assistance to State Plans (Rs. Crore</td></tr>
<tr><td>2002-03</td><td>188</td><td>44,344</td></tr>
<tr><td>2003-04</td><td>213</td><td>49,814</td></tr>
<tr><td>2004-05</td><td>207</td><td>51,766</td></tr>
<tr><td rowspan="3">Health & Nutrition</td><td rowspan="3">National Rural Health Mission (NRHM) and
Integrated Child Development Scheme (ICDS)</td><td>2005-06</td><td>204</td><td>34,901</td></tr>
<tr><td>2006-07</td><td>155</td><td>45,518</td></tr>
<tr><td>2007-08</td><td>99</td><td>61,614</td></tr>
<tr><td>Education</td><td>Sarva Shiksha Abhiyan (SSA) and
Mid-Day Meal (MDM) Scheme</td><td>2008-09</td><td>133</td><td>77,075</td></tr>
<tr><td>Power</td><td>Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY),</td><td>2009-10</td><td>138</td><td>84,490</td></tr>
<tr><td>Urban Development</td><td>Jawaharlal Nehru National Urban Renewal Mission (JNNURM)</td><td>2010-11</td><td>139</td><td>96,412 (RE)</td></tr>
<tr><td>Social Security</td><td>National Social Assistance Programme (NSAP)</td><td>2011-12</td><td>147</td><td>1,06,026 (BE)</td></tr>
</table>

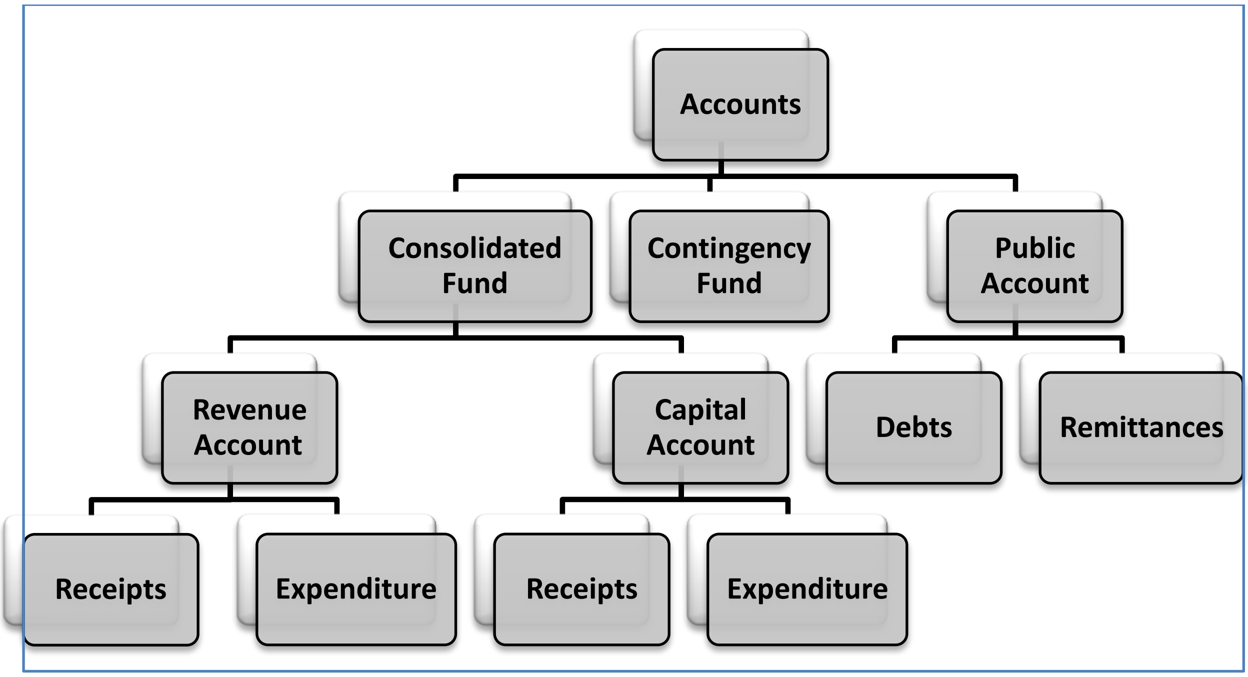
Source: Planning Commission, 2011

During the planning years the numbers of such schemes have reduced from 360 to 147 but the proportion of resources invested on these schemes have increased from 31% to 41% of the total central assistance.

6.4 STRUCTURE OF GOVERNMENT ACCOUNTS

The Constitution of India through articles 266 and 267 under chapter 1, Part XII directs the government to allocate the financial resources under three heads. Accordingly, Consolidated Fund[1], Public Account[2] and Contingency Fund[3] are created by the respective governments both at the Centre and state level. All government transactions are recorded in any one of these three accounts. The detailed structure of these accounts can be studied from the figure 6.2.

Figure – 6.2 Structure of Government Accounts



According to article 150 of the Indian Constitution there should be uniformity in the structure of accounts of both Centre and the state governments. This is mainly because of the inter-relations between Central and state government accounts.

The Consolidated Fund is divided into broad sectors based on a group of functions or services such as Social Services and Economic Services. Sectors are further divided

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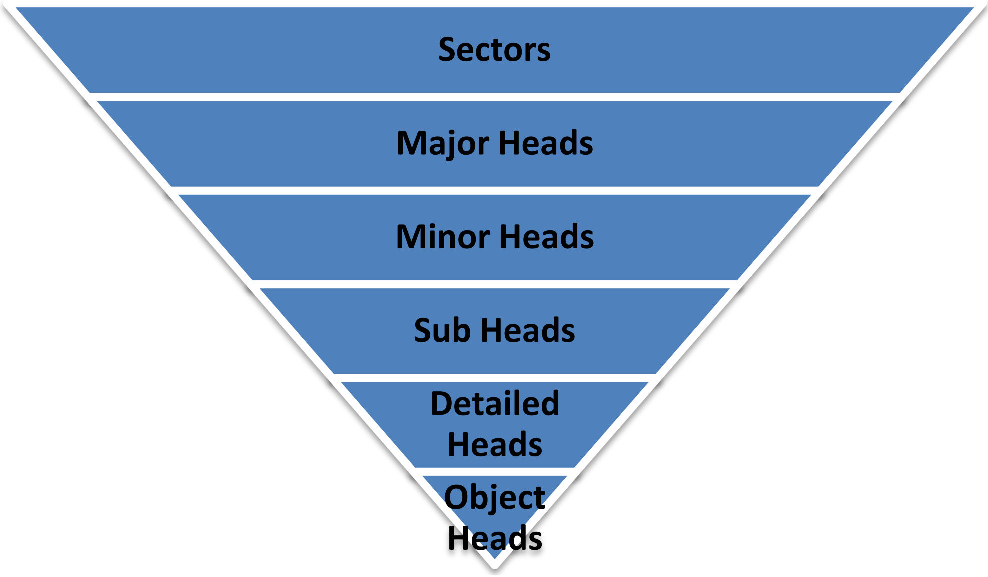
[1] Article 266(1) directs the government to deposit all taxes and duties received by the Government of India, all loans raised by the Government and all other revenue received by the Government of India into 'the Consolidated Fund of India'

[2] Article 266(2) directs the government to deposit all other public money received by it directly or on behalf into 'Public Account of India' or 'Public Account of the State' as the case may be. Reserve Bank of India as the banker of the Government shall keep such accounts for both Centre and state governments. The net funds in public accounts are available to the government as regular resources available for making expenditures.

[3] Article 267 allows Centre and states to establish a corpus of 'Contingency Fund, under the Contingency Fund of India Act, 1950 by enacting a law in parliament or state legislature. Such a fund will be at the disposal of the President of India or the Governor of state as the case may be for giving advances to meet unforeseen expenditure of the government.

into Major Heads and Minor Heads based on the programs undertaken to enable the objectives of the service; while each scheme or policy of the government for executing the function or service comes under a Sub Head. As per the revised structure there are around 440 Major Heads in Government Account (Ganguly, 2000).

Figure – 6.3 Six Tier Classification of Government Accounts



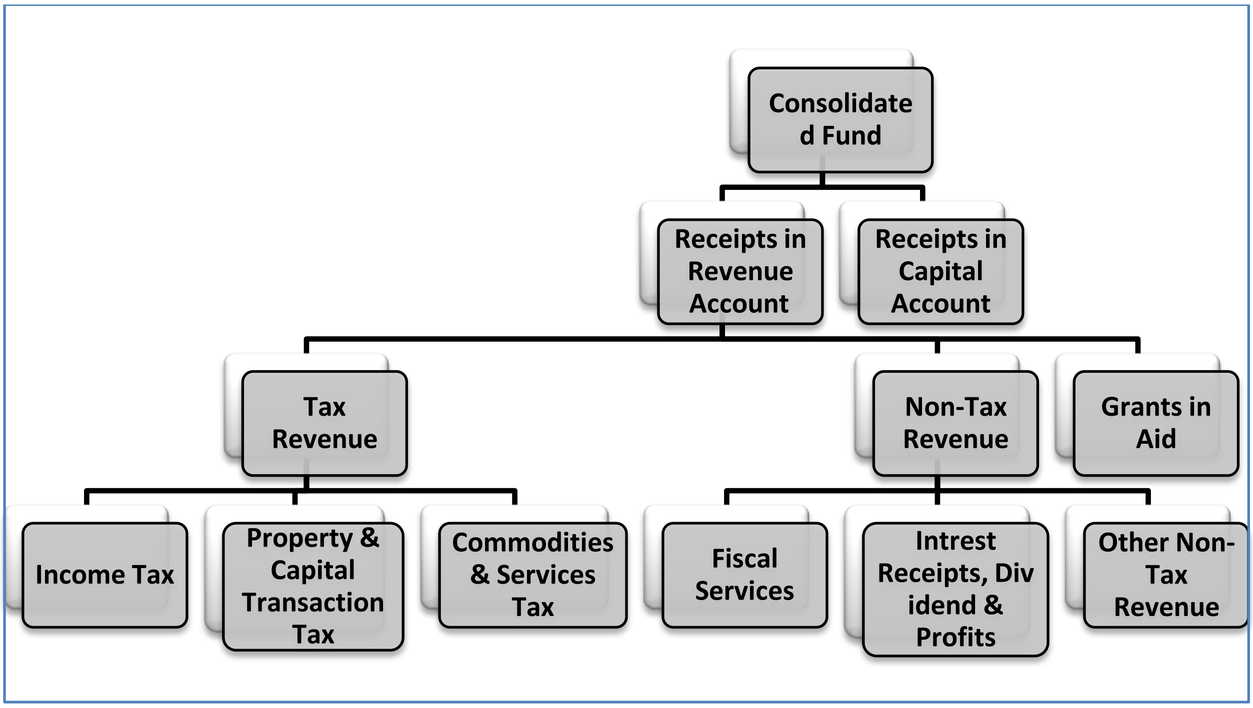
The functional classification of expenditure accounts was suggested by Shri A.K. Mukherjee, the then Deputy Comptroller and Auditor General of India. These Heads of the account remain uniform between the Centre and State based on the classification of Plan and Non Plan expenditure and Development and Non Development expenditure. The difference between the accounts of Centre and State starts at the level of Sub Head i.e. the schemes and programs initiated by the government for specific purpose. The sixth tier i.e. the object head is last but most important classification of expenditure as it provides item wise list of expenditure undertaken by the government on various schemes.

6.4.1 Public Revenue

Like other economic establishments, governments also need funds to finance its activities. These funds are raised through different sources; however the sources of the government receipts both on revenue and capital account are limited. Sources of receipts in capital account are mostly in the form of borrowed funds. It also includes recoveries of loans and advances from state governments and other sectors if any. Finally, capital receipts will include the resources of 'Public Account'. It includes small savings, provident fund, other deposits and reserves available to the central government for meeting its expenditure.

The receipts on revenue account have some extended classifications. Broadly they are classified into Tax and Non Tax Revenues.

Figure – 6.4 Major Revenue Receipts in Consolidated Fund



The tax revenue is further divided into the following:-

- Tax on Income and Expenditure, this includes Income Tax[1], Corporation Tax and Expenditure Tax.
- Taxes on Property and Capital Transactions, this includes Estate Duty, Wealth Tax, Gift Tax, Land Revenue, Stamp Duties and Registration Fees.
- Taxes on Commodities and Services, this includes Sales Tax, Union Excise Duty and Custom Duty like Import Duty, Export Duty, cess on export and other charges.

The non tax revenue of the government is also divided into three segments:-

- Fiscal Services, which includes receipts from currency, coinage and mint.
- Interest Receipts, Dividends and Profits which includes the interest receipts on loans to other governments, dividend and profits from public sector units and government undertakings and lastly.
- Other Non Tax Revenue, which includes revenue receipts from various government activities, services and departments like administrative, public service, transportation, communication, postal, etc.

[1] The central government is directed through item 82 of the Union List of Schedule VII of the Constitution of India to levy income tax on all except agricultural income. The Income Tax is imposed on taxable incomes of individuals, HUFs, and other artificial legal entities like companies. The Income Tax is levied under the Income Tax Act, 1961 under the Central Board of Direct Taxes (CBDT) as part of Department of Revenue under the Ministry of Finance, Government of India.

6.4.2 Public Expenditure

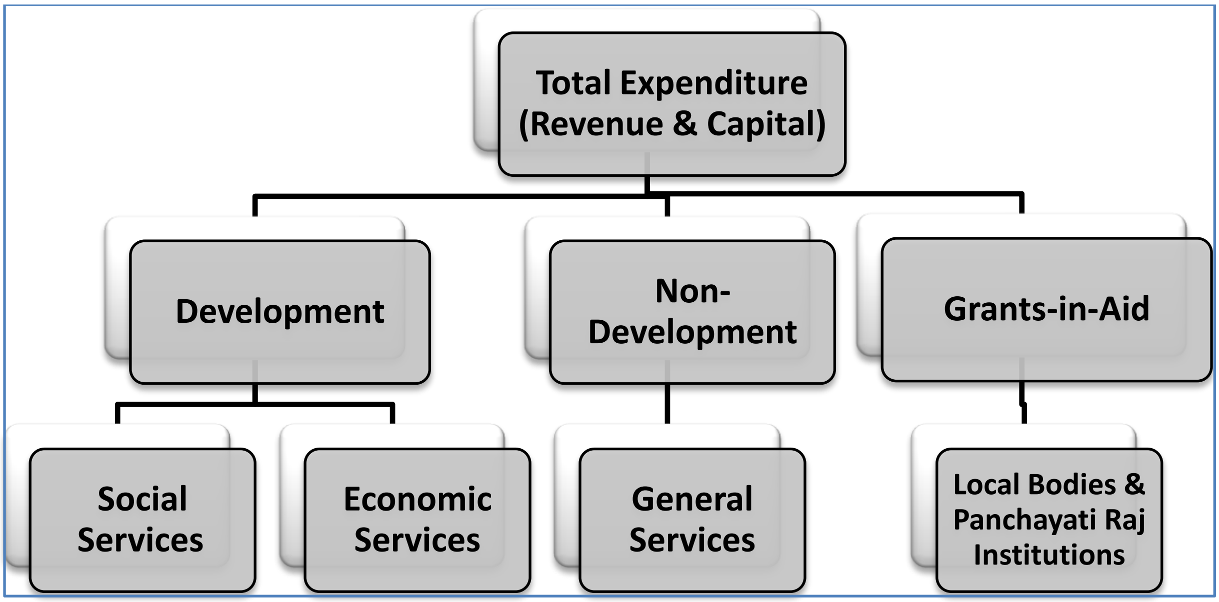
The disbursement of public revenue, also known as public expenditure can be done by the Government from the Consolidated Fund. However, Government cannot spend any amount from the fund without prior sanction of the Parliament. According to the Article 112 of Indian Constitution, the Government is supposed to present before the Parliament the 'Annual Financial Statement' also known as Union Budget. Article 202 directs all State Governments to present a similar statement in the State Legislature of the State, known as State Budget. The Budget enables the government to describe in detail the proposed allocation of expenditure under different heads and estimated receipts against the same.

The classification of Public Expenditure is fundamental to prepare a transparent and coherent budget (Planning Commission, 2011). Efficient classification of budgetary expenditure is significant subject to policy formulation and performance, as it will be helpful in optimum allocation of resources among various sectors. Broadly the public expenditure is divided into the following –

A) **Plan and Non Plan Expenditure** – This refers to the expenditure which is covered under the provisions of prevailing Five Year Plan, however this does not mean that non-plan expenditure is unplanned. The non-plan expenditure is budgeted based on previous amounts like salaries and wages, defence, subsidies, pensions, interest payments etc. In the initial years of planning the proportion of planned expenditure mostly on capital account was higher, as the nation required heavy investments in basic and essential sectors like infrastructure etc. Over the period of time the proportion of planned expenditure on revenue account has increased due to maintenance and execution of existing schemes along with creating new ones.

B) **Development and Non Development Expenditure** – Since last few decades the classification of budgetary expenditure is done on the grounds of its economic usefulness. Development expenditure refers to the expenditure incurred on economic and social development of the country, whereas, non development expenditure refers to expenditure incurred on routine government functioning and conduct of the economy.

Figure – 6.5 Broad Classification of Revenue & Capital Expenditure



A worrying part of public expenditure both at the states and central level has been the decline in the share of developmental expenditure. The average share of development expenditure both at the Centre and state level as a percentage of total expenditure has fallen by over 12% and 6% respectively during the 30 years period of 1981-82 to 2010-11 (Table-6.4). The proportion of development expenditure has been lowest during the years of high growth rate! The proportion of non development expenditure on the other hand increased by over 10% and 6% for all the states combined, and the Centre respectively for the same period.

Table – 6.4
Average Development and Non Development Expenditure (as a % of Total Expenditure)

	All States			Centre		
Period	**Pre Reform 1981-82 to 1990-91**	**Post Reform 1991-92 to 2000-01**	**High Growth 2001-02 to 2010-11**	**Pre Reform 1981-82 to 1990-91**	**Post Reform 1991-92 to 2000-01**	**High Growth 2001-02 to 2010-11**
Development Expenditure as a % of Total Expenditure	70.4	64.22	58.7	54.58	46.2	48.06
Non Development Expenditure as a % of Total Expenditure	22	30.67	32.51	45.85	53.8	51.94

Source: - Computed from the RBI Report on State Finances: A Study of Budgets, Various Years and Handbook of Statistics on Indian Economy, RBI

These trends indicate the fact that the governments both at the state and Centre had allocated larger share of its revenue to meet expenditure on its day to day functioning rather than initiating new development schemes. A similar trend is observed if we compare the plan and non plan expenditure of the respective governments.

Planning Commission's Report on the Efficient Management of Public Expenditure (2011) suggests that plan expenditure is mostly the expenditure incurred on the items of development and thus should be referred to as development expenditure only. Moreover, there is no constitutional clarity over the terms plan and non plan expenditure. Often non plan expenditure is referred to as unproductive expenditure, even though there are items in non plan which are development oriented. The planning commission (2011) suggests that the classification has become dysfunctional and should be replaced by a more functional classification of public expenditure in the form of Development and Non-development expenditure.

Under the six tier classification, the sector classification for both the Revenue and Capital Expenditure remains the same in the sense there are some common items of expenditures on both sides.

Figure – 6.6

Major and Minor Heads in Revenue & Capital Expenditure

Social Services

- Education, Sports, Art and Culture
- Medical and Public Health
- Family Welfare
- Water Supply and Sanitation
- Housing
- Urban Development
- Welfare of SC, ST and OBC
- Labour and Labour Welfare
- Social Security and Welfare
- Nutrition
- Relief on account of Natural Calamities
- Others

Economic Services

- Agriculture and Allied Activities
- Rural Development
- Special Area Programmes
- Irrigation and Flood Control
- Energy
- Industry and Minerals
- Transport and Communications
- Science, Technology and Environment
- General Economic Services

General Services

- Organs of State
- Fiscal Services
- Interest Payments and Servicing of Debt
- Administrative Services
- Pensions
- Miscellaneous General Services

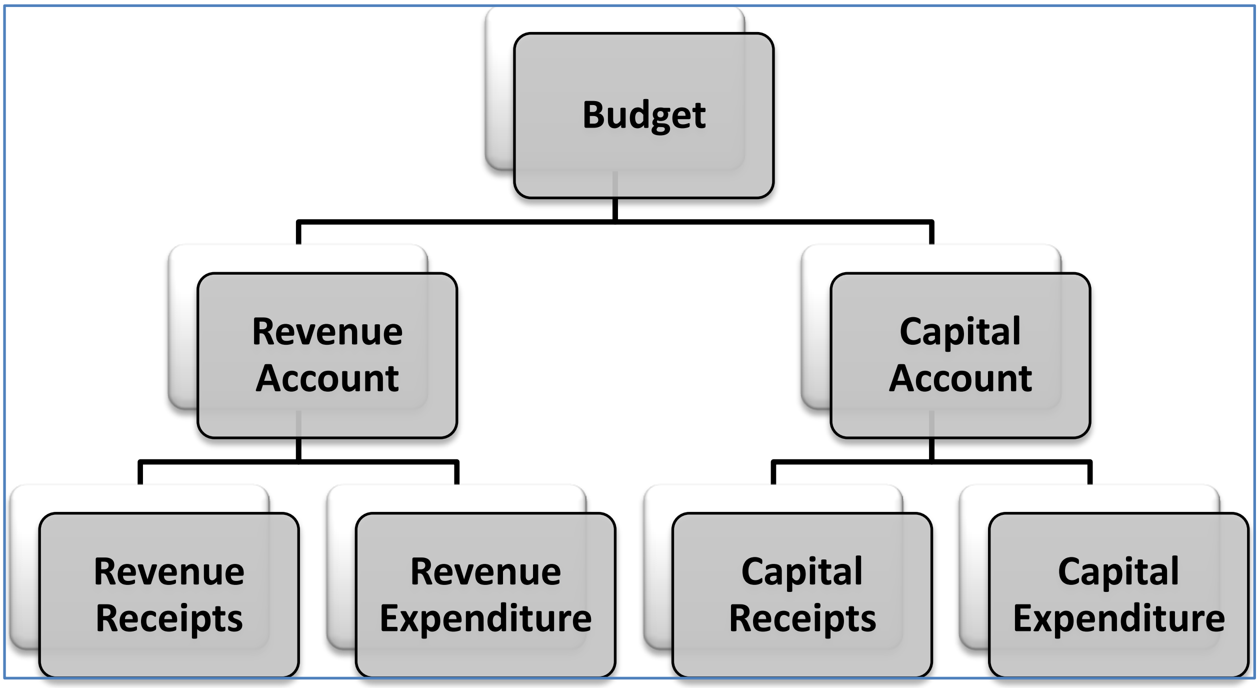
Source: - Computed from Various Budget Documents

These items are further classified under Major heads such as Social Services, Economic Services and General Services (Figure 6.6) Out of these, Social and Economic Services are recorded under the broad category of Development Expenditure, while General Services are recorded under Non-Development Expenditure. However, some major and minor heads of expenditure are exclusively listed in Capital Expenditure. Expenditure on creation of gross capital formation, increase in stock of inventories like food supply, repayment of public debt, capital transfers to state, etc., are some major capital expenditures.

6.4.3 Revenue and Capital Account

From a purely economic perspective the entire budgetary function of the Centre and state can be divided into Revenue and Capital Account.

Figure – 6.7 Budget Statement



This classification of government account gives a different perspective of all economic transactions on receipt and expenditure side. This classification is useful to determine deficit or surplus in the budget.

Revenue Account also referred to as Revenue Budget compares the total revenue receipts of the government with total revenue expenditure (both on the account of plan/non-plan and development/non-development expenditure). Revenue receipts consist of all revenue sources which do not create any liability on account of the government. The revenue receipts are also known as the real income of government. Similarly, Revenue expenditure refers to the routine expenditure of the government without creating any assets against the same. It is also known as maintenance expenditure and it is recurring in nature. Ideally any government should be able to meet all its revenue expenditure from its revenue receipts.

Capital Account also referred to as Capital Budget compares the total capital receipts of the government with total capital expenditure (both on the account of plan/non-plan and development/non-development). Capital receipts are those incomes of the government which create liability for it. These receipts are non repetitive in nature. Capital receipts normally include borrowings of the government and other occasional receipts like disinvestment. According to the Government Finance Rules of Ministry of Finance and Government Accounting Rules laid by Comptroller and Auditor General of India, the Capital expenditure refers to the expenditure incurred by the government on building assets. This includes long term expenditure like construction of infrastructure and lending by the government. Such expenditure contributes towards capital stock of the country.

Table – 6.5
Trends in Revenue-Capital Expenditure and Receipts

	All Sates			Centre		
Period	**Pre Reform 1981-82 to 1990-91**	**Post Reform 1991-92 to 2000-01**	**High Growth 2001-02 to 2010-11**	**Pre Reform 1981-82 to 1990-91**	**Post Reform 1991-92 to 2000-01**	**High Growth 2001-02 to 2010-11**
Revenue Exp as a % of Total Exp	75.1	82.18	77.7	66.55	79.37	85.70
Revenue Receipts as a % of Total Receipts	73.63	71.94	74.43	59.98	60.08	63.27
Revenue Exp as a % of Total Receipts	75.48	82.21	77.19	73.33	81.46	85.04
Capital Exp as a % of Total Exp	24.9	17.77	22.3	33.45	20.63	14.6
Capital Receipts as a % of Total Receipts	26.37	28.06	25.57	40.02	39.92	36.8
Capital Exp as a % of Total Receipts	25.03	17.78	22.15	36.86	21.18	14.54

Source: - Computed from the RBI Report on State Finances: A Study of Budgets, Various Years and Handbook of Statistics on Indian Economy, RBI

For any developing country with high and growing demand for investment for creation of basic and essentials facilities, it is difficult to meet all capital expenditure out of only capital receipts, which makes borrowing inevitable.

For all states, the share of revenue expenditure as a proportion of total expenditure has increased by over 7 percentage points between pre and post reform period. However it fell thereafter during the high growth years, although, it has continued to remain on a higher side. The capital expenditure as a percentage of total expenditure for all states correspondingly fell by over 8 percentage points between pre and post reform period and rose by over 5 percentages during the high growth years. During the same period the revenue expenditure of the central government increased by a massive 20 percentage points and corresponding capital expenditure reduced by the same proportion during the post reform and high growth years. These trends indicate that the central government continued to centralize public expenditure on revenue account. At the same time the focus of the government clearly shifted from capital creation to the maintenance of existing schemes and recurring expenditure. The trend of rising revenue expenditure and reduction of capital expenditure has adversely affected infrastructure expenditure and economic growth along with causing higher fiscal deficit (Rao, Govinda and Tapas Sen, 2011).

6.5 FISCAL SUSTAINABILITY

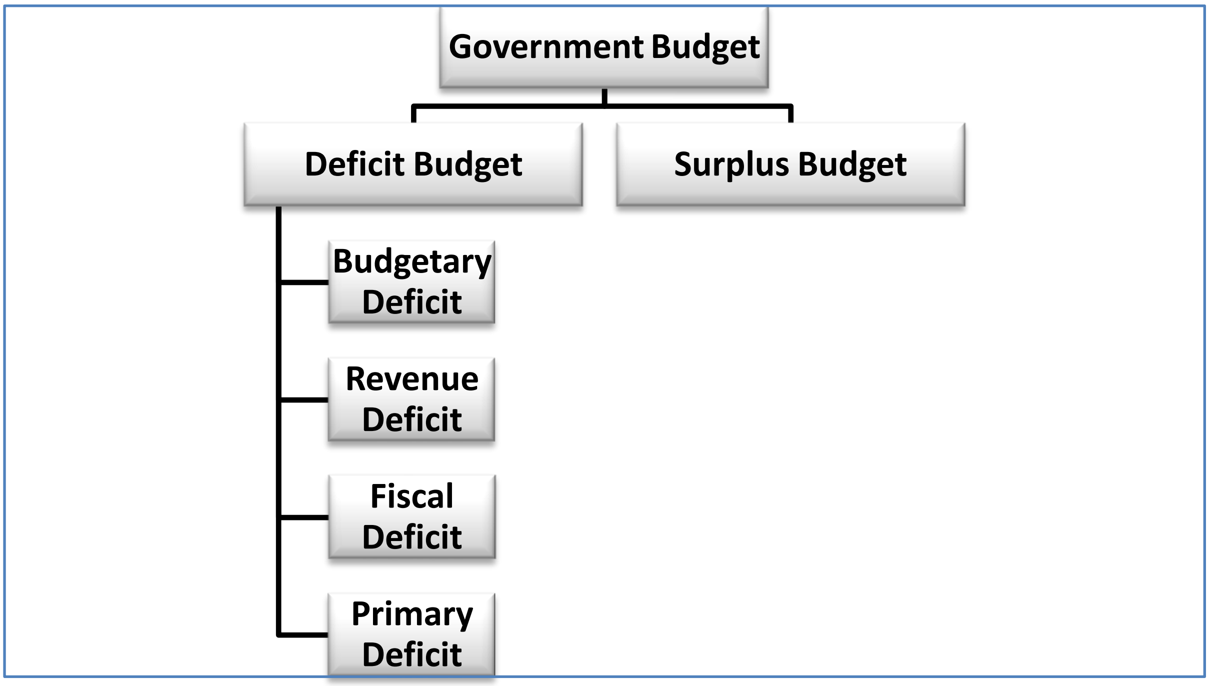
In India the problem of fiscal sustainability is highlighted since the decade of eighties. Researchers focused on unprecedented rise in domestic and external debt suggesting huge stress on government's budgetary solvency. Seshan (1987 and 2012) and Comptroller and Auditor General (CAG) of India (1988) pointed out towards the alarming growth of domestic debt as a serious fiscal crisis. During post liberalization period many researchers including Jha (1999), Lahiri and Kanan (2000), Acharya (2001) and Ahluwalia (2002) have highlighted the unsustainable level of government debt and deficits.

The federal structure of governance has made it possible to assess the sustainability of public finance at the sub-national level too. The fiscal sustainability analysis at the national level is more dynamic in nature and is influenced by a variety of factors like fiscal and monetary policy, foreign exchange rate and printing of new currencyetc. At the sub-national level, the issue of fiscal sustainability is more critical as it depends upon states own resources, devolution of resources from Centre to states and other borrowings. However, according to Bird (2003) fiscal sustainability at state level should mean that *'a sub-national government covers its expenditure from its own revenues without depending upon borrowings and transfers from the Centre'.* The devolution of resources from Centre to state has worked successfully in several countries. However, recent findings have shown that without proper accountability mechanisms and fiscal transparency, devolution can result in unsustainable expenditures of state governments (Chalk and Hemming, 2000).

Dholakia *et al* (2004) suggested using debt to states own resources (D/SOR), rather than debt to GSDP ratio for calculating sub – national sustainability. The ability of states to generate tax and non tax revenues to meet their expenditure and repay debt is a significant indicator towards fiscal sustainability. Other than tax and non tax revenues, the states own resources will also include the states share in tax and grants transferred from the Centre. As per this indicator, if the debt/SOR ratio is within a prescribed range, the fiscal condition of the state is said to be sustainable. Against this if the ratio turns out to be very high it will impose high interest burden, and the states will be required to rework their expenditure polices.

The problem of fiscal sustainability is not only in terms of deficit or debt but also related to types of deficit and its consequences. Moreover, the reforms in fiscal policy are equally important to avoid any future crisis emerging at sub-national level.

Figure – 6.8 Types of Deficits in Budget



A deficit budget simply refers to total government expenditure being greater than total government revenue. This is also known as budgetary deficit. The concept of Deficit budget was made popular by John Maynard Keynes during 1930s. According to Keynes, government should create deficit budget which can be financed through printing new money or borrowing idle money from the people (Chick, Victoria 1983). However it is important to understand the essence of deficit. In recent times there have been several practical concepts giving different interpretations of the term deficit. Some of the key terms used to define the deficit are Capital Account Deficit[1], Revenue Deficit[2], Fiscal Deficit[3] and Primary Deficit[4].

The Fiscal Responsibility and Budget Management (FRBM)[5] Act, 2003, makes it compulsory for the Central Government to attain balance between revenue receipts and revenue expenditure and use capital receipts (including borrowings) for generating only productive assets. This is also referred as 'Golden Rule'[6]of fiscal

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[1] Total Capital Receipts – Total Capital Expenditure
[2] Total Revenue Receipts – Total Revenue Expenditure
[3] Total Government Expenditure (Revenue + Capital) – Total Government Receipts excluding borrowings
[4] Total Government Expenditure (– Interest Payments) – Total Government Receipts (- Borrowings)
[5] The FRBM Act, 2003 was enacted by the Parliament to develop fiscal discipline in the country, reduce fiscal and revenue deficit, improve overall management of public revenue and move towards achieving a balance budget.
[6] The Golden Rule was first introduced in the Finance Act, 1998 of United Kingdom and later in the Code for Fiscal Sustainability approved by the House of Commons in 1998.

policy in several countries including UK, France, and Germany among others. According to the rule the government should borrow only for investment and not for financing current spending. The FRBM Act further states that government should eliminate Revenue Deficit completely within five years from the enactment of the act and thereafter create surplus in revenue account.

6.6 SOCIAL SECURITY EXPENDITURE IN INDIA

The Government does not provide a single comprehensive social security measure for all people. There are number of schemes originating from different ministries departments and local bodies; some of them targeted to specific groups whereas others based on social needs and aspirations arising from time to time.

Among all the measures, the term 'social security' itself appears as one of the items in the list of expenditure on social services undertaken by the government. It is a mixed component of development expenditure as the item includes expenditure on both social security and welfare the allocation to each one of them is not separately available.

Expenditure incurred on this item through the budgetary allocation by the Centre and state government is minuscule and insignificant as a proportion of total expenditure and GDP respectively. Even as a proportion of development expenditure, it has remained less than 2% for central government and less than 4% for the state government. However, within overall social service allocation its share was around 9% and 7% for Centre and state respectively.

Table – 6.6
Social Security & Welfare Exp (Average for 1999-00 to 2012-13)

	By Central Government	By All States Combined
As % of Social Service Exp	8.90	6.90
As % of Development Exp	1.48	3.62
As % of Total Expenditure	0.22	2.19
As % of GDP	0.14	0.41

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Almost over 50% of the total social security expenditure is incurred towards central and state government employees. The government employees are adequately protected with good salary during their job and even after retirement through the provision of pension. On the other hand, those working in unorganized sector, especially poor are extended irregular benefits as a residual of the total budgetary allocation.

Other items under social service expenditure include health, education, housing, water supply, food, labour welfare etc. The objective of social service expenditure is to improve the condition of poor, vulnerable and weaker sections of the society. WHO (2009) and ILO (2010) identified social security benefits along with health, nutrition, housing and water supply collectively as 'social and economic stabilizers which helps to alleviate the risks of poverty, and unemployment during the times of deprivation and vulnerability'.

6.6.1 Need for a Social Security Basket

The present study has a wider coverage than a simple study of social security appearing as a component of development expenditure. In order to satisfy this objective, all such expenditures might be combined which are integral part of a wide social security cover and enhance the well being of people both in the organized and unorganized sector.

Thus, social security is not referred in isolation; instead we have attempted to constitute a Social Security Basket (SSB as we call it), which includes six items of social service expenditures. These items are indispensible from individual's point of view for maintaining or sustaining minimum conditions of living. Government undertakes expenditure on these items to augment the measures of social security and try to mitigate deprivation to the maximum possible extent.

6.6.2 The Components of Social Security Basket (SSB)

For the purpose of the present study the expenditure on **Social Security Basket** (SSB) is defined as 'budgetary expenditure incurred by the government both at national (Centre) and sub-national (state) level and targeted towards individuals and households for meeting minimum standard of living throughout the life'.

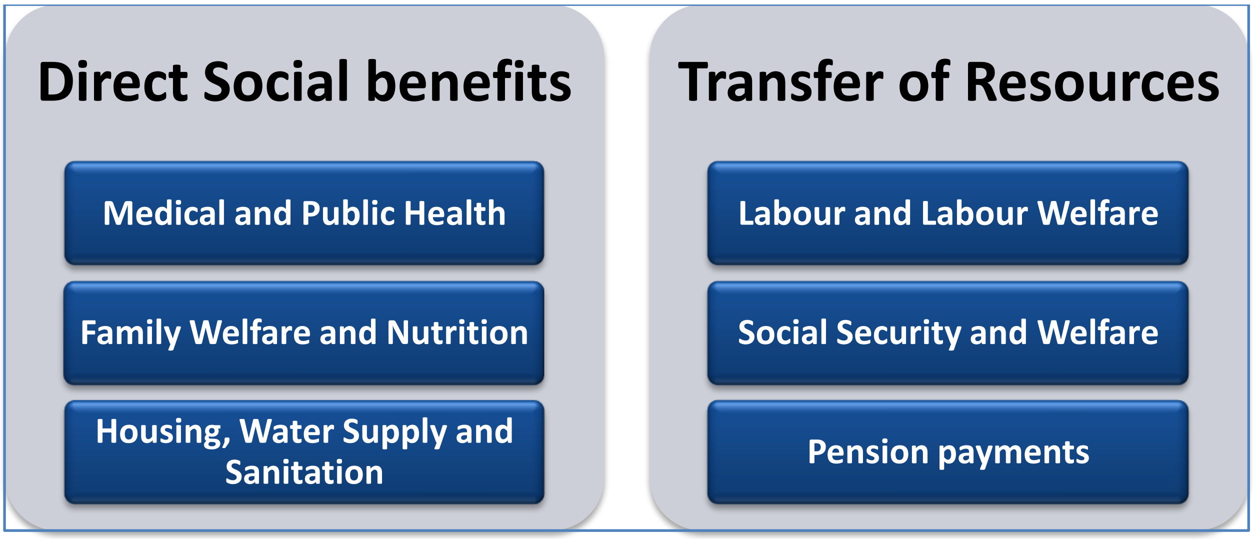
The items of expenditure identified for the purpose are

- Medical and Public Health
- Family Welfare and Nutrition
- Housing, Water Supply and Sanitation

- Labour and Labour Welfare
- Social Security and Welfare
- Pension payments

Every member of the society without any discrimination is entitled for benefits accruing from these selected items. We view the social security basket as a bundle of benefits provided to the deserving individuals or households without demanding any contractual obligations by the government.

Figure – 6.9 Social Security Basket



The items under social security basket constructed for the present study are classified into two broad categories of social schemes (Figure 6.9).

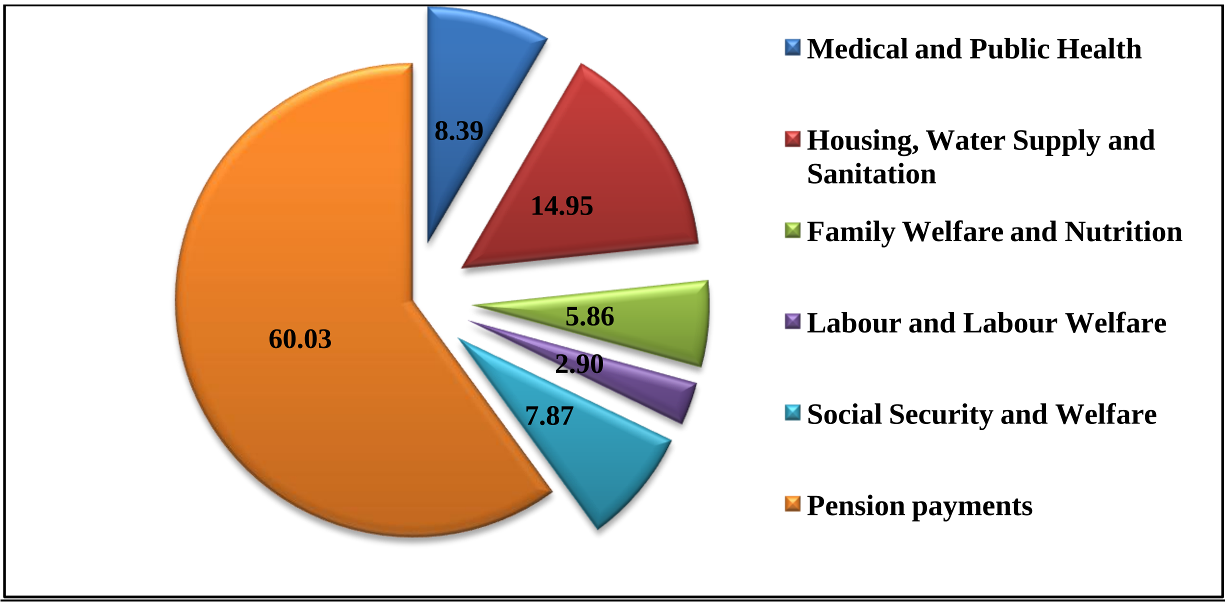
One, ensuring adequate essential public services on account of Medical and Public Health, Family Welfare and Nutrition, Housing, Water Supply and Sanitation. The expenditure on these items actually facilitates such living conditions as may be socially desirable.

Second, items under transfer of resources, mostly in terms of cash transfer to the deprived and vulnerable sections of society ensure sustenance of living conditions. The provision of social security assistance will help the families to maintain a decent standard of living during the times of unemployment, death or disability of the earning member of their family or retirement of the worker. Items included under this category are Labour and Labour Welfare, Social Security Welfare and Pension Payments.

6.6.3 Central Government Expenditure on SSB

The data collected from budget documents reveals that during the last 14 years from 1999-00 to 2012-13 the central government's budgetary allocation on social security basket has increased at a compound annual growth rate of 17% against a growth rate of 18% of total budgetary expenditure. Distribution of the social security basket reveals that 60% of funds are allocated to just one item i.e. pension payments (Figure 6.10). Other items of SSB get only modest shares such as Housing Water Supply and Sanitation, 15%, Medical and Public Health 8.39%, Social Security and Welfare 7.87%, Family Welfare and Nutrition 5.86% and Labour and Labour Welfare 2.90%.

Figure –6.10 Allocations in SSB – Centre (Average for 1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Almost entire pension expenditure of the government goes towards the massive force of retired central government employees and their families.

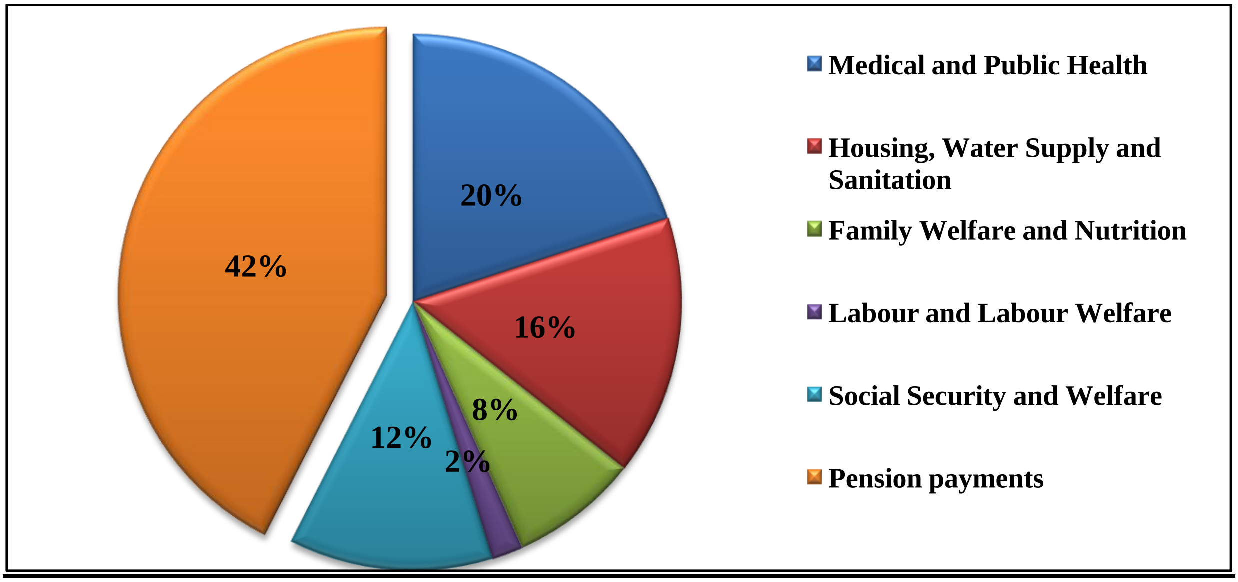
This lopsided allocation has three important implications. First, almost the entire burden of pension is a matter of compulsion, rather than a choice of priority. Second, of the total social security basket, pension is the only identifiable and targeted social security measure for aged population. Third, this leaves the government with inadequate or meager resources to allocate towards other items of the basket. However, over the years, the total social sector expenditure as such has not increased to desirable extent and this remains a matter of great concern.

6.6.4 State Government Expenditure on SSB

As discussed previously under the federal structure, state owns higher responsibility if not equal for providing adequate social security to its residents. Thus, out of the total budgeted expenditure in India (Centre and states combined) the share of states is over 80%. The State government's allocation of expenditure as a whole seems to be more rational than that of central government, although no conclusions can be drawn from the manner in which the expenditures are allocated.

Like Centre, the state governments also incur huge expenditure on pension. As stated earlier government pensions are targeted only to a small section of society, but due to its sheer size there is huge burden of pension payment and it is going to increase further. Nearly 42% of total SSB expenditure during the last 14 years has been incurred towards pension, followed by 20% on medical, 16% on Housing water supply and sanitation, 12% on Social Security and Welfare and rest on Family welfare and Labour welfare.

Figure – 6.11 Allocations in SSB – All States Combined (Average for 1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Greater role of the state governments is justified because they can understand better the local and immediate needs of their people. In case of social services, where market sources are not only limited but sometimes even nonexistent as in case of water supply and sanitation, old age benefits, etc, the responsibility of state government multiplies to that extent.

Three important questions immediately arise in the present context-

- Whether the states are financially capable of providing the social security in relation to the Social Security Basket (SSB)?
- How feasible for the states and the Centre to finance the SSB from their own resources and to what extent?
- To what extent the fiscal indicators are sustainable to finance the SSB in future, particularly in the context of slowly but certainly increasing population of the aged?

For the present study we have selected fifteen major states (14 non special category states plus 1 special category state). These states contribute about 82% of total GDP and 88% of total population as per figures available for 2010-11. The data on expenditure and revenue for these states is collected from their respective budget documents and state finances report of RBI. The reference period for analyzing the expenditure is same as for the Union Government i.e. 1999-00 to 2012-13.

6.7 COMPONENT WISE ANALYSIS OF SSB

1. Pension Payments

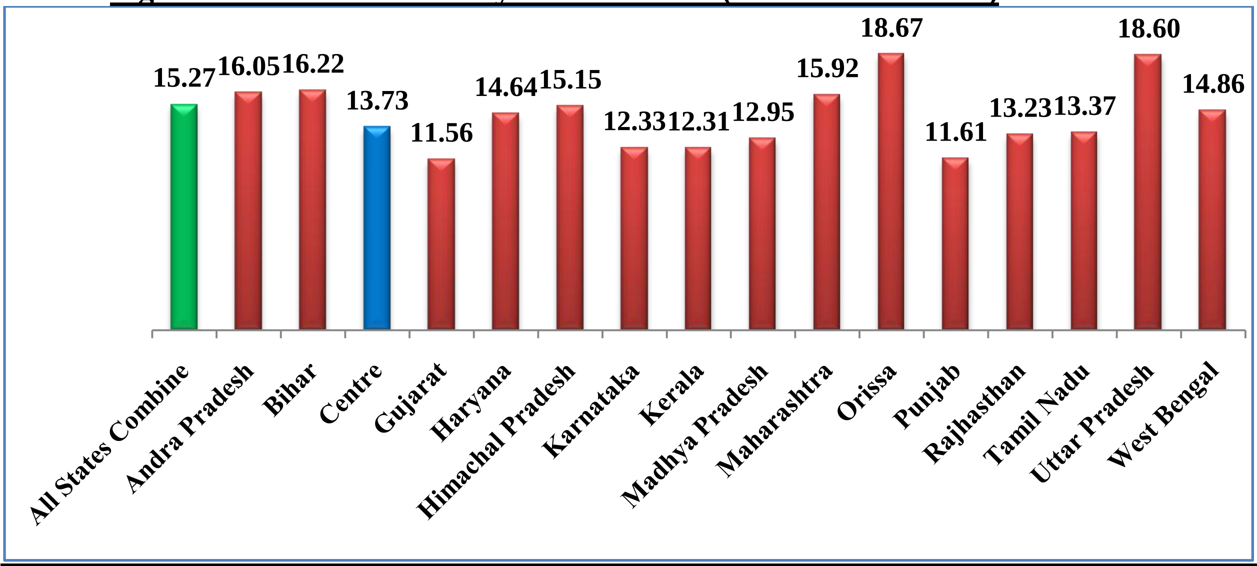
Pension payments have been instrumental in sustaining family consumption during post retirement period similar to that of pre retirement days. For the Government, pension is undoubtedly one of the best measures of providing a reasonable amount of socio-economic security to the aged and his family. As shown in Figure – 6.10, more than 60% of total social sector funds of the Centre are allocated on pension to the central government pensioners[1]. As per the data provided by 6th Pay Commission Report (2008), there were over 38.41 lakh central government pensioners in India, of which 19.5 lakh were in Defence and 10.18 lakh in Railways followed by Civil and other departments. There are two important observations from these figures; one, at present the central government pensioners comprise a very small proportion of total aged in the country, and two, due to higher life expectancy this small group will continue to put fiscal stress upon the government, for at least some time from now. Thereafter, new pension scheme[2] would entail a change in its share and composition

[1] Includes Service Pensioners and Family Pensioners.
[2] Under the New Pension System of Defined contribution introduced from 1St January, 2004 under which every government employee requires to equally contribute towards his/her pension account

of SSB as a whole. Till then, pension will continue to remain a major component of social security expenditure of the governments.

The fact of the matter is that long run average growth rate of pensions has remained on the higher side mainly due to more employees getting retired each year and rising life expectancy. The CAGR for last 14 years period clearly shows that the burden of pension is not only on the Centre but equally critical for State governments. Poor states like Bihar, U.P and Orissa have higher CAGR above the average of all states combined and the Centre (Figure 6.12).

Figure – 6.12 Pension Payments - CAGR (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

High CAGR for pension payments indicate alarming fiscal situation for these states. Pension payments are largely financed through pay-as-you-go (PYAG) implying larger revenue deficit. The question of fiscal sustainability arises on two grounds – one whether current system will remain adequate in financing future pension liabilities and two, whether pension amount will be able to provide adequate protection to everyone against old age, particularly in relation to continuously rising prices in the future.

The State of Kerala faces the biggest challenge in terms of pension burden. Kerala alone allocates almost equal proportion of its total SSB on pension payments as the Centre. Out of its total development expenditure Kerala allocates highest proportion on pensions more than double the Centre and states combined. The critical part is that almost 15% of Kerala's total budgetary expenditure is allocated towards pension; the corresponding figure for Centre is less than 2%. There are two important reasons for such a massive pension burden in Kerala; first, at 55 years, Kerala has the lowest retirement age in the country and second, Kerala has the highest life expectancy (Table 6.7).

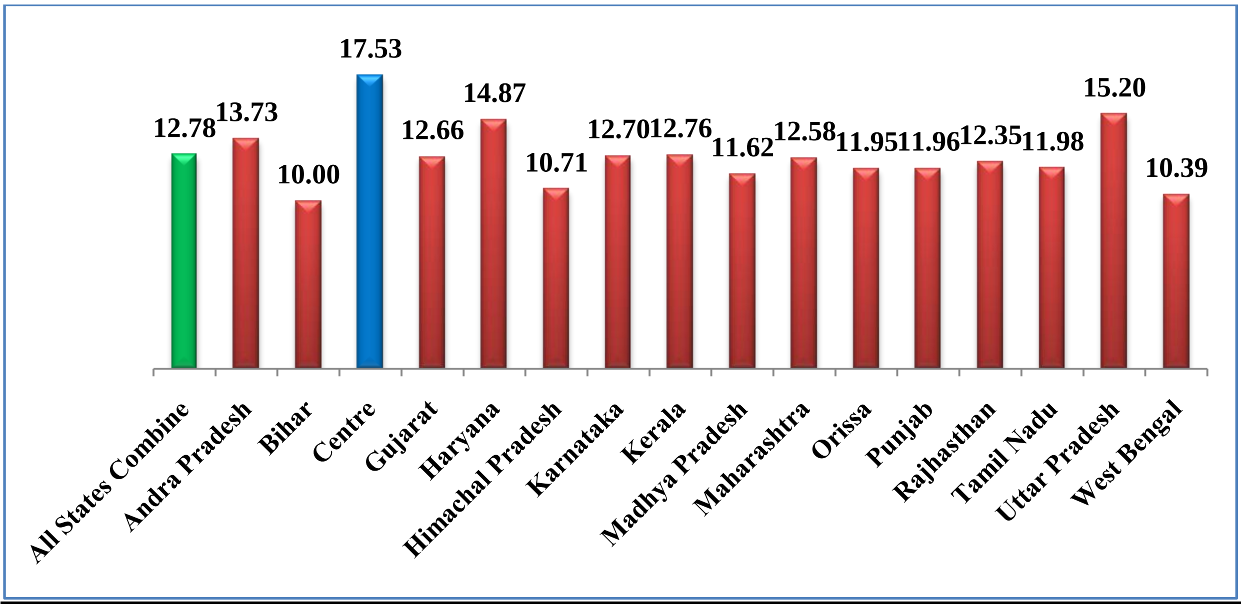
Among other states, Rajasthan, U.P, Bihar, Orissa, West Bengal allocate large proportion of their social expenditures on pensions even more than the Centre's average. In these poor states government being the only source of providing organized employment, pensions form an integral source of social security. These are also states having lower life expectancy. Therefore, as the life expectancy improves further in these states the larger proportion of funds would siphon off on pension payments. This is true for at least one to two decades from now; thereafter pension burden would be gradually reducing due to implementation of new pension scheme.

2. **Medical and Public Health**

Unlike other items in social security basket, expenditure on Medical and Public Health is the most multifaceted item in terms of its coverage, financial burden and target population. A large proportion of population working in informal sector and living under the poverty makes the problem of providing adequate medical and health support facility difficult. The government expenditure on health remains inadequate resulting in huge burden of out of pocket expendiure. The central government expenditure on Medical & Public Health has largely remained stagnant at the same level of pre high growth years (2003-04 to 2009-10). It now comprises of 10% of SSB almost equal to that of in 2004-05 (Figure 6.11).

The CAGR for this item at 17.53% has been highest for the Centre in comparison to selected states (individually) and combined for all states. Bihar, Himachal Pradesh and West Bengal are far behind in terms of CAGR indicating low priority assigned by these states to such a vital item of SSB over the years.

Figure – 6.13 Medical and Public Health – CAGR (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

The average budgetary allocation on Medical and Public Health as a proportion of SSB, Total Social Service Expenditure (SSE), Development Expenditure (DE) and Total Expenditure (TE) are discouraging. The allocation by the center during the high growth years has been very small. It is 8.39% of SSB, 9.58% of SSE, 1.44% of DE and just 0.23% of TE (Table 6.8). These figures are far below the average allocation done by all states combined. Among other states which have given less importance to this item of social security are Haryana, Gujarat and Orissa. In spite of lower CAGR, the states of West Bengal and Himachal Pradesh have allocated higher proportion of their budget towards Health. Kerala is the only state with higher CAGR and has allocated substantially higher than the national average towards Medical and Public Health, the result of this is reflected in human development indicators of the state.

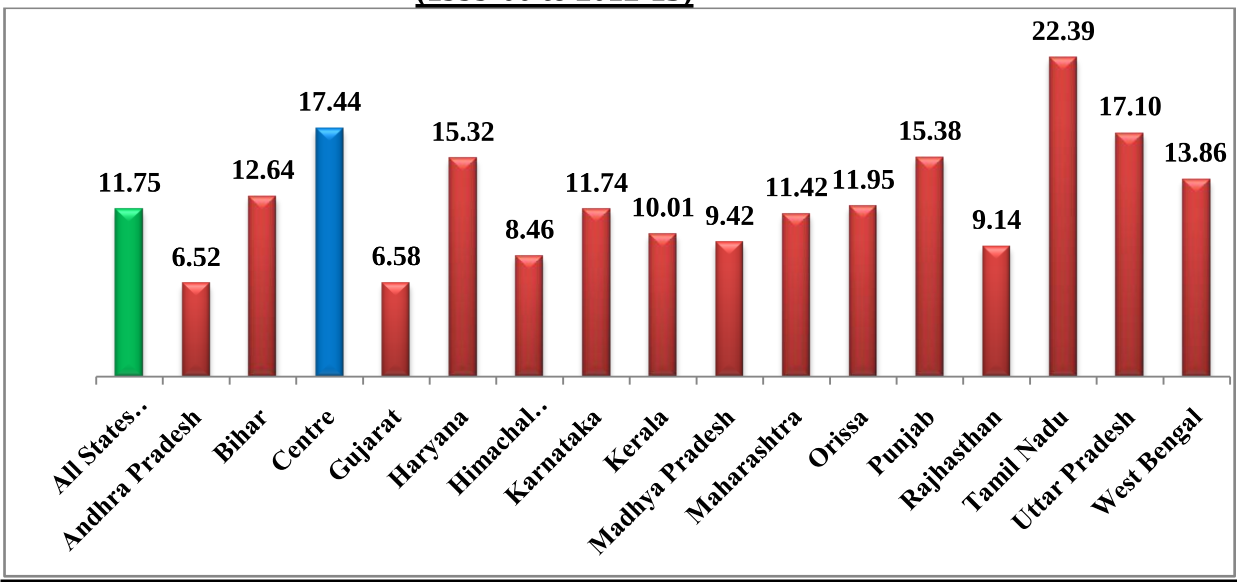
Inadequate financing towards Public Health care has encouraged private health care facilities in the states. It is known that private hospitals and institutes offer medical and health care at market price. This substantially increases out of pocket expenditure on health and more often than not becomes out of reach of common people.

3. Housing Water Supply & Sanitation

Housing is a basic need of life. The provision of housing for a household depends upon large number of factors including income, wealth and modes of financing. In a country where large number of people are poor and incapable to make housing provision, government has immense responsibility to provide a basic dwelling unit to such households.

Equally important aspect of social security is safe drinking water and sanitation facility. Together with housing they directly affect individual's standard of living to a great extent. The funds allocated for these items are divided between multiple ministries, departments and schemes. At Centre three ministries are directly looking after housing, water supply and sanitation. These are the Ministry of Drinking Water and Sanitation, the Ministry of Housing and Urban Poverty Alleviation and the Ministry of Urban Development. However, the responsibility of executing the schemes falls upon the state governments and through them to local bodeis like gram panchayts and muncipalties. Many major states have extrmely low CAGR and low average budgetary allocation on this item. The average allocation of the Centre comes to around 15% and 16% for all States Combined (Figure 6.10 & 6.11).

Figure – 6.14 Housing Water Supply & Sanitation – CAGR (1999-00 to 2012-13)



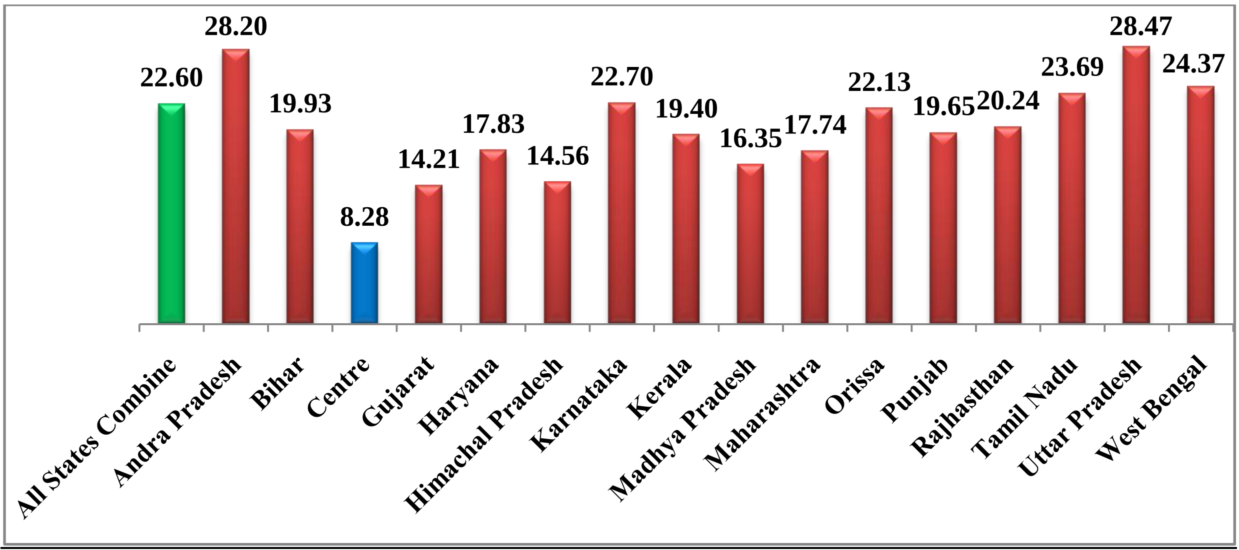
Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

As many as eight states show a lower CAGR than all states combined (Figure 6.14). These states include Andhra, Gujarat, Kerala, Maharashtra and Karnataka among others. It is also observed that large states like Uttar Pradesh, West Bengal, Bihar, Madhya Pradesh and Kerala are falling below national average in terms of allocating their budgetary resources towards housing, water supply and sanitation (Table 6.9).

4. **Social Security & Welfare**

The budgetary allocation of resources for providing Social Security to the people is divided and sub dived under various schemes and policies. However most of these have remained biased towards the government sector employees.

Figure – 6.15 Social Security & Welfare – CAGR (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

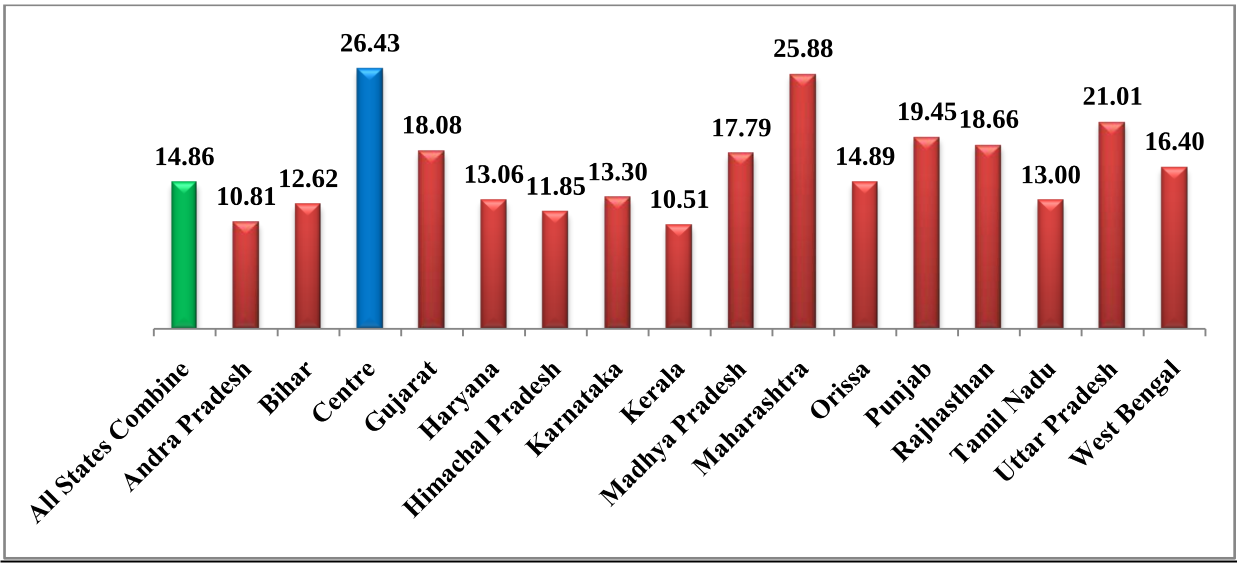
It can be observed from the figure that average CAGR of Centre for this item has been lowest in comparison to those at individual states (Figure 6.15). A high degree of disparity in CAGR can be observed among the states over the allocation for Social Security and Welfare, with lowest being for Gujarat at 14.21% and highest for Uttar Pradesh at 28.47.

It is found that the average budgetary allocations of Centre under social security and welfare as a proportion of Total and Development Expenditure respectively are smaller in comparison to the national average of all states combined. Also, some major industrial states like Gujarat and Maharashtra are allocating dismal proportion of their budget towards social security. Haryana, Tamil Nadu, Uttar Pradesh and West Bengal are allocating higher than national average on this item of SSB (Table 6.10).

5. **Family Welfare and Nutrition**

Expenditure on Family Welfare & Nutrition is supplementary to the expenditure on medical and public health. Family Welfare and Nutrition are two separate items under Social Service expenditure; they have been clubbed together as a single item under Social Security Basket as they have the common objective and target groups. For a long time concentration of Family Welfare was over population control and family planning only. It is only recently that the scope has been widened and schemes for improving the overall standard of the family have been included. Similarly allocation over Nutrition has mostly targeted only poor children from rural areas, ignoring the need for the same in urban areas.

Figure –6.16 Family Welfare and Nutrition – CAGR (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

The expenditure over this item has gradually increased over the period; it has one of the highest CAGR of around 26% in SSB. However, in proportionate terms the allocation is still very small (Figure 6.16 and Table 6.11).

Malnutrition has always been a deterrent to economic and human development in any economy. In spite of several efforts and schemes of the central government in this filed the results are not encouraging. This indicates that more resources should be allocated in an innovative manner to strengthen the nutritional condition of people.

As a proportion of total expenditure, the Centre allocates a very small amount on this item. The average allocation over the reference period is just 0.16% (Table 6.11). The corresponding figure for all states combined is 1.39%. Some of the developed states like Punjab, Kerala, Haryana and Karnataka spend less than the national average on family Welfare and Nutrition. However out of its total social sector spending Centre's allocation on this item is slightly better in comparison to those of all states.

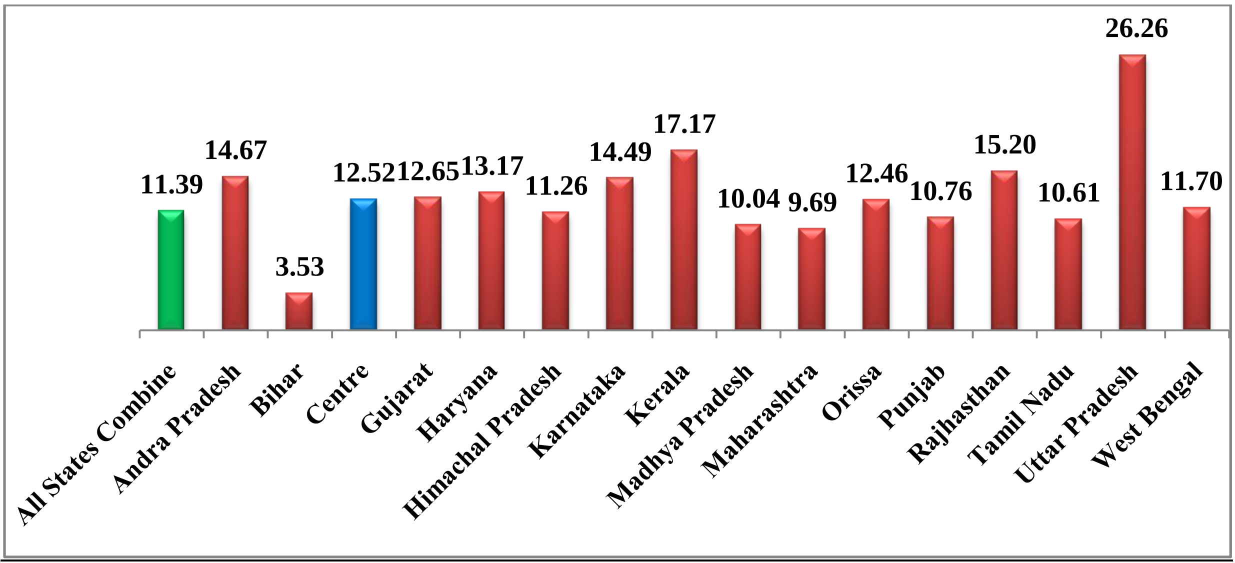
States due to diversified living and food habits of people face a more challenging situation in providing these services. Various department and ministries under the State government like Rural Development, Health and family Welfare, Social Welfare, Food and Supply department, and others need to formulate a common program to adequately provide this essential form of social security to its people.

6. Labour & Labour Welfare

This item in the Social Security Basket serves a number of objectives both on economic and social front. Adequate transfer of resources through labour welfare can result in higher labour productivity and higher standard of living for both labour and his family. Allocation of resources on this item during the working years of labour and after retirement undoubtedly provides a comprehensive form of social security.

However Labour is not purely a subject of Centre or state, as it features in the concurrent list of the Constitution; the states and the Centre both can legislate and enforce labour laws. This makes it difficult to fix the responsibility of labour welfare between Centre and State governments. There are 43 labour laws enacted by the Central Government and enforced by Centre or state governments. There are also 91 labour laws enacted and enforced by the respective state governments. Too many labour laws and multiple coverage of labour especially in the organized sector force the employer to create employment which is unorganized in nature.

Figure –6.17 Labour & Labour Welfare – CAGR (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Over the reference period, central government allocation on this item has declined by nearly 1% and its annual growth rate has also been volatile. The average CAGR during the reference period for the Centre and all states combined has been modest at around 12% (Figure 6.17). For most of the major states including some industrially advanced states like Maharashtra and Tamil Nadu the CAGR for expenditure on Labour and Labour Welfare has been lower than the national average. On the other hand as a proportion to total expenditure Centre spends least over this item at 0.8%, while states of Maharashtra, Haryana and Kerala spend a higher proportion (Table 6.12).

Table – 6.7

Budgetary Expenditure on Pension Payments (Average for 1999-00 to 2012-13)

As a % of SSB		As a % of DE		As a% of TE	
Haryana	34.30	Gujarat	0.17	**Centre**	**1.68**
Rajasthan	37.10	Maharashtra	9.22	Maharashtra	5.81
Madhya Pradesh	38.02	Madhya Pradesh	9.91	Madhya Pradesh	6.50
Maharashtra	38.87	**Centre**	**10.39**	Gujarat	6.85
Karnataka	39.35	Karnataka	10.59	Karnataka	7.18
Gujarat	40.07	Haryana	10.99	Haryana	7.31
Andhra Pradesh	40.84	Andhra Pradesh	12.20	**All States Combine**	**7.66**
Himachal Pradesh	40.93	**All States Combine**	**12.81**	Uttar Pradesh	7.67
All States Combine	**42.50**	Rajasthan	13.11	Andhra Pradesh	8.34
Uttar Pradesh	44.27	Uttar Pradesh	13.25	Rajasthan	8.43
Tamil Nadu	46.70	Himachal Pradesh	16.71	Punjab	9.80
West Bengal	46.73	Orissa	17.22	West Bengal	9.86
Orissa	46.87	West Bengal	18.60	Orissa	10.12
Bihar	52.70	Bihar	20.06	Himachal Pradesh	10.49
Punjab	55.87	Tamil Nadu	20.59	Bihar	11.89
Centre	**60.03**	Punjab	20.92	Tamil Nadu	12.38
Kerala	60.14	Kerala	28.95	Kerala	15.13

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

Table – 6.8

Budgetary Expenditure on Medical and Public Health (Average for 1999-00 to 2012-13)

As a % of SSB		As a % of SSE		As a % of DE		As a% of TE	
Centre	8.39	Haryana	8.97	Centre	1.44	Centre	0.23
Haryana	13.80	Gujarat	9.42	Haryana	4.41	Haryana	2.93
Tamil Nadu	14.38	Centre	9.58	Gujarat	4.76	Gujarat	3.26
Orissa	16.25	Orissa	9.94	Karnataka	5.23	Orissa	3.43
Bihar	17.34	Maharashtra	10.07	A.P	5.31	Karnataka	3.56
A.P	17.73	Rajasthan	10.63	M.P	5.56	All States	3.60
Rajasthan	18.60	Tamil Nadu	10.63	Maharashtra	5.75	A.P	3.62
Kerala	19.03	Bihar	10.65	Orissa	5.87	Maharashtra	3.62
Gujarat	19.03	A.P	10.94	All States	6.03	M.P	3.65
H.P	19.39	Karnataka	10.95	Bihar	6.20	Punjab	3.65
Karnataka	19.50	All States	11.62	Tamil Nadu	6.36	Bihar	3.71
All States	19.99	M.P	11.74	Rajasthan	6.52	Tamil Nadu	3.82
Punjab	21.28	West Bengal	12.95	Uttar Pradesh	6.77	Uttar Pradesh	3.92
M.P	21.58	Uttar Pradesh	13.09	H.P	7.73	Rajasthan	4.19
West Bengal	22.02	H.P	13.75	Punjab	7.77	West Bengal	4.59
Uttar Pradesh	22.96	Kerala	14.59	West Bengal	8.62	Kerala	4.75
Maharashtra	24.32	Punjab	15.44	Kerala	9.04	H.P	4.84

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. SSE-Social Service Exp, DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

Table – 6.9

Budgetary Expenditure on Housing Water Supply & Sanitation (Average for 1999-00 to 2012-13)

As a % of SSB		As a % of SSE		As a % of DE		As a% of TE	
Kerala	6.47	U.P	3.96	U.P	2.03	**Centre**	**0.42**
U.P	6.98	W.B	4.79	**Centre**	**2.57**	U.P	1.17
W.B	8.18	Kerala	4.88	Kerala	3.02	Kerala	1.59
Punjab	9.36	Bihar	6.06	W.B	3.19	Punjab	1.60
Bihar	9.53	Punjab	6.95	Punjab	3.42	W.B	1.71
Tamil Nadu	11.71	Maharashtra	7.88	Bihar	3.47	Bihar	2.11
A.P	13.09	A.P	8.11	A.P	3.88	A.P	2.64
Orissa	14.62	Tamil Nadu	8.72	M.P	4.18	M.P	2.72
Centre	**14.95**	M.P	8.77	Maharashtra	4.48	Maharashtra	2.82
All States	**15.63**	Orissa	8.94	**All States**	**4.76**	**All States**	**2.84**
M.P	16.00	**All States**	**9.21**	Karnataka	4.96	Orissa	3.09
Karnataka	18.53	Karnataka	10.43	Tamil Nadu	5.23	Tamil Nadu	3.15
Maharashtra	19.06	Gujarat	11.54	Orissa	5.24	Karnataka	3.39
Gujarat	23.11	Haryana	15.42	Gujarat	5.75	Gujarat	3.94
Haryana	23.72	**Centre**	**17.01**	Haryana	7.50	Haryana	5.01
H.P	28.57	Rajasthan	17.21	Rajasthan	10.58	Rajasthan	6.76
Rajasthan	30.12	H.P	20.42	H.P	11.50	H.P	7.20

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. SSE-Social Service Exp, DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

Table – 6.10

Budgetary Expenditure on Social Security & Welfare (Average for 1999-00 to 2012-13)

As a % of SSE		As a % of SSE		As a % of DE		As a% of TE	
Gujarat	4.43	Gujarat	2.20	Gujarat	1.11	**Centre**	**0.22**
Rajasthan	4.86	Rajasthan	2.79	**Centre**	**1.48**	Gujarat	0.76
H.P	6.88	Maharashtra	3.59	Rajasthan	1.69	Rajasthan	1.10
Centre	**7.87**	H.P	5.00	Maharashtra	2.07	Maharashtra	1.31
Kerala	8.66	A.P	6.66	H.P	2.81	Punjab	1.71
Maharashtra	8.77	Bihar	6.81	A.P	3.21	**All States**	**2.19**
Punjab	9.26	Kerala	6.90	Punjab	3.55	A.P	2.24
Bihar	10.40	**All States**	**6.90**	**All States**	**3.62**	Kerala	2.24
A.P	10.71	Punjab	6.97	Bihar	3.90	Bihar	2.39
All States	**12.28**	M.P	8.28	M.P	3.96	M.P	2.60
Orissa	13.57	Karnataka	8.32	Karnataka	4.02	Karnataka	2.80
Karnataka	14.37	Orissa	8.52	Kerala	4.29	H.P	2.81
Tamil Nadu	14.66	**Centre**	**8.90**	Orissa	4.98	Orissa	2.96
M.P	14.77	West Bengal	9.76	U.P	5.96	U.P	3.53
West Bengal	16.19	Tamil Nadu	10.90	Tamil Nadu	6.50	West Bengal	3.60
U.P	18.78	U.P	11.10	West Bengal	6.56	Tamil Nadu	3.96
Haryana	20.95	Haryana	13.62	Haryana	6.68	Haryana	4.48

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. SSE-Social Service Exp, DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

Table – 6.11

Budgetary Expenditure on Family Welfare & Nutrition

(Average for 1999-00 to 2012-13)

As a % of SSB		As a % of SSE		As a % of DE		As a% of TE	
Punjab	2.25	Punjab	1.65	Punjab	0.84	**Centre**	**0.16**
Kerala	2.58	Kerala	1.92	**Centre**	**1.06**	Punjab	0.40
H.P	3.23	M.P	2.12	Kerala	1.19	Kerala	0.63
Haryana	4.44	H.P	2.31	H.P	1.29	H.P	0.81
U.P	4.95	U.P	2.85	Haryana	1.43	U.P	0.85
West Bengal	5.85	Haryana	2.90	U.P	1.48	Haryana	0.96
Centre	**5.86**	West Bengal	3.48	Karnataka	1.76	Karnataka	1.20
Karnataka	6.50	Karnataka	3.68	M.P	2.12	West Bengal	1.25
Orissa	7.62	Maharashtra	4.05	West Bengal	2.29	**All States**	**1.39**
All States	**7.72**	**All States**	**4.42**	**All States**	**2.31**	M.P	1.40
Bihar	7.80	Orissa	4.70	Maharashtra	2.35	Maharashtra	1.50
M.P	7.93	Rajasthan	4.83	Gujarat	2.66	Orissa	1.63
Rajasthan	8.41	Bihar	4.89	Orissa	2.77	Bihar	1.72
Maharashtra	9.88	Gujarat	5.21	Bihar	2.85	Gujarat	1.82
Gujarat	10.50	**Centre**	**6.57**	Rajasthan	2.94	Rajasthan	1.91
Tamil Nadu	11.14	Tamil Nadu	8.24	Tamil Nadu	4.91	Tamil Nadu	2.96
A.P	16.44	A.P	10.21	A.P	5.00	A.P	3.43

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. SSE-Social Service Exp, DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

Table – 6.12

Budgetary Expenditure on Labour & Labour Welfare (Average for 1999-00 to 2012-13)

As a % of SSB		As a % of SSE		As a % of DE		As a% of TE	
Rajasthan	0.92	Rajasthan	0.53	Rajasthan	0.32	**Centre**	**0.08**
H.P	1	West Bengal	0.6	A.P	0.35	Rajasthan	0.21
West Bengal	1.03	Orissa	0.65	Orissa	0.39	West Bengal	0.22
Orissa	1.07	H.P	0.71	H.P	0.4	Orissa	0.23
A.P	1.18	A.P	0.73	West Bengal	0.4	A.P	0.24
Tamil Nadu	1.4	M.P	0.92	M.P	0.44	H.P	0.25
M.P	1.71	Karnataka	0.98	Karnataka	0.47	M.P	0.29
Karnataka	1.75	Tamil Nadu	1.04	**Centre**	**0.49**	Karnataka	0.33
All States	**1.88**	**All States**	**1.07**	**All States**	**0.56**	**All States**	**0.33**
Punjab	1.98	U.P	1.19	Tamil Nadu	0.62	Punjab	0.34
U.P	2.06	Bihar	1.37	U.P	0.64	Tamil Nadu	0.37
Bihar	2.19	Maharashtra	1.4	Gujarat	0.72	U.P	0.37
Haryana	2.79	Gujarat	1.42	Punjab	0.73	Bihar	0.47
Gujarat	2.88	Punjab	1.45	Bihar	0.78	Gujarat	0.49
Centre	**2.9**	Haryana	1.82	Maharashtra	0.81	Maharashtra	0.51
Kerala	3.12	Kerala	2.41	Haryana	0.89	Haryana	0.59
Maharashtra	3.45	**Centre**	**3.38**	Kerala	1.49	Kerala	0.79

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years. SSE-Social Service Exp, DE-Development Exp, TE-Total Exp. (includes both Revenue and Capital a/c Exp).

6.8 GROWTH AND SHARE OF SSB IN BUDGETARY ALLOCATIONS

The objective of the budget is not just to allocate resources under different heads or categories but also to attain variety of social and economic purposes for which such resources are allocated. It is equally important that the allocated resources reach the target groups and benefit them. The budgets have constitutional powers and the states have to abide by the provisions of budget. Announcements of various schemes and policies in the budget reflect the government's commitment and intention towards the issue. In India, budgets have always been used to announce variety of programs and benefits towards the eradication of poverty and other social evils; but, whether these announcements have been supported by required monetary allocation and adequate outcome is a serious question to ask.

6.8.1 SSB Spending Indicators – (A) In order to probe further into the allocation of SSB the present study has attempted to explore the following

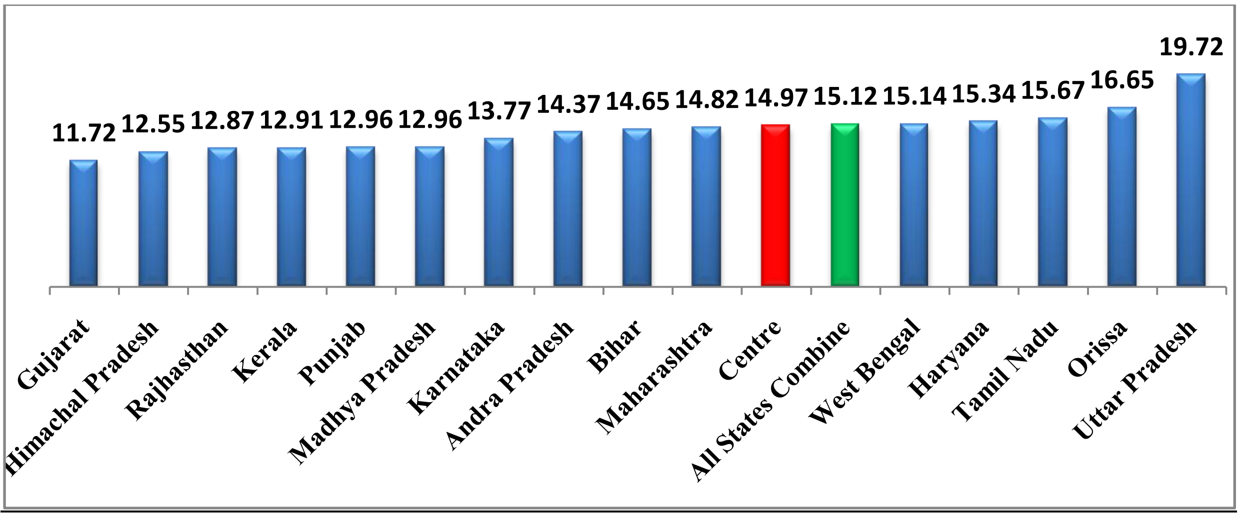
1. SSB as a Proportion of Development Expenditure.
2. SSB as a Proportion of Total Expenditure.
3. SSB as a Proportion of Total Revenue.
4. SSB as a Proportion of GSDP.
5. SSB as a Proportion of States Own Resources (SOR).
6. Growth of SSB Per Capita (2001-2011).

As stated earlier, the responsibility of the state in providing adequate social security has increased manifold. However, the Centre continues to play an important role in social sector as most of the major schemes are funded by the Centre either directly or indirectly through a multiple of outlets. Thus, for the purpose of comparative evaluation, the study also analyses Center's SSB spending pattern with reference to the average of all states combined.

Over the years Total Budgetary Expenditure of Centre and states has increased considerably, although, the share of Development Expenditure in it has fallen. Due to reduction of expenditure on account of development head, resources under SSB have also shrunk to a great extent. Interest Payment, Administrative Services and General Services have accounted for maximum non-plan and non-development expenditure during the 14 years period under study.

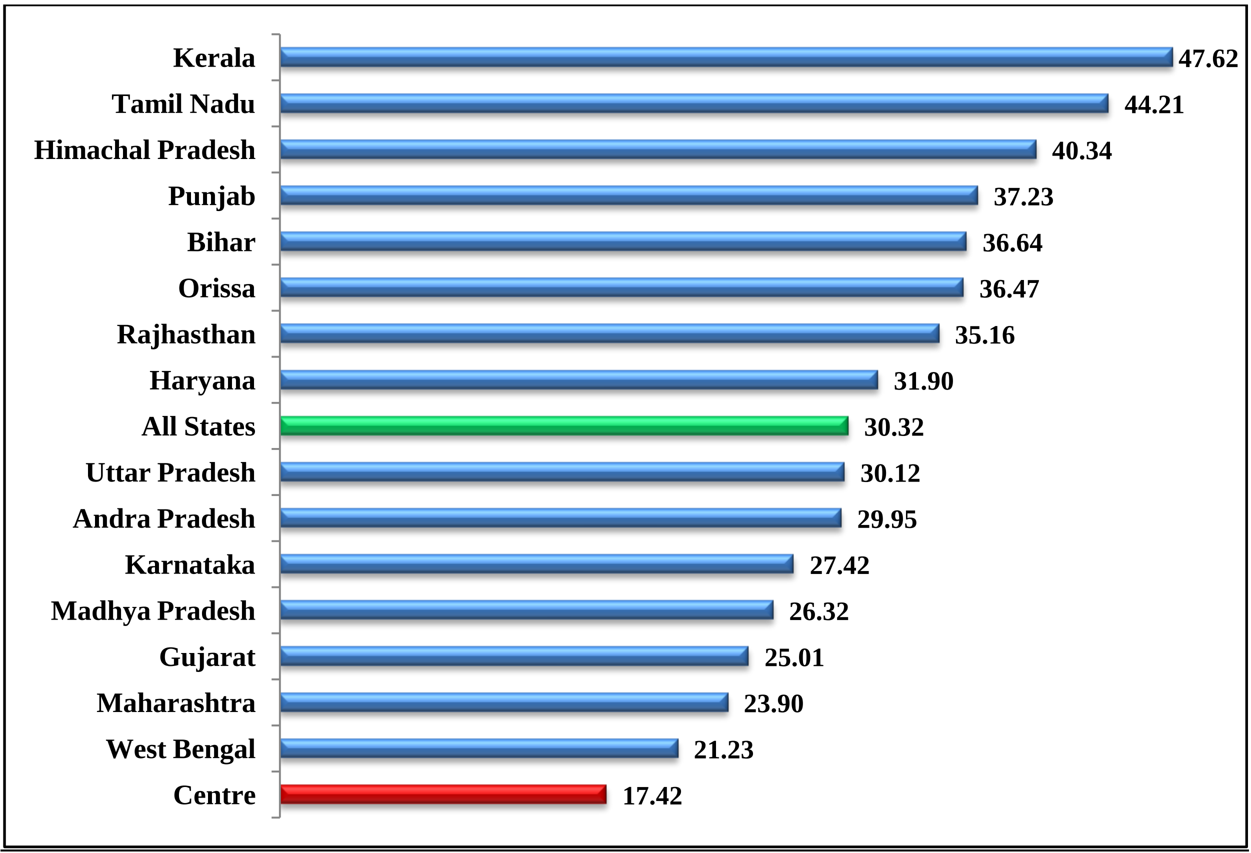
The average CAGR of SSB spending is about 14.48% for the last 14 years period. Eight out of 15 States and the Centre have a growth rate below 14.48%. The state of Gujarat has the lowest CAGR of 11.72% and the state of Uttar Pradesh has the highest at 19.72% (Figure 6A-I).

Figure – 6A-I CAGR of SSB (1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Figure – 6A-II
SSB as a % of Development Expenditure (Average for 1999-00 to 2012-13)



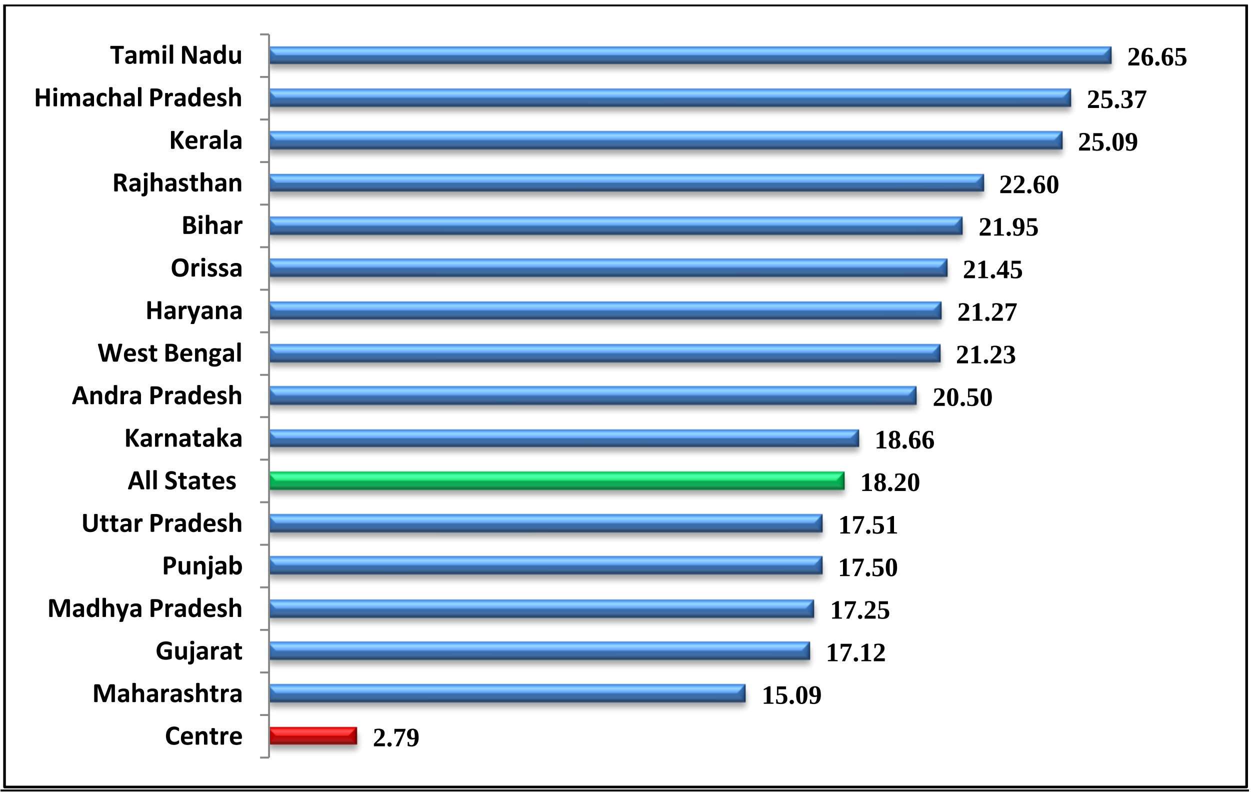
Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

The average share of SSB in development expenditure comes to 17.42% for the Centre (Figure 6A-II). The average for all states combined is almost more than double at 30%. Eight states score better than the average but some major industrial states like Maharashtra, Gujarat and Karnataka have performed below the national average. These are also the states with large number of unorganized workforce who are deprived of the basic social security services. It is discouraging that the allocation on SSB as a proportion to development expenditure has reduced in these states during the reference period.

Expenditure on SSB as proportion of total expenditure by the Centre is not only meager but has also fallen by nearly 1 percentage point during the reference period. The average for all states is 18.2% while majority of States are allocating higher than the national average towards SSB out of their total budgetary expenditure (Figure 6A-III). Once again some major industrial States like Gujarat and Maharashtra along with agricultural States like Uttar Pradesh and Madhya Pradesh are allocating less than the national average towards SSB out of their Total Budgetary Expenditure.

Figure – 6A-III

SSB as a % of Total Expenditure (Average for 1999-00 to 2012-13)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

As far as social sector spending and SSB is concerned, the states and the Centre allocate a bare minimum amount from their total revenue and also as a proportion of GSDP or GDP as the case may be. Three indicators are selected for assessing ability of the state governments to allocate adequate resources towards SSB.

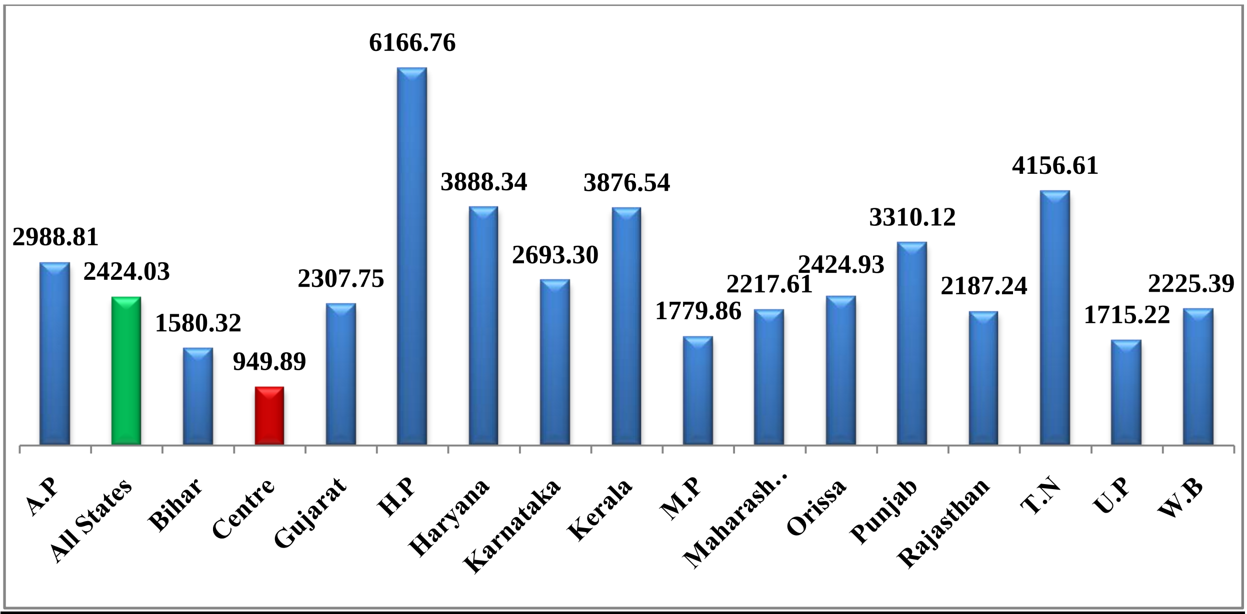
SSB as a proportion of Total Revenue shows the overall allocation the basket (SSB) gets from the total public revenue earned by the governments. 9 major states are allocating less than 20% of their revenue on SSB. The average allocation towards SSB from total revenue for all the states combined comes to just 17% as compared to the Centre at 8%. Five major States including Maharashtra, Gujarat and Karnataka spend less than national average on SSB from their total revenue (Table 6.13).

These are also the states that are spending just 5-6 percent of GSDP on SSB (Table 6.13). Due to extremely poor allocation by special category states for SSB as a proportion of GSDP/GDP, the average for all states combine comes to just around 3%. Though, all major states may have scored better than this, the total allocation remains very small (Table 6.13)

SSB as a proportion of states' own resources (SOR) demonstrates the priority governments have given to SSB spending. States of Maharashtra, Gujarat, Karnataka and M.P are allocating less than 50% of their own resources whereas states like Bihar, H.P, and Rajasthan are heavily burdened with SSB- spending of over 80% of their own resources (Table 6.13).

The per capita SSB expenditure for the Centre till early 90's was around Rs 200/. It has jumped to over Rs 1000 very recently (2012). The average per capita SSB for all States combined comes to Rs 2424/. There are 7 major states that spend less than that of all States combined (Figure 6A-IV).

Figure –6A-IV
Per Capita Allocation of Social Security Basket – 2011



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

In absolute terms during the last few years huge amount is allocated over SSB but proportionately it still forms a small part of total budgetary allocation. It is also interesting to note that in spite of allocation by the center, several states have not fully utilized the funds. Doubts have been raised about the modus operandi of funds allocation and how the funds do not reach to the target groups.

6.9 FINANCING SOCIAL SECURITY- THE PROBLEM OF SUSTAINABILITY

The states in India bear maximum burden of social expenditure. Out of the total government expenditure the states account for over 80% share. However the financial condition of states has continued to deteriorate over the years. This is mainly because there has been negligible growth in states own resources and at the same time most of the state expenditure has been on account of non-development head, especially on the revenue account. Financing various social sectors spending out of states' own resources is becoming difficult, while doing the same from borrowed resources is also unsustainable. Even the major industrial states are in huge financial debt.

Though there can be several measures and indicators for ascertaining government's fiscal sustainability the present study emphasizes two significant areas of fiscal burden- total outstanding liabilities and interest payment burden. The former determines government's dependency upon borrowing and the later helps in determining government's debt service/repayment burden. Both these factors affect the spending capacity of the government.

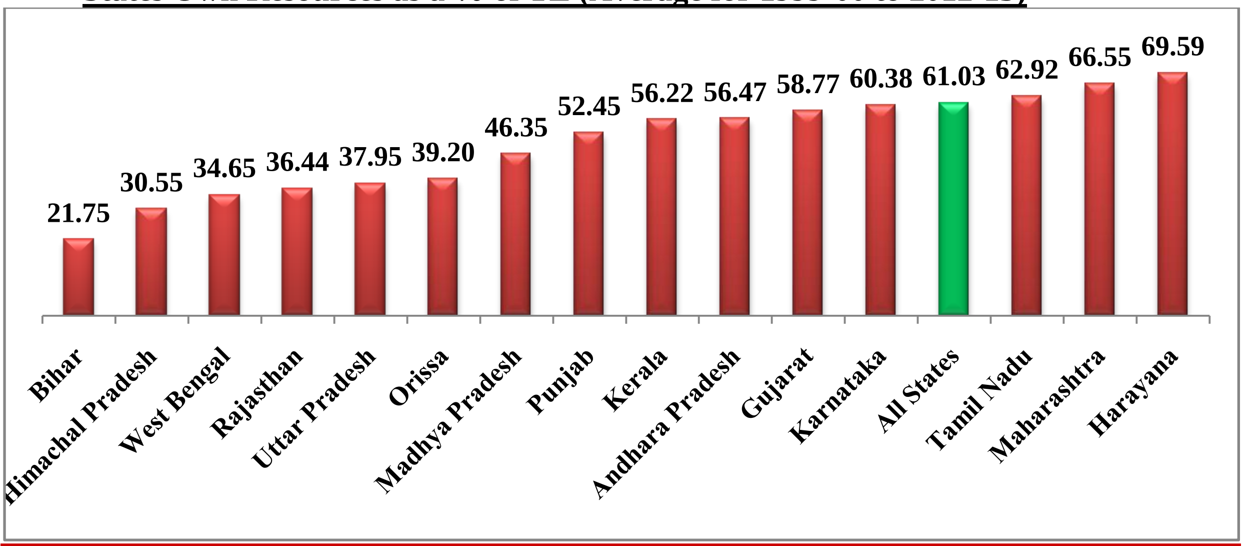
6.9.1 **Fiscal Risk indicators** – **(B)** following indicators are used for assessing fiscal sustainability risk of the states-

1. SOR as a % of Total Expenditure
2. Growth of Outstanding Liabilities vs. Growth of GSDP
3. Outstanding Liabilities as a % of SOR
4. Outstanding Liabilities as a % of GSDP
5. Interest Payments as a proportion of Revenue Receipts
6. Interest Payments as a proportion of SOR
7. Growth of Interest Payment vs. Growth of SOR

As referred above for most of the major states, SOR as a proportion of total expenditure is less than 50%. While only three major states like Tamil Nadu, Maharashtra and Haryana have SOR/TE above all states combine. This indicates the difficulty states face in financing their expenditure through their own resources. This also means that the states have to manage rest of their expenditures through borrowing from the Centre. The lending by the Centre comes at the cost of squeezing its own allocable resources meant for fulfilling its budgetary obligations (Figure 6B-I).

Figure –6B-I

States Own Resources as a % of TE (Average for 1999-00 to 2012-13)

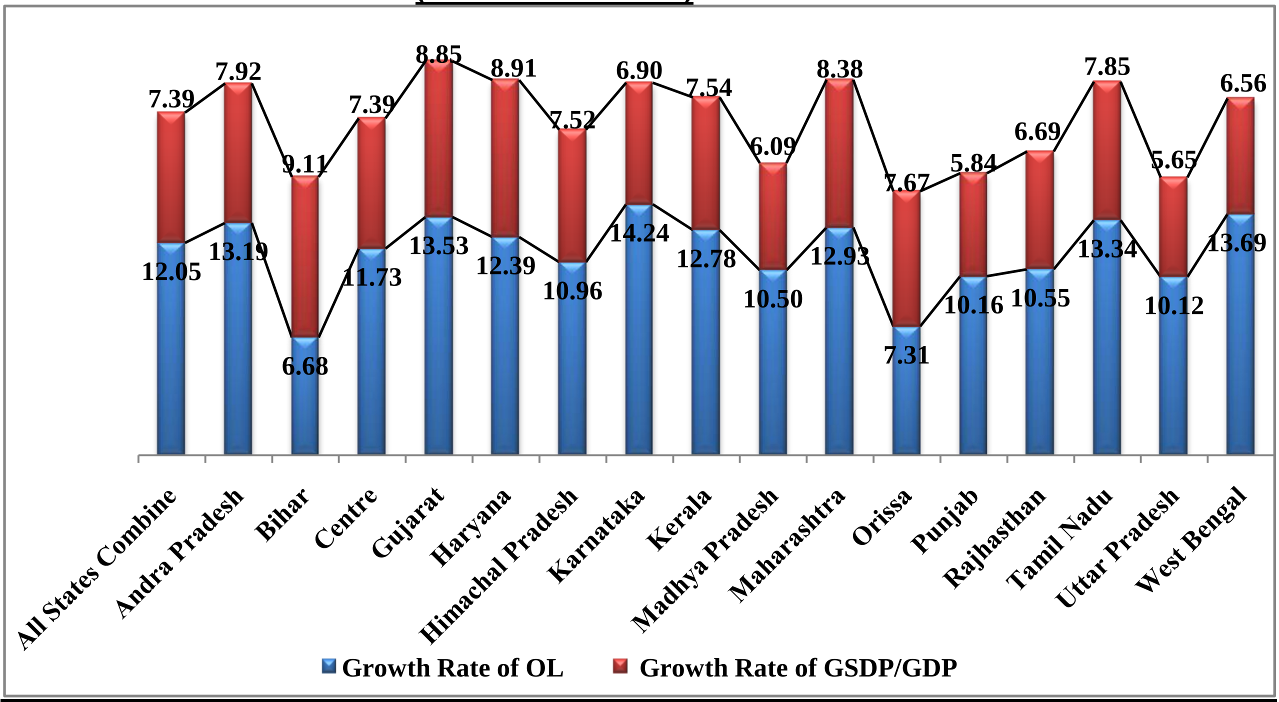


Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

Over the period of 14 years, the outstanding liabilities have increased by over 10% for all major states. At the same time the average growth rate of GSDP has increased by only 7%. The gap between the two is an important indicator of states fiscal health. According to the RBI methodology of calculating states outstanding liabilities, the debt and liabilities are one and the same and mainly include components like Loans from banks and FIs, Internal Debt and, Loans from Centre and other Public Accounts. For all states, loans from Centre are main source of borrowing and therefore it puts an additional pressure on the expenditure.

The big industrial states like Karnataka, Gujarat, Tamil Nadu, Andhra and Maharashtra have higher average growth rates of outstanding liabilities. These are also the states who allocate proportionately less on SSB out of their given total expenditure and development expenditure. The states like Rajasthan, Uttar Pradesh, Orissa and Bihar are also under pressure as is apparent from the growth rate of their outstanding liabilities, which is almost double than the average growth rate of GSDP/GDP for these states (Figure 6B-II).

Figure –6B-II Average Growth of Outstanding Liabilities and GSDP/GDP* (1999-00 to 2012-13)



*Computed from the RBI Report on State Finances: A Study of Budgets, Various Years and Planning Commission Various Years. *At constant prices (2004-05)*

One of the most appropriate indicators of fiscal sustainability in the recent years has been the ratio of Debt to SOR (Dholakia *et. al.* 2004). This indicator highlights the burden of outstanding liabilities on states' own resources. In other words, OL/SOR ratio examines the ability of the state government to finance their Outstanding Liabilities out of their own tax and non tax resources. Further the trend of the ratio (declining or increasing) helps to understand whether the problem of financing debt can be worked out in the near future. For three major states Gujarat, Punjab and Rajasthan the OL/SOR ratio is rising during the reference period. Considering the ratio of all states combined as a median, only 4 states have a better ratio of OL/SOR (Table 6.14). For states like Punjab, H.P, Rajasthan, W.B, and Bihar the ratio is more than double of the national average.

The outstanding liabilities as a proportion of GSDP or GDP give a comprehensive picture of fiscal sustainability of Centre and the states. Total revenue of a state is likely to depend upon its GSDP. However the study did not find a strong relationship between growth of GSDP and growth of state revenues. Therefore OL/GSDP has been taken as a separate indicator for assessing the states' fiscal sustainability. The average of OL/GSDP for all states combined comes to 28% and for 15 major states, 50%. If we assume 50% as an average tolerable level of Debt/GSDP ratio, then majority of states and the Centre have unsustainable debt burden. Orissa, U.P and H.P have the worst ratios in this context (Table 6.14).

To further examine fiscal sustainability of government finances we have tried to find out the debt servicing burden of various states. The debt can be said to be tolerable if servicing of the same does not put huge burden on government's receipts, especially revenue receipts. Interest payment as a proportion of revenue receipts and as a proportion of State's Own Receipts is used to calculate the debt servicing burden.

What proportion of interest liability out of the total revenue receipts is said to be tolerable? According to Dholakia et. al., (2004) and RBI (2013) interest payment to revenue receipts up to 15% is considered tolerable for sustaining debt burden. With reference to the data for last 14 years the average interest payment as proportion of revenue receipts (IP/RR) for all states combined comes to around 19%. If we consider IP/RR ratio between 15 to 20 percent as the bearable range for debt servicing, 4 major states like Punjab, Kerala, H.P, and W.B and the Centre have unbearable debt servicing ratio for the given period. These states will require serious policy intervention. In the last few years of reference period the IP/RR ratio has declined for almost all the states. However, the states mentioned above have continued to remain under pressure (Table 6.15). Higher IP/RR indicates diversion of revenue towards repayment obligation and affecting the states spending capacity towards different productive areas.

Yet another fiscal sustainability indicator is Interest Payment as a proportion of States' own resources, which helps in determining states own capacity to meet her debt obligation. A high IP/SOR ratio highlights states inability to raise its tax and non tax revenue to match its debt servicing capacity. This would put additional pressure on states to borrow funds. Considering the states' own resources to be limited, ever increasing burden of interest payment will further deteriorate the spending capacity of the states. Taking the average of all states combined as median level, at least 3 states like Bihar, H.P and W.B have the most critical IP/SOR ratios (Table 6.15).

The last indicator used to determine the fiscal health is growth of interest payment over growth of SOR. This helps in understanding the future scenario regarding the repayment obligation of the states' liabilities. Higher growth of interest payment over states own resources highlights the fact that even in future the states will continue to remain under fiscal stress as their own resources will remain inadequate in financing their repayment obligation. In the states like Gujarat, Karnataka, Maharashtra and Punjab average growth of Interest Payment has been considerably higher than the average growth of its Own Resources (Table 6.15). This clearly points towards vulnerability of these states and an ensuing fiscal crisis.

Table – 6.13

SSB as Proportion of SOR/TR/GSDP (Average for 1999-00 to 2012-13)

SSB as a % of SOR			SSB as a % of TR			SSB as a % of GSDP/GDP	
Maharashtra	22.90		**Centre**	**8.26**		**Centre**	**1.43**
Gujarat	29.37		Maharashtra	13.93		Maharashtra	2.75
All States	**29.88**		Madhya Pradesh	15.36		**All States**	**3.18**
Karnataka	31.27		Gujarat	15.41		Gujarat	3.48
Haryana	31.57		Uttar Pradesh	16.07		Punjab	4.39
Andhra Pradesh	36.32		Karnataka	17.36		Haryana	4.40
Madhya Pradesh	37.36		**All States**	**17.72**		West Bengal	4.42
Tamil Nadu	42.48		Andhra Pradesh	18.10		Karnataka	4.53
Kerala	44.80		West Bengal	18.63		Madhya Pradesh	4.79
Uttar Pradesh	46.00		Orissa	18.99		Andhra Pradesh	5.02
Orissa	56.24		Haryana	19.75		Uttar Pradesh	5.06
West Bengal	62.00		Bihar	19.81		Tamil Nadu	5.76
Punjab	62.30		Himachal Pradesh	22.45		Bihar	5.77
Rajasthan	80.78		Kerala	22.90		Kerala	5.94
Himachal Pradesh	88.22		Tamil Nadu	23.71		Rajasthan	5.94
Bihar	99.91		Punjab	29.52		Orissa	6.27
Centre	**NA**		Rajasthan	40.48		Himachal Pradesh	11.11

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years and Planning Commission Various Years.

SOR = States Own Resources, TR = Total Revenue

Table –6.14

Outstanding Liabilities (OL) as Proportion of TR/ SOR/GSDP (Average for 1999-00 to 2012-13)

OL as a % of TR			OL as a % of SOR			OL as a % of GSDP/GDP	
Karnataka	128.94		Karnataka	232.07		**All States**	**28.11**
Tamil Nadu	133.32		Haryana	235.87		Tamil Nadu	33.21
Madhya Pradesh	141.90		Tamil Nadu	239.78		Haryana	34.22
Andhra Pradesh	146.19		Maharashtra	271.31		Karnataka	34.24
Haryana	150.02		**All States**	**286.80**		Maharashtra	36.39
All States	**160.66**		Andhra Pradesh	297.80		Andhra Pradesh	41.48
Bihar	167.31		Madhya Pradesh	348.18		Gujarat	44.37
Himachal Pradesh	175.18		Gujarat	377.88		Madhya Pradesh	44.83
Orissa	183.64		Kerala	393.84		Bihar	48.02
Maharashtra	183.65		Orissa	578.04		Kerala	52.60
Gujarat	197.90		Uttar Pradesh	598.15		Rajasthan	58.08
Kerala	200.63		Punjab	690.18		Punjab	60.98
Uttar Pradesh	201.71		Himachal Pradesh	711.00		West Bengal	61.04
West Bengal	253.44		Rajasthan	727.98		**Centre**	**65.86**
Punjab	337.04		West Bengal	845.59		Orissa	66.73
Rajasthan	346.29		Bihar	882.23		Uttar Pradesh	67.08
Centre	**391.15**		**Centre**	**NA**		Himachal Pradesh	89.31

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years.

Table – 6.15
Interest Payment as a Proportion of Revenue Receipts and SOR
(Average for 1999-00 to 2012-13)

IP/RR			**IP/SOR**				**Growth of IP**	**Growth of SOR**
Andhra Pradesh	10.73		Andhra Pradesh	15.62		**All States**	**10.02**	**15.16**
Karnataka	11.77		Haryana	16.03		Andhra Pradesh	7.70	16.39
Tamil Nadu	12.03		Tamil Nadu	16.09		Bihar	5.70	12.20
Haryana	13.31		Karnataka	16.22		**Centre**	**10.30**	**13.34**
Madhya Pradesh	13.79		Maharashtra	17.98		Gujarat	23.00	13.96
Maharashtra	14.62		**All States**	**22.74**		Haryana	11.20	15.47
Bihar	16.21		Gujarat	23.66		Himachal Pradesh	14.52	14.49
Gujarat	18.24		Madhya Pradesh	25.13		Karnataka	15.77	14.99
All States	**18.83**		Kerala	30.34		Kerala	10.61	15.32
Rajasthan	19.33		Uttar Pradesh	40.08		Madhya Pradesh	11.93	13.29
Uttar Pradesh	19.64		Orissa	45.09		Maharashtra	18.19	13.46
Orissa	19.92		Punjab	47.54		Orissa	12.79	18.54
Punjab	20.77		Rajasthan	47.83		Punjab	10.99	5.08
Kerala	22.19		Bihar	62.45		Rajasthan	9.60	11.03
Himachal Pradesh	22.25		Himachal Pradesh	62.54		Tamil Nadu	11.00	15.49
West Bengal	36.52		West Bengal	70.01		Uttar Pradesh	8.75	16.24
Centre	**40.80**		**Centre**	**NA**		West Bengal	13.31	16.40

Computed from the RBI Report on State Finances: A Study of Budgets, Various Years

6.10 SOCIAL SECURITY AND AGEING

Due to lack of awareness, foresight and uncertain economic conditions many people fail to save adequately for their old age. Unemployment and poverty further aggravate the problem. Even among those who are employed, major proportion of workers carry out low income yielding jobs, not adequate enough to make provisions for their social security. The role of states then becomes crucial to provide social security to all people irrespective to their contribution to employment. The provision of social security becomes necessary for the aged as they are the most vulnerable people, particularly in the unorganized sector. Over the years the proportion of aged has been increasing, indicating more intense pressure and larger financial burden on the governments.

There are two ways through which state can provide social security to the aged and the poor.

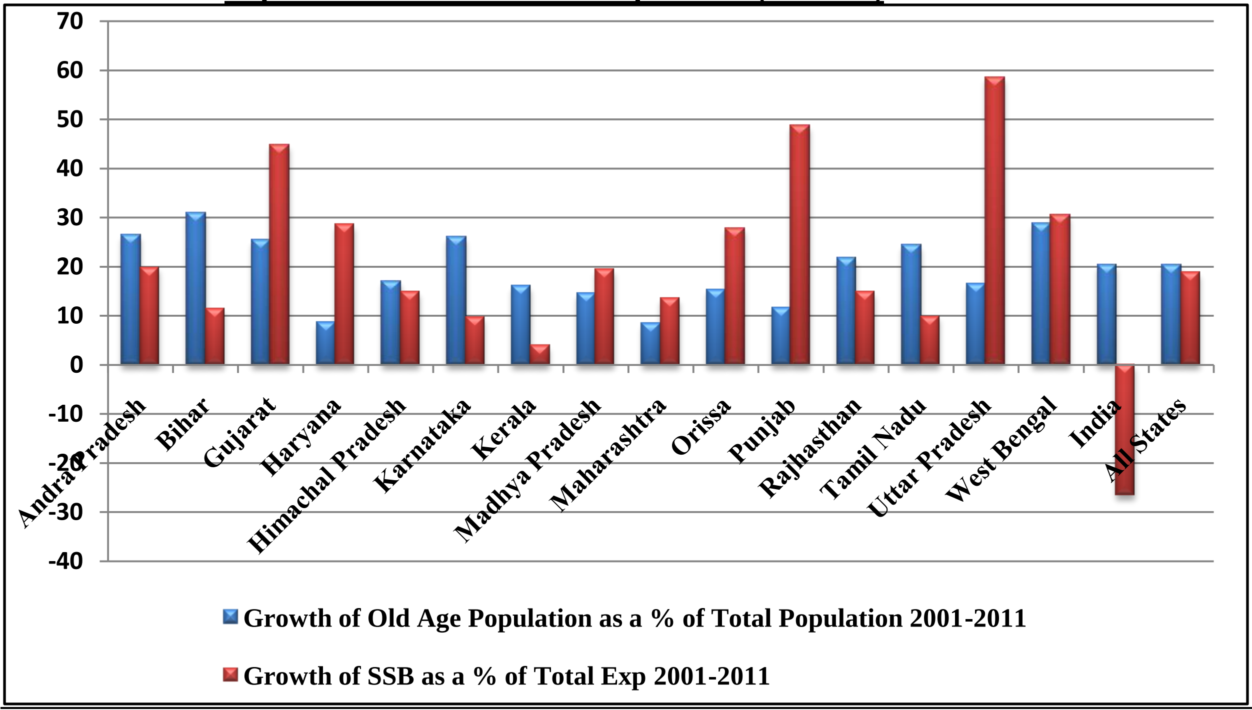
1. Through transfer of resources from young to old and from rich to poor. This is a policy driven action. A part of social security including pension is arranged by the state through such transfer of resources.
2. Through direct allocation of resources from Centre and state governments to the target groups of people. This requires adequate allocation of resources from the annual budgets of the Centre to meet the social security expenditures.

Both the methods have financial implications on the resource allocation, although the first method may not put direct stress on the Government. It is understood that the SSB or the overall social expenditure is only a part of total expenditure of the government. However, the government cannot shirk from the responsibility of social security provisions as they have wider human development implications. The method of direct allocation puts additional pressure on the governments, particularly those not able to arrange their own resources.

It is difficult to accurately predict overall impact of ageing on government finances. Rise in pension bill is just one type of impact. Health care, housing, nutrition and social welfare also require higher allocation due to increase of aged population. Governments will have to significantly increase public expenditure on these items which may further deteriorate their fiscal health.

Figure – 6C-I

Growth of SSB as % of Total Expenditure vis-à-vis Growth of Old Age Population as a % of Total Population (2001-11)



Computed from the RBI Report on State Finances: A Study of Budgets, Various Years and Planning Commission (2006)

Growth of old age population as a proportion of total population during 2001-11 has been over 20%. This is much higher than the average growth of SSB as a proportion of total expenditure for the same period. However for few states like Gujarat, Haryana, Maharashtra, Orissa, Punjab, U.P and West Bengal, the growth of SSB during the decade is comparatively higher than the growth of old age population (Figure 6C-I).

Population projections reveal that the growth of old age population for all major states for the period 2011-2026 will be around 50% higher from the present levels. This will put huge pressure on the governments to raise their allocation on social security to maintain the *status quo*. Considering the current rate of allocation on SSB a baseline projection for the period 2011-26 reveals that for most of the states, the growth of SSB as a proportion of total expenditure will drastically fall short of the desirable allocation (Table 6.16).

Table – 6.16

Baseline Projection for Growth of SSB as a % of Total Expenditure (2011-26)

State	Growth of Old Age Population as a % of Total Population	Growth of SSB as a % of Total Exp	*Projected Growth of Old Age Population as a % of Total Population	**Projected Growth of SSB as a % of Total Exp
	2001-2011		2011-2026	
Andhra Pradesh	26.39	19.85	56.04	32.82
Bihar	30.91	11.43	52.78	29.66
Gujarat	25.37	44.87	63.10	36.71
Haryana	8.57	28.61	50.00	58.28
Himachal Pradesh	17.05	14.93	42.72	36.93
Karnataka	26.03	9.73	57.61	25.91
Kerala	16.04	3.93	48.78	29.34
Madhya Pradesh	14.52	19.38	46.48	31.71
Maharashtra	8.43	13.52	43.33	28.46
Orissa	15.38	27.89	53.33	45.45
Punjab	11.49	48.74	50.52	56.70
Rajasthan	21.67	14.88	47.95	31.66
Tamil Nadu	24.44	9.92	52.68	36.73
Uttar Pradesh	16.44	58.57	37.65	43.67
West Bengal	28.79	30.52	67.06	43.07
India	20.29	-26.53	49.40	-0.13
All States	20.29	18.81	49.40	29.96

**Based on Report of Technical Group Population on Projection, 2006. **Based on our projection*

A similar baseline projection of per capita SSB for persons sixty years of age and above during 2011-26 for all states shows a huge increase (Table 6.17).

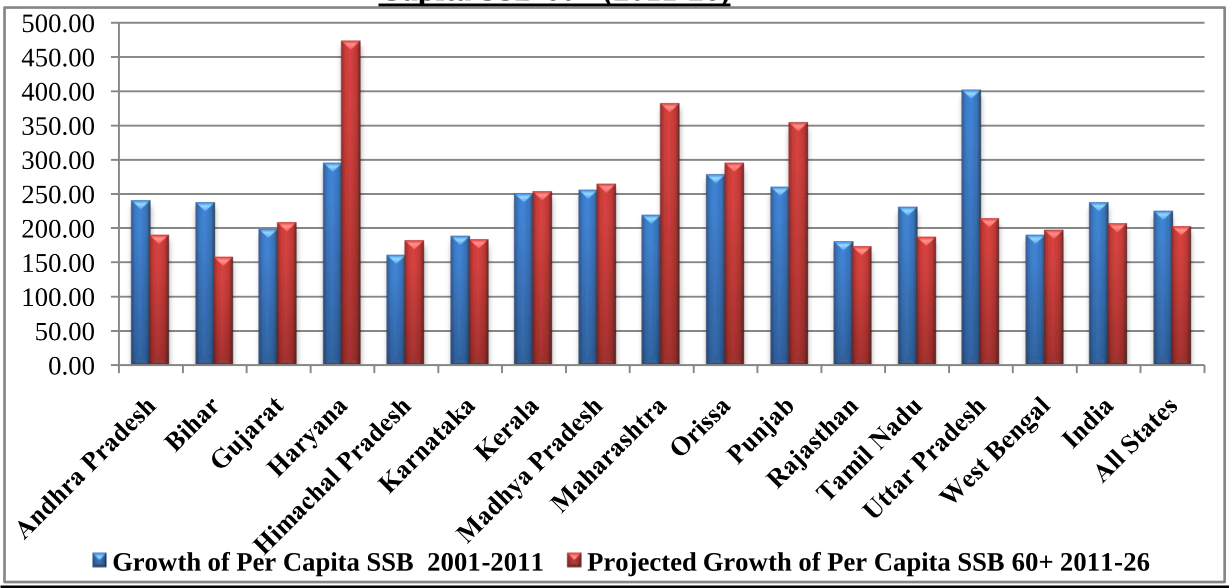
However, for as many as six states, the growth of SSB per capita during the same period is expected to be less than what was realized during 2001-2011 (Figure 6C-II).

Table – 6.17
Baseline Projection for Per Capita SSB 60+ (2026)

State	Growth of Old Age Population as % of Total Population 2001-2011	Projected Growth of Old Age Population as a % of Total Population 2011-2026*	Per Capita SSB 60+ 2001	Per Capita SSB 60+ 2011	Projected Per Capita SSB60+ 2026**
Andhra Pradesh	26.39	56.04	9675.69	32844.07	95032.88
Bihar	30.91	52.78	6502.53	21948.90	56476.09
Gujarat	25.37	63.10	9252.71	27473.19	84278.21
Haryana	8.57	50.00	12954.35	51162.41	293146.77
Himachal Pradesh	17.05	42.72	23024.62	59871.49	167955.65
Karnataka	26.03	57.61	10190.12	29274.98	82511.69
Kerala	16.04	48.78	9028.33	31516.62	110887.04
Madhya Pradesh	14.52	46.48	7052.88	25068.42	91125.42
Maharashtra	8.43	43.33	7743.67	24640.15	118777.64
Orissa	15.38	53.33	7137.25	26943.72	106169.60
Punjab	11.49	50.52	9515.39	34124.94	154711.74
Rajasthan	21.67	47.95	10726.68	29962.19	81750.09
Tamil Nadu	24.44	52.68	11232.08	37112.62	106519.52
Uttar Pradesh	16.44	37.65	4033.22	20179.10	63234.77
West Bengal	28.79	67.06	9036.27	26181.02	77615.27
India	20.29	49.40	3401.12	11446.20	35006.78
All States	20.29	49.40	9025.76	29209.72	88319.88

**Based on Report of Technical Group Population on Projection, 2006. ** Based on our projection*

Figure – 6C-II
Growth of Per Capita SSB 60+ (2001-2011) vis-à-vis Projected Growth of Per Capita SSB 60+ (2011-26)



**Based on Report of Technical Group Population on Projection, 2006.* **Based on our projection

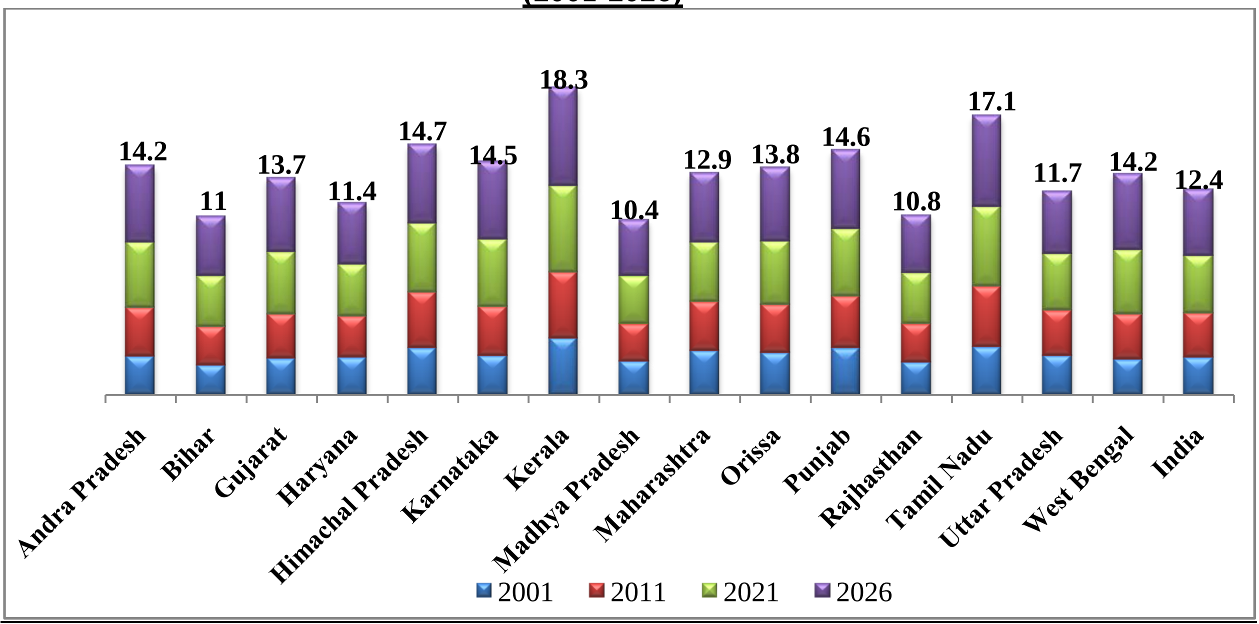
6.10.1 Ageing Risk Indicators – (C)

In order to understand the impact of ageing, we have analyzed four indicators in the present study. The population projections made by the report of technical group constituted by National Commission of Population (2006) is used for determining future burden of ageing. Four critical indicators as discussed in chapter five are as follows

1. Old Age Population as a % of Total Population, 2011.
2. Growth of Old Age Population as a % of Total Population, 2011-2026.
3. Old age Dependency Ratio, 2011.
4. Growth of Old age Dependency Ratio, 2011-26.

Presently in Kerala and Tamil Nadu proportion of old age population is over 10%. By 2026 almost all major states will have old age population over 10%. For states like Kerala, Tamil Nadu, Himachal, Punjab, Karnataka, West Bengal and Gujarat the proportion of old age population is much higher than the national average. The figures are critical for Kerala and Tamil Nadu at 18.3 and 17.1 respectively (Figure-C-III). This indicates that the size and proportion of old age population is expected to rise considerably over a period of time.

Figure – 6C-III Old Age Population (60+) as a % of Total Population (2001-2026)

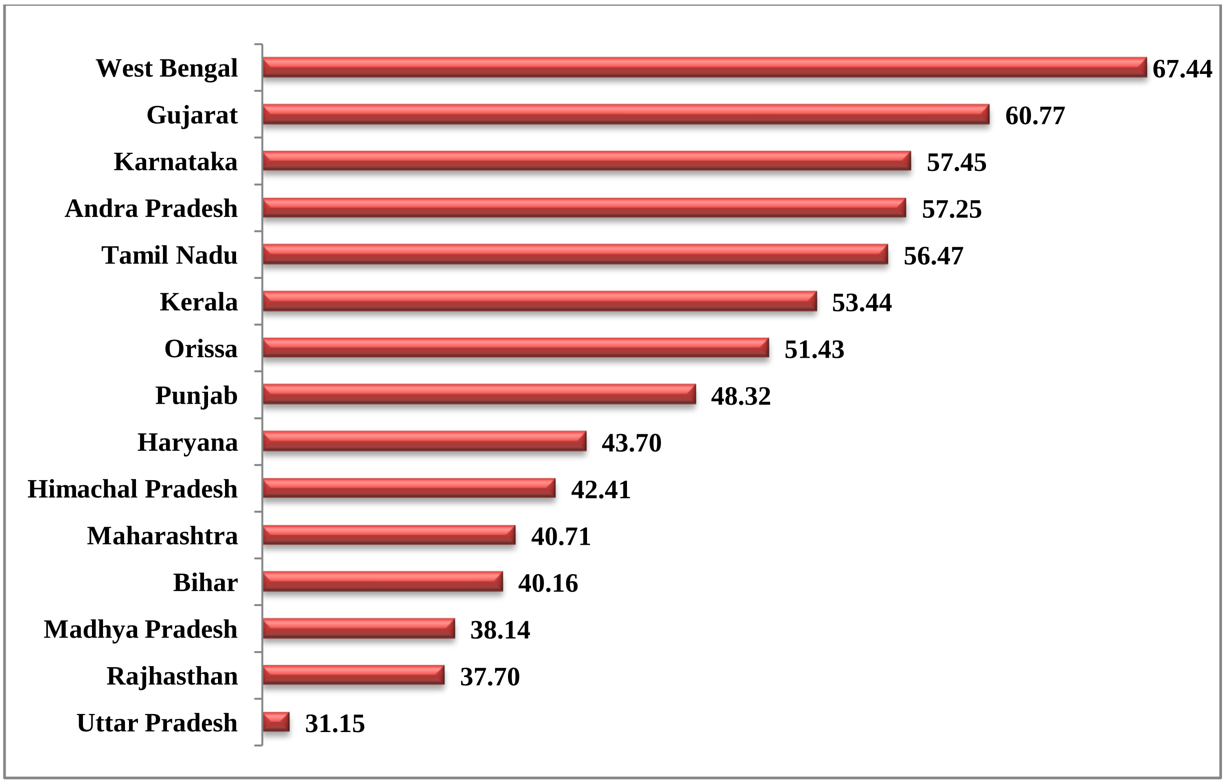


Source: - Planning Commission, Report of Technical Group Population on Projection, 2006

For some states like Andhra Pradesh, Bihar, Gujarat, Karnataka, Orissa and West Bengal, the growth of old age population is expected to be more than 50%. This indicates the degree of readiness required by the states to meet their social security obligations to the aged population.

Two more indicators namely old age dependency ratio and growth of old age dependency ratio (2011-2026) are used to determine the burden of ageing. A high old age dependency ratio clearly indicates the burden of ageing as the shrinking population of working individuals needs to bear the burden of rising old age dependents. Seven major states are expected to have above 50% growth in old age dependency ratio during 2011-2026 (Figure 6C-IV). This will also create huge pressure on the ability of states in generating its own resources.

Figure – 6C-IV
Growth of Old-Age Dependency Ratio (2011-2026)



Source: - Planning Commission, Report of Technical Group Population on Projection, 2006

6.11 SOCIAL SECURITY, FISCAL SUSTAINABILITY AND AGEING

The three different dimensions emerging from the study of indicators, that is, social security, fiscal sustainability and ageing can be summarized in the following figure:

Risk Indicators at a Glance (6A+6B+6C)

SSB Spending Indicators – A

- SSB as a Proportion of Development Expenditure
- SSB as a Proportion of Total Expenditure
- SSB as a Proportion of Total Revenue
- SSB as a Proportion of GSDP
- SSB as a Proportion of States Own Resources (SOR)
- Growth of SSB Per Capita (2001-2011)

Fiscal Risk indicators – B

- SOR as a % of Total Expenditure
- Growth of Outstanding Liabilities vs Growth of GSDP
- Outstanding Liabilities as a % of SOR
- Outstanding Liabilities as a % of GSDP
- Interest Payments as a proportion of Revenue Receipts
- Interest Payments as a proportion of SOR
- Growth of Interest Payment vs. Growth of SOR

Ageing Risk Indicators – C

- Old Age Population as a % of Total Population, 2011.
- Growth of Old Age Population as a % of Total Population, 2011-2026.
- Old age Dependency Ratio, 2011.
- Growth of Old age Dependency Ratio, 2011-26.

In order to analyze further, we have used the Borda Rank Aggregation Method also known as Borda Count[1]. Ranks are given for each of the seventeen indicators separately for 15 major states. The indicators are divided under three groups namely SSB Spending Indicators, Fiscal Risk Indicators and Ageing Risk Indicators. For each category of indicators, scores are found out by aggregating the ranks. The states are again ranked to find out the performance of each state under the category. The method is repeated for each category and the final ranks are found for the states. It should be noted that the state with lowest Borda Score is assigned the first Rank – considering the fact that it has performed best among all indicators in the group. Similarly the state with highest Borda Score is assigned with lowest rank in the list, considering the fact that it has performed worst across the indicators. Thus, the state with final 'rank one' is considered best in terms of overall performance.

[1] Developed by 18th Century French political scientist and mathematician Jean Charles de Borda in 1970. It is after his name that the method later became popular.

As explained previously the final Borda Rank is based on the aggregate score earned by the state on account of its performance on 17 selected indicators. In order to have a comparative analysis we have also found average score or per indicator score. In other words total score earned by each state is divided by 17 (total number of indicators). All states then are classified into three zones i.e. Low Risk Zone (5.5 to 7.4), Medium Risk Zone (7.5 to 9.4) and High Risk Zone (9.5 to 11.4).

6.11.1 States under Low Risk Zone

Seven out of 15 states are presently under Low Risk Zone as per the average score in Borda Rank Aggregation Analysis.

State	Overall Risk	Borda Score	Average Score	Borda Rank	Remarks
Haryana	**5.5 to 7.4 Low Risk Zone**	**5.47**	**93**	**1**	**Medium in SSB Spending, Low in Fiscal Risk and Low in Ageing Risk.**
Bihar		**6.18**	**105**	**2**	**High in SSB Spending, High in Fiscal Risk and Low in Ageing Risk.**
Tamil Nadu		**6.29**	**107**	**3**	**High in SSB Spending, Low in Fiscal Risk and High in Ageing Risk.**
Rajasthan		**6.76**	**115**	**4**	**Medium in SSB Spending, High in Fiscal Risk and Low in Ageing Risk.**
Uttar Pradesh		**7.18**	**122**	**5**	**Medium in SSB Spending, High in Fiscal Risk and Low in Ageing Risk.**
Andhra Pradesh		**7.35**	**125**	**6**	**Low in SSB Spending, Low in Fiscal Risk and High in Ageing Risk.**
Madhya Pradesh		**7.35**	**125**	**6**	**Low in SSB Spending, Medium in Fiscal Risk and Low in Ageing Risk.**

Within the low risk zone, two states namely Andhra Pradesh and Madhya Pradesh are ranked low in SSB spending. In spite of having low fiscal risk presently these states have failed to allocate adequate resources on Social Security Basket. These states are also low in ageing risk; this gives them good opportunity to allocate higher amount on providing basic social security items to its people.

Three other states namely Haryana, Rajasthan and Uttar Pradesh are medium in SSB spending score, but because they are also low in fiscal risk and ageing risk, it is desirable that these states also spend more on SSB.

Lastly the states of Bihar and Tamil Nadu are high in SSB spending. The state of Bihar is high in fiscal risk but low in ageing risk; this helps Bihar in scoring 2nd rank in overall analysis. However, it needs to be noted that Bihar's fiscal risk is very high due to its low Own Resources and high Outstanding Liabilities.

6.11.2 States under Medium Risk Zone

Six major states are in Medium Risk Zone with average score per indicator in the range of 7.5 to 9.4.

State	Overall Risk	Average Borda Score	Borda Score	Borda Rank	Remarks
Orissa	7.5 to 9.4 Medium Risk Zone	7.47	127	8	Medium in SSB Spending, Medium in Fiscal Risk and Medium in Ageing Risk.
Kerala		7.88	134	9	High in SSB Spending, High in Fiscal Risk and High in Ageing Risk.
Himachal Pradesh		8.53	145	10	High in SSB Spending, High in Fiscal Risk and Medium in Ageing Risk.
Maharashtra		9.12	155	11	Low in SSB Spending, Low in Fiscal Risk and Medium in Ageing Risk.
Karnataka		9.18	156	12	Low in SSB Spending, Low in Fiscal Risk and High in Ageing Risk.
Punjab		9.24	157	13	Medium in SSB Spending, High in Fiscal Risk and Medium in Ageing Risk.

Two states Kerala and Himachal Pradesh are high in SSB spending but equally high in fiscal risk too. Further, Kerala is high on ageing risk which negatively affects its overall ranking.

Similarly two states namely Orissa and Punjab are in medium range for SSB spending and medium in ageing risk. Orissa is also in medium fiscal risk. Punjab is high on fiscal risk, but in terms of ageing and SSB spending it is in the medium range. Punjab, therefore, is having low overall rank and is on the border of medium risk zone.

Two other states namely Maharashtra and Karnataka are equally low in SSB spending. These are considered to be the developed states with high economic growth rate and rich in their own resources (SOR). These states are low in fiscal risk they are expected to increase the SSB spending to the desired level.

6.11.3 States under High Risk Zone

Lastly, two states, Gujarat and West-Bengal fall under High Risk Zone with average score per indicator over 9.5.

<table>
<tr><th>State</th><th>Overall Risk</th><th>Average Borda Score</th><th>Borda Score</th><th>Borda Rank</th><th>Remarks</th></tr>
<tr><td>Gujarat</td><td rowspan="2">9.5 to 11.4 High Risk Zone</td><td>10.35</td><td>176</td><td>14</td><td>Low in SSB Spending, Medium in Fiscal Risk and Medium in Ageing Risk.</td></tr>
<tr><td>West Bengal</td><td>11.24</td><td>191</td><td>15</td><td>Low in SSB Spending, High in Fiscal Risk and High in Ageing Risk.</td></tr>
</table>

Gujarat's average score per indicator is around 10.35 and overall rank is 14'th , that is, second last among the list of selected states. The main reason for its low performance is due to its low rank in SSB spending. The state falls in medium risk zone for both fiscal and ageing risk. Thus the major concern is that in spite of being economically advanced, the state has relatively spent less on various components of Social Security Basket, in comparison to other states.

The last among the selected states is West-Bengal with average Borda score of more than 11 and overall rank of 15. The state is low in SSB spending, high in fiscal and ageing risk. The states remain vulnerable towards high fiscal risk in future also, because not only its current SSB spending is low but its current fiscal situation is also worse and the risk of ageing population is expected to rise in future.

Presently six out of fifteen states are low in SSB spending. This is a matter of concern. As some of these states like Andhra Pradesh, Karnataka, Gujarat, and Maharashtra are industrially advanced states with high growth rate and SOR, but still these states are spending less than the desired levels over SSB.

Presently eight states are high at fiscal risk. The states of Bihar, Rajasthan, Uttar Pradesh and West Bengal are some of the states with maximum fiscal risk. These states are some of the most poor and overpopulated states. Due to rising burden of current SSB spending and ageing risk in future these states will continue to remain fiscally vulnerable even in future also.

Presently four out of selected fifteen states are high in ageing risk. There may not be an urgency on the part of various government to bring drastic changes in their budget allocation for the support of old age population now, but the potential growth of aged population by 2026, is certainly going to assume serious proportions and this requires a very sound futuristic plan to oversee the dynamic demographic transition. Lest, the graying population all over the world and struggle of various economies to enhance their social security provisions for the aged, would add another example of a developing nation caught amidst guiles of fiscal sustainability and wiles of social security expenditures.

CHAPTER – VII

CONCLUSIONS AND RECOMMENDATIONS

Social security is not to be misunderstood as social charity; it is the responsibility of state to respect the dignity of people by extending desired economic and social security. The contribution of those in the productive age group is maximum to the country's prosperity and growth. The life of such a productive labour is exposed to several risks throughout the working period and thereafter. It shall instill mental peace and confidence in the labour, if his socio-economic risks are well insured. Such measures would go a long way in maintaining a prolific workforce.

Framed mostly during pre-independence era, the present social security schemes in India are focused and biased towards organized sector, and cover less than 8% of working population who are employed in organized sector. For the massive 92% of workforce in the unorganized sector the issue of social security remains largely a matter of self-financing. For those who are poor and outside the workforce like the dependents like unemployed, children, aged, disabled and others, the concept of social security is just a far cry from reality. These are the people who form a substantial part of country's population and are vulnerable towards a variety of risks. It is for these people that provision of social security is imperative.

The present study makes a modest attempt to study the whole gamut of social security system in India. The study relates social security to the alarming issues of labour market, changing demographic structure and rising fiscal burdens of the government.

The first two chapters elaborate the evolution of social security from being a welfare scheme during pre and post industrialization to a universal socio-economic support system in present times. These chapters highlight various definitions and concepts of social security prevailing over the years and across the globe. To understand the origins and dimensions of social security in India a detailed overview of social security is presented starting from the period of Kautilya and Sukracharya during 320th B.C to Indian constitution and various Five Year Plans of India. The literature review on the subject highlighted the fact that individual works on the subject are restricted to definitions and concepts of social security. The fiscal burden, scope & coverage, tools, sustainability of the schemes etc, have largely remained ignored in the individual research works. Only limited research has been done on effectiveness and review of individual labour welfare schemes like ESI, WCA, EPFO, etc, in India, but they have remained confined only to a limited analysis.

The second and third chapters analyze in detail the current social security system in India with reference to the labour market conditions. By using variety of secondary data these chapters draw attention to the fact that significantly high proportion of employment opportunities are created only in the unorganized sector. Also, the jobs created in the organized sector are mostly informal in nature, characterized by low and uncertain earnings, poor working conditions and negligible social security. This highlights the dearth of social security polices for unorganized workers as against those working in organized sectors enjoying a multiple of benefits.

The concentration over the period has been only on the administrative procedures and coverage of certain social security schemes targeted towards the organized workforce. All such schemes like Employees State Insurance (ESI) or Employees Provident Fund (EPF) are designed with specific purpose of targeting selected beneficiaries. Most of the time they end up providing multiple coverage and benefits to the same targeted group. The unorganized sector workers are scattered and mobile across the industries and sectors making it difficult to frame and target policies for sponsoring their socio-economic security. However the argument does not allow the state to escape from its responsibility of providing minimum social security to all its citizens both on moral and constitutional grounds.

The fifth chapter studies in detail about the problem of ageing. It gives a theoretical understanding of the concept of ageing in reference to theory of demographic transition. The chapter studies various determents of ageing like Total Fertility Rate (TFR) and Life Expectancy, Median age and the Ageing index. Old-Age Dependency Ratio and Potential Support Ratio (PSR) are studied to determine the social burden of ageing. The chapter highlights the fact that India being a young country still holds advantage in comparison to other developed and ageing countries of the world. However in order to reap this demographic dividend the country will have to invest significantly in education, health care and overall social sector.

The sixth chapter gives a clear account of expenditure incurred by government (both Centre and state) on various items of social sector specifically culminating into a social security basket. Various indicators have been used to understand the trends in social security spending of state governments along with assessing their fiscal and ageing risk.

The data analysis done in this chapter disapproves the contemporary belief that rise in social security expenditure is a threat to fiscal sustainability of the government. In fact it will be morally and politically incorrect to blame social security expenditure as a cause for government's growing fiscal burden. The conclusion holds true at least for now in case of India. During last 14 years i.e., from 1999-00 onwards the average expenditure on social service including pension payments[122] as a percentage of total expenditure for the central government has been just around 4%. The comparative figure for all major states comes to around 35%. However the analysis for Social Security Basket reveals that average expenditure on SSB as a proportion of total expenditure for the central government comes to just 2.79% and for state governments it is around 18%. Thus, the allocation on SSB as a proportion of total expenditure is almost half in comparison to the allocation of total social service expenditure for both Centre and states. This indicates that social security expenditure is not responsible for growing fiscal burden.

The study observed that currently there is no unanimously accepted method for measuring fiscal sustainability of the government budgets. Deficit indicators, especially fiscal deficit have been popularly used to define sustainability. Alternatively, Dholakia, (2003, 2004) and Rangarajan & Srivastava (2005) have observed that outstanding debt or liabilities are more consistent and appropriate measures for defining fiscal sustainability. The present study has used debt indicators in defining the fiscal risk for the state governments in reference to its current expenditure on SSB. The study suggests that fiscal budgets should not only be sustainable in the long run but also should address government's responsibility of providing minimum support system to its people. Expenditure on social security should be adequate in terms of volume and be fairly distributed. Instead of limiting the expenditure on SSB, the emphasis should be on creating new sources of revenues for the government and curtailing non development and wasteful expenditure.

The present study has selected 15 major states for analyzing their fiscal risk in reference to their current SSB spending and future ageing risk. Following are some of the major findings of our study:

[122] Social service expenditure includes social security and other items of SSB. Pension payments to government sector employees are part of General Services and thus have been added separately to the social service expenditure and SSB.

I. <u>Average Growth of Expenditure on SSB</u> - The average growth of expenditure on SSB for all states combined and the Centre comes to around 15%. Ten out of fifteen selected states have CAGR less than the national average. Some of the states with low CAGR are Gujarat, Kerala, Punjab, Karnataka and Maharashtra.

II. <u>SSB as a Percentage of Total Expenditure</u> – The average for all states combine comes to 18%. Five major states including Gujarat, Punjab and Maharashtra, fall below the national average.

III. <u>SSB as a Percentage of Development Expenditure</u> – The average for all states combine comes to 30%. Seven major states including Andhra Pradesh, Gujarat, Karnataka and Maharashtra fall below the national average.

IV. <u>SSB as a Percentage of Total Revenue</u> – The average for all states combine comes to 17.72%. Five major states including Gujarat, Karnataka and Maharashtra fall below the national average.

V. <u>SSB as a Percentage of States' Own Resources (SOR)</u> - The average for all states combine comes to 29.88%. Only two states Gujarat and Maharashtra have allocated less than the national average.

VI. The study finds that all major industrially developed states like Gujarat, Maharashtra, Karnataka and Andhra Pradesh have performed poorly in terms of proportionate allocation over SSB out of their desired expenditure and revenues.

VII. <u>SOR as a Percentage of Total Expenditure</u> – The states can finance on an average 48% of their total expenditure from their own resources. Seven major states like Bihar, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal have SOR/TE ratio less than the average of 48%. This indicates that the states will have to largely depend upon borrowing.

VIII. <u>Growth of Outstanding Liabilities (OL)</u> – The average growth of Outstanding Liabilities for all states combine comes to around 12%. Eight major states including Andhra Pradesh, Gujarat, Karnataka, Maharashtra and West Bengal have the higher growth rate of OL. Once again some of the developed states are more dependent on borrowing.

IX. <u>Outstanding Liabilities as a Percentage of Total Revenue and SOR</u> – The average figure for all the states under the study is not very encouraging. The liabilities for ten major states are between 150 to 350 percent higher than total revenues of the states. Similarly, in comparison to their own resources, their liabilities are 230 to 800 percent higher! These figures clearly indicate vulnerability of the state governments towards future fiscal risk.

X. Growth of OL vs. Growth of GSDP – This indicator is used to assess overall fiscal burden of the state. The average gap between the growth of OL and GSDP for all selected states comes to around 4% with at least 10 states having the gap higher than 4%. West Bengal and Karnataka have the highest gap of over 7%.

XI. Growth rate of Interest Payment (IP) – The average growth of interest payment for all states combined comes to 12%. Six major states have higher than the average growth, with Karnataka, Maharashtra and Gujarat having the maximum growth rate of interest payments.

XII. Interest Payment as Percentage of Revenue Receipts – To assess the debt servicing capacity of the states we have taken IP/RR ratio – which reveals the repayment capacity of the states from its current year's revenue receipts. The average IP/RR ratio for selected states comes to around 18%. Eight states have higher than average IP/RR ratio; these states include Gujarat, Punjab, Rajasthan, Uttar Pradesh, Orissa and West Bengal. At 36% West Bengal has the highest IP/RR ratio.

XIII. Interest Payment as Percentage of States Own Resources – This indicator further helps to assess the states' debt servicing capacity with respect to their own resources. The average IP/SOR ratio for all selected states' together comes to 35%. With seven states having higher than the average ratio. These are mostly poor states like Uttar Pradesh, Orissa, Rajasthan and West Bengal.

XIV. Growth of Interest Payment vs. Growth of SOR – This is a critical indicator giving required insight regarding growth of SOR which should be desired by the states for meeting the burden of interest payment. The average IP-SOR gap in terms of their growth rates for all selected states comes to (-) 1.83%, that is, growth rate of IP is less than the growth rate of SOR. However, four major states' show a wide gap between the growth of IP over growth of SOR. Once again these are the advanced states like Punjab, Karnataka, Maharashtra and Gujarat. Gujarat has the widest gap of over 9%.

XV. Though the overall fiscal burden of the states looks tolerable, the fact remains that the developed states like Gujarat, Maharashtra, and Karnataka have witnessed steep deterioration in their ability to independently finance their budgetary expenditure. The increasing burden of debt servicing helps siphons off scarce revenue of the state governments, which otherwise could have been used for financing social sector expenditure. In case of the states with low growth rate like Bihar, Orissa, Uttar Pradesh, Madhya Pradesh and Rajasthan etc, it is understood that the state governments will have to bear the burden of financing social security, even at the cost of fiscal un-sustainability.

However, the problem of fiscal sustainability will become serious when returns from investment will fail to recover the cost of borrowing; in this case, growth of interest payment is higher than the growth of states own resources. As we have stated earlier, the current fiscal scenario is challenging but not unsustainable. This argument is also based upon the fact that India has untapped and unexploited resources and therefore there is tremendous scope for future development. The country has got surplus stocks of food supplies, idle manpower, huge demand for industrial goods and services and a young population among other reasons for expecting higher growth and higher government revenues.

XVI. India is currently enjoying the demographic dividend and will continue to do so in future too. The fact remains that the growth of aged or elderly population is going to put serious challenges for country's policy makers. The study has focused on several issues related to the problem of ageing including its determinants and burden. For assessing the future burden of ageing the study has analyzed relevant indicators.

XVII. <u>Old age population as a proportion of total population</u> – Presently around 8% of total population is above the age of 60 years; this figure is going to increase to 12% by 2026. It should be noted that 11 major states have old age population higher than the national average of 8%. Similarly by 2026, ten major states will have old age population higher than the national average. The states of Karnataka, Punjab, Tamil Nadu and Kerala will continue to have much higher proportions of old age population, while Uttar Pradesh and Bihar will have marginally less than average old age population.

XVIII. <u>Growth of Old Age Population as a Percentage of Total Population for the period of 2011-2026</u> – The average growth of old age population over total population for all the selected states comes at 51% for the given period. This is a crucial indicator for assessing ageing risk, especially for those states that may have less proportion of old age population but higher growth rate. The study reveals that seven major states have growth rate higher than the average of 51%. These states are Tamil Nadu, Bihar, Orissa, Andhra Pradesh, Karnataka, Gujarat and West Bengal. In the states like Gujarat and West Bengal; the growth of old age population *vis-à-vis* total population is highest i.e., 63 and 67 percent respectively. This clearly implies that the states with higher growth of old age population face challenging task of preparing themselves to meet the social security needs for the aged, both financially and physically.

XIX. Old-Age dependency ratio (OADR) – This indicator is used to measure the proportion of old age population dependent upon working age population in the country. Currently, the OADR for India is 13. This is expected to deteriorate to 20 by 2026. Currently eight major states namely Andhra Pradesh, Maharashtra, Orissa, Karnataka and Punjab have OADR higher than the national average, while Tamil Nadu and Kerala have highest OADR at 17 and 19 respectively. A higher OADR certainly reflects relatively less productive population in the country and higher number of old age dependents. Though at current rate OADR in India is much less as compared to the developed countries, but considering widespread problem of unemployment and underemployment among the working age group, the dependency burden is enormous.

XX. Growth of Old age dependency ratio for the period of 2011- 2026 – Another ageing risk indicator which highlights the need of preparedness to meet the challenges forced by ageing population is growth of OADR. The average growth of OADR for the selected states comes at 44% for 2011-26. About seven states have growth rate higher than this. Orissa, Kerala, Tamil Nadu, Andhra Pradesh and Karnataka have about 10% higher than average growth rate of OADR, while West Bengal and Gujarat once again are in most critical stage with over 20% higher than average growth rate of OADR. This clearly implies that the burden of ageing is going to be high in these states.

XXI. Based on the Borda Rank Aggregation method, the state of Haryana scores the first rank. Though the state has performed averagely in SSB spending, the state currently faces low fiscal and ageing risk. The state's average score per indicator is lowest at 5.47 giving it top position in the low risk zone.

XXII. Other states in the low risk zone (with score per indicator between 5.5 and 7.4) are Bihar, Tamil Nadu, Rajasthan, Uttar Pradesh, Andhra Pradesh and Madhya Pradesh. These are the states with medium to low risk in any one of the two critical indicators i.e., fiscal and ageing risk. Though Andhra and Madhya Pradesh are low in SSB spending, they fall in low risk zone due to the above reason.

XXIII. Six states are in medium risk zone (score per indicator between 7.5 and 9.4) namely Orissa, Kerala, Himachal Pradesh, Maharashtra, Karnataka and Punjab, These states are correspondingly ranked from 8 to 13. Except Karnataka and Maharashtra all other states are high in fiscal risk in this zone, but at the same time these states are low in SSB spending which drags them towards lower Borda ranking. These are also the states with high proportion of unorganized workforce and poverty ratios (Table 4.22, 4.23 and 4.24). This is disappointing as both these states are developed and industrially advanced. These states are fiscally sound and thus are expected to spend adequately over SSB.

XXIV. Lastly, two states namely Gujarat and West Bengal fall in high risk zone (score per indicators between 9.5 and 11.4). These states are ranked 14 and 15 respectively. The state of Gujarat stands low in SSB spending and medium in ageing and fiscal risk, once again considering the state to be industrially advanced it is expected to spend adequately over SSB. West Bengal on the other hand has performed worst among all the selected states, as it is spending less on SSB and at the same time facing maximum fiscal and ageing risk.

We would like to sum up the present study with the following recommendations-

1. The current economic crisis has provided adequate reason to acknowledge the importance of social security. During the difficult times, provisioning of social security to the deserving prevents both the individual and the society from becoming vulnerable towards social and economic risks. The study has highlighted the fact that social security, if provided comprehensively, can augment human capabilities and prevent poverty and deprivation. Further transfers of resources from surplus sector to deficit and needy sectors help in maintaining the aggregate demand from falling below the desired levels. The study recommends for providing social security items together as a basket and not in isolation. This would require re-integration of several independent schemes into one and in some cases starting new schemes for effective transfer and coverage. However, there is an adequate scope to amend social security basket considering the needs at sub national level. Such integration of social security schemes will prove more cost effective.

2. Though the concept of social security is part of the Constitution of India, the study observes that due to absence of a common program, the accountability for providing social security has been diluted. Several politically motivated schemes are announced under different departments and different ministries. For each item of social security basket there is a separate ministry under the Central government, for example, Ministry of Health & Family Welfare, Ministry of Housing and Urban Poverty Alleviation, Ministry of Labour and Employment, Ministry of Social Justice & Empowerment and Ministry of Finance. Further there are numerous departments, commissions and government undertakings dealing with provisioning of social security items. Similar distribution of schemes also exists at the state level. Knowing the fact that inter-departmental coordination in the Indian administrative setup is a myth, effective provisioning of benefits and their successful implementation remains both sluggish and scanty.

Thus, the study suggests constitution of an independent ministry i.e., Ministry of Social Security and Social Assistance both at the Centre and state level to merge all schemes and programs under a single umbrella. This ministry shall be solely accountable for framing policy and execution of these schemes and programs and providing social security to the target groups.

3. The study recommends inclusion of social security into the overall social, economic, political and regulatory framework of the country. The economic reforms have conveniently shifted the responsibility of providing basic items of social security basket like health care, housing and pensions to the market forces. Reforms have also created a distinct force of unorganized labour which remains vulnerable to unemployment and income insecurity. At the same time, the employer remains indifferent of providing any work related assistance. Thus, the responsibility falls back on to the government for providing the minimum support to the dependents. The study recommends positive labour law reforms which make the employer oblige for providing minimum set of social security in cash or kind to all its employees. This, to a large extent will reduce the fiscal burden of the government. However, the government should continue to provide minimum social security to those who deserve and not in the workforce.

4. It is desirable to make social security a non-obligatory function of the government. Social security should be considered as a right-based approach rather than being a charitable one. This will also help the government in meeting its moral and legal obligations of providing food, housing and health care to its people. Such an approach towards social security needs to be inclusive and based upon the principles of equity and non-discrimination. Presently, multiple social security schemes are provided to diverse groups, discriminated on account of income levels, caste and community, geographical location, employability, age, gender, etc,. The study for the purpose of inclusive growth recommends social security for all those who are vulnerable and deserve assistance.

5. In order to successfully provide social security benefits to the deserving it is important to identify and target them. Targeting the beneficiaries has always been a challenging task in an overpopulated – poverty ridden country like India. The study has found that in many cases there have been multiple layers of benefits provided to the beneficiaries. In case of organized sector employees – especially in the government sector, workers are provided housing, education, family welfare and insurance benefits, in addition to income and employment security, post retirement pension benefits etc. In some other cases government has failed to even identify and record the impoverished. The present method of targeting the beneficiaries based on his/her employment status is faulty. It is impossible to keep a record of unorganized workers who work for different employers and migrate frequently. This is also a major reason why government has failed to cover these people under any structured social security scheme.

The targeting can be based upon the principle of inclusion or exclusion to cover each deserving beneficiary. The study suggests that income levels can be considered to target the beneficiary, those with least incomes and those with marginally above the minimum income should be given priority in providing the social assistance. Alternatively, those can be excluded who are above some threshold income levels or having gainful employment or for other reasons adequately equipped to take care of themselves.

The study also recommends a census linked method for automatic up gradation of the beneficiaries list.

6. The review of literature on the subject has found that the question regarding the quality of social sector spending has always been overlooked. The entire focus of academicians and policy makers has been only on the quantitative aspect of social security. The data analysis in the sixth chapter clearly points out disproportionate allocation over the items of social security within the defined basket. For example, pension payments both at the Centre and state levels have shares over 60% and 42% respectively. This covers only a fraction of country's population, mostly those working in government sector. The item wise average allocation of SSB varies from 3% to 15% for the Centre and between 2% to 20% for all states combined (Figure II and III, chapter 6). The present study is unable to find any designed methodology for fixing the percentage allocation of resources for social security items. Similarly in the current structure there is an absence of unified delivery mechanism and thus there is no system for evaluating the performance of individual schemes and programs at any level and for any target groups. The government, usually shy of an outcome evaluation, as it has not been able to effectively prevent fiscal profligacy and mass squander of resources- not to speak of enormous scope for corruption that it invites.

The study recommends that the emphasis ought to be on qualitative spending while allocating resources for social security items. Within the SSB each item should be allocated a desired percentage of resources through a need based assessment that may differ from state to state. Secondly, in order to achieve positive and productive outcome of social spending, unified delivery mechanism needs to be derived. The launch of Unique Identification number (UID) or popularly known as Aadhaar Card is a right step towards this direction. Gradually all social security benefits both at the Centre and state level should be linked to Aadhar. This will not only improve the delivery mechanism but also will make the targeting of beneficiary easy and effective. Lastly, it is highly recommended to perform yearly outcome assessment of fiscal spending. Presently, annual budgets do provide item wise allocation of resources, but they fail to disclose the beneficiaries and the extent to which they have been benefited and prevented from vulnerability.

7. The study proposes a deviation from pure benefit based social security model towards a contributory model. Government will have to develop a social culture for self-financing of social security. During the active life each one according to his/her income and capacity should be motivated to finance for his/her old-age pension and other items of welfare. This can be done through a variety of schemes covering health care needs and ensuring a minimum standard of living in the old age. The government should find out ways and means to encourage contribution of individuals to such saving schemes specially designed for the purpose. Along with the government, private players will be required to launch appropriate investment vehicles which should provide minimum guarantee for returns. Similarly people can also be motivated to finance the social security of their children, spouse and parents through relationship based saving and investment schemes.

The self-financing of social security should not be just limited to pension in monetary terms. Investment in physical social security like housing should also be made mandatory for at least one earning member of the family. The government, through both awareness and legal course of actions can successfully inculcate among the people the sense of self earning for their social security. These measures to a large extent will reduce governments overall responsibility (at least for those who are employed and earning adequately), control fiscal burden and address a larger issue of elevating people from the levels of absolute poverty.

8. Social security is often referred solely in terms of income support. Thus, most of the current social security measures are purely monetary in nature. These monetary or income support schemes are just means to obtain physical or non-monetized security like medical care, housing, nutrition, drinking water etc. The ultimate objective of the government should be on improving the outcomes or living conditions of the deprived. The present study has highlighted the importance of a social security basket which comprises items of physical securities also. The study recommends direct supply of these non-monetized social security items to the deprived. This will improve the fiscal accountability on the part of government, create additional employment in the system, reduce market failures for the said merit goods and finally achieve the end result by improving the living standards of the poor and deprived.

9. we propose a three-tier risk sharing model of social security. The first tier – self financing for present and old-age social security. People should be motivated for saving and investment in regulated social security schemes like, pension, provident fund, health insurance, life insurance, housing etc. The second tier includes a concept of social funding, where employers should be made responsible for financing social security for all of their employees under a regulated and well monitored system. NGO's and community groups should be roped in for extending physical social security to the poor and deprived. The Companies Bill, 2012 categorically instructs the profit making private companies to spend substantial amount towards Corporate Social Responsibility. Such CSR funds can be directed towards meeting the social security needs of the deprived. The third tier refers to government funding; finally government will finance the overall social security basket through direct assistance and transfer of resources both in cash or kind. The three tire model will methodically provide social security to all. It would also prevent multiple coverage of the beneficiary and finally divide the fiscal burden, giving government a much needed relief.

10. In India the issue of old-age social security is still in a nascent stage. This is due to the fact that joint family system used to be a vital pillar of Indian society. The multi-generational family provided the basic social security of housing, food, health care etc, irrespective of contributions made by the aged. As discussed in chapter one of the study, traditionally children were responsible for financing the old-age consumption of their parents. To a large extend this had reduced the responsibility of the government to care for the elderly. However, over the period the problem has been highlighted on account of those who live alone, are poor in old age and those whose children are unemployed and poor. In all such cases the traditional social model fails and the responsibility of government becomes imperative.

With reference to the previous recommendations regarding self financing of old age social security for an individual and his family, the role of government will become more of a regulator than a financer. But, for those elderly who have not been able to finance their own security due to poverty or other reasons, state sponsored social security remains indispensable. Care should be taken in identifying those who deserve old-age social security, as not everyone would need the similar support system. Some would need just a monthly pension; some may need housing, while others may need proper health care facilities. Providing social security benefits to each elderly according to his/her need shall require exhaustive data of the aged people. A separate department within the proposed Ministry of Social Security and Social Assistance will become a prerequisite for providing a complete data base of the aged population. The said Department should not only be responsible for collection and dissemination of data, it should ideally be responsible for comprehensive provisioning of social security to the aged. The data base will be linked with all major service delivery channels including police and hospitals for providing complete integration and effective co ordination.

Lastly, the study recommends a national policy for the elderly. The changing social norms are hinting towards more difficult times for the elderly. Break down of joint family system, crime against elderly, rising health care cost and rising proportion of elderly in total population are some indicators that suggest deteriorating conditions for the aged in times to come. Along with economic support the aged population requires love and affection from the young.

Awareness drive starting from schools and colleges through media and government will help in inculcating the feeling of care towards the elderly. Maintenance and Welfare of Parents and Senior Citizens Act, 2007 is a positive step in this regard.

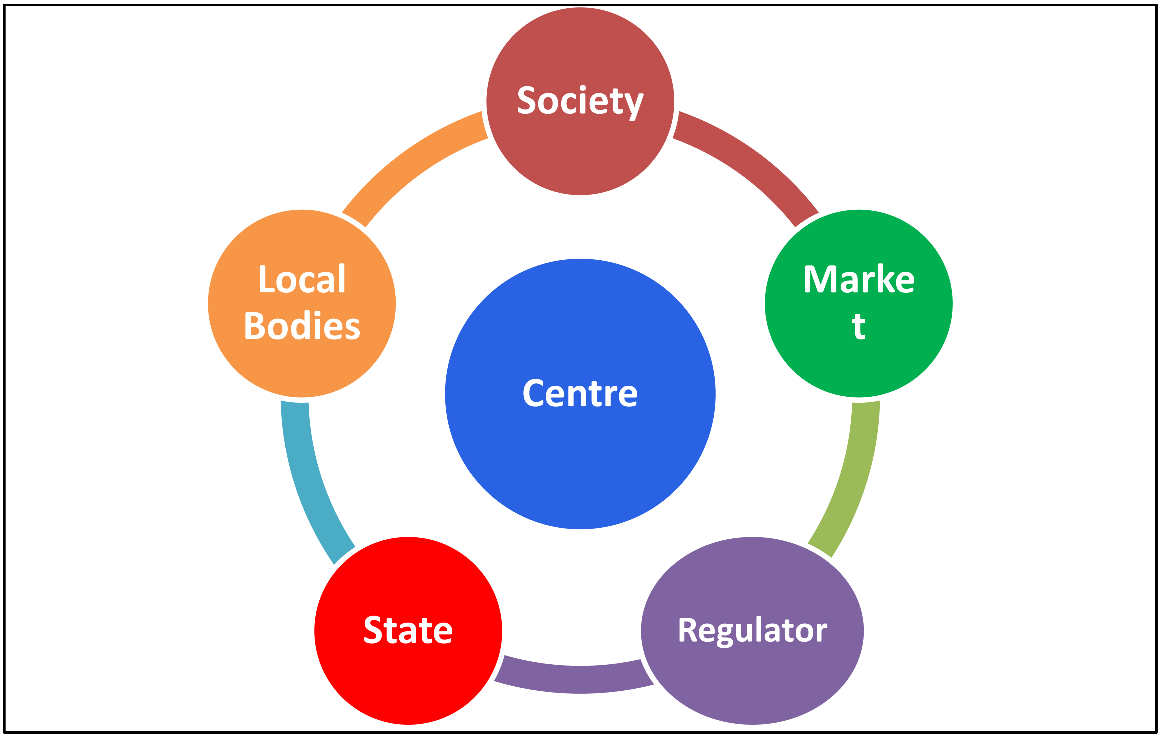
Thus, in order to face the challenges imposed by rapidly ageing population in times to come, government will need to remain alert and take a variety of proactive measures.

11. The complex nature of Centre – State fiscal relationship in India has been elaborated in detail in the second part of chapter six of the present study. The ultimate objective of inter-governmental transfer of resources is to facilitate both Centre and state governments to effectively execute their responsibilities. This will help in maximizing overall welfare of the people. The Constitution of India has clearly laid down specific roles and responsibilities for the Centre and the states. The study has found that there exists a strange paradox. The Constitution has assigned items of high revenue potential to the Centre and the items with high social expenditure to the State. It cannot be for any other reason that the states own resources are dwindling. The present study recommends fixing of explicit responsibilities between Centre and the states in line with their sources of revenue, regarding the provisioning of social security.

Fixing responsibilities for both Centre and state is also necessary because only then the duplication of schemes, benefits, and procedures can be avoided. This will also bring the much needed fiscal accountability.

The study thus recommends rearrangement of functions related to social security between the Centre and the states as well as between the State and the local bodies like gram panchayats and municipalities. The Centre should take over a parental role of owning the prime responsibility of providing the basic social security to all the members of the society. It should involve itself in policy making, funding, assessing and auditing and act as a coordinator and facilitator.

Figure – 7.1 Social Security Enablers



The present system leads to a sort of competition between the Centre and the state governments (especially if they belong to a different political parties) in providing similar kind of social security services to the household, as can be seen in case of housing, employment, social infrastructure, etc. The Centre needs to withdraw from those activities which can be effectively executed by other tiers of the government. As recommended earlier too, the government should merge several of its centrally sponsored schemes (CSS) into a few which other tiers of the system cannot provide or look after. Similarly, the state governments should pass on the responsibility of executing the primary services to local bodies and make them accountable for their implementation. Along with transferring the responsibility, new sources of revenue needs to be found for the local bodies, so that they remain fiscally viable to a large extent.

Moreover new players should be brought in for effective provisioning of social security to the people. Considering the performance of banking, insurance, telecommunication and other sectors where regulators have proved to be effective in avoiding market failures and providing a level playing field to both the public and private sectors, it is highly recommended that similar models should be adopted in the social service sector also. Constituting a regulator in health sector, housing sector and for labour welfare, to a large extent will ease government's administrative responsibility. It will also control and direct the private players in these markets for providing required social security services. A social security service market with few private players will reduce government's fiscal burden.

Lastly, as referred in earlier recommendation on ageing, society will now be required to play an important role in provisioning of some social security items. Society consists of diverse groups of people and institutions. Without their active support and involvement government alone will not be able to provide an effective social security to all those who deserve it.

The present study has attempted to provide a strong case for providing a comprehensive social security basket for the people. This will also help in substantial reduction (if not elimination) of some of the severe socio-economic problems like poverty, hunger, housing, old-age dependency etc. However, the results of the present study can be further used for performing a more technical study on the subject. Several more indicators can be used to determine fiscal sustainability and ageing risk of the states. We hope that the recommendations given in this chapter would prove useful for furtherance of the study.

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Appendix

States	SSB Spending Indicators		Fiscal Risk Indicators		Ageing Risk Indicators		Total			
	Borda Score	Borda Rank	Borda Score	Borda Rank	Borda Score	Borda Rank	Borda Score	Borda Rank	Mean Rank	Score Per Indicator
Haryana	51	**9**	**22**	**1**	**20**	**5**	93	1	5	5.47
Bihar	24	**1**	**62**	**10**	**19**	**4**	105	2	5	6.18
Tamil Nadu	27	**2**	**32**	**3**	**48**	**14**	107	3	6	6.29
Rajhasthan	32	**6**	**70**	**12**	**13**	**3**	115	4	7	6.76
Uttar Pradesh	47	**8**	**64**	**11**	**11**	**2**	122	5	7	7.18
Andra Pradesh	52	**10**	**31**	**2**	**42**	**11**	125	6	8	7.35
Madhya Pradesh	65	**12**	**51**	**6**	**9**	**1**	125	6	6	7.35
Orissa	31	**5**	**59**	**8**	**37**	**8**	127	8	7	7.47
Kerala	27	**2**	**61**	**9**	**46**	**13**	134	9	8	7.88
Himachal Pradesh	28	**4**	**83**	**14**	**34**	**7**	145	10	8	8.53
Maharashtra	87	**15**	**43**	**5**	**25**	**6**	155	11	9	9.12
Karnataka	67	**13**	**41**	**4**	**48**	**14**	156	12	10	9.18
Punjab	44	**7**	**73**	**13**	**40**	**9**	157	13	10	9.24
Gujarat	79	**14**	**57**	**7**	**40**	**9**	176	14	10	10.35
West Bengal	58	**11**	**91**	**15**	**42**	**11**	191	15	12	11.24