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THE OLD PENSION SCHEME AS A BURDEN ON THE POOR

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‘There must be a pursuit of progressive taxation of the top 10% who own 72% of wealth’ | Photo Credit: Getty Images

The demand for the old pension scheme (OPS) is growing especially after a few States announced that they would be reverting to it. The mainstream scourging of OPS is centered on a preconceived notion of inefficiency and a doctrine of fiscal deficit. Nevertheless, there is a need to disentangle the consequences of OPS from the neoliberal setup and examine the policy from the class and welfare perspectives.

In consonance with the spirit of the National Pension System (NPS), the Sixth Pay Commission had substantially increased the basic salary of government employees to cover pension contributions and promote savings for post-retirement expenses. The basic monthly salary of a Class 4 employee (Seventh pay norm) is 25,000. The World Inequality Report 2022 estimated the average monthly income of the bottom 50% of the population to be 4,468, whereas it is 14,669.7 for the middle 40% (sixth ninth decile). The salary of a government employee is higher than the income of more than 90% of the population. Thus, the OPS acts as a regressive redistribution mechanism favouring a better-off class. The minimum pension a government employee earns is 9,000 (Sixth pay norms). Whereas, social security pension set by a supervisory bureaucracy does not exceed 500 in 14 States; the amount is 2,000 in a few States.

The pension liabilities of the government increased due to a substantial hike under the Sixth pay matrix as it was politically tricky to withdraw the OPS for existing employees when the NPS was introduced. As a result, pension liabilities substantially increased to 9% of total States expenditure, and are expected to increase in the future. The pension liabilities of States account for 1.2% of GDP as on 2021-22. From 2004 to 2019, the pension expenditure of States registered an average annual growth of 16%, whereas total expenditure growth stood at 12.8%. The aggregate receipts of State governments had an average growth of a mere 13.41%. Assuming this rate constant, the share of pension expenditure will account for 14.7% of total State expenditures by 2040, and 19.4% by 2050.

Many State governments have yet to implement the Seventh pay norms, whereas some States have reportedly not paid arrears of the Sixth pay. In a neoliberal framework, governments, especially at the State level, do not have fiscal autonomy. Currently, the bottom 50% of the population bears the iniquitous burden of indirect taxation six times more than their income. Due to the OPS, the bottom of the pyramid population with a monthly income much less than that of government employees has to bear the incubus burden which will sled them into destitution and abject poverty.

The median age of the Indian population is approaching 30 years, and the population composition in many States will become older over the next two to three decades. Public provision of education and health care is indispensable to harness the demographic dividend. However, these two sectors require more human resources. The recruitment with OPS poses expenditure challenges for providing public goods, depriving a large population of basic necessities. Hence, the OPS compels governments to compress an already low social sector expenditure, thus pushing the marginalised into a downward spiral of indigence.

The OPS facilitates a further monopolisation of future labour markets in the private sector by this proprietary class. Historical experience in post-independent India confirms these trends, where sophistry and fastidious socialist rhetoric were used by the supervisory bureaucracy to consolidate its position and emerge as a dominant proprietary class. A democratically elected government in a developing country with highly unequal income distribution should focus on the redistribution of resources at its command to improve the living conditions of the impoverished.

Opposition to the OPS should not be a weapon for downsizing the government but used to argue for a more equitable distribution of resources and expansion of universal provisions of public goods. A participatory pension for government employees will provide a more egalitarian outcome in an economy with acute income inequality. To protect employees (especially those in the lower rung in the hierarchy) from the vagaries of the market, the government can tweak the NPS to provide a guaranteed monthly return. Administrative reforms are required to address unequal pay among various ranks of employees.

The disenchantment with neoliberalism is the primary reason for the invigorated demand for the OPS. Government employees as a group with a voice and easy access to decision-making can coalesce to push for a rationalisation of political executives' pensions and profligacy, which are a major burden on the exchequer. They can also exert influence to pursue progressive taxation of the top 10% (who own 72% of wealth) to address poverty and growing inequality. Such policy measures are indispensable when widespread hunger results in death among children under the age of five, and 229 million are still poor.

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