

Social Security at Cross-roads?

The feasibility of expanding social security in a neoliberal, informalising India

This lecture was delivered by Dr Ravi S Srivastava of School of Social Studies, JNU, as annual social security lecture on the occasion of annual day celebration of Social Security Association of India on 25th Apr 2014 in New Delhi.

I need not remind this audience that 'social security' has played a key role in political stability, growth and democracy in a large part of the developed world over nearly a century. It has been the primary public policy instrument for the direct sustenance of living standards of workers and citizens in industrialised countries, absorbing over half the total government expenditure.

I intend to divide my lecture in three parts. In the first part, I will deal with, and distinguish, between the three broad phases in the movement of social security across the world, while focusing on the most recent phase, in which there is a renewed interest in expansion of social security but where this expansion also faces the most acute challenges. In the second part, I deal with the contours of, and challenges to, expansion of social security in India in recent years. In the third part, I offer some suggestions on the way forward in India.

In order to introduce some conceptual clarity in the discussion, let me begin with how I will be treating the term "social security". The narrow notion of social security has been linked to the workers' status in formal labour markets and the focus has been on contingencies rather than on deficiencies. From the point of view of developing countries, the two notions (viz. deprivation and vulnerability) are closely interlinked,

necessitating a broader notion of social security. This has led authors to distinguish between the ‘protection’ and ‘promotion’ aspects of social security (Dreze and Sen, 1988, 2002) with the former being concerned with preventing a decline in living standards in general and in the basic conditions of living in particular and the latter having the objective of enhancing normal living conditions and helping people overcome regular and persistent (capability) deprivation. Others have distinguished between ‘Basic Social Security’ and Contingent Social Security (CSS) (Kannan 2004). Nevertheless, the basic idea that social security relates to the use of social means to prevent deprivation and vulnerability to deprivation is now well accepted (De Swaan 1988, ILO 2002). The term “social protection” is now used as a broader concept, although these two terms are sometimes used interchangeably. In my view, these two terms differ in so far as social security inextricably views vulnerability and deficiencies from the stand point of the worker and the employment relationship, whereas social protection is a wider concept, embedded in human rights, and views vulnerability and deficiency from the stand point of the citizen.

1.1

Formal social security systems, which made their appearance nearly two century ago, not only expanded rapidly in the inter-war period, but international consensus also led to the recognition of social security as a human right. The importance of social security came to be recognised across developed and developing countries, with the major limitation that it was mainly recognised as a *protective* right of the *formal* workforce.

Formal social security systems began their journey in the present-day industrialised countries almost two centuries ago with the English Poor Laws of 1834, in which the ‘deserving poor’ were provided meagre benefits in terms of food and

shelter through a tax-financed system. Bismarck introduced the social insurance scheme covering sickness and pensions in Germany in 1873. The first unemployment insurance scheme was introduced in France in 1906.

The scope and coverage of social security benefits expanded during the inter war period. This was once again spurred by the depression and by high levels of unemployment. The Social Security Act of the Roosevelt Administration and the Beveridge Report (both products of the immediate post-Depression period) became milestones in the development of social security.

These systems continued to expand in the post-war period both in terms of coverage, nature and quantum of benefits. The evolution of social security system in the developed countries today shows that it has expanded and sustained under three main forces: (i) the rising insecurity which accompanied industrial revolution and the further episodes of economic crisis, such as the Great Depression; (ii) the consolidation and radicalisation of working class movements; and (iii) the growth of political democracy and welfare state capitalism, on the one hand, and, state socialism, on the other.

This was also the period when the social security arrangements were instituted in India through the passage of several Acts by Parliament

Social security in the industrial countries reached its apogee in the 1970s. In Western Europe, by 1975, total social expenditure accounted for nearly 25 per cent of national income, having grown almost twice as fast as GDP since the early 1950s (ILO, 1995).

The erstwhile socialist countries were from the very beginning committed to providing comprehensive social security to their population, even at low levels of development. This was usually in the form of full employment, retirement benefits, provision of basic needs, access to productive assets such as land in

agrarian societies, and other egalitarian redistributive measures.

The growth of social security systems was paralleled by recognition by the international community of their importance, and their status as a human right.

The ILO in Philadelphia Declaration (May 1944) after recognizing that "poverty anywhere constitutes a danger to prosperity everywhere", went on to express its resolve to work towards full employment, decent and safe working conditions, "the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care" provision of child welfare and maternity protection; provision of adequate nutrition, housing and facilities for recreation and culture; and the assurance of equality of educational and vocational opportunity.

The growing consensus on social security (both basic and contingent) became stronger in the post Second-war period and expressed itself in the Universal declaration of Human Rights. Articles 22 to 26 state the universal rights of each individual to a basic standard of life, to proper working conditions and to social security and social protection. The International Covenant on Economic, Social and Cultural Rights, 1966, again recognizes "the right of everyone to social security, including social insurance" (Article 9) and Articles 10 to 13 of the Convention elaborate on the right of mothers and infants, the right to a decent standard of living, the right to food, health and education.

The Indian constitution too, recognized social security and social protection as human rights but placed them in the non-justiciable Chapter IV of the Constitution dealing with Directive Principles.

1.2

Starting in the late 1970s, however, there was a reversal in the status of social security. The welfare state in the West came under increasing pressure. The resistance to expanding social public expenditure was led by conservative policies of Thatcher and Reagan in Britain and the USA. It was helped by the marked slowdown in economic growth in the Western countries since 1974 and by rising unemployment, inflation and budget deficits. There was a strong attack on the supposed inefficiency of public expenditure and the negative effects of high taxes and some elements of the welfare state on incentives to work, save, invest and take risks.

The neo-liberal policies that gained ascendancy in the 1980s spurred a strong wave of economic liberalization, privatization of state enterprises and services and deregulation of the economy. The intensification of globalization, technological change and competition led to further pressures for containing public expenditure and reducing tax rates. Over the past two decades this has resulted in many countries dismantling key social programmes and reducing the scope, level and range of benefits. There is also a trend towards privatizing social security – replacing or supplementing government schemes by private schemes or contracting private agencies to manage existing schemes (ILO 2002, Stiglitz 2006). In India, too, funded pension schemes for public sector workers was replaced by a pay-as you -go scheme in 2004. In some countries the universal, rights-based programmes were converted into targeted schemes with beneficiaries subjected to a means test (Esping-Andersen, 1996; Hoskins et al., 2001). However, despite negative tendencies, the social security systems in the OECD countries continued to retain their basic features, providing evidence that social security systems are deeply embedded in national economic, social and political structures and reflect deep rooted political consensus.

On the other hand, the transition of the erstwhile socialist economies had strong negative impacts on the living standards and comprehensive social security systems in these countries. On the whole, a system that provided a comprehensive package of social security, albeit at modest levels, was replaced by a highly selective and targeted system which excluded a significant proportion of the population. The tightening of conditions for unemployment benefits has left an important minority of jobless workers with no form of compensation. The social security institutions lack the capacity to collect contributions from a significant proportion of enterprises. The growing informalization of the economy is further intensifying the problem of collecting social insurance contributions. The result is that growing numbers of the working population are falling outside the framework of the social insurance system – a situation not unlike the one prevalent in many developing countries (Ghai 2002).

1.3

Since the late 1990s, there has been a renewed focus on universal social security, including its extension to workers in the informal sector, in the last decade and a half, which has been led by the ILO. This is not surprising for several reasons.

First, changes occurring since the late 1970s have increased the presence of the informal sector across the world, this increasing the proportion of people without any social security covers. These changes include the transformation of the former communist world since the late 1970s including privatisation of state enterprises led an increase in the number of informal sector workers. Privatisation and structural adjustment programmes in developing countries also led to the same tendencies. The expansion of post-fordist forms of global production in value chains extended the production to petty producer enterprises in the developing world. All these

processes not only underscored the so called resilience of the informal sector but clearly showed that neo-liberal globalisation had set in motion tendencies to strengthen and expand the scope of the informal sector.

Second, the increase in the informal sector is only one aspect of the growing informalisation of employment set in motion by the forces of neoliberal globalisation. Employer-employee relations have rapidly been transformed at the workplace and stable relationships have given way to short term and unstable relationships, which have again increased the number of people without effective social security cover.

Third, neoliberal tendencies have taken refuge behind factors such as the ageing population structure in most countries to whittle away social security benefits, targeting working ages and pensions.

Fourth, globalisation and market integration has increased inequalities across the world and have increased the level of insecurity and vulnerability faced by poorer groups across the world, a point succinctly noted by the ILO's World Commission on the Social Dimensions of Globalisation. This has again brought to the fore, the need to expand social security and social protection.

Finally, the severe World Economic Crisis of 2007-08, which followed periodic episodes of crises in 1997-98, 2001-02 and so on has again highlighted the need for effective social protection and social security.

The renewed focus on expansion of social security in order to make it both universal and rights based has been led by the ILO. This has culminated in the call by the United Nations to countries to institute a rights based Social Protection Floor.

In recent years, some of the large developing countries have also stepped up efforts to introduce effective social security and social protection programmes on a universal scale. China has

reversed both its policies on social protection and on informalising employment through new policies addressing informality on both planes (job contracts and social security). This is also the case with Brazil, which has seen an increase in formal employment and decline in income inequality along with rising levels of social protection and social security. I deal with the Indian case separately.

2. India: Expansion of Social Protection & Social Security and Challenges

I want to first focus on the positive developments in social security and social protection that have taken place in the last two decades, a period otherwise with neo-liberal policies, inimical to labour. That this expansion took place is a tribute to the working class movement and civil society which was able to put sustained pressure on governments, which also, it must be acknowledged responded in a limited fashion.

First, the construction sector is the largest employer of workers outside agriculture (accounting for more than 50 million workers) and employment in the construction industry has also grown at a very high pace. More than 97% workers in the industry are informally employed, most are migrants and live and work in very vulnerable situations. Many years of struggle led to the enactment of the twin legislations in 1996 - the Building and Construction Workers Welfare Act (1996) and the Building and Construction Workers Cess Act (1996). These two Acts today form the main pillars for creating proper working and living condition of construction workers and providing them with social security.

Second, the demand for comprehensive and universal social security legislation of unorganised workers led to the recommendation for umbrella social security legislation by the Second Labour Commission. After detailed discussions and analysis, the National Commission for Unorganised Sector

Enterprises (NCEUS) recommended a universal minimum social security package as a legal entitlement and proposed a suitable draft legislation in 2007. The government enacted the Unorganised Workers Social Security Act in December 2008, and followed up with an expansion of the National Old Age Pension Scheme, a Scheme offering life cover to landless labourers (AABY) and a scheme provide health insurance to poor families (RSBY). The RSBY has made very heartening progress in terms of registering workers.

Third, there has been some progress in reforming the implementation of two major social security schemes of the government which are meant for workers (viz. the ESIC and the EPF).

The more spectacular progress since the last decade has been in extending social protection in a rights based direction with the NREGA, Right to Education Act and the more recent Right to Food Act. Expenditure on social protection by the Central government has grown at a good rate, impelled by popular pressure and Supreme Court monitoring.

But progress of the worker based social security has been very tardy, partly because of lack of government commitment and capacity, and principally because most schemes are not well designed to cover an increasingly temporary and circulatory workforce. A very major constraint on increasing social security cover comes from high and growing rates of informalisation, and growing migration/labour circulation in the Indian economy. As a result, the potentially positive spill over from high growth and structural changes in the employment structure that ave taken place in the last decade have been negated.

The NCEUS had underscored the trend towards growing informalisation of the workforce and these trends have not abated in the period of high growth in India.

This period has also been accompanied by a period of rapid structural transformation in employment, probably at a rate not

witnessed in any past period since Independence. First, the rate at which workers moved out of agriculture and into non-agricultural sectors has accelerated. For the first time in India's history, the absolute number of workers in agriculture declined by 32.3 million between 2004-05 and 2011-12. Moreover, the regularly employed wage/salaried workforce grew by 3.2% per year, compared to an annual decline of 0.7% in the self-employed workforce, and a more modest increase of 1.1% per year in the casually employed workforce. During this period, the secondary sector gained 29.7 million workers growing at an annual rate of 4.5% per year, while the tertiary sector gained 18.4 million workers, growing at 2% per year. Finally, the formal sector employment (using NCEUS definitions) increased at a significant rate over this period while the share of workers in the informal sector declined. Formal sector employment grew at an annual rate of 24.3% in construction, 5.9% in services, and 5.4% in manufacturing between 2004-05 and 2011-12 (Table 1). This has resulted in an increase in the share of workers in the formal sector from 11.6% in 2004-05 to 14.3% in 2009-10 and further to 16.3% in 2011-12.

However in the entire economy, between 2004-05 and 2011-12, both informal and formal employment increased. While at the economy wide level, informal employment increased from 426.8 million to 428.1 million in 2009-10 and 437.6 million in 2011-12, in the corresponding period, formal employment increased from 28.9 million in 2004-05 to 32.4 million in 2009-10 and 33.8 million in 2011-12. Thus, in the seven years between 2004-05 and 2011-12, informal employment increased by 10.8 million and formal employment increased by 4.9 million.

But this picture is the result of very different processes across the agricultural and non-agricultural sectors. In the former, informal employment declined by 32.3 million over this period, without any increase in formal employment. In the non-agricultural sector, informal and formal employment both

increased, but while the former increased by as much as 43.1 million, the latter increased by only 4.9 million. *Thus the decline in informal employment in non-agriculture was largely nullified by the increase in informal employment in the non-agricultural sector.*

Let us now consider only paid workers since we have direct evidence of job contracts and social security only for paid workers who include casual workers and regular workers. Regular workers in manufacturing with any type of social security and a written contract numbered 4.4 million (24.1% of the total) in 2004-05. Their numbers **fell** to 4.2 million (18.1% of the total) by 2011-12. The numbers without any social security increased from 11.5 million (62.6%) in 2004-05 to 15.4 million (67.4%) in 2011-12. The number of regular workers without any job contract in manufacturing increased from 13 million (70.8) in 2004-05 to 17.3 million (75.5%) in 2011-12, while those without either any job contract or social security increased from 10.5 million in 2004-05 (57.5%) to 14 million in 2011-12 (61%).

In the Services sector, where one can expect a higher propensity for formal employment among regular workers, 16.8 million workers or 36.1% of the workers had both social security and a job contract in 2004-05. Their numbers increased to 18.2 million in 2011-12. But as percentage of the workforce, there was a decline to 31.2% in 2011-12. Workers with some form of social security numbered 21.9 (47.3%) million in 2004-05, and 26.3 million (41.6%) in 2011-12. Workers with a job contract numbered 26.7 million (43.5%) in 2004-05, and 30.2 million (39.6%) in 2011-12. Finally workers without any social security or job contract in the services sector numbered 21 million in 2004-05 (45.4%), and 27.6 million (47%) in 2011-12.

Finally, among all regular workers in the non-farm sector, the numbers of those with both social security and job contract was 22.2 million in 2004-05, and 23.6 million in 2011-12 i.e. 32.9,

and 27.6 percent of the workforce respectively. Those with any social security were 30 million in 2004-05 (44.5%), and 35.3 million (41.3%) in 2011-12. Regular workers with job contracts of any duration numbered 26.7 million (60.5%), and 30.2 million (64.7%) respectively in 2004-05 and 2011-12 respectively. Finally, workers without any job contract or social security numbered 33 million (48.9%) in 2004-05 and 43.7 million (51%) in 2011-12.

Thus, although the level of job security or social security can be expected to be the highest among regular workers, several facts stand out. First, a sizeable proportion of these workers have no job security or social security and their numbers and percentages have increased between 2004-05 and 2011-12. Second, the percentage of workers with some form of social security as well as job security was no more than a third to begin with, but this proportion has whittled down over this period.

We now turn to an analysis of trends in informal employment in the entire segment of paid workers including casual workers. The share of informal employment in total wage/salaried employment has changed very marginally between these years. At an aggregate level, the share of informal employment was 86% in 2004-05 and remained at this level in 2011-12. But in manufacturing, the share of informal employment in paid workers rose from 82.6% in 2004-05 to 84.7% in 2011-12. Again, during the first and last time periods, the share of informal employment only shows a slight decline in trade and real estate.

Employment in the (non-farm) formal sector has experienced a sharper increase since 2004-05 than overall employment. Moreover, expectedly formal employment is more prevalent in the formal sector. Shift in employment structure in favour of the formal sector should therefore contribute to higher formal employment.

The share of informal employees is indeed lower in the formal sector. In 2004-05, 40.3% of regular workers were informally employed in the formal sector as compared to 61.6% overall, in the non-farm sector. Among all wage/salary paid employees, 51.6% were informal workers in the formal sector compared to 86.2% in the entire non-farm sector. *But there has been a higher rate of informalisation of employment in the formal sector than among all employees.* The share of informal employment rose by 9.9 percent points in the formal sector between 2004-05 and 2011-12 compared to only a 3.7% point increase among all regular workers in the non-farm sectors. Among all paid workers, the share of informal workers rose by 9.8 percent points between 2004-05 and 2011-12 compared to no rise in the proportion among all paid employees. This trend towards informalisation is present both in the formal public as well as private sectors.

3. How do we move forward from here?

When we in the NCEUS proposed social security as a universal entitlement, we became aware that neo-liberal policy makers were not averse to an expansion of social security though they did not favour an entitlement based approach (which is inherent in the concept of social security). This is because of the belief that social security arrangements would help to make labour markets more flexible. However, at the same time policy makers were more in favour of market based social security frameworks (for example those favouring private health insurance or pension schemes).

But there is an inherent contradiction between perfectly flexible labour markets which result in an ever shortening job length and labour circulation and access to social security. In my view, a movement forward can only be based on a move towards formal labour markets, which offer an optimum amount of job security with labour market (which Peter Auer has called flexi-

security). My own analysis of labour markets shows that high job turnover is extremely detrimental to labour productivity and skill acquisition. We have discussed earlier how Brazil has managed to increase formal employment, the new China Labour Code (2008) has also made a decisive move towards formal employment, although in a limited sense. In India, a move towards formal employment will require a comprehensive discussion on the Contract Labour Act, the IDA, and the Employment Standing Orders Act.

Secondly, I believe that we need to take a serious look at the design of the some of the important Acts and programmes meant for informal sector workers, which also means a review of what has already been proposed in the recent past. Implementing these Acts is like filling water using a sieve as they do not factor in the actual characteristics of the mobile and informal workforce. I am referring in particular to the B&CWWCA (1996).

Thirdly, we need to review the functioning of the social security provisions meant for workers in the formal sector. These are principally the ESIC and the EPF Acts and acts such as the Maternity Benefit Act (Acts giving other long term benefits such as the Gratuity Act will have to wait till the labour market is reconfigured). These Acts must create permanent platforms for workers and it must be mandatory for employers to link all employment related information and social security payments through these platforms. My own fieldwork shows that due to discontinuities in payment records, created because of the floating nature of the workforce or employer strategies, workers lose out on benefits, and are therefore unwilling to come forward to register under the schemes.

Fourth, I think those who are concerned with expansion of social security need to closely review the architecture of social security programmes in general in the country. This includes looking at the fragmentation in programmes, in the

administrative machinery and in implementation. The NCEUS had proposed uniform machinery and universal minimum benefits, which could be added on to. It had also proposed universal registration and a smart card based social security number, which could ensure portability in terms of contributions and benefits. The UWSSA 2008 which was finally passed adopted a structure which is very different from what had been proposed by the NCEUS and I think, five years down the line, we need to look at the entire issue in a comprehensive fashion.

In the beginning, I adopted a distinction between (protective) social security and social protection. Both are embedded in a rights approach with strong implications for equity and sustainable development. In a separate paper, I have shown that from a citizen's perspective we should build on existing progress and advocate a rights based social protection floor in India, as something which is both necessary and feasible. I have also outlined many issues which require greater clarity.

My strong appeal to all of us is that we move forward in that direction, while clarifying many of the important issues involved.

In the end, let me again thank the SSAI for inviting me and giving me the privilege and opportunity of addressing you.