How to implement a global old age pension and youth grant

Both the vulnerable situation of senior citizens and predictions for the ageing of the population call for the implementation of a global old age pension. This should be accompanied by a youth grant system, thus supporting the two age groups in the most fragile situations and fostering intergenerational justice. The effective application of global taxes such as the Tobin tax on international transactions could provide financial viability for such programmes and promote wealth redistribution and more transparent and responsible corporate behaviour.

The universal, publicly financed old age pension has been a popular and effective means for reducing poverty and extending social citizenship in all developed states. In the age of globalization it is right that the old age pension, this tried and tested device for protecting the livelihood of the elderly, should be installed at a global level, by means of a pension paid at a modest rate to all older persons on the planet, to be financed by a light tax on global financial transactions and corporate wealth.

In the first instance the global old age pension could be set at one dollar a day, bearing in mind that even this small sum would help to lift hundreds of millions of those aged out of poverty in every part of the globe. Poverty is still strongly associated with old age, and especially with gender and old age. State pension schemes greatly help to limit old age poverty in the developed world, but have not abolished it, while in developing countries pension arrangements often reach less than a quarter of the population.

The usual link between pension entitlements and employment contributions is not good for women. Because women live a few years longer than men, the majority of the elderly are women. And because women's unpaid labour in the home counts for little in public pension systems, and for nothing in private and occupational schemes, over three quarters of the elderly poor are female. Moreover, a woman's retirement and employment contributions is not good for women. In richer countries there are still stubborn pockets of poverty among the aged – especially older women. As the older population grows in size, and employers and the state cut back on provision, these pockets of poverty will increase. A cheque for USD 90 a quarter would not banish poverty in the economically advanced countries but it would be welcomed by many of the elderly, making a modest but useful contribution to their straitened budgets.

There are some 550 million older women and men in the world today – that is, persons over 65 in the developed countries and over 60 in the developing world. The cost of introducing a global pension of a dollar a day in the next few years would be around USD 205 billion a year, one fifth of the projected cost to the US of the Iraq War, or one half of the annual US military budget prior to the Iraq invasion. However the cost of the proposed pension will double by around 2030, and treble by mid-century. Ageing is going to climb steeply in coming decades because of rising longevity and a falling birth rate. These trends are not confined to rich countries. Just as urbanization occurs with or without economic development, so does ageing of the population. While the former process is leading to 'a planet of slums', the latter is making for a global blight. The latter is making for a global blight without economic development, so does ageing of the population. While the former process is leading to 'a planet of slums', the latter is making for a global blight without economic development, so does ageing of the population. While the former process is leading to 'a planet of slums', the latter is making for a global blight. The ageing trend will already be evident long before 2050. India's over-60 cohort will number 175 million by 2024. By 2040 there are expected to be 98 million persons aged 80 plus in China, 47 million in India and 13 million in Brazil. These people are all already born, a circumstance that gives the projection a high degree of probability.

There are very few countries in the world which have arrangements adequate to the rising future need for the care and support of the elderly. In the developing world and poor countries the aged are often sunk in absolute or extreme poverty, while in the richer countries they suffer relative poverty. As aged populations double or treble both these problems will grow. Worrisome as the economic outlook is for the elderly in most of the OECD countries, the situation is, of course, worse in the former Soviet Union and much worse in many parts of Asia, Africa, and Latin America where the aged in the countryside and the slums often have no coverage at all – circumstances which could themselves supply their own grim corrective to the assumption that rapid increases in life expectancy will be maintained.

According to one estimate formal retirement income schemes cover fewer than 15% of the world's households. Even states like India and Chile, with growing economies and considerable administrative capacity, fail to deliver basic pensions. Chile's pension system has been held up as a model, yet leaves 40% of the population entirely uncovered, and

1 Robin Blackburn is Professor of Sociology at the University of Essex in the UK and Distinguished Visiting Professor at the New School for Social Research in New York. He is the author of Age Shock: How Finance Is Failing Us, London 2007. He can be reached at: <robinblack@essex.ac.uk>.

2 This report is based on a presentation given at an event organized by Global Action on Aging at the United Nations building in New York on 14 February 2007, for the benefit of those attending the concurrent meeting of the UN Economic and Social Council.

3 These estimates are taken from the 2006 revision to be found on the website of the UN Population Division. See: <www.un.org/esa/population/unpop.htm>.

4 See also the demographic trends box in this Report.
furnishes weak coverage to another 40%. India’s old age pension is means tested and amounts to only USD 2 a month for those able to claim it. While poor urban dwellers are not poor enough to claim, poor rural dwellers find it too costly. As populations age further this places great strain on the elder care arrangements in family and kinship networks.

Poverty and inequality are so great in today’s world that quite modest remedial measures can have a large impact. There are 2.5 billion people living on less than USD 2 a day, with the majority of the elderly falling within this category. Meanwhile, the richest 10% command 54% of global income. In this “champagne glass” world, the well-off sip at the glass’s brimming bowl, and the impoverished or struggling remainder supply the slender stem. In such conditions, a dollar a day is less than a round- ing error to the wealthy, yet would be a lifeline to the global aged poor.

The plight of the old and the claims of youth

Urging the case for a global pension is not meant to slight either the humanitarian approach, which prefers simply to urge the claims of bare humanity, or the efforts of those who campaign for the need to alleviate the problems and poverty of specific groups, such as young mothers or people living with HIV/AIDS. In the unequal and strife-torn world in which we live there are several, or many, ways in which poverty may be overcome. Peace would be the best help for the very poorest in strife-torn lands. Then there is successful economic development, such as has taken place in China and India over recent decades, which will lift many out of poverty and furnishes a more hopeful context in which to advance anti-poverty strategies. But the weakness of provision for the elderly in these states also shows that even or especially – the most rapid growth may not banish absolute poverty, in the countryside or new urban centres.

So a global pension could command support in ways that would extend the general case against poverty. In the richer countries there is fear of pension failure at home, and concern at the worse plight of the very deprived in the poor countries. In the developing countries there is the more specific alarm or guilt that is occasioned by the poverty, actual or impending, of parents, grandparents, uncles and aunts. Such sentiments helped to generate support for old age pensions in the developed states in the past and are likely to do so again in the developing world. A global old age pension, if it could be realistically financed and delivered, would enjoy substantial legitimacy and would in no way detract from other efforts to combat relative or absolute poverty. This is already the case, but that legitimacy can only grow in an ageing planet. Today the majority of the old are poor; tomorrow the majority of the poor may well be old.

While we must help the aged, it would be wise also to extend similar help to the other age cohort which is typically excluded – young people. The global pension should be twinned with a youth grant. Older people themselves would feel happier to receive a pension if financial help was also available to the young, especially the sort of help that would allow them a better start in life. Today one half of those aged between 16 and 24 are unemployed – not in a job and not receiving education – and thereby at special risk of being in poverty both now and in the future. If we set aside a small privileged minority in both categories there is reason to see young adults and the elderly as the excluded generations.

The cost of supplying every younger person with USD 1,500 for educational and training purposes on reaching the age of 17 would be very similar to that of paying the global pension of a dollar a day. A youth grant would widen access to the knowledge society and symbolize a concordance of the generations. While it could transform the possibilities of the young person in poor countries, it would still be welcome to most of the young in wealthier lands. Young people are now greatly burdened by the rising cost of acquiring skills and education. They also tend keenly to appreciate any extra modicum of independence from their parents. Even in some of Europe’s most advanced welfare states, such as Sweden, young people living on their own figure disproportionately in the poverty statistics. The case for special help to the young is now so widely acknowledged that it does not need further pleading here.8 The question remains: how could financial help to the “excluded” generations be financed?

How to pay for the global pension and youth grant

Only USD 205 billion a year would be needed, to begin with, for the proposed global pension. But it would be necessary to reckon with the need for a more than doubling of revenues within a generation and the building of a substantial fund now, while ageing effects are still comparatively modest, to help finance extra pension pay-outs in the middle decades of the century. Moreover, there should be a commitment to raise the global pension in line with the growth of overall average incomes so that the old share in future prosperity.

Raising the necessary finance for a global pension – together with something extra for administrative costs – will certainly require a serious effort. The fiscal devices adopted should ideally relate to the workings of the global economy taken as a whole, so there would be a wide and dynamic tax base.

Three types of impost are peculiarly well suited to such a task: a tax on international currency transactions, a tax on the fuel used on international flights, and a very mild tax on corporate wealth. The calculations which follow are simply rough-and-ready exercises designed to establish that the pension and grant can be easily financed by the proposed taxes, and have the further benefit of shedding much-needed light on international financial flows.

The famous Tobin tax applies to the sale or purchase of currencies and has been urged as a measure to curb currency speculation.9 But it could be applied mainly as a revenue-raising measure. Set as low as 0.1%—or one thousandth part of each transaction—the tax would not be worth evading but would still raise large sums globally. Common estimates of the amounts that could be raised each year from a Tobin tax on currency transactions ranged from USD 100 billion to USD 300 billion in the late 1990s. By 2010 the Tobin tax yield should comfortably reach the higher end of this scale—USD 300 billion.

The suggestion here is that income of around USD 150 billion could be earmarked as the Tobin tax contribution to financing the global pension, with the remainder to be dedicated to young adults—the young could be offered a lump-sum grant of USD 1,500 to use for education or training when they reach the age of 17. Small as this sum would be in richer societies, it would not be a negligible one. Twinning the global old age pension with help for young people would begin to assert a new balance

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5 See the private pension funds box, with Chile’s details and several examples, in this Report.


7 This strain is described in Jeremy Seabrook, A World Growing Old, London, 2003. Further information on the precarious situation of the old in developing societies is to be found in the UN Department of Social and Economic Affairs, World Economic and Social Survey 2007. Development in the Ageing World, New York, 2007, especially p. xiv, 93-5.


between life stages in a scheme of generational eq-
uit. However, such a justified sharing of Tobin tax
 revenues would mean that another source of funds
would be needed for the global pension, especially as
the ageing of populations grows in the future.

At present the fuel used on international flights is
almost untaxed and costs the airlines about USD
50 billion a year. A doubling of the price of fuel might
help to cut consumption by a fifth or a quarter while
still raising USD 30 billion. However, much of the
yield from green taxes should be used to invest in
other measures designed to mitigate global warm-
ing. But tying at least some of the revenue – say a
half of it – to a universally recognized good cause
would be defensible. While USD 15 billion a year
would be a help, other sources of revenue would
still be needed.

The third source of revenue is a mild levy on share
values or share transactions. There could be a
requirement on all companies employing more than
50 employees, or with a turnover of more than
USD 10 million, to pay a tax of 2% on their annual profits,
to be paid either in cash or, in the case of public com-
panies, by issuing new shares of that value to the fis-
cal authority (private companies could issue bonds,
and partnerships, including private equity partner-
ships, could issue nominal partnership rights). All
genuine pension funds would be compensated for
the impact of share dilution on their holdings.10

Two important features of these arrangements should
be noted. Firstly, they would apply to profits
made anywhere in the world. Secondly, companies
would be able to discharge their obligation simply
by issuing a new security rather than by subtracting
from their cash flow. Large US and UK corporate
pension fund sponsors have complained about the
burden of making cash payments to the Pension
Benefit Guaranty Corporation and the Pension Pro-
tection Fund, the insurers of their ‘defined benefit’
protection. In some cases companies have
not paid, an impost that is easy to collect – this is done at
very low cost as part of CREST, the central share
system. The UK Treasury is anyway greatly attached
to an impost that is easy to collect – this is done at
very low cost as part of a universal good cause.

China’s financial authorities have a similar de-
vice which they use in a ‘Tobin tax’ way to dampen
speculation – but it also raises large sums. Several
European states, including Switzerland and France,
have similar very mild imposts, applying to bonds
as well as shares. In case of any shortfall in the yield
of the taxes already suggested, or of implementa-
tion difficulties, a global stamp duty or FTI (financial
transaction tax) could be looked at to fill the gap.13

It will be recalled that a half-share of the Tobin tax
already raises USD 150 billion towards the global pen-
sion, and that the fuel tax on international flights should
raise a further USD 15 billion annually. Thus, to begin
with, an extra USD 40 billion a year would be needed from
the share levy (or share transaction levy), to meet
the immediate annual cost of USD 205 billion. This
would allow the remainder of the sum raised by the
share levy on profits — USD 100 billion each year — to
accumulate in the Global Pension Fund (GPF) network as
a strategic reserve pledged to meet the anticipated
rise in the numbers and proportion of the aged.

The various taxes would be collected by national
fiscal authorities with assistance from appropriate
international bodies such as the International Mon-
etary Fund (IMF) and the International Air Transport
Association (IATA). Revenues would be paid to the
global office of the GPF for consolidation with the
world fund.14

Consolidation of assets by an international
agency would ensure a highly diversified portfolio
but the agency would itself be required to distribute
the assets it receives to a global network at regular in-
tervals. This regional network of around a thousand
local offices of the GPF would be responsible for paying
the pension and would receive resources in line with
their region’s demographic characteristics. In the
interests of building up its reserves, the GPF
network would use its cash revenue to pay out cur-
rent pensions but hold all the new shares and other
securities to generate larger revenues in the future,
when they will be needed.

A global network of reserve funds

During an initial accumulation phase it might be
wise to reinvest dividend income in public bonds.
Because the GPF network would not buy or sell
shares it would have less scope for making mis-
takes. The knowledge that the GPF network would
not sell the shares it held would also be a factor
of stability and would prevent it from financially
harming the companies in which it had stakes. By
around 2034 total assets in the GPF network could
amount to USD 7.7 trillion.12 If cash pay-outs began
at this time, and the annual yield on capital was
around 3%, this would be USD 257 billion for that
year. Each regional office would hold around USD
7.7 billion in assets and receive USD 257 million in
revenue. Note that while dividend income can fluc-
tuate, it is less volatile than share price, and there
are ways of smoothing such receipts.

The global pension would be a universal
scheme benefitting everyone who reaches old age.
The receipts of the currency-exchange tax and the
levy on profits would obviously be larger in rich parts
of the world than in poor ones. However, currency
transactions and corporate profit trails often involve
tax havens and developing states where income per
head is still low. The currency tax and the profits tax
would be light but they would apply everywhere.
The overall workings of the global pension – if financed
in the way suggested – would redistribute from rich
to poor. On the other hand, the participation of every

10 The use of a general share levy to establish reserve social funds is associated with the work of Rudolf Miedner, the chief economist of the Swedish trade union federation, the LO, and architect of the Swedish welfare state. There is a fuller account of its workings in the sixth chapter of Age Shock, op. cit.

11 More examples of this court-mandated share issuance from the author in Age Shock, op. cit., p. 134-5, 142. The judges were no doubt in part prompted to take this measure because of records of corporate irresponsibility which are documented in chapters 2 and 3 of this book.


13 See also the article by John Christensen in this Report.

14 The GPF might maintain offices in such important financial centres as Zurich, Cyprus, Mauritius, Singapore, and so forth, with a view to strengthening compliance.

15 There is an assumption that profits rise at 2.5% a year and that returns of 5% a year are ploughed back into the fund for an ‘accumulation period’ of 27 years. Further details in chapter six of Age Shock, op. cit.
Citizens of richer countries should be pleased at the comprehensive scope of the new arrangements, which would require potential or actual tax havens to report currency movements and profits at companies they allow to register in their territory. The global pension would give those in richer countries rights to a modest pension supplement, and as a flat-rate benefit would help the less well-placed more than the comfortably-off everywhere. It would do most to reduce poverty where it is worst: in the countryside and neglected urban areas of the developing world. Last but not least it would promote more transparent and responsible corporate behaviour and nourish a worldwide organization dedicated to social welfare.

The regional network of funds would be bound by actuarially fair rules of distribution and would be required to hire professionally qualified personnel, but should also furnish democratic representation to local communities. The holding of stakes in a great variety of companies could in principle give the regional network a say in how these shares would be voted. The impact of the network on the management of any given company would be very small, but they would be able to influence issues of general principle, such as respect for labour rights or compliance with environmental standards. The network could comprise, as suggested above, around one thousand offices worldwide, each catering to a population of about six million. The network would give a say to local communities who are often ignored by large corporations.

However, the primary duty of the regional and national network would be to organize the cheap and effective disbursement of the global pension to all who qualified for it. In many countries the task could be sub-contracted to the national pension authorities. Where these still had weak coverage assistance might be sought from — and costs shared with — post offices, local micro-credit unions and public sector employees’ schemes. The latter exist in many countries where national administration is ineffective or even non-existent. Namibia has developed effective means for delivering the old age pension, employing mobile ATM machines activated by fingerprint ID.

The global pension would be a universal social insurance scheme, not an aid programme. It would channel financial resources directly to the elderly in all communities, whether rich or poor, urban or rural. The costs of administration would, so far as possible, be spent in those communities. Administration costs should amount to no more than 1% of the fund each year, and quite possibly less. It would be a non-means-tested as well as non-contributory ‘social pension’. Requiring pension recipients to undergo a means test is demeaning and discourages the poor from saving. It can easily stigmatize the elderly, especially older women.16

The global pension would contribute significantly to the ‘security in old age’ envisaged in Article 25 of the Universal Declaration of Human Rights. UN agencies and conventions have helped to focus global attention on the problems of children, of women, of the sick and disabled. In 2002 the UN sponsored the Second World Assembly on Ageing in Madrid, which issued good advice to member governments. As yet, however, the plight of the aged and the prospect of a surge in their numbers are still not addressed by a specific international agency, nor by a programme with global scope. The global pension would represent a tangible step in the right direction.