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.

Robin Blackburn[1]

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.[2] 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 the 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 work of caring for other family members typically continues in old age, as she cares for her spouse, her grandchildren and the sick. In countries afflicted by HIV/AIDS, older women are essential to family survival as they take on their children's parenting role. If a reliable way could be found to channel USD 30 a month, or USD 90 a quarter, to the aged in the developing countries, this would not only massively reduce poverty, but would put resources in the hands of those who could make good use of them.

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 560 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 of destitution in old age.

As Susanne Paul and Alischa Kugel detailed in their report, by 2050 the UN Population Division expects there to be two billion persons aged 60 or over worldwide, with 1.6 billion of these in the less developed countries.[3] Ageing is most marked in Europe and Asia but it is advancing elsewhere too. By 2050 the size of this older group in Africa is set to quadruple to reach 207 million, comprising 10.3% of the total population. Africa will have more older persons than Latin America and the Caribbean (with 187 million aged 60 and over), and nearly as many as Europe (with 229 million of that age). By 2050 Asia, a category that includes India and China, is expected to have no less than 1.249 billion older persons, comprising a fifth of the total population in India and as much as 28% in China.

It is often claimed that the ageing of the population can be offset by immigration. The projections quoted[4] assume the continuation of current trends in migration. While migration flows can temporarily mitigate the ageing effect in recipient countries, they cannot, of course, reduce the ageing of the global population.

Today women comprise 55% of those aged 60 and above worldwide, 65% of those aged 60 plus in North America and 70% of those aged 60 plus in Europe. Worldwide, women comprised 63.5% of those aged 80 and above in 2005, a figure that is expected to drop slightly to 61.4% by 2050. The frail and vulnerable 'old old' are the most rapidly growing age cohort in all parts of the world. There were 88 million persons aged 80 and above worldwide in 2005, a figure that is projected to rise to 402 million by 2050 according to the UN Population Division mid-range projections.

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. Worrying 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 recent improvements 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

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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%.[5] 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.[6] As populations age further this places great strain on the elder care arrangements in family and kinship networks.[7]

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 rounding 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 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.

6 The yawning gaps in pension provision are well documented in Larry Willmore, "Universal Pensions in Developing Countries", *World Development*, Vol. 35, No. 1, 2007, p. 24-51. For India see Rajeev Ahuja, "Old Age Income Security for the Poor", *Economic and Political Weekly*, 13 September 2003.

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.

8 The special claims of youth are urged by Bruce Ackerman and Anne Alstott, "Why Stakeholding" and "Macro-Freedom" in Bruce Ackerman, Anne Alstott and Philippe Van Parijs, eds., *Redesigning Distribution*, London, 2006, p. 43-68, 209-16. A policy for a type of youth grant is also made by Roberto Mangabeira Unger in his book, *What Should the Left Propose?*, London, 2006, p. 43-67. For information on youth exclusion see the World Bank's *Annual Development Report 2007*, *Development and the Next Generation*, Washington, 2007.

9 For the Tobin tax see James Tobin, *The New Economics*, The Elliot Janeway Lectures in Honor of Joseph Schumpeter, Princeton, 1974; J. Frankel, "How Well Do Foreign Exchange Markets Function: Might a Tobin Tax Help?", NBER Working Paper No. W5, Cambridge, MA, 1996; Keiki Patomaki, *The Tobin Tax: How to Make It Real*, The Finnish Institute for International Affairs, Helsinki, 1999; Joseph Stiglitz, *Globalization and its Discontents*, New York, 2004.

between life stages in a scheme of generational equity. 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 warming. 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 companies, by issuing new shares of that value to the fiscal authority (private companies could issue bonds, and partnerships, including private equity partnerships, 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 Protection Fund, the insurers of their 'defined benefit' pension schemes. In some cases companies have been in such difficulties that such payments were impossible. This has led US 'chapter 11' bankruptcy-protection courts to require the issuance of new shares as an alternative way of making a contribution to their insurer. In the UK the Pensions Regulator has made similar provisions requiring cash-strapped companies to issue shares to the Pension Protection Fund.[11] Employees will stand to qualify for the new pension but would certainly welcome a type of contribution that does not weaken their employer in any way.

The profits tax/share levy would be at a very low rate – a tax of 2% of profits should raise about USD 140 billion annually. The share levy briefly sketched has been set at 2% of profits, but this is simply a convenient way of measuring a company's operations and might need to be supplemented by other metrics to avoid distortions aimed at evasion. The share dilution brought about by the levy means that even funds in tax havens would not escape.

Before returning to calculations of the contribution of a share levy to financing the global pension it is pertinent to mention a financial tax that has a long history, and has been highly successful, namely stamp duty, a tax on share transactions. Stamp duty in the UK shows that a very modest charge on a large volume of transactions can yield large sums at a low cost and without harmful side-effects. Levied at a rate of 0.5% of share transactions (other than those by market makers) the UK stamp duty raises over USD 5 billion annually. While derivative contracts pay no stamp duty, any sale of underlying shareholder assets does attract the tax. The Confederation of British Industry, a business lobby, argues that the stamp duty is weakening London's position as one of the world's leading financial centres. But the thriving state of London finance belies the argument. 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 CREST, the central share settlement system.

China's financial authorities have a similar device which they use in a 'Tobin tax' way to dampen speculation – but it also raises large sums.[12] 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 implementation difficulties, a global stamp duty or FTT (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 pension, 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 Monetary 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 intervals. 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 current 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 mistakes. 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.[15] 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 fluctuate, it is less volatile than share price, and there are ways of smoothing such receipts.

The global pension would be a universal scheme benefiting 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.

12 See Geoff Dyer and Jamil Anderlini, "Beijing Could Reap USD 40bn Share Tax Bonanza", *Financial Times*, 4 June 2007.

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, chosen 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.*

territory – no matter how small or poor – would be essential to the effective workings of these levies.

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. ■

16 The case for non-means-tested pensions is powerfully advanced in Larry Willmore, "Universal Pensions for Developing Countries", *World Development*, Vol. 35, No. 1, 2001.