ADMINISTRATIVE AND COST IMPLICATIONS
of
PAYING RETIREMENT AND OLD AGE PENSIONS
to
INDUSTRIAL WORKERS OF U.P.

THESIS SUBMITTED FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

UNDER THE SUPERVISION OF
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HEAD OF THE DEPTT. OF COMMERCE

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The problem of old age protection has been engaging the attention of the economists, the social reformers and the Government for some time. It has assumed importance due to the our developing economy and the consequent industrialisation of the country. This thesis makes a study of the "Administrative and Cost Implications of Paying Retirement and Old-Age Pensions to Industrial Workers of U.P." It has been suggested that the qualifying age for retirement be fixed at 60 and 55 years for male and female workers respectively. However, a retirement test may also be applied to work as a corrective force in the employment situation.

Of the available sources of old age protection to the industrial workers of U.P. viz., the Employees’ Provident Fund, the employer-instituted schemes of providents funds, private savings, mutual insurance and life insurance, none provides an adequate protection to them. The U.P. Government has taken a lead in paying Old Age Pensions to the destitutes since 1st. December, 1957; but the amount of pensions is hardly justifiable as an adequate provision for old age. The Study Group have also recommended the conversion of the Employees' Provident Fund Scheme into one of pensions. They maintain status quo in financial matters. I differ with them and am of the opinion that the scheme should be financed by the insured, their employers and the Government so that none escapes the responsibility of providing against old age.
The proportionate share of the parties should bear a reference to their respective capacities to pay and share in administration of the scheme. Thus, the insured, their employers, the Central and the State Governments should pay in the ratio of 42 : 48 : 6 : 4 respectively. Payment of contributions by the employees would, however, reduce their wages and may affect their standard of living. But, the retirement benefits would recompense this loss in their retired life. Again, the employers' contributions are likely to raise the cost of production by some 1.5%. But, since they can pass it on to the labourers and consumers of their product, this burden will not be felt heavily by them. The States' share being nominal, it would also not burden materially the general tax-payer. The fear that the enforcement of this scheme would hamper foreign trade and check capital formation is merely notional. As a matter of fact, this will lead to investment of enormous pension funds which would provide employment to labour and speed up the process of capital formation.

It is pointed out that the scheme may be financed on accumulation basis and the fund may be invested in government securities for their comparative safety, even yield and liquidity. The proceeds of such issues should be applied by the Government for the promotion of social and economic utility projects. For the sound administration of the fund, a three-tier Central Board of Investment is recommended.
To reduce the cost of management, it is recommended that the existing machinery of the Employees' State Insurance and the Employees' Provident Fund schemes be integrated and a new pattern of organisation be evolved in which the government representation be reduced and brought in parity with the representation of the insured and their employers.

Thus, the aim of this thesis has all along been to focus attention on the administrative and cost problems and to make suggestions for the feasibility of the scheme.
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I am also indebted to various authors, organisations and editors of periodicals on whose works I have freely drawn to bring this thesis in the present form.

I am thankful to the University Grants Commission for awarding me Scholarship which enabled me to concentrate on this work without financial worries.

At this stage, I must emphasise that the opinions expressed in this thesis are my own and no one else shares them with me.

My thanks are due to Mr. Nafis Ahmad Tirmizi who prepared the typescript of this thesis at short notice.

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ABBREVIATIONS USED

E.S.I.(C) OR ESI(C) = Employees' State Insurance (Corporation)
L.I.C or LIC = Life Insurance Corporation
E.P.F. or EPF = Employees' Provident Fund
O.A.S.I. or OAIS = Old Age, Invalidity and Survivorship
    Pension-cum-Gratuity Scheme recommended by
    the Study Group on Social Security.
OASDI = United States' Old Age, Survivorship and Disability
    Insurance.
OASITF = United States' Old Age, Survivorship Trust Fund.
UTF = United States' Unemployment Trust Fund

EXPLANATIONS

One Crore is equal to 10,000,000
One lakh is equal to 100,000
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PART THREE

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INTRODUCTION

For a speedy industrial development and a sustained prosperity of the nation, a contented labour force is but essential. Industrial workers are vulnerable to erosions in their standards of living on account of stoppage of income during the periods of economic and biological contingencies. Thus, the problem of social security which aims to provide protection in such circumstances has assumed growing importance in India in general and in U.P. in particular for their attempt to industrialise themselves for a 'take-off' from the situation they are in.

In India, provision of social security has been made through the Workmen's Compensation, Maternity Benefits and Employees' State Insurance schemes. But, there is no scheme to provide old-age security to industrial workers. In the present work, I have made a study of the "Administrative and Cost Implications of Paying Retirement and Old-Age Pensions to Industrial Workers of U.P." Although specific references may be found in the text to the problems of U.P., the observations can be applied to Indian conditions as a whole. There are two reasons for it. Firstly, economic conditions of U.P. do not materially differ from the parent country. Thus, any scheme of old age security should be launched on all-India basis in order to avoid regional disparities and to achieve uniformity in standards of labour welfare. Secondly, coverage of retirement contingency
on regional basis is inequitable as its incidence does not differ from region to region as the incidence of sickness or from industry to industry as the incidence of industrial accidents. Nevertheless, U.P. has been pioneer in instituting a scheme of Old Age Pensions with effect from December 1, 1957, thus, leading all other Indian States. Moreover, the Employees' State Insurance scheme was first launched at only two centres in India, of which Kanpur (U.P.) was one. In this way, though the coverage of retirement and old-age contingencies on all-India basis is more justified, a consideration of the case of industrial workers of U.P. may be given a precedence.

The main hurdles in the way of old-age security schemes are encountered on account of their cost and administrative implications. Cost is the most important problem of old-age security because no such scheme can be implemented without planning for securing adequate finances for its running. Hence, before introducing the scheme, a study of its cost implications becomes imperative. Similarly, administrative problems deserve careful consideration because it is a sound administration on which the success of the programme depends. Therefore, both these problems have been studied at some length in order to gauge the feasibility of the scheme.

Old-age pensions are generally payable to population at large, and are mostly non-contributory. Retirement pensions,
on the other hand, are contributory and are paid to working class after their retirement from service. I have favoured the payment of contributory retirement pensions to industrial workers not because they are the vocal section of population as compared to agricultural or domestic labour but because old-age protection of the entire population would be impracticable and prohibitory at this stage both from the points of view of cost and administration.

To illuminate the problem of old age and retirement dependency, the present work can be divided into three parts. Part One comprises of Chapters I and II and deals with the background of the problem. Part Two consists of Chapters III, IV and V. This deals with the cost implications of the scheme of old-age insurance. Part Three in which have been grouped together Chapters VI and VII, studies the administrative implications and requirements of the scheme.

Chapter I discusses the problem of old age and retirement dependency and points out the justification of its protection to the industrial workers with special reference to economic conditions in U.P. It has been maintained that old age protection is economically justifiable on the ground of unemployability of the aged and its undesirability on efficiency considerations. The object of old age protection is the provision of three R's: rest, requirements and respect to
industrial workers. For qualification to the benefit of pensions, a retirement age at 60 years for males and 55 years for females has been suggested. However, retirement benefits may be made subject to some retirement test which may be applied as a corrective force to the employment situation.

Chapter II describes the available buttresses of old age protection to the industrial workers of U.P. Such sources are contributory, non-contributory and Government-sponsored. Thus, the Employees' Provident Fund Scheme, and employers' contributory schemes, private savings, mutual insurance, and life insurance have all come in for discussion. It has been noted that none of these sources provides adequately for old age. The U.P. Old Age Pensions paid to destitutes of the State since 1st December, 1957, are also inadequate to be called a genuine measure of old age protection. The recommendations of the Study Group on Social Security set up by the Central Ministry of Labour and Employment, have also been examined insofar as they relate to finance and administrative aspects of the scheme.

Chapter III is devoted to the discussion of the financial implications of the old age insurance scheme. This is partly fact-oriented insofar as a survey of the international practices has been made on this problem. Accordingly, it has come to light that the socialistic countries lay the responsibility of finance on the employers alone and the U.S.A.
scheme requires employer-employee participation in the finances. In Great Britain the scheme of retirement pensions has been financed by the contributions from the insured, their employers if any and the State. I have recommended the same pattern of finance in order to make all the parties feel the responsibility of protecting against old-age contingency.

In Chapter IV, the factors influencing the proportionate share of contributions of the financial parties have been discussed. Keeping in view the benefits accruing from the scheme, the share in administration and the respective capacities to pay, I have suggested that the proportionate contributions to the scheme should be 42% by the insured, 48% by the employers, 6% by the Central Government and 4% by the U.P. Government.

In Chapter V, the nature and effects of such contributions on the financing parties have been assessed. The employees' share of contributions, it has been studied, may affect their standard of living insofar as they reduce their take-home wages. But the continuity of consumption due to receipt of benefits in retired life would compensate this loss. For employers, the payroll contributions will constitute an element of cost of production which may be shifted backwards to labourers in the form of reduced wages or forwards to the consumers in the form of an increase in
the prices of the product concerned. Shifting of employers' contributions to labourers is prohibited by law both under the Employees' State Insurance and the Employees' Provident Fund schemes. Total employers' contributions, therefore, will be shared between the consumers and the producers in the proportion of the elasticities of supply and demand for the product. It has been estimated that the maximum burden on the consumers may be about 1.5% of the cost of production of the article. Therefore, the effect of such contributions on the internal or external market will not be so heavy as to justify the postponement of old-age insurance scheme on this ground. Effects on the level of employment and capital formation will also be negligible, if at all. They will further be nullified by the impetus to capital formation provided by the investment of pension funds and the creation of employment as a consequence.

Chapter VI deals with the financial management of the scheme. A discussion on the financial systems, actuarial or budgetary, investing authority, and the investment policy form the main theme of the Chapter. An actuarial system of finance with a Central Board of Investment of Funds and the application of the Fund resources for the promotion of economic and social utility projects are the main recommendations made in this Chapter.
Chapter VII makes an analysis of the administrative problems of the scheme. I have recommended the retention of the existing arrangement of three-tier participation in policy matters for accommodating the view-points of the financing parties. However, the share of the government in administration of the scheme may be reduced to bring it in parity with that of the employers and the insured. In executive and technical matters the services of the experts may be secured. The existing organisation for the registration of employers and employees, collection of contributions and inspection of performance may be left unchanged. For handling the increased volume of recurring payments under a pension scheme, additional local offices shall be required to be opened. However, the conversion of the Employees' Provident Fund scheme into one of pensions and its integration with the Employees' State Insurance Scheme will secure economy in cost and staff requirements and it will save much botheration to the insured and their employers both.

In the end, I may confess that the present work is more problem-oriented than programme-oriented as India has no rich traditions of social insurance. This study provides, mainly, a basis for discussion. At present there is no scheme for the protection of the aged on all-India basis, though the Government of U.P. have a scheme for the assistance of
destitutes. Other States are also contemplating to set up such programmes. I shall feel amply rewarded if the present work stimulates further thinking on this subject.

***
PART ONE

THE BACKGROUND OF THE PROBLEM
CHAPTER I

THE PROBLEM OF OLD AGE AND RETIREMENT DEPENDENCY

There are three stages in man's life viz., childhood, old age and morbidity when he requires help from others. Two of them are biologically inescapable and the third may be avoided. Dependence in childhood is universal and it is biologically inescapable too. A suckling baby cannot but be dependent on others in every respect for his life and livelihood. The next inevitable stage in which dependence is common is old age. Nevertheless, old-age dependency is circumstantial. An old man becomes dependent on others when he has no private savings. His source of income generally dries up in old age. Moreover, he cannot engage himself in gainful activities in order to earn his subsistence. The third case in which man becomes dependent on others is that of morbidity due to disease or accident. He becomes dependent because he cannot work in such conditions and often has no income to support him. The International Labour Organisation agrees with this analysis when it expresses the view that "In the life of a man there are two stages of dependency —— childhood and old age —— and in the intervening years of adult life there are likely to occur spells during which he cannot earn his living."¹ Schemes of family allowances or

exemptions from income tax allowed for children are the measures taken for protecting and subsidising childhood, while adult-life dependency in case of sickness and accidents is sought to be provided for by means of instituting the schemes of sickness and workmen's compensation insurance. The present Chapter attempts to discuss the problem of old age and retirement dependency in its different aspects. To elucidate the subject-matter, it has been divided into seven sections. The first section deals with the meaning of old age and retirement age and throws light on the difference between the two concepts. The second section relates the factors determining old age; the third, the characteristics of the aged population; the fourth, the need for protecting and providing against old age; and the fifth tries to fix a suitable age of retirement for the industrial workers. The sixth section discusses the problem of retirement test and the last one deals with the economic and social justifications for the provision against old age.

1. The Meaning of Old Age and Retirement Age

As it is well known, old age is the last stage of animal life preceding death provided that its full natural span is enjoyed. Thus, it is an inevitable biological phenomenon. But it is a bit problematical to construct a suitable definition of old age. It is not necessarily that age which reduces man to a defunct skeleton with no mental or
physical capability at all. That may be a case of extreme senility. The ILO opines, "The economist regards by old age as that age at which worker should retire from employment because he is no longer fit to play a normal and effective part in the productive process."\(^1\) Thus, by old age is meant that age at which a general decay in physical faculties is noticeable. Man may be still fit to engage himself in work but the criterion to determine such age is that the human strength begins to fall swiftly. However, it is not necessary that the decadence in mental and physical faculties coincide in all cases. The fall in physical faculties and vigour and strength generally goes ahead of the fall in the mental capabilities. Sometimes mind comes to maturity when body goes to decay. A time-lag between the two is not uncommon to occur.

Old age, as an economic and biological contingency, has been defined as "the age at which unemployment, if it occurs, is likely to be permanent, and invalidity becomes so prevalent that to prove it in individual cases is superfluous."\(^2\) According to this definition, old age is a special case of invalidity — it is an invalidity attendant upon a certain age. In another sense, it may be taken to be a special case of

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unemployment — it is that unemployment which attends a certain age and which is liable to be permanent. The victim of such unemployment cannot hope to be re-employed in ordinary course of things. Truly speaking, old age resembles invalidity in the technique of its protection (or vice versa); and it resembles unemployment in its consequence. The cost of protection of old age being permanent, bears a similitude to the cost of protecting the invalids. The amount of benefits paid in both the cases are more or less the same, although invalidity is costlier from the victim’s point of view as it requires extra expenditure for meeting medical and nursing requirements. But this difference seems to melt away when the other side of the problem is considered, viz., that the invalidity generally attends old age and old age itself is a special case of invalidity.

Retirement age is that age when man is generally supposed to have become unfit to play an effective and normal role in the productive process. He should retire from active participation in production at this age. Retirement in most cases is necessitated by old age though it may be necessary for other reasons too. Nevertheless, on a minute scrutiny, there is found to exist a fine difference between the concept of retirement and old age. The former is a legal convention while the latter is a biological truth. At a given age a man may not feel ‘old’ though he may be required to retire because he has
attained the so-called retirement age. Moreover, retirement age is discussed only in context of working population while old age is a universal concept applicable to all sections of population equally. A man who never followed a calling (and such cases are not unknown) cannot take leave of it. Only those who work retire. A crippled man, for example, or a born invalid can never (or ever) attain retirement age although he becomes old only on the approach of a certain age. Besides, a retired worker may take up to some other whole- or part-time jobs, but a really old man would not. Thus, old age is a different concept from retirement age to that extent. Nevertheless, retirement must bear a close conformity to old age. Any differential between the two on either sides represents a loss to the community. If the workers are compelled to retire before their effective productivity declines below the cost of their engaging, the community will suffer a loss of potential output to that extent. Moreover, the larger the proportion of population above retirement age, the greater will be the loss to potential output. But the extent of potential economic loss should not be overemphasised. So long as the community is unable to ensure employment to all its eligible job-seekers, there is little to be gained by continuation of old workers in their position and adding to the existing plethora of the unemployed. Nevertheless, this contention does not negate the economic fact that a differential
between retirement and old age and the usefulness of the workers as an agent of production represents a potential loss to national output. But its usefulness is doubtless evident from the fact that the attitude of old age security system to encourage retirement early or late will have to be governed by changes in the general employment situation. In times of heavy unemployment, the potential loss through early retirement will be more than offset by the gain received through the employment of the waiting young labour force. This may be secured by lightening the retirement test as discussed later on. However, it is a fact that in normal conditions, retirement age bears a significant reference to old age. This, therefore, leads to a discussion of the factors determining old age.

2. **Factors Determining Old Age**

Old age may set in due to various causes. The most important factors governing old age are age, sex, climate, standard of living and the occupation of the population.

Age is, no doubt, the most effective cause of old age. Sooner or later, man must submit to the aging process. It may be delayed, but it may, in no case, be postponed indefinitely. Various researches have been carried on to trace out the fact of aging and different symptoms of aging at different ages have been established, though it has not been possible to trace out the cause of the causes themselves. At least, no remedy has been suggested to give a final defeat to aging process.
and to postpone it permanently. An interesting account of aging process has been given by the Family Doctor, a medical weekly of London. According to this, some known facts of aging are as follows:

1. The loss of elasticity in the eyes begins.
2. Hearing begins to fall off.
3. The ability to see dimly-lit objects starts to diminish.
4. There is a decline in the final degrees of taste.
5. The sense of smell begins to lose acuteness.
6. A man loses two-thirds of his powers.

Wounds take five times as long to heal at sixty as they do in a ten year old child. At that age bones become brittle and muscles lose sixteen per cent of their strength.

This is a general statement of the aging process. In old age, the following symptoms are particularly visible:

(a) Gradual tissue disiccation,
(b) Gradual retardation of all division, capacity for cell growth and tissue repair,
(c) Gradual retardation of the rate of tissue oxidating or metabolic rate, that is, lowering of the speed of living.
(d) Degeneration of cellular atrophy, increased pigmentation of the cell and fatty infiltration.
(e) Gradual decrease in tissue elasticity and degenerative changes in the elastic connective tissues of the body.

(f) Decreased speed, strength and endurance of neuromuscular reactions.

(g) Progressive degeneration and atrophy of the nervous system, impairment of vision, of hearing, of attention, of memory and of mental endurance.

(h) Gradual impairment of the mechanism which maintains a fairly constant internal environment for the tissues (a process known as homeostasis).

However, these are normal cases of study. The facts differ from case to case according to the degree of influence exerted by other factors enumerated above. But one thing is obvious — aging process is inescapable. At certain age man must lose resistance to fragility and his capacity to take up physical or mental work must exhaust ultimately.

Sex is another determining factor of old age. Women attain both the age of maturity and old age earlier than men though expectation of life for woman may be higher at certain ages. Moreover, the older women survive longer than older men; but women in the child-bearing age are more exposed to mortality. Those women who give birth to a greater number of children experience weakness earlier than those who give birth to fewer children. This is a fact which has been recognised in certain countries. Thus, in the USSR, women who have given birth to five or more children are eligible for old age pensions at the age of fifty provided that they are not
entitled to it earlier by virtue of the type of their former
occupation. This is a happy co-ordination of the population
policy to a biological fact.

In Indian States including U.P., social conventions
for example, low prestige of women in society, lower the
vitality of womenfolk. Males on the contrary, are less ex­
posed to death and morbidity between fifteen and forty years
of their ages than females due, perhaps, to high maternal
mortality.

Climate is yet another factor which influences longevity.
In cool regions, longevity is higher than in torrid zones.
The table on the following page shows the expectation of
life at birth in different countries. It reveals that the
expectation of life at birth in Australia, New Zealand, Japan,
the U. K., the U.S.A., the U.S.S.R., Canada and France is
above sixty years for males and females both. Incidentally,
countries having higher expectation of life at birth fall in
temperate regions by, and large. Temperature and climate in
these regions is more suited to the growth of mankind.
Australia is, however, an exception where life expectancy is
high notwithstanding the fact that this Island Continent lies
between 12° and 38° Southern latitudes, and is a hot arid land

Subsidiary Tables, Table 1.12, p 26.
Table I.1

EXPECTATION OF LIFE AT BIRTH IN SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Countries</th>
<th>Years of Estimate</th>
<th>Expectation of Life at Birth</th>
<th>Males</th>
<th>Females</th>
<th>Both sexes * (around 1955)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australiaa</td>
<td>1946-48</td>
<td>66.10</td>
<td>70.10</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>NewZEalandb</td>
<td>1934-38</td>
<td>65.46</td>
<td>68.45</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1951-52</td>
<td>32.45</td>
<td>31.66</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1953</td>
<td>61.90</td>
<td>65.70</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>U.K.</td>
<td>1953</td>
<td>67.30</td>
<td>72.44</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>1954</td>
<td>67.40</td>
<td>73.60</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>USSRC</td>
<td>1958</td>
<td>63.00</td>
<td>69.00</td>
<td>67**</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>1950-52</td>
<td>66.30</td>
<td>70.83</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>FranceC</td>
<td>1952-56</td>
<td>65.04</td>
<td>71.15</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>West Germany</td>
<td></td>
<td></td>
<td></td>
<td>67</td>
<td></td>
</tr>
</tbody>
</table>


a Agarwala, A.N. Insurance in India (a thesis submitted for the degree of D.Litt. of Allahabad University, 1957), table 124, p 242.

b Encyclopaedia Britannica.

c Europa Year Book, 1958.


The countries that have a comparatively lower expectation of life viz. India, Mexico and U.A.R. are those that lie between 30° latitudes. It may be inferred, therefore, that climate has some influence on the longevity of man which determines the approach of old age.

Standard of living also influences longevity. Countries that enjoy a higher per capita income have comparatively higher expectation of life. This may be because higher incomes allow consumption of medical services and other comforts of life which reduce the hazards of life and increase longevity. The table on the next page exhibits the national per capita incomes. According to this table, Australia, New Zealand, U.K., U.S.A., U.S.S.R., Canada and France are high-per-capita-income countries. Other countries such as India, China and Burma are low-per-capita-income countries. Per capita income in U.P. is even lower than the Indian figure. Referring back to table I.1, it may be recalled that these countries were found to score comparatively lower longevity than the high-per-capita-income countries. Thus, there seems to exist a fair degree of positive correlation between per capita income, life expectancy and climate. Although this may be false, but the exceptions being too few, the contention seems to stand that longer expectation of life (and a later experiencing of old age) is positively correlated to higher incomes (and a better standard of life). This statement may be distorted due to the intervention of two factors: In case of extreme inequality of

*That is to say, countries having per capita incomes of $200 or more.*
Table I.2

PER CAPITA INCOME OF SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Countries</th>
<th>Per capita income US dollars</th>
<th>Indian rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>950</td>
<td>4,523.80</td>
</tr>
<tr>
<td>Canada</td>
<td>1,310</td>
<td>6,238.10</td>
</tr>
<tr>
<td>Ceylon</td>
<td>110</td>
<td>523.80</td>
</tr>
<tr>
<td>Burma</td>
<td>50</td>
<td>238.10</td>
</tr>
<tr>
<td>China(Mainland)</td>
<td>-</td>
<td>285.00</td>
</tr>
<tr>
<td>France</td>
<td>740</td>
<td>3,523.80</td>
</tr>
<tr>
<td>India(1956-57)</td>
<td>180</td>
<td>857.10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,000</td>
<td>4,761.90</td>
</tr>
<tr>
<td>U.A.R.</td>
<td>120</td>
<td>571.40</td>
</tr>
<tr>
<td>U.K.</td>
<td>780</td>
<td>3,714.30</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1,870</td>
<td>8,904.80</td>
</tr>
<tr>
<td>U.R.(1956-59)</td>
<td>510</td>
<td>2,428.60</td>
</tr>
</tbody>
</table>


a Economic Survey of Asia and the Far East (Hongkong, 1957), 1956, p 86. converted at 2.35 Yuan = $ 1

Figures have been converted at $ 21 = Rs 100/-
incomes, the standard of living of the majority of population will remain low despite high per capita income. Then, standard of living does not depend on income alone. The manner of spending and consumption habits of the consumers play a significant role in determining the standard of life. But, in actual practice, it stands to reason that a higher income secures a better standard of living to people. Extreme inequality of income is an exception and higher income is generally spent by all normal beings in such a way that they achieve greater satisfaction. Thus, the hypothesis that the population that enjoys better standard of living experiences old age later is tenably proved.

As regards the objective factors that govern old age, viz. climate, standard of living and occupation, India has her own characteristics. She lies in the hot temperate zone which accelerates the approach of old age. Per capita income being low, people enjoy a low standard of living; this again, helps old age to set in earlier. Life expectancy, standard of living and climate of U.P. are not materially different to those of India so that the factors affecting old age can be said to enfold the case of U.P. too. Therefore, the observations regarding Indian population apply to the residents of U.P. with equal force. At this stage, it will be interesting to discuss the characteristics of the aged population.

3. Characteristics of Aged Population

The proportion of juveniles is 38.3% in India. The following table presents such proportions in other countries:
Table 1.3
PROPORTION OF THE YOUNG AND THE AGED POPULATION IN WORLD COUNTRIES (around 1950)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Juveniles 0-14 years</th>
<th>Aged 65 years or over</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Australia</td>
<td>27.06</td>
<td>9.26</td>
</tr>
<tr>
<td>Canada</td>
<td>30.34</td>
<td>7.78</td>
</tr>
<tr>
<td>Ceylon</td>
<td>37.15</td>
<td>3.53</td>
</tr>
<tr>
<td>France</td>
<td>21.72</td>
<td>9.68</td>
</tr>
<tr>
<td>India</td>
<td>38.30</td>
<td>3.43</td>
</tr>
<tr>
<td>(U. P.)*</td>
<td>37.43</td>
<td>3.26</td>
</tr>
<tr>
<td>Japan</td>
<td>35.42</td>
<td>4.26</td>
</tr>
<tr>
<td>New Zealand (excluding Maoris)</td>
<td>28.39</td>
<td>7.42</td>
</tr>
<tr>
<td>U.K.*</td>
<td>22.48</td>
<td>8.91</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>27.15</td>
<td>7.75</td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>36.20</td>
<td>--</td>
</tr>
</tbody>
</table>

SOURCE: The Aging of Populations and Its Economic and Social Implications, (U.N., 1956) table 7, p 17

The table exhibits that the proportion of the juveniles in Indian and U.P. population rank highest, whereas that of the aged almost lowest. However, an improvement in the environmental hygiene and a fall in birth rates combined with a reduction in improvident maternity, is likely to improve the proportion of the elderly population. This tendency is already visible in Uttar Pradesh. Thus, the proportion of the persons aged 55 years or more increased from 7.4%
in 1941 to 3.4% in 1951.

Socio-economic condition of the aged population in India also needs an examination here. The occupation may also have a relation to the economic insecurity to which the aged population may be exposed. As larger proportion of the aged is likely to take leave of their callings or engage in other occupations, its study becomes even more imperative in order to estimate the comparative urgency of the protection required. The proportion of working population in India has been estimated at 39.6 per cent of overall numbers. Of this, the proportion of active men is 54.3 per cent and that of females is 23.7 per cent. According to a ten-per-cent sample survey of the census data in Uttar Pradesh in 1951, it was found that out of a sample population of 5,31,390, persons, 5,01,736 were agriculturists and the rest 19,644 depended on non-agricultural professions in earning their livelihood. Therefore, a very small portion of the population can be said to depend on non-agricultural callings. During 1951, total working force in agricultural classes formed 27.7 per cent of the total population of the country. Production other than cultivation of land claimed 4.6 per cent; commerce, 2.0%; transport 0.6%; and other services 4.7%. This made up a total of 11.9% (including earning dependents) of the country's population engaged in non-agricultural occupations. If non-agricultural employees are to be covered first, it will be a manageable population in the years of its inception.

Death rate among the aged has also its implications on the cost of social security for the aged. A high death rate economises the cost and a low rate burdens it. The following
Table I.4

REGISTERED MORTALITY PER MILLE BY AGE GROUP IN U.P. (1921-1951)

<table>
<thead>
<tr>
<th>Age group</th>
<th>1931 Males</th>
<th>1931 Females</th>
<th>1941 Males</th>
<th>1941 Females</th>
<th>1951 Males</th>
<th>1951 Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>40-49</td>
<td>20.4</td>
<td>17.2</td>
<td>13.9</td>
<td>11.6</td>
<td>9.5</td>
<td>8.4</td>
</tr>
<tr>
<td>50-59</td>
<td>36.9</td>
<td>31.4</td>
<td>24.0</td>
<td>19.3</td>
<td>15.3</td>
<td>13.8</td>
</tr>
<tr>
<td>60-and over</td>
<td>101.6</td>
<td>88.2</td>
<td>68.5</td>
<td>58.9</td>
<td>40.1</td>
<td>31.2</td>
</tr>
<tr>
<td>All ages</td>
<td>27.3</td>
<td>26.6</td>
<td>19.9</td>
<td>18.7</td>
<td>14.0</td>
<td>12.7</td>
</tr>
</tbody>
</table>


According to the above table, mortality rate for males and females in 1951 has been 15.3 and 13.8 per mille respectively in the age group 50-59. It is higher than the average of mortality for all ages and individual age groups. The superannuated group above sixty years was subject to still higher mortality rate. The above table may be compared with the rate of mortality in other countries. The trend of specific-age mortality in the U.S.A. has been as presented in the Table No. I.5 on the next page. This table shows that the death rates are higher in the United States than in U.P. for the age-groups above 55 years. Therefore, the aged of the U.P. are likely to draw benefits for a longer duration than in the United States. This contention is based on the assumption that the rates applicable to general population also apply to industrial population proposed to be covered. This
Table I.5

DEATH RATES AMONG THE AGED 55 AND OVER IN U.S.A.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Death rate per Mille 1940</th>
<th>Death rate per Mille 1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>55-64</td>
<td>22.3</td>
<td>19.1</td>
</tr>
<tr>
<td>65-74</td>
<td>48.0</td>
<td>40.7</td>
</tr>
<tr>
<td>75-84</td>
<td>112.0</td>
<td>93.3</td>
</tr>
<tr>
<td>85 and over</td>
<td>235.7</td>
<td>202.0</td>
</tr>
</tbody>
</table>


...may not be so. But in the absence of data available for industrial population separately, general statistics have been assumed to apply to this sector also. However, the Study Group on Social Security have adopted mortality in employment two years lower than what are shown in 1951 census tables and the mortality of pensioners as reduced by five years.

Expectation of life is another important factor which influences cost estimates. It is essential to note that for the purpose of the present study, expectation of life of the aged group is of particular interest rather than that of the entire population as such. The following table presents the expectation of life for the aged at 60 years for different countries.

Table I.6

EXPECTATION OF LIFE AT 60 YEARS IN DIFFERENT COUNTRIES

<table>
<thead>
<tr>
<th>Countries</th>
<th>Years of Estimate</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1951-52</td>
<td>10.1</td>
<td>11.3</td>
</tr>
<tr>
<td>Canada</td>
<td>1950-52</td>
<td>16.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Japan</td>
<td>1953</td>
<td>15.0</td>
<td>17.7</td>
</tr>
<tr>
<td>U.K.</td>
<td>1953</td>
<td>15.3</td>
<td>18.6</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1954</td>
<td>18.2</td>
<td>19.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>1940</td>
<td>13.4</td>
<td>13.5</td>
</tr>
</tbody>
</table>


This table shows that a higher expectation of life for women at 60 was commonly estimated in all the countries examined in the table. However, India has the lowest expectation of life in this age-group which is only 10.1 years for males and 11.3 years for females. With a low expectation of life and high mortality rate at 60 years of age, chances of survival of the aged are few. This influences the cost of an old age pension insurance scheme. It determines the duration of their benefit period. Taking both these elements into consideration, it may be concluded that in India, they will put the cost at a lower proportion than in other countries with a higher expectation of life and a lower mortality rate of the aged population.
Since the conditions in U.P. do not differ materially, this conclusion may be applied to U.P. also with the same validity. Aged population constitutes a class of dependents in the general population because old age is essentially an age of dependency unless past savings have been adequately accumulated or some public protection is provided to them. It will not outdo if the need for protecting the aged is discussed at this stage.

4. A Need for the Protection of the Aged

The demographic situation of the entire world, and India being no exception, is changing precipitately so that all forecasts of population growth have been found to err on the wrong side. Particularly since 1950 the rate of growth of the world population has surpassed all previous records. Indian population is increasing at an average of 1.3% per annum, while the population of U.P. is rising at a decennial rate of 10.8%. Cultivable area being fixed ultimately and the rate of growth being almost certain (unless some extra-ordinary positive checks distort its course), it is evident that the pressure on agriculture would increase in future so that an alternative livelihood shall be essential to find out for it. Industrial employment is likely to be the first choice. In the industrial sector, based on wage-for-work principle, survival is assured to the fittest only. Therefore, the old members of the society will need social security if anything approaching social welfare is sought to be achieved. For ailing members, there are Sickness Insurance and other laws...
and Maternity Benefit legislations; but the old remain unprotected. A plan for the protection of the aged in the near future will be an imperative need.

Moreover, modern civilisation is the civilisation of cities which are increasing with the pace of industrialisation. This development has had far-reaching effects on living conditions both in cities and rural areas. The entire world has experienced a shift towards urbanisation. Consequently, percentage of population living in urban communities has increased during the recent past. The following table presents the percentage of population of different countries living in urban areas:

<table>
<thead>
<tr>
<th>Countries</th>
<th>Percentage of Urban population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>69</td>
</tr>
<tr>
<td>Canada</td>
<td>62</td>
</tr>
<tr>
<td>Ceylon</td>
<td>15</td>
</tr>
<tr>
<td>China (Mainland)</td>
<td>27</td>
</tr>
<tr>
<td>France</td>
<td>56</td>
</tr>
<tr>
<td>India</td>
<td>17</td>
</tr>
<tr>
<td>Japan (1948)*</td>
<td>51</td>
</tr>
<tr>
<td>New Zealand</td>
<td>61</td>
</tr>
<tr>
<td>Pakistan</td>
<td>11</td>
</tr>
<tr>
<td>UAR</td>
<td>30</td>
</tr>
<tr>
<td>U.K.</td>
<td>80</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>64</td>
</tr>
<tr>
<td>U.S.S.R.**(1959)</td>
<td>48</td>
</tr>
<tr>
<td>West Germany</td>
<td>71</td>
</tr>
</tbody>
</table>

** The Soviet Union, 1959 to 1965 (New Delhi), table 21, p 16.
The above table shows that the Indian population bears a rural character; but the proportion of urban population in the countries of the Western civilization has been over 50 per cent. Indian population, on the other hand, is only 17 per cent (17.3% to be more accurate) urban according to 1951 census data. This shows that a great scope for urbanisation still lies ahead in our country. The trend of urbanisation is showing an upward tendency. The following table shows that urban population is showing a progressive trend since long time. Compared with the figures of the preceding years,

Table I.8

PROPORTION OF URBAN AND RURAL POPULATION IN INDIA AND IN U.P.

<table>
<thead>
<tr>
<th>Years</th>
<th>INDIA Urban</th>
<th>INDIA Rural</th>
<th>UTTAR PRADESH* Urban</th>
<th>UTTAR PRADESH* Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>11.4</td>
<td>88.6</td>
<td>12.8</td>
<td>87.2</td>
</tr>
<tr>
<td>1931</td>
<td>12.1</td>
<td>87.9</td>
<td>26.1</td>
<td>73.9</td>
</tr>
<tr>
<td>1941</td>
<td>13.9</td>
<td>86.1</td>
<td>22.9</td>
<td>77.1</td>
</tr>
<tr>
<td>1951</td>
<td>17.3</td>
<td>82.7</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

SOURCE: India, 1958, p 25.
* Indian Census, Subsidiary Tables, Part I-B, Uttar Pradesh, p 47.

it becomes clear that the trend of urban population is rising. Urban population consists of people permanently settled in urban localities. As such, it is not a synonym to industrial population. With an increase in population, urbanisation is likely to increase in future. As the pressure of population
on agriculture will increase more people will tend to migrate
to cities in search of employment. Urban population, unlike
the rural population, depends mainly on non-agricultural
occupations. Agriculture provides a modicum of income through­
out the year for the whole life. Thus, it provides an unfailing
though inadequate buttress against all income insecurities.
Non-agricultural professions provide counted income for counted
number of days. Due to individualistic way of life in urban
communities, aged persons have little value in their economic
system. Again, cost of living and housing problems in urban
areas do not permit the maintenance of the aged. It has been
rightly observed that "Even independently of direct condi­
tions and employment, modern industrial civilisation aggravates
the economic problem of old age by urbanisation..... Indus­
trial Revolution has transferred rapidly increasing proportion
of population into wage earners and the economic difficulties
which confront the aged are inherent in the very nature of
wage system."¹ A rapid industrialisation is the cherished
goal of the present Indian economic policy. In U.P. too,
the possibilities of industrial expansion are still great and
the factory employment is likely to increase in future. In
addition, a permanent industrial population is emerging in
many towns with a permanent abode in industrial centres and
with factory employment as the primary source of its living.
Such population has no village nexus, so that it lives and
endures life in industrial towns at all times. It has nothing

¹Encyclopaedia of Social Sciences, Vol. XI, p 454.
like agricultural holdings to fall back upon. Factory employment is the major governing factor in the emergence of a committed industrial population. And as Prof. Radhakamal Mukherjee remarks: "Gradually a permanent labour force is developing in many centres in India, and it is essential to make some provision against old age for the workers, who at the beginning of their industrial career might have some agricultural holdings to fall back upon, but now have lost these."¹

In a mechanised system of production, the aged worker loses his adjustability to new techniques of production. Moreover, unlike in rural areas, every thing, board, lodge and maintenance require purchasing power in urban localities. Therefore, an industrial society must provide social security to its aged members if public prosperity is to be brought about in an atmosphere of industrial peace.

The earnings of the factory workers are also low. According to the findings of the Study Group on Social Security the average wages of unskilled employees in the age-group 45 years and over is Rs. 90 p.m. Operatives get slightly more than Rs. 5 a day. These two classes taken together constitute

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¹ Cf. C. A. Myers, Industrial Relations in India (Asia Publishing House, Bombay, 1958) p. 65. He opines that "We can say that a committed industrial labour force has developed when workers no longer look on their industrial employment as temporary, when they understand and accept the requirements of working as a part of a group in factory or other industrial enterprise, and when they find in the industrial environment a more adequate fulfilment of personal satisfactions than they enjoyed in the village or rural society."
91.3 per cent of all workers. The average for all workers gives a daily wage of Rs. 5. Daily average is about Rs. 4.50 according to the Employees Provident Fund data. The average annual earnings of factory employees in U.P. was Rs. 967 which yields an even lower daily average. Thus, it is clear that possibility of any savings out of such meagre earnings is very remote.

The condition of workers looks more pitiable when seen in the light of high cost of living in industrial cities. The working class consumer price index numbers in Kanpur based on 1939 prices were 371 in 1955 but rose to 424 in the next year which registered a rise of 53 points over the previous year figures. Labour Bureau consumer price index numbers for working class based on 1949 prices were 120 in October and November 1959. It may be noted here that prices were high in India during 1949. This is proved by the fact that the index numbers of consumer prices for Kanpur during 1949 based on 1939 prices were 478 while those for 1948 and 1950 were 471 and 431 respectively. This shows that the cost of living in industrial towns is high and the workers cannot afford to cut down their consumption in monetary terms in order to effect a modest saving.

Family budget enquiries of industrial workers reveal that the majority of the members of the family are non-earning dependents. The following is a summary given for the selected industrial centres. This is helpful for

a visual study:

Table 1.9

<table>
<thead>
<tr>
<th>Centres</th>
<th>No. of Budgets Studied</th>
<th>Average number of workers per family</th>
<th>Earners</th>
<th>Dependents</th>
<th>Total staying away from family</th>
<th>Dependents of persons per family</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. West Bengal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Calcutta.</td>
<td>2,707</td>
<td>1.43</td>
<td>2.66</td>
<td>0.87</td>
<td>4.96</td>
<td></td>
</tr>
<tr>
<td>2. Howrah &amp; Bally.</td>
<td>1,435</td>
<td>1.63</td>
<td>3.20</td>
<td>0.80</td>
<td>5.63</td>
<td></td>
</tr>
<tr>
<td>3. Kharagpur</td>
<td>222</td>
<td>1.57</td>
<td>4.05</td>
<td>1.00</td>
<td>6.62</td>
<td></td>
</tr>
<tr>
<td>II. Bombay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Ahmedabad</td>
<td>1,820</td>
<td>1.56</td>
<td>2.77</td>
<td>0.48</td>
<td>4.81</td>
<td></td>
</tr>
<tr>
<td>2. Bombay</td>
<td>2,030</td>
<td>1.53</td>
<td>2.43</td>
<td>0.69</td>
<td>4.65</td>
<td></td>
</tr>
<tr>
<td>3. Jalgaon</td>
<td>338</td>
<td>1.66</td>
<td>3.92</td>
<td>0.07</td>
<td>5.65</td>
<td></td>
</tr>
<tr>
<td>4. Sholapur</td>
<td>778</td>
<td>1.85</td>
<td>3.54</td>
<td>0.14</td>
<td>5.53</td>
<td></td>
</tr>
<tr>
<td>III. Bihar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Jamshedpur</td>
<td>691</td>
<td>1.33</td>
<td>3.09</td>
<td>2.94</td>
<td>6.36</td>
<td></td>
</tr>
<tr>
<td>2. Jharia</td>
<td>999</td>
<td>2.02</td>
<td>1.60</td>
<td>1.75</td>
<td>5.37</td>
<td></td>
</tr>
</tbody>
</table>


According to this table, average industrial worker's family consists of about five members. In some cases six-member-family units are also recorded. In Jamshedpur and Kharagpur even more than six members per family were found. In every case studied in the above table, the number of
dependents is, on an average, twice the number of self-supporting earners. Although the results of such family budget enquiries are not available for the industrial workers of U.P., the same family pattern may be assumed in this case too as the results resemble the general livelihood pattern of the Indian population. It is, thus, clear that the burden of dependents on the industrial workers is onerous in view of the lowness of his earnings. This again narrows down any margin for savings. It is almost non-existent in average cases. The industrial workers are exposed to economic contingencies more often than the agricultural population. Hence, it is imperative to consider their case for the provision of old age security first.

From the national viewpoint, industrial sector contributes sizeable proportion of India's national income which is derived from agriculture, mining, manufacturing and hand-trades, commerce, transport and communications and other services. Proportionate contribution of these profession-groups reflects their comparative importance for the national economy. Proportionate share of industrial sector is more than the share of industrial population in the total population. Its contribution is on the increase too. Estimates of national income show that the proportion contributed by the agricultural sector to the national income of India is declining and consequently the importance of the non-agricultural sector is increasing. The following table testifies this fact:
Table I.10

NATIONAL INCOME OF INDIA AT CURRENT PRICES (PERCENTAGES)

<table>
<thead>
<tr>
<th>Years</th>
<th>Agriculture</th>
<th>Mining</th>
<th>Commerce</th>
<th>Other Less</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>51.3</td>
<td>16.1</td>
<td>17.7</td>
<td>15.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1951-52</td>
<td>50.0</td>
<td>17.0</td>
<td>18.2</td>
<td>15.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1952-53</td>
<td>49.0</td>
<td>17.3</td>
<td>18.1</td>
<td>15.7</td>
<td>100.0</td>
</tr>
<tr>
<td>1953-54</td>
<td>50.7</td>
<td>16.9</td>
<td>17.2</td>
<td>15.2</td>
<td>100.0</td>
</tr>
<tr>
<td>1954-55</td>
<td>45.3</td>
<td>18.7</td>
<td>18.8</td>
<td>17.2</td>
<td>100.0</td>
</tr>
<tr>
<td>1955-56</td>
<td>45.4</td>
<td>18.5</td>
<td>18.8</td>
<td>17.3</td>
<td>100.0</td>
</tr>
<tr>
<td>1956-57</td>
<td>49.8</td>
<td>17.3</td>
<td>16.9</td>
<td>15.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1957-58</td>
<td>46.9</td>
<td>18.4</td>
<td>17.8</td>
<td>16.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1958-59(P.)</td>
<td>50.0</td>
<td>17.0</td>
<td>16.8</td>
<td>16.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>


P. Preliminary.

According to this table, the share of agricultural sector was 51.3 per cent of national income in 1950-51 at current prices. It fell in later years so much so that it was only 45.3 per cent in 1954-55. It improved later on and reached 46.9 per cent in 1957-58; but during 1958-59, estimates show...
that the share of agricultural sector in the national income of the country was 50.0 per cent. This is, thus, clear that 1950-51 level was never reached again. In this way, the non-agricultural sector always contributed more than a half of total income and its share increased from year to year. The share of mining and manufacturing which sustains only about one per cent of population constituted about 16.1 per cent of national income (at current prices). This share increased to 17.0 per cent in 1951-52 and to 17.3 per cent in 1952-53. In the following year, however, it fell to 16.9% but this fall was temporary. During 1954-55, this industry contributed 18.7 per cent. Again, this share fell to 18.5% during 1955-56 and to 17.3% the next year. But the share increased again to 18.4% during 1957-58 and fell to 17.0 per cent during 1958-59. However, it was above the 1951 proportion throughout. This proves the future potentiality of this sector to contribute increasing proportion to national income. This also shows that the share of agricultural sector shall decline in future and the share of manufactories and other non-agricultural occupations will improve. Therefore, the importance of non-agricultural sector in the national economy is understandable. If we have to secure from this sector increasing income in future, we shall have to build it from the base. An unsecure industrial population may not be expected to give its best for the development of the country. Position of the older members in an industrial society is vulnerable to many contingencies and insecurities. It will be a right step to provide social security to the aged at least
first for the industrial sector, if not for other sectors simultaneously.

5. Old Age and Retirement Age in India

The aforesaid factors are in play in India too and they influence the setting in of old age in their own way. Expectation of life in India cannot be favourably compared to that of other countries. The census actuary of India estimated it on the basis of 1951 data at 32.45 years for males and 31.66 years for females. The latest estimates show that the present expectation of life for the Indian population has increased to 35 years for general population. (See table I.1 ante). The last official estimate was that of 1941 made on the basis of 1931 population data and was put at 26.91 and 26.56 years for males and females respectively. No official estimate was, however, made on the 1941 census records. Prof. Kingsley Davis has estimated the expectation of life in India at 32.09 years for males and 31.37 years for females but the difference between this estimate and that of the Census Actuary is insignificant. These figures, nevertheless, betray poor physical conditions prevailing in India. Although the figures show a rising trend in the life expectancy of Indian population, yet there is no denying the fact that figures reveal a very low expectation of life. The possible reasons of this are the high rate of infant mortality in India, low standard of living and consequently poor nutrition available to the majority of the population and inadequacy of the provisions of preventive and curative medical services. Nevertheless, a low expectation of life need not necessarily mean that the
natural span of life of the Indian population is short. It is more so due to high rate of infantile mortality in India. But, however, it may be inferred that the health conditions in India do not permit an advanced age for retirement.

India lies between eight and thirty-seven degrees of north latitude and between 68° and 98° of eastern longitudes. The climate of the country is essentially monsoon-tropical. This description is valid notwithstanding the local variations of climate due to her considerable expanse. Climatic effect on the efficiency of the working population has been a universal experience. In torrid zones, people cannot work long hours, nor can they work at an advanced age. Occupationally, India is predominantly an agricultural country. About 70% of her population derives livelihood directly from agriculture. Combined with social practices that prevail in U.P., paternal deference is duly witnessed particularly in agricultural sector. In the patriarchal family which is the common type in India, the authority of the old man extends to the entire economic unit. The father retains the functions of guidance and planning and even after his share in the direct work has been reduced, he remains the head of the family. Hence, the problem of the aged among the farm population is less acute than in urban and industrial sections of population.

Retirement age established in different countries of the world shows clear appreciation to these considerations. It is an advanced age in temperate regions and where economies are enjoying higher per-capita income; it is lower in hot countries. The following table presents the age of retirement in
selected countries.

Table I.11.

RETIREMENT AGE IN SELECTED COUNTRIES

<table>
<thead>
<tr>
<th>Countries</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>65</td>
<td>60</td>
</tr>
<tr>
<td>Canada</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>China (Mainland)</td>
<td>60</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Greece</td>
<td>65</td>
<td>60</td>
</tr>
<tr>
<td>India(^a)</td>
<td>55</td>
<td>-</td>
</tr>
<tr>
<td>Mexico</td>
<td>65</td>
<td>-</td>
</tr>
<tr>
<td>New Zealand</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Sweden</td>
<td>67</td>
<td>-</td>
</tr>
<tr>
<td>U.A.R.</td>
<td>65</td>
<td>-</td>
</tr>
<tr>
<td>U.K.</td>
<td>65</td>
<td>60</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>65</td>
<td>62</td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>60</td>
<td>55</td>
</tr>
</tbody>
</table>

\(^a\) For Government Employees only.

According to this table, the frequency of retirement at 65 years is the highest, being 6, while 60 has the next highest, 4 (both for males); 55, 67 and 70 have only one frequency each. The table also shows that retirement of
women takes place at an earlier age generally by five years. As has been aptly remarked, "This differentiation is based on the assumption that women are generally incapacitated for regular work at an earlier age than men, although in many countries their average expectation of life is higher."

Incidently, the countries having higher retirement age, for example, Canada, United Kingdom, U.S.A., Australia etc. are those that lie in cold temperate zones or cold regions. They also enjoy higher per capita incomes and (consequently higher standards of life), and in these countries expectation of life at birth is generally above sixty.

Type of occupation, as discussed in a preceding section has also a bearing on the age of retirement. Thus, some countries concede for unhealthy and strenuous work. In the U.S.S.R., for example, retirement is permissible at fifty for men and 45 for women employed on underground jobs, in coal mining industry, and in some firms in the iron and steel industry etc. (Women are no longer employed on such jobs, but any previous work of this type is taken into consideration while fixing the pension.) In Czechoslovakia, miners, underground workers and aviation workers are permitted to retire at 55, although the normal age of retirement is 60 years in these countries.

In India, retirement age is enforceable in case of government employees only. In industrial concerns there is

1. Vide table No. I.1 ante.
no standardised practice. Retirement of workers is generally at will and they are allowed to postpone retirement as long as they wish in ordinary business conditions. Prof. Adarkar recommends a retirement age of 60 years for men and 55 years for women. Dr. A.N. Agarwala also seconds him. The Government of Uttar Pradesh have instituted a scheme of Old Age Pensions since December, 1957. According to this scheme, pension is payable to those aged 70 or over. This age is in keeping with the international practice of fixing a higher age for old age assistance. But for ordinary retirement, this age cannot be endorsed. In the first place, this is very advanced age for efficiency considerations of the working force. Secondly, on economic grounds too this age is undesirable. Climatic and occupational considerations also do not support this age. Moreover, from the point of view of employment situation too seventy years is not a suitable age for retirement. Recently, the Bombay Industrial Court has expressed the view that "For sometime to come the age of retirement will have to be on the higher side." The decision of the court ran as follows: "An operative/employee shall retire from service on attaining the age of 60 years, but a male operative/employee shall be retained in service\(\text{upto the age of 63 years,}\) provided that when the retrenchment becomes necessary, an operative/employee who has completed the age of 60 may be retired in preference to younger men." The Study Group on

3. Indian Labour Gazette (Simla), April, 1959, p 814.
Social Security set up by the Ministry of Labour, Government of India, also favours 60 years as the retirement age for men and 55 years for women. From the climatic point of view, age of retirement should be lower in India than in other countries. Then, industrial occupation needs more physical vigour. Life expectancy also favours a lower age of retirement. Then, general employment conditions require that less efficient aged should yield place for young men. In my opinion, these considerations justify 60 years as age of retirement for males and 55 years for females. Since the ultimate aim of old age security should be to extend it to the whole population, the same ages may be preferred for industrial workers of U.P. too.

6. Test of Retirement

Retirement is the cessation of active life. But it is nearly impossible for a man to retire completely. He cannot live without working. Prof. Donald Webb reports the experiment with college students. They were offered $20 a day for doing literally nothing (of course, they could get up for their meals and for attending to their bodily needs). Few could endure this condition for more than three days. The uppermost record was for six days. This indicates that complete inactivity is against human nature. Therefore, complete cessation of active life is impossible for even a retired man. What is therefore, required is that some test may be evolved to find out if an employee has actually retired or not.


This test may be earnings or employment test. In fact both these tests are interrelated. An employed person earns and an earner must be employed. Therefore, earnings test seems a better one. However, total absence of earnings as a test of retirement will be a stiff condition to fulfil. A limit should be laid down to periodical earnings beyond which the person may be supposed to have not retired prima facie and below which he may be allowed to earn any amount. In other countries, the retirement test has been profitably utilized. In the United States, annual earnings up to a maximum of 1200 dollars have been exempt; beyond this, old age pensions are cut down at the rate of a month's benefit for every one hundred dollars earned.

The retirement test has an advantage of reducing the financial cost of retirement pensions. Moreover, the test may be varied with reference to economic activity. If labour is scarce, the retirement test may be liberalised and the earnings may be allowed to be exempt in spite of the receipt of pension. On the other hand, if labour is experiencing a slack season, the test may be tightened to make room for new entrants in the labour force. The practice of giving retirement-postponement credit has been followed in some countries such as Bulgaria, Czechoslovakia, Denmark, France, Hungary, Iceland, Israel, Italy, the United Kingdom, the United States and Yugoslavia. In addition to the argument of increased production, resulting from the employment of older people in times of scarcity of labour, a reference can also be made to the

sense of individual contribution, responsibility and activity which work can mean to aged people. Therefore, opportunity should be availed of letting the older persons work whenever it is possible and beneficial to the society. In evaluating the effect of a retirement test, reference is also made to the social contribution which older people can make in areas in which their contribution is not measurable in terms of usual type of economic activity. For instance old people can work for social welfare, political, religious, recreational, and community organisations for remuneration substantially below what it would be necessary for them to obtain for their services, in absence of a regular retirement income. Undoubtedly, if the pace of our economic development and cultural advancement is not retarded and if the general productivity of our economy continues to increase, there will lay ahead a vast field for increased social, cultural and recreational activities which will contribute to the happiness, welfare, cultural status and prosperity of the community and the aged alike. This potentiality must be taken into consideration while framing a scheme of old age social insurance.

It may be noted here that the Study Group referred to above recommends that the workers may be allowed to continue working after completing sixty years (retirement age), but neither they will pay contributions for that period nor will they receive any additional benefits therefor. ¹ This is a

¹ Op-Cit, para 79 (iii)
sort of inducement which may be utilised in times of labour scarcity without prejudicing the pension plan as such or the earnings of the employee.

7. Justification of Old Age Protection

A scheme of social security for the aged is a costly scheme. Therefore, before instituting any such scheme, it is pertinent to examine why at all should the society protect old age against economic contingencies. This analysis may be diagnosed from economic, political social and moral angles of vision.

With the improved medical facilities provided by the modern medical science and increased resources, the number of three generation families is increasing, though the number of three-generation households is tending to disappear fast. But the lessened ability of the family to provide economic security for its old members to facilitate comprehensive and cohesive continuity for successive generations must be attributed also to a gradual shift from an agricultural to an industrial civilisation, the emergence of money-oriented economy and the increasing mobility of the population. Many of the problems that arise in relation to the aged reflect our inability as a people to adjust time-honoured and persistent customs of the old when the older people typically belonged to a large family group to the more limited functions, the family is able to perform in the civilisation of today.

The scope of providing job to the older people is very limited. Increased mechanisation of the productive system has little value and use to be obtained from the aged workers.
Moreover, there is little opportunity for the aged to get a job so that he can support himself in old age. According to U.S. Population Reports in April, 1952, 58% of the aged (65 or over) were not in the labour force. Of this, 45% of the entire aged population was found to be 'not well enough to work' and eight per cent was not interested in work. Only three per cent were interested in their work.¹ This type of study is lacking in our country. But the Labour Investigation Committee collected some details regarding the age data of industrial workers. Personal investigations conducted by the Committee through their ad hoc survey staff in various industries and areas and the replies received from the employers, workers' associations and other bodies showed that neither the employers nor the employees attached any great importance to vital statistics, age data, length of service, sickness records and the like. The Committee found that age data were available in only eleven concerns regarding 20,954 workers. Information on distribution of age among industrial workers shows that workers belong to the young and middle-age groups to a greater extent than to the older age-group. In three concerns, there were no workers in the upper age brackets above 60 years. Female workers were non-existent in this age-group in case of six units. One unit did not employ any worker above 45 years of age.² Another set of data available to the Committee were those from the Bombay Labour Office.

This was a family budget inquiry conducted in Bombay between September 1932 and June 1933 and in Ahmedabad between October 1933 and January 1935. The workers covered were predominantly those employed in cotton textiles. According to this inquiry 86.5 per cent of the workers were below 45 years and those above 55 constituted only one per cent in Bombay. In Ahmedabad 90.1 per cent were below 45 and those above 55 years were only 1.5 per cent.

Data collected by Mr. R.G. Gokhale, the Labour Officer, Bombay Mill owners' Association in 1951 regarding 74,700 workers of the Bombay cotton textile mills in different areas showed the following results.

Table I.72

<table>
<thead>
<tr>
<th>Age groups</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos.</td>
<td>Percentage</td>
</tr>
<tr>
<td>Below 20</td>
<td>128</td>
<td>0.2</td>
</tr>
<tr>
<td>20-40</td>
<td>46345</td>
<td>67.0</td>
</tr>
<tr>
<td>41-45</td>
<td>8826</td>
<td>12.8</td>
</tr>
<tr>
<td>46-50</td>
<td>5908</td>
<td>8.5</td>
</tr>
<tr>
<td>51-55</td>
<td>4403</td>
<td>6.4</td>
</tr>
<tr>
<td>56-60</td>
<td>2221</td>
<td>3.2</td>
</tr>
<tr>
<td>over 60</td>
<td>1326</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>69157</td>
<td>100.0</td>
</tr>
</tbody>
</table>

This table shows that the proportion of workers aged over 55 years in cotton textiles was 5.1 per cent of males and 8.9 for females. This reflects the stability of labour force in this industry. However, these studies show that the aged are not in employment in sizeable proportions. Even those who are found to continue in employment are those who have long record of services. Fresh recruitment of aged persons from the labour market is an exception. In highly technical or skilled professions services of those above retirement age may be procured for organisational purposes on contract basis but it is not a practice to prefer the aged to the young or even accord them equal treatment in matters of recruitment. Therefore, the inference that occurs to a plain mind is simply that chances of employability of the aged particularly in industrial areas are very limited.

Even if the employability of the aged becomes possible, it is not desirable economically. The older workers are less efficient in physical labour and their productivity is less than that of younger workers. This will increase the cost of production, accelerate the waste of equipment and raw materials and also lower the quality of products. Besides this, after a long period of toil, the old members of the society require three R's: REST, Requisites and Respect. Rest is needed because exertion is not always possible in old age. Requisites of life such as food, clothing and shelter are primary needs. Victuals and other requirements of life cannot be commanded without purchasing power. As for respect, it is a precious solace of the old. They have seen a generation born before them. They are experienced and venerable
for their descendants. But this respect can hardly be comman-
ded by them if they are allowed to look to the purse of the
already famished family of their sons, daughters of some other
liable relations for subsistence. These three R's can only
be secured to them if their subsistence is secured through
some scheme of old age security. The employment of the
aged should be discouraged on this ground too. Moreover,
modern society is job-oriented society. Unemployment is a
source of depression and vice versa. In a community where
millions of persons are always in wait for their chance of
employment, it is very hard for the less efficient and the
older persons to compete in the employment market with the
efficient hands. From the view-point of the efficiency of the
plant too, labour force should be held at a high morale by
upgradings and promotions. If the older workers are allowed
to continue indefinitely, the incentive of the younger workers
will be killed and the general efficiency of the plant will
suffer as a consequence. The Massachusetts Commission on
Old Age Pensions, Annuities and Insurance, 1910, held an
identical view when it observed that "The economic gain from
the pension system is twofold: it eliminates the waste and
demoralisation attendant upon the continued employment of old
men who have outlived their usefulness; and it helps to promote
industry, contentment and loyalty on the part of the working
force. The pension system aids in solving the difficult prob-
lem of stimulating the employees of a large corporation to the
highest efficiency."1

1 Qtd by Conant, Op. Cit., p 21
Old age protection also eliminates excessive labour turnover. Such schemes as require long qualifying period of contribution on the part of the beneficiary for the entitlement to benefits, tend the worker to the industry. However, young workers may not profess so much loyalty, but difficulties involved in finding a new job in case of an aged worker is sufficient inducement to continue in the present position. On the whole, such schemes are strong deterrent to the shiftability of the workers which at times is so necessary. They help to stabilise the industrial force which is beneficial for the industrial development of the country and the State both.

Absenteeism is also likely to be more in case of older employees due to various reasons. In the first place, prevalence of illness is common in case of aged workers. Illness in later stages of life tends to be unnoticed at the onset, gradual in progression and to be of such a nature that the body cannot build up an immunity to it. Secondly, accidents take place more frequently in case of older workers than in case of the young workers who are alert and smart (Experience and other things, no doubt, remaining the same). These factors inflate the payroll, reduce the output of the plant and add to the cost of sickness insurance unusually. Therefore, the protection of the aged against economic insecurity in the retired life is not only beneficial to be considered by the worker himself but it is useful as a means of rationalisation on the front of the employees inter se.
As a matter of economic policy, man must be provided throughout his life from the profession he follows. If the economic system cannot employ the old, it can and should provide them wherewithal in their retired life. That economic system is basically wrong which does not provide means to its members to live their full natural span of life. Survival of the fittest is the philosophy of the jungle and it is a dead slogan in the context of the modern civilisation. Human society is essentially composed of weak and strong and both have definite roles to play for the progress of humanity howsoever imperceptible this role may be. If the philosophy of 'no-work-no-food' is vigorously followed, the old and the young children who are unable to work, the sick and the incapacitated should be exterminated from the society. But this would be a rash suggestion. Man must eat throughout his life irrespective of his age, efficiency or the ability to do work. Society today does not provide sufficient income to all so as to allow a margin for savings to be drawn upon in old age. This is a genuine economic ground to protect the aged against the controllable insecurity to which he is exposed, poverty and want.

Morally, it is advisable to protect the aged population because they are the erstwhile builders of society. It is immoral for the society to scrap its old members and throw them to destitution in their dependent age. "From the standpoint of the whole system of social economy," it has been remarked, "no employer has a right to engage men in occupations that exhaust the individual's industrial life in ten, twenty or
forty years; and then leave the remnant floating on society at large as derelict at sea. From the standpoint of public economy, it is argued that every industry should be compelled to bear its own burden of waste, whether material, machinery or human life; that it is as equally unjust and improvident for an industry to turn adrift its worn out and aged employees to be taken up and housed at public expense in almshouses, as it is for the employer to stop work and become tramp or vagrant."^1

It is unquestionably immoral to forsake the aged in their retired life although they contributed to the prosperity of the society which the present generation is enjoying.

Socially, if one section of society is condemned to destitution, other sections cannot remain immune from it for long. Poverty anywhere constitutes a danger to prosperity everywhere. Moreover, it is a slur on the social prestige of the community to leave the venerable members of the society on the vagaries of fate. Indian people can never stoop too low.

Old people are also mature in thought and experience. They are influential politically. In a democratic set-up, they cannot be neglected, otherwise they would not be able to devote their thoughts towards social and welfare work.

**CONCLUSION**

To recapitulate the foregoing discussion, old age and retirement age are two different concepts, but the latter is governed by the former. Approach of old age is influenced by age, sex, climate, standard of life and occupation. U.P.'s population is growing at a decennial

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rate of 10.8%. Cultivable area being ultimately fixed, greater reliance will have to be placed on the non-agricultural call­ings. Urbanisation is also increasing in U.P. A settled in­dustrial force is a sine qua non for the industrial development. But wages being low, and families consisting of large team of non-earning dependents, it is difficult to save for old age. This compels the workers to migrate to villages. Hence, the need for old age security for the growth of a settled indus­trial force.

Retirement age for industrial population may be fixed at 60 years for males and 55 years for females. However, some retirement test may be evolved; it may be adjusted to the needs of the employment market to effect an automatic cor­rective to the volume of employment.

Old age protection is economically justifiable due to the inability of the aged to secure employment and its undesir­ability too for efficiency considerations. Socially, destitu­tion is liable to affect other sections of population. Old age insurance pushes up the consumption of the aged which stabilises market conditions and is anti-depressive in effect. Moreover, it is morally cruel to abandon the erstwhile builders of society in their retired life. Therefore, the object of old age protection is the provision of three R's: rest, re­quirements and respect, to the aged. I propose to discuss the protection against old age enjoyed by the industrial workers of U.P. in detail. This forms the subject-matter of the next Chapter.

...
CHAPTER II

OLD AGE PROTECTION IN U. P.

In the preceding Chapter, I stressed the need of old age protection on economic, social, political and moral grounds. Uttar Pradesh has been the leader in introducing the Employees' State Insurance Scheme. The purpose of this Chapter is to discuss the sources of old age protection available to industrial population of U.P. and to assess their efficacy as a reliable measure.

From the viewpoint of technique of coverage, such measures can be classified into contributory, non-contributory and Government-financed. Various provident funds operating in industrial concerns, particularly the Employees' Provident Fund Scheme has been discussed in the Chapter. Among non-contributory sources come individual savings, mutual insurance and life insurance. The second, i.e. the mutual insurance is confined to industrial workers alone while the rest two are available to the population in general. The Old Age Pensions scheme of the Government of U.P. is the only State measure taken to provide for the destitute aged population. It has been particularly discussed in order to point out the extent of protection provided by it and the possibility of instituting such schemes in other States.

I have discussed the contributory schemes first because they are nearer the approach of social insurance which has been held to be the most suitable way of social security.
A. Contributory Schemes

The problem of old age dependency received some attention at the hands of the various Labour Inquiry Committees. The Royal Commission on Labour also referred to this problem but, it did not recommend the institution of any scheme of provident fund at that time. The Indian Provident Fund Act 1925, popularly known as the Statutory Provident Fund was then already in operation. The Act applies to the Railway and Government industrial establishments. It is a contributory scheme to which the beneficiaries and their employers contribute equally. The contributions to this type of Provident Fund have been accorded special treatment in Indian Income Tax law. The law also makes provision for the recognition of any other private provident fund satisfying certain conditions and such recognised provident fund is also given certain tax concessions. Despite all such inducements, no encouraging response was recorded on the part of the employers to institute such funds barring a few enlightened concerns. The voluntary institution of funds has been few and far between. Now, after a long struggle, an Employees' Provident Fund Scheme has been instituted under the law passed in 1952. I give below its salient features.

1. The Employees Provident Fund Scheme, 1952.

The subject of institution of a provident fund scheme for the benefit of industrial workers received consideration and was discussed at the Labour Ministers' Conference held in 1942. It was agreed that instead of introducing any compulsory scheme, a set of model rules should be framed and circulated by the Central Government among the industrial employers who may be given option to adopt them. But the matter rested there
and nothing further came out. The question was again revived in 1947 and subsequently, it was discussed by the Indian Labour Conference, the Standing Labour Committee and by some Industrial Committees. They all agreed in principle and were in favour of instituting a provident fund scheme on statutory basis. In 1948, a private member introduced 'Workers Provident Fund Bill' in the Legislative Assembly. It was a non-official motion for making it obligatory on every employer in industrial concerns to establish provident funds for the betterment of employees' and their families' lots. The Government, however, assured that they were themselves contemplating to introduce a comprehensive Bill to this effect after studying the matter fully. Consequently the private motion was withdrawn. The question was again discussed at the Labour Ministers' Conference held in January 1951 at Patna. As a result of the conclusions arrived at, an Ordinance was promulgated by the Central Government on 15th November, 1951 which was later on replaced by the Employees Provident Fund Act 1952 (Act XIX of 1952).

The employees Provident Fund Act seeks to make provision for the future of the industrial worker after he retires from active service or, if he dies earlier than retirement, for his dependents. The Act extends to the whole of India except Jammu and Kashmir. It applies to all factories in which fifty or more persons are employed. The Central Government may, however, specify by notification to this effect any other establishment in which fifty or more workers are employed. But under Section 16, the Act does not apply to establishments belonging to Government or local authorities; it also does not apply to
'infant establishments' until after the expiry of three years from the date on which the establishment has been set up. However, those establishments in which schemes of provident funds are already in operation and the rules of such funds are, with regard to the rate of contributions and benefits, not less favourable than under this Act or if the employees are in the enjoyment of benefits favourably comparable to those under the Act, the appropriate Government may exempt such establishments from the operation of the Act or any provision thereof.

The Act authorises the Central Government to frame a scheme for the establishment of provident funds for employees or any class of employees and to specify such factories in which the scheme shall apply. The term "factory" has been defined for the purpose of the Act as "any premises, including the precincts thereof, in any part of which manufacturing process is being carried on or is ordinarily so carried on, whether with the aid of power or without the aid of power." The scheme of Provident Fund could be framed for the industries given in Schedule I to the Act in the first instance, but the Central Government is authorised to add other industries to this Schedule.

In exercise of the powers conferred by the Act, the Central Government have framed an Employees' Provident Fund Scheme and notified it on 2nd September, 1952. According to this Scheme, every employee of the aforesaid industries is to become the member of the Provident Fund on completing one year's service provided that he was earning not more than Rs 300 p.m. as basic wages. Contributions have been fixed at

1. Section 2 (g).
6\frac{1}{2} \text{ per cent of wages for both, employers and employees. For the purpose of this calculation, wages have been defined to include "all emoluments which are earned by an employee while on duty or on leave with wages in accordance with the terms of the contract of employment and which are paid or payable in cash to him."} \text{ The contributions are collected from employers in the first instance. They can deduct the appropriate sum from the wages of their employees for the employees' share of contribution. In case of insolvency, the payment of contributions carries a priority to all other debt claims. To ward off the irregularities on the part of employers, Section 12 of the Employees Provident Fund Act lays down that "No employer in relation to an establishment to which any scheme applies, shall, by reason only of his liability for the payment of any contribution to the Fund or any charges under this Act or the Scheme, reduce, whether directly or indirectly, the wages of any employee to whom the scheme applies or the total quantum of benefits in the nature of old age pension, gratuity or provident fund to which the employee is entitled under the terms of his employment, express or implied."} \text{ The Fund has been recognised under Section 58C of the Indian Income Tax Act 1922 for the purposes of income tax concessions.}

Contributions are calculated \text{ monthly, weekly or daily, insurable earnings of the employees have been raised to } \text{ \$500 per month since February 1957. Besides paying their own share of contributions, the employers are required to pay an additional charge for meeting the expenses of administration of the scheme. At present the administrative charge is 3 per cent}

1. Section 2 (b).
of the joint contributions or 0.4 per cent of wage bill. The amounts received are to be credited to a Provident Fund Account out of which the expenses of various kinds are met. A separate account called "Central Administration Account" is required to be opened for recording all administrative expenses relating to the Fund. All interest, rent, and miscellaneous income, profit (or loss) on the sale of investments shall be transferred to an Interest Suspense Account. An account is required to be opened in the office of the Fund in the name of each individual member which shall be credited with his own contributions, his employer's contributions on his wage bill and interest credited to his accumulated balance of the fund at the rate which may be deemed proper. At present this rate is 3.75 per cent per annum.

The employee will receive a provident fund on retirement equal to his own and his employers' contributions together with the accumulated interest credited to his account in the aforesaid manner form time to time. In case of his death, the credit standing to his account will be payable to his nominees or in the absence of nomination, to the members of his family. In case of dismissal or discharge due to serious or wilful misconduct, the appropriate authority may forfeit the employers' share of his fund at the latter's request. However, members are also allowed full withdrawals in the following cases:

(a) On retirement from service any time after attaining the age of superannuation (which is fifty-five years at present).
(b) On retirement from service due to permanent and total incapacity for work in any industry.
(c) On migrating from India for permanent settlement abroad.
Withdrawals on grounds other than the aforesaid ones are permitted subject to the condition that the employer's contribution and interest thereon shall be returned to the employee in the following manner:

<table>
<thead>
<tr>
<th>PERIOD OF MEMBERSHIP OF THE FUND</th>
<th>PERCENTAGE OF RETURNABLE CONTRIBUTIONS OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than three years membership</td>
<td>25</td>
</tr>
<tr>
<td>3 years but less than 5 years</td>
<td>50</td>
</tr>
<tr>
<td>5 years but less than 10 years</td>
<td>75</td>
</tr>
<tr>
<td>10 years but less than 15 years</td>
<td>85</td>
</tr>
<tr>
<td>15 years and over.</td>
<td>100</td>
</tr>
</tbody>
</table>

Any amount which is so withheld is to be credited to a forfeiture account. Full return of contributions is also permitted (both of his own and his employer's) if the employee is retrenched from service or is suffering from leprosy or Tuberculosis.

The administration of the Fund is vested in a Board of Trustees. A Central Board of Trustees was constituted on 31st October 1953, with the Secretary of the Central Ministry of Labour as its Chairman. For the purpose of the implementation of the scheme, Regional offices have been established and Regional Committees have been constituted to advise the Central Board on such matters as may be referred to them. The chief executive officer of the Scheme is the Central Provident Fund Commissioner who is assisted in his work by three Assistant Provident Fund Commissioners in charge of Statistical, Enforcement and

* For further details see Chapter VII poste.
Administrative Sections and a Deputy Provident Fund Commissioner in charge of Special Section. Regional Offices are headed by Regional Provident Fund Commissioners who are assisted in their work by the Provident Fund Inspectors and Accounts Officers. They look after the collection of contributions and the maintenance of Accounts.

Employees covered under the scheme are issued Account Numbers after making declaration on prescribed forms for the purpose of registration. The employers are required to submit a consolidated list of employees coverable under the scheme (showing their wages, dearness allowance and the cash value of any food concessions paid to them). Then they submit joint contributions to the Office by separate bank drafts or cheques for contributions and administrative charges. They issue to their employees Contribution Cards in which all sums paid on their accounts are entered. These are current for one year after which a new Card is issued. The employers are required to submit these cards to the Commissioner before the expiration of their currency at least one month in advance. Fresh Contribution Cards are then issued. On request, the employees are allowed to inspect their Cards once in every two calendar months.

It may be noted that the Employees' State Insurance does not cover the same industries as under the Employees' Provident Fund scheme. The former covers only perennial factories whereas the latter does not discriminate in this respect. Moreover, the ESI scheme is extendible to factories employing twenty or more workers while the EPF scheme is enforceable in factories employing 50 or more employees. At the end of September, 1959,
the coverage under the ESI scheme was a little over 14.51 lakhs in India while the EPF covered about 25.25 lakh workers in 7502 factories. The administrative pattern of the two schemes is almost identical but for the fact that the EPF scheme has no local disbursement offices whereas the ESI has. Contribution periods of the two schemes differ. Under the ESI, the contributions are weekly while collection period is six months. Contribution period under the EPF scheme is a month and the collection period is a year.

2. Employers' Schemes

Besides the Employees' Provident Fund scheme, some enlightened employers have had their own voluntary provident fund schemes. The Bombay Millowners' Association already recommended to its members to make provision with effect from September 1946, for the provident funds to their employees upon retirement or to their dependents in the event of their early death. All the employees earning less than Rs 500 p.m. were to join the scheme. Contribution rates for the employees and employers both were fixed at 6½% of the employees' wages. The Delhi Cloth and General Mills and some employers in Kanpur had their own provident fund and gratuity schemes. However, since the implementation of the EPF scheme, 1952, employers' voluntary schemes can only be retained if the rules of such schemes are not less favourable than those of the EPF scheme with regard to various benefits. Therefore, a detailed consideration of such schemes seems superfluous.
An evaluation of the provident fund schemes as an old age protection measure may be done at this stage. As noted above, provident funds are paid on retirement in lump sums. In order that this income serves in old age, it must be invested and its efficacy as an old age security depends on the prudence and foresight of the retiree. However, receipts of lump sums are more amenable to misuse than regular pension payments. Sometimes, even the thoughtful persons are found spending recklessly when money is received in lump sums. In fact, sure pleasure of the present can be hardly sacrificed for an uncertain future. The receipt of fund by orphans and widows often turns into a source of exploitation on the part of their crafty relations in stead of protecting them in distress.

Provident funds are financed by joint contributions of the beneficiaries and their employers. This is not a social-insurance technique of finance. It is also not a social assistance measure for, that requires unilateral finance of the scheme by the general tax payer. But, they constitute one of the ancillary measures of providing old age security. Social security essentially aims to provide income for subsistence. Provident funds, on the other hand, grant lump sums which should be properly distributed over time before it may be of use to the beneficiary as subsistence income. In one sense, provident funds grant a modicum of income for investment. Thus, they are not preferable to pension schemes under which benefits are periodically paid. If the pensioner wastes one instalment of pension, it does not entail life-long suffering and repentence.
On the next receipt of pension, past inaccuracies of judgment may be rectified. Hence, a pension scheme is preferable to provident fund schemes.

B. Non-Contributory Measures

Non-contributory measures of social security are mostly voluntary and as such are available to the entire population notwithstanding their occupational status. Here, only those institutions of old age protection have been discussed which are specially available to industrial population or are general, inclusive of industrial workers.

1. Individual Savings

Most important among the voluntary buttresses of old age security is the private saving of the individual himself. Savings constitute the first line of defence against all income insecurities. Saving is the function of total income that an individual receives during a given period of time. It is the excess of total income over the amount spent on consumption. Saving decisions are governed by various subjective and objective considerations. Principal objective factors that influence the decision of the individual to save are the size of one's total income, fiscal structure of the country, price-level and the family responsibilities.

Size of an individual's income is the most important factor that governs his consumption behaviour. The marginal propensity to save rises with a rise in total income. And,

*To my mind, it is rather the capacity to save that is governed. Propensity means inclination, an urge to do a thing. Thus propensity to save is governed by subjective considerations, whereas the capacity to save is governed by objective factors.
the lower the income, the higher the propensity to consume. As such, the lower-income group consumes major part of its income (sometimes the whole of it) and leaves little to save. Only those earning above their subsistence level may afford to save. Industrial workers, as also average Indians, are living in a state of poverty. This statement is valid in spite of a rise in per capita incomes of U.P. after the 1950's. The following table presents per capita incomes of U.P.

Table II.1
PER CAPITA INCOMES IN U.P. (1950-51 to 1958-59)

<table>
<thead>
<tr>
<th>Years of estimates</th>
<th>Annual Incomes Rs.</th>
<th>Daily Averages Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>257.66</td>
<td>0.70</td>
</tr>
<tr>
<td>1951-52</td>
<td>242.20</td>
<td>0.66</td>
</tr>
<tr>
<td>1952-53</td>
<td>240.12</td>
<td>0.66</td>
</tr>
<tr>
<td>1953-54</td>
<td>229.76</td>
<td>0.63</td>
</tr>
<tr>
<td>1954-55</td>
<td>208.79</td>
<td>0.57</td>
</tr>
<tr>
<td>1955-56</td>
<td>212.23</td>
<td>0.58</td>
</tr>
<tr>
<td>1956-57</td>
<td>230.29</td>
<td>0.63</td>
</tr>
<tr>
<td>1957-58</td>
<td>227.26</td>
<td>0.62</td>
</tr>
<tr>
<td>1958-59</td>
<td>255.89</td>
<td>0.70</td>
</tr>
</tbody>
</table>


According to this table, per capita annual income in U.P. was highest in 1950-51 when it was Rs 257.66. Even this gives a daily average of Rs 0.70. Since then income has fallen.
if the per capita incomes increase by small dribblets, it does not seem to improve the conditions of teeming millions. It is evident, therefore, that the income of the vast majority of masses does not leave a margin of savings.

In case of factory workers, the average income for all workers is Rs. 155 p.m. according to the estimates of the Study Group. This gives a daily average of about Rs 5. If the average number of members per family is taken to be five, this yields a daily average of one rupee. Considering the high cost of living in industrial areas, this is not sufficient to leave a margin of savings to be drawn upon in old age.

Price-level is another factor which influences individual savings. It determines the amount of earnings of the consumers in terms of goods and services. In view of the lowness of the incomes of industrial workers, it may be safely assumed that in times of rising prices, they have to cut down their consumption to absolute minimum necessities of life. In U.P., as elsewhere, prices have risen. As has been aptly remarked, prices rise by lifts and incomes rise by ladders in workers' case. Hence the margin of savings has been further reduced.

Income tax affects the industrial workers who earn above the minimum exemption limit. At present, this limit is fixed at Rs. 3000 of annual incomes. Therefore, those workers who receive monthly wages above Rs. 250 are required to pay income tax. Moreover, Indian working class is maintaining a large team of dependents. Non-popularity of female employment, low earnings of average workers and prevalence of unemployment are contributory cause to this phenomenon. During the course of my tour to Bombay undertaken in connection with this study
I came to learn that some of the workers in a textile mill had families of more than ten members with single earning member. All these facts point to the conclusion that margin for saving is non-existent in average cases.

Over and above these considerations, there are some subjective factors that govern one's decision for saving. Precaution against future contingencies and provision for old age are very influential ones. To be independent in doing things for oneself, to enjoy a gradually better standard in later life also play their role in this matter. The Report of the Saving-Consumption Behaviour of Aligarh Muslim University Employees discloses that "Contractual savings (such as provident funds and life insurance policies) seem to be relatively more important strengthening the view that a very important motive for saving is provision for old age and contingencies."

Sometimes, to secure masse de manoeuvre, to carry on business or speculative projects, and to bequeath a fortune to the heirs, are other important considerations to induce a man to save. Lastly, for the satiation of sheer miserliness and avarice, one may cut down his consumption and hoard wealth. But hoarding is productive of no good. It may not provide protection against old age for, not infrequently, a miser may prefer to undergo suffering rather than to suffer to spend his hoards in good time.

Debt-redemption also constitutes a major factor in taking saving decisions in case of majority of industrial population and peasantry. Considerations like improvement in standard of

living, enterprise and pride exert little influence to induce industrial worker to save. However, these are normal considerations and all depend primarily on the income of the individual. As has already been noted, the income of the industrial workers is so low as these considerations are hardly translated into action, howsoever powerful they may be.

Besides, there are certain other obstacles to savings which prevent the worker from accumulating any substantial fund for future purposes. Lay-off and involuntary unemployment and voluntary abstentions from work in pursuance of trade union decisions interrupt the earnings of the individual workers to save. This does not only check current savings, but eats into the accumulated past savings and not infrequently involves the worker in debt. Sickness of the earning members, maternity of the wife or the employee himself do not only interrupt the current earnings but also they are additional drain to the purse of the affected workers. The patient needs medical assistance due to biological ailment and also monetary relief in order to meet the usual expenses of upkeep and additional strain of medical requirements and nursing. Thus, savings cannot be continued in times of such incapacities. Death of the breadwinner is a disaster to the family members inasmuch as it stops the very source of income altogether. In such circumstances, there arises a problem of bread before the family much less of savings. In addition to this, the birth of a child is an additional item of expenditure and care for
the family. If the mother is an earning member, her income is stopped. It may be noted by way of parenthesis that maternity protection is not universal though all the States of India have some sort of legislation to this effect...If, however, the mother is not an earning member, the question of stoppage of her income does not arise, but she may require additional expenditure in the nature of postnatal care, and the cost of layette etc. It may be observed here that the aged population does not encounter such difficulties as they are past the age of progeniture. The most important among the impediments to savings ( or the sources of expenditure in the nature of emergencies) is the social pressure, which is not only a ruler in India, but at times it is a tyrant too. Marriage, death and festivals, so profusely celebrated in U.R, are giant devourers of the savings of an individual. They do not only interrupt current savings but also eat into the accumulated savings too. Sometimes they necessitate savings at the cost of consumption.

No doubt, the schemes of social security tend to discourage the propensity to save to some extent and supplant savings; but the fact must be admitted that when the margin for any savings itself is absent, there is nothing to discourage them. In fact, savings come to salvage the worker from total wreck. From the foregoing discussion, it may be inferred that savings are neither adequate nor reliable as a measure for protection against the contingency of old age. As such they can no longer be relied as a reserve to be drawn upon in the event of the inevitable contingency of old age.
2. Mutual Insurance

Having examined the extent and adequacy of savings as a means of protecting industrial workers against the contingency of old age, it is now pertinent to go over to the next alternative of mutual insurance and other means adopted by workers' organisations to protect their members against old age and other economic contingencies. Mutual insurance has been defined as "the provision of a fund by common subscription to insure against casualties; to provide maintenance, that is to say, in cases in which a member is deprived of his livelihood by causes over which neither he nor the union has any control." Thus, it is a trade union provision to provide against contingencies, such as sickness, accidents, superannuation, burial and other allied contingencies. It excludes the cost of financing voluntary actions undertaken by trade unions such as the cost of maintenance in case of strikes or trade negotiations and victim pay etc.

Mutual Insurance is the oldest form of trade union activity undertaken for collective and mutual security. But due to want of legal protection or financial security, it never engaged the attention of actuaries to devote any serious consideration to the problem of trade union insurance. Nevertheless, this method was largely used by the trade union organisations

before the grant of recognition to collective bargaining. It helped to bind the member to the union and the benefits were 'a potent attraction to hesitating recruits'. The prospect of support in case of disability or unemployment was a strong incentive for the worker to join the union. Contributions helped unions build up reserves of appreciable amounts which was found to be an effective moral backing in negotiating terms with employers. It helped as a powerful instrument to maintain discipline among the ranks. When abandonment of affiliation involved a deprivation of all share in the accumulated fund, the affiliate dissatisfied with the central organisation, hesitated to break off. It was a great consolidating force in trade unionism. The out-of-work relief prevented the members from accepting employment under the stress of starvation on terms, which in the judgment of the trade union, would be injurious to its interest. Members could also 'keep up their price'.

It may be noted that benefit provisions for benefits under mutual insurance schemes prove effective only to the extent to which alternative provisions are non-existent. Formerly, trade unions feared introduction of alternative social security schemes by their employers because they apprehended that it will undermine the discipline within the organisation. This method of old age protection has lost much of its popularity and effectiveness in modern times. The constant vigil and organisation that the governance of the mutual insurance benefit funds require for proper running of the scheme and the absence of statutory protection on the trade unions to utilise the fund
only for the purpose for which it was originally constituted and the temporary nature of its achievements have undermined its importance in the present move of social security.

Organisation of benefit funds in this State by the trade unions has no rich history. But, the Ahmedabad Textile Labour Association organised mutual funds built up from the contributions of members out of which benefits like victimisation benefits, strike benefits and legal aid were paid to members. Besides the Association, some other unions also pay different types of benefits; but the amount of such benefits has been insignificant and inadequate from the point of view of the recipient. In Uttar Pradesh, out of 330 unions, 108 paid sickness, accidents, unemployment and death benefits during 1949-50. The amounts of benefits varied from one rupee to Rs. 875. During 1950-51, the number of unions paying such benefits was 103 and the amount of benefits distributed amounted to Rs. 9,908.

The table on the next page presents the expenditure pattern of Central and State trade unions for the year 1954-55, and the percentage of such expenditure to the total outgoings of the unions:
### Table II.2

**BENEFIT EXPENDITURE OF TRADE UNIONS (1954-55)**

<table>
<thead>
<tr>
<th>Heads of expenditure</th>
<th>Central unions</th>
<th>State Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>amount</td>
<td>% of total</td>
</tr>
<tr>
<td></td>
<td>Rs</td>
<td>Rs</td>
</tr>
<tr>
<td>1. Legal expenses</td>
<td>8,242</td>
<td>1.9</td>
</tr>
<tr>
<td>2. Expenses in trade disputes</td>
<td>17,785</td>
<td>4.1</td>
</tr>
<tr>
<td>3. Trade Dispute Compensation paid to members</td>
<td>1,301</td>
<td>0.3</td>
</tr>
<tr>
<td>4. Funeral, old age, sickness, and unemployment benefits</td>
<td>1,735</td>
<td>0.4</td>
</tr>
<tr>
<td>5. Educational, social and religious</td>
<td>3,470</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**SOURCE:** The Indian Labour Book, 1955-56, table XCVII.

This table shows that very little attention has been paid to such activities. There are various reasons for this. Absence of strong craft unions is one of them. With the exception of a few organisations such as the Ahmedabad Textile Labour Association, most of the unions are industrial unions. Craft unions are organised on the basis of craft and they generally enter the names of skilled hands in their membership registers. In the home system of production, such unions were the common variety existing in every trade. But due to a change in the system of production, and due to a rapid growth also
of employers' associations, the significance of such unions has been relegated to the background. Lack of skilled labour made it possible and convenient for the worker to organise on the basis of industries. Skilled workers receive comparatively higher wages. As such, the financial position of the craft unions is generally better. Skilled workers can afford to pay high rates of contributions; they have greater sense of solidarity, fraternity and fellow-feeling. Friendly benefits which were particularly organised in Great Britain could not be popular in India.

The Indian trade union Act 1926, provides for voluntary registration of unions; and it has conferred on trade unions legal status and respectability. Unlike in Great Britain, there were no Combination Acts in India militating against the trade union movement. The method of mutual benefits was, therefore, not needed to finance the workers' struggle against such statutes. Thus, benefits schemes were not needed in India which may be utilized to enforce discipline and trade union solidarity by means of suspending benefits. Hence the unpopularity of the method of mutual insurance in India.

Experience of other countries in the field of mutual insurance has not been very happy. By the time, the trade union movement began in India, in 1918, the method of mutual insurance had already slumped down to obsolescence in other countries. Therefore, Indian trade unions that appeared late in the labour movement and consequently had in store the experience of other countries, did not naturally profess much faith.
Outside leadership is another reason for the unpopularity of this method in India. Labour leaders who happened to be political leaders of the country also, did not believe in the sectarian tendencies of workers’ benefit alone; they had nationalistic outlook and as such, tried to emulate the spirit of national welfare in the trade union movement of the country from the very beginning. The idea of welfare state dominated their minds and the Indian National Congress could easily lead them away in the national fervency from thinking in terms of mutual insurance societies. They hoped an early realisation of Swarajya, and expected the Government to introduce social insurance measures as a general policy. Method of mutual insurance, therefore, did not receive much publicity at their hands.

Absence of a permanent industrial proletariat in India has been another reason of the unpopularity of this method. Indian labour is proverbially notorious for being of a migratory character in the sense that it does not belong to the place of its work. The joint-family system of India has been a great bulwark of social security. Whenever the worker is ill, out of work, grows old, he goes back to his village. Such workers were never seriously interested in organising mutual benefit societies. Although, permanent industrial proletariat is growing slowly in India and the joint-family system as an institution of old age security is also waning in importance, it is now too late to suggest the method of mutual insurance to be organised by workers. Moreover, the
State has begun to take active interest in social security legislation, giving a reasonable ground to the workers to expect that the outdated method of mutual insurance will be replaced soon by a modern technique of social insurance.

Industrial workers are very poor to contribute towards the single-handed finance of mutual insurance schemes. Major part of their incomes is derived from the subscriptions by their members in case of workers' unions. The present rate of subscriptions are very low. In 1947, Mr. S.C. Joshi mentioned in his report on the representative character of the All-India Trade Union Congress, that the lowest rate of subscription was only four annas per worker per annum. This is a low rate for the finance of mutual insurance scheme. The movement is further handicapped by the fact that the whole of the subscriptions are not realised. In Bombay alone, ₹ 419,732 remained unrecovered during 1949-50. This was a quarter of the total sum payable. The other sources of income available to the workers unions are donations, interest on investments, sale of periodicals and miscellaneous source. The last three sources are quite insignificant in case of workers' unions both central and State. Donations accounted for about a fifth of the State unions, while they contributed less than a tenth of the central union finances. This shows that the finance of mutual insurance on the part of the unions will require unilateral finance on the part of the workers themselves which they can ill afford for the present. The present

1. The Indian Labour Year Book, 1955-56, vide table XCVI.
financial position of the trade unions in India is weak in every respect. The finances of the unions are, thus, insufficient to meet even their necessary expenditure, let alone the planning of ambitious benefit schemes.

Illiteracy of the working population has also contributed to the unpopularity of this method of mutual insurance technique in India. Workers are neither qualified to look after the finances of trade unions nor can they provide requisite staff. Social customs, heterogeneous character of Indian workers in caste, creed, religious and regional affinities, filial attitude towards their employers, fatalistic tendencies of thinking towards the problems of life in general, and lack of mutual confidence are other factors that have retarded the popularity of this method of contingency insurance in India. As a matter of fact, this instrument of protection has lost its significance in nearly all the countries of the world. Therefore there is no scope of reliance on this method of old age protection in India too.

3. Life Insurance

There is yet another individual action which provides protection in old age. This is the method of purchasing life insurance policy by the individual himself. Strictly speaking, this is a type of investment of savings. Savings are motivated, as was observed, by various considerations and the old age protection is one of them. It is why an independent consideration of this institution is required.

Life Insurance is no substitute for old age social insurance; it only supplements the meagre benefits under the plan of social
security in case of those who can afford to purchase life insurance policies. Life insurance policy is generally purchased by those who are comparatively better-to-do than the poorest beneficiaries of old age insurance, the primary object of which is to protect the underdog. Moreover, social insurance is an omnibus provision covering all sorts of contingencies of life, economic and biological, whereas life insurance protects only old age and other allied contingencies like orphanhood and widowhood after the death of the chief bread-winner of the family. It is pertinent at this stage to examine the extent of protection provided by life insurance and the popularity enjoyed by this institution among the Indian masses.

In India, modern life insurance business came as a by-product of the British Rule which brought about far-reaching changes in the field of trade and commerce, particularly in the later half of the nineteenth century. Life insurance, which is the gift of modern industrialisation, envisaged to protect widowhood and orphanhood from the very beginning as is evident from the names of some early life insurance companies, such as Madras Widows (founded in 1833), the Bombay Family Pensions Fund for Government Servants (founded in 1848), the Tinnevelly Diocesan Council Widows' Fund (founded in 1849), the Bengal Christian Family Fund (founded in 1859) and the General Family Pensions Fund (founded in 1870). At present, life insurance is sold exclusively by the Life Insurance Corporation which came into being in September, 1956 after the nationalisation of the life insurance business in India. According to section 30 of the Life Insurance Corporation Act, 1956, the Corporation is to enjoy the monopoly of life insurance
business. However, certain other agencies such as Posts and Telegraphs Department are allowed to transact life insurance business in a defined sphere. The following table presents the life insurance business in India since 1950.

Table II.3
LIFE INSURANCE IN FORCE IN INDIA (1950-1958)
(In rupees crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Total business in force.</th>
<th>New Business Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>748</td>
<td>133</td>
</tr>
<tr>
<td>1951</td>
<td>877</td>
<td>149</td>
</tr>
<tr>
<td>1952</td>
<td>925</td>
<td>148</td>
</tr>
<tr>
<td>1953</td>
<td>970</td>
<td>156</td>
</tr>
<tr>
<td>1954</td>
<td>1,091</td>
<td>237.60</td>
</tr>
<tr>
<td>1955</td>
<td>1,128</td>
<td>240.51</td>
</tr>
<tr>
<td>1956*</td>
<td>-</td>
<td>187.69</td>
</tr>
<tr>
<td>1957**</td>
<td>1,374</td>
<td>277.67</td>
</tr>
<tr>
<td>1958</td>
<td>1,585</td>
<td>339.06</td>
</tr>
</tbody>
</table>

* Upto 31st August.
** From 1st September, 1956 to 31st December, 1957.

The above table shows clearly that total business in force has risen throughout the period under review. It amounted to only Rs 748 crores in 1950, but rose to Rs 1,585 crores by the end of 1958. The new business affected has also registered an
upward tone. The total business in force in India thus comes to about Rs 40 per capita, while per capita life insurance in other countries is much higher. It is about Rs 8,365 in the United States, Rs 6,647 in Canada, Rs 2,440 in Australia and Rs 1,840 in Great Britain. Low figure of life insurance business in force in our country studied in conjunction with the high price level becomes still more insignificant and thus the real protection seems still poorer.

The nationalisation of life insurance in 1956 was motivated by considerations that it will
(a) spread insurance habit among the people;
(b) co-ordinate private voluntary insurance with social security measures and national health, factory services and labour;
(c) make insurance cheaper to the community; and
(d) permit the utilisation of life insurance funds for the planned development of the country.

Prior to nationalisation, the percentage of population touched by this device of protection was very small. The insurance habit of Indian people was very poor. The insured population constituted only one percent of the total population of India. It protected only five per cent of Indian families, while eighty per cent of families are protected in the United States. In India, savings effected through life insurance are about one half of one per cent of estimated national income of the country while they are three per cent in U.K. and Australia and more than six per cent in the United States and Canada.

The proportion of life insurance premiums to total savings was
only about seven per cent in India, whereas it was 50 to 60 per cent in other countries. The amount of new business secured in the post-nationalisation years has risen steadily but for during 1956. Nevertheless the figures for that year relate to seven months only. An inspection of the above table discloses that the rise has been consistent throughout. Number of policies purchased has also increased from 30,25,000 in 1948 to 43,13,000 in 1954. But a period of three years which has passed since nationalisation is too short a period to assess the actual efficacy of incentives provided to the people for greater consumption of life insurance.

Under life insurance, protection against old age is provided by endowment policies under which the sum assured is either payable after the expiry of a specified period or on the death of the assured whichever is earlier. In addition to this, life annuities are also another means of protecting old age. Under this type of life insurance contract, the insured is paid in consideration of the "purchase money" annual sums on the attainment of a given age. In India, about seventy per cent of the number of policies are endowment policies. Joint-life and whole-life policies account for ten per cent and eight per cent respectively. The rest is apportioned between children's assurance and miscellaneous policies. But the sums assured present a different proportion under different types of life insurance contracts. The table on the next page shows the distribution of life insurance business over different types of policies.
Table II.4

DISTRIBUTION OF LIFE INSURANCE BUSINESS ACCORDING TO DIFFERENT TYPES OF POLICIES (for 1957 & 58)

<table>
<thead>
<tr>
<th>Distribution of policies</th>
<th>1957 Sums assured Rs crores.</th>
<th>P.C.</th>
<th>1958 Sums assured Rs crores.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>30.68</td>
<td>9.35</td>
<td>26.93</td>
<td>7.98</td>
</tr>
<tr>
<td>Joint-life</td>
<td>245.24</td>
<td>74.75</td>
<td>234.29</td>
<td>69.43</td>
</tr>
<tr>
<td>Whole-life</td>
<td>16.21</td>
<td>4.94</td>
<td>32.70</td>
<td>9.69</td>
</tr>
<tr>
<td>Children</td>
<td>13.02</td>
<td>3.97</td>
<td>17.14</td>
<td>5.08</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>22.93</td>
<td>6.99</td>
<td>26.39</td>
<td>7.82</td>
</tr>
<tr>
<td>Total</td>
<td>328.08</td>
<td>100.00</td>
<td>337.45</td>
<td>100.00</td>
</tr>
</tbody>
</table>


The above table exhibits that both sums assured and proportions of policies under joint-life and endowment contracts declined and the other types of insurance gained. The highest gain was marked in case of whole-life policies, the next highest being for Children's Assurance. This is clear, therefore, that this proportion of endowment is inadequate for appreciable protection of old age by life insurance in India notwithstanding the fact that the proportion of this type of contract has registered an increase. (Per capita endowment policies were only Rs 0.75 and Rs 0.63 respectively for 1957 and 1958).

The LIC has already introduced new schemes for the purpose of carrying life insurance to the doors of the poor
consumers. The new schemes of Janata Insurance, Group Insurance and Superannuation and the Salary Saving have been mainly organised for popularising life insurance in India, specially among the poor.

Janata scheme was instituted on 1st May, 1957 in Bombay, Ahmedabad, Delhi, Kanpur and Calcutta. At present, this scheme is working as a pilot project in the rural and industrial areas of Greater Bombay, Ahmedabad, Sholapur, Delhi, Rohtak, Kanpur, Calcutta, Silguri, Madras, Coimbatore, and Hyderabad. Under this scheme policies valued at small sums of Rs 250 can be purchased, the maximum amount of policies being Rs 999 only. In certain cases medical examination of the assured is waived and proof of age has greatly been simplified. No medical examination is required if the assured is below thirty-five. The authorised agents visit the homes of the policy-holders in order to collect the premiums, so that the entire procedure in the conduct of life insurance has been drastically simplified for this purpose, and much botheration has been saved to the assured. As a step towards further popularisation of these policies, policy forms and other documents have been printed in regional languages in order to make it understandable to the general public. The table on next page shows Zonewise business effected under the Janata scheme. Thus, all-India average per Janata policy was Rs 553.44. However, Central Zone had an average of Rs 561.07. No doubt, this is not an ambitious achievement and the figures show that only an insignificant fraction of population has purchased
Table II.5
ZONEWISE BUSINESS IN JANATA POLICIES
(December, 1957)

<table>
<thead>
<tr>
<th>Zones</th>
<th>No. of policies</th>
<th>Sums assured Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>3,185</td>
<td>20,91,977</td>
</tr>
<tr>
<td>Central</td>
<td>1,545</td>
<td>8,66,848</td>
</tr>
<tr>
<td>Eastern</td>
<td>6,858</td>
<td>37,70,423</td>
</tr>
<tr>
<td>Southern</td>
<td>3,039</td>
<td>13,36,690</td>
</tr>
<tr>
<td>Western</td>
<td>6,581</td>
<td>36,71,530</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21,208</strong></td>
<td><strong>1,17,37,268</strong></td>
</tr>
</tbody>
</table>


Group Insurance and superannuation schemes are meant for homogeneous groups of white-collar proletariat and factory employees. It aims to provide low-cost life insurance under one master policy. This scheme is a new introduction in India.

Salary Saving scheme is, as a matter of fact, a compulsory saving scheme. The employer pays the premiums on behalf of employees and deducts the appropriate sums from their salaries. During the eight months of 1959-60, over 19,000 surveys were conducted in U.P. The collections under this scheme averaged to Rs 160,000 per month.

Social security has made a beginning in India; but old age has not been protected. It is perhaps the realisation of this fact that the Government took measures to popularise life insurance. This can be popularised in regular income groups like industrial workers.
The efficacy of life insurance as a measure of old age protection may be judged with reference to the following criteria:

1. Insurable Capacity of the Nation;
2. Per Capit Life Insurance Consumption; and
3. Life Insurance Ratio.

Insurable capacity is the upper limit to which life insurance can be consumed. This depends on the size of national income on the one hand, and the insurance habit of the community on the other. The latter is itself governed by the capability of the community to save and the attraction offered by alternative channels of investment. As has already been pointed out, in less-developed countries, propensity to consume is very high. Therefore, a small proportion of national income is available for investment. Even this is possible due to existence of inequalities in individual incomes, which permits a saving in some cases and reduces others to utter poverty level.

According to the third round of National Sample Surveys conducted during August and November, 1951, the consumption expenditure in the towns averaged at Rs. 31.55 per capita per month. For bigger cities like Calcutta, Bombay, Madras and Delhi, it was as high as Rs. 54.82 per month. For the country as a whole, this average was Rs. 25.70. If this amount is assumed as a basis for calculations in U.P., the following information comes to light:
PER CAPITA INCOME AND EXPENDITURE IN U.P. (1950-51 to 1958-59)

Table II.6

<table>
<thead>
<tr>
<th>Years</th>
<th>Per capita income Rs</th>
<th>Per capita expenditure Rs</th>
<th>Expenditure as % of income</th>
<th>Capability to save p.c.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>257.66</td>
<td>308.40</td>
<td>119.7</td>
<td>-19.7</td>
</tr>
<tr>
<td>1951-52</td>
<td>242.20</td>
<td>309.40</td>
<td>127.3</td>
<td>-27.3</td>
</tr>
<tr>
<td>1952-53</td>
<td>240.12</td>
<td>308.40</td>
<td>128.9</td>
<td>-28.9</td>
</tr>
<tr>
<td>1953-54</td>
<td>229.76</td>
<td>308.40</td>
<td>135.1</td>
<td>-35.1</td>
</tr>
<tr>
<td>1954-55</td>
<td>208.79</td>
<td>308.40</td>
<td>147.7</td>
<td>-47.7</td>
</tr>
<tr>
<td>1955-56</td>
<td>212.23</td>
<td>308.40</td>
<td>145.3</td>
<td>-45.3</td>
</tr>
<tr>
<td>1956-57</td>
<td>230.29</td>
<td>308.40</td>
<td>133.9</td>
<td>-33.9</td>
</tr>
<tr>
<td>1957-58</td>
<td>227.26</td>
<td>308.40</td>
<td>136.1</td>
<td>-36.1</td>
</tr>
<tr>
<td>1958-59</td>
<td>255.89</td>
<td>308.40</td>
<td>120.5</td>
<td>-20.5</td>
</tr>
</tbody>
</table>

It is abundantly clear from the perusal of this table that the average population of Uttar Pradesh has a negative capability to save. Taking the case of workers covered under the Payment of Wages Act, 1936, that is to say those workers who were earning less than Rs. 200 per month, per capita daily incomes work out at Rs. 0.72, for all States in India if the average number of members per family is assumed to be five. The expenditure per person per day according to the above estimates works out at Rs. 0.86. Thus, in this case too,
the average capability to save remains negative, notwithstanding the fact that the average industrial workers are better off than the average population. Taking a mild view, it may be concluded that the average industrial worker has little insurable capacity in the sense that he can afford to purchase life insurance policies to a negligible extent, if at all.

The next criterion, the per capita life insurance consumption may stated to signify the extent to which life insurance has been practically successful as a measure of protection against the contingency of old age. In all the States of India, like other less-developed countries, per capita life insurance consumption is very low. It may be noted from the table No. II.7 appearing on the next page presenting per capita life insurance consumption of Indian population, that it is increasing since 1951, notwithstanding the increase in the population of the country. It was only Rs 24.22 per head of population in 1951 but later on rose to Rs 29.69 in 1955, which was the last year of private life insurance in India. In the two years that followed nationalisation, the improvement was greater. In 1957, per capita life insurance in force rose to Rs 35.23 and then to Rs 39.63 in 1958. Despite all this, per capita life insurance in force in India stands no comparision with the same in Western countries. In 1952, per capita life insurance in force in the United States was
Rs. 8,390. In the near future, it will be a fantastic target to achieve. But in the light of the measures taken for the popularisation of life insurance in India, it may be hoped that an encouraging future lies ahead, the foreshADOWINGS of which are already visible.

Turning to the third criterion of Ratio of Life Insurance Consumption, the actual protection provided by this technique may be gauged. The ratio of life insurance consumption is the percentage which the new life insurance business secured bears to the volume of national income in a given year. The following table presents the life insurance consumption ratio in India. This table shows that life insurance business

<table>
<thead>
<tr>
<th>Years</th>
<th>Life insurance in force Rs. crores.</th>
<th>Population crores life insurance in force Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>877</td>
<td>36</td>
</tr>
<tr>
<td>1952</td>
<td>925</td>
<td>37</td>
</tr>
<tr>
<td>1953</td>
<td>970</td>
<td>37</td>
</tr>
<tr>
<td>1954</td>
<td>1,091</td>
<td>38</td>
</tr>
<tr>
<td>1955</td>
<td>1,128</td>
<td>38</td>
</tr>
<tr>
<td>1956</td>
<td>-</td>
<td>--</td>
</tr>
<tr>
<td>1957</td>
<td>1,374</td>
<td>39</td>
</tr>
<tr>
<td>1958</td>
<td>1,585</td>
<td>40</td>
</tr>
</tbody>
</table>
Table II.8
LIFE INSURANCE CONSUMPTION RATIO IN INDIA.

<table>
<thead>
<tr>
<th>Years</th>
<th>National Income (Rs crores)</th>
<th>New life insurance business. Rs crores</th>
<th>Marginal life insurance consumption. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>9,400</td>
<td>133</td>
<td>1.52</td>
</tr>
<tr>
<td>1951</td>
<td>9,860</td>
<td>149</td>
<td>1.51</td>
</tr>
<tr>
<td>1952</td>
<td>9,858</td>
<td>148</td>
<td>1.50</td>
</tr>
<tr>
<td>1953</td>
<td>10,315</td>
<td>156</td>
<td>1.52</td>
</tr>
<tr>
<td>1954</td>
<td>9,328</td>
<td>237.60</td>
<td>2.55</td>
</tr>
<tr>
<td>1955</td>
<td>9,895</td>
<td>240.51</td>
<td>2.45</td>
</tr>
<tr>
<td>1956</td>
<td>11,050</td>
<td>197.69</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>11,323</td>
<td>277.67</td>
<td>2.45</td>
</tr>
</tbody>
</table>

* Figures have been adjusted to calendar years.

secured varies between 1.50 per cent to 2.55 per cent of the national income of the years concerned. The highest ratio was recorded in 1954 when it was 2.55% of the national income. This percentage was the result of a sudden rise in the new life business secured from Rs 156 crores in the preceding year to Rs 237.60 crores in this year. In the following year, the ratio fell again to 2.43 per cent. Although the ratio rose to 2.45 during 1957, the figures were for seventeen months. However, the combined ratio for the years 1956 and 1957 is 2.04 which is less than the ratio for the year 1955. The modal ratio, however, was 1.52 per cent but the trend is more or less constant except for the sporadic errruptions.
during 1954 and 1955. It may be noted that this ratio was 2.8 in the United Kingdom and 6.0 in the U.S.A.¹

These observations lead to the inference that life insurance has been enjoying little popularity in our country. The measures taken to carry insurance to the doors of the prospective consumers may not do away with the need to cover the aged under a cloak of social security. Moreover, in Western countries like U.K. and Canada or U.S.A., need for social security could not be ruled out in spite of the great popularity enjoyed by life insurance in these countries. Hence, it may be concluded that life insurance is no substitute for old age insurance in India. The conclusion is equally applicable to conditions in U.P. Hence, life insurance protection cannot replace old age insurance in the State and country both.

C. GOVERNMENT SCHEME

In all the schemes discussed above, either the Government does not participate at all or it participates to the extent of passing legislation or providing supervision. But, however, the U.P. Government instituted an Old Age Pension scheme which is an objective manifestation of the interest the Government should take in the welfare of the aged. In fact, it is entirely a new milestone installed in India for the first time on the road leading to the realisation of socialistic pattern of society, which she has chosen for her goal.

It has been rightly stated in the preface introducing the scheme: 'It is difficult to earn living in old age, hence it has been considered an immediate need that those aged seventy years or more and incapable of earning their living and those having no other means of subsistence must necessarily be given some financial assistance.' With this end in view, the scheme was instituted in order to grant pensions to such persons with effect from December 1, 1957. The Uttar Pradesh Government leads other States of the Indian Union in the institution of a social assistance scheme for the amelioration of the conditions of the aged.

The eligibility for assistance under this scheme rests, primarily, on age, destitution, and residence conditions. In order to qualify for benefit, the beneficiary
(a) must be aged seventy years or more,
(b) must be a destitute, and
(c) must be a resident of Uttar Pradesh for at least one year before the date of application for the award of pension.

A destitute has been defined as a person who has no source of income and who has no 'liable relation' specified hereunder, aged twenty or more:
(i) a son, a son's son, a son's wife;
(ii) real brother, son of a real brother, wife of a real brother;
(iii) married daughter, daughter's son (such relations will be considered only if the local, religious, community and social customs permit dependence upon them);

1. Translated from the Hindi Pamphlet issued by the U.P. Govt.
(iv) husband, wife, real brothers of husband;
(v) married sister, son of a sister; and
(vi) son of father’s real brother.

The applicant shall also be treated a destitute if all the relations described above happen to be
(a) above seventy years of age and having no income of their own,
(b) totally incapacitated to earn their living, such as the blind, the lepers, the lunatics and the crippled,
(c) untraceable for the last seven years and in such cases as the District Magistrate is satisfied after necessary enquiry that they are untraceable.

If there is only one living relation viz. wife, the husband shall be treated as destitute if her age is sixty years or more.

In case of lunatics and idiots, the District Magistrate is authorised to appoint guardians whom the amount of pension may be remitted. However, sadhus, beggars and the inmates of orphanages and poor houses maintained free will not be considered to be destitutes.

The applications for the award of pensions shall be submitted in Form OAP I in duplicate to the Tehsildar of the tesil in which the destitute ordinarily resides. Application forms are obtainable from the Gram Panchayats, Tesils or the offices of Town Areas and notified areas. On the receipt of application for the award of Old Age Pensions, the Tehsildar verifies age, domicile, residence and the economic conditions of the applicant. Such enquiries are made with the help of entries in the National Register of Citizens.
The Tehsildar is required to make a list of all applicants for the grant of pension on Form OAP II. In the rural areas, the Tehsildar may make enquiries with the help of the Lekhpal in order to verify the contents of the applications. In urban areas, the Municipal Medical Officer of Health concerned or where there is no such Officer, the District Medical Officer of Health shall render necessary assistance in verification of the applications. In case the name of the applicant does not appear in the National Register of Citizens of the area concerned, or his age mentioned therein differs from the one given in the application, the Tehsildar may verify these particulars from other sources and forward the application to the District Magistrate who also maintains a list of such applications in Form OAP III. After examining the applications received from the Tehsildar, he sends his recommendations to the Labour Commissioner of Uttar Pradesh stationed in Kanpur, in Form OAP IV. The Labour Commissioner is the sanctioning authority of pensions. He allots a separate number to each pensioner. The final award is communicated to the District Magistrate, the Tehsildar and the applicant. The Tehsildar makes six-monthly verifications of the pensioners if they are alive, and also if they continue to be a destitute as defined in the scheme.

The pensions granted under the scheme are of two types: Life Pensions and Limited-term Pensions. The former is payable till death of the beneficiary and the latter is paid till the attainment of twenty years of age by certain liable relations. The amount of pension is remitted by Money Order.
Ordinarily, the amount of pension is remitted quarterly, but the Government can direct to make payments at shorter intervals. In case of non-receipt of the pension on due date, the Labour Commissioner must be informed accordingly within a reasonable time. The amount of pension has been fixed at fifteen rupees per month. On the death of the beneficiary, the payment of pensions is stopped. Under special circumstances, however, the heirs of the beneficiary may receive the payment.

As an exhibit of the old relics of the English Poor Laws, the beneficiary is required to maintain good moral character for the continuance of his title to pensions.

The report of the running of the scheme shows that up to the end of August 1959, in all 6,448 applications for the award of pensions were received of which 5,449 cases were sanctioned and 710 cases were finally rejected. The remaining 289 applications were under consideration. It may be noted that the scheme is very modest. In the first instance, the amount of pension is low for the maintenance of the beneficiary, at least at the current level of prices. Again, the test of destitution is very harsh and the list of liable relations is almost exhaustive. Some of them are not liable to maintain their aged relations under any moral code or social custom. Thus, the real brother may have some compassion for his aged destitute brother, but his wife may not be so considerate. Moreover, in view of the high cost of living in industrial cities and urban localities, disintegration of the joint-family system and individualistic way of living in urban and industrial communities which are certain hard
facts of the modern society, it seems that they have been disregarded in framing the scheme outright. It may also be noted that 70 years of age is an advanced age of senility. Though it may be argued that it is in keeping with the international practice for the grant of assistance pension yet considering the low expectation of life in India, poor nutrition available to the majority of population, lack of subsidiary employment opportunities and low income of the Indian population, the age needs be reconsidered. It should be preferably lowered to 65 years.

At this stage, one should not lose sight of the cost factor. Thus, according to 1951 census data, the population aged 65 or more was 3.2% of the total population. This shows that about 128 lakhs aged will be eligible for the grant of pensions if the age is lowered by five years (according to the present estimates of population at 40 crores). Number of persons eligible in U.P. will be about 24 lakhs. If the proportion of aged population actively engaged in production is taken to be 78.5 per cent¹, the persons eligible for being inactive aged will be about 23.20 lakhs in India and 5.18 lakhs in U.P. If, however, the actively engaged aged are taken to be 62.5 per cent² (and this seems more approximate to facts in India), the number of persons eligible for pensions at that age will come to 48 lakhs and 9 lakhs in India and U.P.

1. Vide: The Aging of Population and Its Economic and Social Implications (United Nations Department of Economic and Social Affairs, New York, 1956), table 31, p 57. I have adopted the proportions applicable to undeveloped and semideveloped countries for my calculations in view of the economic situation in India.

2. Ibid. India is more a semideveloped country than an undeveloped country
respectively. The following table presents these results for visual inspection:

Table II.9

PROPORTION OF INACTIVE AGED POPULATION IN INDIA AND U.P. AND COST OF PENSIONS AT Rs. 15 p.m. PER CAPITA

<table>
<thead>
<tr>
<th>Total population (in lakhs)</th>
<th>India</th>
<th>U.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000.00</td>
<td>750.00</td>
<td></td>
</tr>
<tr>
<td>Aged 65 or more</td>
<td>128.00</td>
<td>24.00</td>
</tr>
<tr>
<td>Active Aged(^a)</td>
<td>100.48</td>
<td>18.82</td>
</tr>
<tr>
<td>Active Aged(^b)</td>
<td>80.00</td>
<td>15.00</td>
</tr>
<tr>
<td>Inactive Aged(^a)</td>
<td>27.52</td>
<td>5.18</td>
</tr>
<tr>
<td>Inactive Aged(^b)</td>
<td>48.00</td>
<td>9.00</td>
</tr>
<tr>
<td>Cost of Pensions(^a) (Rs lakhs)</td>
<td>4,563.60</td>
<td>932.60</td>
</tr>
<tr>
<td>Cost of pensions(^b) (Rs lakhs)</td>
<td>842.90</td>
<td>162.90</td>
</tr>
</tbody>
</table>

\(^a\) At 78.5 per cent of the aged population engaged actively in production.

\(^b\) At 62.5 per cent of the aged population actively engaged in production.

N.B. Population figures according to the estimates of Central Statistical Organisation for the year 1959 (mid-year) were 415 millions including the population of Jammu and Kashmir. Allowance given for the Jammu and Kashmir population has been taken at 400 millions. Likewise, the population of Uttar Pradesh has been assumed to be 75 millions. There may be a difference of a few lakhs on either side, but the approximate figures will do for a rough calculation as they are easy to handle.
Thus, according to the estimates applicable to undeveloped economies, the pension will cost Rs. \(49,536\) lakhs in India and \(931,60\) lakhs in U.P. According to the estimates applicable to semi-developed economies, the cost will be Rs. \(720\) lakhs in India and Rs. \(135\) lakhs in U.P. This represents only 0.007 per cent and 0.006 per cent of the revenue expenditure of the Union Government according to budgeted estimates for the year 1957-58, and 0.007 per cent and 0.007 per cent of the revenue expenditure of U.P. according to the budgeted estimates for the year 1958-59. Although this is a negligible proportion of the total Government budget, yet, from other points of view, social assistance is not preferable to provide old age protection.

D. RECOMMENDATIONS OF THE STUDY GROUP ON SOCIAL SECURITY

Government are nevertheless, taking active interest in thinking out a plan for providing old age security. With this end in view, inter alia, a Study Group on Social Security (later referred to as the Group) was set up by the Central Ministry of Labour and Employment on 3rd August 1957.

(a) to examine the experience gained by the working of social security schemes already in operation;

(b) to study how these schemes and any other privileges given to workers could be combined in a comprehensive social security system;

(c) to work out administrative details of such an integrated scheme;

(d) to examine whether, without any appreciable increase in the total liability of employers and workers, additional
advantages can be given to the working class; and
(e) to examine and make recommendations regarding conversion
wholly or partly, of the present provident funds into a suit­
able pension scheme as envisaged in the Second Five Year Plan.
It is only the last term of reference that concerns this
discussion directly at this stage.

The Group observe that Provident Funds have "proved a
real boon to the workers covered thereby, in the form of pro­
vision for old age." But in their opinion, provident funds
are not preferable to a regular pension scheme. Therefore,
"A scheme of Old Age, Invalidity, and Survivorship Pension-
cum-Gratuity is recommended for adoption." For this they
recommend the conversion of Provident Funds into Pension
Funds. In order to augment the resources for paying pensions
of reasonable amounts, they favour:
(i) an increase in workers' contributions to Provident Funds
from 6.25 per cent to 8-1/3 per cent. It should be given
immediate effect.
(ii) A year of contribution at the existing rate of 6½ per
cent should be taken only as nine months' for reckoning the
length of contribution period completed.
(iii) They have laid down that for transitional arrangements,
rates for the factories should be as follows:
(a) For the factories in which the workers would be eligible
for the benefits under the ESI scheme, the maximum rate
under the said scheme viz. 4- 2/3 per cent of the wage-
bill by the employer and 2-1/3 per cent by the employees

2. Ibid.
should be given immediate effect.

(b) For factories in which the employees will be eligible only to benefits under the proposed scheme of Old Age, Invalidity and Survivorship Pension-cum-Gratuity, (OAIS) their rates of contribution under the EPF scheme should be raised to 8-1/3 per cent of the wage bill both for the employer and the employee;

(c) For the factories in which the employees will be covered for full range of benefits under the ESI, and OAIS Pension schemes, the full rates of contributions shall be 13 per cent and 10-2/3 per cent for employers and employees respectively.

(d) In addition to this, the employers will be liable to pay an administrative charge not exceeding 0.4 per cent of this wage bill in cases under (b) and (c). There will be no such levy under (a). It may be noted that the employers are already paying administrative charges under the EPF scheme.

For administration, they recommend integration of the existing schemes of ESI and EPF. They opine that, "the sooner the administrative integration can be affected, the better it may prove for future smooth working." 1

The scheme proposed by the Group envisages the following benefits:

(a) Pension. This benefit will be available to (i) persons aged 60 (55 for women) with 15 years' service record, (ii) persons certified to be invalid after completing at

1. Op. Cit. para 68
least five years' service. These beneficiaries will be granted life pensions provided that they entered employment before the age of 45 years. Pension would be calculated at the average of last five years' wages multiplied by $\frac{1}{80}$ of the number of years of qualifying service, provided that the maximum fraction will be $\frac{35}{80}$ ($\frac{30}{80}$ for women), and the minimum $\frac{20}{80}$. Those who enter employment after the age of 45 years will only be entitled to the return of their own contributions together with employers' contributions plus interest on the accumulated balance at the rate of 3 per cent per annum. This amount may be paid in instalments.

(b) Survivorship Benefit would be payable to the family of the deceased (i) dying after putting in five years' qualifying service, (ii) dying while in receipt of the retiring or invalidity pension under the scheme.

(c) If the insured postpones retirement after age sixty (55 for females) his contributions will be reduced accordingly but no credit except the receipt of non-pensionary benefits will be allowed to him in respect of his additional service period.

(d) Gratuity will be payable in case of retirement after twenty years of qualifying service at the rate equal to four months' wages calculated at the average of last five years' wages. For retirement after twenty-five years of service, gratuity benefit will be increased to six months' such wages.

(e) Withdrawal Benefits. Before attaining the age of fifty, if the employee leaves insurable employment, he will be entitled to the following percentages of wages for the period
for which contributions were paid:

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Percentage of wages returnable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>8</td>
</tr>
<tr>
<td>1-15</td>
<td>10</td>
</tr>
<tr>
<td>15-25</td>
<td>12</td>
</tr>
<tr>
<td>over 25</td>
<td>15</td>
</tr>
</tbody>
</table>

Entrants after age 45 (40 for women) who so opt out even after the age fifty, will also be eligible for this benefit.

A look on these recommendations shows that public opinion as well as expert opinion is on the side of old age protection. With regard to the stages of introduction of such scheme, the recommendations are well thought out. Since the workers are willing to contribute and they are already contributing to the EPF scheme, it will not jeopardise their living standards to pay the contributions. The rates of contributions are also moderate. However, the maximum benefit under the proposed scheme will be only 35/80 of the average wages of the last five years. If the worker enters employment at the age of twenty and contributes for forty years regularly, he should have been entitled to 50 per cent of the wages had there been no maximum limit. It may be mentioned here that the pensions allowed in socialistic countries range from sixty per cent of wages in Czechoslovakia to 100% in certain cases in the U.S.S.R. and Yugoslavia. If the contributions at the rate of 16-2/3 per cent of wages are accumulated for forty years (without interest) payment of pension (alone) exclusive of other retirement benefits will be possible
at 66.67 per cent of the wages (assumed to be constant) for ten years. However, if the wages are supposed to increase, as they do, with the length of service and other elements of benefits to survivors etc. is taken into account, payment upto 50 per cent of wages does not seem impossible. But the non-payment of contributions due to excusals and the payment of pensions at the average of last five years of wages which are the highest one earns in his working life, call for a lower percentage. However, it is an actuarial problem, which may be left to actuaries; but on an actual working of the scheme, experience may be gained. It will show whether the raising of the maximum benefits is practicable at the existing arrangements.

Moreover, the Group have recommended the conversion of the existing Provident Fund schemes into one of pensions. This is to obviate the practical difficulties and avoid the resistance of the employers in its initial stages. As the Group seem to envisage, the proposed scheme should be extended to all industrial undertakings according to a schedule. The most vital point in implementing a scheme of social security is the problem of finance. The existing scheme of EPF does not require Government contribution. This follows that Government are excused of any financial responsibility under the proposed scheme of the Group too. The Group seems to be very cautious not to touch the purse of the Government. They had, perhaps, to proceed on a priori ground that the Government are not going to contribute to the scheme. I propose to discuss in detail the financial liabilities of the various parties of social insurance including the Government. Hence
the discussion may be postponed at this stage.

SUMMARY AND CONCLUSIONS

To sum up the foregoing discussion, there are some buttress of old age protection in U.P. EPF scheme is a contributory scheme, but is not an ideal measure of protection against old age. It is neither social insurance nor a social assistance measure. Employers' contributory schemes voluntarily instituted by them stand at par with the EPF scheme. Of non-contributory measures, private savings are, no doubt, the first line of defence against all economic contingencies. But the low earnings of the industrial workers, high cost of living, gradual disintegration of the joint family system, large team of dependents per industrial employee are the factors that reduce saving margin. Thus, it cannot be relied to protect old age. Mutual insurance which is a co-operative device has been outdated now and it cannot be revived advantageously in this country due to its inherent weaknesses. Due to financial difficulties, trade unions cannot afford to provide this insurance. Life insurance also provides against old age. It is only popular in the regular-income class and lettered people. At the best, it is a supplement but not a substitute to old age insurance. Our industrial workers have low insurable capacity. In the countries where it is much popular, it could not replace old age insurance. Hence, it cannot be relied upon here too. The Old Age Pensions scheme of the U.P. Government provides protection against destitution. This scheme suffers from
all the defects of a non-contributory Government scheme, in addition to being inadequate and limited in coverage. Old Age Pension being a costly scheme, its unilateral finance will place undue burden on the general tax-payer.

In 1958, the Study Group on Social Security have recommended the conversion of the existing EPF scheme into one of old age insurance scheme. However, the existing EPF scheme is financed by the employers and the employees and the Government does not share the cost. Since the finance is the most important problem related to social insurance, I propose to discuss the technique of finance which may be adopted for old age protection in India and the parties that should contribute to the cost of the scheme. This forms the subject-matter of the next Chapter.
PART TWO

COST IMPLICATIONS OF OLD-AGE INSURANCE
CHAPTER III
FINANCIAL IMPLICATIONS OF OLD AGE SECURITY

In the previous Chapter, I dealt with the necessity of old age protection in U.P. in view of the growing industrial population, developmental plans and India's pledge for the establishment of a socialistic pattern of society free from want, hunger and disease. I concluded that at the moment, all the available sources do not suggest as reliable sources for the protection and amelioration of the conditions of the aged population. The recommendations of the Study Group for the conversion of the EPF scheme into one of old age pensions, laid down for the joint contributions of the employers and the employees. The present Chapter is an attempt to analyse the technique of finance for the protection of old age contingency.

A discussion of the international practices will be useful to review the matter of finances of the schemes of old age security abroad. I have chosen to discuss those countries which are model ones either as regards the origin and development of the scheme of social insurance or of social assistance or have some novelty in the coverage technique. Thus, Germany is the model country from the point of view of the origin of the scheme; Australia provides an example of the blanket coverage with a peculiar technique of finance; U.K., U.S.A. and France are obviously important with regard to development of old age security and also with regard to their international prestige. USSR is the model socialist Republic. Among Asian nations, I have chosen Japan for her comparative
higher economic development. This will serve to assess the consensus of opinion in this behalf and also serve as a useful beacon to light the way for our own guidance in determining the financial liability of old age protection.

In Germany, which is the birthplace of social insurance, there was a tendency to distribute the cost of old age pension on the beneficiaries and the employers in equal proportions with a supplementation of a state subsidy at the rate of fifty marks yearly for each pensioner. With the passage of time, the consensus of opinion is now established on the side of distributing financial burden over the beneficiaries, their employers, if any, and the State. During the financial year ending December 31, 1954, pensions for wage earners, salary earners and miners were financed by contributions from the beneficiaries, their employers and the State in the following manner:

Table III.1
THE TRIPARTITE CONTRIBUTIONS FOR GERMAN OLD AGE INSURANCE
(1954)
(Amount in million Reichmarks)

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Wage Earners</th>
<th>Salary Earners</th>
<th>Mine Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>The insured</td>
<td>1,760</td>
<td>34</td>
<td>940</td>
</tr>
<tr>
<td>The employers</td>
<td>1,632</td>
<td>31</td>
<td>638</td>
</tr>
<tr>
<td>State</td>
<td>1,488</td>
<td>28</td>
<td>465</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>347</td>
<td>7</td>
<td>119</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,227</strong></td>
<td><strong>100</strong></td>
<td><strong>2,162</strong></td>
</tr>
</tbody>
</table>

In Germany, there are also schemes of pensions for civil servants and military men which are financed unilaterally by the State. Incidentally, State is the employer too in such cases. Therefore, such schemes may best be called bipartite schemes financed by the employers and the State. This shows that the schemes of social insurance operating in the Federal Republic of Germany are mostly financed by the employees, their employers and the State. However, the civil and military pensions can be either said to have been unilaterally financed by the employers alone or the State alone or by the two in collaboration with each other. The military services and civil services have never been treated at par with the industrial employment for social insurance purposes in any part of the world. Military pensions are the oldest pensions which the State organised for the benefit of the soldiers. In industrial employees' cases, it is clear, that the State is a participant in the cost and it bore a sizeable proportion of cost in Germany.

In Australia, pensions are a part of the integrated scheme of social insurance (or social assistance) and welfare programme under which the benefits are paid out of a consolidated National Welfare Fund. During the year ending 30th June 1954, the Fund for social insurance and assimilated schemes amounted to £A. 206.604 million of which the State and other public authorities bore £A. 179.838 million or more than 87 per cent. The employers and the insured shared £A. 24.054 millions and £A. 0.411 millions respectively which formed about 11.6 per cent and 0.2 per cent respectively.
of the total cost. The rest was made up from the income from investments. Strictly speaking, the National Insurance has been financed in Australia by appropriation from the Consolidated Revenue equal to the expenditure of the Fund. As a matter of fact, social insurance programme is financed in Australia from the revenues of a graduated tax levied on taxable incomes and collected with the incometax.

A classification of the National Insurance and Assimilated Schemes shows that during the year under review, it included National Welfare Fund, Coal Miners’ Pensions, Coal and Oil-shale Mine-workers’ Compensation Subsidy Fund (applies in New South Wales only) and Workmen’s Compensation for general and coal mining workers. The National Welfare Fund is a consolidated fund making provision for sickness, unemployment, maternity, funeral allowance, old age, invalidity and survivorship pensions, special benefits, family allowances, medical benefits and rehabilitation. The entire fund amounting to £A. 181.751 m. was contributed by the State and income from investments (£A. 179.657 m. and £A. 2.094 m. respectively.). Coal miners' schemes are financed by tripartite contributions from the insured persons, their employers and public authorities. The other schemes are financed by employers alone. It may be said, therefore that social insurance proper has been financed by general tax-payer and, in this way, is a social assistance measure. Other schemes are not directly related to this analysis. But since a proportion of income tax is earmarked for the purpose of financing these measures,

1. I.L.O. The Cost of Social Security, p 22, footnote 2
the technique involves an element of social insurance.

In the United States, the scheme of Old Age, Survivorship and Disability Insurance (OASDI) is financed from the contributions by the employers and the beneficiaries. In case of employed beneficiaries, their annual earnings up to a maximum of only $4,800 are subject to social security tax; any sum earned beyond this amount is ignored. The rate of contributions for the employee in 1959 was 2½ per cent of their earnings and their employers paid an equal sum on the first $4,800 paid as wages, to each employee individually during the course of a year. The self-employed persons who are also covered under the scheme pay at a higher rate equal to one-and-a-half times the rates applicable to other employees. The law provides that the tax rates will gradually increase from a combined employer-employee rate of five per cent in 1959 rising ultimately to nine per cent in 1969. The following is the schedule of the contributions applicable in different years under the present law:

<table>
<thead>
<tr>
<th>Years</th>
<th>Contribution Rates</th>
<th>Employees</th>
<th>Employers</th>
<th>Self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>2½</td>
<td>2½</td>
<td>3½</td>
<td></td>
</tr>
<tr>
<td>1960-62</td>
<td>3</td>
<td>3</td>
<td>4½</td>
<td></td>
</tr>
<tr>
<td>1963-65</td>
<td>3½</td>
<td>3½</td>
<td>5½</td>
<td></td>
</tr>
<tr>
<td>1966-68</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>1969 and thereafter</td>
<td>4½</td>
<td>4½</td>
<td>6½</td>
<td></td>
</tr>
</tbody>
</table>
It is clear, therefore, that the United State Government does not take active participation in the financing of OASDI scheme. The Federal Government, however, bears the entire cost of Old Age Assistance scheme in collaboration with the State Governments.

In Great Britain, the National Insurance scheme which comprises of widowhood (death of the breadwinner); old age (retirement pension); maternity; orphanhood (guardianship benefits); and funeral (death) grants, is supported by contributions from the protected persons, their employers (if there are any), and the State. The rates of contributions are estimated to meet the cost of benefits if all protected persons had begun to be insured at the age of sixteen years. The insured pay flat rate contributions as follows:

Table III.3
FLAT-RATE CONTRIBUTIONS UNDER BRITISH NATIONAL INSURANCE SCHEME

<table>
<thead>
<tr>
<th>Type of insured</th>
<th>Men over 18 (Weekly rates)</th>
<th>Women over 18 (Weekly rates)</th>
<th>Boys under 18 (Weekly rates)</th>
<th>Girls under 18 (Weekly rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed persons</td>
<td>5 7</td>
<td>4 5</td>
<td>2 3</td>
<td>1 2</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>7 7</td>
<td>6 6</td>
<td>4 4</td>
<td>3 3</td>
</tr>
<tr>
<td>Unemployed</td>
<td>5 8</td>
<td>4 6</td>
<td>3 3</td>
<td>2 2</td>
</tr>
<tr>
<td>Employers' share</td>
<td>5 4½</td>
<td>4 5½</td>
<td>3 1½</td>
<td>2 6½</td>
</tr>
<tr>
<td>Central Governments' share to: Employed</td>
<td>1 10</td>
<td>1 6</td>
<td>1 10</td>
<td>0 10</td>
</tr>
<tr>
<td>Central Governments' share to: Self-employed</td>
<td>2 6</td>
<td>2 2</td>
<td>1 5½</td>
<td>1 3</td>
</tr>
<tr>
<td>Central Governments' share to: Unemployed</td>
<td>1 10</td>
<td>1 6</td>
<td>1 1</td>
<td>0 10½</td>
</tr>
</tbody>
</table>

N.B. Unemployed persons are eligible for all other benefits but not for unemployment compensation. Therefore, they pay lower rates of contributions.
In Great Britain too as in the United States, the Central Government bears the entire cost of non-contributory pensions and family allowances, and above its contributions in the contributory programmes.

The above arrangement has been recently modified in response to the long overdue change demanded for graduated contributions and benefits. The National Insurance (Amendment) Act 1959, introduced a new system. For the first time, Great Britain departed from the principle of flat-rate system unrelated to earnings. The new law superimposes on the old system a graduated system under which contributions and benefits are related to wages. The new graduated scales of contributions for adult employees will be as follow:

Table III.4

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Flat Rate</th>
<th>Graduated Rates</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
<td></td>
</tr>
<tr>
<td></td>
<td>£ s d</td>
<td>£ s d</td>
<td>£ s d</td>
</tr>
<tr>
<td>£ 3 or less</td>
<td>3 0 2</td>
<td>10 2</td>
<td>3 0 2</td>
</tr>
<tr>
<td>3 to 9</td>
<td>5 9 5</td>
<td>4 9</td>
<td>5 9 5</td>
</tr>
<tr>
<td>10</td>
<td>5 9 5</td>
<td>4 9</td>
<td>6 7 6</td>
</tr>
<tr>
<td>11</td>
<td>5 9 5</td>
<td>4 9</td>
<td>7 5 7</td>
</tr>
<tr>
<td>12</td>
<td>5 9 5</td>
<td>4 9</td>
<td>8 3 7</td>
</tr>
<tr>
<td>13</td>
<td>5 9 5</td>
<td>4 9</td>
<td>9 2 8</td>
</tr>
<tr>
<td>14</td>
<td>5 9 5</td>
<td>4 9</td>
<td>10 0 9</td>
</tr>
<tr>
<td>over 15</td>
<td>5 9 5</td>
<td>4 9</td>
<td>10 1 0</td>
</tr>
</tbody>
</table>


N.B. Employers' contributions are equal to that of the employees save that for employees earnings less than £3 a week, their employers contribute at the rate of 8s.5d. for men and 7s.10d. for female employees.
It is evident, therefore, that the superstructure of social insurance schemes has been raised in Great Britain on the basis of tripartite contributions from the insured, their employers (if any), and the State. Pensions, which are contributory as well as non-contributory, are financed on the social insurance lines, and the social assistance pattern respectively. In other words, all contributory schemes are financed by the insured, the employers and the State; and all non-contributory schemes are State-financed.

In the U.S.S.R., social insurance and pension schemes are unilaterally financed by factories and offices which are the chief employing institutions. The employee has to contribute nothing. Members of the collective farms get their pensions from funds specially earmarked for this purpose and financed by collective farms themselves out of their collective income. This feature of social insurance finance is more or less prevalent in all socialistic countries. For example, in China Peoples' Republic, Labour Insurance is financed by employers or owners of employing institutions. A tax is levied on payroll at the rate of three per cent of which 70 per cent is utilized for the payment of current expenses of pensions, allowances and relief payments; the remaining 30 per cent is made over to the All-China Federation of Labour for financing communal labour insurance. The

* Communal labour insurance includes the provision of overnight sanatoria, special diets to needy persons, organisation of rest homes, orphanages and other facilities. For further details, see Labour Insurance in New China, (Peking, 1953, Foreign Languages Press).
employee is not required to contribute to the finances of the scheme. In Czechoslovakia too, the State participated in the finances of social security. Expenditure of social insurance claims one-third of the total State budget.¹

In France, the social security scheme is financed by tripartite contributions from the employers, the employees and the State. Under the Decree No. 58-1436 dated December 1, 1958², the maximum assessable income for the purpose of social insurance and employment injury contributions has been raised from 600,000 francs to 660,000 francs per annum. Employers are required to pay 12.5% (previously 10%) of their wage bill and the employees contribute at the rate of six per cent. For seamen, the full rate has been fixed at 18.75 per cent with 11.25 per cent as employers' and 7.50 per cent as employees' contributions. In case of civil servants' social security scheme, the State share has been raised from 2.5 to 3.5 per cent. The figures for the calendar year 1954 disclosed that under the scheme of social insurance for employees in industry and commerce, the insured paid 192,806 million francs out of a total receipt of 609,321 m. francs, the share of the employers being 393,011 m. francs, and that of the State and other public bodies 18,083 m.

francs. This works out at 31.7%, 64.5% and 2.9% for the employees, the employers and State respectively. The rest was contributed by other sources of income including interest on investments. Thus, the State’s share in the finances is nominal. The employers and the employees share the cost in proportion of 2:1 roughly. This proportion resembles the cost structure under the ESI scheme under which the shares of the employees and the employers have been fixed at 2-1/3 % and 4-2/3 % of the insurable wages of the workers respectively.

Among the Asian nations, Japan has an integrated scheme of social insurance which provides, inter alia, for welfare pensions. There is another scheme of public employees’ pensions. State participation in the finance of the two schemes is modest. During the financial year ending 31st March, 1955, total receipts on account of welfare pensions amounted to 36,707 m. of which the insured contributed 14,785 million or about 47.5%, their employers contributed an equal sum. The rest 4.5% was borne by the State. In case of public employees pensions, the State participated to the extent of 78,355 m. The percentage contribution made by the State works out at 92% and that of the insured persons at about eight per cent.

In Turkey, employers and employees shared equally during the financial year ended December 31, 1954. They contributed £T. 29,729 m. each out of a total receipt of £T. 63,557 m.

2. The Cost of Social Security, p 86.
i.e. about 47 per cent each; the rest was contributed by the State and other sources of income.

The foregoing survey reveals that according to the technique of finance, old age social security schemes can be classified into the following types:

(i) Employer-employee-State financed,
(ii) Employer-employee financed,
(iii) Those financed by the employers alone,
(iv) Those financed by the State alone.

In India, as a passing reference was made in the Second Chapter, the following schemes of social security are in operation:

(a) Workmen's Compensation Scheme;
(b) Employees' State Insurance Scheme;
(c) Employees' Provident Fund Scheme;
(d) Maternity Benefit Schemes; and
(e) Coal Mines Provident Fund Scheme.

These schemes are all-India schemes except the Maternity Benefit scheme which is State-wise. U.P. also has such legislation and other schemes are implemented in U.P. but for the last one. However, schemes (a) and (d) are financed by the employers alone. Neither the employees nor the State contribute to the cost of the scheme. This resembles the social security model of socialistic countries. The financial structure of the ESI scheme rests on employee-employer participation. This is patterned on the American model. However, the State Governments bear one-fourth of the cost of medical benefits provided to the beneficiaries, but in so far as the cost of cash benefits is concerned, the State is dormant.
According to Section 42 (1) to the ESI Act, 1948, "No employees' contribution shall be payable by or on behalf of an employee whose average daily wages are below one rupee." Other employees are required to pay contributions at the rates specified in the Schedule I to the Act. The collection period has been fixed at six months or 26 weeks but the contribution period is a week. The rates of weekly contributions according to the Schedule are as follows:

Table III.5
WEEKLY CONTRIBUTIONS UNDER THE E.S.I.SCHEME

<table>
<thead>
<tr>
<th>Group of employees</th>
<th>Assumed daily wages</th>
<th>Weekly contributions</th>
<th>Employers % of (2)</th>
<th>Employers % of (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs nPs.</td>
<td>Rs. nPs</td>
<td>Rs nPs</td>
<td>(2)</td>
</tr>
<tr>
<td>1. Employees whose average daily wages are below Rs 1/-</td>
<td>0.87</td>
<td>-</td>
<td>-</td>
<td>0.44 8.3</td>
</tr>
<tr>
<td>2. Employees whose daily average wages are Rs 1/- but below Rs 1.50</td>
<td>1.25</td>
<td>0.12</td>
<td>1.7</td>
<td>0.44 5.8</td>
</tr>
<tr>
<td>3. Employees whose daily wages are Rs 1.50 but below Rs 2/-</td>
<td>1.75</td>
<td>0.25</td>
<td>2.4</td>
<td>0.50 4.8</td>
</tr>
<tr>
<td>4. Employees whose average daily wages are Rs 2 and above but below 3/-</td>
<td>2.50</td>
<td>0.57</td>
<td>2.5</td>
<td>0.75 5.0</td>
</tr>
<tr>
<td>5. Employees whose average daily wages are Rs 3/- and above but below Rs 4/-</td>
<td>3.50</td>
<td>0.50</td>
<td>2.4</td>
<td>1.00 4.8</td>
</tr>
</tbody>
</table>

(continued)
Insofar as the participation of the State in the finances is concerned, Section 27 provides for a grant by the Central Government laying down that, "The Central Government shall, every year during the first five years, make a grant to the (ESI) Corporation, of a sum equivalent to two-thirds of the administrative expenses of the Corporation not including therein the cost of any benefits provided by or under this Act." According to section 58(1), the responsibility of providing medical benefits has been placed on the State Governments. Sub-section (1) thereto makes a provision to the effect that "Where the incidence of sickness benefit payment to the insured persons in any State is found to exceed the all-India average, the amount of such excess shall be shared between the Corporation and the State Governments in such proportions as may be fixed by agreement between them." Originally, this proportion for the States was one-third, but
later on it was reduced to one-fourth by an agreement between the parties. The rate of contributions for the employers was originally fixed at 4-2/3 per cent of wages-bill, as is evident from table III.3, but it was never fully enforced. The reasons advanced for this excusal were the employers' contention that the cost of production was very high in the year the scheme was enforced for the first time in February 1952; and that any imposition of full rates of contributions will further increase the cost of production. But it may be noted that a 4.67 per cent of wage bill may not be more than one per cent of cost of production. In fact wages up to Rs 400 per month per employee (the maximum amount of wages insurable under the scheme) constitute about fifteen per cent of the cost of production. Thus a tax equal to 4.67 per cent will add only 0.7005 per cent to the cost of production. The following remark is noteworthy in this connection as it corroborates my own statement. The net extra cost (due to imposition of payroll contributions) to the employer will, therefore, seem to be about 2/4 of one per cent of the value of output...

It is, therefore, quite clear that the employers' objection was no more weighty than a lame excuse in the nature of putting the cart before the horse. Moreover, the fear was expressed that the contributions will reduce the competitive strength of the industry in the foreign markets. At present the employers are paying at the rate of 1½ per cent

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of the wage bill which is negligible to influence the position of the industries covered under the scheme vis-a-vis others in the foreign market. Moreover, the present rates of the employers' special contributions are only half the rates paid by the employees, a strange reversal of ratios. The following is the statement of the amounts of contributions paid by the parties under the ESI scheme:

Table III.6

CONTRIBUTIONS BY EMPLOYERS AND EMPLOYEES UNDER THE E.S.I. SCHEMES
(amount in rupees thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers' Special</td>
<td>2,25,29</td>
<td>2,59,39</td>
<td>2,83,41</td>
<td>2,90,24</td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees' contrib-</td>
<td>2,39,61</td>
<td>3,22,03</td>
<td>3,56,36</td>
<td>3,81,12</td>
</tr>
<tr>
<td>butions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is thus, evident that the employees' contribution throughout these years has been more than that of the employers' special contributions. This is due to the fact that the full rate of the employers' contributions has not been enforced so far.

The finance for the EPF scheme is obtained from the

* The present rate of employers' special contribution is one and one-fourth per cent of the wage-bill of covered employees in the implemented areas and three-fourths of one per cent in non-implemented areas. The Government decided to increase the rates in August 1958 to three and a half per cent in implemented areas and one and three-fourths per cent in non-implemented areas, but it decided that the increased rates were not to be collected as long as the current expenditure of the Corporation could be met from the current revenues. This was stated in ESI Corporation's budget estimates presented in the Lok Sabha on 22nd March, 1960 that the enhanced rates may have to be enforced "from a date not later than April 1, 1961". Reported by The Indian Express (Delhi), March 23, 1960.
contributions of the employers and the beneficiaries in equal proportions at the rate of 6.25 per cent of wages each. The Coal Mines Provident Fund is also financed by the contributions from the employees and the employers. It is evident that the State does not participate in the finances of any of the social security schemes operating in India; at least no portion of cash benefits is borne by the State in any scheme. The Study Group on Social Security referred to above, have also brought forth their recommendations for the financial participation of the employers and employees in equal proportions with an additional levy on the employers at the rate of 0.4% of payroll for meeting the cost of administration. It may be recalled here that employers are doing useful work regarding the administration of the ESI and EPF schemes already. Thus, the State has again been granted moratorium on its due share in the cost of social security for the aged.

In my opinion, the technique of social insurance, in the true sense of the term, which can be suggested for old age protection in India, calls for a tripartite financial participation by the insured persons, their employers and the State too, in agreed proportions. It seems desirable at this stage to discuss the rationale of the financial participation of each of the three parties. (a) The Insured Persons

The insured persons can make provision for old age contingency unilaterally or they may do it in collaboration with the other parties interested in his welfare. Unilateral finance of social security schemes by the insured persons
themselves has been discussed at some length in the previous chapter. It was noted that due to lowness of wages received by industrial workers and the cumbersome team of dependents which an average industrial worker has to support, he is hardly in a position to afford unilateral provision for the contingency of old age. If the scheme is financed individually it assumes the character of individual savings which, as the discussion in the previous pages revealed, cannot be reckoned as a reliable source of old age protection. On the other hand, if the co-operative device among the insured persons inter se is followed, it boils down to the method of mutual insurance, which has shown its poor efficacy as an old age protection device in India and has been already relegated to the background. Moreover, the insured persons are required to protect themselves single-handedly the really needy persons would likely fall from the mesh and the real purpose of the device will remain unfulfilled. This possibility of finance can, therefore, be safely ruled out for Indian industrial workers.

Nevertheless, the insured person owes a natural liability towards the finances of the scheme which contemplates to protect him for the obvious reason that he is the chief and direct beneficiary. Payment of a part of the cost by the beneficiary himself arouses a feeling of ownership in him towards the scheme and the pricking feeling of charitable maintenance and all the attendant taint of disrespect, lowliness and disgrace is repelled automatically. It is replaced by a sense of right, respect, dignity, effort and grace.

Most of the countries having social insurance benefit schemes
believe that the establishment of legal relationship between benefits received and contributions paid enhances the social responsibility on the part of the insured. On this score, a failure to raise the payroll tax in the United States in 1939 as originally scheduled was made subject to severe criticism by the members of the public as they thought that full rates must be realised to finance the scheme and no concession should, however, be allowed therein. Lord Beveridge held that "The citizens as insured persons should realise that they cannot get more than certain benefits for certain contributions, should have a motive to support measures for economic administration, should not be taught to regard the State as the dispenser of gifts for which no one needs to pay." Contribution condition will also serve as a brake on the irresponsible demands on the part of workers for unreasonable extension of benefits to distant relations or undue increase in benefit rates. The experience of other countries seems to suggest that workers' contributions induce a degree of responsibility towards the programme of social security. Thus, both in America and Great Britain, increase or extension of benefits were accompanied by an increase in contributions to which the beneficiaries consented willingly. Moreover, benefits, even if remotely related to the contributive effort of the beneficiary, cease to be despised in public as doles and the right of legal support which is the primary characteristic of social security schemes, would not be governed by the whims and caprices of the paying authority; but it would bear a relationship with the beneficiary's contributive effort, however,
bumble and desperate it may be. Life insurance policies give a sense of property ownership to assured and in no way less does a compulsory old age social insurance give a vested right of maintenance to the covered beneficiary. In this respect both the devices are identical. To quote Beveridge again, "...by paying; not, in deed', the whole cost, but a substantial part of it as a contribution, he (the beneficiary) can feel that he is getting security not as charity but as a right."  

So far as the willingness of the workers to pay contributions is concerned, it cannot be as safely concluded as did Beveridge that, "The capacity and the desire of the British people to contribute for security are among the most certain and most impressive social facts of today." 2 In India, workers are chary about the schemes of social insurance not because of there being any substantial ground for their suspicion but because of their ignorance and the adverse propaganda of the interested parties.* The trade unionists offer resistance to new schemes on the ground that it sometimes becomes a subterfuge for putting off the implementation of some already working scheme. Thus, the General Council of

1. Ibid, para 296.
2. Ibid.

* Discussions on the working of the ESI scheme initiated by a responsible officer of the ESIC on 8th December, 1959, in a Labour Research Institute Seminar held in Kanpur, which the present writer attended revealed that when the medical benefits were extended to the workers' families, they suspected that the contributions will be raised. Some interested parties tried to add to this suspicion by giving wrong interpretations to this step and strengthening their doubts for political reasons.
All-India Trade Union Congress at its Bangalore Session held from 15th to 18th January, 1959, expressed in clear terms when it resolved that "The Central Council felt that an integrated pension scheme at this stage would provide an excuse not to fulfil the above-mentioned obligations of the Employees' State Insurance scheme and their fulfilment would be all the more vitiated, delayed and side-tracked by the additional considerations of the further liabilities of the pension scheme. Hence we are against consideration of such a scheme at this stage (i.e. consideration of study group's recommendations for pension scheme)."

There is lack of elaborate research in India on the attitude of working population towards the payment of old age insurance contributions and it is yet to be discovered. I tried to study the matter by means of issuing questionnaire. To my disappointment, when I tried it in Kanpur, about sixty per cent of the workers refused to accept the questionnaire fearing some foul play. Of the remaining forty per cent who accepted it, none cared to return it back. It was again tried in Bombay. An encouraging response was received there. About fifty per cent of those who returned were willing to contribute. The data cannot be said to be fairly representative due to smallness of population studied, and paucity of response received. It was disclosed to me during the course of my discussions with workers, that they did not understand the implications of the scheme despite the clarity of language used in the questionnaire. Of the 500 copies of questionnaire issued to the various categories of workers in a cotton textile Mill in Bombay city, only 120 sheets were returned of
which 60 respondents returned "willing to contribute." All the workers earning up to Rs 100 per month were willing to contribute. But it must be noted that they were only two in number. Of 79 persons earning from Rs 100 to Rs 150 per month, 39 or about 49 per cent were willing to contribute; of those earning between Rs 151 to Rs 200 per month, about 52 per cent were willing and 50 per cent of those earning between Rs 201 to Rs 300 per month were also willing. Comparatively richer section i.e., those earning over Rs 400 per month were not willing to contribute at all. But again no generalisation can be based on their denial as there were only two persons in this wage-group. The general trend of replies, however, was in favour of the scheme. It led me to believe that the average worker's attitude towards contributions to a pension plan is not averse. Proper publicity of the scheme was not organised. If it were done, it would help clarify many doubts lurking in the minds of the working class. If the scheme is impressive and invokes confidence in the insured class, there is every reason to believe that the chief beneficiary class will be willing to contribute. The employers' stand who constitute the next beneficiary class may now be examined in some detail.

(b) Employers.

Gone are the days when social consciousness was held in abeyance and individualism was in its heyday. There was a time when the responsibility for poverty was laid on the poor himself. But now the public opinion asserts that the economic system itself of which the employers as a class
constitute the chief custodians, is also at least partly responsible for social maladies such as the poverty of the masses including the employees in the productive system.

There are, however, divided opinions on the question of financial responsibility of the employers regarding social security organized for the benefit of their employees. On the one extreme, the employers are held wholly responsible for such finances as in socialistic countries. On the other extreme is the view that the employer should be wholly excused of any such responsibility. Social insurance pensions in Sweden, Australia, New Zealand or sickness insurance of Iceland are a few examples of this type of arrangement. It may be noted that when social insurance scheme was introduced in Germany for the first time, Bismark proposed a contribution on the part of the workers and employers both. But this suggestion met with severe opposition and the matter had to be dropped, making the employers solely responsible for the finances of the scheme. International Labour Organisation still hold the view that employment injuries should be unilaterally financed by the employers.¹ In so far as the question of justice and equity is concerned, this view can be repudiated on the ground that after making all safety arrangements required by legislation, and after issuing

1. Vide: Social Security Principles, p 33. "Employers normally bear the cost of compensation for employment injuries and this rule is maintained in the proposed Recommendation."
Necessary safety instructions to the employees, the employer stands discharged of his liability for any accidents. In the USSR or other socialistic countries where the social security schemes are structured on the Russian model, employers are made wholly responsible for the cost of social security programmes provided to their employees. Even in the United States, unemployment benefits are financed by payroll tax on employers. Those who hold it the employers' liability to bear the cost of such programmes, base their arguments on the employers' capacity to pay contributions or due to the notion that they are responsible for the occurrence of risks.

The employers' contributions to his workers' pension insurance scheme can be justified on various grounds. In the first instance, it is the employers' work which the employee is engaged to do; the revenue accruing to him must include an element of depreciation on his assets. Machinery and other fixed assets are, therefore, scrapped and replaced after their productive capacity is exhausted. But the workers, the human assets applied for the production of goods, cannot be so scrapped. They live even after their usefulness as an agent of production is reduced to nothing. The worker has, therefore, a right of maintenance when his physical faculties decline to such an extent as to hinder him from any gainful physical work. Moreover, if the employer is held responsible for a portion of the cost, he will co-operate with the administration and secure economy in the working of the scheme. The principle of joint-contribution has found an eloquent expression in the almost universal uniformity of its adoption as the result of a
combination of considerations of administrative, financial and political feasibility justified by various arguments based on a variety of premises.

Although it cannot be indisputably held that social security and fringe benefits increase the efficiency of the working force directly, it cannot be disproved too. Financially, the employers' contribution is a profitable source of income and the employer can be easily made to agree to pay it. In the opinion of the ILO, "It has been the employers' contribution that in most countries has made social insurance financially feasible, and while arguments may be adduced against it as well as for it, so 'convenient a source of revenue is not likely to be abandoned easily by governments." But the mere temptation on the part of the governments to squeeze the employers' purse cannot justify it, particularly in the modern age of democracy and parliaments. It has to justify a levy of payroll contributions on employers for the finance of social security. Such levies are justified on the said grounds of providing life-long subsistence to the labourer from the profession he adopts, even though he may not be able to work for the whole of his life due to old age or other inability. In fact, it is a solace to his single-handed effort in maintaining a provision for his old age that comes in the form of employers' contributions or the State supplements. And both of them have a contractual liability in this

respect apart from having a moral obligation too. It is true that the old age security scheme is a long-term scheme and shows its effects sometimes after generations, yet it has been rightly stated that "in the long run, when benefit effects, hard to measure but very real, of income security have had time to show themselves on morale and health, in improved industrial relations and in greater stability of internal market, employers will surely find that productive efficiency has so increased that the charge of their contributions is amply compensated. It is, then, to employers as a group, the trustees of the productive system, rather than as individual owners or shareholders of particular undertakings, that social insurance is likely to bring advantage." Moreover it is possible to secure higher contributions under a jointly-financed scheme than under an individually-financed scheme, and the government may, thus, be able to float the scheme without having to tax the general tax-payer to any great extent for this purpose. Employers' contribution, in addition, helps in the matter of administrative expediency. Collection can be easily secured through the employers who can deduct the employees' shares from their respective wages. Thus, the joint contribution renders compulsory insurance feasible for the mass of industrial workers who constitute the class that is directly the pivot of the subject-matter of this work.

Besides that, employers as a class have provided, since long, various fringe benefits in India and abroad. In the

United States, employers instituted the first pension scheme for the benefit of their workers in 1875. Lloyd George, while introducing the Unemployment Bill in the House of Commons on 4th May 1911, quoted the letter of German employers that the big employers in particular and employers in general were willing to increase their contributions to national insurance for providing increased benefits to employees on their own accord. In France, social security and other supplementary costs paid by employers in the textile industry constituted nearly one half of the wage bill. Table III.7 shown on the next page shows the percentages of wages paid by the French employers for these benefits.

In the United States, there were 17,700,000 employees covered under private pension and deferred profit-sharing plans. This constitutes about 25 per cent of the actively engaged population.* The total contributions of the employers and the employees amounted to $3,900 and $680 millions respectively. In this way about 52.5 per cent of the private and 66.3 per cent of the private and public employees were covered under the employee-benefit plans.

In our own country, as revealed during the course of my personal investigations undertaken in connection with this work, several fringe benefits were found to have been

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III.7

Table III.7
FRINGE BENEFITS PAID BY FRENCH EMPLOYERS

<table>
<thead>
<tr>
<th>Items of cost</th>
<th>% of wage bill</th>
</tr>
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<tbody>
<tr>
<td>Social security general scheme</td>
<td>11.0</td>
</tr>
<tr>
<td>&quot; Family allowances scheme</td>
<td>12.0</td>
</tr>
<tr>
<td>&quot; Industrial injuries scheme</td>
<td>3.0</td>
</tr>
<tr>
<td>Payroll tax</td>
<td>...</td>
</tr>
<tr>
<td>Paid annual holidays</td>
<td>...</td>
</tr>
<tr>
<td>Housing tax</td>
<td>...</td>
</tr>
<tr>
<td>Apprenticeship tax</td>
<td>...</td>
</tr>
<tr>
<td>Medical services</td>
<td>...</td>
</tr>
<tr>
<td>Unemployment insurance benefit scheme</td>
<td>...</td>
</tr>
<tr>
<td>Subsidiary pensions scheme -- Senior staffs</td>
<td>1.5</td>
</tr>
<tr>
<td>-- others</td>
<td>2.0</td>
</tr>
<tr>
<td>Non-obligatory social charges</td>
<td>...</td>
</tr>
<tr>
<td>Total</td>
<td>47.4</td>
</tr>
</tbody>
</table>


provided by the enlightened employers. I have discussed some of these provisions relating to old security in Chapter II. Besides that, the Elgin Mills Company, Kanpur spent a sum of Rs 136,817 on Workmen and Staff Welfare out of a total value of production of Rs 37,137,747, during the year ended 30th
September, 1958. The Company also expended Rs 144,095 and Rs 109,067 respectively during the two preceding years which accounted for 0.35 and 0.34 per cent of total cost of production respectively. The Morarjee Goculdas Spinning and Weaving Company Limited, Bombay, made a provision of Rs 185,000 each year during the three years preceding 30th June, 1959 for Staff Welfare. The Company also spent Rs 342.05 on Workmen's Welfare. The Delhi Cloth and General Mills Company Limited Delhi, also paid the following amounts during the last four years preceding 30th June, 1959:

<table>
<thead>
<tr>
<th></th>
<th>1956</th>
<th>1957</th>
<th>1958</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare Expenses</td>
<td>416</td>
<td>468</td>
<td>469</td>
<td>393</td>
</tr>
<tr>
<td>Grant to Officers' Pension Trust</td>
<td>393</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Retiring gratuities</td>
<td>223</td>
<td>225</td>
<td>137</td>
<td>372</td>
</tr>
<tr>
<td>Employees' Benefit Trust Fund</td>
<td>165</td>
<td>188</td>
<td>602</td>
<td>710</td>
</tr>
<tr>
<td>Total*</td>
<td>1,196</td>
<td>881</td>
<td>1,209</td>
<td>1,476</td>
</tr>
</tbody>
</table>

SOURCE: Annual Reports No. 68, 69, 70, and 71.
* Totals may not agree due to approximation.

The employer-sponsored plans bear testimony to the fact that the employers realise the beneficial effects of fringe benefits. Therefore, it may be concluded that any resistance of employers is not serious and genuine. On the basis of the desirable effects that a pension scheme may produce, they will be willing to contribute to the scheme.
( III.29 )

c) The State

The schemes of social insurance instituted by law involve the coercion of the individual and a partial regulation of enterprise on the part of the State. But regulation should not be taken to mean the only ceiling of the interest to be shown by the State in social problems. The concern of the State, as a political institution is with those problems which concern the majority of population. Eradication of crime, of whatever description, is a constant headache of the statesmen, and perhaps, it has been the raison d'être of State from the very beginning. Crimes stem, in majority of cases, from the income inequalities that baffle the minds of reformers today. It is, therefore, the bounden duty of the State to see that inequality of income is reduced and destitution is prevented. Destitutes and paupers are a social liability and the social institutions, most important among them, the State, owe a duty to pay them. And the poorer sections of society can most conveniently be protected by the device of social insurance. State has, since long, maintained poor houses and public hospitals. The cost of such maintenance has long been recognised to be public responsibility. Old age, if left unprotected and uncarded for, tends to produce insances, destitutes and paupers, the care of whom is doubtless a State responsibility. Old age security does not only produce social good but it also creates political stability through a happy, contented and prosperous nation.
Just as the State is responsible for national security, it is responsible for social security too. Education is held to be the responsibility of the State; but it comes after the basic needs of food, clothing and shelter have been satisfied. Hence the State contribution to a scheme of social security. This has led sometimes to the suggestion that social insurance like national defence and security services should be financed from the public exchequer and the cost of these services may be recovered from the general tax-payer according to their ability to pay. But there seems one fallacy in this approach to the problem. While national defence services always confer benefits not exactly measurable in case of individual tax-payer — a fact which may justify its finance from the general exchequer, social insurance confers in all cases measurable benefits on individuals who may be called upon to pay for it pro rata. While general-tax device is equitable and convenient for financing national defence services, it is inequitable and unjustifiable for financing social security services, specially in case of those individuals who can bear a portion of the cost, if not the whole of it.

Unilateral finance of social security is called social assistance. Social assistance as a technique of coverage has been discussed in the previous pages. It may be said here that on practical considerations, this device is not the best one for the protection of the aged industrial workers. In the first instance, old age security being a costly project, will entail a heavy burden on the State coffers. The general
tax-payer will be burdened consequently. Moreover, this is opposed to social policy. Old age assistance device selected, the claim of the entire population for old age benefits irrespective of occupations will be more tenable and less questionable. It will be unjustifiable to provide security to aged industrial working men and leave the aged agriculturists and other sectors of population uncovered. It is against the cannons of public expenditure in a democratic set-up to confer special benefits on a particular section of population out of the general revenues unless that section is not completely destitute. Industrial workers, though needing social security in old age, do not constitute that class in a greater degree than does the agricultural population or domestic workers. Besides, it is neither a workable proposition nor a desirable one in view of the cost and administrative implications which may prove prohibitory. In addition to that, State pensions are stigmatised with a smack of charity. This will be disliked by self-respecting people; and any great and unnecessary dependence on State should be discouraged too. Heavy State responsibility towards the finance of such schemes cannot be defended at the expense of developmental projects with which Indians heading forward. Hence, the State should contribute to the cost of old age scheme only partly not entirely.

As has been noted above in the beginning, old age is financed in socialistic countries entirely by the employers and in individualistic countries the State does not participate
at all. But in democratic welfare states such as Great Britain and Federal Republic of Germany, tripartite liability to the finance of old age insurance schemes has been established. India is neither an individualistic country where all state intervention is despised as socialisation of private life, nor is she a totalitarian State where wages can be adjusted in such a way that social insurance contributions can be charged from the employees in disguise, and employers may apparently pay the whole cost. As discussed above, employees themselves, their employers and the State should all bear their share of cost-burden pro rata.

State participation in the finances of social insurance schemes has been the crux of the problem in India since long. The Government have shown great alacrity to repudiate outright that they owe any financial responsibility towards such schemes. When the first sickness insurance scheme was proposed for introduction in 1928-29, they opposed the possibility of any State contribution. Likewise in 1940, the proposal of the industrial workers at the First Labour Ministers' Conference held in the month of January for the introduction of a sickness insurance scheme was approved only after a clear understanding that the State would not be required to contribute. This repudiative attitude on the part of the State has been responsible for the late introduction of social insurance in India. Again, when Prof. Adarkar submitted his report on sickness insurance, he was probably aware that the Government would not agree to contribute. Thus, he made two
recommendations for the financial structure of the scheme. One presupposed that the Government would not contribute; and the other was based on the presumption that they would. The financial structure of the present social security measures have already been discussed. The State assumes no financial responsibility under any of the present schemes except under the ESI scheme under which the Central Government undertook to meet two-thirds of the cost of administration for the first five years, and the State Governments have to bear one-fourth of the cost of medical benefits incurred in connection with the insured persons.

This attitude is unhelpful and discouraging. If the State wills to fulfil the obligations which the Constitution pledges and if the State is genuinely interested in securing the welfare of the public, it must face the light and bear a portion of the cost. It is heartening to note that the U.P. Government has instituted an Old Age Assistance scheme financed by the State exchequer. The Punjab Government is also contemplating an identical scheme. But what is required is not an Assistance scheme of this type but a well-founded old age insurance scheme which may meet the need of the hour.

**FLAT VS. WAGES-RELATED CONTRIBUTIONS**

Contribution of the parties to finance may be either flat-rate with no relation with the earnings of the insured or they may be related therewith. Flat-rate contributions are charged equally from all beneficiaries for identical contingencies irrespective of the amounts they receive. The basic superstructure of flat-rate contributions is...
and flat-rate benefits is raised on the foundation presumably for the provision of a national minimum of goods and services necessary for maintenance. Therefore, flat rates do not take cognisance of the standard of living formerly enjoyed by the beneficiary. Since benefits are quite unrelated to earnings, they may be much less than the earnings of the highly paid people covered under the plan.

The great advantage of flat-rate benefits and contributions lies in the fact that it economises the cost of collection and lightens the cumberous burden of complicated calculations. It also economises in stationary and clerical staff necessary to be maintained for keeping wage-records etc., if calculations are based on the previous earnings. However, the technique of flat-rates is defective in many respects. In the first place, being unrelated to previous earnings it disregards previous standard of living. This puts the beneficiaries to practical difficulties. Man is a social being. He has to maintain his social standing. If his standard of living shrinks down suddenly as a consequence of living on pension insurance benefits which provide only minimum subsistence income, he is likely to suffer a social affront which the social insurance attempts toward off. Moreover, it can only provide national minimum which may be itself a disputable sum. It should change with every change in the cost of living if the scheme is to serve any real purpose. Besides, this technique can only provide a bare minimum; those who want to live comparatively better must find means for themselves. Again, such contributions may not be equitable in their effects. If flat-rate benefits are greater than the wages in sweated
trades they may kill the incentive to work and the contributions may prove very high. This is harmful morally as well as economically. If the contributions are fixed at a rate higher than just the sum which the least-paid employees should have paid under an income-related contribution scheme, it will have its repercussions and regressive effects on the insured class in the least-paid groups. In addition to this, on the other side of it, the well-paid employees may easily escape their equitable share of burden. Thus, the flat-rate basis totally ignores the law of diminishing marginal utility of income on which the theory of progressive taxation is based. It is in the nature of loading equally a camel and a mule which is not only inequitable but cruel too.

Graduated rates of contributions on the basis of earnings of the insured and on the payroll of the employers are equitable to parties concerned. The low-income group pays lower amount of contributions commensurate with his income and a better paid employee contributes higher sums corresponding to his ability to pay. This is not regressive in affect and the net sacrifice on the insured as a class is comparatively lesser. Again, graduated rates may be adjusted to earning which facilitates the maintenance of an even standard of living for the beneficiary not much below one enjoyed by him in his working life. No doubt, it involves complications in fixing the contribution rates and calculation of benefits; it requires voluminous wage-records (or income records) of the beneficiaries. But the advantages of the system outweigh its disadvantages.
The use of flat-rate contributions and flat-rate benefits has been a traditional and prominent characteristic of the social security system of Great Britain almost since the enactment of her first pension law in 1908. Lord Beveridge affirmed the approach in his Report by including the flat-rate system among the six fundamental principles of his scheme. However he envisaged that "The flat-rate of benefits proposed is intended in itself to be sufficient without further resources to provide the minimum income needed for subsistence in all normal cases." The principle was embodied in the post-War legislation of her National Insurance Act 1946. But due to its obvious demerits, graduated rate principle has had to be accommodated, at last. In the National Insurance(Amendment) Act 1959, she departed for the first time from the principle of flat-rate system unrelated to earnings for both contributions and benefits to which I have already referred. The new legislation retains the existing flat-rate system and superimposes on it a graduated system with contributions and benefits related to wages. Recently, Sweden has also changed over to Graduated-rate principle. And this, I think, is a preferable principle. It may be noted that in case of social assistance schemes, which require no contributions from the beneficiary and which primarily aim to provide a minimum

2. ibid, p 122.

It may be noted that the British social security system covers the entire population.

subsistence, flat-rate scheme of benefits is convenient and expedient. This practice is followed all over the world.

In India, as mentioned above, the contributions of both employers and employees are related to earnings in case of ESI and EPF schemes. The same principle has been adopted in the recommendations of the Study Group. I prefer the graduation principle on the ground of equity and justice as also its practical usefulness. The earnings of the majority of workers being small, the flat-rate contributions shall have to be fixed at low sums convenient for the lowest paid employees. Thus, if the flat-rates are adopted in India, the contributions of the highly paid employees will be negligible in proportion to their wages, and the benefits provided to them will be meaningless.

SUMMARY AND CONCLUSIONS

The foregoing analysis shows that social insurance is the most suitable device for old age protection in India. International practice in this field confirms the view that both employers and the employees should contribute as also the State should bear a portion of the cost. Although the existing schemes of social security in India are financed by employers and employees without state supplements, State should also pay for old age protection. Employees should pay because they are directly benefited; their employers are also indirectly benefited, through increased efficiency, stability of labour force, reduction in absenteeism and good industrial relations in general. The State should also pay because it is a Welfare State. It has not only to protect people from internal
disorder; but it has also to prevent crimes and ameliorate the conditions of the poor. Since poverty anywhere constitutes a danger to prosperity everywhere and encourages crimes, it is desirable that State should assist the prevention of poverty.

The contributions and benefits may be flat rate or graduated rates. The former are inequitable and can be convenient for the provision of minimum subsistence only which is, in most cases, divorced from the previous standard of living. Percentage rates are free from these defects and they secure more income with comparatively lesser net sacrifice. Hence, they are preferable to flat rates.

This Chapter mainly discussed theoretical foundations of a tripartite scheme of old age security. In the next Chapter, I propose to discuss the factors influencing the proportionate share of liability in the finance of such schemes as well as the apportionment of such cost between the Central and State Governments.
CHAPTER IV

COST IMPLICATIONS OF OLD AGE SECURITY

Cost is the impact which falls on the parties providing the finance to the scheme as considered from their respective points of view. In the previous Chapter, I observed that a triology of insured persons, their employers and the State should be held responsible to finance the scheme of old age security. The purpose of the present Chapter is to analyse the factors influencing the proportionate share of the parties.

Cost of pensions projects far into the future and in ordinary cases, it is almost negligible in the beginning but for the administrative and establishment expenses. No benefits are payable during the first few years of its inception due to imposition of contribution and other qualifying conditions for the entitlement to various retirement benefits. The cost rises gradually for a long period and the 'peak of the load' is not reached until after forty to fifty years, or perhaps even longer period, after the plan has been put into operation. According to the Government Actuary's report, the Beveridge Plan for Great Britain was estimated to cost £126 million in 1945 (the year of start) and £190 m. in 1965 for meeting the cost of retirement pensions. In other words, the cost of retirement pensions after ten

and twenty years was estimated at 150.8 per cent and 238.9\% respectively, of that in the year of its inception. The actual cost of retirement benefits in Great Britain during 1957-58 was £ 482 m. out of a total expenditure of £ 683 m. on account of National Insurance. This is 382\% of the base year estimates, and more than 70\% of the total cost of national insurance in 1957-58. In the United States, retirement benefits under the U.S. Social Security Act amounted to $ 17.15 m. in 1940, $ 148.11 m. in 1945, $ 651.49 m. in 1950, $ 3747.74 m. in 1955 and $ 6722.87 m. in 1958. This phenomenal rise in the cost of American social security scheme (including Survivorship, Disability and Invalidity) is partly explained by the far-reaching changes introduced by legislation that followed 1940 in respect of coverage, types of benefits, amount of primary benefit, retirement and the variations in the maxima and minima of pensions, and partly by the fact that the cost of pension schemes rises with the passage of time as more beneficiaries qualify for benefits later on. The cost of pensions, generally, is not precisely predictable.

Although the cost of a pension plan cannot be exactly estimated, there are determinate factors that influence it in one way or the other. They are: the amount and types of benefits and beneficiaries method of financing, retirement age, longevity and mortality factors, stability of the population covered under the plan and investment pattern of pension funds and administrative requirements of the scheme etc.
As already discussed, the responsibility for providing finance should be apportioned between the insured persons, their employers and the State. They are the beneficiaries — direct or indirect — of any scheme of social security. Their proportionate shares should be commensurate with their respective abilities to pay and equitable as between them inter se. The Income Security Recommendation (1944) is in favour of lower income groups; but no precise rule has been suggested for the degressive reduction of the contribution rates on behalf of the low wage-earners. It opines that the contributions of the low-paid employees may be subsidised by the employers and the State.¹ In case of income security for the contingency of old age, the contributions of the employees must, in no case, be greater than the sum that may be sufficient to purchase such security from private institutions. Social insurance is essentially a device to make a collective provision for an individual risk. It is, therefore, against the principle of equity if the insured person is required to pay more than the level of premiums charged by the private life insurers for identical pensionary rights. Moreover, the contribution rates should also avoid hardship to all the insured persons of small means. "The contribution of an insured person should not exceed such proportion of his current earnings taken into account for reckoning benefits as applied to the estimated average earning of all persons insured against the same contingencies,

would, assuming such persons to contribute while earning from the minimum age for entering employment onwards, yield a contribution income the probable present value of which would equal the probable present value of the benefits to which they may become entitled. Present value had been defined as "The amount which if paid at once, could take place, account being taken of the accumulation of interest at a given rate, of the payment of one or more sums of a given amount at one or more future dates." Thus, if $P$ be the amount of pension at different dates, $P_1 + P_2 + P_3 + \ldots + P_n$ or $\Sigma P$ will be the present value of probable benefits. And if $X_1, X_2, X_3 \ldots X_n$ are the periodical contribution by the parties concerned, and if $\Sigma A$ be the interest calculated at compound rate on the accumulated sums, the present value of contributions will be $\Sigma X + \Sigma A = (X_1 + X_2 + X_3 + \ldots + X_n) + (\Sigma A)$, which should not be greater than $\Sigma P$. But in addition to the mathematical considerations, there are other factors which wield equal influence in fixing the share of the insured persons. They are the present level of earnings, cost of living and the pressure of collective bargaining. Family composition of the insured population also influences the amounts of contributions as well as benefits to a great extent.

The effect of the level of earnings in the country concerned is demonstrated on the amount of benefits and contributions as both are linked to them, and it cannot be

disregarded without hazarding the soundness and feasibility of the scheme itself. Contributions of the insured persons earning low wages must be commensurate with their capacity to pay, and benefits must not discourage gainful employment. For, if benefits are equal to or more than their wages, it will discourage work, and will stimulate malingering. Although the problem of malingering is not so alarming in case of old age insurance, yet in case of invalidity it is ever present.

Family composition has its own bearing on the responsibility of the wage earner to maintain his dependents which reduces his capacity to pay. The larger the family of dependents, the lesser his capacity to pay. Lastly, the pressure of collective bargaining is also important. If the employers' association is more influential an' organization than the trade unions of the workers, the contributions of the employees tend to be larger (unless the government intervenes). The reverse will happen if the case is the other way round. But it may be noted that this is the case of the bargained plans; in the statutory schemes the contributions do not generally follow a trial of strength but they are fixed on some predetermined policy though there is some pressure of the respective organisations of the employers' and the employees howsoever remote and indirect it may be.

The ESI Act, 1948, gives due consideration to the principle of the capacity-to-pay as between workers inter se, when it exempts the lowest-wage group (those earning less than one rupee a day) from any financial responsibility
although they are entitled to receive benefits admissible under the plan. The Study Group has recommended equal rate of contributions for employers and employees at 8-1/3 per cent of the wage-bill. This recommendation regarding the rate of contribution has been made on the assumption that the State will not be contributing to the scheme. As a matter of fact, since the employees and employers are already contributing to the EPF scheme, it will have no adverse effect, if both the parties are made to contribute. But it may be added that their share should be fixed after deducting the share of the State. In principle, the employees should pay equal to their employers and vice-versa. But the above observations bring to the conclusion that a subsidy from the State and employers in respect of the contributions of the low-paid employees will result into a lesser rate for all employees as a group than the contribution rates of the employers.

In the foregoing pages, I have discussed the rationale of employers' contribution. The Income Security Recommendation of the ILO (1944) suggests that "Employers may be required to contribute, particularly subsidizing the insurance of low wage-earners, as much as half the total cost of benefits confined to employed persons..." Therefore, half the cost be borne by the employers; but the phrase "particularly subsidising the insurance of low wage earners" signifies

that the proportion of employers' contributions in case of such workers should be automatically more than fifty per cent.

It may again be noted that the old age contingency does not admit of experience-rating. The incidence of its cost cannot be varied with the incidence of old age in the covered population as between different employers or industries inter se. The contingency requires the fixation of an age of retirement uniformly applicable in covered industries. At this age, the workers must take leave of their employement; and old age being the last stage of life preceding death cannot be avoided by human ingenuity. Hence the cost-reduction is not possible on the basis of experience-rating as it has been possible in case of employment hazards or unemployment insurance schemes.

In order that the introduction of old age insurance scheme may not tell upon the employment or price-level, the levy of payroll contribution must bear a reference to the capacity of the industry to pay. Views differ as to the test of this capacity. Some hold that a regard must be had to a fair return of capital and remuneration to management and a fair allocation to reserves and depreciation on fixed assets so as to 'keep the industry in a healthy condition.' This view can be challenged on the ground that it centres round the residual claimant theory of wages and all the objections applicable against that theory are applicable against this too with equal force. On the other side, there is the view that payment on account of workers must precede all other payments 'as long as it does not encroach on
Different criteria have been suggested to test the capacity of the industry to pay. More important among them are area and industry relationships, cost of living, profit, volume of product, elasticity of demand of the product, supply conditions of the labour market etc. But as may be seen, many of these criteria are subject to different interpretations. This all may require a series of investigations into the elasticity of supply of capital and organisational ability in a particular industry, an inquiry into the rates of profits in other industries, mobility of labour and capital to other lines of activity, possibility of similar regulations in other industries and so on. But it may be said in conclusion that the proper measure of gauging the capacity of the industry to pay should bear a reference to the demand situation of the product, and the possibility of tightening up the organisation so that the industry could pay higher contributions without involving itself in trouble. The ultimate test lies against the background that the burden of the increased rate should not be such as to drive the employer out of business.

The capacity of the industry to pay may signify the capacity of all industries of the country or, all the units of a particular industry or, the capacity of the particular employers. In some countries, such as Australia and New Zealand, the capacity-to-pay is calculated with reference to all industries in the country taken together. As it is, no special concession is shown to depressed or sweated industries. But it may be noted here that New Zealand has a small area.
and Australian industries are also not scattered. It renders it feasible to determine the capacity for the whole country. Nevertheless, this basis may be adopted while fixing the minimum wages; but for old age insurance which cannot possibly be implemented in the country as a whole simultaneously, the entire country for fixing paying capacity cannot be taken into account. This basis can only serve to show that certain industries or units could afford to pay as much as certain others.

Capacity may bear a reference to a particular region also. Regional determination of the paying capacity can serve the purpose of drawing up a schedule of priority for the introduction of the scheme as between two regions. This ignores the effects on competition between units of the same industry situated in two different regions. Paying capacity may also be determined unitwise. But this will neither be convenient nor practically useful to do so. Efficiency of managerial units, economies of location, size of units and internal and external economies enjoyed by different units sometimes differ so widely that an investigation into the paying capacities of individual firms is liable to produce an accumulation of odd facts which may not be brought to concord.

As observed elsewhere, an all-out provision of income security should be the long-run objective of labour policy. But the fact that some industries may be paying old age security contributions, would lead the way to find out measures facilitating the introduction of the scheme to all industries. Confining the provision to selected industries will neither be equitable between industries inter se nor
will it be consistent with the objectives of the social policy in general. It does not, however, mean that all industries should be covered simultaneously. Agriculture, to quote one example of industry in which the measure of income security is postponed, cannot be covered in India too side by the side with other organised industries. Nevertheless, this industry needs social insurance as much as any other. The only hurdles in the way are of purely technical and organisational nature. Therefore, it will have to wait for some time for its turn for the extension of old age insurance till the conditions become stabilised for this step. Adoption of a priority schedule with regard to region and industries is, therefore, the way out of this impasse. Paying capacity should be, as such, determined on industry-cum-region basis.

Another factor is the cost of living of the working class, which has a powerful bearing on the trade union agitation for a wage increase. Employers' contributions are, a sort of bribe, it is alleged, to hush down such agitations. Even more powerful is the influence of the fact that the cost of living is itself determined by the prevailing wage-level to a great extent. If the latter rises, the former cannot remain unchanged. The cost of other elements of production viz. raw materials, rent, interest on capital etc. are more or less fixed on the basis of long term contracts, and possibility of vertical integration of industrial units. Therefore, a rise in the price of the industrial product raises the industry's profits. Increased profits also widen the margin for making contributions to the schemes of workers'
Fig. 1.
benefits including old age insurance.

The economists believe that the marginal physical productivity of labour is the maximum which the employer may be willing to pay to the labour as a class in wages and fringe benefits and other wage supplements including social security contributions. Thus, if social security contributions raise the labour cost above the level of marginal physical productivity of labour or its price, the employees are likely to resist any such scheme of contributions. In Figure 1 the level of employment is measured on the OX axis and the wages including all supplements, on the OY axis. MPP represents the marginal physical productivity of labour, WW the prevailing wage-level. The employer will not favour any social security contribution for OM employment. If WW' represents the payroll social security contribution, he will try to retrench labour to OM' so that the wages plus social security contributions may equal the marginal physical productivity of a unit of labour to M'N'.

If the retrenchment is permitted, the employer may adopt the policy of substitution of labour by other factors of production. This process will be carried to the extent so that

\[
\frac{MPP_a}{P_a} = \frac{MPP_b}{P_b} = \cdots = \frac{MPP_n}{P_n} = \frac{MPP_l}{P_l}
\]

(MPP stands for the marginal physical productivity of the factors a,b,n; and p is the price of respective factors and l stands for labour)
The marginal cost of the product MC\textsubscript{x} will be greater than the price Px so long as the least-cost combination is not reached. At the point of least-cost-combination,

\[ \frac{p_a}{MPP_a} = \frac{p_b}{MPP_b} = \frac{p_l}{MPP_l} = \cdots = \frac{p_n}{MPP_n} = MC\textsubscript{x} \]

The profit of the individual firm will be maximum when the MC\textsubscript{x} = Px. Therefore, the employer will try to equate the price-product relations of all the individual factors of production with MC\textsubscript{x}, the marginal cost of the product x, till it becomes equal to Px, the price of the product x. At this point

\[ \frac{p_a}{MPP_a} + \frac{p_b}{MPP_b} = \frac{p_l}{MPP_l} = \frac{p_n}{MPP_n} = MC\textsubscript{x} = Px \]

If on the other hand retrenchment is not possible under the legal restrictions (as under the existing Indian schemes), he will require to nibble the share of other factors of production to make up the difference \(WNKW'\). However, if the efficiency of labour rises as a consequence of payment of benefits under the scheme, so that the marginal physical productivity curve MPP rises to \(M'P'P'\) the structure of the organisation may not be affected at all.

But in a sense it is oversimplification of things. Marginal productivity of labour is more often than not immeasurable. Thus, it is very difficult to construct the MPP curve. Moreover, social security schemes, specially old age insurance scheme, show their effects in a very long run; and adjustments in the productivity and price or retrenchment cannot be as precipitate as desired. In the long run the curve MPP may
also assume any other shape due to intervention of a variety of factors. Moreover, least-cost-combination is a hypothetical state and it is possible to achieve it in the conditions of perfect competition. In U.P., there is neither perfect competition, nor retrenchment is so easily realisable due to regulations. Therefore, in the short run, MCx may rise due to impossibility of retrenchment which will tell upon Px. It is likely, therefore, that the social security levy on employers raises the prices of the products of the industries in which the scheme is proposed to be introduced. But since ideal-resource-combination cannot be claimed to have been achieved in industries of U.P. the additional cost may be absorbed in the profits or shifted to some other situs.

According to the estimates of Dr. A.N. Agrawala, a comprehensive social security scheme covering employment injuries, sickness, maternity, medical benefits, unemployment, old age invalidity, and non-industrial accidents, and survivorship including the cost of administration require 31 per cent of the wages for financing these schemes of which old age and survivorship insurance require 17 p.c.* The Study Group have estimated 16-2/3 per cent of wages as the total contributions required for financing the scheme of old age and survivorship pension-cum-gratuity.** Of the total contributions the employers are made to bear half the burden, i.e. 8-1/3

per cent of payroll. Wages and salaries paid to different employees of industrial establishments differ in proportion they bear to the total expenses of production. The following table shows the percentage of total value of sales paid to employees as wages and other remunerations.

Table IV.1
PERCENTAGE OF WAGES AND SALARIES TO TOTAL VALUE OF SALES (INCLUDING NET PROFITS)

<table>
<thead>
<tr>
<th>Year ending 30th June</th>
<th>The Morarjee Goculdas Spg. and Lvg. Co., Bombay</th>
<th>The D.C.H. Mills, Delhi</th>
<th>The Elgin Mills, Kanpur</th>
<th>Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>20.1</td>
<td>10.7</td>
<td>..</td>
<td>15.4</td>
</tr>
<tr>
<td>1956-57</td>
<td>22.7</td>
<td>10.6</td>
<td>27.9</td>
<td>20.4</td>
</tr>
<tr>
<td>1957-58</td>
<td>20.4</td>
<td>11.2</td>
<td>19.0</td>
<td>16.9</td>
</tr>
<tr>
<td>1958-59</td>
<td>20.3</td>
<td>11.9</td>
<td>19.6</td>
<td>17.3</td>
</tr>
<tr>
<td>Average.</td>
<td>20.9</td>
<td>11.1</td>
<td>22.2</td>
<td>17.50</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies for various years.

* Years ending 30th October

The above table demonstrates that the share of employees' remuneration in the Bombay Mill was about twice that in the Delhi Mill. It is, however, explained by the difference in efficiency and rates of remuneration. The average remuneration of the Delhi Mill for the four years was only 11.1 per cent of the total expenses of production including net profits. This was 20.9 per cent in the Bombay Mill and 22.2% in the
Kanpur Mill. The average for all Mills for all years was 17.5 per cent. According to the findings of Dr. C.C. Agrawal, the share of employees remunerated up to Rs 400 p.m. in the total cost of production is only about 15%. If this lower estimate is adopted the employer's share of contributions according to the recommendations of the Group (6-1/3 per cent) will raise the cost of production by about 1.3 per cent. If, on the contrary, the averages of the table No. IV.1 are adopted for calculations, the employer's contributions will add to their cost of production about 1.5 per cent more. According to the averages of Elgin Mills Kanpur, cost of production may rise by 1.8%. This percentage is, as can be seen, not an alarming one that may justify the resistance of employers against the introduction of the scheme of old age insurance. It may also be borne by the consumers if shifted on to them.

In so far as the financial participation in social security scheme is concerned, the State has always played a dormant role. Neither in the ESI scheme nor in the EPF scheme of India, the State makes any contributions. The Income Security Recommendation of the ILO (1944) suggests that:

"(1) The residual cost of benefits should be met from taxation.

(2) Among the elements which may be properly be included in residual cost are:

(a) The contribution deficit resulting from bringing persons into insurance when above the minimum age for entering employment.

(b) The contingent liability involved in guaranteeing the payment of basic invalidity old

According to these recommendations, the State is responsible for meeting the excess of cost over expenditure, contribution deficit, the contingent liabilities and subsidies to the lowest paid groups. Thus, if the minimum age for entering into covered employments is fixed at 20 years, it will be normally experienced that a sizeable proportion of employees will be joining service after this age. But such workers will be insured if they have not already attained the maximum age of entry laid down by the scheme. Then, they may qualify for benefits on account of fulfilling contribution and other qualifying conditions. It may be found in the long run that the probable present value of the cost of their pensions is more than the value of their total contributions. This excess may be covered by State contributions. Moreover, any scheme of social security contemplates to cover the low-paid persons essentially. Therefore an appreciation of the living conditions of such people lies in charging no contributions from them, a fact that has already received wide recognition. As stated elsewhere, the contribution pattern of the ESI scheme demonstrates the appreciation of this point by granting exemption from any contributions for the first wage-group earning less than one rupee per day, while their employers' full rate of contributions has been fixed at Rs 0.44 per employee in this wage-category. If the guaranteed minimum of pensions paid to this wage-group exceeds the total contributions paid
by their employers plus any interest earned by the fund pertaining to their account (It may be noted that interest will be credited to the employees' share of the fund only in case of individual accumulation system), the State's share should be

\[ S = \sum Pt - (\sum x + \sum A) \]

where \( S \) is the share of the State.

Again, there may arise a contingent liability on account of many factors such as unforeseen deaths and excessive number of dependents per insured person. Moreover, actuarial estimates are based on averages which may err on the wrong side too. Thus, if \( Ct \) be the contingent liability at different times the State's share on this score will be \( S = \sum Ct \)

If \( \Sigma D \) be the total cost of administration, the total liability of the State under a scheme of pensions will be

\[ \sum S = \sum Pt - (\sum x + \sum A) + \sum Ct + \Sigma D \]

State's share also depends on certain objective considerations such as the size of the Government budget and administrative share of the State in the scheme. This resolves itself into a discussion of the budgets of the Governments and the distribution of the cost of social security between the centre and the State governments.

Size of the Central budget has increased in India by more than three times over the pre-war figures. The total budget of the Central Government in 1938-39 was only of the order of Rs 84.47 crores but it rose to Rs 361.19 crores in 1945-46, the first peace-time budget after the cessation of hostilities. This shows an increase by 328 per cent necessitated
by War-expenditure. Although revenues also rose, rise in expenditure, however, has been steeper than that in the revenue. Over the same period, it increased to 569.4 per cent. Since then, the budget figures have constantly risen. Although the revenue expenditure of the Central Government has risen both on developmental and non-developmental heads, the rise in developmental expenditure has been steeper. The following table shows the expenditure of the Central Government on the developmental heads:

Table IV.2
DEVELOPMENTAL ... EXPENDITURE OF THE CENTRAL AND STATE GOVERNMENTS

<table>
<thead>
<tr>
<th>Years</th>
<th>CENTRE* Amount</th>
<th>Index</th>
<th>STATES* Amount</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>39.50</td>
<td>100</td>
<td>196.21</td>
<td>100</td>
</tr>
<tr>
<td>1951-52</td>
<td>82.41</td>
<td>209</td>
<td>356.46</td>
<td>182</td>
</tr>
<tr>
<td>1955-56</td>
<td>108.09</td>
<td>274</td>
<td>387.15</td>
<td>197</td>
</tr>
<tr>
<td>1956-57</td>
<td>154.14</td>
<td>390</td>
<td>381.73</td>
<td>194</td>
</tr>
<tr>
<td>1957-58</td>
<td>179.50</td>
<td>455</td>
<td>436.43</td>
<td>222</td>
</tr>
<tr>
<td>1958-59</td>
<td>209.23</td>
<td>529</td>
<td>480.96</td>
<td>245</td>
</tr>
</tbody>
</table>

SOURCE: India 1960 table 112-114.

* comprises irrigation and multipurpose river schemes, ports, and Pilotage, Light-houses & Light-ships, scientific departments, education, medical, public health, agriculture, rural development, veterinary, cooperation, industries and supplies, aviation, broadcasting, civil works, post-war construction and electric schemes, community development projects, national extension service, and miscellaneous departments.
It is evident from the above table that the expenditure on developmental activities has risen both in the State and the Central budgets. This shows that the Government is assuming progressive role in the developmental activities. The programmes of development that have been introduced in India are an index of the Government interest in this behalf. Another thing that the table helps to indicate is the fact that the developmental expenditures in the Central budget have risen to more than five-fold while that in State to less than half of it (245%). This points to the rigidity of the State finances and expanding role of the Union Government. Social services also constitute a sub-head of the developmental expenses. Hence it is likely that the expenditure on social services will increase with an increase in the overall expenditure on developmental heads.

Expenditure on social services includes Education, Medical and Public Health, Agricultural Development, Co-operation, Cottage Industries and expenditure on Refugee Rehabilitation. They are supposed to confer social welfare. In the Western countries like USA, and UK, a high proportion of national expenditure is claimed by social services. In 1913 34.6 per cent of the public budget was devoted to the provision of social services in U.K. This percentage rose to 41.2 in 1938 and 46.3 in 1949 and by 1930 it had reached 50 per cent. In the United States, social expenditure claimed nearly 43 per cent of the public budget; but the percentage is on a precipitate fall.¹ This may be due to comprehensiveness of social

security and near abolition of private expenditure on medical services in Great Britain; whereas, the sickness insurance schemes are operating in only four American States.

In less developed economies; this proportion is not usually above 15 per cent. The following table gives the expenditure in the countries of the ECAFE region.

Table IV.3

EXPENDITURE ON SOCIAL SERVICES IN SELECTED COUNTRIES OF THE E.C.A.F.E. REGION (1954-55)

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>Total expenditure</th>
<th>Expenditure on social services</th>
<th>(3) As percentage of (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan (Actual 1954-55 million Afghans).</td>
<td>1,141</td>
<td>87</td>
<td>7.7</td>
</tr>
<tr>
<td>Burma (million Kyats, actual).</td>
<td>1,148</td>
<td>119</td>
<td>10.4</td>
</tr>
<tr>
<td>Ceylon (million rupees).</td>
<td>921</td>
<td>259</td>
<td>28.1</td>
</tr>
<tr>
<td>Indonesia (million Rupiah, 1955)</td>
<td>16,316</td>
<td>1564</td>
<td>9.6</td>
</tr>
<tr>
<td>Japan (thousand million Yens)</td>
<td>1,052</td>
<td>300</td>
<td>28.5</td>
</tr>
<tr>
<td>Malaya (million Malayan Dolors 1954).</td>
<td>863</td>
<td>137</td>
<td>15.8</td>
</tr>
<tr>
<td>Thailand (million Beht) 1955.</td>
<td>4,983</td>
<td>342</td>
<td>6.9</td>
</tr>
</tbody>
</table>


* Total expenditure includes current expenditure, capital outlays and loans and advances (net) granted by the Govt., but it excludes debt redemption, contribution to sinking fund and transfer to reserve funds.

a. Expenditure on education only. During 1955-56, social services included expenditure on education, food storage and Public Health.

b. Includes pensions to government employees.
It is amply clear from the above table that expenditure on social services has been less than fifteen per cent in all but three countries. In Japan it was 28.5 per cent, in Ceylon 28.1 per cent and in Malaya 15.8 per cent. It may be noted that per capita income in Japan and Ceylon are higher than in less-developed countries.

In India social services are the responsibility of the State governments except for Refugee Rehabilitation which is financed by Centre. Uttar Pradesh spent Rs 2,634.82 lakhs on social services during the year 1957-58 (according to revised estimates). Budgeted estimates on this head during the next year allocated Rs 2,906 lakhs. The table No. IV.4 shown on the following page shows the social service expenditure of the U.P. Government on revenue account: It is evident from the table No. IV.4 that more than a moiety of expenditure on social services is claimed by education. Medical and public health combinedly shared about a little more than one-fifth of expenditure on social services. Strictly speaking, only these two heads (Public health and medical) are directly related to social security. They received about 5 per cent of the total expenditure of the State in the year under review. Per capita expenditure on these two heads comes to about Rs 0.90. This was Rs 84 during 1952-53. On the other hand, the expenditure on security services (Administration

1. Taking U.P.'s population at 750 millions.
Table IV.4

EXPENDITURE ON SOCIAL SERVICES IN UTTAR PRADESH (ON REVENUE ACCOUNT) FOR THE YEARS 1957-58 AND 1958-59.

<table>
<thead>
<tr>
<th>Heads of Expenditure</th>
<th>1960-61 Budget Estimates Amounts (Rs lakhs)</th>
<th>Percentage of the Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>1,727.28</td>
<td>13.9</td>
</tr>
<tr>
<td>Medical</td>
<td>465.36</td>
<td>3.5</td>
</tr>
<tr>
<td>Public Health</td>
<td>226.41</td>
<td>1.7</td>
</tr>
<tr>
<td>Agriculture</td>
<td>409.88</td>
<td>3.1</td>
</tr>
<tr>
<td>Veterinary</td>
<td>195.85</td>
<td>1.5</td>
</tr>
<tr>
<td>Co-operation</td>
<td>204.46</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,229.24</strong></td>
<td><strong>25.2</strong></td>
</tr>
</tbody>
</table>

of Justice, Police and Jails) claimed and Rs 1,325.38 out of the budgeted estimates for 1960-61. This is a little over ten per cent of the total revenue expenditure and gives per capita average of about Rs 2. This shows that the internal security services are more expensive in U.P. than social security services. The extent of economy in internal security services will determine the funds that may be spared for social security services. The former confer only negative welfare in the sense that they prevent social illfare. If the internal law and order situation of the State improves, it will be possible to minimise expenditure on security services. Then, it may also be possible to spend greater amounts on social services.

Another head of expenditure in the Central Government budget which it is desirable to keep at a minimum is defence. It was Rs 49.50 crores in 1939-40 but rose to a peak of Rs 395.49 crores in 1944-45. Due to international tension and cold war between the capitalist and communist blocks and due to Kashmir muddle which has strained good relations with our next door neighbour, Pakistan (more so in view of her policy of Alignment and U.S. military aid), defence expenditure has grown into a great bugbear of the Central finances. Chinese incursion and other security measures required for the protection of our borders have brought in their train fresh causes of concern and caution. It could not have been, therefore, possible for India to reduce her expenditure on defence ever since the outbreak of the First World War. Armament programmes and other military preparations in the
international field have rendered it necessary to prepare ourselves for national emergencies despite our policy of non-alignment and faith in peaceful co-existence. It has devoured the share that could have been spared for financing social and welfare services. India's defence budget has been disproportionately high ever since the war years. Although the proportion in the 1950's declined almost constantly, the actual amounts spent on defence have actually risen from 164.13 crores in 1950-51 to Rs 272.26 crores in the budget of 1960-61. Still about 29 per cent of total expenditure is being claimed by defence during the last budget estimates. 1

If the international situation improves and the defence expenditure could be brought in the vicinity of 20 per cent, a sizeable amount will be spared for other welfare and development activities. It may be noted that the defence expenditure in China (Mainland) was 6,500 million Yuan or 22.1 per cent of total expenditure during 1955; it was contemplated to bring it down to 20 per cent during the next year. 2

In India an expenditure of Rs 533 crores was incurred on social services during the period of First Five Year Plan. This was 22.6 per cent of the size of the Plan. During the Second Five Year Plan period, the expenditure on

this head rose by 77.5 per cent but the proportion on this head declined to 19.7 per cent. The following table gives a detailed account of these provisions:

Table IV.5

EXPENDITURE ON SOCIAL SERVICES DURING THE TWO PLANS

<table>
<thead>
<tr>
<th>Heads of expenditure</th>
<th>First Plan</th>
<th></th>
<th>Second Plan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>% of total size of the Plan</td>
<td>Amount</td>
<td>% of total size of the Plan</td>
</tr>
<tr>
<td></td>
<td>Rs Crores</td>
<td></td>
<td>Rs Crores</td>
<td></td>
</tr>
<tr>
<td>Education.</td>
<td>164</td>
<td>7.0</td>
<td>307</td>
<td>6.4</td>
</tr>
<tr>
<td>Health.</td>
<td>40</td>
<td>5.9</td>
<td>274</td>
<td>5.7</td>
</tr>
<tr>
<td>Housing.</td>
<td>49</td>
<td>2.1</td>
<td>120</td>
<td>2.5</td>
</tr>
<tr>
<td>Welfare of Backwards.</td>
<td>32</td>
<td>1.3</td>
<td>91</td>
<td>1.9</td>
</tr>
<tr>
<td>Social Welfare.</td>
<td>5</td>
<td>0.2</td>
<td>29</td>
<td>0.6</td>
</tr>
<tr>
<td>Labour &amp; Labour welfare.</td>
<td>7</td>
<td>0.3</td>
<td>29</td>
<td>0.6</td>
</tr>
<tr>
<td>Schemes of educated unemployed.</td>
<td>-</td>
<td></td>
<td>5</td>
<td>0.9</td>
</tr>
<tr>
<td>Rehabilitation.</td>
<td>136</td>
<td>5.8</td>
<td>90</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>533</td>
<td>22.6</td>
<td>945</td>
<td>19.7</td>
</tr>
</tbody>
</table>


The share of housing, welfare of backward classes, social welfare and labour and labour welfare has increased in the Second Plan both in size and proportion, while that on rehabilitation has been drastically reduced. This is due to the near solution stage of refugee problem. Scheme for educated unemployed has featured as a new item during the
Second Plan. Although social and labour welfare have been given additional share, yet the amounts on these heads are not sufficient when compared to the nature and size of the problem. It is quite clear that labour and labour welfare have not been allotted even one per cent of the Plan. But it may seem that the Government is alive to its liability for financing these services. The above discussion shows that the Government can assume a progressive attitude for the finance of social security schemes and can afford to contribute. Future prospects are also encouraging. A low ebb in the international tension in future, solution of the refugee problem and reduction in the security service expenditure as a result of the establishment of local judiciary may enable the Government both Central and Uttar Pradesh to spare funds for financing social security scheme for the protection of the aged.

A discussion of inter-governmental distribution of financial responsibility towards old age insurance scheme will not be out of place at this stage. In New Zealand, and Great Britain, national schemes are centrally financed; in Australia, Commonwealth shares more than 92 per cent of national welfare services' cost while the rest is borne by the Territories. In Canada, the Dominion shares about 85 per cent while in the United States, Federal Government subsidises States for more than 56 per cent of the cost of income maintenance schemes where the government is under legal obligation to make contributions.¹

Nevertheless, determinants of financial responsibility between the State and the Centre are governed by some objective and policy considerations. In the first place, nature of the financial resources of the two levels of governments is a strong basis for the division of the financial responsibility. The Constitution of India lays down the legislative jurisdiction of the Union Government under a four-fold classification. There are certain taxes which are exclusively the right of the Union Government.¹ It imposes and collects them, and appropriates them for its use in entirety. These imposts are corporation tax, customs and import duties, capital taxes (excluding the agricultural capital), and surcharge on income tax. There are other taxes levied and collected by the Union Government but shared with States.² Income tax, (on non-agricultural incomes), central excise duties on tobacco and other home products of this type are such taxes. Another type of levies is imposed and collected by the Union, but they are wholly distributed among the States.³ They include Estate Duty, (non-agricultural property), terminal taxes on railway, sea and air (non-traffic fares), stamp duties on stock exchange transactions and taxes on newspaper sales and purchases and advertisements. A fourth category⁴ of taxes is that which includes taxes levied by the Union, but collected and retained

1. Article 271.
2. Article 270.
3. Article 269.
4. Article 268.
by the States, such as, stamp duties, excise duties on medicinal and toilet preparations as mentioned in the Union list. State Governments have been given legislative powers to collect land revenues, agricultural income tax, succession and stamp duties on alcohol, liquors, and opium. This shows that the revenues of the States are rigid as compared to that of the Centre, while they have to undertake more and more responsibility regarding social and welfare activities.

Business location and tax competition between States inter se is another criterion for fixing the financial responsibility between the Union and the State. If the States are to finance the social security schemes on their own without any aid from the Centre, they will pay different sums to social insurance institutions. They shall have to raise this sum from the general tax-payers. Thus, it may place unequal burden on the taxpayers of two States. General attitude towards the Central and State Governments also plays a significant role in the allocation of cost. If the States' activities are confined to the most necessary ones such as administration of law and order and judiciary, they will have to be placed no burden for social security contributions. In the same way, if the residence requirements of the scheme are a long domicile in the State, the State shall have to bear greater burden. In India, States have less responsibility with regard to social welfare and labour matters have been included in the concurrent list of legislative powers. Therefore the contribution to the insurance scheme will require a subsidy from the Centre.
The observations bring to the conclusion that the centre should make grants to U.P. for more than a half of the latter's liability for retirement pension scheme. This will encourage other states to implement similar schemes. In fact as in case of ESI scheme a portion of contributions should be required from the non-implemented areas and since the EPF scheme is already in operation, competitive strength of U.P. industries will not be jeopardised as the employers in other states are also paying their share to the EPF scheme. No doubt, schemes of old age assistance (which will essentially cover the entire aged population) such as one already operating in U.P. should be left on the choice of the States as in the United States. The entire cost of such schemes should be borne by the States.

Total Government contributions to the pension scheme may assume either of the two forms — permanent contributions at a fixed rate or grants-in-aid to the insurance institution equal to the cost of defined items. If the latter is preferred the total Government's share will be equal to

$$\sum P_t + \sum C_t + \sum D + E_{A-Ex}$$

This will vary from year to year. Fixed rates of contributions by the Government will have no string attached to the extent of need and the purpose for which they can be utilised by the insurance institution. They can be utilised for any purpose within that scheme. If the Government makes contributions to an integrated scheme of social security, the social
insurance institution will be free to utilize the whole income (which includes Government contributions too) for paying cash benefits, or medical benefits, unemployment benefits or old age pensions.

Grants-in-aid, on the other hand, may be conditional or unconditional. Conditional grants may be made for specific purposes (e.g., for meeting the cost of administration), or they may be general-purpose grants. Conditional grants must be used for defined purposes in a defined way and the Government must see that they are so used. The controversy between the conditional and unconditional grants hinges round the point of freedom of action. Under the unconditional grants the Institution will have freedom of action. If, however such grants are intended to raise the standard of pensions or, if it is the desire of the Government that they should be handled in a specific way in the national interest, the conditional grant is the only proper way of participation in the finance.

Government subsidies may also be in kind. It may meet the cost of administration or provide the administrative machinery itself. Subsidy can also take the form of cost of living allowance. Under this form of subsidy, the benefits should be properly linked to the consumer price indices. But this is a disputable affair. Government may also subsidise in the shape of benefits in kind such as issue of food coupons or spectacles to the aged and artificial limbs to the invalids. Food coupons are not a desirable form of benefit in kind. This will tantamount to socialisation of consumption
and have a stink of over-statism in private affairs. But the other two kinds of subsidies are desirable, because if the price of these things is paid in cash, it is possible that the cash is utilized for other purposes and the intended articles may never be purchased by the beneficiaries. Moreover, the market prices may be higher than the reasonable prices of these articles. Therefore, these appliances may either be provided by the Government directly or they may be sold at subsidised prices at the fair price shops exclusively meant for beneficiaries on producing sufficient identity.

It may be noted here that in India, it is the Government that took initiative in providing social insurance in whatever form it was; and it is the Government that is a senior partner in the governance of the scheme at present. Therefore, in my opinion, the State should contribute in fixed proportions in each contribution period and there should be no conditional or unconditional grants-in-aid over and above this, for, the State cannot assume unlimited liability in financial matters as in Great Britain.

A conclusion may now be arrived at regarding the proportionate contributions of the parties — i.e. the employees, the employers and the State. Since the self-employed and the non-employed cannot be presently covered, their case has been left out of consideration. The employers should, in principle, contributes equal to employees. But since the foregoing discussion brings one to conclusion that the lowest-paid employees may be exempted from making any contributions as in case of the ESI scheme, or at least they should be sufficiently
subsidised in their share, employees' share may be a little less than that of the employers. Again the Government should subsidise the joint contributions, for the present upto 10% of the total contributions. Thus, of 16-2/3% of payroll, the Government should bear 1-2/3 per cent; the rest 15 per cent may be shared by the employees seven per cent, and employers eight per cent. Thus, the entire cost will be shared between the employees, the employers and the Government in the proportion of 7:8:1-2/3 or 4248:10. Out of the 10 per cent share of Government, the Centre should make grant-in-aid equal to 6 per cent and the rest 4% should be borne by the U.P. Government. The total financial responsibility of the two levels of Government may be estimated as follows:

Total factory workers in U.P.* 2,68,195
Average wages per worker (Annual) Rs 1,584
Total Annual Wages Rs 42,48,20,880
Annual Government contribution @ 1-2/3 Rs 70,80,348

Centre 1%
U.P. 2/3

It is quite clear that this would not be an onerous burden on the coffers of the state, and it can be saved with a little caution. However, it must be distinctly understood, that these proportions are not based on any unchangeable premises.


They embody the conclusions of this discussion and thus, are, at the best, arbitrary. But they provide a basis for discussion. In fact, no proportion, whatever, can be said to be exact and unchangeable. As such, many different combinations of these proportions may be suggested. Hence, they should not be treated with any strict sanctity about them. But, they provide as a useful guide even if different proportions are adopted.

CONCLUSIONS

According to the preceding discussion, factors influencing the quantum of the cost of old age security are the amount and types of benefits and beneficiaries, the retirement age, longevity and mortality factors of the covered population, stability of the labour force, withdrawal equity and vesting rights granted under the scheme, investment of funds of social security, and the administrative efficiency and needs of the scheme. The total cost determined in this way should be shared between the beneficiaries, their employers and the State in agreed proportions. The proportionate contributions of the employees should be determined with due consideration of the fact that they should not be required to pay more than the probable cost of their pensions. Moreover, the low paid employees should be subsidised by their employers and the State. Their contributions should neither be inequitable nor should they kill incentive to work. In fixing the employers' share their capacity to pay should be assessed on industry-cum-region basis for the introduction priority. Contributions should not tell upon their cost of production adversely nor should they curtail employment. The share of the Government should
bear reference to its financial resources, and the responsibility for providing social services. Its share may be in the form of a fixed percentage of cost from year to year or alternatively, it should bear the cost of deficit on account of contingencies and low contribution by certain employees and administrative cost. In my opinion, Government's share should be a fixed percentage of total cost. On the basis of the above observations the beneficiaries, their employers and the Government should share in the proportion of 42:48:10, or 7:8:1 \(\frac{2}{3}\) per cent of the total cost of \(16\frac{2}{3}\) per cent of payroll. The Government share should be apportioned between the Centre and U.P. in the proportion of 6:4. This will put the ratio among the beneficiaries, their employers, the centre and the State as 7:8:1:2/3 or 42:48:6:4 respectively. In the next Chapter, the nature and effects of these contributions will be examined with reference to each party.

...
In the foregoing chapter, factors influencing the proportionate share of employees, employers and the State were discussed. In this Chapter, an attempt has been made to assess the nature and effects of these contributions on the contributive parties.

The nature of contributions differs from party to party and their effects are not identical in all cases. Old age insurance scheme, as has already been discussed, envisages to cover the workers in specified industries. Hence, the insured employees would comprise only a segment of the working population. The employers, who are the other party to finance, enter into exchange relationship in respect of their product with the entire population of the country in so far as they are the consumers of the product in consideration. Since the employers' contribution form an item of the cost of production, they will be passed on to the consumers in general via the market of the product. In addition to this, the State contributions to the old age insurance scheme will be recovered from the general taxpayers, who constitute a broader section of population than the insured persons. Therefore, not only a discussion of the effects of the cost of old age insurance to the insured persons, their employers and the State is necessary, but its effects on the community in general, capital formation, and foreign trade is also imperative to understand the full implications of the scheme.
(V.2)

(a) **Effects on the insured**

As has already been stated, the insured persons will be the first party to make contributions to the scheme. It is, therefore, in the fitness of things that the effect of contributions on this group is studied before others. It was thought desirable in course of the discussion in the Chapter III, that contributions should be linked to the wages of the employees covered under the scheme. It was also stated that the contributions of the employers and the employees both will be collected from the employers concerned. It is simply a matter of convenience and administrative expediency inasmuch as the scheme does not entirely depend on this technique of collection, so that it is not fundamental to the nature of the scheme. The employers are entitled to deduct the employees' share of contributions from their respective wages. Therefore, the first effect of paying the contributions on behalf of the employees will manifest in the form of reduced wage packet to them on the payday. But the effect of contributions in this form is one aspect of the scheme. A study of this side of the problem to the entire exclusion of the other side of it, creates confusion and is misleading. The plan of old age insurance brings fruit in the shape of various retirement benefits: pensions to the retiree, and the invalid, dependents' benefits to widow and his survivors after his death, withdrawal benefits, and gratuity on retirement etc. The levy of contribution may compel the wage-earners to curtail their consumption. This will have an adverse effect on the standard
of their living. But in absence of a pension scheme, they will make provision for their retired life single-handedly which will be costlier to them than old age insurance contributions. Alternatively, if they do not make provision for their old age, their standard of living will most likely suffer a greater set back due to absence of income in their defunct life. Hence, the shrinkage in the standard of living will be more than retrieved in old age. Moreover, they would pay contributions at the maximum rate of 8.3% of wages whereas the maximum rate of benefits will be 43.75% of wages which is more than fivefold. To that extent, the disagreeableness of the cost of contributions that the insured person has to suffer, would be recompensed by the pleasantness of benefits when they will be actually disbursed to him.

It was observed in the foregoing pages as a principle of allocating the cost to the employees that total benefits received by him should, in no case, fall short of the amount of contributions paid by him to the scheme. In other words, the probable present value of contributions should not be more than the probable present value of the benefits. Stated plainly, social insurance should not be costlier to the beneficiary than private life insurance contracted for identical benefits. It should be noted at this stage that total contributions in respect of each insured person are much more than the amount actually paid by him on account of the fact that his contributions are subsidised by his employers and the State (unless, of course, it repudiates its financial
responsibility). This is 'social' element of Insurance which lowers the cost of benefits to its direct consumers. In making an appraisal of the scheme, therefore, its cost aspect should be linked to its benefit aspect.

Extent of social insurance consumption may be based on the theory of public finance according to which there is nothing objectionable in pushing up the consumption of social insurance to a point where the marginal sacrifice imposed on the consumers is less than the benefits accruing from it (from the consumers view-point). The problem may be studied in a more factual way. It is evident that benefits paid over years will always be more than the contributions made over time. The Ogive curve of contributions and benefits of an insured individual will yield a graph as given in figure 2. In this figure, OX axis measures years of contributions and benefits, and OY axis measures the amounts. It is evident from the perusal of the graph, that cumulative contribution curve rises up to forty years of the age of entry. This is the maximum period for which the beneficiary can contribute if he enters the covered employment at a minimum age of entry say, 20 years. It also shows that cumulative benefit curve OA' rises more steeply than OA, the total contributions curve. This is because of the fact that benefits are paid at a higher rate of wages than the joint-contributions of all the parties. (This may be recalled here that the total contributions to the proposed pension scheme according to the recommendations of the Study Group are 16-2/3% of wages while retirement
FIG. 2.

Y

AMOUNTS

O

X' 20

X 40

YEARS OF CONTRIBUTIONS & BENEFITS
pension are 43.75 per cent of such wages. Even the total dependents' benefits will be higher than the total contribution). But the benefit curve stops only after 10 years of its start. This is based on the assumption that the expectation of life at 60, i.e. the age of retirement recommended for the purpose, is 10.1 years for males and 11.3 years for females. If the beneficiary dies, the retirement pensions stop to be paid; but the dependants' benefits up to a maximum of two-thirds of retirement pensions would still be payable (in case there are dependants). According to the family statistics adopted by the Study Group for the purpose of calculations, the first youngest child for an insured persons aged up to 60 years was ten years of age. He will be twenty after ten years. If orphans' benefits are admissible up to 18 years (for a child receiving education, according to the recommendations of the Group), he will receive benefits no longer after the death of the insured. The Group have also adopted the age of wife 8.0 yrs younger than the age of the husband. Thus, a man dying at 70 will leave a wife of 62 who is likely to survive him for 13 years. On an average, total benefit period in case of an insured person will, likely, be eliminated to 20 years of which ten years will be of full benefit period and the remaining ten years will be the period for maximum of dependents' benefits. Therefore, the total benefit curve flattens after about ten years of retirement. In this graph, AX is longer

2. Ibid.
than KX' indicating that at that point, total benefit exceeds the total contribution paid. A'K represents the deficit, which should be covered by other incomes, such as interest on the investments of the pension fund. If the total of such incomes exceeds A'K, it will represent surplus on an individual's account. Though surpluses and deficits may arise on individual accounts, but for the scheme as a collective whole, neither deficits nor surpluses should exist.

Workers contributions viewed in context with the benefits received by them, represent a sort of horizontal redistribution of income. Under an old age insurance scheme, income is transferred horizontally, and through time. On the one hand, income is taken from the workers and then it is transferred back to the same group at times when a number of that group grows poor in old age. Thus, redistribution over time is a substitute to planning savings on these lines. It is inter-group transfer of income because income is transferred from one group of workers to another who have generally same tastes, aspirations, fears pleasures, and psychological attitude towards life. Therefore, workers' contributions will be in the nature of a regressive tax if money taken from one hand is not transferred from the other to the members of the same group.

The total bill of ESI scheme collected from the workers has been sharply regressive up to the year 1956-57. The table on the next page shows the contributions and benefits made by and paid to the workers under the scheme.
**Table V.1**

CONTRIBUTION AND BENEFIT POSITION OF THE ESI SCHEME  
(1952-53 to 1958-59)  
(amounts in Rs lakhs)

<table>
<thead>
<tr>
<th>Years</th>
<th>Contributions</th>
<th>Benefits</th>
<th>Benefits % of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employers'</td>
<td>Employees</td>
<td>Joint</td>
</tr>
<tr>
<td>1952-53</td>
<td>1,31</td>
<td>31</td>
<td>1,62</td>
</tr>
<tr>
<td>1953-54</td>
<td>1,76</td>
<td>35</td>
<td>2,11</td>
</tr>
<tr>
<td>1954-55</td>
<td>1,88</td>
<td>97</td>
<td>2,85</td>
</tr>
<tr>
<td>1955-56</td>
<td>2,25</td>
<td>240</td>
<td>4,65</td>
</tr>
<tr>
<td>1956-57</td>
<td>2,59</td>
<td>322</td>
<td>5,81</td>
</tr>
<tr>
<td>1957-58</td>
<td>2,83</td>
<td>352</td>
<td>6,36</td>
</tr>
<tr>
<td>1958-59</td>
<td>2,90</td>
<td>381</td>
<td>6,71</td>
</tr>
</tbody>
</table>


This table shows that up to the fifth year of the implementation of the scheme, benefits were less than even the contributions of employees. In the sixth year, they were slightly more than them. Joint contribution by the insured persons, and their employers have throughout these years been more than 150 per cent of the benefits paid to the insured persons. Conversely said, benefits paid represented roughly sixty per cent or less of total joint contributions. Figure 3 presents a visual view of the cost and benefit aspects of the ESI scheme. This reveals that benefits rose after the third
Figure 3: Graph showing contribution & benefit position of the E.S.I.C.

1. Joint contributions
2. Benefits
3. Employers' contributions
4. Employers' contributions

Years

Amounts

year and the curve of benefits travelled slightly upper than the employers' contribution curve in the fifth year and afterwards, though the benefit curve always followed a lower course than the joint-contribution curve. The reason of this phenomenon has been, in the first instance, that many insured persons did not qualify for benefits due to imposing contribution conditions. Secondly, adequate medical services were also not provided in the beginning. In the third place, contributions were collected from the employers in the non-implemented areas also though no benefits were payable in those regions. This meant that contributions accumulated. Fourthly, actuarial estimates for morbidity have been higher. This resulted into the fixation of higher rates of contributions than actuarially necessary. However, the scheme has been passing through the transitional stage. Therefore, actual cost of benefits cannot be estimated at this stage. It cannot be said that contributions are high merely because in few years there is a surplus. However, this has resulted into the accumulation of a fund to the tune of Rs 13.92 crores by the end of 1958-59.

Although, nothing can be said with precision, yet it seems that contributions contain an element of poll tax and as such are regressive. Nevertheless, the ESI scheme is in the experimental stages yet. Hence, the peak of the benefit period has not reached so long. Besides, the Corporation has to carry on constructions of buildings to house its dispensaries and hospitals, offices and sanatoria. This is a

* According to the valuation Report for that year.
costly affair. But after the completion of these projects, the rates of contributions and benefits shall have to be revised in the light of the experiences gained. This line of approach shall require a little modification in so far as the old-age insurance is concerned. Under this scheme, no benefits shall be payable for a minimum qualifying period and contributions shall go on accumulating. Even for many years after the benefits have started to be paid, normal experience will not be gained. As the actuaries opine, the peak of the lead will be reached about some fifty years after the initiation of the scheme. This will permit a considerable time for re-thinking over the scheme. At this stage, it is to be recalled that the cost of old age insurance will be borne by the insured in collaboration with other parties. Therefore, this leads us to the discussion of employers' position vis-a-vis their contributive share, and the nature and effect of cost on them.

(b) Effects on the Employers

Of all the factors of production, labour is alone indispensable. But unfortunately, it was universally held that labour was just like a commodity in respect of its sale and purchase, or demand and supply. However, it has been lately realised that a worker has a head and a heart too. This has resulted into enactment of legislations giving a human status to dehumanised labour. Slogans to protect it against various risks encountered from womb to tomb, are often heard. Social security is one of such measures which protect the income of the labouring class in times of its involuntary stoppage.
Labour remuneration, whatever form or guise it may assume—wages, salaries, dearness allowance, welfare benefits, social security contributions or otherwise—constitutes an element of the cost of production. Therefore, social security contributions made by the employers should be studied in proper perspective. It will help to analyse labour cost into proper classifications and thus, crystallise an employer-attitude towards it.

But it is a sorry feature to note that the problem of labour remuneration has not been studied in proper perspective except for a tangential treatment in the Profit and Loss Accounts of the undertakings. If a scanning of the Annual Reports of the companies is done, one is unable to categorise suitably various amounts spent on labour on account of wages and fringe items. Schedule VI-Part II of the Indian Companies Act, 1956, lays down the legal requirements of Profit and Loss Account of a joint-stock company. According to this, the expenditure on each of the following items, inter alia, should be separately shown: (1) Salaries, wages and bonus, (2) Contribution to provident and other funds, (3) Workmen and Staff Welfare expenses. This is the prototype arrangement of items and this betrays a lack of dynamism in its treatment. New problems are cropping up every day in the field of labour and industrial relations which require dynamic treatment. These are quite new problems unknown in the past. In context of new environment, the accountants cannot afford to remain unaffected by these sweeping changes. They have
tremendous responsibility to adjust their profession to the changing contours of social relationships introduced by precipitate industrialisation and Five Year Plans, to the changing attitude in employer-employee relations aided by new personnel-administration attitude, productivity movements, development of corporate structure in substitution for proprietary ownership, detailed mechanisation in work and office and the last but not the least, Government's adoption of 'socialistic pattern of society' as its ultimate goal.

Various legislative measures in the field of social security and labour welfare require the following types of payments to be made over and above wages and salaries: (1) Contributions to ESI scheme (2) Contributions to EPF, (3) Gratuity, (4) Bonus, (5) Retrenchment and Lay-off Compensation, and (6) Welfare expenses. Treatment of various labour and employee remuneration items in the Profit and Loss Account of undertakings presents a veritable museum of eddies under the heading "Payment to and Provision for Employees." Sometimes one finds lumping together of all salaries, wages, commission, to managers and payment to sub-contractors under one head. In other cases, simply "Wages and Salaries" may be shown without giving any details whatever. Besides this, further complications arise due to the fact that the term wages and salaries may include a variety of payments. In a manufacturing concern, wages may be direct or indirect. Indirect wages may, on further sub-classification, be found to belong to factory or office, administration or distributions. Lack of proper
classification of these heads is encouraged (in one sense) by law itself which leaves the matter at the sweet will of the accountants. Advantage of dealing with such items separately in a systematic way cannot be overemphasized. Normal wages separated from the overtime wages may reveal useful information to the management itself that may subsequently help modify its policy.

Few writers on Accountancy have ever thought seriously of the payment of social security contributions as an element of cost although this is as important as the treatment of Reserve for Bad Debts or of Goodwill which are discussed threadbare in the text books. The result has been the growth of varying practices in their treatment by accountants. W.W. Biggs says that "The employers' contributions to National Insurance which is deducted from wages payable to workers, will be treated as wages in Cost Accounts. The contribution made by the employer, however, may be regarded as an indirect expense and apportioned between the factory, office and selling departments of the business. The details required for the apportionment, will be furnished by the Wages Book. Alternatively, as the employer's contribution is definitely part of the cost of employing the workers, it may be added to their wages and added to their direct expenses." Thus, he seems to be vague and indefinite and does not suggest any clear-cut policy. In course of my discussions with Accountants

of some Companies, I came to learn that contributions to the ESI and the EPF schemes are treated as overheads by some firms and as prime cost by others. This is a confused idea. The treatment of such contributions depends upon the fact whether they are paid on behalf of one category of workers or the other. Thus, contributions to the social security schemes should not be always supposed to represent overhead cost which is to be minimised at all costs but they should be given the status of that category of wages to which they belong. In this way, they should not be looked upon as an unnecessary evil for temporary treatment. Social security is a necessary cost incurred on the employment of workers. As such, it should be treated accordingly. If the contributions belong to direct labour charges, they will constitute an item of prime cost; if they are paid on the wage bills of travelling agents and salesmen, they should be recognised as distribution costs. Social security contribution on office salaries and administrative salaries will also find their due representation. They will be treated in the same way as the wages or salaries to which they belong. The management will not try to avoid the contributions as such but ... will think that it is the different type of wages that should be controlled and not the contributions independent of wages. Thus, if the factory oncost is avoidable, so will be the contributions to social security scheme calculated on the wages belonging to this element of cost of production. Proper analysis of contributions will, thus, change the attitude of management towards the scheme of social security in general.
Social security contributions have also been treated as an excise duty on a factor of production. On the other hand, some writers think it to be an indirect business tax and still others as an employment tax. Before judging the nature of social security contributions levied on employers, it is advisable to understand the fundamentals of tax itself. Tax has been defined differently by different authors. Seligman holds that "A tax is a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all, without reference to common benefits conferred." Here, from the phrase 'person to the government' is of vital interest for this discussion. Old age insurance contribution is not necessarily made by the employer to the Government — it is rather made over to the social security institution. Moreover, 'common interest of all' is a broad phrase to admit of any specificity like payment of benefits to the retirees. C.F. Bastable defines tax as "the compulsory contribution of the wealth of a person or body of persons for the service of public powers." The conformity of social security contributions to this definition is out of the question as its purpose is never the service of public powers. Indian Taxation Enquiry Committee (1924-25) have also come out with a definition that "taxes are compulsory contributions made by the members of the community to the governing body of the same

1. Quoted by Dr. R.N. Bhargava, Public Finance (Chaitanya Publishing House, Allahabad, 1954), p
2. Ibid.
towards the common expenditure without any guarantee of a definite measured service in return. 1 This definition bases on the foundation of an absence of quid pro quo. But it is obvious that contributions of the employers guarantee benefits to his employees. For this reason, they represent a proportion of wage-bill of their employees payable to the insurance institutions in order to finance the benefits guaranteed to employees in the event of the occurrence of specific contingencies.

Whatever be the nature of such contributions, the following points are distinctly discernible in their case. In the first instance, they are compulsorily payable. Secondly, they vary with the wage bill. Thirdly, they are related to certain benefits though they do not render direct quid pro quo always. And lastly, they are an element of cost of production. The last characteristic points to the fact that like other elements of cost of production, they will be passed on to others to the possible extent. Indeed, the first impact of the levy will be borne by the employers themselves. But a tax being analogous to a counterfeit coin, everybody wants to pass it on to others. It rests where any further shifting is not possible.

Shifting of a tax is only possible if the tax under consideration pertains to a 'commodity' with regard to which its producer enters into exchange relationship with other parties. The money burden of tax can be shifted backward or forward. If the social insurance contribution is shifted to

1. The Report, para 11.
the employees in the form of paying them wages lower than the previous rates by the amount or a part of the amount of such contribution, this will illustrate a case of backward shifting. But alternatively, contributions may be passed on to the purchasers of the commodities produced by such employees on whose wage bills contributions are payable. Then, it will constitute a case of forward shifting.

Theory of incidence of employer's contributions resolves itself in an inquiry into the proportion wherein its money burden would be shared between the employers by way of increase in the cost of production and by the employees by way of a wage-reduction on account of and incidental to the levy. This proportion depends on the respective elasticities of supply of labour by the labour institutions and the demand for it by employers. The proportionate burden on employees and employers is measured by dividing the elasticity of supply with the elasticity of demand (both for labour). Mathematically expressed

Employers' share: Employee's share:: e.s.:e.d.

where e.s. is the elasticity of supply of labour and e.d., the elasticity of demand for it. The e.s. is measured as the proportionate change in the quantum of employment divided by the proportionate change in the wages received; and e.d. is measured as the proportionate change in the quantum of employment divided by proportionate change in wages offered.
In Figure 4 DD is the demand curve for labour, and SS is the supply curve for labour. PM is the amount of wages paid to the employees in the pre-contribution state. After a levy of employers' contribution equal to TQ, the demand for labour shrinks so that D'D' is the new demand curve of employers for the employment of labour. OP, the quantum of employment in the pre-contribution state contracts to OP' in the post-contribution situation. According to this graph

\[ \text{e.s. } \frac{PP'}{KT} / \frac{OP}{MP} \]

and

\[ \text{e.d. } \frac{PP'}{OP} / \frac{QK}{MP} \]

Therefore, the burden of total contributions TQ will be shared between the employers and employees in the ratio of

\[ \text{e.s. : e.d. } \frac{PP'}{OP} : \frac{PP'}{OP} \]

\[ \frac{KT}{MP} : \frac{QK}{MP} \]

or \((PP' / OP)(QK / MP) : (PP' / OP)(KT / MP)\)

or \(QK : KT\)

The foregoing analysis relates to normal cases where both the demand and supply curves of labour are elastic and where the least-cost-combination has already been achieved in the pre-contribution period. In case the employer is a monopsonist in the labour market, his demand curve will be highly elastic and will run parallel to the base. Then, points Q and K coincide. Therefore, the entire contributions will be passed on to the employees in the form of reduced wages and the employers would not share any portion of the contribution burden.
where the workers cannot afford to stay out but are prepared to accept whatever wages are offered them, for labour will be inelastic and will run parallel to the OY axis. In this case points Q and K will again coincide and the burden on the employers will be nil; the employees will share the whole burden of contributions of employers by accepting reduced wages. Conversely, when the employees' organisation is a monopolist in the labour market, the supply curve will be highly elastic and it will run parallel to the base. In this case points T and K will coincide so that the burden of employers' share of contributions on employees will be nil and employers shall have to pay their contributions in full.

In a case where the demand curve is inelastic, it will be perpendicular on the base and will run parallel to OY axis. Here again, T and K will coincide and the entire burden of employers' contributions will be borne by employers themselves and the employees shall share no portion of it.

The foregoing discussion pertains to a case of backward shifting of employers' contributions. The burden of tax shared in this way between labour and employers, it will lead to forward shifting on the part of the employer who is a producer of commodities at the same time, while simultaneously being a purchaser of labour. Forward shifting may be done by charging higher prices from the consumers of his product in consideration. Since the employer's contribution that could not be shifted to employees will now enter the cost of production, the cost curve of the producer will now be inflated. In Figure 5, C is the cost curve of the producer and R is the
revenue curve or price curve. After bearing KQ portion of the contributions that could not be shifted to labour, the new cost curve C' will travel above the old cost curve C. The old equilibrium point M will now rise to Q. The tax burden KQ will be apportioned between the producer and the consumers in the proportion of KN and NQ respectively. Thus, the actual money burden of contributions out of the total contribution TQ will be only KN on the producers. Of the rest, TK will be shifted to labour in the form of wage-cut and NQ to the consumers in the form of increased price of the product in consideration. However, as in the case of backward shifting, the situation of curves will change with change in the elasticities of demand for product on the part of the consumers and its supply by its producers. In case of a perfectly inelastic demand curve, points K and N coincide and price will rise with the full amount of tax and producers will shift their entire burden on to consumers. In a case of perfectly elastic demand curve, points N and Q coincide so that the burden on the consumers will be nil and the producers will carry the full load of their share. In a case of perfectly inelastic supply curve, points Q and N will coincide and the entire burden of tax will be borne by producers and the price of the product will not rise on this account. In a case of perfectly elastic supply curve, points N and K will coincide and entire tax burden QK will be passed on to consumers. Taking an over-all view, it may be said that in case the employer is a monopsonist in the labour market and a monopolist in the commodity market, he will shift the entire tax burden
either to labour or to consumers or to both whichever course is expedient for him and maximises his 'net monopoly revenue'. On the contrary, if the labourer's organisation is a monopolist and consumer class is monopsonists, no portion of the employers' contribution will be passed on to other parties and entire burden will be sustained by the employers themselves. It may be noted that, retrenchment or wage-cut may be prohibited by law. In that case, the position of labour will that of a monopolist. However, perfectly inelastic or elastic demand or supply curves are hypothetical cases. The reality lies in between these two extremes. The elasticity of demand of a commodity depends, among other things, on the extent of postponability of consumption. For example, demand for staple food articles is highly though not perfectly, inelastic. Their consumers can neither substitute other articles for these to any material extent nor can they curtail or postpone their consumption materially. Other articles may have moderately elastic demand or supply curves. However, the foregoing analysis helps as a torch-bearer to the problem of shifting of social insurance contributions and the possibility of its influencing the price of the product in the market and its effects on the employment of labour. The discussion only discloses that there is a theoretical possibility of shifting the employers' contributions in the first instance to the employees in the form of wage-cut and then to the consumers in the form of increased prices of the product. Thus, firstly, the whole burden of the employers' contributions will not be borne by them; and secondly the rise in the prices will not be
equal to the amount of the employers' contributions though it may form the upper ceiling. The argument also gives to understand that the burden of contributions between employers inter se may sometimes, be uneven depending on their ability to shift it. This ability differs from case to case and region to region. This may in its turn influence their decision regarding allocation of resources between man-power and labour-saving devices. Some countries, like New Zealand have, therefore, adopted the method/taxing profits in stead of taxing on wage-bills in order to make the burden more equitable as between employers. This has an additional advantage of leaving the rate of substitution between the factors of production (resource-allocation) unchanged and thus not affecting employment of labour. But at the same time, it is uncertain in respect of the amount that will be realised for financing the programme and therefore, it is not suited to conditions in India, where tax evasion is a wide-spread hobby and profits are amenable to different interpretations by different parties.

It may be noted at this stage that the above discussion has ignored the effects of benefits done to employers. Social security benefits increase the productivity of labour and also reduce absenteeism, and disinterest in work (and consequently, minimise the waste of raw materials and tools). They also increase the loyalty of the workers in the long run which is very helpful for sound personnel management. All these advantages, if and when realised, lower the cost of production. In this way extra savings in cost tend to inflate the profits of the producers. Thus, the expenditure on account of contributions may be more than recompensed in the long run. But one
thing should be clearly confessed. Though, old age insurance scheme does increase the efficiency of labour force, its health and morale, but it does not do so in the working life of the beneficiary. Benefits accrue to the employee after the cassation of gainful employment, and at a time when increased efficiency is a mockery to talk of. Hence, the employer is not likely to be benefited much for sometime. But this stabilizes market conditions by ensuring an even flow of purchasing power. This will keep up the size of their consumption in their old age. This will include the consumption of the products of the industry covered. It will, thus, increase their turnover and hence profitability, and consequently push up the production. It also saves worry to workers. The certainty of getting subsistence in retired life spares funds for other necessary consumption in the working life such as medical treatment and better nutrition, which could have been possibly set aside for future provision. Labour is prone to take a short run view and the effects of a pension plan may not be immediately shown. American experience shows that an introduction of employee-pension scheme does not necessarily bear a positive correlation with the various indicators of good industrial relations in the short-run. The following table summarises the results of introducing employee-benefit plans in 254 American firms. The results presented in the table No. V.2 show that the pension plans have been the least effective in minimising strikes or labour turnover or increasing efficiency or loyalty of the working force. But
**Effects of Plans**

<table>
<thead>
<tr>
<th>Effects of Plans</th>
<th>P L A N S</th>
<th>O F</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Pension</td>
<td>Bonus</td>
</tr>
<tr>
<td>No. of firms</td>
<td>86</td>
<td>81</td>
</tr>
<tr>
<td>Strikes</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Reduced labour Turnover%</td>
<td>25.6</td>
<td>34.6</td>
</tr>
<tr>
<td>Increased Efficiency %</td>
<td>27.9</td>
<td>49.4</td>
</tr>
<tr>
<td>Increased Loyalty %</td>
<td>50.0</td>
<td>63.0</td>
</tr>
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**SOURCE:** Karunakaran, Profit-sharing in India (Thesis submitted for the degree of Ph.D. in Economics, 1956, M.U., Aligarh), page 159, taken from US Senate Report 610.

The facts are incomplete. In the first instance, the various indicators studied are influenced by a variety of other factors, and it is not known in the present case how far were they working simultaneously. The study is not again comparable over time. For instance, the number of strikes in the past is not known so that the effectiveness of the plans may be gauged. Moreover, much depends on the administration of personnel too. Since the same undertakings with no change in organisational set-up were not selected for the purpose of the study successively, nothing can be said about the part played by those factors on the betterment of industrial relations. Hence, the results are not exactly as they seem. Nevertheless, it has been agreed that "a pension scheme is too remote to be
an effective output incentive and those figures suggest that it is not outstanding in securing employee goodwill. Yet on its merits, no one could deny that a pension scheme is one of the most beneficial long term means of raising the status of the employee.¹ This observation, particularly the last one, should not be belittled. Industry as a whole has a very long life in the industrial history of nations. Hence, if a plan is beneficial to the industry as a whole in the long run, it is worth attempting and the short-run considerations to odd employers may be disregarded.

In so far as the discussion on backward shifting of employers' contributions is concerned, it may be related that it is a myth that the wages of the employees will be depressed as a repercussion to the introducing of a scheme of old age insurance. Wages of industrial workers are already so low as to permit any further cut. It has also been rightly observed that "people—particularly in the lower income groups—are defensive of their standard of living, and try to ensure themselves a certain take-home pay."² It is not possible to effect a wage cut, particularly in this country where there is hardly any margin for savings and the employees' contributions will reduce their pay-packet too. The ES.I and the EPF schemes are in operation for the last eight years.

¹ Karunakaran, Profit-sharing in India, p 159.
Under both the schemes, a wage-cut on account of employers' liability for the contributions is illegal. Thus, adequate legal safeguard is available to workers. The study of the effect of the employers' contributions will remain incomplete if a reference is not made to the mobility of industries to other regions in order to evade the payroll levy. Thus, if the old-age insurance scheme is implemented in U.P. alone, the employers may be tempted to shift their undertakings to other centres outside U.P. If this is not possible, they will be seriously put to disadvantages in the home market where the producers of other States may offer competition by cutting prices. This fear may be alleviated by banning the imports from other States. But this will give rise to many problems in the field of the inter-State trade and commerce. Here, it may be noted that shift of capital is not as easy. Moreover, the employers covered under EPF schemes are paying contributions in all States. Thus, the conversion of the EPF scheme into a pension scheme will alleviate such disadvantages. In unimplemented areas, employers may be levied special contributions which will put all of them on equal footing irrespective of the area of their productive operations.

(c) The State

The proportion of cost of old age insurance to industrial workers which the Government should bear needs be met from the coffers of the State which is made up of the revenues realised from the general tax-payers. Thus, the State shall have to raise the fund from taxes in whatever guise they may wear. Most of the operations of public finance resolve into a
series of purchasing power. These transfers are made by taxation or otherwise from certain individuals to the public authorities and back again from these authorities to other individuals by way of public expenditure. Therefore, the cost of social insurance realised from the general taxpayer in the form of taxes will essentially be a redistributive measure of national income.

Income is redistributed by the State by taxing the comparatively rich and then by transferring the proceeds to the underdog, through the machinery of public expenditure. The Cambridge formula of taxation asserts that the rich should pay more than they think they pay whereas the poor should think they pay more than they do. Whether this fictitious equilibrium of errors is maintainable or not, it has been widely held that the rich have greater taxable capacity than the poor. This contention is based on the assumption (and to a great extent on the fact) that the rich with their oppulence are in a position to consume even those commodities whose consumption is less needed socially and less intense subjectively, and thus, postponable, while the poor have to postpone more intense and less dispensable wants. This has resulted in a national disequilibrium of consumption as between the different strata of population. Its consequence is manifest in the accrual of a lesser than attainable social welfare. Prof. Robbins, however, challenges the validity of this assumption and maintains that the law of diminishing marginal utility is not scientifically verifiable. He says that, "It is safe
to say that a great majority of English economists accepts them as axiomatic. Yet with great diffidence, I venture to suggest that they are in fact, entirely unwarranted by any doctrine of scientific economics."¹ He further expresses the view that "In Western democracies, we assume for certain purposes that men in similar circumstances are capable of equal satisfactions. Just as for purposes of justice we assume equality of responsibility in similar situations as between equal subjects, so for purposes of public finance, we agree to assume equality of capacity for experiencing satisfaction from equal incomes in similar circumstances as between economic subjects. But although it may be convenient to assume this, there is no way of proving that the assumption rests on ascertainable facts."² But in my opinion, if scientific analysis is carried too far, the whole edifice of economic science will collapse, for it bases for the most part of it on human psychology. Apart from psychological and physiological differences between man and man, which is the gift of inequality of opportunity itself and has thus, grown into a self-generating and self-perpetuating force, the whole mass of evidence in the measurable part of human life points towards conclusions favourable to the assumption of equality of average human behaviour in similar circumstances. Average human reaction to the various stimuli of luxuries, comforts and necessities may be safely assumed to be identical all over the surface of the globe. A hungary man will prefer a loaf of bread to an otherwise most pleasant piece of orchestra music.

2. Ibid. p 140
The entire foregoing discussion boils down to the statement of the law of diminishing marginal utility of money incomes to men at large which states that the marginal utility of a unit of money will be lesser to a rich man than to a poor. Therefore, if wealth is transferred from the rich to the poor, it will confer greater benefit on the poor than its infliction of sacrifice on the rich. In figure 6, YD is the curve measuring the marginal utility of money. If B has an income equal to OB and A equal to OA, marginal utility of money to B is DB and to A it is AK. Total utility of money to B will be equal to YDBO and to A equal to YKA0. A is a poor member of society and B is richer. Total utilities of income enjoyed by A and B jointly will be equal to YKA0 + YDBO. If a tax equal to BB' is imposed on B and afterwards the proceeds of this tax are entirely transferred to A by means of public expenditure (AA' = BB'), the total utilities of money in the post-taxation situation accruing to A and B will be equal to YK'A'O + YD'B'O which is greater than the total utility in the pre-taxation state (YDBO + YKA0), because the gain by public expenditure accruing to the poor i.e. KK'A'A is greater than the loss of utility to the rich i.e. DD'B'B, as can be graphically viewed. Hence, the assumption that welfare will be maximised by progressive taxation as a tool of income redistribution may be appreciated.

But the above analysis is too simple. It must be distinctly understood that the operation of public finance is concerned with the maximisation of social welfare which is the state in society is happier not the individual members of it. Social welfare is not necessarily the sum total of
individual welfares. Society is composed of heterogeneous individuals who do not behave always in the same way. Welfare itself being a subjective phenomenon, is really hard to measure. But, objectively, social welfare can be said to be maximum when in the post-reorganisation situation (via taxation and expenditure or social insurance levy and benefits) a number of individuals gets a combination of goods and services that it prefers to one possessed in the pre-reorganisation state, and nobody is worse off than he was before. But this generalisation is distorted by the fact that in the post-reorganisation situation some may be worse off too. (And this is almost irremediable.) For this a principle of compensation is said to be in operation. Stated plainly, if the loss on the one side is more than compensated by the gain on the other side, social welfare will be maximum. Moreover, the evaluation of social welfare is based on social objectives rather than individual considerations. Thus, greater social welfare may be attained notwithstanding the loss to some members being compensated by the gain to others.

In all the economies of the world, two problems are of supreme import. One is the problem of production and the other relates to the distribution of national income, and raising the standard of living of the community. Sometimes, under-consumption and maldistribution of national income may do more harm than the actual shrinkage in its size. Hence, for developing economies like India, both an increase in the size of national income and its redistribution are equally important.
Both should be carried on simultaneously, otherwise it may be discovered after the size of the 'cake' has increased that it has grown too delicate to admit of any cutting and redistribution without tearing it asunder. It may then require a drastic revolution to carry on the plan of redistribution, which may itself retard the growth of national income and the history of poverty may repeat itself. Therefore, as Prof. J.K. Mehta says: "We need both economic growth to be looked after and allocation of resources and distribution of wealth to be properly affected."¹

An old age insurance is the measure of redistribution of income. It redistributes income horizontally with inter-group transfers within the working class. It also transfers income vertically from the employers and the general tax-payers to the insured class. Hence, the State should not grudge the payment of contributions to such schemes. It is only a tool to produce public welfare through a selective device. Society will gain much from it because benefits are intended to maintain the homeostasis of the society in the absence of which, it will lose resistance to social maladies and consequently, its growth will be hampered. Today, the State exists to effect public welfare. Thus, it will be in the nature of discharge of its normal duties that it should pay old age insurance contributions. It will facilitate the business of the State in producing social well-being.

Had the effects of the cost of old age insurance been confined to the insured, their employers and State the above discussion might have ended. But due to the diffusive nature of its cost, an element of complication creeps in. This is due to the fact that the such plans affect a larger section of population than the group covered under them. Since every individual is both a consumer and a producer, the effects of such schemes are to be considered in that light.

An employee is a producer of service while he is a consumer of commodities he himself produces. Thus, the incidence of social security contribution may be two-fold on him: in the shape of a cut in wages and in the increased price of the product. But the consumer is a much wider term. It is not necessary that the employee is a consumer too (of the article in consideration). But the consumers of the article may be affected as discussed in section (b) above. Ultimately that proportion of the employers' contributions which cannot be passed on to others will enter into the cost of production and consequently may push up the prices. So also for the State's share. The State may realise the cost of social insurance from the general tax-payer by imposing fresh social insurance taxes or a proportion of income tax or other State revenue may be earmarked for this purpose. An indirect tax e.g. sales or purchases tax may also be levied. Income tax can be made progressive and the burden may be made to conform to the res-
pective abilities of the taxpayers to pay the tax. Sales tax will, on other hand, be regressive.

For assessing the net effect of old age security scheme on the general consumer, a reference to the last Chapter is necessary. It was seen that 16-2/3 % of wages will be required to finance old age insurance scheme. Of this, Government, both Central and State together, will share 1-2/3% of wages and the employers 8% thereof. If the State recovers the cost by imposing sales tax, and the employers cannot shift any portion of their share of contribution, total burden on consumers will not go beyond 9-2/3% of wages (8% employers' and 1-2/3% State share). It will be about 1.5% of the cost of the product. This will be the maximum burden that the consumers may be called upon to pay in the shape of increased prices. That is, by no criterion, a heavy rise in the prices. Moreover, the contributions of the employees and employers to the EPF scheme are already being realised which if raised to 8-1/3% will necessitate a very insignificant further rise in the prices. In addition to this, sales taxes are State levies. Hence, the Centre's share of one per cent of wages will not enter the price of the product. This will further lower the net burden on the consumers. Nothing very alarming will ensue on this score as such.

A question may be posed here: If the employers and State both recover their share from the general public, why not recover the whole cost of old age insurance from the general tax-payer? In other words, this will amount to preferring
a social assistance technique, which, as I have already discussed, is not a suitable technique of protection. Old age insurance is a productive of social good. The aged population is either maintained by its liable relations who are themselves poor or it takes to beggary when it is maintained by the general public. Therefore, a scheme of paying old age pensions will raise the propensity to consume of the poor class, which is good for the employers too and the nation in general as it will raise their standard of living.

(e). Other Effects

It is alleged that old age insurance scheme will affect the competitive strength of the covered industries in the foreign market. If however, the production is solely meant for foreign markets, the impact of payroll contributions will be manifest on the foreign trade to the extent as discussed in section (d) above. That, we have seen, is not an alarming proportion and there seems no danger of losing foreign markets on this account alone. Moreover, the Export Promotion measures may lighten the severity of the consideration if it is at all manifest.

Old age benefits may change the pattern of consumption by pushing up the consumption of the articles mainly consumed by the aged. But the present pattern of consumption of the general population is too rigid to accommodate for such considerations, nor the benefits are expected to be so liberal to
a choice on the part of the beneficiaries beyond the limit of necessaries.

The fear of adverse effects on employment is also not based on facts. Substitution of factors of production is not as easily attainable as it can be theoretically analysed. Moreover, the substitution takes place as a step towards rationalisation, which is long overdue even without the introduction of such schemes. Except with the consent of the government and willingness of the trade unions, retrenchment is not possible. The EEF scheme does not seem to affect employment situation adversely. Hence, a pension scheme which will be a virtual conversion of EEF into a pension payment will not change the situation.

It is often argued that the levy of payroll taxes on employers will adversely affect the process of capital formation. But capital formation depends on the level of savings and the investment market within the country. If net profits of industrial establishments are any index of savings and hence of capital formation, it can be maintained that the available evidence does not show that the profits of industries have declined as a repercussion to the levy of payroll contributions under the ESI or the EPP schemes. According to the findings of Dr. G.N. Arora, "Taxation did not affect also the capacity of the industry to save and reinvest, as is evident from the fact that net profits of industry were not affected adversely by the total taxes."\(^1\) So far as

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the investment market is concerned, it is not governed by considerations of social security levy. Moreover, a pension scheme itself produces large funds which may push up the creation of social capital in the country. This problem will be taken up in the next Chapter.

**SUMMARY AND CONCLUSIONS**

To recapitulate the foregoing discussion, the cost of old age insurance is borne by the employees and their employers and the Government. For the insured, it is in the nature of compulsory savings. This is a tool of horizontal redistribution of income between workers inter se. Since the take-home pay of the employees is reduced due to the payment of contributions, the present standard of living may suffer as a consequence. But, the inflow of an even income in the retired life more than retrieves this loss.

For employers, contributions are an element of labour cost of production though the accountants have paid little attention to the problem. It is shifted backward and forward and the net burden on the employers may be less than the actual contributions. The maximum rise in the cost of production may not, thus, be more than 1.5%. Thus, the fear that the employers' contributions will jeopardise the competitive strength of the industries into the international field or the internal market is without foundation. Introduction of old age insurance scheme in U.P. alone may create regional disparities in the competitive strength of the employers; but since the employers are already paying their share under
the EPF scheme, its conversion into a pension scheme will not entail fresh burden on U.P. employers.

State contribution is a device of redistribution of income. This may increase the burden on the tax-payers; but in this case too, this burden will be insignificant. Moreover, it is justified because it is productive of social good.

Old age insurance contributions will not affect capital formation because it depends on a variety of factors quite independent of social insurance scheme. Evidence also does not justify this fear. As a matter of fact, the introduction of old age insurance results into the accumulation of large funds which step up the process of capital formation and help creation of social capital. I propose to discuss in the next Chapter, the importance of social insurance funds in the national economy fully.
PART THREE

ADMINISTRATIVE IMPLICATIONS OF OLD-AGE INSURANCE
In the previous Chapter, a reference was made about the accumulation of pension funds. The present Chapter is concerned with the financial management and investment of such funds. The subject-matter of this Chapter has been divided into two broad sections: The first section discusses the financial system suitable for the adoption of pension schemes ab initio and the second is an examination into the investment policy of such institutions. The size of a pension fund is itself governed by the financial system of the scheme. A discussion of this problem should, therefore, precede others in order to make a full appraisal of the problem.

1. The Financial System of Pension Scheme.

The type of the financial system to be adopted by social insurance institutions depends, inter alia, on the nature of the risk provided for. It determines the expediency of balancing income to expenditure over short, secular or a fairly long period of time. Contingencies covered under social insurance schemes are classifiable into short-term, long-term and secular ones. Contingencies related to morbidity are generally of short duration. Unemployment requires a long-term planning. In the short run, there may be a boom condition in the employment market to the virtual elimination of unemployment from the territory as experienced during the period of Wars. But depressions in economic activities and consequent dete-
pioration in the employment situation are experienced over a long period with a sort of rhythmic sequence. Therefore, the coverage of this contingency may require a long-range policy. Nevertheless, since this is an avoidable contingency, it needs no perpetual planning. Old age needs a perpetual planning; in no case can it be eliminated altogether. But even the long-period contingencies may be financially adjusted over short periods. This problem needs a detailed discussion so that a suitable system may be evolved for the proposed pension scheme.

Based on time element, there are two financial systems. One is the budgetary system** and the other is the actuarial reserve system. The budgetary system of financial adjustment consists of the mechanism whereby an equilibrium is maintained between its resources and outgoings over a short period of time, usually a year. It is like government budgets in which revenues are raised for estimated expenditure for the year. And, perhaps, this has given it its name. According to the ILO, "The assessment system aims at maintaining a current equilibrium between income and outgo by adjustment of contributions or, occasionally, of benefits." The basic

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* USSR claims to have abolished unemployment since 1930, when the entire world was in the grip of a severe depression. According to Maurice Dobb, "Since 1930, when the construction of projects of the First Five Year Plan substituted labour scarcity for unemployment, the unemployment benefit scheme has been officially suspended...." Soviet Economic Development Since 1917, Routledge and Kegan Paul Ltd. London, 1957, pp 371-372.

** Also called Assessment, Pay-as-you-go, or Distribution-of-Cost System.

- Also called Accumulation or Capitalisation System.

1. Approaches to Social Security, p 78
The principle underlying this system is that the total income from contributions and subsidies etc. should be sufficient to meet the cost of benefits and administrative expenses over the period, say, a year. The system, thus, avoids all elaborate and complicated calculations regarding actuarial estimates. Under this system, contributions are based on 'intelligent guesswork'. The working of the scheme in the course of the year reveals the discrepancies if any and the rates of contributions are adjusted to remove it accordingly. In this way, by what may be called a trial-and-error technique, the rates are stabilised. The unit of periodical adjustment is generally one year and the accounts are finally closed at the end of the year. In the beginning of the next period, the scheme is run on a clean slate. Strictly speaking, there are no funds as the closing balance of each year may be negligible. More so, these balances are to be eliminated by the aforesaid trial and error. In fact, those who assert that the budgetary system is preferable, belong to the unorthodox school of thought. They maintain that social insurance is more social and less 'insurance'. Therefore, it need not strictly conform to the private-insurance principles and that it should be more understandable and less complicated.

Actuarial Reserve system, on the other hand, bases on the orthodox philosophy of a strict application of the principles of private insurance to social insurance and that it should be 'actuarially sound'. It calls for elaborate calcu-
lation of various actuarial estimates and is consequently complicated. It takes into account in fixing contribution rates mortality rates, retirement rates, invalidity, withdrawal, widowhood and remarriage rates, rate of interest and estimate of administrative expenses. On the basis of these estimates, the present value of future benefits and future income is found out. Then, taking the rate of realisation into account, the probable cost is levelled down and the rates of contributions are adjusted accordingly.

Accumulation system may be operated on individual or group bases. Under an individual accumulation plan, contributions paid by and on behalf of each insured person are entered in his individual account for the purpose of accumulating the sum needed for paying benefits to him, account being taken of compound rate of interest. This system has been followed in the EPF scheme of India. This is a strict application of the principle of life insurance to social insurance. The total value of future contributions and interest on his account should balance the future liability for paying him benefits. In other words, this is a scheme of compulsory savings, the accumulated balance of which is returned to the beneficiary in instalments.

Besides, there may be collective accumulation system. Under this system, the cost of benefits for the whole group is recovered from the identical rates of contributions from the members of that group. This takes into account the inertia of large numbers and the individuals of the group stand to-
gether in sharing the risk of old age. Under this system, the insured persons may be grouped according to 'generations' or 'wage-classes'. The former implies the grouping together of persons born in or about the same year. The latter is done according to the earnings of the insured. This is based on the calculation of average annual contributions which satisfy the conditions of financial equilibrium for an insured group assumed to be financially independent, either indefinitely or over a specified period of time. Under accumulation systems, periodical valuation of liabilities and assets of the scheme are made. Fund is smaller initially but it accumulates progressively. In one sense, the accumulation system is based on the assumption that if the future generations turn against old age insurance and decide to stop the payment of further contributions, the accumulated fund should be sufficient to liquidate all obligations undertaken in respect of those who have already established their rights for benefits or to return the contributions received from them.

In between the assessment and accumulation systems, there may be modified systems. Under the former, lack of funds is a serious drawback in times of emergencies. Therefore, by setting a higher rate of contributions than what is actually required, a Contingency Reserve Fund may be created. This may be drawn upon in emergent circumstances.

For short duration contingencies, budgetary system may be profitably adopted. But, in case of long-duration contingencies,
and for those contingencies which are more or less certain to occur, accumulation system may be more suitable. It may be noted that the Beveridge plan envisaged a consolidated system of the budgetary type. But, State subsidy has been a powerful factor in the British social insurance scheme to effect an adjustment. Revenues of the State to be made over to National Insurance Fund are voted to the tune of the deficit left after adjusting other incomes. Though weekly contributions are based on actuarial estimates, yet the scheme is not actuarially funded, as the contributions are utilised to meet the current claims of benefits on account of older beneficiaries and contributing parties have not been paying contributions throughout the working lives of the insured at the rates appropriate to meet the level of benefits to be paid to them ultimately. The only fund which is being built up to meet the liabilities of the scheme, however, consists of assets taken over from the former schemes and the surplus arising from the working of the current schemes in the earlier years. The pension scheme is now underwritten by the Exchequer for the period 1955-60 up to a maximum of £ 325 m. of deficiency. In this way, in spite of the fact that the flat rates were originally assessed to be of actuarial equivalence to the value of benefits payable under the National Insurance scheme during the future life time of the insured entering the scheme at the minimum age, and on the assumption that the balance not required for current benefits for those entering later, was accumulated at compound rates of
interest until required to pay pension benefits, it has never been the Government's policy to build up actuarial reserves for pension liability on a national scale. This has led to a serious criticism of the government policy on the part of the insurance actuaries. It has been alleged that, "One of the consequences of 'non-funding' system of finance is the creation of a permanent gap between expenditure and income from contributions etc. No wonder that insurance men have never taken kindly to the use by the State of the word 'insurance' for a process that flouts almost every recognised insurance principle."¹

In the United States, the method of financing is the actuarial one, though it has never been fully applied and the realisation of full contributions has been postponed many times. Nonetheless, the programme is in close actuarial balance since the level premium equivalent of contribution rates varied from the estimated level premium cost by no more than one-fourth of one per cent. of covered payroll. The level premium cost of Old Age and Survivorship Insurance programme is 8.27% of the payroll (at intermediate cost estimates) and the level premium equivalent of contributions is 8.02% of payroll.² These rates are, however, subject to


² The level premium is the per cent of covered payroll that, if charged from now on indefinitely into the future, would produce enough contribution and interest income to the fund to provide for the cost of the benefit payment and administrative expenses.

periodical re-examination in order to take account of emerg­
ing experience and changing conditions.

In India, Prof. Adarkar in his Report on the Health
Insurance for Industrial Workers, examined in some detail,
the merits of the budgetary system. He preferred it for the
following reasons. In the first instance, he thought that
non-availability of data will be a serious handicap in working
out the actuarial estimates. Secondly, cost of sickness insu­
rance varies from year to year. Hence, budgetary system is
more suited to take account of changing experience. Thirdly,
that India had no definite rules for retirement and entry
from and into industrial force. It was, therefore, difficult
to estimate probable income and cost under the scheme.
Fourthly, annual budgets will be adjusted more easily. Fifthly,
it is easier to understand and administer. Then, capitalisa-
tion system could estimate only cash benefits and the sickness
schemes pay medical benefits too. Hence, in order to avoid
dichotomy of financial system within the same small scheme,
budgetary system was preferable. Lastly, he opined that the
actuarial system has not worked well in Great Britain; thus,
it should not be adopted by choice in India. He, however,
suggested the creation of Contingency and an Epidemic Reserve.

The ILO experts who reviewed the Adarkar Plan endorsed his
suggestion, ruling out the necessity of any Reserves. They
maintained that the excess cost of medical benefits was the
responsibility of the State Governments; and that non-arising
of benefit claims in the initial six months of the scheme
due/non-fulfilment of qualifying conditions would automically
result in a surplus. Thus, no reserve was required.

It may be noted that the contentions of Prof. Adarkar were quite reasonable at that for his scheme, but now they need reconsideration. Non-availability of data is not so serious a problem today as it was then. The working of the ESI and the EPF schemes have produced valuable data on which actuarial estimates may be based. Moreover, old age is more or less a definite contingency. Its cost can be estimated in advance fairly. Under a pension scheme, benefits are almost negligible in the beginning and they rise afterwards; thus, an accumulation system is more suited for mounting cost of later years may be provided under this system by accumulating funds. Again, a permanent industrial force is emerging in India too and the pension scheme would further stabilise it. There are definite rules of entry into employment and retirement age may easily be fixed and enforced now. Periodically, estimates may be reviewed easily if the data are available. Slight variations that may be required to accommodate emerging experience, may be easily carried into effect. As for the complication of the system, it is no longer complicated for beneficiaries. If actuarial complications lend soundness to the scheme, in my opinion, they are worth the trouble. Moreover, if the capitalisation system has not been enforced in the U.K. that alone justifies its discarding. In the U.K., State assumes unlimited liability to meet the deficit of the scheme which cannot be expected here in view of its repudiation of any financial liability and her resources and commitments in
other respects. In India, the scheme has to be started on a clean slate and the surplus of various schemes of Great Britain transferred to the N.I. Scheme will have no parallel in our case to serve as a cushion to absorb the shocks of emergencies.

Actuarial technique of finance bears a resemblance to private insurance which is governed by the attitudinal approach of the consumers of insurance. Actuarial reserves are required to be created in private insurance for the fact that an insurance office may go out of business due to pressure of insurance market or the consumers may become less 'insurance-minded' and they may shift their custom to some other form of old age protection. This may necessitate the liquidation of all claims that have already matured or the return of premiums already received without any current receipt of income. But, however, public programmes need not be so whimsically governed. Government has the power of eminent domain. It can exercise compulsion. In this way, a continual inflow of contributions maintains the solvency of the fund indefinitely. If the raison d'etre of the actuarial reserves is the psychology of fear that the posterity may be unwilling to tax itself for the payment of benefits to the old age insurance beneficiaries, there is no guarantee against an equal irresponsibility on the part of the insurance institutions to declare themselves insolvent and refuse to own liability towards their past obligations. A generation seeking opportunity to repudiate its past obligations would hardly
hesitate to raid the pension fund if this seemed expedient. But this is true if the public bodies participate in the finance of the scheme. In case of employer-employee financed schemes, the Government has no liability to guarantee the solvency of the Fund and the contribution income has to be sufficient to provide for the full cost of the scheme. Position does not change if the State participates in the finance to the extent of making fixed contributions and does not assume responsibility to meet the deficit arising on the working of the scheme.

Over and above these considerations, the actuarial reserve technique of social insurance finance exerts negative influence during full employment period. Since under this plan, a continual expansion of benefits takes place, and this approach requires that future benefits be fully covered by present contributions, prospective future disbursements will always be greater than current disbursements and current rates of contributions, if they are to provide fully for future disbursements, should necessarily be in excess of the rates of current benefits. This gives the approach a negative character. The depressing force of the system will more than absorb the stimulus to consumption provided by current benefits. An actuarial basis of financing calls for another consideration. The retired person who has contributed in his working life, has carried on productive activities then; but he is disbursed benefits after retirement from work when his productive activity ceases. He will, thus, consume from the present production of goods and
services; for, though his contributions can be funded, goods
and services cannot be so funded. It will, in this way,
create a productionwise disequilibrium.

A pay-as-you-go scheme has much to recommend itself as
an alternative. It has not inherently depressing effect of
an actuarially funded plan. The benefits under this plan
are more or less equal to contributions both taken as a whole
within a given period of time. Therefore, what is taken
from one hand, is given back from the other. The net effect
will be nil, because the depressing effect of contributions
will be offset by the expensive effect of benefits. Moreover,
expenses in each year or period are met from the current
contributions which form a part of the cost of current pro-
duction. Thus, it will have no adverse effect on production-
wise equilibrium. Moreover, the contributions will be smaller
per rupee of future benefit claims, giving it an anti-depressive
character. When a plan is put on a national basis and there
is no danger of its cessation in future, . it will be
superfluous to create a full actuarial reserve. On national
basis, however, such a fund will provide practically no
additional security. The assets of the fund will be normally
invested in order to earn a potential rate of interest. If
the investments are made in Government securities (which is
the usual practice of the social insurance institutions) the
indebtedness of the Government to the public will now travel
via the Fund. Whatever benefits are payable to the bene-
ficiaries by the fund will now be partly paid by the Govern-
ment in the form of interest on securities. In order to meet
the debt claims, the Government will tax the people. Thus, public will bear the ultimate liability of such payments. Therefore, actuarial soundness under a capitalisation system is no more established than under a pay-as-you-go scheme, but for the fact that the former will earn interest which the latter will not. However, the fact must be properly appreciated that public indebtedness also confers benefits. In the absence of the fund, indebtedness of the Government will shift in favour of some other party to which a higher rate of interest may be payable. This again will be ultimately realized from the general taxpayer. Therefore, the burden on the public will be identical under the two schemes. But as has been said earlier, budgetary system has no stabilizing force either. In times of depressions, it assumes a peculiar characteristic. Since retirements are likely to be larger in such periods due to non-extension in service-terms of the retiring labourers, the contribution rates will have to be raised in order to meet increased benefits. Diminishing wage-bills will be taxed highly to yield larger income, or at least the existing level of income. Impracticable as this requirement is, a rigid application of budgetary system cannot be championed.

Thus, in times of depressions a departure from the strict principle of pay-as-you-go scheme would be inescapable. A modification may be effected by charging a little higher rate of contributions during a period of prosperity and creating a reserve out of the resultant surplus. However, the negative effect that is likely to ensue will be milder than under
an actuarially funded plan. This fund will be later utilised for meeting benefit payments in excess of current contributions during the cycles of depressions. A further modification may be effected by reducing the contribution-level itself during the periods of depressions and meeting the deficit by creating currency. (This is more understandable when the State itself is a financing partner in the scheme guaranteeing to meet the deficit of the fund.) The additional purchasing power placed in the hands of the retired consumers in this way, will be a pump-priming process, which will provide a stimulus to consumption. During inflationary crests, the contributions may be adjusted to withdraw currency from the market and in this way to nullify the effect of inflation to that extent. Alternatively, status quo may be maintained with regard to contributions and benefits during the peaks of economic activity; and during duller seasons, an artificial deficit may be created and bridged over by created currency. This would provide a stimulus to business activities.

The foregoing discussion is more relevant to a case in which the State is an unlimited partner so far as the deficit of the scheme is concerned. As it may be seen, the fund cannot create currency. Therefore, the currency adjustments can only be effected by the State. In India, the Government is not prepared to assume such onerous responsibility. Hence, an Actuarial Reserve technique may be recommended for adoption, though full funding may not be applied with a religious sanctity. Since no actuarial calculations can forecast the
liability correct to the last single naya Paisa, a divergence between actuals and estimates must exist in any case. A fund may, thus, be built up. This will be a moral backing to the scheme and also a tangible thing of which resort may be taken in times of need. The management of this fund, its investment and handling is an important problem related to pension schemes.

2. **Investment of Pension Fund**

Social insurance institutions in general and pension insurance in particular, accumulate large funds. Therefore, it has been a practice all over the world to define the authority responsible for its investment and lay down policies in this behalf, that will govern the composition of the investment portfolio. Body responsible for the selection of investment securities from the general market must be created in order to achieve a good and co-ordinated investment policy. Such body may be a centralised organisation or a decentralised one. A centralised body for investment of funds of social insurance institutions is better equipped to handle the problem. It has the advantage of easy realisation of a uniform national policy. It can also organise large-scale financial operations in the money market and ward off inopportune regional or local influences. All regions can be coordinated in the working of the plan. The fund will be placed in the hands of a Central Investment Board of Social Security. The Board will be responsible for choosing good securities from the investment market and purchasing them from time to time. In this way, the Board can provide services for the
preparation of decisions on investment problems based on full consideration of the actual situation of the entire holding of the Fund.

A decentralised body, on the other hand, has the advantage of better appraisal of regional needs. It arouses a spirit of healthy competition among the various sister bodies and lends them a sense of responsibility in management matters. But the problem of co-ordination between the regional policies is formidable in case of decentralised institutions. Sometimes the regional bodies may find themselves competing with each other in the same market which is to be discouraged always. However, co-ordination in the policies of different sister bodies can be secured by direct regulation and strict vigil and supervision of investments by the Government. It can also be effected by a Central Investment Board which the regional bodies may be made responsible to consult before investing their funds. The Central Board will have to chalk out a periodical investment plan. The investment will, in usual course, be selected by the regional bodies with the prior approval of the Central body. It may be noted that international practice in this respect favours a Central body responsible for making investments. It will achieve uniformity in policies, ward off the problem of coordination and obviate regional prejudices. Thus, it will facilitate large scale financial operations also.

According to the British National Insurance Act, 1946, the Minister is in charge of control and management of the
Funds. But, surplus of the two Funds is to be made over to the National Debt Commissioner who invests them in accordance with such directions as might be given by the Treasury, in securities authorized as investments for Saving Bank Funds. (which are mostly Government or government approved securities) In the absence of any specific directions from the Treasury, the responsibility for selecting the best investments rests with the National Debt Commissioner. In this way, it secured the proper machinery for making investments and at the same time ensured quick action.

Under the provisions of the U.S. Social Security Act, 1935, the Old Age and Survivorship Insurance Trust Fund (OASIT), and Disability Insurance Trust Fund (DIT) are administered by a Board of Trustees with the Secretary of the Treasury as the Managing Trustee. The other members of the Board are the Secretary of the Ministeries of Labour and of Health, Education and Welfare. The Commissioner of the Social Security Administration is the Secretary of the Board. The Managing Trustee invests the portions of the Trust Funds which in his judgment, are the likely surpluses over current expenditures.

When a pension insurance scheme will be fully implemented in India, the accumulation of reserves will raise the problems of their administration as they are likely to be greater than under the present scheme. The administration of such funds will necessitate creation of an Investment Board composed of the experts in the field of investment and financial management. This will, no doubt, exercise its powers to invest moneys of
the fund according to specific instructions and rules laid down by law in this behalf. The central authority of social security will exercise general supervision over the Board. This will ensure a proper machinery through which the investment may be channelised. Moreover, it will also ensure proper utilisation of fund in the public interest and its supervision by the Central Investment Board on which all parties of finance will be represented will invoke confidence. It should be liable to be questioned in the Lok Sabha and be responsible to the general public for its activities, and to financial parties in particular.

In the opinion of the ILO experts, "It may be useful to call on the services not only of experts particularly cognizant of the conditions of the money market and of the economic and social policy of the State, but also on representations of insured persons and their employers." It may be noted that the investment is a matter to be handled by the experts in that line of activity. It seems, therefore, that no useful purpose will be served by inviting the representatives of insured persons or employers. It is not in the fashion of collective bargaining that such representations will serve any useful purpose. On the contrary, they may hold up quick decisions. Workers' representatives, unless of course hired, are not expected to give any useful advice in such matters.

1. ILO. Investment of the funds of social insurance institutions, (Geneva, 1939), p 147.
But a proper representation of parties of finance is useful for sometimes a layman's opinion is necessary to check "over-expertism." Moreover, it gives satisfaction to the parties that they are looking after their own affairs. A proper representation of the employees, employers and the State will, therefore, prove useful and particularly the last-named will apprise the Investment Board of the current Government policy. Nonetheless, the members of the Board must be experts on the various aspects of investment and must be fully conversant with the conditions in the stock exchanges.

Determinants of investment policy particularly in case of pension funds need an analysis now. This is important because the aim of a pension fund is not to make aggressive investment. It is, on the other hand, that the principal should be safe and realisable and a reasonable return on capital should be assured. The principal determinants of investment policy may, therefore, be said to be safety, liquidity and yield. Only after understanding the impact of these determinants, it is possible to chalk out an investment policy.

Although "safety first" slogan has undergone a revision in many cases, it cannot be ruled out for social insurance institutions. As already stated, they should not indulge in speculative activities and they must be sure about the safety of principal in all circumstances. There was a time when investment was taken to be safe if adequate collateral securities were offered. The primary emphasis was laid on
specific security or lien on some property. But lien is no guarantee against the shrinkage in the value of property itself. Therefore, a lien is no useful protection independent of the general ability and willingness of the mortgagor to redeem his obligations. If the money is invested in commercial securities holding mortgage on business property, the success of the business will govern the worth of the mortgage. Moreover, the pledged property is of little value outside the running business. Due to the lack of its adaptability to other uses than one for which it was originally meant. Greater funds may be needed to run the business which, in most cases, the institution cannot afford. The property is also not easily transferable to the bondholder in case of a default. A lot of formalities have to be undergone before they could be passed on to him. Sometimes, he may be compelled to accept alternative securities. Furthermore, even if the enforcement of the legal right is speedily done, the actual sale or ascertainment of his share in the value of property may involve unusual delays.

Safety, in fact, is determined by the ability and the willingness of the debtor to pay and the margin of safety in the value of the pledged property. For the former, it may be said that the businesses are never immune from the vagaries of economic upheavals. In such cases, even the most prosperous firms may be landed in difficulty and they may not be able to redeem their debentures. Preference shares and equity shares are equally amenable/stock exchange fluctuations.
Therefore, ownership securities may be ruled out as safe investments for social security institution. The ability of the public to pay is always secure and sound. The Government can meet its obligations by raising revenue through additional taxations and also raising funds from the public or by 'creating currency.' Therefore, from the view-point of safety, the government securities stand out unique, unless, of course, the government freezes the payment or refuses to honour its contracts, a fact which happens only in extraordinarily distressing circumstances.

Safety signifies two things: Firstly, the maintenance of the real value of investments as regards the recovery of principal and secondly the conservation of the nominal value of invested capital. Inflation reduces the real value of property. It also reduces the real worth of the income from investments. It must be seen that the firms in the stocks of which moneys are invested must make adequate provision for the depreciation and replacement of the assets on which the institution holds lien. In the absence of such provisions, the value of property as shown by the Balance Sheet of the firm concerned would not be the realisable value but merely the book value which may include a proportion of watered capital. Hence, in the event of liquidation, the entire capital invested in such assets may be lost.

These principles have been followed in all the countries which have social security schemes and in India too, it will be necessary to invest the funds in good securities. The
United States Social Security Act restricts permissible investments of the OASTF and DITF and the Unemployment Trust Fund to interest earning obligations of the U.S. Government and to obligations guaranteed as to principal and interest by the United States. Obligations of these descriptions may be purchased on original issue at par or subsequently they may be purchased in the market at prevailing prices. Their resale is also permitted, for, without this permission, there will be little liquidity in these investments which is so necessarily required for social insurance investments. Besides, the Act authorises the insurance of public debt obligations exclusively to the Trust Funds redeemable at par together with interest. Before 1957, public issues scarcely made up ten per cent of the investment portfolio; but at the end of 1957, their share increased to fourteen per cent of the entire holdings of the Trust while in 1958, they registered a further increase by one per cent.¹ This has two implications. In the first place, the competition in the exchange is eliminated by issuing special bonds; and secondly, it means that variable yield securities and diversification in the investment portfolio have small limits. It also emphasises the importance of safety which is so essential for the investment of social insurance funds.

In India, earlier the regulations of the ESI Act 1948,

authorize the corporation to invest the funds of the corporation in Government Securities and fixed Deposits in the State Bank of India. The following table exhibits the face value of securities held by the Corporation during the last two years preceding 31st March, 1959.

Table VI.1

EMPLOYEES' STATE INSURANCE FUND INVESTMENT (1958-59)

<table>
<thead>
<tr>
<th>Types of Securities</th>
<th>1958</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
</tr>
<tr>
<td>Central Government Securities</td>
<td>7,02,68,300</td>
<td>51</td>
</tr>
<tr>
<td>National Planning Board Loans</td>
<td>5,82,21,400</td>
<td>42</td>
</tr>
<tr>
<td>State Government Securities</td>
<td>72,06,900</td>
<td>5</td>
</tr>
<tr>
<td>State Bank Deposit</td>
<td>28,33,800</td>
<td>2</td>
</tr>
<tr>
<td>Cash at New Delhi.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>13,85,30,400</td>
<td>100</td>
</tr>
</tbody>
</table>


This shows that the entire assets of the Corporation were invested in various government securities except for a minor portion which was kept as short-term deposit in the State Bank.
of India. From the viewpoint of safety, these securities are, no doubt, unchallengeable. But there is no freedom of action granted to the investing authorities in case otherwise better safe securities than these are available. When the pension insurance is implemented, this rigidity of definition of investible securities shall have to be rectified and to be given a wider scope to permit action when necessary. But it may be noted that this rigidity is not peculiar to India. It has been noted that the US Old Age and Survivorship Insurance Trust Fund was also invested in Government issues either by purchasing them from the market or by investing in securities specially issued for this purpose. The pattern of investment in India for some time shall have to look more to security and safety and may sacrifice freedom of action in the interest of the former. Hence subject to the observations in the foregoing pages, pension funds will be better in the public hands than in the private hands particularly at a time when the nation is striving hard to rise for a "take off" from the state it is in.

Yield is another important consideration for all investments which deserves a reference at this stage. In fact, without yield, investment is hoarding, a mere safe-keep of the fund. It is always barren and involves national loss. The concept of yield is inseparable from investment. The fund of pension insurance may be invested in fixed-yield or variable-yield securities as referred to on previous pages. Among the fixed yield securities, Government funds or government-guaranteed
securities are the most prominent. Generally, they are considered the best for social insurance institutions. Government guaranteed securities should be preferably redeemable so that in times of economic pressures, they may be realised or even at times if it is necessary to realise them, they should not depend on the whims of the stock-exchange for their value. Government securities may be issued by the Central Government, State Governments or local bodies such as Municipal Corporations. If necessary, it should be ascertained whether any special taxes are earmarked for the payment of interest on such securities and creation of Sinking Fund for their redemption on maturity. Other bodies such as Chambers of Commerce, State enterprises, electricity and water supply undertakings also issue loans and debentures for financing their projects. The Meeting of Experts on the Investment of the Funds of Social Insurance Institutions (held from 5th to 9th December, 1938) did not, however, favour such investments "unless such bodies have unquestionable and adequate resources with which to guarantee the payment of interest and repayment of principal..." Again fixed-yield securities are also issued by land mortgage banks and building societies. If the purpose of such issuance is to finance schemes for workers' housing, or such other projects particularly for the benefit of the insured class, there is no danger in purchasing them if adequate provision has been made by the issuing body for their

repayment and interest. Loans on mortgages made directly to the owner of the building should not be generally preferred. If, however, it is done, adequate guarantee for interest and principal must be given by the debtor. Provision for depreciation and future prospects of the property should be assessed by expert valuers beforehand. Commercial or industrial debentures and other creditorship securities should not be generally preferred. They may be purchased only if "in addition to affording sufficient security as to repayment of capital, they offer a yield markedly higher than debentures of the same kind issued by public authorities." Preference shares of joint-stock companies are also a fixed-yield investment. They carry preference as to payment of interest or dividend and sometimes they are redeemable too. Nevertheless, it must be distinctly understood that in case of liquidation of the company, they carry priority of claims for repayment of capital only on equity shares. They are entitled to be redeemed only after all the creditorship claims have been fully met. In my opinion, the insurance institutions should not indulge in purchasing ownership claims of this type. In extreme cases, they should be permitted subject to the conditions laid down for the purchase of debentures.

Variable-yield securities may be loans to public authorities not bearing any interest but carrying a gold clause or currency option. Such securities are sold in the market on discount. The competitive biddings among the investors

1. Ibid. p 220.
afford the margin of income. The example of such securities is provided by the Treasury Bills held by the U.S. OASITF during 1957. Commercial securities are high-yield securities but they are risky investment. The ILO experts suggest that regulations should

"(a) set out a general definition of the conditions to be observed in the selection of investment, namely, suitable types of negotiable securities or of holdings in real estate; character or legal status of the borrower; duty to obtain a charge or preferential right as security for the debt; geographical distribution of investment etc.;

(b) draw up an exclusive list of the classes of investments which accord with the general definition and which are deemed in principle to satisfy the condition of safety (acquisition of certain kinds of investments may be made subject to the approval of the controlling authority to which the body charged with the selection of investments is responsible; and

(c) in order to enforce the safety of the whole of the invested holdings, prescribe an approved distribution of investments among the various classes included in the list."

If these recommendations are embodied in proper regulations they will secure a speedy investment of funds, a better geographical distribution of investment portfolio and finally, they will provide a sufficient guarantee that the funds are safe in the hands of the debtors and can be realised with no or little trouble in so far as the principal invested is concerned.

Sufficient security of principal and yield exist in case of the firms enjoying long-dated concessions from the government or those enjoying monopoly in the market of their produce or operations. But such investments may be avoided by pension funds for their insecurity as to principal in most

1. Investment of the Funds of Social Insurance Institutions, Geneva, 1939, p 158.
cases and an element of speculation in all cases. Further, property may be held by the institution in rural or urban areas. In fact, it is inevitable for the institution either to hold or to hire buildings for housing its administrative offices, sanatoria, (in case of an integrated scheme covering sickness insurance too) curative or convalescent homes and other such establishments. If such buildings are owned by the insurance institution itself, they will yield an income in a negative sense, that is to say, they will economise in the recurring overheads to the extent of the rental saved. It may be advisable to hold such property either by acquisition or by construction whichever course is advantageous to the institution. In U.P. or for that matter in India, holding of rural property would not constitute a profitable investment for the present. But, if the curative and preventive medical services are to be carried to rural folk (which is a long-run policy, no doubt), construction of rural letting property would be an additional attraction for the medical practitioners. If buildings are owned by the institution itself and let to such medicos on concessional rates, they may be willing to set up their pharmacies there. Moreover, letting/ is generally not available in rural areas. In such circumstances, construction of property will be imperative either by the government or by the institution for the purpose of housing its medical and office establishments in those areas.

Yield on the selected securities must be favourably comparable to the yield obtained by similar institutions for similar securities. Nevertheless, safety and liquidity should
not be sacrificed for yield. The U.S. Social Security Act, 1935, required that the investment of the Old Age Reserve (now OASITF) earn not less than three per cent as income from investments. But later on any reference to the minimum rate was dropped. The holdings of the Fund being generally long-term, the 1956 Amendment duly accommodated this consideration. At present, the rate is the average rate "borne by all marketable interest bearing obligations of the United States ... not due or callable until after the expiration of five years from the date of the original issue."¹

The rate of interest earned by OASITF was 2.55% during 1957. During the first six months of 1958, it remained unchanged, but it rose to 2.57% during the next six months.²

The ESI scheme of India invested its funds in Government securities and the balance of cash is deposited with the State Bank of India. These are fixed-yield investments. The Balance Sheet of the ESI Corporation as at March 31, 1959, showed that land and buildings valued at ₹ 10,28,167.77 were wholly owned by the Corporation. Hospitals and dispensaries owned by the Corporation and the State Governments jointly were valued at ₹ 1,17,839.09 for the part of the Corporation. Other investments amounted to ₹ 16,17,19,200 during the same period. This shows that in so far as variable-yield securities are concerned, they have not been accorded the pride of place in the investment portfolio. And this is not

² Ibid. p 20.
inexcusable as the variable-yield securities are highly speculative in our country. As such, they do not constitute a good investment for a social insurance institution.

The average rate of interest earned by the Corporation was a little over three per cent. This is favourably comparable with the rates earned by social insurance institutions abroad. Since an adventurous policy of investment is not desirable for the pension insurance fund, it is better to be content with this rate of yield.

Liquidity is another important consideration in investing the funds of the pension insurance. Liquidity is required for meeting the normal payment of retirement benefits and for meeting unforeseen contingencies, such as withdrawal benefits, survivorship benefits and the like. A portion of the fund should, therefore, be kept in liquid cash or easily and speedily realisable securities. The latter may necessitate the adopting of a proper time-table for the maturity of investments. In the absence of such a timing schedule, a hurried realisation of investments under distress or otherwise, may cause a drastic shrinkage in the value of the holdings as well as loss of interest. Contingency Reserve Fund should, therefore, be invested in easily realisable securities or kept in liquid form. The policy of the Corporation is, thus, up to the mark.

It may be noted that the investment policy of the Corporation does not seem to be based on a proper appreciation of the importance of geographical distribution of funds. During 1957-58 and 1958-59, the actual sums invested in State
Government securities stood as follows:

Table VI.2


<table>
<thead>
<tr>
<th>Particulars</th>
<th>1957-58</th>
<th>1958-59</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% Andhara State Development Loan 1964</td>
<td>15,00,000</td>
<td>21</td>
</tr>
<tr>
<td>4% Bihar 1967</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>4% Bombay State Development Loan 1969</td>
<td>19,40,900</td>
<td>27</td>
</tr>
<tr>
<td>4% Kerala State Development Loan 1970</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>4% Madras 1968</td>
<td>16,00,000</td>
<td>22</td>
</tr>
<tr>
<td>4% Mysore 1969</td>
<td>5,79,300</td>
<td>8</td>
</tr>
<tr>
<td>&quot; &quot; 1970</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>4% U.P. State Development Loan</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>4% West Bengal 1963</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>&quot; &quot; 1964</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>&quot; &quot; 1968</td>
<td>15,86,000</td>
<td>22</td>
</tr>
<tr>
<td>4% &quot; 1970</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total State Securities</td>
<td>72,06,200</td>
<td>100</td>
</tr>
</tbody>
</table>

SOURCE: Vide Table VI.1

Thus, it is clear that the largest share representing more than two-fifths of the total investments in State Government securities during 1958-59 was claimed by West Bengal. Madras claimed 11% of this portfolio; Bombay 10%; Andhra and
Mysore 8% each. U.P. Government securities represented only 7% of this portfolio during 1958-59 while they were conspicuous by absence during 1957-58. Madhya Pradesh, Orissa, the Punjab, Rajasthan and Himachal Pradesh were not represented at all. This bears testimony to the fact that no heed has been paid to an even geographical distribution of investment portfolio. In case of a pension fund, some formula shall have to be evolved in this behalf. Undeveloped and less-developed States should be included in the list as well.

The investment pattern of the Corporation also suffers from the lack of diversification. But it must be borne in mind that investment in government securities is beneficial to the society at large. At a time when the government is heading along with developmental plans, investment in government securities serves doubly well. On the one hand, it conforms to the utmost with the principle of safety; on the other, a sizeable fund is made available to the government for financing the developmental programmes. If the funds are let flow in the private sector, it will be dangerous in two respects. In the first place, this may lopside the economic development; and, secondly, it is not a good investment from the view-point of safety, specially in times of economic crises.

Types of holdings which the Fund may acquire should be determined in consonance with the broad national policy. Pension scheme being essentially a social service, must be related to current economic and social problems of the nation. Therefore, its investments must lend support to the general
economic policy so long as it does not offend against the principles of safety, liquidity and yield. Broadly speaking, an integrated scheme of social insurance tends to provide relief in cases of economic, social and biological contingencies. Utilisation of fund should provide and assist the provision of preventive services for these contingencies. Improvement of employment situation, provision for housing facilities, creation of new means of production, assistance to achieve the objectives of the Five Year Plans and improvement of community health are a few channels to which the investments of the fund may be diverted. Financing of new production projects creates employment which, in its turn, redistributes income. It improves consumption and the standard of living of the community. It lowers the intensity of social contingencies like unemployment and the distress in the event of the death of the breadwinner. Financing of health projects and provision of better housing facilities improve the efficiency of labour and as such the morbidity rate also goes down. They prevent sickness and economise in the cost of sickness insurance through the backdoor. Therefore, the finance of the projects of economic and social utility must be secured with the help of an encouraging policy of the State. The latter has to play its role by guaranteeing the repayment of the sum invested in such projects and underwrite a reasonable rate of interest. In the absence of favourable situation, use of the fund for the purposes of economic and social utility projects may be vitiated.
The Meeting of the Experts on the Investments of Social Insurance Funds held under the auspices of the ILO, lays down the criteria for economic and social utilities. "As a criterion of social utility", the Meeting suggests, "one can accept the degree of influence exercised on the health situation, cultural level, and, in a more general way, on the living conditions of the insured community in the first place and of the national community in the second place, by the campaign against disease, the improvement in the health and housing conditions, town-planning, the establishment of schools etc."¹ In short, health, housing, town-planning and education projects are the general indicators of social utility. It again expresses the view that:

"As a criterion of the utility of investments for the national economy, one can accept the contribution made by the investment of insurance schemes towards, for example

(a) a harmonious distribution of agricultural production in the various parts of the country, the insurance funds being called on to assist in the development of natural resources and of production complementary thereto in the areas where the necessity is the greatest;

(b) the development of means of transport, in particular, of roads and waterways, in areas least favoured in this respect;

(c) the better geographical distribution of investments in real estates and in housing."¹

In so far as the question of achieving the criterion of economic and social utility is concerned, the ESI Corporation has been authorised to finance measures to improve health etc. Since the funds is at present invested in Central and State

Government securities and the National Planning Board Loans, it is for the Governments and the N.P.Board to utilise the available proceeds for the aforesaid purposes. Of course, with the Five Year Plans in progress, it is of prime importance that the proposed pension fund hold some special issues which are in agreement with various criteria of investment and the proceeds of which are earmarked for financing social and economic utility projects. I have observed in the preceding pages, a better geographical distribution of State loans is necessary. Presently, investment in rural letting property would amount to needless locking of funds since there is no possibility of covering rural population under sickness or old age insurance scheme in the near future.

SUMMARY AND CONCLUSIONS

There are assessment and capitalisation systems of finance applicable to social insurance institutions. The former balances income to expenditure over short periods of time. It is easy to understand but it suffers from the lack of funds and in times of prolonged depressions, this assumes a negative character. It is suited to short-duration contingencies. Accumulation or capitalisation system is based on the accumulation of funds during the contributing life of the beneficiary, so that pensions and other benefits may be paid out of the fund built in this way. There may be individual or collective accumulation systems. This system suffers from productionwise disequilibrium. It is depressive in effect as the current contributions per
rupee of future benefits are always greater. But the depressive character of this system of finance is nullified by the expansionist effect of the accumulated funds when they are invested.

Suitable system of finance is determined by the nature of contingencies covered. Considering the various conditions, a capitalisation system of finance may be preferred for a pension scheme in our State and country both.

The fund accumulated under the capitalisation system should be invested in securities satisfying the criteria of safety, liquidity and yield to the utmost. Government securities are unique in this respect. The proceeds of such securities may be utilized for the promotion of the projects of social and economic utility. Even geographical distribution of fund will avoid regional disparities. At present, investment in rural letting property cannot be preferred for there is no near possibility of carrying social insurance to the rural population in the near future.

A proper authority based on tripartite representation should be created for the investment of funds. This may be centralised or decentralised. The latter may achieve better regional distribution of funds, but the competition among the decentralised bodies presents a formidable problem of co-ordination. If the pension scheme is launched on all-India basis, a Central Board of Investment may be created for this purpose. It is in keeping with the international practice and will avoid duplication which in case of decentralised
bodies is almost unavoidable. I have discussed only financial management of the scheme in the present Chapter which is a part of the general administration of the scheme. I propose to deal with the administrative implications of the scheme in some detail. This forms the subject-matter of the next Chapter.

...
Launching of a programme of old age insurance is only permissive of the designed benefits and not a guarantee that they shall reach the beneficiaries too. Success of the programme is, in fact, governed by the quality and effectiveness of administration. A sound administration is, therefore, a sine qua non for an old-age insurance scheme, the beneficiaries of which do not only stand in need of economic amelioration but they are undergoing emotional perturbation at the time of the receipt of benefits so that they need a speedy assistance for emotional assuage too.

A good administration should be speedy, cheap and should leave no chances for collusion and dishonesty. It should also accommodate the viewpoints of the clientele in policy matters. A speedy disposal of cases is not only helpful for the beneficiaries alone, but it avoids a lot of trouble to the organisational machinery itself. Since the purpose of old age insurance scheme is to grant wherewithal for the purpose of securing victuals and other consumptional requirements, any unnecessary delay due to laxity of control or bureaucratic red-tapism would render the scheme quite meaningless for the beneficiary class. Therefore, it is necessary that procedural formalities should be minimised and tracing and checking of records and calculation and disbursal of benefits should be as speedy as it does not involve sacrifice of accuracy and
economy in administration. Economy implies that the maximum of advantages should be secured by incurring the unavoidable minimum of expenditure. Prevention of fraud and dishonesty is also a characteristic of sound administration. Although the problem of malingering is not so important in retirement as in case of sickness or accidents, there is always its possibility in case of invalidity on the side of tampering with the records. An effective administration should eliminate such chances.

Democratic representation has grown into a problem of topical interest in the present age of industrial democracy. A pension scheme may be administered either by a government department or by some agency on which all the parties to finance are represented. The organisation of administrative setup on the basis of the clientele is advocated for its securing maximum service to the beneficiary group. Since their viewpoint is accommodated in the formulation of policies, they may be benefited from the scheme in the way they like. But at the same time, the functions performed by social insurance organisations have become so technical that they demand a high degree of technical skill and frequently they are the province of an expert in that field. Such expert knowledge may be secured by hired rather than elected personnel. Moreover, the client-oriented agencies suffer from the lack of co-ordination of views and duplication of services. For example, one actuary who could discharge his duties for the whole scheme, will not be suffi-
cient in case of democratic representation which, particularly suffers from the lack of mutual confidence in India. In that case, all the parties will engage their own separate actuaries which will result in duplication and waste of efforts and resources as a consequence. A client-oriented organisation is more often than not, negligent of the genuine policy of the scheme and is subservient to the self-interest of the pressure groups represented.

The administration of a pension scheme can be broken into two parts: the organisational structure at the top of the scheme and the bureaucratic set-up for the day to day ministerial work. Fortunately, India has had social insurance tradition for some time past. Though it is not yet sufficiently stabilised, it will be useful to study the set-up of the present schemes in order to understand the needs of an all-out scheme of social security and the problem of co-ordination and integration which will be needed ultimately.

A. Organisational Set-up

The administration of the ESI scheme is the responsibility of the Employees' State Insurance Corporation which has been established in accordance with the provisions of the ESI Act, 1948 (Section 3). The Corporation is a body corporate having perpetual succession and a common seal. It enjoys autonomy in its day-to-day affairs. In principle, it is neither a Government department nor a private body. It is constituted in the following manner:
I. The Minister of Labour in the Central Cabinet in the ex-officio Chairman of the Corporation.

II. The Minister of Health in the Central Cabinet is the ex-officio Vice-Chairman.

III. Five nominee members of the Central Government of whom at least three will be the Officials of the Government.

IV. One person each representing the erstwhile Part A and B States nominated by the respective State Governments.

V. One person to be nominated by the Central Government to represent the Part C States before re-organisation.

VI. Five persons representing employers to be nominated by the Central Government in consultation with their recognised organisations.

VII. Five persons representing employees to be nominated by Central Government in consultation with the recognised organisations of the employees.

VIII. Two persons representing medical profession to be nominated by the Central Government in consultation with the recognised organisations of the medical practitioners.

IX. Two persons to be elected by the Lok Sabha.

The Corporation is responsible for the general governance of the scheme. In addition to this, it has been authorised to make regulations regarding the affairs of the Corporation and for carrying on duties to give effect to the provisions of the ESI Act.

For carrying out the official and executive duties under the Corporation, the Central Government have appointed a Director-General of the ESI Corporation who is the chief executive. He is assisted in his duties by an Insurance Commissioner, a Medical Officer, a Chief Accounts Officer and an Actuary. They are called Principal Officers of the Corporation. The day-to-day affairs of the Corporation are looked after
by a Standing Committee. It submits cases for consideration by the Corporation and exercises any of the powers of the Corporation and performs any of the functions entrusted to it. The Committee has 13 members in the following way:

(a) a Chairman nominated by the Central Government;
(b) three members of the Corporation who are the Officials of the Corporation are nominated by the Central Government;
(c) three members of the Corporation representing such States as the Central Government may specify;
(d) six members elected by the Corporation as follows:
   (i) two members from amongst the members of the Corporation representing employers,
   (ii) two members of the Corporation representing employees,
   (iii) one member representing medical profession,
   (iv) one member elected by the Lok Sabha.

The Committee is responsible for all the functions of the Corporation subject to the latter's superintendence.

Besides that, there is a Medical Benefit Council. It is not an executive body nor is it a policy-making organ. Its duties are advisory and consist of the following:
(a) to advise the Corporation and the Standing Committee on matters relating to the administration of the medical benefit, certification for the purpose of the grant of benefits and other connected matters,
(b) to have such powers as well as duties on the matters relating to investigation of cases as may be prescribed in relation to complaints against medical practitioners in connection with medical treatment and attendance,
(b) to perform any other duties specified in the Regulations.

The Council has the following members:

(i) the Director-General of Health Services to be the ex-officio Chairman;

(ii) a Deputy Director-General of Health Services, to be nominated by the Central Government;

(iii) the Medical Commissioner of the Corporation to be an ex-officio member;

(iv) one member each representing the erstwhile Part A and B States where the scheme has been implemented;

(v) three members representing employers to be nominated by the Central Government in consultation with the recognised organisations of the employers;

(vi) three members representing employees to be nominated by the Central Government in consultation with the recognised organisations of employees;

(vii) three members of whom one must be a woman, representing medical profession to be nominated by the Central Government in consultation with the recognised organisations of medical practitioners.

The Corporation has set up Regional Offices headed by the Regional Directors. In smaller States, Deputy Regional Directors are in charge of the affairs. They are assisted in their work by Assistant Regional Directors who are responsible for the supervision of local offices and inspection offices. There are also Regional Assistant Accounts Officers who look after the Accounts Branch of the Regional Offices. U.P. has a Regional Office at Kanpur. It is headed by a Regional Director.
However, it may be noted that the Regional Office is more concerned with the bureaucratic governance of the scheme subject to the supervision of the Corporation.

A review of the constitution of the Corporation, the Standing Committee and the Medical Benefit Council reveals the well-known practice of Governments in underdeveloped countries to over-administer and under-finance. Administrative shares of the employees, the employers and the State in the three sets-up are distributed as follows:

<table>
<thead>
<tr>
<th>REPRESENTATIVES</th>
<th>ESI CORPORATION</th>
<th>S. COMMITTEE</th>
<th>M.B. COUNCIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Employers</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Government</td>
<td>26</td>
<td>7</td>
<td>21</td>
</tr>
<tr>
<td>Others</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>13</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

It is abundantly clear that the Government have a lion's share in the administration of the scheme. Their representation in the Corporation is 65%, in the Committee 54% and the Council 70%. Overall share of the Government is 54 out of a total of 83 members which represents about 65% of voting rights. But it may be remarked that the Government initiative is irreplaceable in underdeveloped countries for the institution of the schemes of social insurance. But, in the long run employees and employers shall have to be given greater share in the administration though a general supervision of the
of the scheme by the State may still be necessary.

Under the Employees' Provident Fund Scheme, the Central Board of Trustees is responsible for the governance of the scheme. According to the para 3 of the Scheme, the Central Board of Trustees is to be constituted as follows:
(a) a Chairman to be nominated by the Central Government;
(b) three persons to be nominated by the Central Government;
(c) nominees of such State Governments as the Central Government may, having regard to the jurisdiction of the Board, specify in this behalf;
(d) six members representing employers in the industries or establishments to which the scheme applies nominated by the Central Government in consultation with the recognised organisations of the employers;
(e) six members representing employees in the industries to be nominated by the Central Government in consultation with the recognised organisations of the employees.

There are also Boards of Trustees in the States. They are composed of a Chairman and two members who are Government nominees and four representatives of employers and employees each. In this case too, in this way, the same pattern of an absolute majority of the Government members is visible; and the pattern of administration seems to cluster round the same pivot as under the ESI scheme.

The Central Provident Fund Commissioner is the chief executive officer of the Board. He is a whole-time Officer and is entitled to attend the meetings of the Board and participate in the discussions but he cannot vote. The Commissioner
is assisted in his duties by a Deputy who is in charge of a Special Section. He is also assisted by four Assistants one each for Statistical and Accounts Sections and two for Enforcement Section. Moreover, there are fourteen Regional Provident Fund Commissioners who are full time officers in Bombay, West Bengal, Madras, Mysore and Kerala and part-time Labour Commissioners in the rest. The Regional Provident Fund Commissioner is assisted by Provident Fund Inspectors for enforcement and by Accounts Officers for collection of contributions and maintenance of accounts.

In case of social insurance, the administrative responsibility should go with financial participation. The parties that contribute to the cost of the scheme should also participate in the actual administration of the scheme. According to the recommendations of the ILO, "Representatives of the insured persons should participate in the management of insurance institutions under conditions to be determined by national laws, which may likewise decide as to the participation of representatives of employers and of public authorities."

The organisational set-up of the social insurance scheme in Great Britain is based on direct administration by government department. The Minister of Pensions and National Insurance is responsible for the administration of the cash benefits payable under the Family Allowances Act, 1945, the National Insurance Act, 1946, and the National Insurance (Industrial Injuries) Act, 1946. National Health Services are

the responsibility of the Minister of Health for England and Wales and the Secretary of State for Scotland. Administration of the National Assistance Scheme is vested in the National Assistance Board. There are, nevertheless, National Insurance Advisory Committees and Industrial Injuries Advisory Councils that assist the Minister of Pensions in the performance of his duties under the two Acts. The Committee and the Council include the representatives of employers and the insured persons. Their function is mainly advisory but the Minister may refer to them any other matter connected with the scheme.

In the United States, the Secretary of the Department of Health, Education and Welfare is responsible for the administration of all the aspects of the Social Security programme except the collection of contributions which is the responsibility of the Bureau of Internal Revenue under the direction of the Secretary of the Treasury. The OASITF is managed by the Board of Trustees as referred to in the last Chapter. Social Security Administration is headed by a Commissioner of Social Security who is responsible for the executive functions of the scheme.

As noted earlier, administration may be classified into policy and technical matters. In policy matters, mainly, the representation of the viewpoints of the clients is necessary, because sometimes, experts are so much occupied in technical details that they lose sight of the matters of policy. It is, therefore, advisable that the technical matters should be entrusted to the experts and quacks may not be allowed.
to create hurdles at every step while in all policy matters clients' representation must be secured. The problem of securing truly democratic representation of parties in the administration of social insurance schemes admits of further intricacies in relation to the way adopted to secure it. If the beneficiaries and other parties are organised groups, such as employers and employees having their separate organisations, their representation is not so problematic. But when the beneficiaries are unorganised like children and the blind, their representation becomes a problem. In such cases, it is essential to coopt public-spirited people who may fight out their case. Moreover, if the State can launch such programmes for the benefit of unvocal sections of population, one has to trust it as the custodian of their rights. In fact, the problem of lay participation in the administration of social insurance programmes at appropriate phases of policy formation is of vital import. Advice of a rarefied layman is sometimes more informative than the results obtained from the devotion of large sums by private institutions for research in the relevant field of social policy. Besides, the way in which these results may influence the actual policy is roundabout and indirect. The client pressure groups may quickly influence the policy if their representation is available at appropriate stages of administration. As a matter of fact, the clients have practical experience which is worth volumes of theoretical deliberations of the experts. Expert advice is mostly needed on the bureaucratic side of the administration. It is therefore, in the fitness of things to examine the bureaucratic machinery at this stage.
B. Bureaucratic Machinery

For securing a speedy fulfilment of procedural formalities, in order to reach the benefits to the victims of the contingency in time, and for prevention of fraud and elimination of chances of collusion so that the unscrupulous do not profiteer at the expense of poor beneficiaries, it is of prime importance that the bureaucratic machinery is so geared that no gaps are left nor the slightest creaks go undetected. This problem may be studied under six distinct heads: (1) registration of covered employers, (2) registration of covered employees, (3) collection of contributions, (4) inspection, (5) disbursal of benefits and (6) Co-ordination and integration.

1. Registration of employers

From the point of view of convenience and economy, the employers are the immediate link between the insurance institution and the covered employees. Employers help in collection of contributions and the administration of benefits in many ways. It is, therefore, highly desirable to lay down a clear-cut definition of the term "employer". Due to existence of intermediate employers and contract labour, it was thought advisable to guard against the possible evasion of law by them. The ESI Act, 1948, therefore, introduced the concept of immediate and principal employers. An immediate employer has been defined as a "person who has undertaken the execution on the premises of a factory or an establishment to which the Act applies or under the supervision of the principal employer or his agent, of
the whole or any part of any work which is ordinarily part of the work of the factory or establishment of the principal employer or is preliminary to the work carried on in, or incidental to the purpose of any such factory or establishment, and includes a person by whom the services of an employee who has entered into a contract of service with him are temporarily lent or let on hire to the principal employer."

This definition covers all contract labour and those engaged by intermediaries too. The principal employer means

"(1) in any factory, the owner or occupier of the factory and includes the managing agent of such owner or occupier, the legal representatives of a deceased owner or occupier and where a person has been named as the manager of the factory under the Factories Act, 1948 (LXIII of 1948) the person so named;

(2) in any establishment under the control of any department of any Government in India, the authority appointed by such Government in this behalf or where no authority is so appointed, the head of the Department;

(3) in any other establishment, any person responsible for the provision and control of the establishment."2

In order to enforce the provisions of legislation, all such employers must be registered with the insurance institution and full record should be kept of such employers. A contractor, an intermediary or a sub-contractor should be held responsible for the matters relating to the scheme according to the degree of independence and financial risk inherent in his activity. The ILO also agrees with the view that where "the contractor or sub-contractor has been declared to be the employer, the 'principal employer' must be jointly responsible."3

Under the provisions of the ESI scheme, the covered employers are required to furnish particulars regarding their

1. Section 2 (13).
2. Section 2 (17).
activities and the number of employers engaged by them. The establishment is occasionally visited by the inspecting staff and the facts disclosed by the employers are verified on the spot. The employers have also to disclose the full particulars of wages paid to the employees and then they are issued by the ESIC, Employer's Code Number which is essentially quoted by the employees while making claims, declarations, complaints and at the time of filing other insurance documents.

Registration Numbers may be simple or coded. Simple Registration Numbers are serially allotted in chronological order. This system is too simple and hence involves waste of time in tracing out the card of the employee. Hence, a code element is often introduced to indicate in a predetermined way, the territorial division in which the factory is situated or the local office to the jurisdiction of which the employer belongs. Code may also indicate occupational category of the employer. In the absence of any territorial classification, the local officer of the insurance institution may be granted freedom of action for devising their own codes which must refer to the area allotted to them. There is no fear of duplication under this practice as each local office works independently of others though under the general supervision of the regional organisation. It also avoids too much centralisation.

Where the single undertaking is a vertical combine possessing several establishments they may be required to prepare separate records, specially where some contingencies are covered on local basis and the establishments are situated in
different regions. A cross-reference to the principal employer in such cases is, however, necessary and "all these together will be regarded as being attached to a principal activity and will constitute a single 'establishment'; its registration number will, therefore, be that appropriate to the principal activity...."

Generally first registration follows a census of establishments taken by appropriate authority whose duty it is to see that no establishment escapes registration. In case of any establishment being wound up, a number may become 'free', but it is risky to re-allot 'free' numbers to some other establishment.

After the registration of the employers is complete, a register giving necessary particulars regarding each employer and an index card may be prepared. In U.P. nickel tokens with short references are produced and kept for the ready reference at the Regional Office, Kanpur. Employers of U.P. and India too, thus, are covered under the ESI and EPF schemes. They are already registered. A pension scheme, therefore, will not require a fresh registration of employers and the existing arrangements under the two schemes may be profitably borrowed and utilised for this scheme too.

2. Registration of the Employees

Not only the registration of employers is necessary for running a pension scheme, but the registration of the employees is all the more necessary for, the former is a means to achieve the latter end. If direct registration of employees

were more convenient, there was a limited use of employers' registration. Registration of covered employees is neither possible without a reference to employers nor is it advisable. Its necessity arises due to the fact that "difficulties of communication, the sparsity of the population, ignorance of the objects of social insurance, illiteracy and similar factors convert the task of identifying insured persons into one of major administrative difficulty such as may seriously affect the practical application of the scheme." It is, therefore, necessary the employees should be registered with full particulars such as name, date of birth, domicile, marital status and employers' Code Number. For substantiating the fact of their employment, a certificate from the employer may be required to be produced. Usually, the employer is required to forward the registration papers after confirming the entries so that no incorrectness is committed. Date of birth and of entering the employment should be verified with utmost care and reliability, particularly in case of retirement pensions because the benefits under such schemes are subject to the attainment of retirement age and fulfilment of contribution conditions.

On filing a Declaration Form, the regional office issues a temporary registration certificate. Within a few days the identity card of the insured person is handed over to him on producing the certificate. Under the ESI Regulations No. 11 and 12, the employee has to fill in Form I (the Declaration Form) which requires filling in of various particulars. The Form is to be countersigned and forwarded by the employer or some official of the employing factory in order to avoid

1. ILO: Administrative Practice......, p 7
any misstatement. The facts disclosed are helpful to the employers and the insurance institution both at the time of verification of claims and calculation of benefits.

On the request of registration being received from the employees, they are assigned insurance numbers. It gives a distinct identity to the insured person and also helps as a reference to his index card and registers and other documents. As in case of employers' registration, employees insurance number may also be simple or coded. It may indicate regional, chronological or generation groups. The registration number must be short; nevertheless, it must contain all the particulars which enable a rapid and accurate identification of the insured person. A numbering system must also admit of elasticity so that if the scheme is extended, expanded or unified, it should not be necessary to change or overhaul the entire system with the attendant confusion, duplication and dislocation of the basic administrative operations. The ESI scheme has an elastic system of registration with a combination of serial, chronological and alphabetical arrangement of insurance numbers.

It is of great importance to decide as to what level of registration is to be followed —— central, regional or local. Central registration is more immune from the danger of duplication. But in a big scheme and particularly when it is implemented throughout India, with heterogeneous characteristics of population, a central registration seems to be stupendous task. It may assume unmanageable dimensions. Therefore, the ESI scheme has adopted a regional registration. It may be noted that the contingencies against which this scheme pro-
vides are more or less of regional character. Moreover, they are normally of short duration. In addition to this, the State Governments are made responsible for one-fourth of the medical cost and also for the cost of medical services to the beneficiaries in excess of the average cost assumed for the whole of India. These considerations justify a regional basis of registration. In Great Britain, registration and record-keeping is centralised. It has been possible due to homogeneity of population characteristics and her small area. Under the contributory pension scheme of the United States, registration is required at central level. The Bureau of Old-Age and Survivorship Insurance of the Social Security Administration maintains a centralised wage-record in Baltimore.

Level of registration is also governed by the type of contingency and the area of its coverage. In case of India, regional basis adopted for the ESI scheme may be retained for old age insurance scheme too. Central level of registration may cause delays due to vast expanse of India. But, records may be co-ordinated by notification between regions with mutual arrangement, if the scheme is extended throughout the country.

Danger of duplication is more imminent in case of old age insurance than in other cases. There is great scope for the insured persons to qualify for benefits doubly. Duplication may also creep in due to allotment of the same registration number to two or more persons or allotting the same person two different numbers. The avoidance of the former type of duplication is easier. It may be done by printing insurance
numbers on the registration cards beforehand, so that at the
time of preparing the card, numbers are automatically allotted.
By preparing index registers and card indices, the duplication
may be further obviated. But the avoidance of the second type
of duplication is a bit difficult, particularly in case of
old age insurance. For, after putting in qualifying service
in an establishment situated in one region, an insured person
may get employed in another region and again qualify for be-
nefits of the same type and draw double benefits at the ex-
pense of the scheme. Sometimes, the same person may be em-
ployed under different name and particulars. Here the co-opera-
tion of the employees and the employers is both vital for
the running of the scheme. Discrepancies may be detected to
a great extent if a centralised record is kept in alphabetical
order. If these loopholes are not filled, the purpose of the
scheme will be defeated.

Declaration of particulars about the family of the insu-
red is also required in order to ascertain and estimate the
dependents' benefits when it becomes due. I have stated else-
where that this recognises the institution of joint-family as
an established fact. But, in the eyes of law, the family does
not signify a unit of household including all members of the
joint-family wherein the living together of cousins, nephews,
uncles and the like is not uncommon. It takes into account
only lineal relations who may be supposed to be dependent on
the insured person. Therefore, the ESI Act, 1948, defined
family as "the spouse and minor legitimate and adopted child-
ren dependant upon the insured person and where the insured person is a male, his dependent parents." Regulation 15-A to the Act required the insured person to make a declaration of the particulars of his family on Form A. Moreover, the insured person is required to intimate the Corporation any change e.g. birth of a new child, death of a member, marriage of a daughter and so on, affecting the membership of his family, within fifteen days of taking place of such change. These particulars are specially useful for a pension scheme as the family benefits are a costly component of the entire cost of the scheme. When the dependant's benefits are to be payable, the record of the family in respect of the employee helps in checking and verifying the benefits.

After completing the formal procedure, the insured person is issued an identity card made of hard stuff. On this card, the name, identification marks, employers' code number and some other particulars are briefly entered to make the insured person identifiable prima facie. Sometimes, the institutions issue separate family cards but there are others that enter the particulars of the family on the card of the insured person or his records. The identity card: document is just in the fashion of University identity cards which the insured person carries at his person.

Identity document may also be in the form of a pass-book such as one used under the EPF scheme. This book is useful for pension insurance institutions. It may bear reference to date of employment and contribution performance of the insured

1. Section 2 (11).
In case of vested rights being allowed to the insured, the book may be utilised to record the change of employers within the covered group of industries. Sometimes, a brief entry may record the emoluments received by him. It may record withdrawals and advances received by him. The book may be changed if and when required. Another identity document may be loose-leaf coupons which are detachable and can serve as contribution cards too. The employer may take their help in preparation of contribution sheets of his employees. The use of a particular identity document depends on the requirements of the scheme. In case of short-duration contingencies, identity cards as described above may be useful. In medium-term contingencies, a loose-leaf card system may be useful. These cards may be destroyed after the expiry of the period of benefit for recording a specified number of contributions. For a pension scheme, a pass-book may be more useful.

The above discussion relates to registration of employees at the time of implementation of the scheme. The registration may be pre-implementation and post-implementation both. The former is mainly required for the purpose of ascertaining the prospective number of insured persons covered. If the scheme is introduced stagewise, all the employees who come within the purview would not be simultaneously covered. In such cases, a previous registration helps prepare a time-table for implementation. There is little difference in pre-implementation

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and general registration except that of degree. Post-implementation registration may be required for ascertaining further facts. It may also be required for those persons who leave one employer and join other within the covered employments. This is necessary for properly crediting the contributions already paid by them.

In U.P. no fresh registration of employees either will be required as the existing machinery may be utilised for this purpose.

3. Collection of Contributions

Another important problem relating to an old age insurance scheme is the problem of collection of contributions. For successful operation of the machinery of collection of contributions, it should secure maximum economy as well as flexibility of procedure to ensure the inflow of contributions with reasonable regularity and necessary accuracy. It should render impossible the evasion of the Act by employers and insured persons should have an access to their individual records in order to check the compliance of their employers. Moreover, the employers should not be put to inconvenience in the computation of contributions. Besides, the system should admit of keeping the accounts up-to-date so that the ascertainment of one's title to benefits and actual disbursement does not involve avoidable delay.

Contributions may either be collected by payroll taxes or by stamp system. Under payroll system, the employer is required to submit to insurance institution an exhaustive list
of his employees together with new entrants or departures with their dates of accession or departure giving full particulars of wages, period of employment and contributions paid. The records are then checked by the insurance institution and discrepancies, if any, are intimated to the employer. Alternatively, contributions may be calculated by the insurance institution itself. In this case, the returns filed by the employers from time to time are used for calculations. Changes in wage-rates, accessions and departures are reported by the employers so that correct and up-to-date figures may be ascertained. The institutions determine the amount payable by the employer and intimate him to it, so that payment may be expedited. Another way of calculating the sum of contributions is that the basic sum of contributions is retained and the net amount payable is arrived at by adding thereto or subtracting therefrom amounts applying to the variations in employment. The system is profitably employed where the covered labour force is fairly stable. In case of an unstable labour force, the calculations regarding new entrants and labour turnover may not economise labour. In India, it is well-known that labour force is of migratory character. Therefore, it is in the fitness of things that complete and exhaustive reporting is brought into practice. In course of time, a retirement pension scheme tends to stabilise labour force. But it will be a hasty judgment to presuppose its realisation at an early date. Change-over from exhaustive to partial reporting, however,
would not require any additional trouble; rather it would economise in it. It is, thus, amenable to modification in the light of experiences gained by its working.

Another system of collecting contributions is to require the employer to affix stamps of appropriate denominations on the contribution cards of the employees which are issued to them for the purpose for every collection period. The amounts of stamps required for various wage-categories are printed on the cards and these cards are retained after making necessary entries at the institution. Each employee has a separate card. The institution keeps a record of the contributions. The stamps are generally quite distinct from the ordinary revenue or postage stamps and necessarily issued in denominations which represent the amounts of contributions for wage-categories adopted. Sometimes, the stamps may be sold by post offices as in the United Kingdom and sometimes they are sold by the Central Bank or its agents such as in India.

The ESI scheme of India has entrusted the collection of contributions to the employers. Since non-employees and self-employed persons are not covered, sale of contributions does not present any difficulty. Regulation 13 to the ESI Act, 1948 requires that the contributions should be paid by affixing stamps on a Contribution Card specially printed for this purpose. The Card is 7"x4" in size. On one side of the Card are 16 columns meant for indicating contribution weeks. On the other side, there are 12 additional columns. On the top,
blank space is left for indicating contribution weeks included in the contribution period. There are also columns for mentioning the Department in which the employee works, his insurance number, name, father's name, shift of work, District Number, Employer's Code Number, and occupation. A summary of contributions paid is also printed on this side. It is in a tabular form containing five columns. First column is meant for entering the value of stamps affixed. Since there are eight wage-categories, there are as many denominations of stamps too. Column (2) is left blank for entering number of stamps affixed. Column (3) is meant for the value of stamps in total which is obtained by multiplying the appropriate figures in column (1) with those in column (2). The fourth column gives the assumed average daily wages. The fifth and last column gives space for the record of total assumed wages which can be obtained by multiplying relevant figures in column (2) with that in column (4). This is done by the office. On the expiry of the collection period, which extends to 26 weeks, the Card is submitted to the Regional Office where its entries are verified and checked. The Card is then filed for reference and the entries are transferred to proper registers.

Stamps may be sold to any one offering their prices like ordinary stamps. But in a mixed system, the selling agency may require an authorised proof for the purchase of stamps. This may be a "purchase roll" which is collected by the agency and then forwarded to the Office. This serves as a proof of
collection of contribution and also serves to verify the actual collection on employer's account. Alternatively, employers may themselves be allowed to print their own stamps as in case of postage stamps. A record is kept by some mechanical device and the price of the stamps thus printed is charged for given periods. Total value of stamps purchased by the employers is reported to the institution. Employers' account is debited with this in a register prepared by the Office. Total contributions paid by the employers is then found out by a full reference to contribution cards of the employees submitted by the employer. This helps to detect any discrepancy between the contributions paid and the stamps purchased. The employee must also be authorised to check his Card. Thus, they are also informed about the contribution performance of the employers on their account.

Under a pure stamp system of collection of contributions, the Office does not keep any record of the value of stamps sold. Any verification, therefore, is not possible. But under a mixed stamp system, the insurance Office is intimated of the value of stamps purchased by individual employers. Their accounts are then verified with actual collection from them. Stamps are affixed on the Contribution Cards of the individual employees in denominations indicating periodical contributions appropriate to the category to which they belong. There may be a stamp book in stead, which serves the same purpose. In addition to indicating the collections, Contribution Card also helps in ascertaining the benefits of the insured persons.
It has been rightly remarked that "advisability of applying a given system of collection depends mainly on the characteristics of the insured population and the nature of the scheme to be applied (the level of education and sense of responsibility of employers and insured persons, the way in which wages are usually paid, the degree of employment stability, the risks covered and the system of calculating cash benefits)."¹ The level of education of U.P.'s industrial workers is low. Sense of responsibility on the part of the employers can be forced but on the workers' part it is difficult to secure in all cases. This is so because they are a migratory mass and they do not realise the benefits of paying regular contributions. The system of collection of contributions adopted under the ESI or the EPF schemes is commensurate with the needs of the schemes. Employers are in a better position to submit the whole amount of contributions. Selling of stamps by the post offices would not be convenient for the sparsity of population covered and the ignorance of the general insured population of the calculation methods. But, if the inspection of the Cards by the insured is to serve any useful purpose, the Cards should be printed in regional languages which the majority of population can manage to understand rather than in English according to the present practice.

There are two more points which deserve consideration at this stage. One relates to the period of employment and other to contributions. If the period of employment is counted in years, months or weeks, there may arise the problem of

¹ Administrative Practice of Social Insurance Institutions, Op. Cit., p 33
the calculation of fractional contributions. This may be resolved by ignoring the fractional period for which a person is employed. Calculations may be started from the next period immediately following it. To avoid disputes, specific rules for the conversion of wages into those applicable to contribution period should be laid down. The problem of contributions presents another difficulty regarding excusals due to sickness holidays and absence without pay. These may be noted in the remarks column.

The period of collection may differ from the contribution period. In order to avoid inconvenience to parties, collections should be made at reasonable intervals. But, where collection period is as long as, say six months, a shorter period for the payment of contributions may be permitted. But, in such cases, full particulars of payroll may be submitted on the expiry of collection period.

Collections may be done by revenue officials, income-tax department or special machinery may be created for this purpose. In the U.S.A. contributions are collected by District Directors of Internal Revenue. In order to avoid administrative difficulties, some insurance institutions do not accept payrolls unless accompanied by the sum due for contributions nor do they accept payment of contributions in advance. In Latin American countries, payrolls are accepted with contributions only. This avoids much of additional work and administrative inconvenience as also it wards off unnecessary delays in the payment of contributions by employers. In the U.S.A.,
payments are generally made by cheques because no special stamps are provided for the purpose. The payroll report accompanies the payroll tax. This enables the Bureau of Internal Revenue to verify the correctness of the sum paid. In addition to this, the process also enables the Bureau to post wages to the accounts of the employees. But the self-employed persons covered under the scheme make declaration of their earnings with income-tax returns. However, collection of unemployment insurance tax involves a different procedure. There are two portions of the total tax (3.0% of payroll). 90% of the tax is collected by the State Governments and credited to their individual accounts. They are permitted to withdraw sums needed for payment of benefits. The rate is determined in accordance with each State's experience-rating system. The rest of the tax is collected by the Federal Government. This is transferred to general revenues out of which sums are allocated to the States for meeting the administrative cost of unemployment compensation scheme.1

In our case, the Regional Office is the collecting agency. The sums payable by the employers are submitted to the Office at the expiry of each collection period. This system may be retained for a pension scheme too.

4. Inspection

Another point in connection with the bureaucratic machinery is the problem of internal check and inspection regarding the contribution performance of the employers and their employees.

with the relevant provisions of the scheme. Internal check should be utilised to ensure that the contributions are regularly paid by the employers and that no defaults are made in this respect. External control is ensured through inspectors for, they can see that covered employers are properly registered that no evasion of law is perpetrated. Internal check involves checking of particulars on the Contribution Cards of the employees so that entries are made to correct accounts. Again, a mathematical check is also required for the amount of the contributions to be payable in total. It should be ensured that contributions are calculated correctly.

Another important matter in case of internal check is the amount of wages specified for each employee. In the first place, wages should be correctly entered. It may be checked by a reference to back cards or the previous accounts of the employees as entered in the insurance register. Moreover, it should be borne in mind while checking the amount of wages that the provisions of minimum wage regulations, court awards, and prevailing rates of wages in that line of activity do not present unseemly comparison. Likewise, exemptions, excusals, and other concessions granted for the payment of contributions should also be verified in an effective manner; for, they provide sufficient margin for collusion and suppression of facts and consequently evasion of payroll taxes by employers.

Any discrepancy that may come to light must be traced to its roots and located by an exhaustive system of inspection.
It is imperative because discrepancies may sometimes arise quite involuntarily and surreptitiously. For this purpose, a regular machinery of inspection may be employed. They render useful service to the employers and employees both. As such, they should not approach their work with a foregone conclusion that the employer is necessarily in the wrong. He must take things easily. For detection and location of errors, the inspector should be conversant with labour legislation and have a sound knowledge of accountancy principles and practice. He should also have working knowledge of the technicalities of the undertakings which he is in charge of, so that he may put intelligent questions in course of his visit. Existence of an inspector has a moral check on the employers and they would be less tempted to falsify records or make delays in paying contributions in spite of him. This is of paramount importance for the working of an insurance scheme. Delays in payment of contributions and non-co-operative attitude of the employers is harmful for them as well as for the insured persons. Short notices of payment of such contributions may involve them in financial troubles. It will also put the beneficiaries to hardship as the calculation of benefits or even the ascertainment of their title to such benefits is not possible without a punctual rendering of all sums payable on their account. In case of unjustified or avoidable delays, the defaulter may be penalised by imposing a penalty or by charging reasonable interest on the outstanding sums or by both, depending
upon the nature of the default. This reduces the arrears to manageable proportions, if not avoiding them altogether.

State's responsibility in this respect is remarkable. It may arise on account of its obligations as a third party of finance in a tripartite scheme, or as an employer itself, or in both capacities simultaneously. Here, the State must shoulder its moral responsibility of paying its due share with punctual regularity. Moreover, if any special taxes are allocated for social security schemes or any budgetary allocations are made, such moneys should be earmarked and credited to a separate fund so that its utilization for the same purpose may be assured. If the State defaults in paying its share of contributions, it must frankly agree to pay a reasonable rate of interest on the defaulted sum. No excuses of the State or public authorities in this behalf should be entertained and it must be treated at par with other employers or defaulting parties.

Under the existing arrangements, the employees can inspect their contribution cards to ensure that the contributions are regularly paid.¹ A better arrangement in this respect may be done if the contribution cards can be made available for inspection by the employee on each payday or at least at the end of the collection period without any formal request. Old age contingency being a long one if slackness is allowed in this respect, the employees may find on retirement that they have not adequately contributed either according to

¹. Vide Chapter II, Section 1.
records or actually, to qualify for benefits. It is, therefore, all the more important that free inspection is allowed to the insured whenever they wish to do so. However, to avoid unnecessary calls a limit may be specified. Thus, under para 45 of the EPF scheme, members are permitted to inspect the contribution cards on making request, but a ceiling has been put to such requests by providing that such inspection shall be allowed only once in two months. The ESI scheme allows a monthly inspection. The formula for calculation of contributions should be easy so that the employers do not have to make elaborate calculations themselves. It may be noted that after specifying the amount of contributions for each wage-class the employers have simply to determine the wage category to which the employee belongs. For an additional convenience, the rates are printed on the contribution card itself. This is very useful for ready reference and it should be retained under a pension scheme. For a smooth working of the scheme an efficient internal check should be up to date. Again, the existing machinery will only require reinforcement rather than complete overhaul. It is also desirable to educate the employers and insured persons about the working of the scheme and benefits to which they may be entitled. Their co-operation in this respect is vital for the scheme.

It may, thus, be pointed out that the existing machinery of the ESI and the EPF may be retained for the introduction of the pension scheme. For external inspection, the existing machinery may be reinforced. But for internal checking, the
employees' inspection will not be sufficient. In the first instance, they are illiterate. Even if the records are kept in regional languages, not all insured persons will be able to check their records. For this purpose a surprise audit may be organised by the insurance institution itself. This will secure a moral check on the employers' performance as well as ensure the detection of discrepancies at an early date.

5. **Disbursal of Benefits.**

Under the EPF scheme, disbursal of benefits does not necessitate establishment of local offices because the payments are non-recurring. However, the payment of various benefits under the ESI scheme is made by local offices which have been stationed at convenient places. They work under the supervision of the Regional Office. The application for benefits is sent to the Regional Office which ascertains the title to benefits and then directs the local office to pay the benefits. The pension scheme will not require such formalities as certification of sickness. But the volume of payments to be handled will be large. The records of the pension scheme will require to keep at central office which will send it to the Regional Office of the birth of the beneficiary. The foreigners may be deemed to belong to national capital. ¹

It may be noted that the Regional Office of U.P. may take the place of Central Office of the pension scheme. But in case

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of an all-India scheme, centralisation of records will be necessary. After verification of claims, the local disbursement offices will pay the benefits. However, the ESI scheme is handling the disbursal of benefits; but the pension scheme will have to handle many more times of recurring disbursements because of many reasons: In the first instance, sickness, maternity and employment injuries are short-duration contingencies which require payment up to a limited period of time, whereas the pensions are long-duration benefits. Accordingly, the volume of transactions will be many times more under the integrated scheme. Additional local offices shall therefore have to be opened to handle the increased volume of transaction. This may increase the cost of administration. But the independent scheme shall require entirely new machinery, which will be altogether saved under integrated scheme but for certain additions.

Although it is not possible to forecast at this stage the actual number of staff required for running the integrated scheme, the Study Group have, however, estimated the additional requirements of the scheme as follows:

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<th>EPF</th>
<th>ESI</th>
<th>Required</th>
<th>Additional No. to be employed.</th>
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<tr>
<td>State Directors Grade I</td>
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<td>3</td>
<td>3</td>
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<tr>
<td>State Directors Grade II</td>
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<td>Deputy Directors (Insurance and Administration)</td>
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<td>9</td>
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<td>Assistant Directors (--do--)</td>
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<td>7</td>
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This shows that the total existing staff for these schemes will require reinforcement of seven rather than retrenchment. But it will be economical to integrate the two schemes than to run them independently; because, only seven additional posts will be required while under an independent pension plan 145 new posts will be required.

6. Integration and coordination

Another problem which focuses the attention in relation to organisation is that of coordination and integration. Coordination is linking together the operations of various agencies relating to the same line of activity. Under this, the agencies maintain their separate entities but their activities are so fitted together that any duplication or waste of efforts is avoided. It is to be noted that social security provisions
evolved one by one and nowhere in the world did they spring full-grown. The problem of co-ordination is concerned with the knitting together of the piècemeal provisions. The next stage in this direction is that of integration. Integration signifies making provision against different contingencies under one single auspices. Thus, while under a co-ordinated scheme, the schemes are run independently with mutual respect avoiding any duplication of services, separate schemes cease to exist under an integrated scheme. All schemes lose their entity and are merged together under the control of one single agency. This is thus, a step farther than co-operation. After achieving the process of organic co-operation, steps may be taken to integrate the scheme if it is justified on the ground of economy, convenience, and expediency.

Here, it is useful to note that co-ordination or integration are not ends in themselves. They are mere means to achieve economy in cost and convenience both to the clients and to the agencies related to the scheme. All talk of co-ordination is futile unless this consideration is kept in mind. The problem is important for consideration at the eve of taking a decision of introducing an old age insurance scheme. As already noted, some schemes of social insurance for industrial workers are already working in India. They are Workmen's Compensation, Maternity Benefit, the Coalmines and Employees' Provident Funds and the ESI schemes. The first one and the last two are all-India schemes and as such they are similar in the extent of their coverage; though, it may be mentioned, they are not concurrent at the same time. They also differ
in their techniques of finance. The Workmen's Compensation scheme is financed unilaterally, whereas the other two are bipartite schemes financed by employers and the employees. This gives rise to dissimilarity in technique of coverage and consequently to difficulty in the way of co-ordination and integration. But it may be said that the Workmen's Compensation scheme will be eventually superseded by the ESI scheme: which may facilitate integration of the remaining two schemes. Coal and Mica Mines Provident Fund schemes are also distinct from other social security measures. As a matter of fact, miners have been accorded a separate treatment all over the world. Their separate treatment is justified due to different conditions obtaining in the mines. Maternity Benefit schemes are financed by employers unilaterally. Moreover, they are the State legislation. No doubt, the contingency has been provided for under the scheme of ESI. Therefore, in the long run, when the coverage of ESI scheme is complete and final, it will be necessary to abolish the Maternity Benefit scheme which is defective in many respects. At this stage, integration will automatically follow.

There is the possibility of integrating the ESI and the EPF schemes with the pension scheme. In fact the two schemes are financed by the employers and employees jointly, though I favour Government contribution too for the pension scheme. But this is no problem. A truly social insurance scheme is financed by tripartite contributions. If the Government does not, however, finance, even in that case, these schemes will be nearer the social insurance approach than any other
scheme working in India. It may be noted here that on introduction of a pension scheme, there will be no need of a provident fund scheme. Its retention will mean double provision for the same contingency as well as an undue burden on the industry. It is significant to note that if the pension scheme is co-ordinated with these two schemes, no reduction in rates of contributions will be possible for, neither the existing rates are too high to permit any cut-down nor is there any possibility of common coverage of contingencies under the two schemes so that the duplication may be avoided and an economy may be affected in the rates. The only possibility of cost-reduction is in respect of the cost of administration. The administration of the two schemes being merged into one, the existing machinery of administration will be profitably utilised to handle the new scheme. The two schemes are already being advised by tripartite committee. They may be merged into one. At the same time, the existing personnel at the executive level shall be curtailed. One actuary, for example, may handle the job for both schemes when integrated though he may require more assistants, as the actuarial responsibility under the integrated scheme will be heavier than under the present schemes. In the same way, the highest executives viz., the Director-General of Employees' State Insurance Corporation and the Central Provident Fund Commissioner may be merged into one Director-General of Social Security Administration. Likewise some other changes may be required in the loco-office personnel as well as the Regional Office.
This will economise in cost of administration too.

During the year 1957-58 the ratio of administrative expenses to contribution income was 9.8 per cent and during 1958-59 it was 10.84 per cent. This works out at about 0.4 per cent of the wage-bill. Thus, if any economy is affected in the cost of the administration expenses, say of 20 per cent, it will be only 0.08 per cent of the wage-bill, which is a negligible sum to deserve elaborate working out. But, integration will undoubtedly save much trouble to the employers. The inspectorates under the schemes of pensions, provident funds or ESI are all concerned with the same records of employers regarding their employees as to the wages paid, contribution compliance, age, family composition, service records and so on. It is very inconvenient for the employers to produce some set of records to different inspectors. When the inspectorates are merged, additional trouble will be saved. This will also save inconvenience to the inspectorates themselves.

If, however, the pension scheme will be launched in U.P. alone, there will be a problem regarding the integration of the pension scheme with ESI scheme. Since the rest of the country will have no pension scheme there will be separate machineries for EPF and ESI schemes. Hence the integration will present constitutional difficulties. At the best, the machinery of the ESI scheme may be taken help of and some sort of gentlemen's agreement may be entered into with the pension scheme. Thus the Employees State Insurance Scheme will be better integrated to the proposed pension scheme if the

latter is instituted on all-India basis. This will be administratively convenient, effective, and economical so far as the cost of administration is concerned. Moreover it will pave the way for the planning of a comprehensive social security scheme in future, which will be eventually required however distant that future may be.

SUMMARY AND CONCLUSIONS

A good administrative machinery should be economical, speedy and amenable to no dishonesty. It has two aspects: Organisational and bureaucratic. In organisational matters, the ESI scheme is governed by the ESIC, Standing Committee and Medical Benefit Council. The EPF scheme is administered by the Board of Trustees. These are all democratic bodies with tripartite representation. The pattern of organisational set up may be retained for a pension scheme; but the share of government should be brought in proportion with the shares of employees and employers.

In the bureaucratic machinery the registration of employers and employees, collection of contributions, inspection of performance and disbursal of benefits are already working with satisfactory record. However, more disbursement officers will be required. Identity documents may be a pass-book in case of a pension scheme. Stamp system of collection is also suitable to conditions in U.P.

The possibility of converting EPF scheme into a pension scheme leads to the problem of integration. The pension scheme may be integrated with the ESI scheme. But there is
one constitutional difficulty. If pension scheme is limited to U.P. the integration would not be possible for ESI is a Central scheme. However, a gentlemen's agreement may be entered into and the scheme may be integrated on State level. The cost of administration should be distributed over the two schemes in agreed proportions.

An integrated scheme will need seven additional hands to man it according to the calculations of the Study Group, whereas pension and ESI schemes run independently will require a staff of 145 men. Thus, an integrated scheme will be comparatively economical. Though the economy will not be material to influence the rates of contributions, yet it will save trouble to employers and employees both.
APPENDIX

A: QUESTIONNAIRE ISSUED TO INDUSTRIAL WORKERS.

1. Name  
2. Age  
3. Do you belong to a Rural or Urban area?  
5. Number of persons in your family:  
   (a) Earners  
   (b) Non-earners  
   (c) Earning but sufficient for their upkeep  
6. How many persons aged 55 (females) and 60 (males) are there in your family and their relation to you?  
   Relation  
   Age  
   1.  
   2.  
   3.  
   4.  
   5.  
7. Length of your service in the present undertaking  
8. Monthly income (in rupees)  
9. If a pension scheme is instituted in which your employer also contributes a portion of the cost, would you like to contribute yourself? Yes / No.  

N.B. Strike out what is not necessary.  

This questionnaire was prepared in Hindi in order that the industrial workers may understand it. Here an English version has been rendered by the author.
The information obtained from the informants has been summarised in the following tables:

**Table A.1**

**SIZE OF THE FAMILIES OF INDUSTRIAL WORKERS**

<table>
<thead>
<tr>
<th>Persons per family</th>
<th>Number of families enumerated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
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<td>3</td>
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<tr>
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<td>10</td>
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<td>5</td>
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<td>9</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>11 &amp; over</td>
<td>22</td>
</tr>
</tbody>
</table>
### Table A.2

**COMPOSITION OF THE FAMILIES OF INDUSTRIAL WORKERS.**

<table>
<thead>
<tr>
<th>Earnings Rs</th>
<th>Minimum no. of persons in the family</th>
<th>Maximum no. of persons in the family</th>
<th>Average Dependants per family</th>
<th>Barner</th>
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</thead>
<tbody>
<tr>
<td>Upto 100</td>
<td>6</td>
<td>7</td>
<td>6.5</td>
<td>2.25</td>
</tr>
<tr>
<td>101 - 150</td>
<td>1</td>
<td>27</td>
<td>7.4</td>
<td>4.50</td>
</tr>
<tr>
<td>151 - 200</td>
<td>6</td>
<td>18</td>
<td>6.5</td>
<td>6.20</td>
</tr>
<tr>
<td>201 - 300</td>
<td>4</td>
<td>18</td>
<td>8.6</td>
<td>5.20</td>
</tr>
<tr>
<td>301 and over</td>
<td>8</td>
<td>20</td>
<td>14.0</td>
<td>10.00</td>
</tr>
</tbody>
</table>

### Table A.3

**CLASSIFICATION OF INDUSTRIAL WORKERS ACCORDING TO COMMUNITY (RURAL OR URBAN) AND THEIR REACTIONS TO PENSION INSURANCE**

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Total no.</th>
<th>Rural</th>
<th>Urban</th>
<th>Ayes</th>
<th>Nays</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 100</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>101 - 150</td>
<td>76</td>
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<td>151 - 200</td>
<td>32</td>
<td>16</td>
<td>13</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>201 - 300</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>4</td>
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<tr>
<td>301 and over</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
</tbody>
</table>

**TOTAL** 120 82 38 60 60
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