The Case for a Global Pension and Youth Grant

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This paper explores, through a specific example, the scope for extending social protection at a global level, paid for by very modest taxes on global financial flows.

The universal, publicly-financed, old age pension has been a popular and effective means for reducing poverty and extending social citizenship in all developed states.[1] In the age of globalisation it is right that the old age pension, this tried and tested device for protecting the livelihood of the elderly, should be installed at a global level, by means of a pension paid at a modest rate to all older persons on the planet, to be financed by a very modest tax on global financial transactions and corporate profits.

In the first instance the global old age pension could be set at one dollar a day, bearing in mind that even this small sum would help to lift hundreds of millions of the aged out of poverty in every part of the globe. Poverty is still strongly associated with old age, and especially with gender and old age. State pension schemes greatly help to limit old age poverty in the developed world, but have not abolished it, while in developing countries pension arrangements often reach less than half the population. The usual link between pension entitlements and employment contributions is not good for women. Because women live a few years longer than men the majority of the elderly are women and because women's unpaid labour in the home does not count as a contribution to either private or public pension systems, over three quarters of the elderly poor are female. Moreover the older woman's work of caring for other family members is not just a question of the past but continues in the present as she cares for her spouse, her grand-children and the sick. In countries afflicted by HIV/Aids older women are essential to family survival as they take on their children's parenting role. If a reliable way could be found to channel thirty dollars a month, or ninety dollars a quarter, to the aged in the developing countries this would not only massively reduce

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

poverty but would put resources in the hands of those who could make good use of them.

In richer countries there are still stubborn pockets of poverty among the aged – especially older women. A cheque for $90 a quarter would not banish poverty in the advanced countries but it would be welcomed by many of the elderly, making a modest but useful contribution to their straightened budgets.

There are some 560 million older men and women in the world today, that is persons over 65 in the advanced countries and over 60 in the developing world. The cost of introducing a global pension of a dollar a day in the next few years would be around $205 billion a year, one fifth of the projected cost to the US of the Iraq War, or one half of the annual US military budget prior to the Iraq invasion. However the cost will double by around 2030, and treble by mid-century. Ageing is going to climb steeply in coming decades because of rising longevity and a falling birth rate. These trends are not confined to rich countries. Just as urbanisation occurs with or without economic development, so does ageing of the population. While the former process is leading to 'a planet of slums', the latter is making for a global blight of destitution in old age.

By 2050 the UN Population Division expects there to be 2 billion persons aged 60 or over worldwide, with 1.6 billion of these in the less developed countries. Ageing is most marked in Europe and Asia but it is advancing elsewhere too. By 2050 the size of this older group in Africa is set to quadruple to reach 207 million, comprising 10.3 per cent of total population. Africa will have more older persons than Latin America and the Caribbean (with 187 million aged 60 and over), and nearly as many as Europe (with 229 million of that age). By 2050 Asia, a category that includes India and China, is expected to have no less than 1,249 million older persons, comprising 24 per cent of the population.

It is often claimed that the ageing of the population can be offset by immigration. The projections I have quoted assume the continuation of current trends in migration. While migration flows can mitigate the ageing effect on a country-by-country basis, they cannot, of course, reduce the ageing of the global population.

Today women comprise 55 per cent of those aged 60 and above worldwide, 65 per cent of those aged 60 plus in North America and 70 per cent of those aged 60 plus in Europe. World-wide women comprised 63.5 per cent of those aged 80 and above in 2005, a figure that is expected to drop slightly to 61.4 per cent by 2050. The frail and vulnerable 'old old' are the most rapidly growing age cohort in all parts of the world. There were 88 million persons aged 80 and above worldwide in 2005, a figure that is projected to rise to 402 million by 2050 according to the UN Population Division mid-range projections. Already in 2040 there will be 98 million persons aged 80 plus in China, 47 million in India and 13 million in Brazil.

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

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

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

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

While we need to help the aged, I believe it might be wise also to help the other age cohort which is typically excluded - young people. The global pension could be wtinned with a youth grant. Older people themselves would feel happier to receive a pension if financial help was also available to the young, especially the sort of help that would allow them a better start in life. Today one half of those aged between 16 and 24 are unemployed – not in a job and not receiving education - and thereby at special risk of being in poverty both now and in the future. If we set aside a small privileged minority in both categories there is reason to see young adults and the elderly as the excluded generations. The cost of supplying every younger person with $1,500 for educational and training purposes on reaching the age of 17 would be very similar to that of paying the global pension of a dollar a day. A youth grant would widen access to the knowledge society and symbolise a concordance of the generations. While it could transform the possibilities of the young person in poor countries it would still be welcome to most of the young in wealthier lands. Young people are now greatly burdened by the rising cost of acquiring skills and education. They also tend keenly to appreciate acquiring an extra modicum of independence from their parents. Even in some of Europe's most advanced welfare states, such as Sweden, young people living on their own figure disproportionately in the poverty statistics. The case for special help to the young is now so widely acknowledged that it does not need further pleading here. The question remains how could financial help to the 'excluded' generations be financed?

How to Pay for the Global Pension

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

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

Three types of impost are peculiarly well-suited to such a task: a tax on international currency transactions, a tax on the fuel used on international flights and a very mild tax on corporate profits.

The famous Tobin tax applies to the sale or purchase of currencies and has been urged as a measure to curb currency speculation. But it could be applied mainly as a revenue raising measure. Set as low as 0.1 per cent - or one thousandth part of each transaction - the tax would not be worth evading but would still raise large sums globally. The workings of stamp duty in the UK show that a very modest charge on a large volume of transactions can yield large sums at a low cost and without harmful side-effects.[2] Common estimates of the amounts that could be raised each year from a Tobin tax ranged from $100 billion to $300 billion in the late 1990s. By 2010 the Tobin tax yield should comfortably reach the higher end of this scale - $300 billion.

I suggest here that income of around $150 billion be ear-marked as the Tobin Tax contribution to financing the Global Pension, with the remainder to be dedicated to young adults –the young could be offered a lump-sum grant of $1,500 to use for education or training when they reach the age of 17. Small as this sum would be in richer societies it would not be a negligible one. Twinning the global old age pension with help for young people would begin to assert a new balance between life-stages in a scheme of generational equity. However such a justified sharing of Tobin tax revenues would mean that another source of funds would be needed for the global pension, especially as the ageing of populations grows in the future.

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

The third source of revenue I propose is a requirement on all companies employing more than fifty employees, or with a turnover of more than $10 million, to pay a tax on 2 per cent on their annual profits, to be paid either in cash or, in the case of public companies, by issuing new shares of that value to the fiscal authority (private companies could issue bonds and partnerships, including private equity partnerships, could issue nominal partnership rights). All genuine pension funds would be compensated for the impact of share dilution on their holdings.

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[2] Levied at a rate of 0.5 per cent of share transactions (other than those by market makers) the UK tamp duty raises over $5 billion annually. China's financial authorities have a similar device which they use in a 'Tobin tax' way to dampen speculation but it also raises large sums. See Geoff Dyer and Jamil Anderlini, 'Beijing Could Reap $40bn Share Tax Bonanza', *Financial Times*, 4 June, 2007.

Two important features of these arrangements should be noted. Firstly, they would apply to profits made anywhere in the world. Secondly, companies would be able to discharge their obligation simply by issuing a new security rather than by subtracting from their cash-flow.

The profits tax/share levy would be at a very low rate – a tax of 2 per cent of profits should raise about $140 billion annually. Although modest, this tax could be awkward for some companies, and in come conditions, if it has to be paid in ready cash. Even the very small payments that are meant to be paid by corporate sponsors to the insurers of their 'defined benefit' pension schemes have caused difficulties in recent years in the US and the UK. In the US the courts have required companies in difficulties to contribute to the Pension Benefit Guaranty Corporation by issuing new shares in lieu of cash. In the UK the Pensions Regulator has made similar provisions relating to the Pension Protection Fund.[3] Employees will stand to qualify for the new pension but would certainly welcome a type of contribution that does not weaken their employer in any way. Since the half-share of the Tobin tax dedicated to the Global Pension already comprises $150 billion, and the fuel tax on international flights should raise a further $15 billion annually, only around $40 billion a year would be needed from the profits levy, to meet the immediate annual cost of $205 billion. This would allow the remainder of the sum raised by the profits tax - $100 billion each year - to accumulate in the Global Pension Fund (GPF) network as a strategic reserve pledged to meet the anticipated rise in the numbers and proportion of the aged. The various taxes would be collected by national fiscal authorities with assistance from appropriate international bodies such as the IMF and IATA. Revenues would be paid to the global office of the GPF for consolidation with the world fund..[4] Consolidation of assets by an international agency would ensure a highly diversified portfolio but the agency would itself be required to distribute the assets it receives to a global network at regular intervals. This regional network of around a thousand local offices of the Global Pension Fund would be responsible for paying the pension and would receive resources in line with their region's demographic characteristics.

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[3] I give examples of this court-mandated share issuance in *Age Shock: How Finance Is Failing Us*, London and New York 2007, pp. 134-5, 142. The judges were no doubt in part prompted to take this measure because of records of corporate irresponsibility which I document in chapters 2 and 3 of this book.

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

In the interests of building up its reserves the GPF network, would use its cash revenue to pay out current pensions but hold all the new shares and other securities to generate larger revenues in the future, when they will be needed.

During an initial accumulation phase it might be wise to re-invest dividend income in public bonds. Because the GPF network would not buy or sell shares it would have less scope for making mistakes. The knowledge that the Global Pension Fund network would not sell the shares it held would also be a factor of stability and would prevent it from financially harming the companies in which it had stakes. By around 2034 total assets in the GPF network could amount to $7.7 trillion. [5] If cash pay-outs began at this time, and the annual yield on capital was around 3 per cent, this would be $257 billion for that year. Each regional office would hold abound $7.7 billion in assets and receive $257 million in revenue. Note that while dividend income can fluctuate it is less volatile than share price, and there are ways of smoothing such receipts.

The global pension would be a universal scheme benefiting everyone who reaches old age. The receipts of the currency-exchange tax and the levy on profits would obviously be larger in rich parts of the world than in poor ones. However currency transactions and corporate profit trails often involve tax havens and developing states where income per head is still low. The currency tax and the profits tax would be light but they would apply everywhere. The overall workings of the global pension - if financed in the way suggested – would redistribute from rich to poor. On the other hand the participation of every territory - no matter how small or poor - would be essential to the effective workings of these levies.

Citizens of richer countries should be pleased at the comprehensive scope of the new arrangements, which would require potential or actual tax havens to report currency movements and profits at companies they allow to register in their territory. The global pension would give those in richer countries rights to a modest pension supplement, and as a flat rate benefit would help the less well-placed more than the comfortably-off everywhere. It would do most to reduce poverty where it is worst - in the countryside and neglected urban areas of the underdeveloped and developing

[5] I am assuming that profits rise at 2.5 per cent a year and that returns of 5 per cent a year are ploughed back into the fund for an ‘accumulation period’ of 27 years. Further details in chapter six of *Age Shock*.

world. Last but not least it would promote more transparent and responsible corporate behaviour and nourish a world-wild organization dedicated to social welfare.

The regional network of funds would be bound by actuarially-fair rules of distribution and would be required to hire professionally-qualified personnel but should also furnish democratic representation to local communities. The holding of stakes in a great variety of companies could in principle give the regional network a say in how these shares would be voted. The impact of the network on the management of any given company would be very small but they would be able to influence issues of general principle, such as respect for labour rights or compliance with environmental standards. The network could comprise , as suggested above, around one thousand offices worldwide, each catering to a population of about 6 million. The network would give a say to local communities who are often ignored by large corporations.

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

The Global Pension would be a social insurance scheme, not an aid programme. It would channel financial resources direct to the elderly in communities whether rich or poor, urban or rural. The costs of administration would, so far as possible, be spent in those communities. Administration costs should amount to no more than 1 per cent of the fund each year, and quite possibly less.

The Global Pension would contribute significantly to the 'security in old age' envisaged in Article 25 of the Universal Declaration of Human Rights. UN agencies and conventions have helped to focus global attention on the problems of children, of women, of the sick and disabled. In 2002 the UN sponsored the Second World Assembly on Ageing in Madrid which issued good advice to member governments, but, as yet, the plight of the aged and the prospect of a surge in their numbers is still not addressed by a specific international agency, nor by a programme with global scope. The Global Pension would represent a tangible step in the right direction. It would help to build equality on a firm basis, from the ground up and do so in ways that foster a wider pattern of social responsibility.

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