Indian Democracy at Work Series

National Roundtable on

A VIABLE FRAMEWORK FOR FISCAL PRUDENCE

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Rapporteur's Report

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Theme 1: Constitutional Mechanisms to Safeguard Public Finances in a Federal Polity

The objective of the first session was to lay down a comprehensive understanding of the current state of public finances, looming challenges, and to promote discussion and deliberation regarding potential solutions. The thematic issues were framed keeping in mind several institutional frameworks that play a role in the health of public finances in the country such as constitutional provisions, an overarching federal framework, and contemporary fiscal environment. The issues were aimed at providing a structural design to the rest of the conference and gain valuable insights.

The session was chaired by Shri T.S. Krishnamurthy, former Chief Election Commissioner of India, and Shri Prithviraj Chavan, former Chief Minister of Maharashtra. It featured a special address by Shri Yashwant Sinha, former Union Minister of Finance and External Affairs. As the architect of several eminent economic reforms, Shri Yashwant Sinha gave the introductory remarks to commence the session. He began by stating how the current problem at hand in light of the ongoing debate between the Old Pension Scheme and New Pension System with certain states reverting to the former, is in fact a political problem and not a fiscal problem. Reflecting on how the environment for economic reforms in the country has changed, he made mention of the emerging culture of foregoing national long-term interests due to short-term political costs. He expressed the importance of the political will of the Government at the highest level, and how it must come into play to control the issue at hand.

The following summary encapsulates the discussion on the four main issues and sub-issues.

Issue 1: Is it sustainable to borrow in perpetuity for current expenditure without creating assets for the future?

The session reflected on the emerging trend of foregoing national long-term interest due to short-term political costs. While making mention of how thrift is intrinsic to our society and the need of the hour in the management of Public Finances, reckless spending among States and breach of debt limits was made note of. For example, it was recommended that there should be in place a constitutional amendment to ensure that there will be no borrowing to fund freebies. It was also stated that currently Punjab is borrowing to service the interest burden of the state's prior borrowing, and how such reckless oversight of Public finances can hamper the country's future. There were also repeated suggestions of instilling the norm of maintaining a primary surplus every year in order to pay off some amount of debt periodically.

Sub issue a) How do we institutionalise the 'golden rule' – or the norm of zero revenue deficit, i.e. current expenditure shall not exceed current revenues of the government at the Union and State level?

The idea of institutionalizing the Golden Rule was met with several contesting opinions. Firstly, to note that Current Expenditure also includes expenditure on education and healthcare and hence it cannot be as simple to say that current expenditure should be contained to achieve zero revenue deficit. Additionally, to say that across States there should be a zero revenue deficit is also difficult as there is wide inter-state disparity. Hence imposing such a rule will leave weaker states with even more difficulty to mobilize resources and consequently have lesser to spend on healthcare and education. Therefore the idea of containing current expenditure should be despite the expenditure on healthcare and education. Secondly, it was mentioned that the concept of the Golden Rule lies in the idea of altering the composition of expenditure so that it can be ensured that Capital expenditure is not restrained; due to the old fashioned view that Capital expenditure is more important than Revenue expenditure. However, in order to assist development, healthcare and education, revenue expenditure is equally important. Hence while restricting borrowing for just revenue expenditure is unfair, borrowing can be restricted as a norm but should be left for States to decide whether they do so for revenue expenditure or capital expenditure.

Sub issue b) What is a reasonable period to meet the zero revenue deficit target at the Union and State levels?

While there was no broad consensus on the reasonable period upon which the Union and State can meet the zero revenue deficit target, there were several comments regarding the idea of a zero revenue deficit target in itself, as discussed above.

Sub issue c) Revenue deficit grants to States create a perverse incentive encouraging fiscal profligacy. Can revenue deficit grants to States be phased out with the end of the 15th Finance Commission period in line with point 'a' above?

The adverse effects of revenue deficit grants to States were identified through the following two points. Firstly, states which have low expenditure are likely to maintain the same level of growth as there is no incentive to do otherwise. And secondly, it encourages the culture of fiscal dentistry as the Union is expected to step in and make amends for States economic mismanagement. While it was acknowledged that the 15th Finance Commission has recommended for these grants to be done away with, there was no broad consensus on the actualization of the same.

Issue 2: What is the impact on inter-generational equity when the burden of deferred liabilities is passed onto future generations in a cash-accounting system?

While there was no broad consensus on the impact on inter-generational equity amidst deferred liabilities in a cash-accounting system, there was deliberation on ways to limit expenditure and debt in the current system.

Sub issue a) What are the possible approaches – constitutional and legal – to ensure that deferred liabilities, including those arising from unfunded pension liabilities, are accounted for in the current year?

There was no broad consensus on the mechanisms available to ensure that deferred liabilities are accounted for in the current year.

Sub issue b) In light of frequent recourse to deferring committed expenditure and obscured liabilities from off-budget borrowings, what measures are needed to provide an authoritative estimate of the actual liabilities of governments?

Where there was no broad consensus on the measures to provide an authoritative estimate of the actual liabilities of the government, there was discussion on the need to put a cap on spending, impose a fiscal deficit limit and ensure stringent fiscal discipline on states to practice prudent use of public finances.

Sub issue c) What constitutional levers are available with the Union to implement a system of accrual-based accounting and give effect to points 'a' and 'b' above?

There was no broad discussion on the roadmap for implementing an accrual-based accounting system.

Issue 3: What are the approaches available to institutionalise effective monitoring and oversight of public expenditure even as the autonomy of elected governments is respected?

Several approaches were discussed in order to institutionalize effective monitoring and oversight of public expenditure. These included the creation of an independent body or a Fiscal Council, making the Finance Commission a permanent body, and making relevant constitutional amendments. Additionally, there was also discussion of creation of an independent debt management office at the Central level. States should be free to decide whether they would want to adhere to the Central body, create their own body, or opt out entirely. It was also recommended that the RBI be divested of its responsibilities such as public debt management and banking regulation and should instead be made a sole monetary authority.

Sub issue a) Can an independent body on the lines of Office Budget Responsibility (OBR) in the United Kingdom be constituted to provide an ex-ante review of government policies and programs, and cost-estimates for large, public infrastructure projects?

In the context of the creation of an independent body as recommended by the 14th Finance Commission, it was seen as eminent that the body undertake the following functions. First, to perform an accurate evaluation of budgetary forecasts. Second, to closely monitor fiscal progress at the State and National level. Third, to exercise control over issues related to fiscal deficits. Fourth, whenever a political party or the ruling party makes any political promises, to conduct a fair evaluation of the expenditure of said promises and make it available to the public. And lastly, to report and make information available to the parliament and public domain for greater discussion and awareness. While there was no broad consensus on the creation of such a body, there were recommendations to include the above stated functions as part of the agency's responsibilities.

Sub issue b) How do we extend the scope of these bodies to include States ensuring fiscal transparency at both Union and State levels?

While there was no broad consensus on the expansion of the scope of these bodies to the state level as well, there was discussion on the need for permissible limits to be put upon overall State expenditure as well. There was also discussion on giving fiscally well-performing States more freedom in order to incentivize better fiscal management.

Sub issue c) What mechanisms are needed for transparent reporting of public debt from all creditors, including Scheduled Commercial Banks, and can a law or a directive mandate this disclosure?

There was deliberation on the creation of an independent debt management office at the Central level, away from the RBI, which States can choose to adhere to or not.

Sub issue d) Explore other viable options for institutionalising fiscal transparency.

Other viable options discussed for institutionalizing fiscal transparency included the creation of an independent Fiscal Council, exposing the State and Union to bankruptcy risk and making the Finance Commission a permanent body among others.

Sub issue e) Explore the legal mechanisms available to discourage practices like tax revenue flowing directly into an escrow account towards debt repayment.

There was no deliberation on the legal mechanisms available to discourage practices like tax revenue flowing directly into an escrow amount towards debt repayment.

Issue 4: What are the possible approaches to ensure independent, transparent and non-partisan exercise of authority under Article 293(3)?

In light of the existing constitutional provisions under Article 293, there were several concerns about its impact on the federal framework in place if the Union is permitted to preside over State borrowing. Several other approaches were deliberated upon in order to prevent any partisan control of public finances. First, to revoke the Union as the guarantor of State. It was argued that Article 293 confers powers upon the State to borrow, with Article 293(3) and (4) serving as exceptions; hence it can be argued that the primary power does not lie with the Union. In order to do away with the existing mechanism as a whole, it was suggested that an amendment to Article 293(3) should be pursued in order to remove the power of the Union to give loans to States or impose any conditions. Instead, States should adhere to market discipline and be exposed to risk of bankruptcy along with the Union. This can also be done by pulling away the present system of the RBI borrowing and servicing loans for States. And secondly, to create an independent credible body that can exercise the functions enlisted in Article 293 (3) and (4) of the Constitution, away from the political process. On the contrary, it was also reinforced that macroeconomic stabilization remains a Central function, as stated by the theory of fiscal federalism. Additionally, it is to be noted that the Constitution is for the people and hence any constitutional provision is set in the light of protecting civilians. There were also questions raised on whether by leaving States to market discipline, we are prepared to let the people suffer the consequences of bad leadership and irresponsible fiscal management. It was also added that leaving states to market discipline would only be possible if all the States were on a similar level, however in the country there exists too much inter-state variation thus making this difficult.

Sub issue a) Can an independent Fiscal Council be created to monitor the fiscal health of States and approve loans under Article 293(3), subject to fulfillment of conditions under Article 293(4)?

While it was questioned as to whether the creation of an independent body is possible in terms of the willingness of the political parties for the same, there was a broad consensus on the conditions for the constitution of an independent Fiscal Council. First, the body should remain non-partisan, and should be able to satisfy both the government and the opposition. Second, the body should satisfy both levels of federal polity i.e. the Union and the State. It was also recommended that the functions of the Fiscal Council should include the following. First, to perform an accurate evaluation of budgetary forecasts. Second, to closely monitor fiscal progress at the State and National level. Third, to exercise control over issues related to fiscal deficits. Fourth, whenever a political party or the ruling party makes any political promises, to conduct a fair evaluation of the expenditure of said promises and make it available to the public. And lastly, to report and make information available to the parliament and public domain for greater discussion and awareness. Additionally, acknowledging the pitfalls in current day intergovernmental relations, there was also deliberation on where the Council could originate from. A few of the alternatives included the Finance Ministry, Ministry of Home Affairs and the Prime Minister's Office. It was also questioned whether the mechanism could be anchored in any other body, and what means can be adopted to generate current between the Union and Opposition as well as the Union and State to enable better consensus-building. There was also deliberation upon if the body can be considered truly independent if it is appointed by the Ministry of Finance itself, as was recommended by the 13th Finance Commission. However, it was noted that even the Finance Commission was appointed by the Finance Ministry, and hence we can deem all such institutions as those lacking credibility. Regardless, the setting up of an institution is seen as possible, as was formerly done through the GST Council and the existing RBI-Government relations. There was however an entirely different viewpoint which noted that creating multiple bodies further creates problems of coordination, political takeover and accountability. Additionally, creating a body moves the accountability further away from the political process, and hence it is advisable to leave such responsibilities within the Union and the political process itself.

Sub issue b) Can the Finance Commission be made a permanent body and entrusted with the responsibility?

It was noted that it would be possible for the Finance Commission to become a permanent body if the scope of Article 280 could be expanded to put into place a permanent secretariat which could be re-appointed in line with the body's 5-year tenure. Additionally, it was also noted that while the Finance Ministry can choose members of the Commission, it does not have the authority to remove them, hence making the commission comparatively independent as well. It was also suggested that the Finance Commission be made to play a dual role, with its responsibilities clearly enunciated by the Parliament. Also, the Finance Commission should be enabled to freely express their views, and whether the states choose to abide by it or not should be left up to their discretion.

Sub issue c) In light of the fact that Article 293 empowers the Union to grant consent for State borrowing when the State has prior debt to the Union, what safeguards are imperative to prevent States from evading fiscal oversight?

It was recommended that constitutional amendments be made to make the following arrangements to prevent States from evading fiscal oversight. Introducing Article 293(5) to assert that States cannot borrow to finance revenue expenditure. Introducing Article 293 (6) to assert that State debt to GDP ratio comes under a permissible limit, and to prohibit borrowing for funding freebies. Additionally, it was also recommended that there be a total fiscal deficit limit for both States and the Union.

Sub issue d) Is there a case for extending transfers under Centrally Sponsored Schemes as soft loans and exempting them from fiscal deficit norms, so that the Union's role under Article 293 will always be extant in order to promote fiscal discipline while providing financial support?

There was no discussion on extending transfers under Centrally Sponsored Schemes as soft loans.

The below section elaborates on select notable points made by individual speakers that gave direction to the discussion:

Shri T.S. Krishnamurty – In the context of the possibility of partisan control over state finances owing to present constitutional provisions and the discussion of institutionalizing an independent council, Shri T.S. Krishnamurty raised the question of whether it will be possible to have such an independent agency or fiscal council in regards to the willingness of the political parties to accept an external agency and give up political control.

Shri Manish Tewari – Shri Manish Tewari made mention of how the culture of thrift is intrinsic to our society, and should be incorporated in Public Finances as well. He expressed the immediate need to bring about Constitutional amendments that lay down a set of agreed upon rules between the Union and State in regards to the management of Public Finances. Stating the irresponsible nature of the political class, he expressed the need for the following constitutional amendments to ensure adherence to fiscal discipline. Introducing amendment 293(5) which says that States cannot borrow to finance revenue expenditure, in addition to amendment 293(6) which imposes a permissible limit for debt to GDP ratio at the State and National level, and emphasizes that there should be no borrowing for the funding of freebies. Additionally, in regards to the political class responding to the demands of a small yet organized group, he made mention of how in states such as Himachal Pradesh and Goa government employees to population/family ratio is very high with almost every family being home to a government employee. Hence, driving higher voter turnout and probability of success in the event of promising the OPS. He argued that Constitutional provisions, including borrowing limits, are designed to protect public interest rather than impose partisan control. Additionally, he stressed the irresponsible nature of the political class and the need for rules to ensure fiscal accountability.

Dr. Montek Singh Ahluwalia – Dr. Montek Singh Ahluwalia suggested the creation of an independent debt management office away from the RBI at the Union, and left on the State's discretion as to whether they want to create a separate body at the State level, adhere to the Central body or opt out all-together. In regards to the existing culture of breaching debt limits, he said that the FRBM is not enforceable and hence it is the Parliament that is supreme in nature. He suggested the introduction of automatic penalties, for example the resignation of the Finance Minister/Secretary, when debt limit is exceeded to ensure better fiscal management. In reference to the Golden Rule, he elaborated saying that the concept was brought into design in order to alter the composition of expenditure so that Capital expenditure is not restrained, owing to the old fashioned view that capital expenditure is more important than revenue expenditure. However, in order to assist development, healthcare and education, it is essential to have sufficient revenue expenditure as well. Hence while restricting borrowing for revenue expenditure alone is unfair, borrowing can be generally limited and left up to States to decide whether they want to borrow for revenue or capital expenditure.

Dr. Ajay Shah – Dr. Ajay Shah advocated for maintaining a primary surplus annually to reduce debt. He supported exceptional fiscal measures during crises but emphasized the need to limit such deviations to one-off incidents. He stressed the importance of prudent fiscal management to ensure long-term stability.

Dr. Renuka Sane – Dr. Renuka Sane raised concerns about the federal framework and the implications of allowing the Union to oversee State borrowing under Article 293. She questioned whether such oversight would undermine the autonomy of States and disrupt the balance of federalism.

Dr. Govind Rao – Shri Govind Rao stated that the Theory of Fiscal Federalism reinforces that macroeconomic stabilization is a Central function. Tracing the setting up of the FRBM for fiscal management, Shri Rao said that Article 293 says that parliament can put a limit on the overall debt of the Union but the body did not do so; hence the need for the FRBM in the first place as when the market does not perform the government steps in. He also posed a rhetoric question asking what to do when the government does not perform. He emphasized on the need to generate primary surplus, and stated that the revenue deficit of the Union is much more dangerous than that of States. Reflecting on the institution of Post Devolution Revenue Deficit grants, he stated the two disadvantages of the same; first, it provides an incentive for States which have low expenditure to continue like that, and second it has formed the culture of fiscal dentistry i.e. the norm of Governments stepping in to make up for bad fiscal management hence decreasing incentive to perform better. Therefore, resulting in the normalization of high outstanding borrowing. In line with this, he made mention of how the 15th Finance Commission had recommended the removal of Revenue Deficit Grants, and suggested marginal increase in tax devolution. Lastly, in the context of making constitutional amendments, he stated that any constitutional solution without political will is difficult to implement. Dr. Rao supported the creation of a Fiscal Council to monitor fiscal progress, evaluate budgetary forecasts, and ensure transparency. He also suggested that the Finance Commission could function as a permanent body with a secretariat, ensuring independence and continuity. Additionally, he emphasized the need for intergovernmental coordination to address conflicts and inefficiencies in India's federal system.

Shri Subhash Garg – Shri Subhash Garg criticized the Central government's fiscal irresponsibility, noting excessive borrowing beyond the 3% fiscal deficit limit. He recommended strict fiscal rules, including a total Fiscal Deficit limit for both Union and States, and exposing States to bankruptcy risks by removing RBI's role in borrowing and servicing State debt.

Shri Balveer Arora – Shri Balveer Arora questioned how one can create political will as well as willingness to sacrifice their present in the interest of the future, and the need for inspiration for the same. In regards to the creation of an independent credible body, he laid down the following two criteria. Firstly, the body should be non-partisan and should satisfy both Union and Opposition. And secondly, the body should satisfy both levels of federal polity i.e. at the Central and State level. Reflecting on the present dangers of intergovernmental relations, he listed down a few 'stables' that have been the origin of effective bodies and reforms. This included the Ministry of Home Affairs, Prime Minister's

Office, and the Finance Ministry, making mention of the achievements of the GST Council. He questioned if there was any other stable at which the independent body can be anchored and emphasized on the need to generate current between the Union and Opposition as well as the Union and State to derive effective consensus-building.

Shri Atul Sharma – In the context of the thematic issue of abiding by the Golden Rule to maintain a zero revenue deficit, Shri Atul Sharma made some insightful contributions. He stated that current expenditure also includes expenditure on Healthcare and Education and hence deliberating upon the idea of containing current expenditure to maintain a revenue deficit would also adversely affect the two sectors. Additionally, saying that there should be a revenue deficit across states may fare with difficulty owing to wide inter-state disparity. Hence by enforcing such a norm, weaker states will have lesser capacity to mobilize resources and hence begin to spend lesser on education and healthcare. Therefore, he suggested that containing current expenditure should be despite the expenditure on health or education. Making reference to the GST Council and the existing Government relations with the RBI, he was of the view that setting up of an independent institution would be possible and effective. Additionally, he did not see the need to make any constitutional amendments and just advocated the use of existing provisions.

S*mt. Mythili Bhusnurmath* – Smt. Mythili Bhusnurmath defended the independence of bodies like the Finance Commission, despite being appointed by the Ministry of Finance. She questioned the effectiveness of penalties for breaching debt limits and whether the public should bear the consequences of poor fiscal management. She also raised concerns about leaving States to market discipline, given the potential impact on citizens.

Shri Ajit Ranade – Shri Ajith Ranade made the suggestion of giving more freedom to fiscally well-performing States, if not all stated owing to the inter-state variation. Additionally, he made mention of how States already have freedom to some extent, for example the existing mechanism of States being permitted to raise debt in domestic markets from Indians if they are not already indebted to the Government of India, in which case they require permission from the RBI.

Shri Lavish Bhandari – Shri Lavish Bhandari opposed the creation of multiple independent bodies, arguing that it could lead to coordination issues, political interference, and reduced accountability. He advocated for keeping fiscal responsibility within the political process rather than delegating it to external bodies. He believed that creating new institutions could remove accountability from the political class and create more problems than solutions.

In their concluding remarks, the Chairs shared their insights:

- **Shri Prithviraj Chavan** emphasized that the Reserve Bank of India (RBI) should be relieved of duties such as public debt management and banking regulation, and should focus solely on its role as the monetary authority.

- **Shri T.S. Krishnamurthy** expressed confidence that building a consensus within the current frameworks is possible. He suggested that the Finance Commission could play a dual role, with its responsibilities formally renounced by Parliament. He further stated that while it should be left to the states to follow the Commission's recommendations, allowing the Commission to freely express its views would serve as a vital step forward.

Theme 2: A Sustainable Pension System for Government Employees

The objective of the second session was to extensively discuss the way forward in light of the pitfalls associated with the Old Pension Scheme (OPS) and the dissatisfaction with the National Pension System (NPS). Keeping in mind the unfunded, non-contributory nature of the OPS and its grave impact on public finances, the session was set in the background of consensus building regarding its detrimental impact, along with the need to deliberate upon the ways in which the current pension system can be altered; achieving a balance between the demand of government employees and maintaining fiscal sustainability.

In the light of growing demand for OPS and the interests of 3.2% of the workforce dominating the remaining ~97%, the roundtable engaged in a comprehensive discussion on two primary issues and further explored each issue to address their respective sub-issues. The session was chaired by Dr. Rakesh Mohan, former Deputy Governor of the Reserve Bank of India, and Shri Balveer Arora, Chairman of the Centre for Multilevel Federalism, who guided the discussion and facilitated the exploration of diverse perspectives on the topic.

The following summary encapsulates the discussion on the two main issues and sub-issues.

Issue 5: What mechanisms can be implemented to ensure that funding for pension commitments under a non-contributory, defined benefit pension plan is concurrent with the active service years of employees, including those in the defence forces?

The roundtable engaged in a pertinent discussion concerning the emerging trend of early retirement as it pertains to pension commitments under a non-contributory, defined-benefit pension plan. The discussion leaned towards establishing mechanisms that could address the issue of early retirement. Several suggestions were proposed, notably advocating for the imposition of a minimum age requirement for accessing retirement benefits. This approach aimed to mitigate the challenges posed by early retirement, thereby reducing the overall pension burden. The discussions established links between pension benefits and years of service to mitigate the challenges posed by early retirement trends.

Sub issue a) – What constitutional levers can be employed to ensure that unfunded pension liabilities are reflected in current budgets? Can we create a sinking fund to meet future pension obligations?

The participants agreed that there is a need to ensure equity in public expenditure in terms of transfer of debt burden. This was aimed at reducing intergenerational inequity and preventing the imposition of liabilities on future generations. In addition, citing the guarantee that the government will bridge the gap when the market is underperforming was also seen as a feasible measure to reduce insecurity and resistance towards the NPS. Additionally, there was a consensus on the need to consider a hybrid model between the Old Pension Scheme and New Pension Scheme, in order to provide social security while not committing to any unfunded, long-term legal liabilities. This could be achieved through the creation of a sinking fund, which would not only help states in allocating resources for the provision of pensions in the present, but also reduce existing insecurities regarding market fluctuations and resistance towards the NPS.

Sub issue b) Alternatively, what fiscal adjustments can be considered if a unit chooses to revert to unfunded pension liabilities? If a unit refuses to allocate for future pensions in current budgets, can the Union treat it as deferred public debt, and apply revenue deficit, fiscal deficit, and debt to GDP norms accordingly?

The gathering had formed a broad consensus on the need for a hybrid model, or redesigning of the pension system as a whole, as reverting to the OPS or the scheme in itself was viewed as a highly unsustainable alternative. The need for a greater consultative mechanism where best practices and alternatives for all three levels of government employees could be deliberated upon, was made a mention of. This was targeted at improving intergovernmental interaction and paving the way for discussion of a better structured model for pension benefits.

Sub issue c) Given the increasing life spans and declining ratios of active workers to retired workers in the future, can we consider a progressive increase in retirement age to ensure the sustainability of pension commitments over time?

The discussion on increasing retirement age to ensure sustainability of pension commitments over time was met with several opinions. First, to keep in mind that increasing retirement age also clashes with the growing trend of longevity and hence might not be able to reap desired outcomes. Second, to take into account the present culture of early retirement and the incentives for it, with many employees opting for the same. In case of early retirement, there was a mention to mandate a minimum age for drawing benefits in order to reduce the pension burden. The above stated arguments were hence made to factor in before forming a consensus on an increase in retirement age.

Sub issue d) What mechanisms can be employed to exclude wage indexation from defined-benefit plans, even as price indexation is included to protect the purchasing power?

While the roundtable did not arrive at a specific mechanism for excluding wage indexation from defined-benefit pension plans, it achieved a consensus on the need to move away from it. The participants expressed concerns that tying the benefits of the past workforce to the productivity of today's workforce is an unsustainable and inequitable approach.

Issue 6: What viable approaches can be employed to strike a balance between the genuine social security needs of government employees and the long-term, sustainable health of public finances?

A broad consensus emerged at the roundtable on the need for a hybrid pension model, one that combines elements of the Old Pension Scheme (OPS) and the New Pension Scheme (NPS) to strike a balance between ensuring social security for government employees and safeguarding the long-term health of public finances. The importance of extensive consultation and adopting international best practices was reiterated to design a robust and sustainable pension system.

Several approaches were discussed, encompassing adjustments to the NPS, crafting a hybrid model, and even modifying the current OPS. One proposed hybrid design rewards beneficiaries based on their risk tolerance and contribution levels. For instance, opting for a non-contributory system might yield 20% of salary as pension, while a contributory approach could offer 50%, thus incentivizing higher contribution and risk-sharing.

The roundtable also expressed grave concern about the high debt burden within governments, emphasizing the need for a systematic mechanism to reduce the financial strain stemming from pension commitments. Restructuring or revoking certain arrangements like leave encashment and 40% pension commutation were suggested as potential avenues for mitigating this burden.

Addressing the supply side of the issue also emerged as a key discussion point, aimed at ensuring sustainable public finances. Proposals included corporatizing certain government services, such as Railways, to reduce the pension load and optimize government size at state and union levels. This approach not only aimed to minimize pension burdens but also highlighted the potential for non-departmentalization of commercial activities, thereby striving for a balance between government scale and functional efficiency.

Recognizing the potential impact on governmental discretion within the OPS, the proposed recommendations were carefully considered, paving the way for further exploration and deliberation.

Sub issue a) How do we design a limited guaranteed pension plan to address the social security concerns of government employees while ensuring that there is no imposition of unsustainable burden on the future?

While a specific roadmap for designing a guaranteed pension scheme wasn't established, a key consensus emerged on the criticality of implementing a unified and harmonized pension system across the board. This unified system should encompass a robust incentive structure based on the risk-reward principle, as discussed previously.

The roundtable acknowledged the crucial need to address social security concerns of government employees, especially in light of the declining household savings in recent years. Rising healthcare and education expenditures have put extra pressure on individual savings, highlighting the urgency for a secure pension system.

Sub issue b) What modifications to the National Pensions System can be considered to make it a viable option for government employees as long as future generations are not burdened?

Acknowledging the concerns expressed by employees regarding the New Pension Scheme (NPS), the roundtable participants reached a consensus on the need for adjustments to address these concerns and enhance the scheme's appeal. Potential modifications discussed included revising the contribution levels of both employees and the government towards the NPS. Additionally, participants viewed the potential offer of a government guarantee to bridge any deficit during market downturns as a viable measure to mitigate perceived risks and foster greater acceptance of the NPS.

Sub issue c) Can employees be given the choice of mode of investment of the pension fund in their account, in accordance with their risk appetite and personal preferences?

While the roundtable did not delve into specific investment options for pension funds, extensive discussion focused on identifying suitable modifications that could both enhance social security for employees and ensure the long-term sustainability of the pension system. This open dialogue explored potential adjustments to strike a crucial balance between these seemingly competing objectives.

The below section elaborates on select notable points made by individual participants that gave direction to the discussion:

Dr. Jayaprakash Narayan – Dr. Jayaprakash Narayan set the context for the discussion by outlining key points for deliberation. He emphasized the need for funded pensions to avoid 'concealed., unfunded liabilities and suggested exploring alternatives like creating a sinking fund for the Old Pension Scheme (OPS). He advocated for stricter fiscal rules, proposing that any reversal to the OPS should be treated as deferred debt. Dr. Narayan also recommended increasing the retirement age to enhance productivity and improve fiscal management. Additionally, he called for abolishing wage indexation to prevent the mounting burden of pension liabilities.

Dr. Rakesh Mohan – Dr. Rakesh Mohan provided a broader perspective on the issues, highlighted the declining ability of households to save, likely due to rising expenditures on healthcare and education, making a secure pension system even more critical. Dr. Mohan pointed out that the debate between OPS and NPS has gained urgency as employees who switched to NPS post-2004 are nearing retirement. He stressed the need to study the implications of reverting to OPS at both Central and State levels and suggested tweaking the NPS to address insecurities, such as guaranteeing government support in case of market underperformance. Dr. Mohan concluded by calling for wider consultations to build a greater understanding of the issue.

Shri Balveer Arora – Shri Balveer Arora advocated for the need for a hybrid model between the OPS and NPS. He suggested that a consultative mechanism be put in place where best practices are discussed for all three levels of government employees. Not only would this help arrive at a widely accepted consensus, but also improve intergovernmental interaction that is currently in a state of crisis.

Shri T.S. Krishnamurthy – In order to address the supply side as opposed to the demand side of the problem, Shri Krishnamurthy suggested pursuing the corporatization of some of the government services – ex. Railways – to also relieve the burden of pensions by reducing government strength at the State and national levels. His view was in line with the belief that commercial activities need not be departmental.

Shri Rajeev Gowda – Shri Rajeev Gowda represented the view of the political classes, elaborating on the lessons and viewpoints of these stakeholders. He stated that the political class is responding to a well-represented group of voters who have proved to affect voter turnout and also impact the victory margin in states like Himachal Pradesh. Hence, the party has been focusing on the short term and intends to deal with the long-term consequences once in office. However, the party has also been mindful in their political actions, having refrained from making promises of the OPS in large and fiscally prudent states such as Karnataka. Further elaborating on the party's intentions in Karnataka, he stated that the party would consider a hybrid model in the state and has already been working towards weaving a social security net with different schemes in the state. Shri Rajeev Gowda also shed light on the party's concern over rising debt burdens and the need to develop a systematic mechanism for debt reduction.

Shri Prithviraj Chavan – Shri Prithviraj Chavan shed light on how the government itself has accepted a dual system by subjecting the armed forces to the OPS and other government employees to the NPS – sending a message that if you present yourself as an organised group you may get your way. Not only has this encouraged the ongoing debate, but also put disproportionate pressure on governments. He reinforced the need for the Union government to come up with one unified system.

Dr. Barendra K. Bhoi – Citing the recent RBI Report – 'Fiscal Cost of reverting to the Old Pension Scheme by the Indian States' – Dr. Bhoi emphasised on the pressing projections made by the study on account of reversal to the Old Pension Scheme. To begin with, Dr. Bhoi made mention of estimates suggesting the increase in average global life expectancy as well as estimates of population above 65 years of age by 2050 to shed light on the changing demographics. In respect to the RBI report, he cited that the study mentions that if all states revert to the OPS, pension liability will increase approximately 4-5 times by 2050 and beyond. Additionally, he also said that the report states that by 2040, the pension liability will exceed benefits. Owing to the fiscally draining nature of the scheme and the liability it poses, Dr. Bhoi stated that the scheme reduces the discretionary power of the government. By doing so, it also reduces the power of the government to extend and provide social security coverage to individuals in need below the poverty line, and hence one can deem the OPS as 'anti-poverty'. He emphasised on the need for adopting international best practices of providing social security to civil servants and abiding by rule-based public policy.

Dr. Mukesh Anand – Dr. Mukesh Anand outlined the primary objectives of a pension system, such as providing anti-poverty measures, insurance, and deferred compensation. He advocated for a unified pension scheme to harmonize the system and resolve conflicts between OPS and NPS. Dr. Anand proposed a framework for pension design, including ensuring equity in public expenditure, expanding pension scope to cover all retirement needs, and providing dignity and old-age income support. He also highlighted the need to address loopholes like leave encashment and pension commutation, which drain financial resources and contradict the purpose of pensions as a source of old-age security.

Dr. Ajit Ranade – Dr. Ranade reinforced that the current crisis at hand is not a fiscal problem but a political problem. Expressing his marvel at how the interests of 3% of the workforce could trump that of the remaining 97%, he maintained the need for urgent action. Dr. Ranade also made mention of how there should have been a smoother transition from the OPS to the NPS in order to prevent comparison and heartburn between individuals as it does now.

Shri Devashish Deshpande – In regards to the quality of governance and service delivery, it was suggested that there is a need for the size of governments, both at the State and National level, to increase. This would mean increasing the number of government employees, as well as improving the quality of employees. When contested that this would further increase the pension burden, Shri Devashish suggested that there are several unfulfilled positions that should be filled and expanded upon to unlock economic potential, and not increase the size of government per say. In light of the ongoing pension debate, he emphasised on how Unions within Government employees are also impediments that need to be taken in account as they serve as organised representative groups. Contemplating on the design of policy moving forward keeping in mind the need to reach an equilibrium, he suggested following a model wherein there is a match between one's reward to their risk and contribution. For example, employees opting for a non-contributory pension will only receive 20% of their wages as pensions, whereas those opting for a contributory pension will receive 50% of their wages. Hence, the higher the contribution/risk, the higher the reward, in order to incentivize the system as a whole.

Smt Mythili Bhusnurmath – In light of the discussion, Smt Mythili suggested a study into the state-wise breakdown of government employees to know precise numbers and communicate to the politicians and general public how the interests of a certain small number is trumping those of the masses.

In conclusion, there was a general consensus that a hybrid model needs to be designed to bridge the gap between the Old Pension Scheme and the New Pension Scheme, and to come up with a unified system for pensions as a whole. Participants agreed on the detrimental impact of the OPS and its largely unsustainable structure, and the need to substitute the policy with a financially feasible alternative.

Theme 3: A Viable Roadmap for Universal Social Security Coverage

The objective of the third session was to broaden the scope of the discussion to a more significant issue at hand — the lack of social security coverage for a sizable population of the country. The staggering numbers associated with the informal and unorganized workforce of the country makes it essential to deliberate upon the means to provide individuals with a life of dignity, security and comfort in their old-age. In light of the vulnerability and uncertainty that these workers are faced with, the agenda of the third session was to deliberate upon and discuss a viable roadmap for institutionalizing universal social security coverage within the coming years.

The following summary encapsulates the discussion on the one main issue and sub-issues.

Issue 7: Exploring the design of a comprehensive social security system that initially covers the organised sector and gradually extends to the unorganised sector, encompassing the entire population.

While there was no broad consensus on the design for a comprehensive social security system, a few guiding principles were suggested for a viable roadmap for the same. First, to ensure equity in public expenditure. This includes ensuring no net addition in resource conscription, along with capping capital expenditure on intergenerational transfers. Second, to add dignity for old-age income support for all by reducing reliance on social pensions. Increasing the scope of social coverage schemes would not be a hallmark for development, and hence the focus should be on increasing the number of workers within the ambit of regular design of social pensions. Third, a harmony of rules for all by dissolving distinctions based on sector, region, scale-cap, number of workers and so on. And fourth, there should be a clear signal of state commitment to protect low-earning workers, by consistent contributory or non-contributory efforts. The ambit of social security must have an element of risk-sharing, and there is no better body to share risk than the government itself.

Sub issue a) What are the possible approaches for extending social security coverage to the informal workers in the organised sector?

There were suggestions made to increase the ambit of the coverage of social pensions by increasing contributions. For example, while the threshold of EPS currently is in regards to enterprises that have 20 or more workers, reducing this threshold would automatically include more individuals within the coverage of the scheme. Another way to do so would be by increasing the wage ceiling of EPS, which currently stands at Rs. 15,000. By adopting such measures, it was concluded that the number of individuals eligible for greater social security coverage can be increased through increased contributions.

Sub issue b) Can the existing social security arrangements for the unorganised sector be consolidated into a unified system?

In light of the various policies for social security that exist within different states, different departments and for different beneficiaries, there was a broad consensus on the need to streamline and consolidate all such policies into one in order to establish a more universal and sound structure.

Sub issue c) What federal arrangements are necessary for the effective delivery of social security programs?

While there was no broad consensus on the federal arrangements necessary for the effective delivery of social security programs, there were multiple suggestions. These included, aggregation of all such policies, providing social security numbers as is done internationally along with creating a comprehensive database, and the creation of old-age shelters as well as hospitals in villages in order to reduce dependency on monetary contributions and enabling access to better amenities and lesser insecurity.

Sub issue d) What is a viable mechanism for funding social security programs?

The participants suggested multiple models for funding social security programs. First, prohibition of leave encashment as well as commutation of lump sum pension amount by government employees. Referring to notional calculations relating only to federal government civilian pensioners, it was estimated that savings on account of repealing lump sum commutation of pension for new retirees would yield Rs. 34.5 billion, savings on account of repealing leave encashment for new retirees would yield Rs. 18 billion, and additional spending on recurring payment benefits of new retirees due to disallowance of the above would be Rs. 7.65 billion. Hence, yielding a net savings of Rs. 44.8 billion in the first year of implementation; a sufficient amount for funding wide-scale social coverage. (The calculations are based on 2016 data.) The second model primarily suggested ensuring that more and more people fall in the ambit of contributions, by increasing the scope of EPS. For example, while the threshold of EPS currently is in regards to enterprises that have 20 or more workers, reducing this threshold would automatically include more individuals within the coverage of the scheme. Another way to do so would be by increasing the wage ceiling of EPS, which currently stands at Rs. 15,000. However, other strategical initiatives must be designed in addition to these efforts. For example, increasing the coverage of such schemes to also capture high earning young professionals. Due to higher education, young professionals are joining the workforce at a later age, making their years of contribution also lesser. Moreover, increasing the minimum eligibility of receiving social security, from for example 10 to 20 years, in order to also increase the contribution period of an individual. By taking such measures, the number of people who are not contributing but are still receiving benefits will be significantly reduced. All of the above stated suggestions were aimed at increasing contributions in order to garner more funds for universal coverage. A third model suggested drawing resources from CSR funds; however, it was countered by the claim that such funds would not be sufficient to address the need for a universal scheme.

The below section elaborates on select notable points made by individual speakers that gave direction to the discussion:

Dr. Ruma Ghosh – Dr. Ruma Ghosh highlighted the critical need for universal social security coverage, referencing international standards set by the International Labour Organization (ILO). She emphasized the importance of providing comprehensive social security, including old-age benefits, and shared insights from India's Periodic Labour Force Survey. The data revealed that 82% of India's workforce is in the unorganized sector, with significant gaps in social security coverage even within the formal sector—70% lack job contracts, 40% lack any social security, and only 16-18% of regularly employed workers have coverage. Smt. Ghosh proposed expanding the Employees' Pension Scheme (EPS) by lowering the threshold of 20 employees per enterprise and raising the wage ceiling of Rs. 15,000 for contributions. She also suggested extending coverage to high-earning young professionals and increasing the minimum eligibility period for social security benefits from 10 to 20 years to reduce the number of non-contributing beneficiaries. Smt. Ghosh stressed the need to combine contributory and non-contributory services and design social assistance programs inspired by international best practices. She also pointed out that families above the poverty line often fall below it due to old-age expenditures and healthcare costs. Smt. Ghosh advocated for streamlining and consolidating the multiple social security policies across states and departments, praising the effectiveness of the e-shram portal for worker registration.

Dr. Mukesh Anand – Dr. Mukesh Anand noted that 62% of the elderly in India are not covered by any social security scheme, with only 19% relying on social pensions and the rest on work-based pensions. He outlined guiding principles for a viable social security framework: (1) ensuring equity in public expenditure by avoiding net additions to resource conscription and capping capital expenditure on intergenerational transfers; (2) providing dignity through old-age income support by reducing reliance on social pensions and increasing the number of workers covered under regular pension schemes; (3) harmonizing rules across sectors, regions, and worker categories to ensure equitable resource allocation; and (4) demonstrating state commitment to protecting low-earning workers through consistent contributory or non-contributory efforts. Dr. Anand emphasized the need for risk-sharing, with the government playing a central role. He proposed reforms such as setting a minimum age for drawing benefits, eliminating full wage-indexation, and prohibiting leave encashment and pension commutation. He estimated that these reforms could yield significant savings, such as Rs. 34.5 billion from repealing lump-sum pension commutation and Rs. 18 billion from repealing leave encashment, which could fund wide-scale social coverage.

Shri T.S. Krishnamurthy – Shri T.S. Krishnamurthy suggested mandating that 50% of CSR funds from profit-making corporations be allocated to a social security fund. He opposed direct monetary contributions to the elderly, arguing that such funds could be misused or expose them to insecurity. Instead, he proposed building old-age shelters and hospitals in every village to provide amenities and savings for the unorganized poor.

Dr. Ajit Ranade – Dr. Ajit Ranade countered Shri Krishnamurthy's suggestion on CSR funds, noting that corporate profits in India account for only 8% of GDP, making them insufficient to fund wide-scale social security coverage. He emphasized the need for more sustainable and scalable funding mechanisms.

Smt. Mythili Bhusnurmath – Smt. Mythili Bhusnurmath suggested raising the cap on the Public Provident Fund (PPF) from Rs. 1,50,000 to encourage long-term savings for old age, particularly for those in the organized and unorganized sectors who are willing to save.

Shri Prithviraj Chavan – Shri Prithviraj Chavan proposed creating a comprehensive database of workers to accurately identify beneficiaries and segment them by sector, such as agricultural or construction workers, to tailor social security benefits. He also recommended aggregating existing social pension schemes into a unified system for greater efficiency. Additionally, he suggested issuing social security numbers to individuals to streamline coverage and benefits.

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