THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

LSE Research Online

Sohini Kar

Austerity welfare: social security in the era of finance

Article (Accepted version) (Refereed)

Original citation:
Kar, Sohini, (2017). *Austerity welfare: social security in the era of finance*. Anthropology Today 33, (5), pp. 12-15. ISSN 1467-8322

DOI: 10.1111/1467-8322.12378

© 2017 Wiley on behalf of the Royal Anthropological Institute

This version available at: http://eprints.lse.ac.uk/84210/
Available in LSE Research Online: November 2017

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Users may download and/or print one copy of any article(s) in LSE Research Online to facilitate their private study or for non-commercial research. You may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. You may freely distribute the URL (http://eprints.lse.ac.uk) of the LSE Research Online website.

This document is the author's final accepted version of the journal article. There may be differences between this version and the published version. You are advised to consult the publisher's version if you wish to cite from it.

http://eprints.lse.ac.uk

Austerity welfare: social security in the era of finance

In his 2015-16 Budget Speech, Indian Finance Minister Arun Jaitley announced the government's plan to launch "a universal social security system for all Indians, specially [for] the poor and the under-privileged" (Jaitley 2015, 9). He noted, "in sum, these social security schemes reflect our commitment to utilize the *Jan Dhan* [financial inclusion][1] platform, to ensure that no Indian citizen will have to worry about illness, accidents, or penury in old age" (Jaitley 2015, 9). For a fiscally conservative government in an era of austerity, the launch of new programs suggested a surprisingly progressive end: provision of welfare for a large segment of the poor and elderly.

On November 9, 2015, Indian Prime Minister Narendra Modi launched these three new social security programs: the *Pradhan Mantri Jeevan Jyoti Bima Yojana* (Prime Minister's Life Insurance Scheme, PMJJBY), the *Pradhan Mantri Suraksha Bima Yojana* (Prime Minister's Accident Insurance Scheme, PMSBY), and the *Atal Pension Yojana* (Atal Pension Scheme, APY). Drawing on the insurance and banking sectors, the three schemes sought to cover the more than 80 percent of the Indian population that was excluded from access to insurance and pensions.

While there are ongoing debates about the need and extent of welfare payments in terms of the state and recipients, there is less attention to the forms these payments take. Social security is no longer a simple transfer from the state to its citizens; rather, it generates new financial products. What I call "austerity welfare" enables governments to limit direct and redistributive forms of state expenditure by having poor people invest directly in social security through financial products, while sustaining new forms of capitalist accumulation. The puzzle of a fiscally conservative government promoting social welfare can only be understood when read alongside the push to integrate the liberalized banking and insurance sector more fully into the lives of the poor.

In addition to analysis of publicly available reports and documents on the new schemes, I draw on fieldwork conducted in Mumbai in 2015, particularly interviews with officers at

insurance companies, as they prepared for the new social security schemes. The fiscally conservative politics of the Indian government ultimately aligns with these programs of austerity welfare as it builds a financialized system and within it, new sites of accumulation.

Welfare in the Global South

With its legacies in 20th century Euro-American contexts, welfare states have sought to provide social security to the un- or under-employed poor, and a safety net for the working classes. On the one hand, the steady dismantling of welfare and social protection in the post-Fordist global North (e.g. Edin & Shaefer 2015; Muehlebach 2012) and often its contentious replacement with workfare (Dickinson 2016) have significantly reshaped the expectations of economic and social support from the state for the vulnerable. On the other, the increasing push—and indeed proliferation of experimental programs—for states to provide basic income offer new visions of social security in a world of precarious work (Ferguson 2015, Standing 2002, Weeks 2011).

Welfare in the global South meanwhile poses a different set of problems. First, there are considerable limitations to institutional capacities of poorer states, such as tax collection and redistributive mechanisms (Wood & Gough 2006). Second, many in the industrialized world have experienced austerity as the loss of stable employment and other social benefits (see essays by Davey, Muehlebach, Wilde, and Tuckett in this issue). In the global South, however, precarious labour has often been the norm rather than the exception (Cross 2010; Weston 2012). For countries that have undergone periods of structural adjustments under the International Monetary Fund and World Bank, austerity has a long and troubling history. Third, "development," rather than welfare, has been the overarching paradigm through which social policy has been implemented. From maternal or infant health to conditional cash transfers, poverty-alleviation programs have mapped on to that which could be considered welfare or social security in the global North. Finally, in contexts of high informality, social security must be

extended to vast populations that do not have recourse formal sector social security schemes. For instance, in India, around 90 percent of the population works in the informal economy. With the implementation of insurance-based social insurance schemes, informal workers are called upon to be further self-directed individuals who can invest in their own futures rather than rely on the state for resources (see Elyachar 2005).

Welfare and development programs have been fruitfully analysed from the perspective of beneficiaries, as well as social workers and bureaucrats who administer them (e.g., Morgen and Maskovsky 2003, Read and Thelen 2007). Anthropologists of finance, meanwhile, have shown how financial products are mediated by infrastructures (Maurer 2015), and by people (e.g., Ho 2009, Holmes 2014, Miyazaki 2013, Zaloom 2006). As private-public partnerships emerge at the forefront of welfare reform agendas and financial institutions are brought into the service of social security, there is a need to shift focus to understanding how financial institutions mediate capital within welfare systems. "Studying up" (Nader 1972) with the financial institutions that are central to mediating these new regimes of social security reveal the ways in which austerity welfare is being designed and implemented.

"Spreading JAM"

In India, the scale of public spending on welfare programs has been puzzling in the face of global neoliberal pressures. The numerous programs are a legacy of a developmental state that has, since Independence, sought to improve the economic and social wellbeing of its citizens. With Liberalization of the economy in 1991, however, there has been a "reorientation of the public sector toward the repayment of government debt," (Bear 2015: 200) including through privatization, private-public partnerships, and through the increasing use of precarious contract labour. With concerns over the sustainability of public debt, austerity has become a familiar shadow in India.

Despite these rollbacks, some observers have noted that the state's continued provision of welfare services marks the need to maintain consent of the governed in a democracy (Chatterjee 2008, Gupta 2012). In other words, welfare serves a political purpose for the government to maintain its legitimacy and power. Yet the election of the conservative National Democratic Alliance (NDA) coalition led by the Hindu nationalist Bharatiya Janata Party (BJP) has heralded a challenge to this formulation. Since their election in 2014, the NDA government has systematically cut spending on Centrally Sponsored Schemes, while increasingly devolving development programs to the state-level. Given these conditions, we are left with a second paradox: why does a government focused on cutting spending implement the new social security schemes?

As an austerity measure, investment in new financial infrastructure creates opportunities to offset future fiscal expenditures (see also essays by Bear and Knight in this issue on infrastructure). Much of the critiques on costs of welfare programs in India have rested on high levels of corruption and "leakages," as funds from the central government make their way to the poor. One attempt to curb these losses has been through growing emphasis on electronic transfers through bank accounts. Since 2005, the Indian government has pushed for financial inclusion. While started under the previous Congress government, Modi's government began a more expansive push in 2014. *Jan Dhan* has become a flagship program for the Modi government, with the aim to get all households in India covered by at least one bank account. With banks running mass enrolment drives for no-frills accounts, the government claimed in 2015 that over 90 percent of the Indian population now has access to a bank account. Mobile devices have also enabled greater outreach of financial services, beyond brick and mortar branches.

The 2016-17 *Economic Survey*, published by the Ministry of Finance, asks: "suppose the government wanted to transfer Rs. 1,000 to every Indian tomorrow. What would that require?" (MoF 2016: 50-51). To do so, the government must 1) identify the beneficiaries, 2) transfer

money to beneficiaries, and 3) ensure beneficiaries can access these funds. These three aspects are to be met by what the government terms the JAM trifecta, or *Jan Dhan*, Aadhaar biometric identity cards, and mobile technologies. By "spreading" these three ingredients of JAM across the economy, the government argues that it can implement large-scale, technology-enabled, real-time Direct Benefit Transfers (i.e. cash transfers) to welfare recipients. The three social security schemes can be implemented only once JAM is instituted: It is only once people have bank accounts that they can buy the social insurance policies. Financial technologies have made it possible for insurance companies to sell policies to the poor. Despite high initial investments in JAM, the ultimate goal is that this network of financial infrastructure, identity checks, and technology would ultimately reduce the costs for the government and for corporations drawn in to provide government services.

Insuring Poverty

In his small, windowless office, Mr. Naidu, who oversaw micro-insurance at an insurance company that I call National Mutual, was explaining the company's inclusive agenda.[2] "We do this by regulatory compulsion," he explained, noting the government's already existing requirement to expand insurance to the poor. "Most [insurance companies] do it [financial inclusion] for regulatory purposes. It only becomes lucrative *en masse*. You need to have a large base to be sustainable," Mr. Naidu continued. "It is only worth it if you're able to sell *en masse*," he repeated. If insuring the poor were to be profitable, the scale would need to be substantial.

Historically, the high cost of collecting insurance premiums from the working class has dissuaded insurers from targeting this group (Defert 1991). Whereas the middle classes could afford to pay lump sums of premiums one or two times a year, insurance agents would have to collect smaller sums from the working-class policyholders at multiple intervals, a substantial transaction cost for insurers. Microinsurance—as microcredit has done for the credit sector—has worked to reduce the transactions costs related to insuring the poor, particularly through the

use of "group insurance." Group insurance is a master policy that is sold to a group (e.g., bank, NGO, or microfinance institution) rather than an individual. The seller of the scheme becomes the group administrator. This reduces the costs for the insurance company to administer many small policies, while enabling them to reach a wider market.

In the case of the social security schemes, banks become the master policy holders, with the individual insurance agencies administering the final claims. Those seeking insurance policies must get them through banks or through designated agents. The two insurance programs rolled out by the Modi government operate in a similar way. As a low-cost term life insurance policy, the initial annual premium for the PMJJBY has been set at Rs. 330 per annum, with a sum assured of Rs. 200,000 in the event of the insured member's death. The product is renewable annually and available through debit from the insured's bank account. The accident insurance, PMSBY has an annual premium of Rs. 12, and covers up to Rs. 200,000 for accidental loss of sight, use of hands and/or feet, and in case of accidental death. Both of these products are means for consumption smoothing for households that may experience fluctuations in income over time through disability or death.

The pension scheme or the APY, named after former Prime Minister Atal Bihari Vajpayee, provides a fixed minimum pension of amounts ranging from Rs. 1,000 to Rs. 5,0000, per month depending on contributions for subscribers between the ages of 18-40, with pension payments starting at 60. The instalment varies based on age of entry, payment frequency, and desired pension. The program is targeted in particular toward those in the informal sector who are without recourse to other public or private pensions. The government will also co-contribute up to Rs. 1,000 for the first five years.

The PMJJBY was initially rolled out by the public-sector company, the Life Insurance Company of India (LIC). However, other public and private insurance companies that are willing to follow the regulations can put forth their own schemes. Similarly, public sector general insurance companies initially launched the PMSBY, while private insurance agencies willing to

meet the government's criteria could launch their own schemes accordingly. Effectively, the government created financial products that enabled insurance companies to tap into the bottom of the pyramid. Bringing together the banking and insurance sectors, the welfare schemes required that policyholders must have a savings account in a commercial bank, with premiums being deducted from these accounts.

The government also mandates the breakdown in the appropriation of the premium between the insurance company, the agent, and the administering bank for the social security insurance. Pension fund managers and the custodian of the fund also retain service charges that are drawn from the returns on the funds. The government more directly incentivizes banks offering the APY to do so by covering the initial subscriber registration fee and for subsequent persistence.

While these amounts individually are not very much, as Mr. Naidu argued earlier, *en masse* they come to matter for the insurance companies, pension funds, and banks that mediate these policies through scale. Speaking to the *Hindu Business Line*, Suresh Sugathan, the Head of Health Insurance at the private sector Bajaj Allianz General Insurance, explained that the biggest breakthrough for the insurance industry was the social security initiatives launched in 2015:

> This initiative is a great example of how simplicity of a product, a robust distribution network, and use of mobile technology can transform the industry. The initiative showed how we can reach millions of customers when products and process are simple (Merwin 2016).

By offering insurance to the poor through the government schemes, Bajaj Allianz was able to grow its personal accident portfolio to grow 150 percent, and enrolled over 1.5 million customers. Here, it seems that insurance companies can rapidly scale up their portfolios through the incorporation of the bottom of the pyramid. Similarly, banks have also benefited from the flow of funds through accounts held by the poor—many of which otherwise have little activity.

There remain, however, questions whether these amounts are sustainable or profitable in the long-term for financial institutions brought into the ambit of social security. In February 2017, general insurers petitioned the government to raise premiums for PMSBY (*Financial Express* 2017) due to rising claims and increasing losses. The ability of insurance companies to maintain loss-making businesses will come into contention with the government's attempt to recode individual investment as welfare as costs rise. The move perhaps also marks the degree to which the government underestimated the costs of insuring the precarious population.

Poor Risks

Mr. Gupta leaned back in his chair, hands behind his head. Listing the company's achievement in meeting targets for financial inclusion following the launch of the social security programs, Mr. Gupta noted the need to further reduce transaction costs in order to make the social security schemes sustainable. "We need robustness of the ID system," he explained. "We need to minimize false reporting of deaths." For Mr. Gupta, the costs for the insurance company were still too high; they needed greater access to data to settle claims. "States have made death records electronic," explained Mr. Gupta. "In Tamil Nadu, we have access; other states don't want to make the records public." Mr. Gupta wondered at the possibilities that access to data from Aadhaar might open up for the insurance sector and its ability to assess riskiness in insuring the poor.

If the two insurance programs opened up the working class as a new market for insurance companies, there remained questions of how to best assess the riskiness of such insurance policies. Following the release of the life insurance scheme, for instance, insurance companies faced claims within the first 45 days of enrolment. For some in the insurance sector, this represented the possibility of adverse selection due to their limited ability to collect information, while for others it gave a whiff of fraudulent claims (Vageesh and Sridhar 2016). As with Mr. Gupta's desire to have greater access to information from state ID systems,

representatives of the insurance sector desire greater knowledge of the risk profile of this new sector.

While JAM had created the basic mechanism of large-scale outreach to the poor, insurance companies were eager for greater access to available data to serve actuarial and verification purposes. On the one hand, the government has launched and expanded the national biometric identity card system, Aadhaar. On the other, with still limited reach of the biometric data in many parts of India, and in order to speed up financial inclusion, the government asked banks to waive Know Your Customer (KYC) norms when opening *Jan Dhan* accounts. This has meant that account holders have a year to attain approved forms of identity cards to ensure their accounts remain open. These exceptions have created gaps in insurers' knowledge of their new policyholders.

It was not only the fact that insurance companies lacked enough information to insure the poor; the government's social security schemes had set one premium for everyone, regardless of age. "It would be better if we could have price flexibility," explained Mr. Gupta. "Right now we're pricing people aged 18-50 at the same level. This increases the risk. It is a question of insurance principles," he noted. Unlike the differential payments in the pension scheme, the life and accident insurance policies had a single price for all. This went fundamentally against insurance principles, which would recognize different risk factors based on age. Such conditions from government-led policies can challenge the long-term sustainability of insurance-based social security schemes, if the risks of abiding by these regulations outweighs the benefits of a large base of new subscribers.

Inclusions and Exclusions

Buying into the insurance and pension programs also pose risks for the new subscribers. For the accident insurance PMSBY, for instance, acceptable forms of accident insurance claims include injury to sight or the use of limbs; other forms of workplace accident are not covered by

the insurance. Pay outs and benefits from insurance are only attained through and require evidence of loss (Patel 2007). The limitations of the insurance claims mean that those who suffer work-related illness that is equally debilitating but not manifest in injury or easily documentable can make no claims to compensation.

Similarly, for the pension program, there are limitations to opting out of the system. Exit from the programme before the age of 60 is not possible except in exceptional cases of death of or terminal illness of the pensioner. If a subscriber defaults on payment (i.e. has an insufficient balance in their bank account for automatic debit), they can maintain their account but with interest added to a late payment. However, with multiple defaults, service charges are deducted from the account, to the point where it is exhausted and the account then closed automatically. For informal workers who face precarious employment and periods of high expenses with low income, the ability for a person to pay constantly into a pension fund can be difficult. The exit clauses can mean that a person, when faced with periods of uncertainty, can end up losing the savings they have built up in the pension fund.

Inclusion into the social security schemes then excludes the realities of living and working in the informal economy in India. The formal sector restrictions from insurance companies on what can be recognized as a valid claim, or reasons for falling behind on payments can further the losses already experienced. That is, money that has been invested in social security cannot actually be recuperated by those needing it because of formal restrictions.

Financializing Social Security

In 1999, shortly after US President Bill Clinton announced in his State of the Union address that a quarter of the funds set aside for Social Security would be invested in the stock market, economist Milton Friedman wrote an op-ed in the *Wall Street Journal*. In the piece titled 'Social Security Socialism,' Friedman criticized Clinton's investment plan. Unlike Margaret Thatcher's reversal of Britain's "drift to socialism" through privatisation of state-owned

enterprises, Friedman (1999) argued that Clinton's plan would effectively mean government ownership of private corporations; it would "transfer a larger and larger fraction of the productive assets of the country into the hands of a government bureaucracy." While Clinton advocated the government's investment, his critics like Friedman, wanted private individuals to participate more directly in the markets. Both sides reflected the increasing financialization of daily life, from pensions to savings being invested in the markets (Martin 2002). Fiscal conservatives, however, saw government investment of social security as still too much state intervention.

What is notable about the social security programs launched by the Indian government is that they require beneficiaries of the social security schemes to pay into them as individual forms of investment. Viviana Zelizer (1978) has argued that the acceptance and normalization of life insurance—against the stigma of gambling—in 19th century America came through its rebranding as something necessary for a good life, and indeed good death. Life insurance was something sacred that would protect a family. The launch of insurance as social security in India, while relying on the similar tropes of protection and security of the family, is simultaneously given moral force as welfare programs. Without increased funding of key areas of welfare such as health and education, the Modi government recoded individual investment into forms state welfare. Rather than seeing social security as something that comes out of the collective or as a form of redistribution, austerity welfare such as social security through insurance emphasizes self-help and active forms of investment. The individualized programs of insurance, in other words, encourages individuals to be attentive to and responsible for maintaining their future financial wellbeing. The use of insurance then reflects social policy that is distinct from more direct forms of welfare, as well as direct government investment in markets.

It is not surprising then that in the Budget 2016-17, Finance Minister Arun Jaitley announced further liberalization to the insurance sector: limits on foreign direct investment in insurance sector would be increased from 26 percent to 49 percent (i.e., foreign firms could own

up to 49 percent of an Indian company in equity). This was pushed through by Modi by executive ordinance to overcome opposition in Parliament (Kazmin 2014). Further, the government announced that it would reduce service taxes on insurance. If expansion of social security to the poor and elderly seem puzzling for the centre-right government, liberalization of the insurance sector does not.

Defert (1991: 231) has noted that the implementation of insurance becomes a way of providing cover for both capital and labour, rather than opposing the two. Further, on advanced capitalism and the welfare state, primarily in Europe and North America, Claus Offe argues that welfare states reflect the "coexistence of poverty and affluence," (1972: 480). Without engendering structural change, welfare states attempt to "compensate for *new problems* which are the by-products of industrial growth in a private economy" (Offe 1972: 481). Welfare can be seen as a way of warding off structural change by attempting to resolve the conflicts of capitalism. With the introduction of the social security schemes, integrated with the financial inclusion programme, the Indian government not only ensures this coexistence of poverty and affluence, it produces new sites of accumulation with government backing. Through self-funding of social security among the precarious working poor, austerity welfare increasingly channels capital from the poor into forms of capital circulation and accumulation of wealth.

Endnotes

[1] The full name of the financial inclusion programme is *Pradhan Mantri Jan Dhan Yojana* or the Prime Minister's People's Wealth Scheme.

[2] Names have been changed for anonymity.

Works Cited

Bear, L. 2015. *Navigating austerity: currents of debt along a South Asian river*. Stanford, CA: Stanford University Press.

Chatterjee, P. 2008. Democracy and economic transformation in India. *Economic and Political Weekly*, *43*(16): 53–62.

Cross, J. 2010. Neoliberalism as unexceptional: economic zones and the everyday precariousness of working life in south India. *Critique of Anthropology*, *30*(4): 355–373.

Defert, D. 1991. "Popular life" and insurance technology. In G. Burchell, C. Gordon, & P. Miller (Eds.), *The Foucault effect: studies in governmentality*. Chicago: University of Chicago Press.

Dickinson, M. 2016. Working for food stamps: Economic citizenship and the post-Fordist welfare state in New York City. *American Ethnologist*, *43*(2): 270–281.

Edin, K., & Shaefer, L. 2015. *$2 a day: living on almost nothing in America*. Boston & New York: Houghton Mifflin Harcourt.

Elyachar, J. 2005. *Markets of dispossession: NGOs, economic development, and the state in Cairo*. Durham, NC: Duke University Press.

Ferguson, J. 2015. *Give a man a fish: reflections on the new politics of distribution*. Durham, NC: Duke University Press.

Financial Express. 2017. State-run insurers seek to increase PMSBY premium. February 23. http://www.financialexpress.com/industry/banking-finance/state-run-insurers-seek-to-increase-pmsby-premium/562951/

Friedman, M. 1999. Social security socialism. *Wall Street Journal*, January 26, p. A18.

Jaitley, Arun. 2015. *Budget 2015-2016 speech of Arun Jaitley, Minister of Finance*. Ministry of Finance, Government of India.

Gupta, A. 2012. *Red tape: bureaucracy, structural violence, and poverty in India*. Durham, NC: Duke University Press.

Ho, K. 2009. *Liquidated: an ethnography of Wall Street*. Durham, NC: Duke University Press.

Holmes, D. 2014. *Economy of words: communicative imperatives in central banks*. Chicago: University of Chicago Press.

Kazmin, A. 2014. Modi bypasses upper house to push through India insurance reform. *Financial Times*.

Martin, R. 2002. *Financialization of daily life*. Philadelphia: Temple University Press.

Merwin, R. 2016. Govt's low cost insurance schemes also drive financial inclusion. *Hindu Business Line*, February 18.

Ministry of Finance. 2016. *Economic survey 2015-2016 - Volume I*. Government of India.

Miyazaki, H. 2006. Economy of dreams: hope in global capitalism and its critiques. *Cultural Anthropology*, 21(2): 147–172.

Muehlebach, A. 2012. *The moral neoliberal: welfare and citizenship in Italy*. Chicago: University of Chicago Press.

Nader, L. 1972. Up the anthropologist: perspectives gained from studying up. In D. Hymes (Ed.), *Reinventing anthropology* (pp. 284–310). New York: Pantheon Books.

Offe, C. 1972. Advanced capitalism and the welfare state. *Politics and Society*, 2(4): 479–488.

Patel, G. 2007. Imagining risk, care and security: insurance and fantasy. *Anthropological Theory*, 7(1): 99–118.

Read, R., & Thelen, T. 2007. Introduction: social security and care after socialism: Reconfigurations of public and private. *Focaal - European Journal of Anthropology*, 50: 3–18.

Standing, G. 2006. *Beyond the new paternalism: basic security as equality*. London and New York: Verso.

Vageesh, N., & Sridhar, G. N. 2016. Over 75% of claims paid under PM scheme. *Hindu Business Line,* March 15.

Weeks, K. 2011. *The problem with work: feminism, Marxism, antiwork politics, and postwork imaginaries*. Durham, NC: Duke University Press.

Weston, K. 2012. Political ecologies of the precarious. *Anthropological Quarterly*, 85(2): 429–456.

Wood, G., & Gough, I. 2006. A comparative welfare regime approach to global social policy. *World Development*, *34*(10): 1696–1712.

Zaloom, C. 2006. *Out of the pits: traders and technology from Chicago to London*. Chicago: University of Chicago Press.

Zelizer, V. 1978. Human values and the market: the case of life insurance and death in 19th-century America. *American Journal of Sociology*, 84(3): 591–610.