EXTENDING OPPORTUNITIES: TOWARDS MORE ACTIVE SOCIAL POLICY IN OECD COUNTRIES

영·서·정·정

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1. Introduction

The lives of hundreds of millions of OECD citizens have improved radically in recent decades. People today live longer, healthier and more prosperous lives. Despite greater prosperity, however, a substantial portion of the population in every OECD country continues to face adversity: disadvantage in childhood, exclusion from work in prime age, or isolation and limited self-sufficiency in old age.

Economic growth is essential to improving people's lives, but it has not been sufficient to solve all social problems. Despite major reduction in welfare rolls in Europe and North-America, during the economic recovery of the 1990s, many Americans and Europeans are still grounded down by poverty. Many Asian economies are going through a period of rapid economic growth, and many people in the region have seen their living standards increase, but income discrepancies remain considerable and public social support systems are less developed than in most OECD countries. However, ageing populations, weakening family ties, and globalisation and technological development leading to rapidly changing market structures, have led to a greater demand for a more coherent discharge of economic and social policy.

More generally, the role of social policy is being reappraised. Traditionally, social policies were regarded as bad for growth: benefit systems were seen to discourage people from saving and/or working more hours, and the associated reductions of labour supply, output levels, and levels of capital investment curtailed economic growth. However, social spending is no longer universally seen as a 'drain' on national resources. Rather social policy is increasingly seen as an "investment" that can help in fostering increased productivity and economic growth (KIHASA, 2005). Sick and hungry children do not learn, healthy workers are more productive, and public policies that help people overcome unemployment and assist families improve the way economies work.

A failure to tackle the poverty facing millions of families and their children is not only socially reprehensible it also weighs heavily on an economies capacity to sustain its growth for years to come. People are poor because they have not successfully participated in the labour force or in society, causing permanent loss of potential output. Active social policy fosters social and economic participation, and this is particularly relevant for families with children are present, as growing up in poverty has long-term negative effects on child development, and thus on future societal development. Active welfare spending is increasingly regarded as an essential "productive factor" in social-economic development (OECD, 2005a).

Notwithstanding the focus on self-sufficiency, policy should also strengthen the effectiveness of social programmes targeted to persons for whom paid work in the market economy is less feasible – including through extending coverage and take-up of existing programmes to all persons in need, assuring the adequacy of the benefit provided, and moving beyond "work" as the only focus for social policies.

As pressures on public expenditures are already heavy(OECD, 2005b), OECD societies are increasingly looking beyond public programmes to achieve social goals. The importance of supplementing government action is already evident, not only in the increasing role of privately-financed pensions, but also with regard to long-term care, most of which is provided by informal carers. Since employers will benefit from a larger, more productive workforce, it is not unreasonable for them to bear some responsibility for ensuring that parents can reconcile work and care commitments. Private financing and delivery of social protection can sometimes result in more efficient and responsive forms of social protection, just as non-governmental organisations are often able to mobilise resources and enthusiasm to an extent unavailable to publicly-run organisations. However, private provision is not always more efficient than public delivery and it also raises issues on the extent and fairness of coverage.

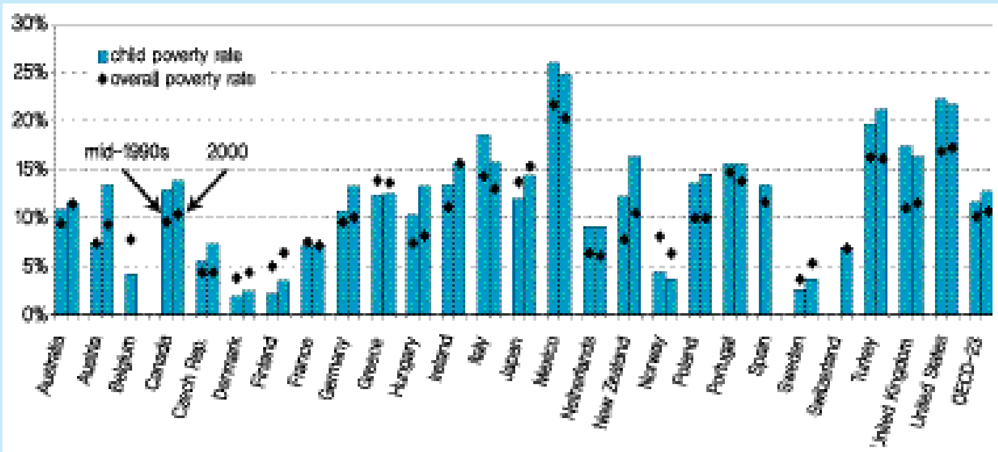
At their meeting of 31 March and 1 April 2005, Ministers responsible for social policy in OECD countries focused their discussion of current issues in social policy around three broad themes that taken together reflect the life-course: How can policy "give children and parents a brighter future", how can policy best "combat poverty and exclusion among prime-aged persons", and what are the appropriate "policy responses to shifts in the risks confronting elder persons"(OECD, 2005a). The OECD and its Social Policy Division in particular will focus their future work-programme on these three areas. The remainder of this paper will discuss social policy issues and future OECD-work along these three broad headlines.

2. Support for families and children

Many social problems have their roots in childhood. Ending childhood poverty is paramount among social policy makers across the world: children who grow up in disadvantaged households are more likely to do poorly at school, to struggle to find a job, and to be unemployed, sick and disabled when they become adults, precipitating an inter-generational cycle of disadvantage and deprivation. More generally, family instability can damage life chances, as can inadequate care – be it by parents who lack the time to raise children or by paid carers with inadequate qualifications. The Babies and Bosses reviews of policies and workplace practices that help parents reconcile their work and family responsibilities(OECD, 2002, 2003a, 2004 and 2005c), concluded that in many countries there is a need for a mixture of reforms to the tax and transfer system, childcare support, and help for working parents, particularly mothers.

Achieving this will also create more favourable circumstances for raising the level of fertility rates, which are currently below replacement levels in most OECD countries. Below replacement fertility rates impose large social and economic costs on future society: the cost of pension payments falling on each worker rises; investment is discouraged due to a lack of consumers and savers; and the capacity of extended families to attend to the needs of their members is reduced. Given that prospective parents themselves say they want more children than they actually have, it is reasonable to consider whether public policy could help them realise their aspirations. Clearly, public policy does matter, and it should ensure that the costs of childbearing

Chart 1. Poverty rates for children and the population at large



Note: In most OECD countries, the risk of low income (often called "relative poverty", and measured with respect to 50% of median equivalised income) has shifted over the past 20 years towards children and their families. On average, more than 12% of all children in OECD countries fell below the 50% poverty threshold in 2000, with rates in excess of 20% in several countries. The data, from the OECD database on income inequality and poverty, refer to different years in the mid–1990s and around 2000.

Source: Forster, M. and M. Mira d'Ercole (2005), "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s", Social, Employment and Migration Working Papers, No. 22, Paris.

are shared more broadly, but spending considerable amounts on family policy as many European countries do is not a panacea for rapidly increasing fertility rates(d'Addio and Mira d'Ercole, 2005). Economic growth and strong labour demand which helps young couples obtain a strong footing in labour markets are important factors: in the OECD area, fertility rates are highest in countries with strong economic and employment growth(and relatively little public family-friendly policy support) as Ireland, New Zealand, and the US.

2.1. The Family Database and analytic reports on the well-being of children

Interest in family and child policy issues has grown rapidly in recent years, and the Social Policy Division receives more requests for information on family policies than on any other social-policy topic, except, perhaps, pensions. In the course of its recent work-programme, the OECD has amassed a wealth of information on families and measures to support them, and this information will be actualised and extended for the launch of the on-line OECD database of family policies and family outcomes by the end of 2006. The database will include indicators to illustrate:

- *What families look like:* e.g. indicators on demography, family formation and fertility rates;
- *The labour market and financial position of families:* including indicators on employment, working hours, time use, employment status and position in the income and earnings distributions;
- *Policies for children and families:* e.g. public spending on family support, indicators of support for day-care and parental leave arrangements for working parents; and,
- *How children are faring:* including indicators on child mortality, child health, teenage pregnancy, but also educational attainment and literacy scores.

The OECD also plans to undertake an in-depth study of how the economic circumstances of families with children in OECD countries have changed since the 1980s, as a result of changes in demography and household structure, labour-market status of parents and tax and benefit policies. The study will pay particular attention to the position of disadvantaged families, and address a recurrent issue in social policy: what is the appropriate balance between the "benefits strategy"(ensuring the adequacy of benefits for low-income families with children) and the "work strategy"(promoting policies to increase income from work in poor families).

Future work will also consider the literature on intergenerational transmission of advantage and disadvantage, including an analysis of (longitudinal) studies of the effect of social policies and family status on child development. This work will draw on ongoing OECD work on intergenerational consequences of participation in education.

3. Combating poverty and exclusion among prime-aged persons

Getting the jobless into paid work and assisting the disadvantaged to acquire the skills to get higher pay are the best ways for economic and social progress to go hand in hand. The vicious cycle that goes from joblessness to loss of self-confidence, deteriorating skills, isolation, and exclusion needs to be broken — and the recent success achieved by many OECD countries in slashing benefit rolls shows that it can. The progress achieved in integrating the unemployed into the labour force now needs to be extended to other groups, such as single parents(see the Babies and Bosses reviews) and those with disabilities(see below), through tailored interventions that place greater emphasis to labour-market integration.

In addition to completing this welfare-to-work agenda, further progress also needs to be made regarding the 'welfare-in work' agenda, including through policies that 'make work pay' and help those in non-regular employment. Many have successfully adopted non-traditional work patterns to, for example, find a better match of work and commitments, but many 'non-regular' workers are in precarious employment and social protection regimes have not been adapted to their needs. Future OECD work will try to identify those areas where the social protection system has failed to respond adequately to changes in the labour market. Two groups of non-regular workers with low incomes are of particular interest to social policy design: those who combine income from work with income from benefits, and those who receive little or no benefit income but who nevertheless have limited earnings.

3.1. Rights and responsibilities in social protection systems

Most countries now have a system of 'mutual obligations' as a defining principle of their social protection systems. The aim is to balance the obligations placed on benefit recipients — in particular, the behavioural requirements associated with benefit receipt, such as job-search conditions and related behaviour, such as training activities, aimed at maintaining or furthering labour market attachment and limiting social exclusion — with the commitment of government to provide appropriate forms of support — such as access to services(such as help with job search, training, subsidised childcare).

The OECD has undertaken a large number of studies looking at the appropriate balance between active social policy, sanctions and financial incentives for different group of benefit recipients and other policies that play a valuable redistributive role but which may cause institutional obstacles that hinder the outflow of benefit recipients to work. As part of the reassessment of the OECD Jobs Strategy, OECD(2005d), *Employment Outlook* included analysis on in-work benefits and active labour market policies, while the effects of tax and benefit systems on family incomes and the financial incentives to work are covered in OECD(2005e) *Benefits and Wages*. The situation facing older workers has been considered in the *Ageing and Employment* series culminating in OECD (2006), *Live Longer, Work Longer.*

However, far less is known on: a) the behavioural requirements associated with other than unemployment benefits, including social assistance benefits, parental-leave benefits and child-raising allowances, single-parent payments, and disability benefits; b) the extent to which employment supports are available to different groups of non-employed, and those in precarious employment; and c) how the obligations (as mandatory sick pay, quota of disabled workers, contributions to pensions) affect the behaviour of employers. Indeed, employers are increasingly required to be agents of social policy. They are obliged to provide sick pay; parental leave; employ people with disabilities; provide flexibility of working hours to particular groups of workers, contribute to pensions, etc. The OECD will gather information on design features of non-employment benefits, employment supports for its recipients, and employer obligations and analyse their effects.

3.2. Reviews of employment-oriented disability policies

Following up on OECD (2003b), Transforming Disability into Ability, the OECD Thematic Review on Reforming Sickness and Disability Policies to Improve Work Incentives began in mid-2005 as a joint activity of the Social Policy and the Employment Analysis and Policy Divisions of the OECD. The review process will lead to the publication of a series of three comparative reports on three to four countries. Each review will examine and evaluate national sickness and disability policies, and consider policies to control and reduce the inflow into sickness and disability benefit programmes(inflow management) and to assist beneficiaries to reintegrate into the labour market(outflow management). The objective is to better understand the mechanisms and policies that lead a person with a health problem or a disability to withdraw from the labour market, temporarily or permanently. The first country review that is conducted at present covers Norway, Poland and Switzerland and will be published in the course of 2006.

On completion of the entire review process, a synthesis report will be produced, and will identify the lessons learned from the three rounds of reviews and illustrate policy dilemmas. It will highlight country-specific examples of both “good” and “bad” practices and provide some comparative evidence for countries that have not participated in the review. Around 2007/2008, the OECD will publish a database with indicators and policy rules on sickness and disability for all OECD countries, not just those which participated in the review.

4. Sustainable pension policies

Pay-as-you-go pension systems have been crucial to improvements in the well-being of the elderly, but their increasingly high costs as the population ages are threatening their financial sustainability as well as the capacity to make social investments in younger generations. The solution cannot be only to reduce the level of old-age pensions(although such cuts have been made in some countries and further cuts are needed in others): breaking pension commitments that people have based their retirement plans on would undermine trust in government and put living standards in old age at risk. Moreover, old-age poverty — though hugely reduced from its peak — has not gone away. To put pension promises on a sustainable footing, pension systems need a more realistic link between benefits, on one side, and the life expectancy and income of the working-age population, on the other: it is not reasonable — nor does it correspond to the wishes of many older persons — for successive generations to spend ever-decreasing proportions of their lives in work.

The need to induce larger numbers of older people to remain in the work force does not, however, imply a blanket increase in retirement ages: sickness and disability rates indicate that some older people have barriers to work other than age that have to be addressed as well. In addition, increasing numbers of older people will need quality and affordable long-term care(OECD, 2005f). This calls for policies that judiciously mesh formal and informal care, so that the frail elderly receive the care best suited to their circumstances and so that care responsibilities, most of which are assumed by women, do not unduly burden them or push them out of the labour force. Improving quality and access to long-term care — through policies to support informal carers, increase the availability of formal care services to frail elderly at home, increase users’ choice among alternative types of provision and better monitor care quality.

The most important on-going pension monitoring activity currently overseen by the Working Party on Social Policy is the regular up-dating and biennial publication of *Pensions at a Glance*(OECD, 2005g).[1] A new issue is scheduled to appear in 2006/2007 and will include an analysis of the impact of early and late retirement on pension entitlements in OECD countries. Future special features of Pensions at a Glance could include an analysis of pension schemes for public sector employees, the portability of benefit entitlements between the public and the private sector or the treatment of married couples in OECD pension systems. Pensions at a Glance will also be extended to cover Asian countries, and this outreach activity will be undertaken in co-operation with the World Bank and the recently established Joint OECD-Korea Regional Centre on Health and Social Policy.

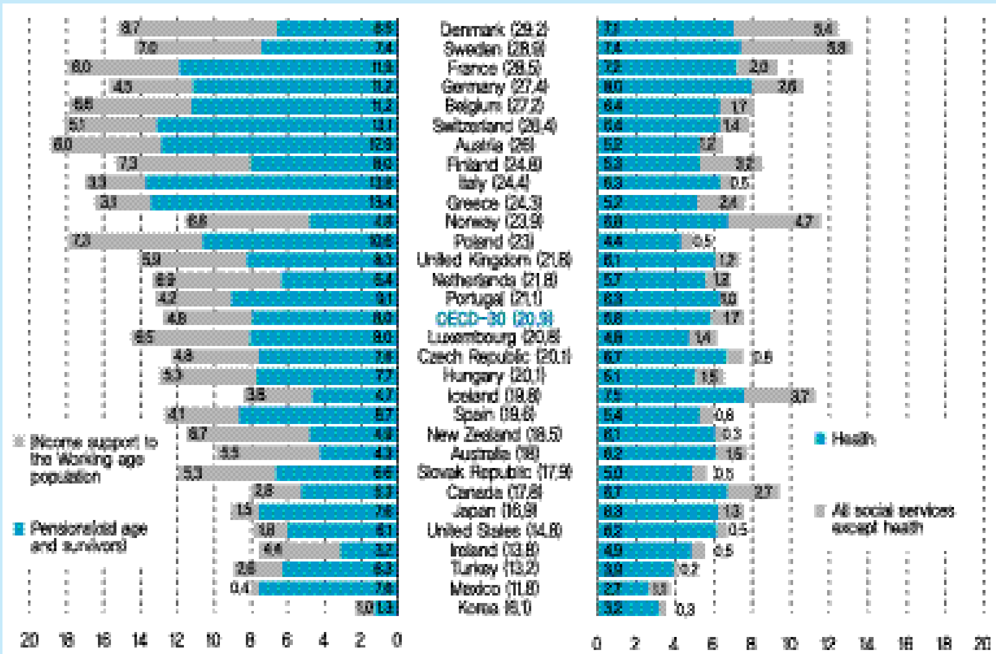
4.1. Modernising pension systems

Changing career paths and more flexible life-course designs will require the adjustment and modernisation of today’s pension systems in many OECD countries. Modernisation must take account of changes such as the impact of ageing on labour and capital markets and the increasing labour force participation of women. In ongoing work on pension modernisation, two key issues are being addressed: (i) re-balancing the roles of public and private pensions; and (ii) risks and redistribution in pension systems.

Several OECD and non-OECD countries have reformed their systems and introduced the choice for workers to move fully or partially to individual accounts. Together with the World Bank the OECD will analyse the incentives that workers face when switching,

1) In the pension policy area, there are different technical documents being prepared including: a methodological paper that explains the actuarial concepts used in the analysis of retirement decisions and incentives; a detailed technical discussion of the country results for early retirement decisions, pension entitlements, and retirement incentives; a paper discussing the role of the tax system in old-age support on the basis of the pensioner tax models for the 30 OECD countries and the 2004 results of pension monitoring; a paper analysing pension reforms undertaken since the early 1990s in selected OECD countries and their impact on benefit entitlements and retirement incentives; and papers discussing the impact of unemployment and labour force withdrawal for childcare reasons on pension entitlements.

Chart 2. Health and Pension expenditure dominate welfare states in most OECD countries



Note: Countries are ranked by decreasing order of total public social expenditure as a percentage of GDP. Spending on Active Labour Market Programmes(ALMPs) cannot be allocated across cash transfers and service support, but is included in the public spending totals(in brackets). Data for Korea do not include severance payments as these are categorised as mandatory private social expenditure.

Source: OECD(2004), Social Expenditure Database 1980-2001, OECD, Paris(available at www.oecd.org/els/social/expenditure).

examine the resulting individual choices and estimate the fiscal cost of the various approaches.

Work on risk and redistribution in pension systems will focuses on relative entitlements of specific groups of the covered population such as married or divorced survivors. Most pension systems offer benefits for widows and widowers of workers who were entitled to a pension; in a few OECD countries, there are also spousal benefits that are paid to couples and may have a considerable impact on income security. With increasing labour force participation of women, however, derived rights are becoming less important. Increasing divorce rates, on the other hand, raise the question of how pension rights(and indeed other capital assets which can support incomes in retirement) should be split among different partners.

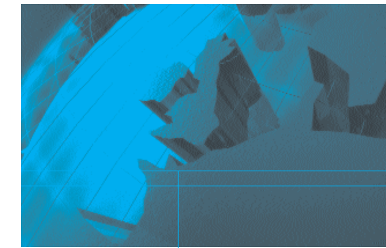
Future work will also examine the consequences of differences in mortality between different socio-economic groups. It is well known but less researched that the life expectancy of low-income people is below that of higher income groups. This study will quantify the differentials on the basis of microeconomic panel datasets from selected OECD countries, and discuss the consequences for pension policy and pension system design.

4.2. Concluding remarks

The future OECD programme of work resembles the link between experiences in childhood, prime-age and old age. It reflects that more coherent social policy analysis and design should resemble the life course perspective, so as to recognise how conditions in a given phase of an individual's life inevitably influence those in the next, and to anticipate problems that may arise tomorrow.

Indeed, the nature of social policy is changing. Increasingly, OECD countries need to look for other ways to deal with the social challenges of today. Rather than limiting itself to ameliorating the distress caused by different social contingencies, policy needs to shift away from the reactive, compensatory approach towards a more pro-active policy stance that places greater emphasis on investing in people so as to maximise their potential to become self-sufficient, autonomous members of society.

A successful implementation of this agenda of active social policies will increase both the level and the quality of employment; will eventually reduce reliance on transfer payments; and narrow the distribution of market income. Active social policies can reduce social isolation and exclusion, help individuals realise their personal goals, thereby furthering both social and economic development. GSST



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