

The life-course perspective and social policies: an overview of the issues

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Life-course perspective

- A (fresh) way to look at social risks and social policies
- A new perspective on institutional innovation
 - Broad perspective yields
 - ✓ new degrees of freedom at micro level
 - ❖ combining work and family
 - ✓ more room for bargaining by linking issues
 - ❖ trade between generations when moving to proactive, preventive policies

Outline

- *Trends and challenges: changing nature of social risks*
- Market and institutional failures: need for institutional innovation
- Institutional innovation: policy conclusions

Changing nature of social risks

- Knowledge economy and innovation
- Feminization of work
- Aging

Knowledge economy

- Innovation implies more creative destruction
 - Firms can offer less security
 - More adaptability required (as insurance)
- Human and social capital key for social inclusion (micro) and growth (macro)
 - Longer in school
 - ✓ delay of social adulthood
 - Learning also on work floor and in family
 - ✓ combination of work and family key
 - Insurance of human-capital risks
 - ✓ more important
 - ✓ but more difficult: risks are 'manufactured'

Feminization of work

- More combinations: work and family
- Life courses more heterogeneous in terms of working, resting, learning and caring
 - People responsible for own life biographies
- Intergenerational contract under pressure

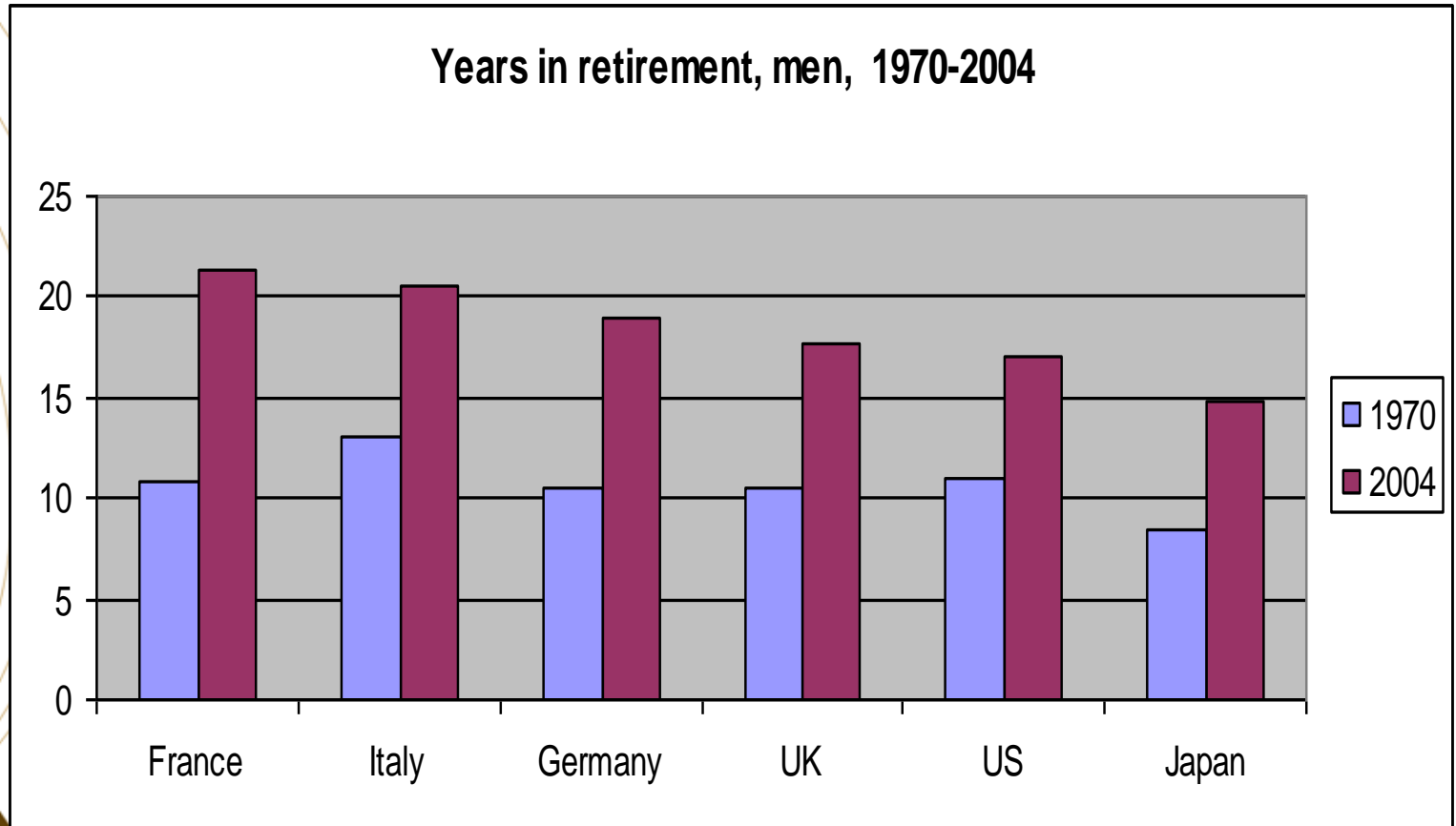
Aging

- Increased longevity
 - Human capital more durable
 - ✓ but faster obsolescence of skills
 - ❖ calls for life-long learning and increased flexibility and adaptability
- Lower fertility
 - Motherhood more expensive in terms of lost human capital
 - ✓ high-skilled women low fertility rates because large family gap

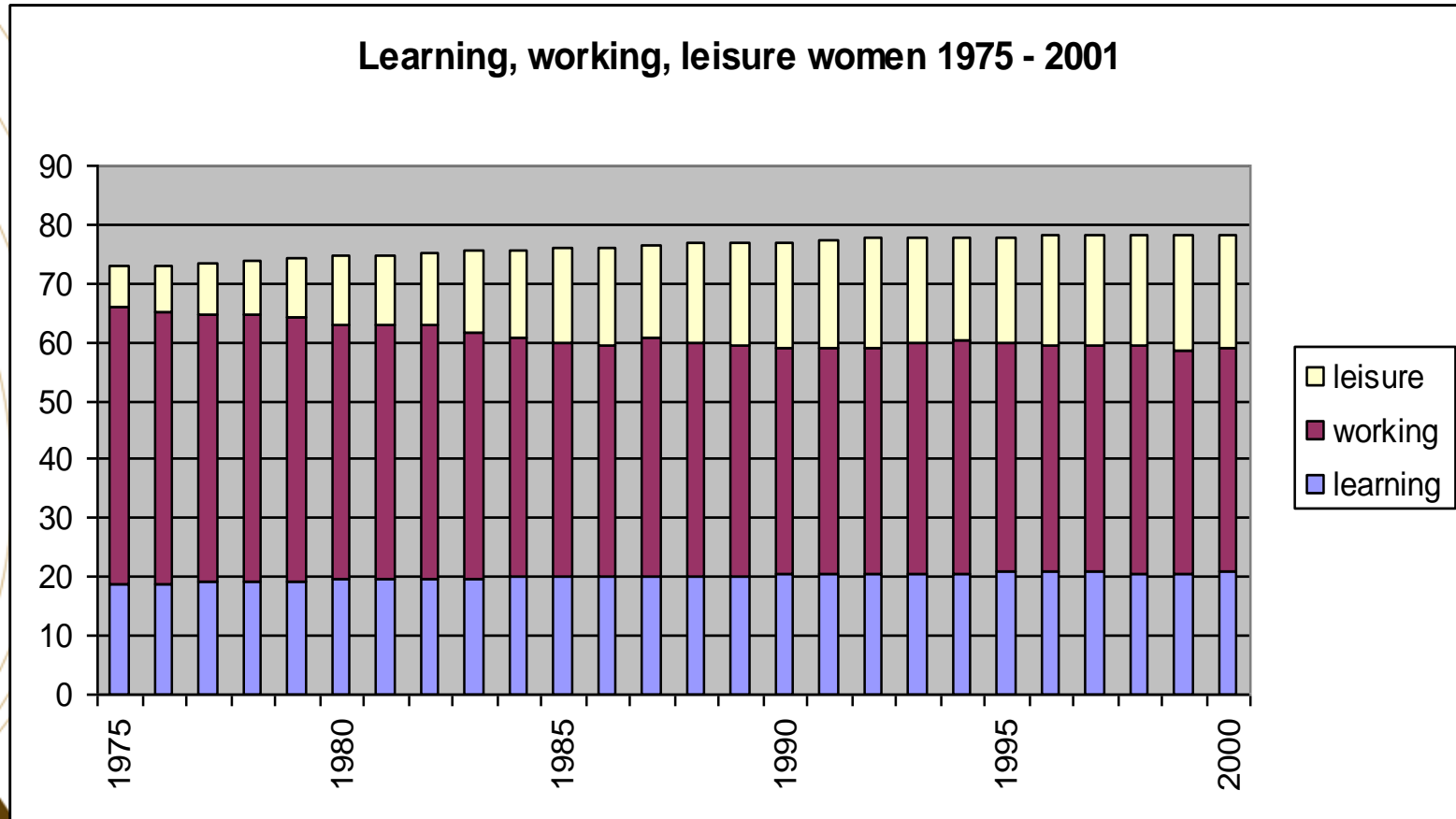
Modern life course

- Traditional life course of adults two seasons
 - summer and winter
- Two new life seasons
 - Young adulthood = spring: delay of parenthood
 - Active seniorhood = autumn: delay of mortality and morbidity
 - Thus: people spend more time in households without young kids
- Compression of working life in 'rush-hour of life' (=summer)
 - Longer adolescence: social adulthood delayed beyond biological adulthood
 - Longer retirement: social aging precedes biological aging

Retirement period, 1970 and 2004



Distribution of time over life cycle



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Institutional failures

- Early retirement cultures
 - Vicious circle of less human capital investment in adults and children
 - Transfer resources from summer into autumn (from young to old)
 - ✓ Liquidity constraints in spring and summer
 - ✓ Less investment in human capital = merit good (lack of foresight and social floor)
- Lack of wage flexibility
 - Demand for elderly workers weak
 - ✓ Labor market for elderly does not function
 - ❖ Higher retirement ages not legitimate
 - ❖ Older workers tied to current job
 - Lack of flexibility to adjust work to private circumstances

Institutional failures

- Employment protection
 - Firm as insurer
 - ✓ Firm can offer less security: fear of falling
 - ❖ Early retirement programs
 - ✓ Statutory retirement age required
 - ❖ Lack of flexibility
 - Tax on new initiatives and innovation
 - Tax on outsiders, i.e. young adults
 - ✓ Lengthens adolescence
 - ❖ Similar insider-outsider issues on housing market
 - ✓ Less stable personal relationships

Institutional failures

- Workplace cultures focused on breadwinner
 - Lack flexible career paths
- High minimum wage floors based on breadwinner
 - Prevent two-earner families and elderly from contracting out household services
 - Put low skilled out of work
- Life-time income insurance
 - Annual incomes poor indicator of life-time needs
 - ✓ capital markets allow people to smooth consumption

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- *Institutional innovation: policy conclusions*

Autumn

- Longer working life
 - Measure age appropriately: link retirement ages to longevity
 - More flexible retirement patterns
 - ✓ workers less dependent on firms
 - ✓ more flexibility to adjust working patterns to changing needs
- How?
 - Develop and maintain human capital
 - ✓ Make employers more responsible for maintenance of talents in social insurance
 - More flexible wages and work practices

Spring

- More inclusive labor and housing markets
 - Allow outsiders (marginal workers) to easily enter
 - ✓ Shortening social adolescence and more stable personal relationships
 - ❖ Combine working and learning

Summer

- From breadwinner support to child (or parent) support: Allow parents to invest in the human capital of their children without depreciating their own human capital
 - Shift public support from autumn to summer
 - ✓ Externalities of children in PAYG systems
 - ❖ Less investment in human capital calls for more investment in financial capital
 - ❖ Gradually focus PAYG on poverty alleviation in old age
 - Different organization of work
 - ✓ Flexible work times, work practices and career paths
 - ✓ Develop and maintain human capital

Disadvantaged groups

- Early intervention in dysfunctional families
 - No trade-off efficiency and equity
 - ✓ dysfunctional families source of inequality
- Social assistance based on mutual obligations
 - In-work benefits
 - ✓ especially for parents with young kids
 - Lower minimum-wage floors
 - ✓ more contracting out of household services
 - ✓ more work as instrument for social cohesion

Saving accounts

- More flexibility of working time over life cycle
 - minimum public and corporate income provisions (e.g. paid parental leave, child benefits, child care)
 - supplemented by individual saving accounts
- Other roles individual saving accounts
 - Financial buffers to pay deductibles
 - ✓ more responsibility own human capital (i.e. self insurance)
 - Security is portable: diversify risks on capital markets rather than being dependent on firm

Compulsory saving accounts in social insurance

- Compulsory saving accounts in social insurance
 - Includes liquidity insurance (negative balances), life-time income insurance (bail out at retirement) and paternalism (combat myopia)
 - Improve trade off between incentives in life-time income insurance
 - ✓ Base deductible on aggregate loss rather than annual loss
 - ❖ Non-catastrophic risks with non-verifiable actions