

## **The Active Social Policy Agenda**

The experience of OECD countries over the past two decades shows that social policies are powerful tools for addressing a broad range of goals. Social policy makers have developed cost-effective approaches to meet a number of stubborn challenges. In the 1970s, for example, the words ‘pensioner’ and ‘poverty’ seemed inextricably linked; now poverty among seniors is no more common than for children. Effective packages of social and labour market policies have helped slash some forms of benefit dependency, and a growing number of initiatives are being introduced to support families with children more effectively and help parents reconcile family and work responsibilities.

### ***Why do we need a new approach to social policy?***

In spite of these success stories, not all is well in social policy. Several serious problems remain on the agenda. Too many people are still exposed to risks of poverty in childhood, of exclusion from work, of isolation and limited self-sufficiency in old age. Traditional social policy measures have not been able to solve these problems. Action is needed urgently before population ageing complicates reforms further.

For generations, social policy was limited to providing social assistance and insurance against a few, well-defined risks, such as short-term unemployment, incapacity during working years, and inadequate resources in childhood and retirement. This approach was based on a series of assumptions: the different stages in an individual’s life, such as childhood, study, work, and retirement, were clearly marked and separated; gender roles within families were well defined with women being homemakers and men breadwinners; there were strong bonds within nuclear families; and those who worked generally had uninterrupted careers working full-time.

These assumptions do not hold true anymore for the majority of OECD societies. The life-course is more varied and people switch between or combine different activities at all ages. The male breadwinner model is increasingly obsolete. Children are increasingly unlikely to spend their entire childhood living with both their biological parents. People separate and household re-formation is frequent. Careers are often interrupted due to unemployment, disability, return to education, child rearing or caring for the elderly.

Social policies that work need to fit these new realities. They need to place greater emphasis on investment in people in order to help them change their lives for the better. Such policies can improve individual well-being, better nurture children, reduce benefit payments, social exclusion and poverty and create a more cohesive society.

### ***How does active social policy differ from the old approach?***

Social policy in the 21st century must aim to help people lead more fulfilling and independent lives. But the foundation on which policy rests is still the belief that distress and disadvantage must be minimised through collective action. The ‘old’ way of doing this was through cash payments; the ‘new’ way combines such payments with more assistance in overcoming barriers to work and social participation. Instead of focussing on help for people in distress, the new approach seeks to prevent distress from happening. The proactive orientation of social policy does not, however, imply that longstanding obligations will be neglected. The most disadvantaged in society will still be protected from poverty and existing commitments to pension benefits will be honoured.

The new approach has two goals, with two different time frames. Societies have to spend now, for those who are currently disadvantaged, but they also need to invest now, to avoid social disadvantage in the future. These twin objectives must be pursued simultaneously. This is no easy task, given the vast resources already committed to meeting other social policy challenges – in particular, pensions. One way of improving the ability of society to invest in extending opportunities to the whole population is to mobilise more assets than are available to governments. Families, businesses and non-governmental organisations (NGOs) all play an important role in achieving social objectives, and supporting them successfully can boost the effectiveness of social policies.

Countries are showing signs of moving in this direction: Some countries have sought to redefine the responsibilities of government, both national and sub-national, individuals and employers for pensions and sickness and disability insurance. Enterprises have been asked or even required to change their working practices in order to ensure that they do not exclude older workers, people with disabilities and people with family responsibilities. NGOs often find it easier to be innovative and reactive to individual needs in social protection, usefully complementing the role of the State. Some countries are working in close co-operation with NGOs to ensure that policies are well-designed.

The message emerging from the recent experiences of many OECD countries is positive: social protection is responsive to new challenges, and it can be reformed to deal more effectively with existing social problems and to help prevent the emergence of new ones.

### ***What are the key elements of the active social policy agenda?***

There are several issues which form the core of the active social policy agenda:

- Investment in families and children

Investing in families gives children the best possible start in life and will boost economic growth. Supporting parents to earn and care reduces the risk that children grow up in poverty and neglect. Policies to promote child development and the reconciliation of family life and work are essential. But the government cannot do this alone -- workplaces must adapt to parents' needs. Family-friendly policies might also boost birth rates.

- Active social policies to tackle poverty

Active social policies aim to get people off benefits and into work instead of perpetuating a state of dependency. Active social policies that work are: good social and employment supports, making work pay, requiring people on benefit to look for work or training, and making the different public agencies work better. But it is not only about getting people into jobs; more effort needs to be made to help people keep jobs and to develop careers. Policy needs to move from the slogan 'welfare-to-work' to that of 'welfare-in-work'.

- Mobilising all groups of society for social protection

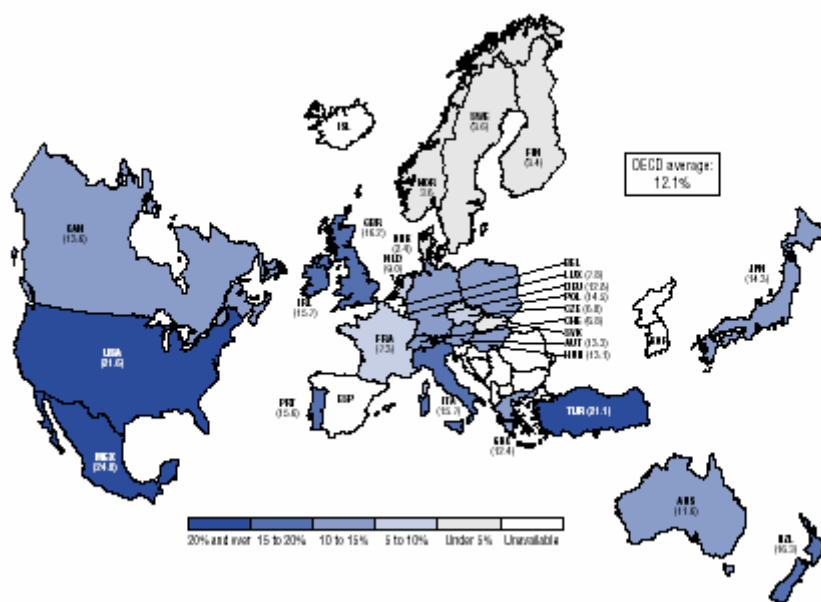
Governments cannot do everything: Individuals, employers and community groups need to take responsibility for social policy. Individual may want to have more choice of services, community groups understand local needs better than central authorities do, and it is in the interest of employers to play a larger role in social protection. Successful companies in the future will be employing parents, people with disabilities and older workers. But there is still an important a role for government to ensure equal access and consistently high quality of privately-provided social services.

### *Active social policies for families and children*

Policies to promote investment in families and children play an important role in the Active Social Policy Agenda. 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, and experience health problems when they become adults. As a result, they are more likely to be parents of poor children and children who are recipients of social programmes themselves, threatening an inter-generational cycle of deprivation. The economic and social costs of allowing this to continue are unacceptably high.

#### **Too many children are in households with low income**

Share of children 17 years and under living in households earning less than 50% of median income, around 2000



Source: OECD project on income distribution and poverty.

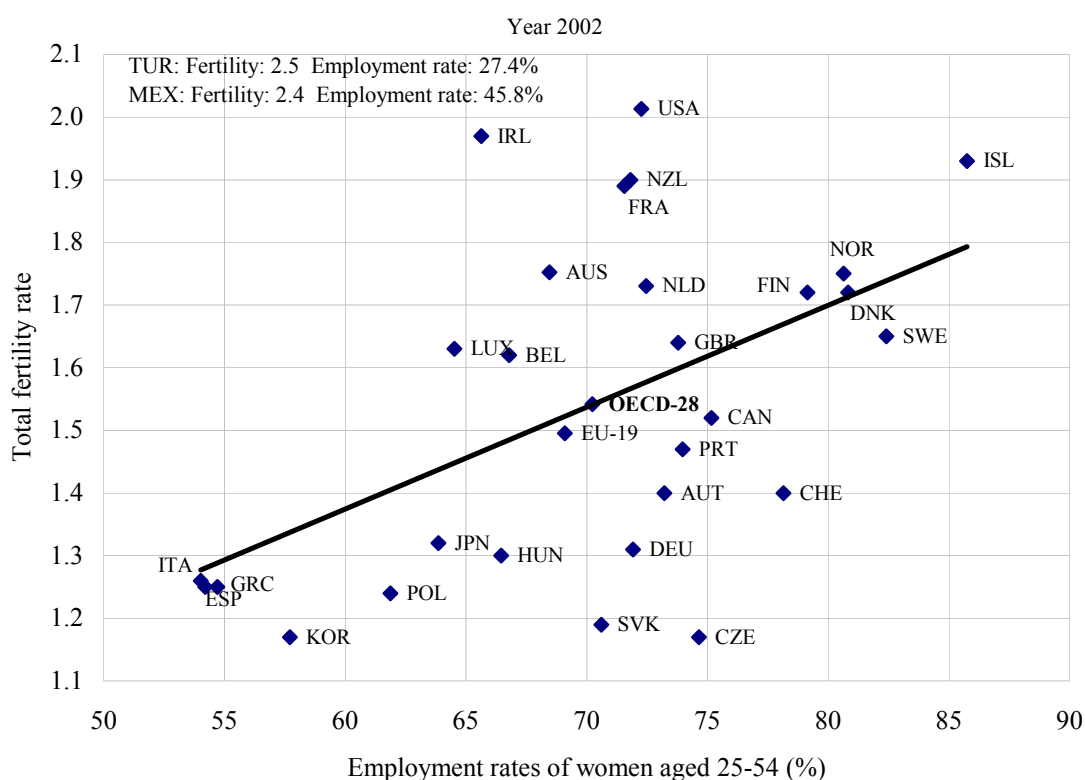
Most OECD countries must also confront the problems caused by the steep fall in birth rates. Few countries approach the rate needed to maintain populations at current levels, while rates in southern Europe, Japan and Korea are much lower. Some women end up having fewer children than they claim to want, suggesting that something is preventing them fulfilling one of their most important aspirations in life, such as, for example, the difficulties many face in combining work and family life. Low birth rates can impose costs on society, making it more difficult in particular to ensure the care and living standards of older generations.

For all the talk about investing in the next generation, leaving aside education, governments do not devote much social expenditure to children and families – on average, around 2% of GDP. Public spending on old-age pensions alone accounts on average for over 8% of GDP, even before taking into account spending on long-term care. Of course, the objectives of policy differ for the two groups, pensions usually being the main source of income for seniors whereas this is not the case for children. Even so, new spending initiatives for the family are starting from a low base.

Such low levels of public spending on children and families have been possible because the family still serves as the best way to ensure that children receive sufficient support, resources, and care that they need. However, families and society are changing. For example, more children are in lone-parent families than previously and nearly everywhere such families face a higher risk of poverty than almost any other group in society. Children of other vulnerable populations are similarly often at risk.

Men's employment appears unaffected by parenthood but many mothers find family responsibilities a barrier to paid work. Helping mothers to have the option of having fulfilling careers is one good way of minimising poverty. Some view 'Mom at home with the kids' not only as reducing family income, but also as a gamble on the partnership between the parents not ending in separation and on the continued job-security of the father. Staying in the labour force is viewed as one way that mothers can protect themselves and their children against the vicissitudes of relationships and work. At the very least, policy needs to support the option of maternal employment, and arguably it needs to go still further, promoting employment by parents as being in their own best interests and that of their children. Governments should promote policies that respect the decision on the part of parents to join the workplace or stay at home raising the children and provide necessary supports. These include facilitating the reinsertion into the workplace for parents that chose to stay at home and raise their children, through training and other assistance, and attaching value to their choice.

#### Countries with high female employment rates also have high fertility rates



Source: OECD (2004), *Employment Outlook*; OECD (2005), *Society at a Glance: OECD Social Indicators*.

Child development experts tell us that the first three years of a child's life are critical for their future. Paid parental leave, be it through workplace agreements or government, can help parents during the first few months, when other care solutions appear unattractive. However, much more than six months out of employment damages career potential. Increasing the role of fathers in the upbringing of their children would help ensure that mothers face a less stark choice between caring and working. Reconciling work and family responsibilities also calls for widely available access to care. In the past, much care has been provided by women as an unpaid activity, but if their employment rates rise, so will the demands placed on childcare and older people. In most countries, public intervention in the childcare market and subsidies to childcare providers or (and better, because more flexible) purchasers will be necessary to ensure that childcare is affordable and of good quality.

It is hard for parents to juggle a full-time job with the necessary school runs. Shorter working hours, out-of-school-hours care and working-time flexibility have enabled rapid growth in female employment in many countries, and help both parents provide the care and support that children require.

Employers have an interest in helping their staff cope with care responsibilities. Good employer practices reduce absenteeism, increase job tenure and promote productivity. But relying on the industrial relations system alone to provide family support has generally benefited only moderate numbers of employees (usually highly skilled and/or working in the public sector). While legislation is one way to ensure more universal coverage, a less controversial alternative is for companies to make use of the tailored-advice on how best to manage employees with parental responsibilities.

Reconciling work and care responsibilities of parents, helps ensure that children have a good start in life. But some children need more. One way of eliminating childhood poverty is through high benefit payments, raising the familiar debate about targeting (which reduces work incentives) versus universality (which is expensive). Despite a general trend towards greater child-related benefits, there is no consensus across countries on the best design of such policies. There is more agreement, however, that some forms of targeted intervention on high-risk groups can help prevent some children falling behind almost before their lives have even started.

Investing in children is something that all countries espouse. Slowly, a consensus is emerging on how to provide parents with a more suitable framework to reconcile work and family life. If societies fail to support both parenthood and work, too many children will be exposed to child poverty and too many parents will be frustrated in either their career or in having the number of children they desire.

### ***The role of active social policy in tackling poverty and social exclusion***

In most OECD countries, employment integration is the central element of policies for tackling poverty and social exclusion. Between 1994 and 2000, the number of people receiving some key welfare benefits in the United Kingdom and the United States more than halved. In Canada and the Netherlands, falls of a third or more took place. There were also big reductions in Denmark and Finland. These changes are all the more impressive when it is remembered that experts used to talk about the 'ratchet effect', i.e. caseloads rose during recessions by more than they fell during booms, leading to ever-higher expenditures on welfare. In some countries, the ratchet is no more: the most recent global economic downturn did not lead to a rise in people receiving these benefits. Effective employment-oriented social policies have got many benefit recipients into work.

The successful policy package is to make work pay; expand and individualise help to overcome barriers to work; enforce a system of mutual obligations; and align public sector responsibilities with financial resources. Experience shows that this is not an ‘à la carte’ menu – all elements must be in place for caseloads to fall.

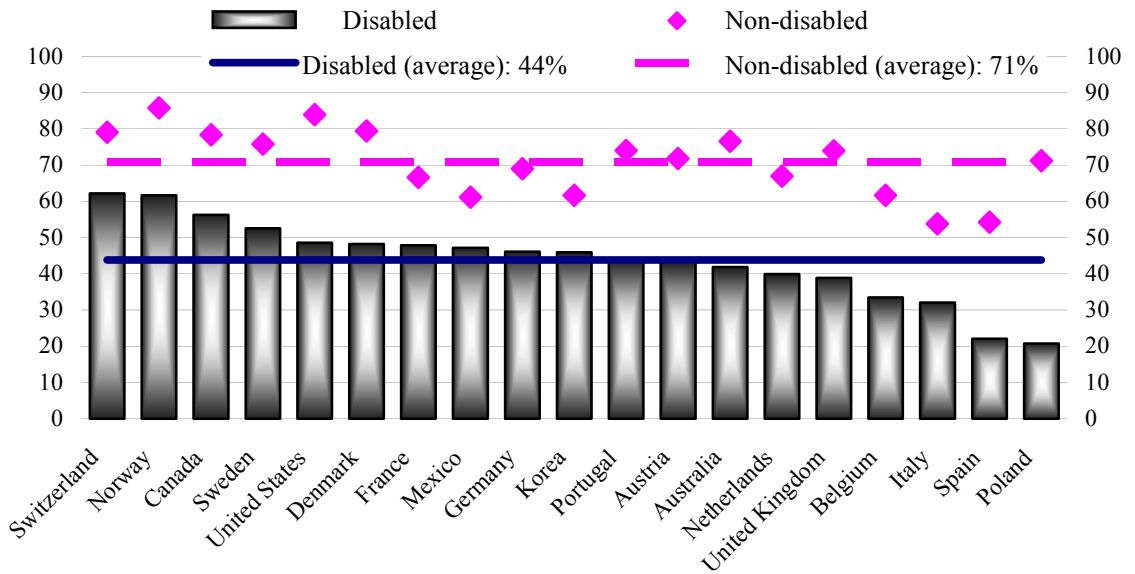
That is the good news. The bad news is that even for those on welfare benefits, this package is no panacea: not all of those who exit caseloads enter employment, many who get jobs do not keep them, and low-wage and precarious jobs often offer limited career prospects. Policymakers must focus on those in low-wage work as well as the jobless – we need not just effective ‘welfare-to-work’, but also ‘welfare-in-work’ policies. Countries with ‘make work pay’ policies have demonstrated that these can be effective in raising incomes at the same time as promoting work. But we know precious little about what else might be cost-effective in helping people keep their jobs and advance up the career ladder. Countries are experimenting with additional childcare help, training and continuing the case-worker advice that has proved successful in helping people with social problems find work.

A second piece of bad news is that even in the countries that moved furthest and fastest in this direction, so far only a few categories of benefit recipients – those in unemployment and welfare schemes – have benefited. Huge challenges remain to be overcome in implementing the strategy more generally to cover other, now more numerous, groups squeezed out of the labour market into benefit dependency. Lone parents sometimes remain victims of policies that, although aimed at ensuring that they have a ‘choice’ to look after children at home, in practice trap them in long-term poverty and dependency. Most countries are experiencing a relentless rise in receipt of sickness and disability benefits, despite improvements in general health. Yet many medical conditions that lead to benefit claims are now unlikely to preclude all types of work, and certainly not permanently. Labour market services, care and education facilities too often still operate in their own silos, with ineffective co-ordination of efforts. Spending on reintegration and rehabilitation programmes cost money, but so do benefit payments. Failure to ensure work for all those who can means that opportunities are being wasted, both for personal fulfilment and economic growth.

Realising these opportunities will not be easy. For example, expenditure on reintegration policies for disability benefit recipients is a tiny fraction of that spent on the unemployed – a group that is on average far less disadvantaged and which is now smaller in aggregate in the OECD area than that of disability benefit recipients of working age. The more socially disadvantaged a group is, the greater is the cost – in the short term, at least – of removing barriers to labour market and social participation. Is the pay-off worth the added cost? And if society did agree to invest more in helping remove barriers to work, it is reasonable that it *requires* beneficiaries to respond accordingly. A system of ‘mutual obligations’ has proved effective in reforms of unemployment and welfare benefits. But how should it be applied for these other, more disadvantaged groups?

### Employment rates of disabled persons are low

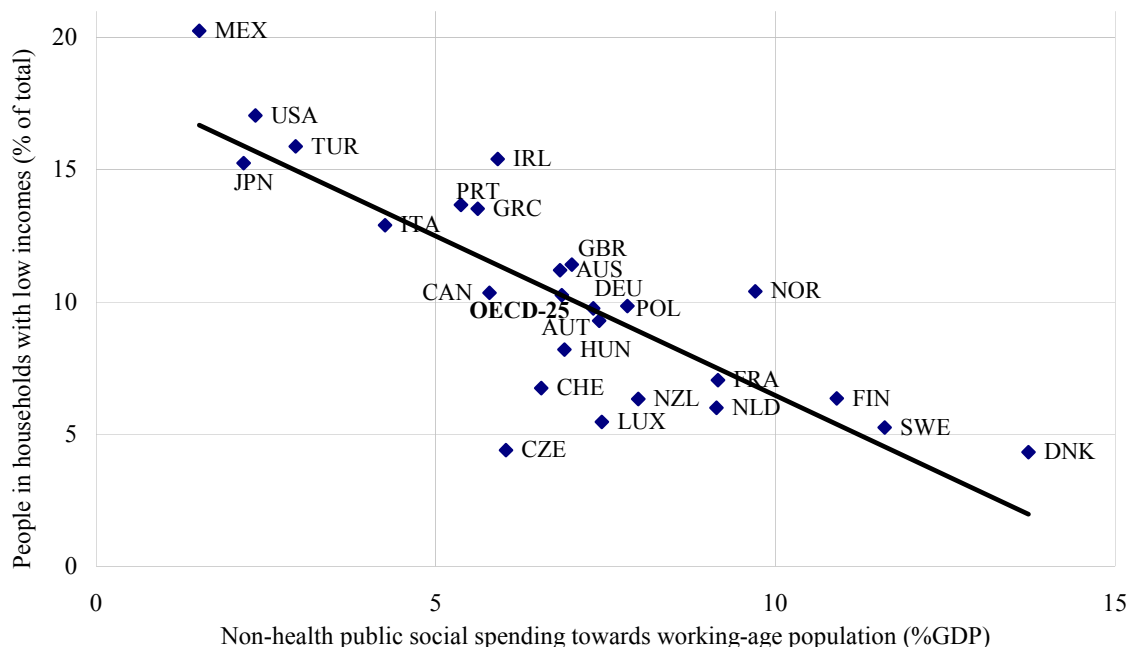
Employment rates for disabled and non-disabled persons, percentage of 20-64 population, late 1990s



Source: OECD (2003), *Transforming Disability into Ability: Policies to Promote Work and Income Security for Disabled People*.

The traditional income-support objective of much social policy also remains essential in reducing social distress. Internationally, the evidence is striking: poverty is highest where social spending is lowest. Even so, neither government nor recipients can be happy with schemes that do little other than pay cash benefits at levels that most often fall short of what is needed to avoid poverty. Promoting an active participation in society, even if employment is not feasible, has been a goal for social policy for some years now. For some people, caring for children or old people is a socially-valuable activity. For others, if active labour market policies have failed, then society must find another role for them if the result is not to be an intergenerational transmission of poverty and dependency.

**Social spending reduces the proportion of people with low incomes**  
 Share of total population living in households with less than 50% of median equivalised income and non-health public social spending towards working-age population, in 2000

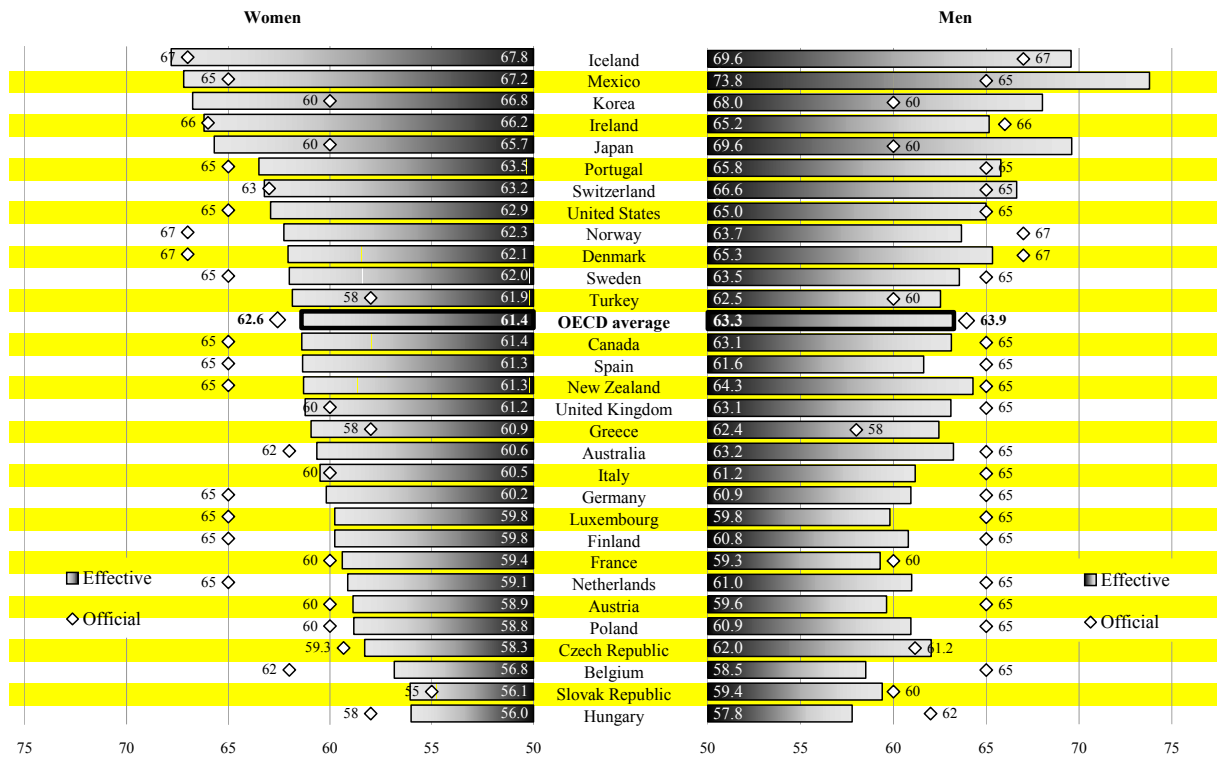


Source: OECD project on income distribution and poverty; OECD (2004), Social Expenditure Database.

Active social policies will also be needed to address the challenges imposed by ageing populations. Increasing the period that people spend in paid work (and reducing the number of years they receive pension payments) is an essential change for a more appropriate intergenerational balance in social policies. If people wish to stay active, they should be permitted and encouraged to do so, and certainly not penalised, as is still too often the case. This will require making pension systems – broadly defined to include those means-tested income guarantees which have become so important in many countries – more favourable to those wishing to work while receiving their pension annuity.

On the other hand, it would be exceedingly inequitable to ignore the large and persistent differences in life expectancy between social groups. For some categories of workers in some countries, postponement of retirement age much beyond age 65 amounts to a call for people to ‘work until they drop’. Extending the average duration of a working life without taking intensive steps to equalise health outcomes is hard to justify, and could just contribute to further growth in the ranks of those seeking disability and other benefits. Allowing flexible paths into retirement may be one solution. Training and education for older workers is also important, enabling them to switch to less strenuous jobs and prepare for an active life after retirement.

**Effective retirement ages are often too low**  
Average effective age of retirement versus the official age, 1997-2002

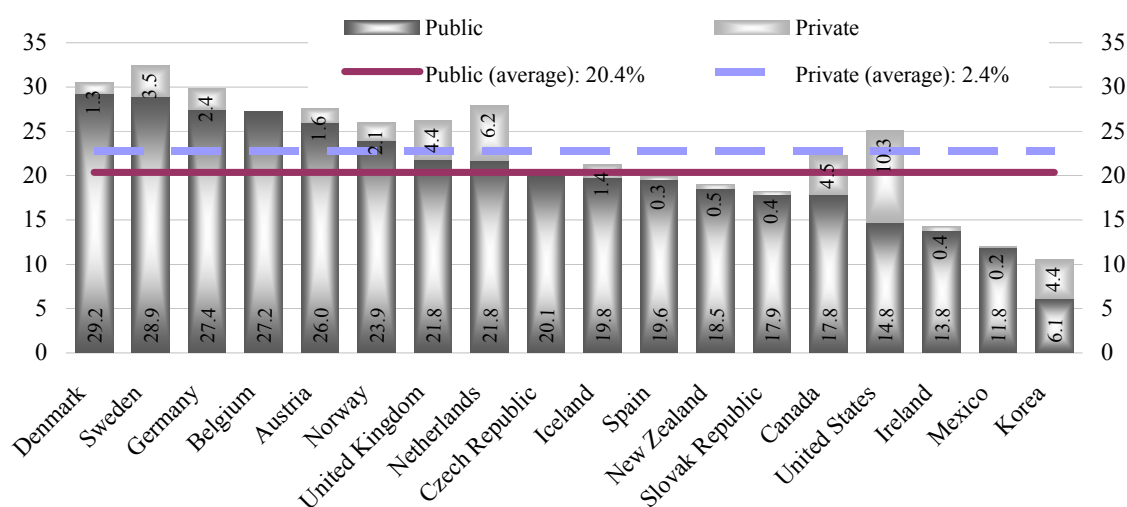


Note: The average effective age of retirement is derived from the observed change in participation rates over a five-year period for successive cohorts of workers (by five-year age groups) aged 40 and over.  
Source: OECD estimates derived from the European and national labour force surveys.

### ***Mobilising all groups of society for social protection***

Active social policy is not the government’s task alone. There are many social groups with a stake in social outcomes, and many are already involved in social protection financing and delivery. Private funding of social protection has grown in recent years, but remains a small percentage of public expenditure. An exception is that tax incentives for individuals and agreements between employees and employers already result in large private sector contributions to pension schemes in some countries.

**Total social spending accounts for 23% of GDP**  
Public and private social spending, in percentage of GDP, 2001

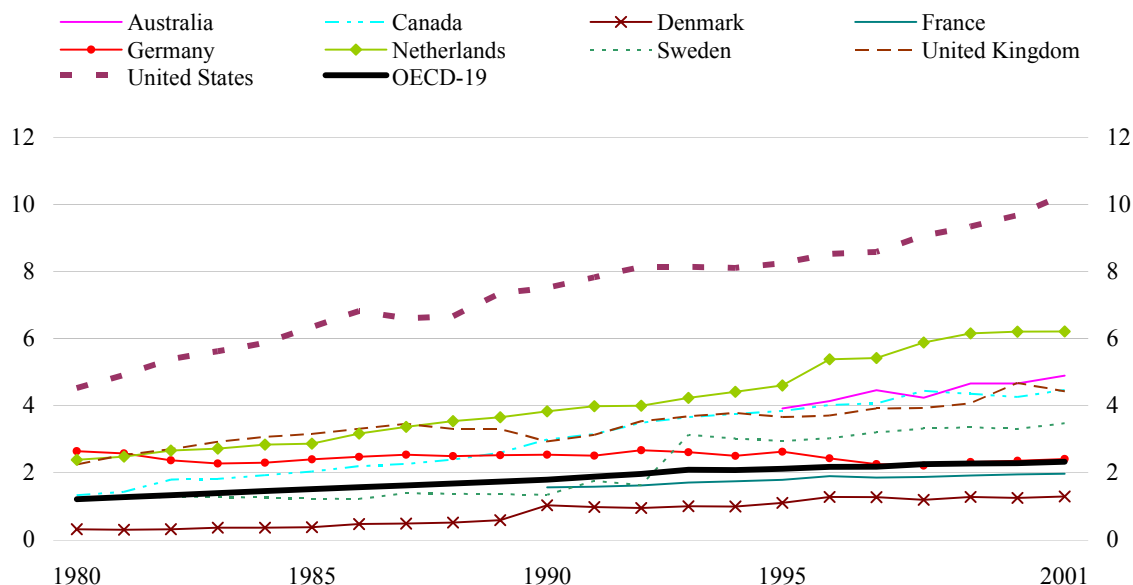


Source: OECD Social Expenditure database.

However, voluntary coverage of private sector pension schemes has been low, rarely exceeding half the workforce even in countries with relatively low levels of public pensions. Many low-paid workers are not covered, either because their employers see no need for pensions beyond the minimum, their incomes are too low, or their jobs are too unstable. Hence, the tax advantages to pension savings are strongly regressive. Individual pensions are exposed to greater risk of volatility, and prudential standards cannot eliminate the risk of very low rates of return on savings. Nevertheless, some countries have found compromises between getting the advantages of private finance while protecting individuals from excessive risk. It is far less clear that there is much scope for expanding private insurance and finance of social services in other areas, other than perhaps in the area of long-term care.

Workplace arrangements contribute to the success or failure of social policies in other ways. On average, across OECD countries, 14% of the working-age population report disabilities, 9% are mothers with pre-school children, 7% are unemployed, and close to a quarter are within 10 years of the statutory retirement age. Expanding the number of these groups in work is necessary for economic growth and implies that the typical enterprise could have a quarter or more of its labour force coming from groups that have till now been clients of social policy ministries. All countries believe that firms should avoid "ageism" in their hiring practices, and should create workplaces that are better suited to people with disabilities, older workers and parents of young children. Use of regulation or workplace agreements between employers and employees may be necessary, depending on different national situations, to make progress in this area.

**Private social spending has increased since 1990**  
Mandatory and voluntary private social spending, in percentage of GDP, 1980 to 2001



Source: OECD Social Expenditure database.

While the scope for introducing more private finance of social protection appears limited, this is not the case for delivery of services. Social services, even if still financed by taxes and contributions, are increasingly likely to be delivered by private providers, be they for-profit or not-for-profit. Greater diversity of providers has often promoted choice and innovation. In childcare, private providers are more flexible about opening times, charging structures and philosophies of early childhood development, and similar claims can be made for employment services, counselling, homelessness and disability support.

Experience shows that it takes time to develop a robust market of private suppliers. Greater variety and choice has sometimes been achieved, but cost savings have often been disappointing and effectiveness has not always increased. One reason for this lies in the higher administrative costs of individualised provision. A second reason is that governments want market incentives to encourage some sorts of behaviour – cost reductions, innovations – but not others – low quality of service, excessive prices. Regulation is therefore necessary, also to pool social risks and to ensure that nobody is excluded from coverage. But it is very difficult to have extensive regulation without overloading providers with red tape and losing all the potential advantages of private provision. Reforms in this area have to balance potentially conflicting goals: ensuring security of entitlements, helping individuals to make informed choices, and not overloading the regulatory framework.

Some governments have started to rely more on not-for-profit, community or faith-based organisations (NGOs). Because of their strong sense of mission and the trust they have from potential clients and society in general, such organisations have sometimes achieved major success in promoting social integration. But so far, success stories are usually local and small-scale. The bigger the programme, the more conditions are placed by the government on the use of funds to ensure accountability, and the greater the risk that NGOs come to resemble the public sector bureaucracies they were supposed to replace. Furthermore, governments have to ensure that individuals have appropriate access to services when provided by the private sector or by NGOs, and that policymakers do not become so ill-informed about the best ways of delivering social programmes that they become incapable of responding to new needs. For these reasons, progress in channelling public funds to NGOs has often been far less rapid than governments would like. It is necessary to create conditions so that they can become an effective complement to public provision and delivery of social policy.

The public sector monopoly in provision of social protection was never as great as either its fiercest critics or most ardent supporters have pretended: other groups in society have always played a role. Most people expect them to play a larger role in future systems of social protection. But realism dictates that the result will probably not be cheaper social protection, but at best more flexible forms of support, better tailored to individual needs.