

Extending Opportunities

HOW ACTIVE SOCIAL POLICY
CAN BENEFIT US ALL

Summary Report



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Foreword

Economic growth has resulted in huge improvements in the social conditions of millions of OECD citizens over the past 50 years. Sustaining the pace of economic growth will remain critical for these improvements in social conditions to continue in the future. But economic growth alone is not enough. Also important is the existence of well-functioning institutions, in particular those devoted to providing social protection to families and individuals.

This document builds on the experiences of OECD countries over the past two decades. It argues that social protection is as important as ever for attaining a broad range of social goals. Recent policy experimentation – together with better research and evaluation – has started to pay off. More is known today about effective policies to address problems that seemed intractable only a few years ago. In particular, we have learned how to better integrate social and labour market interventions aimed at reducing poverty, exclusion and dependency among some groups dependent on welfare benefits. However, while many policies have been effective in achieving desired outcomes, others have not, and difficult challenges lie ahead. Indeed, the recent optimism that we can improve the lives of those most exposed to disadvantage poses a challenge in itself: citizens – knowing that social protection can do more to help people on welfare or with disabilities, or to enhance the life chances of children and to help parents – expect quality interventions in each of these fields. But society has already committed vast resources to meeting other social policy challenges – in particular, to provide old-age pensions to an increasing number of elderly persons. In this context, is an expansion of public responsibilities affordable or desirable? If not, how can society rebalance its interventions to meet the needs of individuals at different stages of their life-cycle? Are there better means of achieving social goals? These are some of the questions that will be confronting Social Policy Ministers as they meet in Paris on 31 March and 1 April 2005 (www.oecd.org/socialmin2005). This report has been prepared by the OECD Secretariat to inform those discussions.

The heart of this report puts the case for active social policies, a concept that stresses the importance of shifting the focus of social programmes from insuring individuals against a few, well-defined, risks towards investing in their capabilities and making the best use of them. This report – which complements the evidence provided in the recently-released bi-annual compendium of social indicators, *Society at a Glance* – brings together results from a range of analyses carried out by the OECD in recent years, in particular work undertaken in the Directorate for Employment, Labour and Social Affairs, the Centre for Tax Policy and Administration, the Directorate for Education and the Economics Department.

This report, which has been prepared by Marco Mira d'Ercole of the OECD Social Policy Division, draws on contributions by various members of the OECD Social Policy Division: Peter Whiteford (Part I); Willem Adema, Anna D'Addio and Peter Whiteford (Part II); Manfred Huber and Monika Queisser (Part IV). David Dowey assured the production of most of the policy scenarios presented in the report, as well as of the tables and charts. Patrick Hamm contributed to the final editing of the report. Mark Pearson, Head of the OECD Social Policy Division, supervised the preparation of this report and provided useful comments on various versions.

Donald J. Johnston
OECD Secretary-General



The document referred to in this foreword is the background report presented to the Ministers of Social Affairs: "Extending Opportunities: How Active Social Policy Can Benefit Us All."

How Active Social Policy Can Benefit Us All

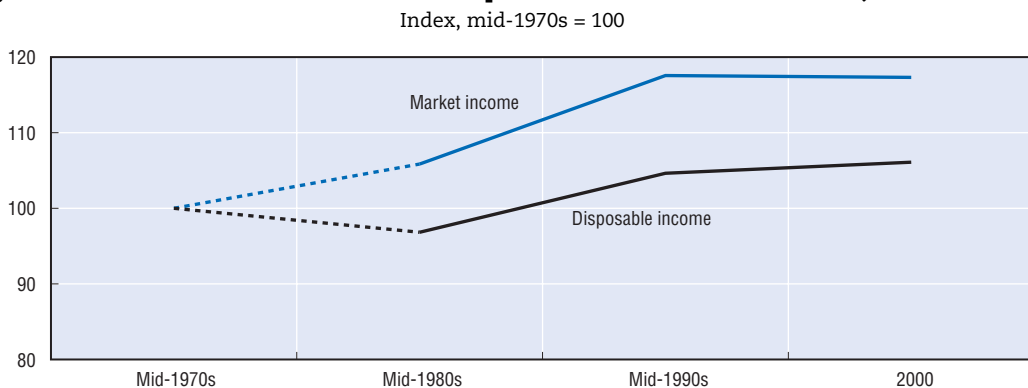
The lives of hundreds of millions of OECD citizens have improved radically in recent decades. People today live longer, healthier and more prosperous lives. Millions have entered or re-entered the world of work during the economic recovery of the 1990s, thus allowing major reductions in unemployment and benefit rolls. New initiatives are giving children and their families effective support in getting the best possible start in life.

Economic growth and social protection systems have led to huge improvements in social conditions in OECD countries...

Much of this improvement has been the fruit of the economic growth that has taken place throughout the OECD. But, however essential economic growth is to improving people's lives, it has not been sufficient to solve all social problems. Indeed, despite greater prosperity, a substantial portion of the population in every OECD country continues to face great risks: risks of disadvantage in childhood, of exclusion from work in prime age, of isolation and limited self-sufficiency in old age. That traditional social policies have not helped people address all these risks adequately is highlighted by one crucial fact: from the mid-1970s to the mid-1990s, labour and capital incomes have become more unequally distributed among the population in every OECD country.

... but have not solved all social problems.

Figure 1. **Trends in the distribution of equivalised household income, OECD average**



Note: The OECD database on income inequality and poverty allows separate analysis of inequality in the distribution of market income (i.e. income from work and capital) and disposable income (i.e. total income after taxes and government benefits). Market-income inequality increased rapidly over the two decades from the mid-1970s to the mid-1990s, an increase which was only partly offset by taxes and government benefits. However, the increase in market-income inequality has come to a halt, on average, since the mid-1990s. Inequality is measured through average values of the Gini coefficient across 17 OECD countries in the mid-1980s, mid-1990s and 2000, with values indexed to 100 in the mid-1970s. Changes from the mid-1970s to the mid-1980s are based on values for only seven OECD countries.

Failure to address the causes of a widening inequality of market income will harm future economic growth...

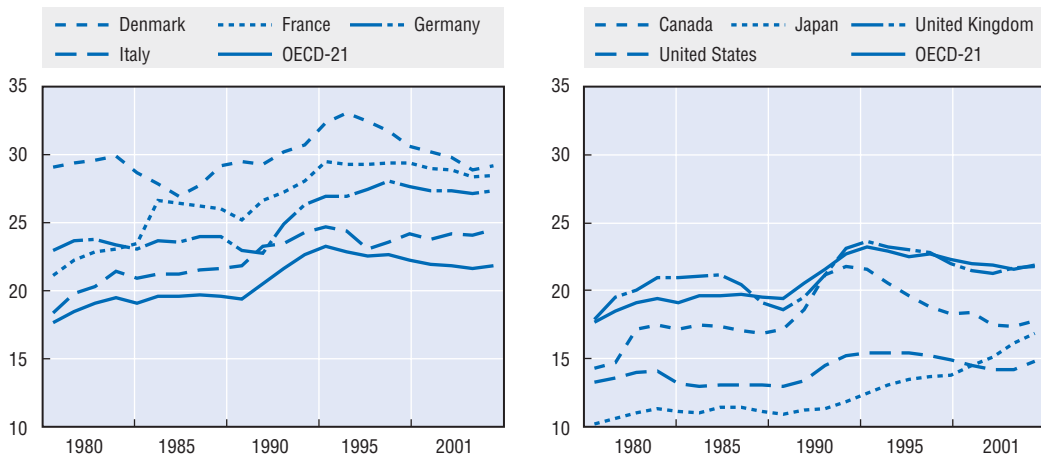
Opinion is, and will always be, divided as to how much we should care about income inequality. The fact that inequality in market income had been widening *everywhere* in OECD countries until recently is, however, a source of concern that is shared among policy makers. First, although people differ in how much they care about inequality as opposed to other public goals, such as economic growth and rewarding enterprise, few are entirely indifferent to the distributional outcomes of a market economy. Second, the fact that people are poor is a sign that they have not successfully participated in the labour force or in society: in other words, poverty and inequality are evidence of an inefficient society, which wastes human resources, opportunities and life chances. Third, children of poor parents have less chance of succeeding in life than children of rich parents: a widening inequality of income risks leading to a widening inequality of opportunity. Because of these factors, a failure to tackle the poverty facing millions of families and their children is not only socially reprehensible, it will also weigh heavily on our capacity to sustain economic growth for years to come.

... and higher public spending is not the solution.

Widening inequality in the distribution of market income stems from a variety of sources, including advances in technology and globalisation, changes in demography and family patterns, and many others. What this report addresses, however, is not the cause of the change, but what social policies can do about it. The way social policies were set up in the past provides one possible approach to dealing with the more unequal distribution of market income: tax those who have benefited most from economic growth, those with higher incomes, to compensate those who are unable to find well-paid work, be it because of disability, sickness, lack of skills, or whatever. All countries continue to use such an approach as a central way of alleviating poverty and other forms of disadvantage. An intrinsic problem with this approach, however, is that if the widening of market income continues, sooner or later it will be harder to redistribute yet more cash, as better-off voters may reject continuing tax increases and climbing tax rates may deter investment and work effort. Furthermore, the obstacles to higher public social spending are already being exacerbated by the greater burden being placed on workers by the need to support an ageing population.

More ambitious social policies are necessary...

Instead of relying on taxes and public transfers alone, OECD countries need to look for other ways to deal with the social challenges of today. In this volume, the policies that aim to do this are called *active social policies* because they try to change the conditions in which individuals develop, rather than limiting themselves to ameliorating the distress these conditions cause. This shift away from the reactive, compensatory approach of the past gives greater emphasis to investing in people so as to maximise their potential to become self-sufficient, autonomous members of society. It also emphasises the importance of basing social policies on a 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

Figure 2. **Gross public social spending in OECD countries, as a share of GDP, 1980-2001**

Note: Data from the OECD Social Expenditure database show the expansion of public spending for social purposes. Gross (i.e. before tax) public social spending across 21 OECD countries almost doubled in the 20 years from 1960 to 1980 and continued to grow after that, although at a reduced rate, until reaching a maximum of 23% of GDP, on average, in 1993. Since then, the level has declined by around 1½ points of GDP on average, with this decline accounted for entirely by non-health expenditures.

problems that may rise tomorrow. This report uses the life course to link experiences in childhood, prime-age and old age.

Social policy is often disparaged as being a burden on society, damaging the entrepreneurial spirit, discouraging work and savings, and creating dependency on the state. Bad social policies can indeed result in all these negative effects, but there is nothing inevitable about bad policies. Many examples of successful policy are presented in this report. This report also presents an agenda for active social policies and discusses how they can benefit us all. Using the life-course perspective, the report is structured around three key objectives of social policy.

1 Many social problems have their roots in childhood. Ending childhood poverty is as important for social policy as it is possible to imagine: 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 and skills to raise children or by paid carers with inadequate qualifications. What is needed is a mixture of reforms to the tax and transfer system, childcare support, and help for working parents – particularly mothers – to help parents reconcile their work and family responsibilities.

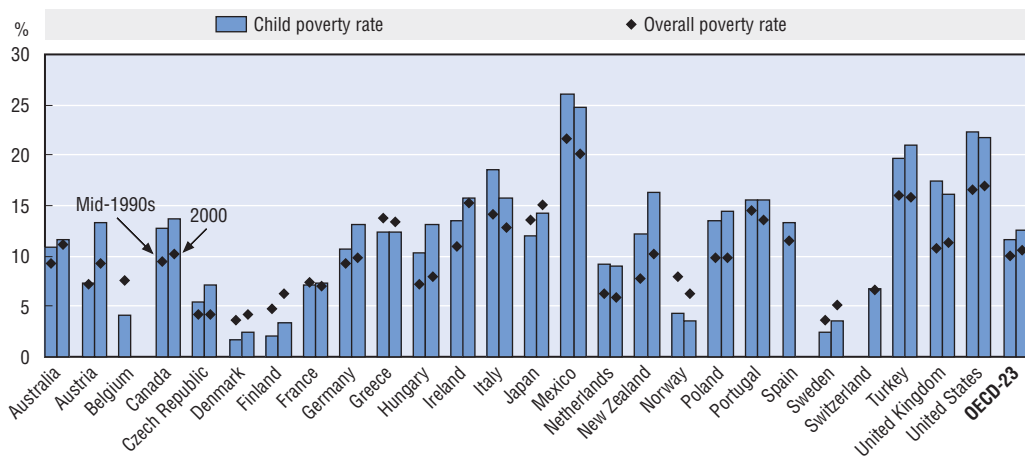
Achieving this will also create more favourable circumstances for raising the level of fertility rates, which are currently below replacement levels in most OECD countries. Below-replacement fertility rates impose large social and economic costs on society: the cost of pension payments falling on each worker rises; investment is discouraged due to a lack of consumers and

... that pay attention to the needs of individuals over their entire life-course.

Priorities for active social policies are giving children the best possible start in life...

... easing the reconciliation of work and family life for their parents...

Figure 3. **Low income rates among children**



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. While poverty rates for children tend to be higher in countries with high overall poverty levels, there is substantial diversity across countries in the extent of child poverty for a given level of poverty of the entire population, suggesting that specific factors increase the risks of disadvantage for children in some countries. The data, from the OECD database on income inequality and poverty, refer to different years in the mid-1990s and around 2000.

savers; and the capacity of extended families to attend to the needs of their members is reduced. Governments recoil from pursuing avowedly natalist policies for obvious historical and cultural reasons. However, given that women themselves say that they want more children than they actually have, it is reasonable to consider whether there is anything governments could do to help them realise their goals.

Policy priorities in this area thus include:

- Investing in children – including early childhood intervention programmes, particularly well-designed ones that closely involve the family.
- Boosting maternal employment – including by adjusting tax and benefit systems so as not to discourage second earners.
- Reconciling family and work responsibilities – through co-ordination across a range of areas such as childcare provision, parental leave and family-friendly workplaces.
- Creating a framework favourable for raising fertility rates – through policies that share the costs of childrearing more broadly and that allow young couples to get a secure footing in labour markets.

... helping prime-aged individuals to overcome barriers to quality jobs through both welfare-to-work...

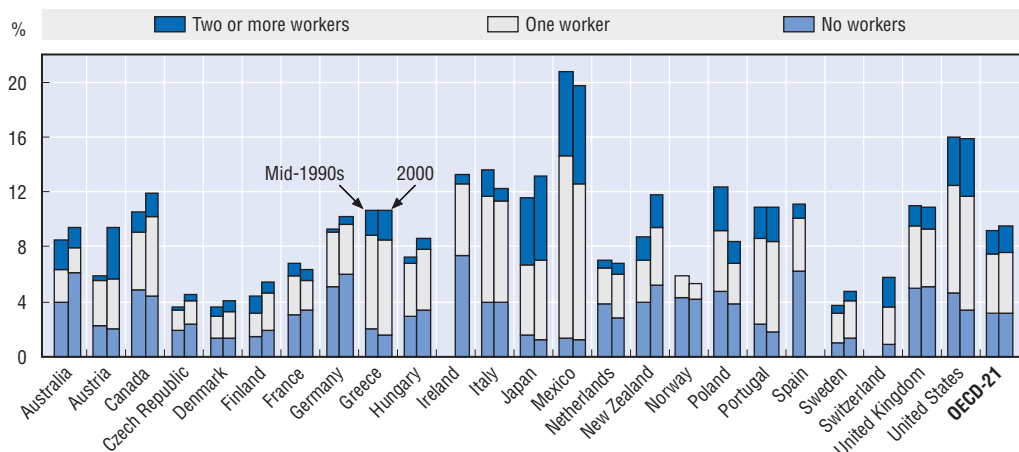
2 Getting the jobless work and assisting the disadvantaged to acquire the skills to get higher pay are the best ways in which economic and social progress can be reconciled. The vicious cycle that goes from joblessness to loss of self-confidence, deteriorating skills, isolation, and exclusion needs to be broken – and the recent success achieved by many OECD countries in slashing some 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 lone parents and those with disabilities, through tailored interventions that give greater emphasis to labour-market integration. But the results of these welfare-to-work policies, while positive, also point to the need for complementary welfare-in-work policies.

Welfare-in-work is essential if benefit recipients are not only to get jobs but also to keep them and avoid poverty. For more socially-disadvantaged individuals, more effective social assistance remains essential to provide adequate living standards, while alternatives to paid work in the market economy need to be found to encourage participation in social life, and to ensure that a culture of dependency does not take hold of children who grow up in families that are dependent on welfare benefits for their daily living.

... and welfare-in-work policies...

Figure 4. **Low income rates among households with a working-age head around 2000, by number of adults working**



Note: While the risk of low income (*i.e.* relative poverty) is much higher for households with no adult in employment than for those where someone works, households with one or more workers represent a very substantial proportion of the income-poor in all OECD countries. Even households with two or more workers are not immune from the risk of inadequate income. The height of each bar represents the poverty rate (using a 50% median income threshold) of persons living in households with a head of working age in each country. The data, from the OECD database on income inequality and poverty, refer to different years in the mid-1990s and around 2000.

Policy priorities in this area thus include:

- Completing the welfare-to-work agenda – in particular with regard to lone parents and, in most countries, people with disability.
- Making progress with welfare-in-work – including through policies to “make work pay” and to increase job retention and the career prospects of low-paid workers.
- Strengthening 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.

- Promoting the coherence of different policies affecting poverty and exclusion and making long-term commitments to achieve poverty-reduction goals.

... and enhancing the participation of elderly people in economic and social life in the context of public pension reforms...

3 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.

... while also addressing needs for quality and affordable long-term care.

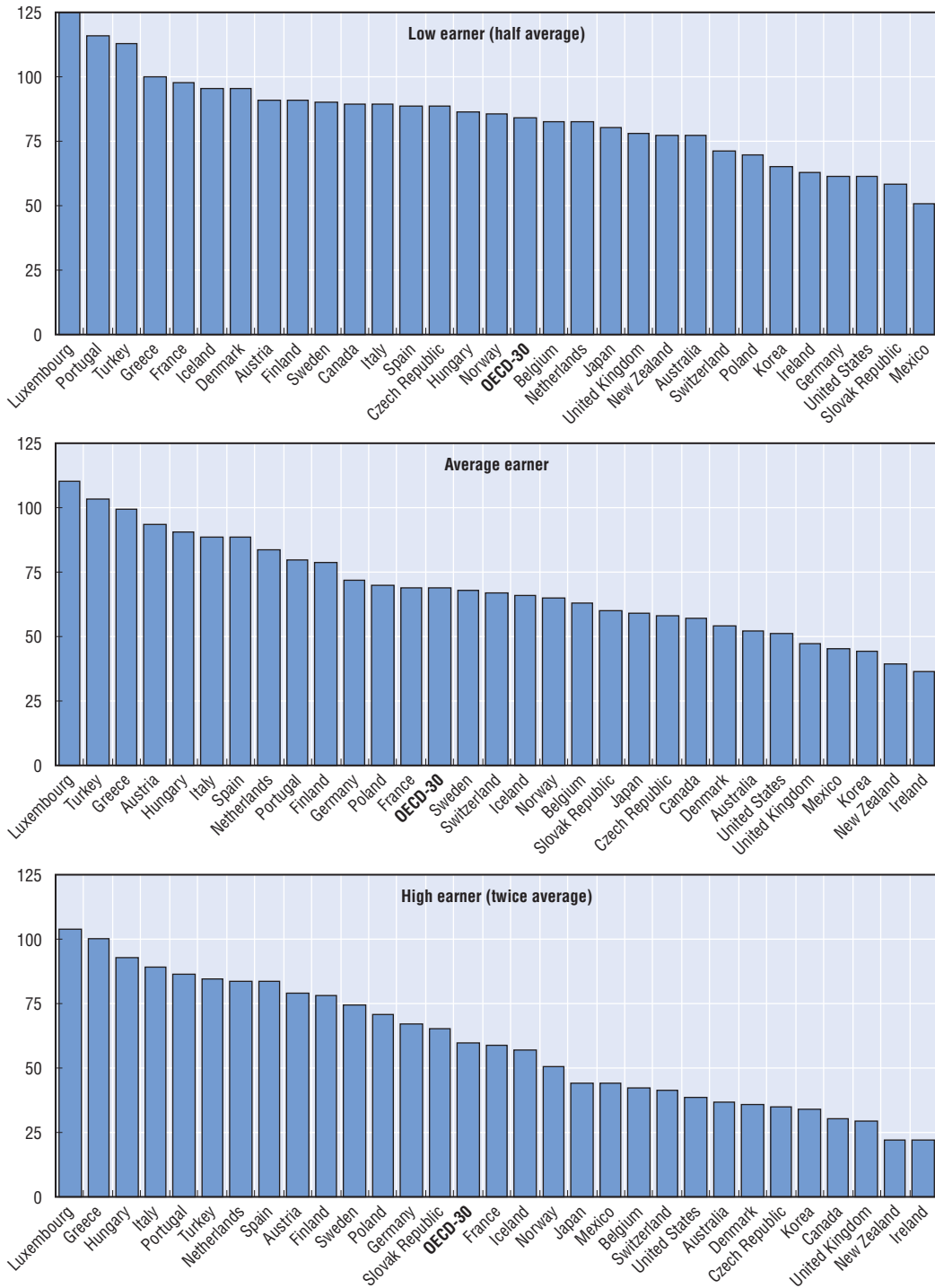
The need to induce larger numbers of older people to remain in the workforce does not, however, imply a blanket increase in retirement ages: sickness and disability rates indicate that some older people have barriers to work other than age that have to be addressed as well. In addition, increasing numbers of older people will need quality and affordable long-term care. 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.

Policy priorities in this area thus include:

- Limiting the costs of old-age pensions on public budgets – including by promoting greater diversification of retirement income among middle and higher-income retirees and better targeting public pensions on lower-income retirees.
- Favouring a longer working life – through a combination of steps to close pathways to retire early, increase the standard age for entitlement to a public pension, correct disincentives to retire early that are embedded in pension and other benefit systems and encourage employers to hire and retain older workers.
- 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.

Figure 5. **Net replacement rates of OECD pension systems for workers at different earnings levels**

Percentage of individual pre-retirement earnings



Note: This figure, from the forthcoming OECD report *Pensions at a Glance – Public Policies across OECD Countries*, shows the replacement rates (i.e. the ratio of pension entitlement to pre-retirement earnings) that male, full-career workers entering the labour market today could expect to receive in the future from public and mandatory private pension systems. The rates are shown net of taxes and social security contributions. On average, a worker on average earnings can expect a net replacement rate of just under 70% – in other words, his or her pension income after tax will be around 30% less than individual net annual earnings over their lifetime. High-income workers (earning twice the average) will receive less than 60%. Countries are ranked in decreasing order of net replacement rates.

Active social policies hold the promise of better reconciling social and economic goals...

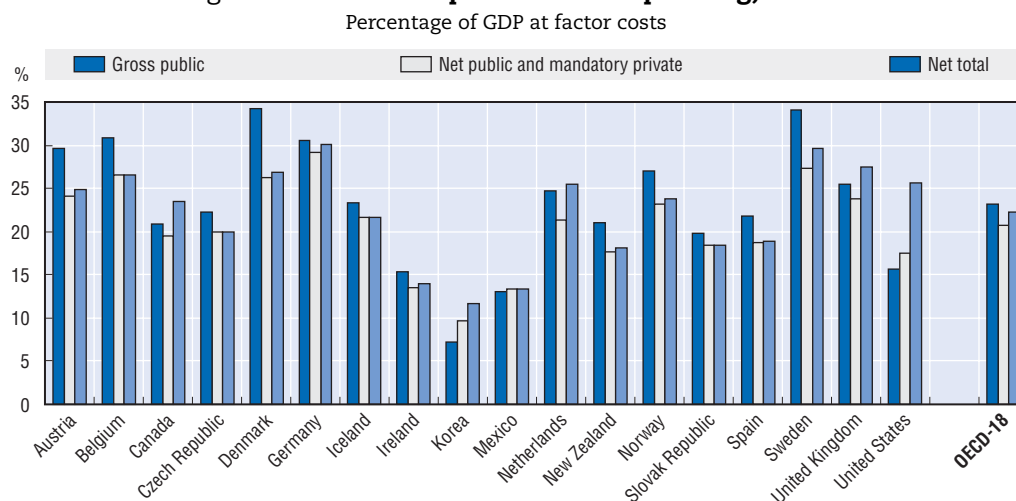
Successful implementation of this agenda of active social policies would increase both the level and the quality of employment; it would eventually reduce reliance on transfer payments; and it would narrow the distribution of market income. Because of these effects, active social policies hold the promise of reducing the negative effects of social protection systems on economic growth that have long dominated public discussions about the welfare state. Implementing this agenda would not only better serve the “public good”, but would also reduce social isolation and exclusion, help individuals realise their personal goals, and provide a more secure life in old age.

... but require more coherent and longer-term actions...

The challenge to public policy that this agenda implies is weighty: it is all well and good to talk of such active policies in the abstract, far less easy to make them work in practice. To a significant extent, social problems reflect actions that are outside the immediate remit of social policies. The complex links between different social problems, and between economic and social processes, point to the need to move away from the typical “one problem / one instrument” approach to many policy decisions, towards one based on explicit assessments of the social consequences of policies in different fields, identifying trade-offs between competing goals, and finding ways of shifting these trade-offs over time. More than that, investing in active social policies is expensive. The returns are in the future – often the distant future, when today’s children enter the labour market, for example. This implies that reforms of social policies confront a double burden: paying for the failures of the past and investing now to ensure that such failures are not reproduced in the future.

... and a capacity to leverage the initiatives and resources of non-governmental actors.

As pressures on public expenditures are already heavy, 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. What is the basis for further progress? Employers will benefit from a larger, more productive workforce, so they should bear some responsibility for ensuring that parents can juggle work and care for children, and that older workers or those with poor health can find a “niche” in the labour market. Individuals, too, should have greater responsibility to take advantage of those opportunities that society pays to make available to them, thereby increasing the effectiveness of interventions. 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. But shifting the financing and delivery of social protection outside government raises difficult issues about the extent and fairness of coverage, and it does not always deliver the efficiency gains and cost savings expected. It also requires that government move from being the direct provider of protection to assuming new and more complex governance functions.

Figure 6. **Public and private social spending, 2001**

Note: While direct public spending represents the dominant source of social spending in all OECD countries, it is by no means the only source. First, gross public spending is often complemented by tax advantages provided for social purposes, and both direct and indirect taxation claw back from the client's purse part of the cash benefits provided by governments. Second, social spending may be undertaken by individuals and firms rather than the public sector, either because the government legally requires this or voluntarily, though the government may encourage this through tax expenditures or other subsidies. Figure 6, based on data from the OECD social expenditure database, shows that some countries have been quite effective in mobilising private spending to achieve social goals. A more comprehensive assessment that takes into account all resources devoted to social protection narrows cross-country differences in the overall level of support provided.

Best practices in active social policies

Many examples of policies that have proved their worth are provided in the main report. Some of these policies include:

With respect to families with children:

- In Mexico, the programme *Oportunidades* (introduced in 1997 as *Progresa*) provides cash grants to poor families conditional on children staying in school and undertaking regular health checks. Cash subsidies, which increase with children's school level, are paid directly to mothers, who are also responsible for reporting obligations.
- In the United States, *Head Start* is a pre-school programme for disadvantaged children that serves over 800 000 children in predominantly part-day programmes; experimental evaluations that follow children at least until middle school suggest that it makes a positive difference in children's lives at budgetary costs that compare favourably to the medium and long-term benefits of programme participation.
- In Sweden (as in other Nordic countries), a combination of flexible use of paid parental leave, affordable high-quality childcare, extensive out-of-school care, and entitlements to shorter working hours for both parents when children are young has helped parents in squaring their work and care commitments, contributing to comparatively high fertility rates, high employment rates among mothers with children and low child poverty, although at significant budgetary costs.

With respect to avoiding poverty in prime age:

- In the United Kingdom, a range of reforms introduced since 1997 (to encourage job search and easing the transition into work among lone parents, to require lone parents to attend job interviews, higher maximum benefit payable to working lone parents and lower rates at which the tax credit was withdrawn, more generous support for childcare) may have accounted for almost half of the 11 point increase in the employment rate of lone parents recorded between 1992 and 2002.

Best practices in active social policies (cont.)

- In Luxembourg, one of the most comprehensive reforms to disability policies has aimed to improve the labour market (re)integration of disabled persons by envisioning four different stages of the integration process, each accompanied by different benefits and services.
- In the United Kingdom, *Pathways to Work* pilots aim at improving opportunities for people on incapacity benefits through a series of mandatory work-focused interviews together with a range of provisions aimed at improving labour market readiness and opportunities. Early evaluations suggest that outflow rates from *Incapacity Benefit* have increased by much more than originally envisaged, which has led the authorities to extend these pilots to cover one-third of the country.

With respect to the elderly:

- In Germany, Finland, Italy, Sweden and Poland, changes in the benefit formula of public pension systems allow the financial sustainability of the system to be preserved as life expectancy rises, while also providing for greater flexibility of workers with respect to the age of retirement. In the last three countries, this was done through the creation of notional accounts.
- In Finland, the *National Programme on Ageing Workers* was launched to increase public awareness of the importance of older workers' employment.
- In Australia, the introduction of specific forms of co-ordination among different types of care services has brought a multi-disciplinary perspective to bear on those who may need to enter institutional care, managing the stock of institutional care places that are subsidised by government, pioneering a new system of integrated assessment and funding for institutional care and shifting the balance of care towards more intensive home care. The presence of a single co-ordinator provides users and their families with greater assurance and more security as to the quality of the services provided.

With respect to improving co-ordination of different government policies and leveraging the initiatives of non-governmental actors:

- In Ireland, the government launched in 1997 a *National Anti-Poverty Strategy* developed by an inter-departmental committee following wide-ranging consultation with the social partners. The strategy, which sets quantified targets in a range of fields related to poverty, has translated into the introduction of specific measures, the introduction of new institutions and policy tools such as "poverty proofing", whereby all major policy proposals must indicate their impact on groups in poverty or at risk of falling into poverty.
- In Australia, a range of reforms in service delivery has promoted contracting with NGOs to provide brokerage for early childhood services; partnerships across portfolios and levels of government and with civil society, to deliver complex networks of services for very disadvantaged groups; the creation of a separate service delivery agency to deliver the full range of social security benefits from a one-stop shop; contracting out entire services previously provided by government (*e.g.* the public employment service); and selective tendering in areas of high need such as reconnecting homeless young people with their families.

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