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**DIRECTORATE FOR EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS
EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS COMMITTEE**

Meeting of the Employment, Labour and Social Affairs Committee at Ministerial Level

STATEMENT OF THE TRADE UNION ADVISORY COMMITTEE

OECD, Paris, 31st March - 1st April 2005

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TUAC trade union advisory committee to the
OECD organisation for economic cooperation and development
■ CSC commission syndicale consultative auprès de
OCDE l'organisation de coopération et de développement économiques

ACTIVE SOCIAL POLICIES TO EXTEND OPPORTUNITIES FOR ALL

TUAC submission

**To the OECD Social Policy Ministerial Meeting
Paris, 31 March – 1 April**

I. INTRODUCTION AND SUMMARY

Old and new challenges to be addressed by social policy

1. Social protection systems and welfare regimes in OECD countries are facing serious challenges. Populations are ageing due to increasing longevity and lower fertility rates. Family structures are altering; the number of single parent households is increasing. Homes are no longer simply the supposedly private space of unpaid work and informal care. The traditional male breadwinner model as basis for the provision of family income is being undermined by changing gender roles and an increasing female participation in the labour market. Mainly because of migration, our societies are becoming more diverse than ever. Also due to globalisation and technological change, to outsourcing and de-industrialisation, an increasing number of workers are experiencing increasing vulnerability on the labour market, in particular due to the increase in non-standard and precarious work (low paid, part-time or temporary, without benefits and access to training). Earnings inequality has increased significantly over the last decade. Particularly alarming is the fact that family instability and precarious employment have given rise to poverty among children. All of this points to the urgent need for a reinforcement and new agenda for social policy.

2. Public social security and welfare state commitments, based on the principles of social justice and equity are a basis for productivity and economic competitiveness. Welfare states are also required to provide protection against social risks that private insurance cannot adequately cover. Moreover, the welfare state acts as an effective anti-cyclical stabilizer to economic cycles. The welfare state is not a burden, but a productive input for our societies.

3. Welfare regimes that are characterized by universal entitlements based on citizenship, decent replacement rates, a broad supply of social services, active family policy and the promotion of gender equity most often outperform welfare regimes characterized by means tested, targeted and needs based entitlements as well as those predominately based on employment-related social insurance.

4. Attempts at reforms that have sacrificed egalitarian goals for the sake of budgetary restraint or fiscal sustainability have failed to combat inequality and poverty. Different combinations of policies can be summarized in different ways. It is particularly striking that the most redistributive welfare regimes, the regimes of the Nordic countries, have the highest tax burden but do substantially better in terms of employment, growth and poverty reduction than the low tax countries. Contrary to some views, the relations between distributive results, employment performance and levels of tax spending appear to be rather weak.

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Elements of a reinforced agenda for social policy

5. Important elements of a reinforced agenda for social policy can briefly be summarised as follows:

- Activation policies will only work if quality jobs are available. New links between employment and social policies must be established. The creation of jobs, growth that is socially and environmentally sustainable, leading to a high-wage, high-skill society, is a prerequisite for activation policies. Thus, it is still essential in many OECD countries to provide fair minimum standards for workers in the context of decent work. (§ 9 – 10)
- **Minimum wages must provide income beyond the poverty threshold.** In order to combat poverty, it is critical that public policies improve income security. The goal should be to lift every working family out of poverty; no family with a full-time worker, no single parent in employment should be left in poverty. (§ 9)
- With regard to the need to overcome labour market segregation and to increase employment rates of older workers and women, **particular attention must be given to the quality and security of jobs.** Job security is of crucial importance for the continuity of female employment. (§ 11 – 12)
- **The fight to abolish child poverty and to overcome inherited social disadvantage cannot be based exclusively on benefits.** It must be linked to the promotion of employment, job security and decent wages as well as to improvements in education, particularly in teaching and learning. (§ 8 – 9)
- **More and better training opportunities must be made available** for those workers who are most likely to become marginalized, such as holders of part time jobs or temporary employees, those in low-skill jobs or older workers. (§ 11)
- Providing a better work-life balance, focusing not only on mothers but on parents is a prerequisite for increasing job satisfaction, productivity and employment. Labour market and social policies must provide the appropriate legal framework for a better work-life balance as well as a broad range of services related to child care. Private provision of childcare services works only for high-skilled and high-paid full time workers, it excludes part time employees and the low paid. Thus, trade unions have a key role in improving the basic provisions for a better work life balance and parental leave. (§ 13 – 16)
- **Pension systems should not only be financially sustainable, but adequate as well.** Thus, social policy must reduce the risks of poverty and social exclusion among the elderly as well as among age cohorts who will turn grey in the future. This requires revisiting recent pension reforms to ensure an appropriate balance between contributions and benefits by taking into account the impact on future pension benefit entitlements of career breaks related to unemployment, maternity and paternity leave, child rearing, training and precarious work. (§ 17 –21)
- **Increasing the effective age of retirement is not sufficient – the focus must go beyond the supply side of the labour market.** Raising the statutory retirement age is neither the only nor the most desirable route for increasing the participation rates of older workers. A rise in statutory age alone does not necessarily bring about a rising effective retirement age. Trade unions support efforts to develop a smooth path for a flexible transition from work to retirement in order to

contribute to active ageing. However, a voluntary decision by employees to agree to the extension of working life must be considered a prerequisite of such an approach. (§ 22 – 24)

- **Solidarity between generations at all levels is fundamental for an inclusive society.** The argument to ensure intergenerational fairness and to prevent future generations from carrying an unfair burden is all too often misused to legitimate spending cuts at the expenses of the elderly. The unfounded pessimism about the future of pay-as-you-go systems, heralding privately funded systems as well as complacency on the question whether current and future incomes of the elderly are adequate, must be replaced by a serious debate on how to cope with the challenges of population ageing. (§ 25 – 28)
- Privatizing the provision of social protection is not an option to produce substantial cost savings or strengthen social cohesion and social justice. The scope for introducing more private finance of social protection is rather limited. A more promising approach is to focus on prevention. It is here, where the key actors of industrial relations, trade unions and employers, can contribute to limit social spending by reducing health risks at the workplace, by improving working conditions and strengthening occupational health systems. (§ 29 – 30)
- **Welfare reform is possible** as indicated by the striking number of reforms enacted in recent years. However, there is no ‘one-best-way’ of reforming the world of social protection. Nevertheless, there are at least two prerequisites decisive for the success of policies dealing with the modernisation of social protection –involvement of all stakeholders and a public discourse. (§ 31)

II. CHALLENGES OF ACTIVATION POLICIES

Welfare reform and activation policies: From hammocks to trampolines

6. A review of recent history of reforming social protection systems reveals that the results are not very encouraging. Social policy reforms failed to deliver. They were above all driven by a strong desire to cut back social expenditure and to redesign spending patterns. At the same time there was a growing trend towards fostering employment through supply-side oriented adjustments. The policies applied restricted eligibility for benefits, reduced the benefit level and used also targeted benefits instead of universal benefits. They also changed the function of social protection: Instead of protecting individuals against risk, the aim was to change their behaviour by encouraging work. As a consequence, the previous division of responsibilities between government, households, society and the market changed. Public welfare provision was replaced by increased individual responsibility; i.e. some of the traditional elements of social protection became privatized.

Poverty is highest where spending is lowest

7. There is no compelling evidence supportive to policies following a “more of the same” approach and focusing simply on labour market activation and welfare state retrenchment. This applies above all to the need to combat poverty. For a larger number of OECD countries available evidence suggests that poverty rates have increased over recent decades. It has been reported that by 2000 around 11 per cent of the OECD population fell below the median threshold of poverty. In Germany for instance social inequality is a reality and in some areas has increased over the past few years. The proportion of Germany’s 29 million households afflicted by poverty - based on the European Union (EU) standard - rose

from 12.1 percent in 1998 to 13.5 percent today.¹ At the other end of the scale, the assets of private households grew 17 percent during the period to reach €5 trillion, a government report stated. This is an average of €133,000 per household. But the wealth is unevenly distributed. The richest 10 percent own nearly 47 percent of the entire amount, and the bottom 50 percent less than 4 percent, it said.

8. A report released by UNICEF found also that the number of children in Germany living in poverty has risen by 2.7 percentage points since 1990 to reach 10.2 percent. It also stated that the situation of children has deteriorated over the last decade in countries with strong growth like the US where about 22% of those aged under 18 are still living in relative poverty. Similarly, the UK still has 15% of its child population below the poverty line despite government campaigns which have led to a 10% drop.² Nevertheless, policies of welfare retrenchment and cuts of social spending have undermined the fight against poverty. Internationally, there is striking evidence indicating that poverty is highest where spending is lowest.

9. The promotion of low-paid, low-skilled entry-level jobs, based on low wages and employment subsidies, has created new problems. In a number of cases employment subsidies allowed employers to lower wages instead of creating new jobs. And many workers were locked into persistent low-wage, low-skill employment. For them a former 'inactivity trap' has become a 'low-skill trap'. Statistics suggest that activation policies have contributed to building poverty into the very fabric of labor markets in many OECD countries. Thus, the need to provide fair minimum standards for workers in the context of decent work still prevails in many OECD countries. In such a social and economic environment, there is a critical role for public policy designed to boost wages and to improve income security. Raising minimum wages and the provision of financial incentives to work can interact. Moreover, the fight to abolish child poverty and to overcome inherited social disadvantage cannot be based exclusively on benefits. It must also be linked to the promotion of employment, job security and decent wages as well as to improvements in education, particularly in teaching and learning.

Activation policies only work if quality jobs are available

10. Unemployment is a major cause of poverty. Poverty rates of jobless households are on average up to 5 times higher than in those where household members hold jobs. Labour market insecurity and instable employment, in particular for both the low skilled and lone parents, also contributed to an increase of poverty. They are also one of the major target groups of 'welfare to work' policies. The lesson to be drawn from recent labour market experience is a simple and compelling one: Reducing the number of people receiving benefit is not enough. For activation policies to work, jobs must be available. Thus, without sufficient demand for labour, stick and carrot approaches will not help the unemployed or welfare recipients find work.

11. In order to promote employment and to increase labour market participation of women and older workers, in order to improve working life and to fight social exclusion, particular attention must be given to the issue of job quality. Thus, social policy must be linked to labour market and employment policies addressing the poor quality of many existing jobs, promoting the re-design of work systems and offering new and extended opportunities for learning, the acquisition of new skills and participation in work-related decision making. Low quality jobs are associated with low job satisfaction, stress and health problems, therefore governments must in particular:

¹ The EU regards households as poor when they receive less than 60 percent of the average net income. Government subsidies are included in this figure.

² UNICEF (ed): Child Poverty in Rich Countries 2005, Florence 2005

- Design and implement policies promoting the improvement of job quality and working life;
- Encourage and support labour market institutions to put the quality of jobs and working life high on their agenda and to pursue appropriate policies; and
- Promote lifelong learning by strengthening training opportunities and the right to go on training leave, based on portable entitlements.

Providing a better work-life balance must not focus exclusively on mothers but on parents

12. In some cases, however, even the availability of jobs may not be sufficient for a transition into paid work. For instance, some lone parents might face high costs of child care that their income barely covers. Hence, access to safe and affordable child care is critical for lone parents. The same applies to improved opportunities to reconcile work and family life. While both are necessary, they are not sufficient. Mothers as well as fathers also need jobs providing both security and quality.

13. It is anything but surprising that among workers as well as among employers there has been growing interest in arrangements providing a better work-life-balance. This applies to both flexible working time arrangements and to parental leave. They allow workers to take pre-arranged time off to care for their children. Time off for dependants covers also unforeseen emergencies involving someone dependent on the employee, such as illness or injury, breakdown of care arrangements or an incident at school.

14. Research conducted recently in the UK revealed that family-friendly policies are being increasingly implemented.³ The research revealed that supportive arrangements were more likely to be found:

- In large organisations;
- Where there are recognised unions;
- Where there are resources of HR and good performance;
- Where there is high employee involvement in decision-making;
- In workforces with larger proportions of women;
- Where there is a highly educated workforce which has extensive discretion in organising its work.

15. The study also found that in general family-friendly policies were associated with improvements in productivity and performance. However, the existence of flexible working practices in a firm is not necessarily an indication of its family-friendliness or a successful work-life balance. The benefits of that flexibility may accrue more to the employer than the employee. Thus, the need to provide for a fair distribution of benefits is a prerequisite regarding the implementation of successful work-life balance approaches. They must include a broad range of approaches, such as:

- Paid parental leave

³ DEX, Shirley /SMITH, Colin: The nature and pattern of family-friendly employment policies in Britain, Bristol: Policy Press, 2002

- Paid paternity leave
- Paid time off for emergencies
- Working at or from home during normal working hours
- Ability to change from full to part-time hours
- Workplace or other nursery provision
- Help with child-care costs
- Flexible work time arrangements.

16. Successful work-life balance approaches show the importance of labour market and social policies. They must provide the appropriate legal framework for a better work-life balance as well as a broad range of services related to child care. Neither gender balanced policies by themselves nor employer-provided and privately subsidized childcare are a panacea to ensure an appropriate work life balance. Experience indicates that private provision of childcare services works only for high-skilled and high-paid full time workers whereas it excludes part time employees and the low paid. Trade unions have a key role in improving the basic provisions for a better work life balance and parental leave. As workers' representatives they are best placed to contribute to the provision of tailor-made arrangements based on economic and social needs, ensuring not simply a women-friendly but rather a parent-friendly approach and promoting inclusion. The right to reconcile work and private life and parental leave must be given to all. This should include also temporary, casual and contract workers.

III. ENSURING SECURITY IN OLD AGE

Pension systems must be financially sustainable as well as adequate

17. In order to cope with the challenges of ageing, social policy must give particular attention to reducing the risks of poverty and social exclusion among the elderly as well as among age cohorts turning 'grey' in future. This means reviewing recent pension reforms and ensuring an appropriate balance between contributions and benefits by taking into account career breaks related to unemployment, maternity and paternity leave, child rearing, training and precarious work.

18. The trade union movement clearly anticipates substantial demographic change with important implications that stretch in many directions. But we remain firmly of the view that when account is taken of workers' preferences for retirement and likely rates of economic growth in the future, most societies will be able to provide very robust pay-as-you-go publicly administered pensions payable at age 65 with wage indexing. We believe that the maintenance of these systems is crucial if large portions of the workforce are to have any real choice about whether to work or retire.

19. However, the policy process has partly lost sight of the fact that older people are "an asset to society", as the G8 Turin Charter "Towards Active Ageing" put it. There is still a gap between the rhetoric on ageing and policies designed to enhance the health, social inclusion and social security of older citizens. Concerns regarding long-term demographic trends have neither caused a reconsideration of conventional three-stage life cycle approaches comprising education, employment and retirement nor have they given rise to more integrated approaches based on active partnerships between governments and public authorities, trade unions and employers.

20. Much of the debate about the future of pay-as-you-go publicly administered pensions starts from the fact that the required contributions to these plans will increase in the future in response to population ageing. Often, this fact is seen as inherently unacceptable, especially in an era when many prominent politicians have committed themselves to lowering taxes. But, no matter how pensions are administered or financed, if the incomes of pensioners relative to society as a whole are to be maintained, their share of national income has to go up in line with the rise in the proportion of the population who are pensioners. This fact does not change with changing financing regimes. If in the past, the attitude had prevailed that the share of income going to pensions could not be increased, we would not have accomplished what we have in reducing old-age poverty in OECD countries.

21. We are of the view that in most countries decent pension arrangements are sustainable. In addition, we note that a large number of countries are not taking advantage of the available labour force. General rates of unemployment remain unacceptably high and particular parts of the labour force (women, immigrants, persons with disabilities, laid off older workers) remain chronically under-employed.

Increasing the effective age of retirement is not sufficient – the focus must go beyond the supply side of the labour market

22. Raising the statutory retirement age is neither the only nor the most desirable route for increasing the participation rates of older workers. A rise in statutory age alone does not necessarily bring about a rising effective retirement age. In order to reverse the trend towards involuntary earlier retirement, it is of the utmost importance to remove the pressures coming from high unemployment, corporate restructuring and low demand for labour by promoting more employment orientated economic policies. It is also important to tackle the rise in an end-of-career precariousness faced by an increasing number of older workers, in particular by workers lacking skills and by women.

23. It is desirable to facilitate a smooth transition from work to retirement. The implied flexible retirement aims at retaining older workers within the active population by decreasing their working time and, at the same time, granting income support. Such arrangements can help to mitigate the social exclusion of older workers and are a way to keep valuable competence and skills within firms and to transfer know-how to younger employees; the burden on pension systems may also be reduced, insofar as people are able to work longer than they would do otherwise. Also adjustment of the demands of work to health problems that might be associated with age may be smoother, enabling older people to stay longer in work than might otherwise be the case.

24. Trade unions support efforts to develop a smooth path for a flexible transition from work to retirement in order to contribute to active ageing. However, a voluntary decision by employees to agree to the extension of working life must be considered as a prerequisite of such an approach.

Intergenerational solidarity: Reducing spending at the expense of the elderly?

25. The requirement of ensuring intergenerational solidarity is increasingly being used to support the calls for far reaching changes of pension scheme. Current discussions about future relationships between generations take an apocalyptic view of population ageing with a strong emphasis on the dependencies of old age and the elderly as recipients. Thus, intergenerational solidarity is perceived as a funding-spending relationship. In reality, however, intergenerational relationships, as well as the ‘contract between generations’, are governed by a broad set of rules, norms, conventions and practices. Hence our societies have hardly the same starting point regarding the perception of what constitutes intergenerational solidarity and relationships between members of different age cohorts.

26. In several national contexts the problems of age-related spending including the provision of pension schemes have been greatly exaggerated. A case in point is the current proposal presented by the administration to reform social security in the US. If productivity continues to grow as in recent years and if the US economy can grow at its potential, the alleged funding problem will greatly diminish. Thus, it is reasonable too to assume that we can cope with the challenge of financing social security without dismantling the welfare edifice and abandoning social justice. It must also be emphasized that the problem of achieving intergenerational fairness in pension policy is not to be resolved by replacing PAYG pension schemes with fully funded pension systems.

27. While increased claims of the elderly on national income (and government budgets) are likely to go up, this does not mean that active workers need face declining living standards. Economic growth has led to OECD countries becoming richer; the key issue is how wealth is distributed. Even in countries such as Korea that face very rapid ageing trajectories, real wage increases of only one half of one per cent per year will be sufficient to allow the earnings of active workers net of pension contributions to keep increasing while the share of income going to pension contributions increases. With falling labour force growth in OECD countries, productivity growth will have to become a larger component of economic growth.

28. Last but not least, any serious debate on how to ensure intergenerational solidarity must take into account the fact that the elderly in most OECD countries transfer substantial financial resources to their descendents, even under unfavorable economic conditions. Such transfers interact with and complement social protection offered by the welfare edifice. In doing so they are functioning in a way as an informal insurance, maintaining and strengthening social bonds in the face of new risks and challenges. Finally, it must be born in mind that future generations will owe some of their wealth to investments made by the current generation and its predecessors.

IV. MODERNISATION OF SOCIAL PROTECTION INSTEAD OF PRIVATISATION

Anything but promising: the privatization the provision of social protection

29. Privatizing the provision of social protection is not an option to strengthen social cohesion and social justice. Evidence suggests that privatization does not increase the efficiency of markets through liberalization. By the same token it must be said that private delivery of social protection cannot be expected to produce substantial cost savings. Moreover, competition between different for-profit providers does neither ensure a more sufficient supply nor does private delivery of social protection promote choice on the side of consumers. On the contrary, privatization causes selective effects and segregation. Most often private provision of social services benefits in particular higher income families, but not the low skilled and low paid. In this regard it must also be emphasized that the scope for introducing more private finance of social protection is rather limited. This applies in particular to working families. Their contributions to pension schemes, health insurance and education have been increased in recent years whereas their wages and salaries have been stagnant.

30. Policies to rely more on not-for-profit, community or faith-based organisations (NGOs) have not turned out to be a success story. The success achieved by these organizations has been predominately local and small-scale. Therefore, governments must remain the main provider of social protection. However, there is also a role for other actors, like trade unions and employers. This applies in particular to the need to focus on prevention. It is here, where the key actors of industrial relations, trade unions and employers, can contribute to limit social spending by reducing health risks at the workplace, by improving working conditions and strengthening occupational health systems.

Modernising social protection systems is possible

31. Experience related to a striking number of reforms enacted in recent years reveals that there is no 'one-best-way' of reforming the world of social protection. Nevertheless, based on comparative studies of recent reform experiences, at least a set of prerequisites decisive for the success of policies dealing with the modernisation of social protection can be identified.⁴ Among the decisive factors are a public discourse and involvement of all stakeholders, negotiations and a search for consensus on the diagnosis, principles and objectives of social policy reform. Moreover, it is important to build a platform for political trade-offs among the key actors involved, to develop a joint public and broadly shared rationale for envisaged reform. And last but not least it is important to put in place a comprehensive strategy regarding the major areas of intervention and instead of cutting benefits to transform benefits instead of cutting them and pushing individuals. Benefits must offer people real options for making strategic choices. The outcome has to be social and economic betterment, not just cutting welfare benefits.

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⁴ Pallier, B.: Social protection reforms in Europe: Strategies for a new social model, Ottawa 2004, CPRN Social Architecture Papers, Research report F37, p. 13