
Ageing

Pension reform and long-term care

DELSA Newsletter Issue 1

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The Directorate for Employment, Labour and Social Affairs (DELSA) at the OECD works on labour markets, social policy, international migration and health. **John Martin** and **Martine Durand**, the Director and Deputy Director, introduce this inaugural issue of the Directorate's newsletter.

Welcome to the first issue of the DELSA newsletter. DELSA aims to help OECD countries design policies that ensure that individuals realise their potential and contribute fully to society.

The first issue of the newsletter looks at one of the greatest challenges faced by OECD countries: population ageing. This challenge, and the question of the required policy response, cuts across the Directorate's entire work programme. The OECD has actively researched the economic and social impact of ageing over the past decade and, as this newsletter shows, it remains an exciting area for cross-country analysis.

The most obvious impact of ageing is on retirement-income systems. DELSA's work on pension systems and pension reform is covered in the first few articles. A comprehensive report on the pension systems of OECD countries – *Pensions at a Glance* – was published earlier this year. DELSA Directors chose to invest in a comprehensive communications strategy to ensure that the report got the impact it deserved. The report has been presented in France, Germany, Japan, the United Kingdom and the United States. Read more about the launch of *Pensions at a Glance* on page 2. We

also provide some pointers to upcoming work on pension reform within DELSA (see page 6).

Another policy area where ageing has a profound impact is on health care systems. A recent DELSA report on provision of high-quality, affordable long-term care for older people is described on page 7.

Page 9 gives a preview of the upcoming high-level policy forum on ageing and employment policies in October. The forum will discuss the synthesis report on older workers, which builds on the 21 country studies (the latest three of which are described on page 10). The next issue of the newsletter will highlight the main lessons from this major OECD cross-country project.

We hope that you agree with us that the newsletter is an exciting, accessible and useful introduction to DELSA's work. We would welcome your feedback.

John Martin, Director
Martine Durand, Deputy Director
Employment, Labour and Social Affairs
OECD

OECD Pensions at a Glance

‘Luxembourg is the place to retire’ was how the *Financial Times* reported the launch of *Pensions at a Glance* in its European edition (2 May). The *FT* also put the story on the front page of its UK and US editions. Economics editor, Chris Giles, called the report ‘an authoritative study’.

Pensions at a Glance was launched on 2 May at the OECD Forum, the annual event immediately before the meeting of the Council at Ministerial level, which includes participants from the private sector and non-governmental organisations (NGOs). The publication was reported widely throughout member countries. For example, it was covered by six newspapers in both Spain and the United Kingdom and by four in France. Monika Queisser and Edward Whitehouse, the main co-authors of the report, were interviewed by the BBC (both UK and World Service) and CBS of the United States.

Following the successful press launch, the co-authors began a ‘road-show’ to promote the report to a wider audience. In the United States, they discussed the report with a group of 50 Congressional staffers, administration officials and NGOs in June. Discussants were Joseph Antos of the American Enterprise Institute and Laurel Beedon of AARP (known as the American Association of Retired Persons until 1999).

Key results were also presented at a seminar at the Brookings Institution in Washington, D.C. Professor Henry J. Aaron of Brookings has written: ‘The massive OECD report, *Pensions at a Glance*, deserves much more than a glance. It is a compendium of facts and analyses that should inform policy-making and public debate around the world for years to come. By providing, in clear and easy-to-understand form, a wealth of information about pension systems throughout the OECD, it will make it much harder for even the most insular to ignore the valuable lessons to be learned from the pension experience of other nations.’

The authors also gave a seminar at the World Bank. Robert Holzmann, Director of Social Protection at the Bank, has written about *Pensions at a Glance*: ‘This book provides a clear benchmark

for comparing pension systems between countries. It will be invaluable for people designing pension reforms.’

Finally, Edward Whitehouse gave Congressional testimony on international experiences of pension reform (see page 5).

In Paris, Monika Queisser presented core results at a colloquium at the University of Paris – Dauphine in June. The meeting was entitled *Les Retraites: Agir ou Subir?* (Pensions: time to act).

In London, Edward Whitehouse presented the results to an audience of financial journalists and people from the financial services industry at the Centre for the Study of Financial Innovation. Andrew Hilton, Director of CSFI, said: ‘This round-table was much more interesting than I was anticipating. In fact, the data you came up with were dynamite’.

The Research Institute for Policies on Pension and Ageing in Japan organised a forum for 300 people in Tokyo in September. Edward Whitehouse compared the Japanese pension system with other OECD countries. Robert Holzmann presented the Bank’s view on pension reform, as set out in the report *Old-Age Income Support in the 21st Century*. The OECD analysis was also presented to the Ministry of Health and Welfare and at the Nihon University Population Research Institute.

A German translation of the report, to be called *Renten auf einen Blick*, will be launched in Berlin in October. Preliminary results were also presented at a joint meeting between the OECD and the German Federal Ministry of Health and Social Welfare (BMGS) in Berlin in December 2004.

Key results

Pensions at a Glance is the first comprehensive book of its kind. It compares key features of pension

systems of OECD countries, covering retirement ages, benefit accrual rates, ceilings, and indexation. Future pension entitlements are shown for full-career workers at different earnings levels. Indicators measure progressivity in pension systems, the cost of countries' pension promises and the potential resource transfer to older people. Thirty country chapters explain pension systems and replacement rates in detail.

The replacement rates – the projected pension entitlement as a percentage of individual earnings – were the most widely reported results in the press. The origins of the *FT* headline are clear from the chart on this page: the net replacement rate for an average earner in Luxembourg is projected to be well over 100%. But the headline is a little bit misleading: one has to have worked and contributed in Luxembourg to get the pension benefit. At the other end of the spectrum is Ireland, with a net replacement rate of 37%. Not surprisingly, three of the Irish papers reported the reports' launch, which was also covered widely in the professional, financial press in that country.

Policy implications

The repercussions of the *Pensions at a Glance* results for public policy in OECD countries were explored in a separate policy brief, *Solving the Pensions Puzzle*.

Workers on average earnings in OECD countries can expect their post-tax pension to be worth just under 70% of their earnings after tax. High-income workers at twice average earnings will receive less than 60%. Even the countries with the lowest earnings-related payments (the United Kingdom and the United States) pay a net replacement rate of around 50% at average earnings.

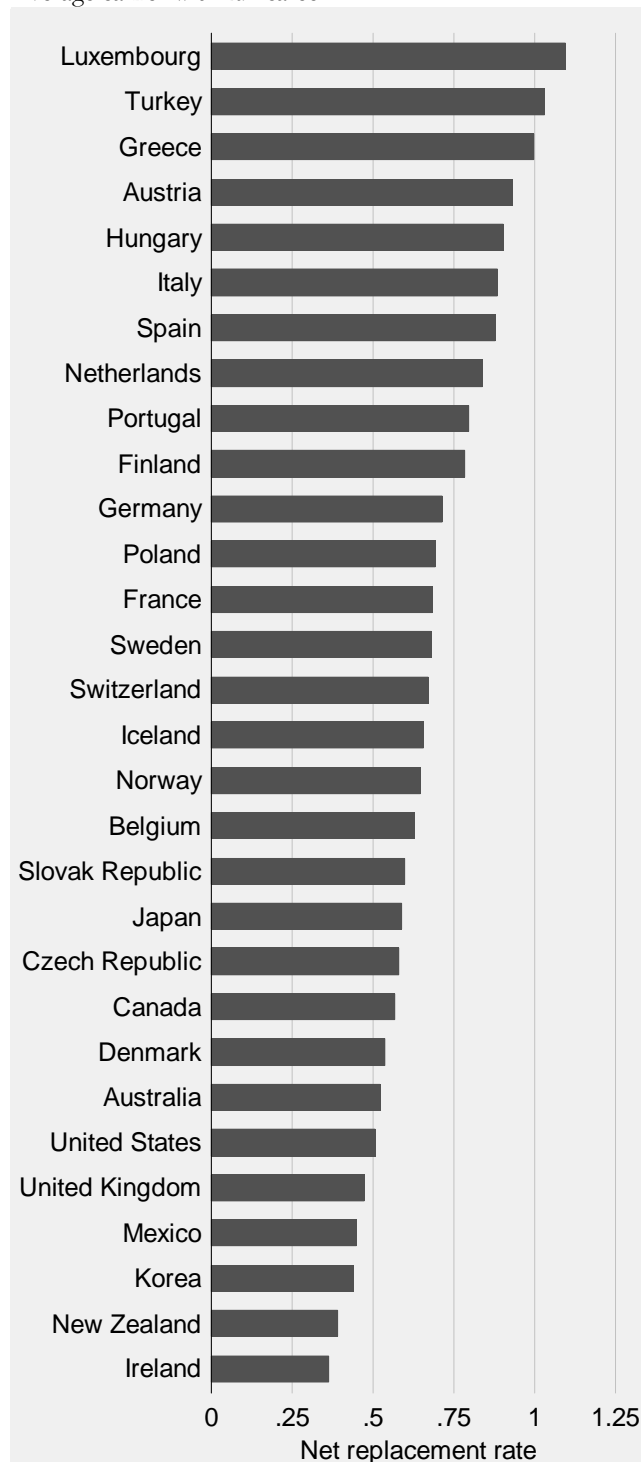
If, as seems likely, this level of payment represents the lower limit of politically acceptable replacement rates through mandatory pension systems, it does not leave much scope for further cuts in pension entitlements beyond the reforms that are already in place in the 'average' OECD country. *The Economist* (26 March) concluded: 'The report suggests that many countries will find it

difficult to control the costs of population ageing by making mandatory pensions less generous'.

Pension promises

Projected net pension, proportion of net earnings, mandatory pension schemes

Average earner with full career



Source: OECD, *Pensions at a Glance*, 2005

Ongoing work

The results published in *Pensions at a Glance* were based on parameters for 2002 along with future changes to parameters and rules of the system that had already been legislated. We are currently working, with national governments, on updating the results to 2004 parameters and rules. The next issue of the report will also contain two substantial extensions of the analysis.

First, it will look at how pension reforms over the past 15 years have affected prospective pension entitlements. Comparing projected pensions before and after reforms, the analysis will show the impact on the future retirement incomes of workers with different levels of earnings.

Secondly, it will investigate how pensions change when people leave the labour market at different ages. This will give, perhaps, a more 'realistic' picture of future pension entitlements, since the current results assume that workers contribute each year from age 20 until normal pension age. It will also allow an assessment of the retirement incentives embedded in retirement-income systems.

These results will shortly be sent to national capitals for validation. The draft report should be ready in the spring of 2006 for publication in the summer. These updates and extensions are being carried out in partnership with the Directorates General EMPL and ECFIN of the European Commission. This is a good example of the close co-operation with other international organisations that we are trying to achieve across the DELSA work programme.

Later in 2006, the analysis will also be extended to look at how extended periods out of the labour market affect pension entitlements. In particular, the models will include the often-complex rules for periods out of paid work looking after children. We will also consider how long-term

unemployment late in the working life affects pension entitlements. It is intended that the core results will be updated every two years.



Follow-up

Pensions at a Glance: Public Policies across OECD Countries, OECD, 202 pp., May 2005

Solving the Pensions Puzzle, Policy Brief, OECD, 8 pp., March 2005

Internet:

www.oecd.org/els/social/ageing/PAG

The web site also includes updated results for Finland and Korea

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Congressional testimony

Pension reform is a contentious issue in the United States, as it is around the world. Edward Whitehouse testified to the Ways and Means Committee of the House of Representatives with officials from the Government Accountability Office (GAO) and researchers from think tanks.

The sixth hearing of the Sub-Committee on Social Security Reform, on 16 June, investigated international experience of pension reform. The GAO presented the preliminary results of its analysis of other countries' reforms, to which DELSA had already provided substantial input. Other panellists talked about the experiences of specific countries, including Australia, Chile, Sweden and the United Kingdom.

The written (and brief oral) testimony put the United States pension system in an international context. Drawing on work from across the OECD Secretariat, it showed (i) pension promises in the United States against those in other countries (from *Pensions at a Glance*); (ii) how the projected financial situation of social security compares with public pensions in other OECD countries; and (iii) how today's pensioners incomes compare with incomes of the whole population in the United States and in other economies.

Jim McCrery (R – Louisiana), the Sub-Committee Chairman told Edward Whitehouse: 'I appreciated your discussion of various countries' experiences with individual accounts, and I agree that there are valuable lessons to be learned. ...We will keep your findings in mind.'

The written testimony looked in detail at the experience of 25 countries that have introduced some kind of mandatory, defined-contribution pension, known as 'individual' or 'personal' accounts in the United States. It examined two key issues.

First, an important but often overlooked feature of fundamental pension reform: Are the new defined-contribution accounts mandatory or voluntary? Which age groups are covered? If there is a choice, what are the terms of trade

between remaining only in the public pension program and switching to a mixed public/private pension? (These questions are currently the subject of a detailed study by DELSA: see page 6.)

Secondly, the issue of administrative charges for defined-contribution pensions. How large are these fees in different countries? What policies can help keep charges low? The testimony concluded that governments should, at the very least, ensure clear and transparent disclosure of charges so that people can compare different companies' fees. A program of financial education that spells out the large impact charges have on pension values would also be useful.

The testimony also made the case for regulation of the structure of charges, which can significantly ease comparisons between providers. However, imposing a ceiling on charge levels has the risk that limits are set at the wrong level, discouraging entry to the pensions market and reducing competition.

Follow-up

The written testimony is available from:

www.oecd.org/us

Transcripts of the oral testimony are on:

www.house.gov/waysandmeans

Further reading:

Whitehouse, E.R. (2001), 'Administrative charges for funded pensions: comparison and assessment of 13 countries', in OECD, *Private Pension Systems: Administrative Costs and Reforms*, Private Pensions Series, Paris.

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Pension modernisation

Social Policy Ministers, meeting at the OECD in April 2005, mandated the Secretariat to investigate policy issues in modernising pension systems. Along with the ongoing monitoring of policies in the framework of *Pensions at a Glance*, there are three projects in the pipeline.

The first project is looking at the design of pension reforms that have introduced mandatory defined-contribution pension accounts. How does the structure of the new pension package vary between countries? What role will the new accounts play in providing retirement incomes in the future compared with the public scheme? Were people offered a choice between switching to the individual accounts and remaining only in the public scheme? What was the incentive to switch? How did people respond to those incentives?

Monika Queisser and Edward Whitehouse have presented preliminary results of this study to officials at the United States Treasury and to Vice President Cheney's advisor on domestic policy. It also formed an important part of the Congressional testimony (page 5). A paper will be presented to the meeting of the OECD's Working Party on Social Policy in November.

Actuarial issues

A second paper for the Social Policy Working Party meeting will look at actuarial issues in pensions. Governments, policy advisors and pension experts have loosely used terms such as 'actuarially fair' and 'actuarially neutral' to describe characteristics that they believe reformed systems should have.

This paper will define terms formally, assess the desirability of different actuarial concepts and how

different kinds of pension system measure up against these benchmarks.

Derived pensions

The final paper looks at what are often called 'derived' pension rights, since they derive from pensions earned by the other spouse. These include survivors' benefits, paid to widows and widowers, which can often distinguish between benefits for people who die when in work from those who die in retirement. Secondly, the analysis also covers spousal benefits, which have attracted some attention in the United States debate on social security reform. Finally, it will also investigate how, if at all, pensions can be divided on divorce in OECD countries. Since divorce is much more prevalent in the generations approaching retirement than it has been in the past, there is a risk that divorcees, women in particular, might have low retirement incomes and be at risk of poverty.

Follow-up

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Long-term care for older people

Can people be sure of receiving quality long-term care at a price they can afford? Population ageing will put pressure on long-term care systems. How can governments respond to this growing demand? A new OECD report assesses policy in 19 countries.

Long-term care is a cross-cutting policy issue. It brings together a range of services for people who need help with basic, daily activities. This study reports on the latest trends in long-term care policies in nineteen OECD countries: Australia, Austria, Canada, Germany, Hungary, Ireland, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Mexico, Poland, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Concise country profiles of long-term care systems and an overview on demography and living situations of older persons make this complex policy field more accessible.

What has been done to improve access to long-term care, to improve the quality of services and to make care as affordable as possible? Are there examples of successful strategies to improve the mix of services and policies to enable a larger number of older persons to stay in their homes? And has this helped contain the costs of caring for the elderly?

The report studies lessons learned from countries that undertook major reforms over the past decade. Trends in expenditure, financing and the number of care recipients are analysed based on new data on cross-country differences.

The chart shows huge differences between countries in total spending on long-term care – varying from 0.6% of GDP in Spain to nearly 3% in Sweden in 2000. There is also variation in the role of public and private spending, with over 90% of spending in Japan, the Netherlands and Sweden coming from the public sector, compared with just 25% in Spain.

The report pays special attention to experience with programmes that provide consumers of services with a choice of care options, including cash to family caregivers.

No place like home?

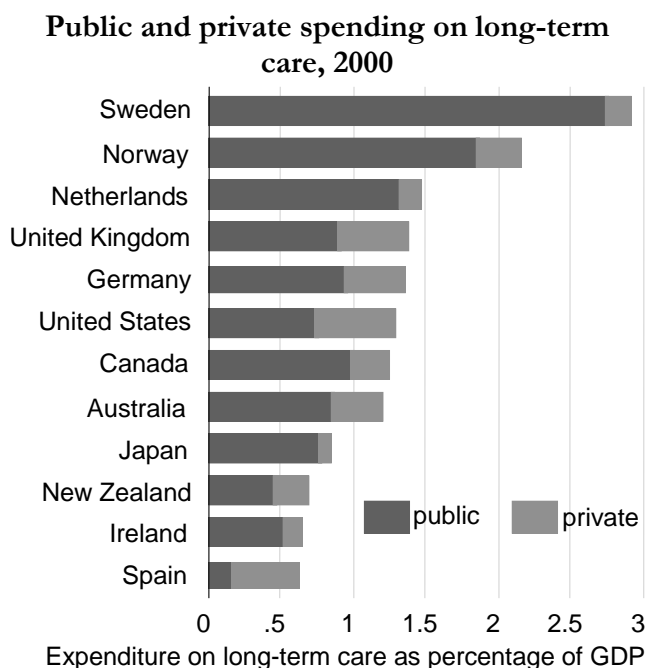
Providing the support so that older people can stay at home as long as possible greatly improves living standards. It is what most people want.

A broad range of support services is needed to achieve this. Useful policies include respite care, so informal careers can have some time off, and professional guidance given to families.

The rebalancing of resources to home care is apparent in the chart below. Home care now accounts for around 30% of total long-term care spending. But this proportion is strikingly low in Canada, New Zealand and Switzerland.

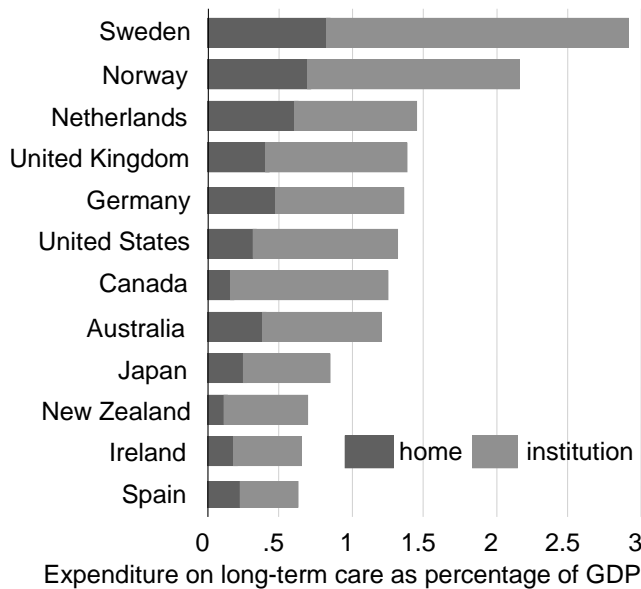
Sustainable long-term care

The report concludes that there are big differences between countries in the resources devoted to long-term care. But even in those with the most comprehensive provision, long-term care is still only 10-20% of total spending on health and



long-term care together. There is no evidence that expenditure on long-term care has grown any faster than acute health care expenditure. By sharing the cost with individuals and families, spending has, in the past, been contained. Informal care provision by families has also helped.

Long-term care in the home and institutions, 2000



Policy conclusions

Universal systems with population-wide access to long-term care, based solely on need, can prevent catastrophically high personal costs of care. But these systems require expensive contributions and extend benefits to people who could afford their own care costs.

Strategies to control future costs need to encourage private cost-sharing, confining publicly provided benefits to people with low means and withdrawing or limiting support for people with only mild disabilities. Finally, public health policies face the great challenge of trying to prevent or delay the onset of disability in old age.

The OECD Health Project

Long-term Care for Older People



Follow-up

The OECD Health Project: Long-Term Care for Older People, OECD, 140 pp., March, 2005

Ensuring Quality Long-Term Care for Older People, Policy Brief, 8 pp., August 2005

Consumer Direction and Choice in Long-Term Care for Older Persons, Including Payments for Informal Care: How Can it Help Improve Care Outcomes, Employment and Fiscal Sustainability? by Jens Lundsgaard, Health Working Paper no. 20, 50 pp., OECD, May 2005

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Preview: ageing and employment policies

With the publication of reports on Austria, the Netherlands and Australia over the summer, there are now 16 studies in the *Ageing and Employment* series. Studies of Canada and Germany will be published soon. Ministers will take stock of the conclusions at a Forum in October.

One of the most striking paradoxes of today's societies is that people have tended to retire earlier even though they live longer. This is unsustainable, from both an economic and a social viewpoint. Expanding the range and quality of labour-market opportunities is an important challenge faced by all OECD governments.

Meeting this challenge will require many countries to embark on major reform of public (and sometime private) pension systems, employment regulations and company practices. In particular, reform must address the way pension systems and other welfare benefits encourage early retirement and penalise work at an older age.

But these supply-side strategies will not be sufficient. Employers, unions and the government must also look beyond stereotypes and modernise work practices so that older workers can stay in the labour market. This means equipping older workers with the skills that they need to make a valuable contribution and to ensure that they are not discriminated against. It also means giving older job seekers more help to find jobs.

While the reform programme needs to be tailored to individual countries' specific challenges and opportunities, there are valuable lessons to be learned from the 21 countries included in the *Ageing and Employment* study.

A high-level policy forum will be held in Brussels on 17-18 October to assess the lessons learned from the detailed country studies of ageing and employment policies. The forum will see the launch of the review's synthesis report.

The forum, to be opened by Freya Van den Bossche, the Belgian Minister of Employment, and Berglind Ásgeirsdóttir, Deputy Secretary-General of the OECD, will discuss a number of issues.

Pierre Pestieau (of the Research Center on Public and Population Economics in Belgium) and Peter Auer of the ILO will examine policies that promote flexible retirement pathways while also extending working life.

"Why are employers reluctant to higher older workers?" is the question that Juan Francisco Jimeno of the Bank of Spain will address.

Markku Lehto of the Finnish Ministry of Social Affairs will investigate the employability of older workers and ways to improve it.

This first day of the meeting will be an open forum, including employers' organizations, trade unions, academics and civil society. The second day of the forum will be a high-level meeting of the OECD's Employment, Labour and Social Affairs committee. See dedicated website: www.oecd.org/olderworkersforum

Follow-up

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Recent and forthcoming publications

Employment Outlook 2005

Efficient policies to encourage employment and combat unemployment are essential if countries are to reap the full benefits of globalisation and avoid a backlash against open trade.

The 2005 edition of *Employment Outlook* urges governments (i) to ensure work is more rewarding financially than living off welfare; (ii) provide adequate support in the event of job loss and help job-seekers find work quickly; (iii) to offer individualised support to job-seekers in the employment service; and (iv) to ensure that firms facing lay-offs give their employees sufficient advance notice.

Rising imports, outflows of foreign direct investment and immigration all contribute to feelings of job insecurity in OECD countries. The rapid integration into the world trading system of China and India and the enlargement of the European Union have fuelled fears of job losses and wage cuts. Anxieties about globalization are often unjustified: only a fraction of job losses is likely to be directly attributable to trade and investment liberalization.

But adjustment to these new conditions is neither automatic nor painless. Failure to acknowledge the worker adjustment challenges of globalisation, and to implement much-needed reforms, may erode public support for open trade policies.

OECD, June 2005

Contact: Raymond Torres

www.oecd.org/els/employmentoutlook

Ageing and Employment Policies: Austria

Only one in three Austrians aged 55-64 participates in the labour market, much less than most other OECD countries. Since the mid 1990s, there has been a marked change in policy, including reform of the pension system and efforts to improve the employability of older workers. However, the participation of older workers has increased only modestly.

The report suggests that Austria raise the pension eligibility age in line with increases in life expectancy, improve the policing of entry to disability benefits and develop a more coherent system of continued education and training.

OECD, September 2005

Contact: Mark Keese and Christopher Prinz

www.oecd.org/els/employment/olderworkers

Ageing and Employment Policies: Netherlands

The Netherlands has been one of the more successful OECD countries in reversing the decline in employment rates of older men, with a 10 percentage point increase in employment of men aged over 50 since 1995. But these improvements are from a low base.

The report proposes a number of reforms. These include ensuring that the new life-course savings scheme and the revised disability scheme do not become pathways to early retirement and focusing the employment service on innovative strategies for job-search assistance and private-sector recruitment opportunities. The report particularly praised the Netherlands for its action on tackling age discrimination through the Action Group on Grey at Work and other programmes.

OECD, September 2005

Contact: Anne Sonnet

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Ageing and Employment Policies: Australia

Compared with many other OECD countries, Australia has been active in addressing barriers faced by older workers. Some disincentives in the pension system to continue working have been eliminated, age-discrimination legislation has been introduced and opportunities for training for older people improved. But there is still considerable scope to improve employment opportunities for older Australians: the proportion of 50-64 year olds in the labour market is lower in Australia than in Japan, New Zealand, Sweden and the United States.

The policy recommendations in the report include: (i) removing incentives to early retirement; (ii) preventing the use of disability benefits as a pathway to early retirement; (iii) extending job-search help to inactive people not on public income support; and (iv) strengthening job-search requirements for older job seekers.

OECD, June 2005

Contacts: Mark Keese and Patrik Andersson
www.oecd.org/els/employment/olderworkers

OECD Health Data 2005

This database is the most comprehensive source of comparable statistics on health and health systems across OECD countries. It is an essential tool for health researchers and policy advisors in governments, the private sector and the academic community, to carry out comparative analyses and draw lessons from international comparisons of diverse health care systems.

OECD, June 2005

Contact: Marie-Clémence Canaud and Gaetan Lafortune
www.oecd.org/health/healthdata

Babies and Bosses 4

Canada, Finland, Sweden, United Kingdom

Balancing work and family life is a challenge for all parents. Many parents and children in these four countries feel seriously constrained. Some would like to have children, but do not see how they could square that commitment with their job. Others are happy with the size of their family but would like to work more, either for self-fulfilment, or extra income. Some want to work different or fewer hours to spend more time with their children but cannot afford a pay cut or to jeopardize their career.

This report, the fourth in the series, considers how a wide range of policies, including taxes and benefits, childcare and workplace practices affect labour-market outcomes family formation. It also includes options for reform to achieve a better reconciliation of work and family life.

OECD, June 2005

Contact: Willem Adema
www.oecd.org/els/social/familyfriendly

Counting Immigrants and Expatriates in OECD Countries: A New Perspective

In the 2000 round of censuses, virtually all OECD countries included questions on country of birth. This allows, for the first time, a detailed, comparable and reliable picture of immigrant populations in OECD countries. There are three main findings from DELSA's new database on immigrants and expatriates.

First, international migration is concentrated on among the higher skilled. Secondly, the number of immigrants with a degree in most OECD countries exceeds the number of high-skilled expatriates working in other OECD countries. Finally, the impact of immigration on less-developed economies is diverse. The larger countries seem very lightly affected, but the smaller countries of Africa and the Caribbean face significant emigration of their elites.

Social, Employment and Migration Working Paper no. 25, OECD, April 2005

Contact: Jean-Christophe Dumont and Georges Lemaître

Trends and Determinants of Fertility Rates: The Role of Policies

This working paper tries to explain observed changes in fertility rates across OECD countries, with an emphasis on socio-economic considerations. It aims to extend the understanding of fertility-related behaviours in different ways: first, by explaining recent developments in fertility rates and their relationships to other social drivers; second, by developing and testing new and expanded models to explain the cross-country variation in fertility rates due to labour markets, social and fiscal policies, and individual characteristics; third, by exploring which policies, through their effects on particular variables at micro and macro levels, have the biggest effect on fertility rates.

Social, Employment and Migration Working Paper
no. 27, OECD, April 2005

Contact: Anna Cristina d'Addio and Marco Mira
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www.oecd.org/els/workingpapers

China in the Global Economy: Governance in China

DELSA contributed a chapter on the labour market. This chapter, called Labour protection in China: Challenges facing labour offices and social insurance, looked at the new role for employers (separate from the state) following economic reforms. To protect workers, the government has established public institutions for many social and administrative functions that were previously run on a work-unit basis. The analysis focuses on three areas of responsibility that the 1994 Labour Law transferred to the government: employment services, labour inspection and social insurance.

China has long had a 'dual' labour market, divided between employees in formal, urban jobs and the informal and rural sector. The chapter argues that extension of social insurance and labour protection to workers in rural areas and in flexible jobs must be consolidated to enhance both the efficiency of the labour market and social equity.

The experience of OECD countries demonstrates the importance of employment services, such as counselling and monitoring of unemployed job-seekers. In particular, labour offices have an important role to play as an intermediary between urban employers and rural potential migrants.

The labour inspectorate has become much more active and the service is relatively accessible and effective. Without other potential channels for workers complaints, such as independent trade unions, the inspectorate has become an important safety-valve.

Social insurance is highly decentralised as a result of the sheer size of the country. While many of the differences in rules between regions and sectors are justified, the plethora of regimes means that benefits are rarely portable. This is a barrier to mobility and the flexibility needed in the workforce.

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