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**The Challenge of Shoring up the Pillars of our Social Protection Systems**

**by**

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Ladies and Gentlemen,

I would like to begin my statement today by thanking the European Commission for organizing this conference. Now is a timely opportunity to take stock of how well social protection systems in Europe and elsewhere have been coping with what is probably the biggest challenge they have ever faced. The economic crisis is already causing large declines in family incomes and well-being. This is most visible in the dramatic increase in unemployment rates in the most hard-hit OECD countries, such as Iceland, Ireland, Spain, the United States and Turkey. But very few countries have been spared from increasing unemployment. Even though a recovery appears now to be getting underway throughout the OECD area, the latest OECD projections suggest it will be a modest one, with unemployment continuing to rise well into next year in many countries, before dropping back slowly in 2011.

If there was ever a time that put social protection systems to a stress test, it is now. So far, the systems seem to be passing this test. In most OECD countries, social protection measures have helped to cushion the blow of the economic downturn, protecting the unemployed and vulnerable, and have indeed been fulfilling their role as automatic stabilizers.

But it is still too early to claim victory. As I mentioned a moment ago, we are seeing the first signs of economic recovery in many countries. But it is possible, and indeed likely, that the incomes of the most vulnerable groups will deteriorate further in the near future as the numbers of the long-term unemployed and those who have become discouraged and dropped out of the labour force continue to rise inexorably.

The real challenge for governments will thus be to make sure that social safety nets continue to work and provide the needed support as the number of persons who have to rely on them grows.

First, and foremost, this means making sure that the administrative, operational and financial capacity exists to quickly process an increasing load of benefit applications, ensure that beneficiaries receive their benefits in a timely manner and provide adequate job-search and other work-related support to the unemployed.

Second, some countries urgently need to fill gaps in their social protection systems. This is particularly important where there are large numbers of temporary or part-time workers, who may not qualify for the standard unemployment benefits and do not have access to other benefits. In these cases, transparent and widely accessible minimum-income benefits can help reinforce unemployment benefits during and after the recession. On their own, unemployment benefit systems will not be able to prevent the potentially large increases in poverty. And we know from experience that it is important to act quickly in order to counter the risk of poverty persistence.

The good news is that countries are already heeding this call. In response to an OECD questionnaire, which we designed jointly with the European Commission, more than two thirds of our member countries reported that they were indeed strengthening income support for the unemployed or for workers with low earnings. It is too early to pass judgment on the effectiveness of these measures, but we at the OECD, and our colleagues at the European Commission, are monitoring the situation closely, and we will be reporting the results of this work to the April 2010 G20 Labour ministerial in Washington, and in the 2010 edition of the OECD Employment Outlook.

The not-so-good news, however, is that countries have rarely been doing anything new. It would be nice to report that countries have seized upon the crisis as an opportunity for innovative social protection reforms, but I must say that we detect a certain lack of creativity in social policy making. In most cases, countries have only modified or extended programmes that already existed before the crisis. But we will need more than bandaid reforms to make social protection systems fit for the future, so that they can respond to the short-term challenges of the crisis, the mid-term challenges of fiscal consolidation which will make it

increasingly difficult to further extend or even maintain current levels of social spending in some countries, and finally the longer-term challenges of population ageing.

The most direct way to address these challenges is to foster the creation of more and better jobs. This is not a simple task and requires a clever mix of labour market, education and training and social policies targeted specifically to underrepresented groups in the labour market.

Let me illustrate my point with reference to three very important groups in the labour market: young people, women and older workers. I could have added workers with health problems but this group has been covered by State Secretary Tiedemann from Sweden in his opening remarks.

Even in good times, youth unemployment rates are about two to three times the level of adult unemployment. We know from previous downturns that work prospects of less qualified youth diminish sharply. Most measures so far, however, target the groups that are already in work, the so-called “insiders”. But many young people have not even entered the labour market yet. A key short-term priority is therefore to prevent them from becoming permanently disconnected from work.

Traditional labour market policies may not be sufficient to reach many youth and countries will need to innovate in this area. The skills of school leavers should be strengthened. Several policy measures can be taken to meet this objective: preventing as much as possible school drop-outs, promoting the combination of work and study, and offering every young person a second chance at a qualification. But we also need to stimulate the demand for youth labour. Options here include the mentoring of youth from immigrant backgrounds, with which many OECD countries have had good experiences, reducing the cost of employing low-skilled youth, and – more broadly – rebalancing employment protection so that youth are offered a real prospect of being able to move on from temporary entr-level jobs into stable careers.

Let me now turn to the second group: women. Crisis-related job losses have affected men much more than women. But focusing on unemployed men only would be the wrong way to go. Instead, social protection systems should aim to mobilise the full earnings capacity of all working-age members in the household. Rather than channeling all support to the individuals directly concerned by lay-offs or reduced working

hours, more efforts should be made to direct some of the public resources to women enabling them to increase their current or future earnings. If women are able to increase earnings to compensate for their husband's income losses, families' resilience against the risk of unemployment is strengthened.

Examples of such measures are temporary "into-work" benefits or wage subsidies which are paid to spouses or partners who were previously not in paid work and take up a new job. Another possibility would be to offer temporary financial incentives for household members who currently work part-time to increase their working hours. One could envisage, for example, to let families that are receiving social assistance keep their entitlements during a transition phase after the take-up of the second-earner job.

By actively encouraging all household members to look for work, such policies can contribute to the labour-market dynamism that is needed for a quick and sustained recovery. Household incomes would be stabilized and vulnerable families protected. At the same time, a longer-term increase in female employment would result, yielding higher output and more tax revenues to enable countries to cope better with the fiscal challenges associated with population ageing.

Older workers are particularly at risk of dropping out of the labour market during a steep downturn. It is vital to combat this risk and indeed encourage as many older workers as possible to remain active longer. Here, further reforms to pension systems which aim to raise the effective age of retirement significantly have an important role to play together with a stronger focus on the needs of older unemployed workers via active labour market measures.

In sum, increasing employment rates and fostering good career prospects for the working-age population are the two pillars upon which our social protection systems must rest, and they need some shoring up. Hopefully, our discussions today will highlight the best ways forward in this task.

## OECD sources:

OECD Employment Outlook	<a href="http://www.oecd.org/els/employment/outlook">www.oecd.org/els/employment/outlook</a>
The OECD Jobs for Youth review	<a href="http://www.oecd.org/employment/youth">www.oecd.org/employment/youth</a>
Ageing and Employment Policies Project	<a href="http://www.oecd.org/els/employment/olderworkers">www.oecd.org/els/employment/olderworkers</a>
Active labour market policies and activation strategies	<a href="http://www.oecd.org/els/employment/alm">www.oecd.org/els/employment/alm</a>
Main OECD social policy activities	<a href="http://www.oecd.org/els/social/activities">www.oecd.org/els/social/activities</a>
OECD Social protection statistics	<a href="http://www.oecd.org/els/social/expenditure">www.oecd.org/els/social/expenditure</a>
OECD Family database	<a href="http://www.oecd.org/els/social/family/database">www.oecd.org/els/social/family/database</a>