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## AGEING WORKING PAPERS

Maintaining Prosperity In An Ageing Society: the OECD study on the  
policy implications of ageing

**THE CAPACITY FOR LONG-TERM DECISION MAKING IN SEVEN  
OECD COUNTRIES: THE CASE OF AGEING**

**WORKING PAPER AWP 6.1**

This is one of a series of analytic papers that supported the OECD's ageing study, a "horizontal" project in the sense that it involved a number of OECD directorates. The results of the entire project are summarised in *Maintaining Prosperity in an Ageing Society*. Chapter VII of *Maintaining Prosperity - on achieving reform* - drew on this working paper.

Through a survey of seven OECD Member countries - Australia, Canada, Finland, France, Ireland, Japan and the United States - the paper identifies the many challenges facing governments when they deal with long-term issues, especially one of such a cross-cutting and complex nature as ageing. The difficulties which have to be solved include data collection, budget constraints, the coordination between a great number of central government agencies and local authorities to which public management reforms have given more power and autonomy, consensus-building and continued political support for policies involving short-term negative consequences for long-term benefits. The paper examines the institutions and practices that governments are presently using to design and implement coherent policies to respond to these challenges, and identifies actions which could facilitate the process.

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# THE CAPACITY FOR LONG-TERM DECISION MAKING IN SEVEN OECD COUNTRIES: THE CASE OF AGEING

## PART 1 -- EXECUTIVE SUMMARY

1. This paper reviews how seven Member countries address long-term issues in their systems of management.<sup>1</sup> In particular, it is concerned with approaches to issues involving the ageing of their populations. It is the result of discussions in these countries on the capacity of their governments to develop co-ordinated policies in response to ageing. (Part 2, paragraphs 24 through 29)

2. Responding to the challenges of shifting demographic forces is a complex and difficult task for OECD Member countries because the implications are both diverse and profound. Member countries need to consider policy options for the long range, since the impacts of demographic trends usually manifest themselves slowly and therefore cannot normally be accommodated with rapid policy or institutional shifts. For example, expanding health care or school systems in response to demographic pressures takes time, and the social contracts in Member countries are by their nature long term. In addition, as the OECD ageing study *Maintaining Prosperity in an Ageing Society* emphasises, the lifelong nature of the ageing process means that policy changes need to apply to populations at all ages, not only when they are elderly. Moreover, policy capacity depends on adequate amounts of sound data and the ability of government agencies and departments to use the data to propose analytically sound and effective policy options. Since policies on ageing cut across organisational boundaries, policy co-ordination is essential. Cost-effective solutions need to be developed, and the machinery of government must be able to act on them. No simple model exists to meet these criteria. A review of the experience of the seven Member countries in trying to cope with ageing issues indicates that policy development and execution is a very complex process. Simply trying to develop and maintain coherence and consistency among basic workforce, retirement, health, education and tax policies is challenging to even the most cohesive and well organised government. But these problems are compounded by many other factors, among the most important being that:

- the execution of many policies is carried out by subordinate levels of government,
- policies require the development of consensus among major groups in societies,
- political support is hard to achieve for long-range policies with negative short-term consequences, and that
- budgetary constraints put severe limits on policy options.

(Part 2)

3. OECD Member countries consider basic statistics to be a responsibility of national governments built up from legal records of births and deaths, from periodic censuses, or from sample surveys. To formulate effective policies for the ageing population, it is necessary to integrate social, economic, and demographic factors, and develop longitudinal as well as cross-sectional data. Since these requirements increase costs and can lead to duplication, co-ordinated data collection strategies are needed. Quality and

integrity of data are essential if they are to support policy choices effectively. In a period when many Member countries are facing constrained operating budgets and staff reductions, a system for funding data collection is important. Central funding has the advantage of avoiding overlap and maintaining control by professionals. User funding has the advantage of reflecting the needs of policy makers and programme administrators. Some mix of the two seems to be most effective. (Part 3)

4. OECD policy recommendations on ageing call for broad integrated approaches taking into account life-course and generational issues that cross organisational boundaries. In many cases the government services that are affected by ageing populations -- education, labour and health in particular -- are likely to be under severe pressure to deal with short-term problems, and thus give long-term considerations a lower priority. A national comprehensive ageing strategy -- widely available and publicised -- may be a useful device to offset this tendency. Yet as a practical matter these issues are normally dealt with by policy or operating organisations that work in a particular area or sector such as health care or pensions. The Member countries studied are balancing overall integrated approaches to ageing policy with discrete sector-by-sector approaches. One or two areas, such as health or pension reform, usually end up as "lead sectors". The balancing problem is all the more difficult because of the need to harmonise policies laterally across ministries and departments, while also taking into account private and voluntary institutions and other levels of government. (Part 4, paragraphs 43 through 53)

5. Long-term policies on ageing require a broad view of the economy in order to understand a country's capacity to generate resources, and a long-term view of demographics in order to understand the demands that will be placed on the economy. However, this perspective is by itself inadequate. Translating these macro perspectives into specific budget allocations and programme changes is at least as great a challenge. Moreover, analysis often needs to take into account the institutions involved, such as different levels of government. A number of the countries studied are experimenting with long-term analytical techniques, including the development of quantitative models, an area where information sharing and consultation among Member countries could be useful. (Part 4, paragraphs 54 through 68)

6. Countries use a variety of institutions and organisations to develop long-term policies on ageing. Although no two are identical, countries tend to rely on prestigious commissions and independent policy research institutes as well as the normal in-house governmental staff organisations that service government policy makers. Desirable attributes of commissions and independent institutes include technical competence, objectivity, and effective relationships with statistical agencies and policy units of government. (Part 4, paragraphs 69 through 75)

7. Policy co-ordination is a challenge in all of the countries studied because of the cross-cutting and complex nature of long-term ageing issues. Ministries or agencies whose programmes involve extensive interaction with other governmental or non-profit private institutions face a particular challenge in working effectively with these institutions, while at the same time co-ordinating across government with other national ministries. (Part 4, paragraphs 76 through 86)

8. Relatively few of the countries studied have consciously addressed the question of building public consensus behind their long-range ageing policies. However, commissions that are used to develop policy may also provide effective means for building such consensus, and a few countries have innovations in this area worth exploring. (Part 4, paragraphs 87 through 95)

9. Policy implementation does not in most respects appear to be different for ageing policies than others that governments pursue. However, there are a few cases in the countries studied of policy implementation techniques with particular relevance to ageing populations. Long-term ageing issues provide government with an opportunity to use new public management innovations and instruments and

to encourage flexibility and creativity, although traditional management concepts will continue to serve citizens in many respects. (Part 4, paragraphs 96 through 103)

10. Many OECD Member countries have been or are in the process of adopting important public management reforms. Ageing policies need to be harmonised with them. For example, many countries have increased the authority of non-national levels of government, delegated more authority within national agencies, and placed more reliance on private sector and non-profit entities to carry out public purposes. National governments will need to accept a role of guiding and informing other institutions about important issues of ageing and rely more on incentives to encourage action. However, it is not yet clear when “steering” rather than “directing” other levels of government on ageing issues is desirable, and the response of policy agencies in governments is going to require innovation and creativity. New models of government activity are going to be needed. Citizens are going to rely more on information and less on direction and support. Policy co-ordination will need to be based on co-operation and consensus among agencies and departments and among levels of government. Top-down, rule-based control systems will not always function well in this new environment. At the same time, some policies must be centrally directed and managed.

11. Consensus building will become an important aspect of policy. A number of countries try to build this by combining what technicians and analysts see as best policy or best practice, and the solutions and practices that appeal to citizens, whatever their age. Commissions, public meetings with stake holders, and widely circulated publications are among the consensus-building tools used.

12. One useful approach for all Member countries to consider is to inform their citizens as best they can of what the future has in store. However, national statements that outline policy goals without regard for realistic constraints, both managerial and financial, may lack credibility. A broad strategic statement is in keeping with both the spirit and practice of public management reform and the OECD’s policy recommendations on coping with ageing populations. (Part 5)

## GETTING THE JOB DONE

What do we mean by public management of long-term policies?

The work of the OECD on the implications of demographic change for Member countries has concentrated on the development of policies. The macroeconomic policy issues deal with the need to change relationships between savings, investment and other basic economic variables to accommodate larger retired populations and also to accommodate the changes in private economic behaviour that will result as the population profile changes. The sectoral and micro-economic policy issues involve the provision of public sector services and facilities.

Even the best policy analysis produces policy options and alternatives, not final solutions for every country. Since no option is likely to encompass only benefits and no costs, none is likely to be adopted automatically by Member countries. Moreover, even if adopted, they are by no means self-executing. The choice of a strategy and tactics for implementation must be inherent in a policy as it is developed and must be accepted by the public if that policy is to be adopted and successfully carried out.

Using a representative sample of seven countries, this working paper considers a variety of public management questions, beginning with who is best equipped to conduct public policy analysis (and why) and ending with how best can the public ultimately be served. In so doing, it raises public management questions such as:

- What institutions -- public, non-profit, or private -- are best suited to develop policy options?
- How do democratically elected governments decide among the policy choices they face?
- What mechanisms do they have to develop consistent policies across different ministries having different responsibilities, but all influenced by demographic change and affecting ageing populations?
- How best can different units of government - national, municipal or provincial - be involved in policy making and policy execution, and when should they be involved?
- How can the public become engaged in the discussion of the broad range of issues involved in demographic change, and to what extent can governments develop support or consensus for major changes in national policy?
- How can the policies that ultimately touch the lives of individuals in society, regardless of age, be most efficiently and most effectively carried out? How can the execution of these policies in detail and specifically balance the national interest and the need for equity against the advantages of decentralisation and flexibility?

## PART 2 -- INTRODUCTION

### The ideal and the reality

13. Governments and nations can afford to make big mistakes on small issues. They cannot afford to make big mistakes on big issues, and even small mistakes on big issues can be costly. This is one reason that the ageing of populations in the OECD countries dominates the policy agenda -- either explicitly or implicitly -- in so many of them. Responding to the challenges of this shifting of demographic forces is, however, difficult because their implications are both diverse and profound.

14. Thus, the case for improving the policy capacity to deal with ageing issues can be persuasive. OECD Member countries need to consider policy options for the long range, since demographic trends cannot be accommodated with rapid policy or institutional shifts. The reasons most often cited for this are that the social contracts in Member countries, sometimes clearly specified in law, sometimes implicit, are by their nature long term, often involving a lifetime of obligations and benefits between the state and the citizen. Moreover, service delivery institutions cannot be created overnight. It takes time to re-arrange priorities away from schooling of the young towards support for the elderly. But there is a further reason, which is highlighted in the OECD's work on ageing: the lifelong nature of the ageing process. Concern for the elderly, however defined, needs to begin long before people get old. If workers are expected to retire, on average, at age 65 or 67 they need to know that early in their working lives. If the public pension system will provide only basic support, they need time to accumulate the wealth they need to support the life style they find acceptable. If they are to lead active and healthy lives in old age, the foundations will need to be established during a lifetime.

15. Policy capacity depends on many factors. There must be sound data. Government agencies and departments must have the analytic strength to propose effective policy options. Since policies on ageing cut across organisational boundaries, policy co-ordination is essential. Cost-effective solutions need to be developed, and the machinery of government must be able to act on them.

16. Policy capacity alone is not enough. The effective execution of policy depends in the first instance on citizens being informed and engaged, so that a viable political consensus on courses to be followed can be developed. Legislatures and other political units must be involved, and persuaded that long-term interests should take preference over short-term expediency. Local levels of government must be involved, and the proper roles for private and voluntary institutions established.

17. Carrying out this range of tasks would not be easy under conditions of social and economic stability. At the present time, however, most OECD Member countries have neither. The role of government is being questioned in many, although not all, of them and is shifting in many.<sup>2</sup> It is difficult enough to decide the proper mix of public and private tasks in response to ageing populations, but it is all the more so when that mix is being called into question *in general*. Similarly, globalisation of the economy presents new opportunities to respond to the challenge of demography, as the OECD work study on international capital flows shows, but with those opportunities come risks and, for many, pressure to develop new and more flexible labour systems.

18. In view of these considerations, it can be argued that Member countries need to develop long-term ageing policies that reflect demographic trends, emerging economic conditions and changing roles of individuals in society. These policies need to be co-ordinated among government departments and agencies, and among levels of government. They need to reflect the changing role of government, as well as the legitimate concerns of diverse, well-informed and often powerful interest groups, involve the public in consensus building and be adopted by a variety of democratic political institutions.

19. Nobody actually does it this way, and for good reason.

20. This examination of long-term policy formulation and execution shows that in practice these tasks are exceedingly complex. Of the many elements that country representatives discussed, three stand out as being particularly important:

- Formulation of cross-cutting, interdisciplinary policies and programmes. This requires ministries and agencies to harmonise both their policies and their activities.
- Effective engagement with other levels of government and involved non-governmental institutions to carry out policy objectives.
- Achieving suitable involvement in and support from both the formal political system and other important institutions in society for key policy goals and the means of implementing them -- in other words, public understanding.

21. Many of the policy issues that are analysed in the OECD study *Maintaining Prosperity in an Ageing Society* are controversial in some or many Member countries. Because of their long time horizons, and the inherent uncertainty of future conditions, analytic support for policy recommendations is open to challenge. As a result, developing a comprehensive set of policy responses to ageing -- as challenging as that is -- is only a first step. The public management task of turning these policy responses into reality is formidable.

22. This report does not attempt to propose a model public management solution for Member countries to adopt in dealing with issues of ageing populations. What it does do is review various aspects of the policy development process in a limited but diverse number of Member countries to seek out ideas of general applicability. Each country will have to develop its own formula, of course, but perhaps in doing so they can benefit from the experience and creativity of others.

23. The conclusion outlines some factors that countries may wish to consider in dealing with the public management aspects of ageing.

- What aspects (such as macroeconomic policies) *must* be dealt with at the national government level with strong leadership at senior levels?
- How can information and consultation mechanisms be used both to develop policy responses and to make the implementation of these policies more self-executing? (Self-executing policies are ones that take advantage of incentives and similar institutional arrangements rather than conventional top-down command and control systems.)
- How can central management agencies be organised so that essential policy co-ordination takes place without demanding unreasonable amounts of time and effort from senior political leaders?

- How can statistical and analytic bodies be provided with the resources they need in the context of fiscal constraint, and how can they be structured to ensure high-quality work that has high public credibility?

### **The origins, scope and approach of this study**

24. Dealing with long-range difficulties has been a growing concern of the Public Management Committee. Several meetings of senior budget officials have assessed different aspects of this issue, and a September 1997 meeting of senior officials responsible for central offices of government (such as Cabinet Secretaries, Chiefs-of-Staff or Secretaries-General) focused on long-range issues, including ageing populations. Dealing with long-range issues was also discussed extensively by ministers at the OECD ministerial symposium on public management in March 1996 (Ministerial Symposium on the Future of Public Services). This work on ageing as a long-range issue continues the Committee's efforts.

25. In addition, the OECD's ageing study has added, as a new element, the capacity of Member countries to deal effectively with the issues of ageing. In its past work the OECD has tried to increase understanding of the implications of ageing for Member countries in terms of policy choices. Now attention is being paid for the first time to the question of the capacity of governments to develop policy alternatives, choose among them and turn them into action.

26. This paper explores how the governments of seven OECD Member countries approach long-range issues, specifically those that are driven by the increased ageing in them. It is based on discussions with officials and experts in Australia, Canada, Finland, France, Ireland, Japan and the United States. They represent a diverse set of political, cultural and demographic considerations, although not the full range that exists in the OECD. In terms of demography alone, all countries chosen face the prospect of ageing populations, although they vary in terms of timing. The most immediate problems are faced by Japan, and the least (among these seven countries) by Ireland. Discussions took place between June and October 1997.

27. The focus of this work is on public management, that is, the process by which public institutions turn information into policy, and policy into programmes. It involves the interaction of policy makers with information gatherers and analysts, and with politicians and the public.

28. It is, of course, not possible to separate the process of policy from the substance of policy. Much of what has been learned about process is contained in the large numbers of policy documents that were made available by officials and experts interviewed in the course of this study. The generosity of those involved in terms of time, expertise and documentation was remarkable, and is gratefully acknowledged.

29. The elements of public management considered include:

- the gathering of data, and development of an information base;
- the analytic process by which long-range issues are considered;
- the capacity of institutions, whether in the public, private or non-profit sector, to carry out analysis and develop policy proposals;
- the effectiveness of governments to achieve consensus and support for new long-term policies;
- the ability of governments to execute sound and co-ordinated policies.

## PART 3 -- BUILDING THE INFORMATION BASE

### Sources and uses of information

30. OECD Member countries consider basic statistics to be a responsibility of national governments. Demographic data may be built up from legal records of births and deaths, from periodic censuses, or from sample surveys. Seven central issues arise out of the investigation of the seven countries in this study:

- the *centralisation* of data collection;
- the *kinds* of data needed;
- the *integration* of demographic, economic and social data;
- the development of *longitudinal* data;
- *privacy and confidentiality*;
- *who pays and who controls*; and
- the *role* of the statistical office in policy making.

### *Centralisation*

31. The issue is not as simple as it appears on the surface. On the one hand, it seems obvious that a central statistical office would combine economies of scale in terms of skills and machines and make it easier to assemble a critical mass of expertise so that experts can both reinforce each other and develop a culture that fosters quality and professionalism. Centralised agencies tend to have their own budget, which many would see as essential to preserving independence and professionalism. However, as the OECD ageing study amply illustrates, important questions about ageing policies are likely to originate from outside of the community of statisticians, and those asking them may have neither the funds nor the influence to get them answered. For example, it is important for policy makers to know not only the characteristics of all elderly, but of age cohorts within the elderly. This is the kind of information the importance of which may not occur to statisticians. In some cases, notably health, operating agencies may be far better equipped not only to ask the right questions, but also to gather and interpret data. Moreover, in some Member countries public management reform has stressed the importance of separating the provider of a public service from the source of funding, as discussed below.

32. The United States has a very decentralised data collection system, with no central statistical office. It does have a small co-ordinating staff located in the Office of Management and Budget, but funds for statistical activities are spread among many agency appropriations. A separately funded National Institute on Ageing supports statistical analyses, data collection and applied research. Canada, in contrast, has a highly centralised and prestigious central office, "Statistics Canada," that is responsible for a wide range of data collection. Its funds are monitored by the budget watchers in the Treasury Board. In France, while data collection is centralised in some areas such as demographics and household data, there is at the same time a network of data collection carried out by ministerial departments but co-ordinated by the Central Statistical Institute. Smaller countries, such as Finland and Ireland, have fewer options simply because of their more limited resources.

### ***What is needed***

33. Basic economic and demographic data have long been available in OECD Member countries. These data include population characteristics, status of health, national income and product accounts, and wages and salaries. In order to support policy decisions, however, more is needed.

34. Since the end of World War II, economic well-being has largely been defined in terms of annual or monthly disposable income. This is no longer a sufficient measure in many Member countries. Increasing job mobility, the addition of women to the work force, the development of more part-time work and the lengthening of time spent pursuing formal education all tend to support the view that a pattern of lifetime earning is more relevant for policy than fluctuating annual earnings. Moreover, 50 years of economic growth and higher incomes have made the accumulation of assets and long-term patterns of personal savings and investment more important. It is also clear that within the elderly population, however defined, there exist substantial variations. For example, it is necessary to divide the aged into separate age cohorts because the health, income and employment status of age groups within the overall group defined as "aged" may be quite different. Another requirement that is essential to the understanding of the long-term financial viability of public pension programmes is actuarial projections. While these have long been required by law in the United States, such an analysis is relatively recent in Ireland. The *Actuarial Review of Social Welfare Pensions*, published in September 1997 is, moreover, an exceptionally clear and complete summary of a complex subject. In Japan, the nature and availability of such information is the subject of some dispute.

35. These factors argue for data that will provide better insights into the economic and social conditions of ageing populations. A number of experts and analysts pointed to information gaps, but also new and important data gathering efforts. The Retirement Income Modelling Task Force in Australia, for example, has gathered new information on the assets of older Australians. The French collect statistical data to measure the relative standard of living of the elderly, taking into account health, inherited assets, and housing, as well as income. However, it was not clear from this survey that many countries have developed systematic approaches to providing what appears to be needed.

### ***Integration***

36. For policy development, the more highly integrated the data the better. What is most useful is not only age cohorts, but health status, income, assets and social characteristics. But the more refined that data the more costly they are. Gathering refined data from a census becomes very expensive and may also be perceived by citizens as intrusive. Similarly, detailed sample surveys take more time for data collection and require the use of ever larger sample sizes for each increase in refinement of data analysis.

37. Agencies responsible for individual sectors, such as housing or employment, may find it difficult to justify collecting data that go beyond their own responsibilities, and units that are responsible for social issues, such as aboriginal populations or linguistic minorities, may not have the funds to carry out their own surveys. Diversity in data collection, which becomes much more costly as data users come to require more integrated data sets on which to base policy options, argues for co-ordinated approaches. In Canada the statistics office develops such approaches by consulting extensively with users. In Finland, the Ministry of Labour is sensitive to the broad range of issues related to jobs, and collects data on social and health factors in its surveys.

### ***Longitudinal data***

38. Most policy analysis uses cross-sectional data. This approach assumes that if there is a difference in the characteristics of 20-year-old people and 50-year-old people today, the 20-year-olds are likely to resemble their elders when they reach the same age. This is less likely to be the case the longer the period of time involved, as changes in fertility, labour force participation by women, and mortality data illustrate. Longitudinal surveys, which follow a given age cohort through time, may provide valuable policy insights that cross-sectional data obscure. Finland, for example, has conducted a ten-year longitudinal study on ageing and work ability, and Ireland began a longitudinal study in 1994 that is collecting economic and social data relevant to ageing issues. However, they have three disadvantages:

- they are not analytically useful for several years;
- they are expensive; and
- they require a long-range institutional commitment.

As a result, such surveys should also be part of an integrated data-gathering strategy.

### ***Privacy and confidentiality***

39. Much of the data relevant to ageing policy have to do with health, or with private savings, consumption and investment patterns, retirement preferences, and taxation. These data are available from existing sources, and generally automated. However, they may be unavailable to the analyst because of privacy concerns, or simply are in the private sector and considered proprietary. For example, there is widespread concern over making available health data bases for statistical purposes. In the United States, there has been a major debate on reforming the national pension scheme, with the possibility of changing the mix and the nature of existing public and private alternatives. The behavioural response to such changes is, of course, uncertain, but the problem is compounded by the fact that large amounts of data on worker response to private pension alternatives are unavailable. Other countries seem able to gain access to such data without violating confidentiality.

### ***Who produces, who controls and who pays***

40. The principles that a number of reform-minded Member countries try to follow suggest that data would be produced by private entities under contract, and preferably in competition, and that the user would both control and pay for the product. Reality is more complex, and for good reasons. Data on ageing have multiple users, and once produced are a free good. To the extent that these data are a classic “public good,” a market approach will not work. Moreover, it is often important for statistics to be “official” -- an indication that they are reliable, or at least not deliberately biased, and that public officials can be held accountable if these conditions are not met.

41. Public sector staff reductions and budgetary cutbacks have taken place in a number of countries studied, especially Australia, the United States, Canada and Finland. This puts pressure on the data-gathering capacity. In Canada, the central statistics office has much of its basic activity funded directly, but work particularly centred on ageing issues may be supported from operating agency budgets. In effect, Statistics Canada becomes a contractor. As a practical matter, the sources of such supplementary funding are likely to be operating agencies with very large budgets that are used to finance national health systems or national retirement schemes. For these agencies, the financial stakes of good information and analysis are obviously high, and the funds involved are small percentages of national budget allocations. Small agencies that are responsible for research on ageing policy are less likely to be able to fund and therefore

to control data production. So, for example, in the United States, the entities that administer social security and medical care are in a better position to influence statistical priorities than the Office of Ageing or the National Institute of Ageing. This advantage can be overstated. Both Australia and the United States maintain separate budgetary controls over administrative expenses, or running costs, so large benefit payments do not necessarily yield funds for data development and analysis.

### ***The role of the statistical office in policy making***

42. The academic concept in public management of separating the producer from the user suggests that statistical offices should concentrate on getting the data right, and leave it to policy bodies or operating agencies to interpret and use the data. In the real world, this distinction is often blurred. In Canada, for example, Statistics Canada is an active participant in the debate on demographic issues and issues of ageing populations and has taken an active role in bringing the ageing issue to the attention of the government. The Advisory Council on Social Security in Japan, which is a permanent body, not only advises the government, but also is heavily involved in the development of statistics relating to social security expenditures. In the United States its counterpart has in the past been recreated every four years with new members and staff. It has had no direct role in data production, but the commissions could of course make whatever analytical use of the data they wished. This advisory body has now been made permanent along the lines of the Japan model. The Statistical Office in France (INSEE), one of whose tasks is to carry out economic studies, has developed various microsimulation tools, which allow it to assess the dynamic consequences of medium- and long-term policies. This type of model, which has also been developed at the Directorate for Forecasting, Ministry of Finance, fuels the public debate within the framework of a wide consultation with the different social partners, organised in particular by the *Commissariat général du Plan*.

## PART 4 -- POLICY ANALYSIS AND DECISION CAPACITY

### The ageing of the population and policy: global or sector approaches?

43. OECD policy recommendations call for a response to life-course and generational issues<sup>3</sup> that pose challenges for the policy-formulation process. Time frames are long. Issues cross organisational boundaries. Financial decisions need to be consistent with policy priorities. Better information for decision makers is often needed. Public consensus needs to be developed to support changes in policies or programmes. Success requires action by public institutions at all levels, including local, regional and national governments and international bodies. It requires that these bodies communicate effectively, and have the ability to hear, and act on, advice received from interest groups, citizens, employers and employees and the academic community. Moreover, much existing social programming is based on assumptions about demography and society that are no longer valid. Changes need to be introduced in service delivery and other programmes generally to respond to current realities.

44. Faced with an issue of major importance and complexity, there is a temptation to consider a comprehensive top-down approach -- one that would connect all of the pieces of the problem and result in a comprehensive operating plan, that is, take a global, centralised approach.

45. However, at least four factors exist in most or all of the countries studied to cause them to resist that temptation:

- Governmental structures provide considerable autonomy to municipalities, regions, provinces or states.
- Central co-ordinating units vary in their power and ability, but even where they work well they are overwhelmed, mostly with immediate issues.
- Many countries have embraced public management reform efforts that emphasise delegation and autonomy of public sector bodies, reduced regulation, better use of incentive structures and involvement of non-governmental institutions.
- The complexity of developing a centrally directed global approach is beyond the capacity of almost, or perhaps all, of the governments studied.

46. This is not to say that the role of the national government is not critical. Rather, it is important to decide, in each case, what policies and programmes can or must be directed by national authorities and how to dispose of the remainder. Nor do the factors that argue against a centrally directed global approach mean that there should be no national strategy on ageing issues at all. On the contrary, there is clear utility in having an overall national discussion or approach to the issue of ageing, and a governmental strategic action plan that maps the road at the national level, and raises awareness while providing the right incentives to the range of actors involved. At the same time, many of the major decisions are going to be taken by -- and financed by -- sectorally based departments and agencies. Typically, in the countries studied, the macroeconomic decisions will be made by finance ministries, public pensions will be administered by social security agencies, employment policies by labour departments, etc. In each area

that requires service delivery, the role of other levels of government, voluntary agencies and the private sector needs to be worked out.

| <b>Box 1. Selected comprehensive ageing studies</b>                               |  |  |  |
|---|--|--|--|
| <i>Name</i>   | <i>Issued by</i>   | <i>Topics covered</i>  | <i>Remarks</i>   |
| <b>Australia's</b> Ageing Society (1994)  | Economic Planning Advisory Council   | Welfare, health, education, employment, home and institutional care for the elderly.   | Data through year 2051. Includes international comparisons.  |
| Older <b>Australia</b> at a glance (1997)   | Australian Institute of Health and Welfare and Office for the Aged, Dept. of Health and Family Services                                | Retirement, health, social services, institutional and home care, and community activities.  | A collection of facts on older people prepared for the 1997 World Conference on Gerontology; includes international comparisons. |
| Welfare Implications of Demographic Trends ( <b>Ireland</b> )                     | Combat Poverty Agency Study, prepared by the Economic and Social Research Institute  | Dependency and support, fertility and marriage, labour force participation and population ageing.                                      | Population projection through 2026; a few international comparisons, mostly with the UK and the EU.                              |
| “General Principles Concerning Measures for the Ageing Society:” ( <b>Japan</b> ) | Cabinet decision of the Japanese Government, July 1996; tentatively translated into English by the Management and Co-ordination Agency | Working income, health and welfare, learning and social involvement, living environment and promoting research.                        | A comprehensive set of policy goals in support of the 1995 “The Basic law on Measures for the Ageing Society” (1995).            |
| Ageing in <b>Japan</b>  | Japan Ageing Research Centre   | Population ageing, changes in families and households, labour force, social insurance, health care and social service support systems. | Published in English for people outside Japan. An appendix contains the “General Principles” document described above.           |

47. In addition, there is the practical question of what policy area in particular focuses the attention of the public and the media on ageing issues in general. In France, for example, a national committee focused attention on the long-run ageing issue by looking at pension financing. The increases in health care costs, which are exacerbated by both individual and population ageing, has been a way to bring up the more general issue of ageing in several countries.

48. Two examples of using changing demography as the focus, or one focus, of policy, are the National Ageing Policy up to 2001 (in Finland) and the Welfare Implications of Demographic Trends (in Ireland.)

49. More often, these issues are raised in the context of particular sector policies, e.g.

- *Perspective à long terme des retraites* (France);
- Health and Social Care Implications of Population Ageing (Ireland);
- Long-Term Social Security Financing (United States);
- Work in twenty years (France).

50. The sectors or “angles” (French terminology) of ageing policy are generally:

- macroeconomic policy;
- financing public pensions;
- health care;
- labour markets; and
- education.

**Box 2. Selected sectoral approaches to ageing issues**

| <i>Country</i>  | <i>Document</i>   | <i>Sector emphasis</i>   |
|---|---|--|
| <i>Australia:</i>   |   |  |
| Saving: Choice and Incentive  | Ministerial Statement (May, 1997)   | Relates national saving retirement and demography.   |
| National Healthy Ageing   | Draft National Healthy Ageing Strategy  | Health, related to age discrimination, indigenous people, community activities, and virtually all issues affecting the elderly.  |
| <i>United States:</i>   |   |  |
| Long-Term Budgetary Pressures and Policy Options                              | Congressional Budget Office Report  | Budgetary control and fiscal policy related to national social security and nationally funded health care services.  |
| Building a Better Future  | Report by the Committee for a Responsible Federal Budget                                  | Relates population ageing to economic growth, social security, nationally funded health care, tax policies and private pension and health benefits.  |
| Retirement Income for an Ageing Population                                    | Report of the Congressional Research Service  | Uses retirement income as the basis for a detailed review of most aspects of ageing, including savings, investment, dependency, health, work, and private pensions. Data projections through 2060. |
| <i>Japan:</i>   |   |  |
| New Gold Plan   | Bureau for the Elderly, Ministry of Health and Welfare                                    | Focuses on welfare facilities and services for the elderly.  |
| <i>France:</i>  |   |  |
| Work in Twenty Years  | <i>Commissariat général du Plan</i>   | Explores four scenarios. Includes international comparisons.   |
| <i>Ireland:</i>   |   |  |
| Pension Strategy for the Future: Securing Retirement Income                   | Pensions Board report on the National Pensions Policy Initiative (published in May, 1998) | Focuses on the role of each pillar of pensions provision, and on financing and funding implications.   |
| Health and Social Care Implications of Population Ageing in Ireland 1991-2011 | National Council on Ageing and Older People   | One of a series of studies conducted by the Council, which has a direct advisory function in the development of policy on ageing in Ireland.   |

51. Of these, the one that is most directly affected by ageing is public pensions. This is often the issue that ultimately raises the broad range of issues about ageing. Ageing affects all retirement income

systems. In the typical pay-as-you-go public pension, ageing reduces the number of workers contributing to the plan and increases the number of retirees who benefit. The result in many countries is a serious fiscal challenge and strong pressures for reform.

52. The other sectors are often preoccupied with more immediate issues. Labour ministries are more concerned with high short-term unemployment than with the long-term nature of the work force. Health ministries are facing rising cost increases across the board, which may obscure the need to plan for the additional burden of ageing populations. Education ministries worry first about educating the young, and only later about lifelong education. The temptation to postpone attention to the longer-term issues relating to ageing population again suggests the utility of some overall national policy framework that specifically addresses the full range of ageing issues.

53. Specific cases where demographic realities seem to have been pushed aside in favour of more short-term concerns include:

- long-term health care issues that became lost in the fierce debate over the general reform of the health care system in the United States;
- long-run employment policies that were pushed aside in the discussion of current retirement age policies in France; and
- short-term policies to provide supplemental income support to unemployed workers in Finland that ignored longer-term implications for the labour market.

### **Analytic perspectives and financing issues**

54. Macroeconomic perspectives. Macroeconomic analysis focuses on the overall capacity of the economy to generate the resources to deal with problems. Budgetary or financing issues deal with the *mechanisms* by which the resources are in the event channelled to where they are needed.

55. Some demographic analysis focuses on overall dependency ratios by combining retirees, the young and the working age unemployed (Aaron; Fitz Gerald). Macro analysts may implicitly or explicitly assume that if the dependency ratios are reasonably favourable, and if the macroeconomic relationships among saving, consumption and investment are favourable to economic growth, there will be adequate resources to support ageing populations. This implies that the mechanisms exist to move resources around in the economy as the relationship among the dependent groups shifts. Such an implication may not be valid. Thus, while the macroeconomic analysis may be sound, it is incomplete from a public management perspective. For analysts or officials concerned with the financing issues for age-critical services such as health care and retirement, macroeconomic analysis is at best a point of departure. It is perfectly possible to develop macroeconomic projections of a sound economy, but for a public retirement scheme to be seriously under-funded. The implication of this under-funding, which is prevalent to at least some degree in most of the countries studied, is benefit reductions, tax increases, or both. Such policy changes are not easy regardless of macroeconomic conditions.

56. Budget allocations. Those concerned with the management of specific facilities or services have an even more practical problem: budgetary allocations. They cannot assume, for example, that reduced enrolment in primary and secondary educational institutions will free up funds for eldercare. (Ireland, faced with a rapidly declining school age population, is not reducing the size of its teaching staff but rather using it to lower class size and provide better education for disadvantaged groups.) Nor can funds for lifelong education be expected to appear simply based on a perceived need. In France, even reallocating funds within the education budget -- from primary schooling to secondary, for example -- was viewed as

difficult. Neither in France nor elsewhere were there mechanisms that encouraged explicit reordering of budget priorities in response to demographic change. Many countries -- notably Canada, Finland, Australia and the United States -- have faced fiscal consolidation that places pressure on all expenditure. This offers the possibility of focusing reductions in areas that, because of reduced demographic pressure, require relatively less funding. This would be a strategy of relative deprivation, not budgetary augmentation, and in any case it is unclear whether in fact such priority resetting is under way. Australia, for example, has launched a new programme to renovate and expand long-term care facilities, but did so without additional budget allocations. The programme, which was launched in 1997, will be partially funded from capital subscriptions for those entering the facilities and therefore excluded from the national budget.

57. Of course programmes for the aged (most notably pensions) are often funded through entitlement schemes, so they are, in a mechanical sense, automatically budgeted. However, it is exactly for this reason that finance officials in Member countries are concerned about them, and there is widespread discussion of delaying the retirement age and controlling health care costs.

58. From a public management perspective all of these points of view are valid, and all must be considered when evaluating the capacity of countries to deal with long-term issues.

59. Levels of government. In addition, many policies, particularly those that provide services for individuals, involve most or all levels of government and are carried out across levels of government. This requires particular sensitivity to issues of co-ordination, devolution and subsidiarity in the consideration of public management strategies. These concerns affect the *analytic* perspective as well. In federal systems, notably those studied (Canada and Australia), constitutional provisions allocate specific responsibilities to states or provinces. The long-followed practice of devolution to municipalities in Nordic countries, including Finland, is similarly important for many aspects of policy development. In the United States, Canada and Australia health care provision for the elderly falls heavily on states or provinces, while basic public pensions are national responsibilities and are administered nationally. As a result, policy development proceeds in quite different ways, with different concerns about issues of funding, control, administration and accountability. National programmes emphasise consistency and equality, supporting the ideal that citizens in similar circumstances should receive the same benefits from government programmes. Harmonisation and co-ordination across ministries and departments with related nationally administered programmes is at least possible, if not easy. Programmes shared with states or provinces are more likely to involve negotiated arrangements, or at least more flexible regulations, and therefore place relatively more emphasis on diversity. Co-ordination across ministries is, as a practical result, more difficult. The basic reason for this is not hard to see. In programme areas with shared responsibility and authority among or between levels of government, vertical negotiation and accommodation are essential. For nationally administered programmes, separate ministries generally have separate responsibility and authority but governments may employ a variety of techniques to co-ordinate programme design across ministries.

60. In order to develop an effective set of ageing policies across levels of government, it is, of course, essential that there be a shared understanding of the issues. Little information is available on this, but some interesting approaches are worth noting:

- In the United States, the Council of Governors' Policy Advisors conducted a study to see how much preparation and planning was under way at the state level for the ageing of the baby boom generation. The survey covered various issue areas: general ageing issues, education, transportation, housing finance, economic development and the workforce, and health care. In all of these areas except health care, state policy makers and administrators reported that

only 10-15 per cent of the states had programmes targeted to ageing populations. The survey concluded that, although state policy makers are aware of changing demographics, they see ageing as primarily a health care issue. This is somewhat surprising, since general health care for the elderly is a national responsibility; only health care for the poor elderly is shared with the states.

- In contrast, both the Australian state of West Australia and the US state of Florida have active and comprehensive policies targeted at ageing populations. (Florida is the only state with over 17 per cent population aged 65 or above. By the year 2020, 18 of the 50 states will share that demographic distinction.)

61. Whether Member countries have unitary or federal systems, it would be worth considering conducting surveys to find out how knowledgeable officials across levels of government are regarding the ageing problems they will soon face. Shared understanding is the first step to collaborative policy formulation.

62. Quantitative techniques. A number of countries use formal quantitative models to assist them in policy development. Both the methodologies and purposes of the tools are diverse. The most common are actuarial projections to project future cost of public pensions. While the methodology involved is relatively straightforward, the results may be very sensitive to small changes in initial conditions, such as productivity changes in the economy or fertility rates. While other techniques often involve difficult technical issues related to the inherent uncertainties of multi-year extrapolations, the results may also reflect the different methodologies themselves.

63. For example, a demographically driven model often leads to identification of substantially rising health care costs, while quite different statistical analysis explains health care costs as being almost entirely determined by income levels. The countries studied revealed a variety of approaches.

- In Japan, the Economic Planning Agency developed an econometric model that shows current health and welfare policies for the elderly to be completely unsustainable in the long run. The point of this is not to produce policy options, but to demonstrate the need for them. The Ministry of Finance has incorporated the results into its own materials to support the need for reforms.
- In the United States, the General Accounting Office and the Congressional Budget Office have both used projection models to make similar points about the unsustainability of current policy. They rely on a fair degree of judgement on the most reasonable assumptions to be made, often derived from other sources.
- The Australian Treasury Department has a long-term policy planning Retirement Income Model that is used extensively. It is based on a different non-econometric methodology.

64. The techniques used for modelling are not accessible to non-technicians. Yet the results are used explicitly to support policy changes. What lies behind them is inherently non-transparent, and thus their use for policy analysis and justification needs to be considered carefully.

65. This would be serious enough if the models themselves were reliable and non-controversial. However, this is not the case, partly because of the long periods of time involved. Many countries use alternative demographic paths to make their projections, which reveal the degree to which future outcomes are sensitive to (often small) differences in fertility, life expectancy and immigration assumptions. Economic projections involve additional variables, such as productivity, national savings rates, investment

levels, interest rates or long-term growth. Linear extrapolations of this nature are often very sensitive to changes in initial conditions or assumptions.

66. The Retirement Income Modelling Task Force in Australia has explicitly rejected econometric techniques because of the unsustainability of linear relationships over the long run. In contrast, the Economic Planning Commission in Japan has used *only* econometric projections of actual data in its work so as to avoid making subjective judgements on variables. Much of the difference between Japanese and Australian projections are the result of methodology, not data.

67. A French study on the future that focuses on labour markets takes a different approach, that of scenario building. This technique looks at several alternative possibilities (four, in the case of this study) and considers the implications of each. Scenario building does not produce a single outcome, but rather a range of them. It is designed to prepare decision-makers to consider reactions to several eventualities, rather than to produce a single set of policies. Because of this, scenario building has been used more as a tool for training of decision makers in both the public and private sectors.

68. Considering the widespread concern about ageing, it is surprising that policy prescriptions are not more, rather than less, controversial. In fact, the analytic foundations for them have clear weaknesses:

- In at least two of the countries studied, questions have been raised about the validity of basic demographic projections.
- In Ireland, which historically has paid much more attention to demography because of its out-migrations, projections are acknowledged to be uncertain, even for the immediate future, since for only the second time in over a century the net flow of people is now inward, and because it is difficult to predict the degree to which the current high rates of economic growth are sustainable. (In fact, the Actuarial Review cited in paragraph 34 used an appropriately conservative assumption on both net migration and economic growth.)
- In Finland, the serious medium-range disruption of the economy resulting from the break-up of the Soviet Union and the globalisation of the economy adds more than normal uncertainty to the economic projections (particularly of the labour force) on which much of the ageing policy is based.
- In many instances long-term country studies yield results that clearly indicate problems ahead, but the degree to which they are serious varies widely according to the assumptions made.

### **Institutions and organisations**

69. Policy capacity can range from a scholar working on a problem in a university to a policy analyst preparing a briefing for a minister. The product can range from the superficial and biased to the insightful and objective. There are some economies of scale, which make it easier for large countries to build policy capacity. This is because it is almost as easy to analyse the problems of 100 million people as 10 million. This advantage can be overstated, however, since large countries tend to have greater regional, economic or cultural differences than small ones.

70. Policy decisions affecting ageing populations are no different from most others in one respect: they are political acts for which democratic governments must ultimately be held accountable. For this

reason governments depend on the policy capacity of their own departments and agencies. How much they do themselves and how much they contract out to other government agencies or non-governmental institutions is the subject of debate and experimentation. Some countries view policy analysis as an inherently governmental function; others view it as something you buy like anything else.

71. The conflict between the interests of sectoral departments and agencies and those responsible for ageing policy across the board may be considerable. In Ireland, the work of the National Council on Ageing and Older People is a valuable resource, and its many reports and recommendations give it a strategic role in influencing long-term national policy as well as informing the public. In the United States there is an Office of Ageing, that manages a limited number of small programmes in addition to carrying out policy analysis. Relative to the agencies that are responsible for social security and healthcare for the elderly, it has a small budget. The real policy capacity exists in the large agencies that run very large programmes, especially social security and health. It is these agencies that are better able to finance major policy analysis. In addition, the Office of Management and Budget, which is part of the Executive Office of the President, while relatively small, is extremely well positioned to co-ordinate policy analysis and its recommendations carry great weight.

72. Several of the countries studied support independent policy research organisations that are wholly or largely supported with government funds. They appear to maintain enough independence so that their credibility is high. In Ireland, the Economic and Social Research Institute (ESRI) and the National Economic and Social Council (NESC) both fill this role in different ways. The ESRI was established in 1960 under a grant from the Ford Foundation of the United States. Its role is to provide independent policy-related research. It has published a broad-gauge study of ageing issues in *Welfare Implications of Demographic Trends* under commission from the Irish Combat Poverty Agency. The NESC provides a forum for discussion of principles relating to the development of the economy and advises the government on their application. Its membership includes both government officials and individuals nominated by the government along with representatives of trade unions, business groups, farmers and co-operatives. Its *Strategy Into the 21<sup>st</sup> Century* is a widely read and respected national policy document that has been used as the information base for the development of a national policy framework.

73. In Japan and the United States, policy “Think Tanks” are common. In the United States, where policy analysis is a major industry, there are many of these institutions supported by endowments, grants from foundations, government contracts and personal or corporate contributions. They are surrounded by institutions that represent particular interest groups and designed to advocate particular points of view, from railroads to environmentalists. It is not always easy to judge the degree of objectivity of these various institutions. The United States is unique in having major policy analysis on ageing issues carried out by the legislative branch, usually under the instruction of a congressional committee.

74. Commissions or committees, established by particular ministries or by policy units at the centre of government, can also be an important source of policy analysis. These entities need independence, balanced membership, and competent staff support to enhance their credibility. Commissions have been used for many years on a periodic basis to investigate the viability of the US social security system, with the result that long-term demographic trends have been periodically reviewed in public for decades. Commissions may draw on the existing analysis capability of government departments and agencies, serving a useful role in framing questions in the right way and giving public visibility to policy options or recommendations. Ireland has developed a very effective and open procedure of involving social partners in developing a basic framework for national economic and social decisions. The Irish government brings together representatives of diverse groups in Irish society for an informed and structured debate, with the express purpose of working together to produce a national framework statement. This pattern was also recently used to develop a consensus on a national education strategy. This approach has also been

applied to a national ageing strategy through the National Pensions Policy Initiative. As part of this initiative, representatives of employers organisations and trade unions have worked together as members of the Pensions Board. The involvement of the social partners in developing a national pensions strategy is to continue, following publication of the Pensions Board report. The government has decided that, given the potential implications for the social partners in relation to the question of social insurance rates and part pre-funding of social welfare pensions, they could be consulted following the government's examination of these issues.

75. The positioning of analytic staff and their relationships with the decision-taking units of government are important, but so are the criteria by which the quality of policy analysis capacity is judged. These include:

- technical competence;
- objectivity;
- creativity;
- evaluation skills;
- an understanding of *both* the need for policy coherence and diverse interests and viewpoints; and
- effective working relationships with statistical agencies and other data sources.

### **Co-ordination**

76. Co-ordination of ageing policy is frequently cited as a problem. It raises one of the basic dilemmas of public management reform. On the one hand, many governments are delegating and devolving. On the other hand, an effective policy toward ageing requires co-ordination at least among education, labour, public pension, health care, and macroeconomic policies. Moreover, the intangible but essential quality of leadership is needed.

77. In considering the question of policy co-ordination, it is essential to distinguish the development of a national integrated policy dealing with the problems of ageing populations on the one hand, and the challenge of co-ordinating the operating policies of ministries or agencies that have the responsibility of carrying out programmes in specific policy areas on the other. For example, as indicated in paragraph 71, the National Council on Ageing and Older People in Ireland is able to articulate how various aspects of policy relating to its mandate can be developed in a way that is both comprehensive and consistent. It is not, however, in the position to impose these policies on the major operating ministries or agencies dealing with healthcare, social security, labour, etc. In Australia, the Federal Government has set about developing a new National Strategy for an Ageing Australia, which, according to an official announcement, "will involve the co-ordinated development of public policy across all sectors and at all levels of government." As of early 1998 the terms of reference for that National Strategy were yet to be developed, and it is too soon to see if its ambitious goals can be achieved.

78. Whatever the eventual outcome, the development of comprehensive strategic programmes are at best only first steps. There remain the further tasks -- ones that from the perspective of public management are substantially more difficult -- of developing mechanisms by which the operating agencies and ministries can co-ordinate their policies and their operating programmes both among themselves and, in many cases, with other levels of government.

79. Interministerial groups, either permanent or temporary, can be useful mechanisms. However, if the mandate of such a group is too broad, it is hard to sustain the interest of the members. Moreover,

Member countries differ in the degree to which their governments have strong traditions of collaborative work, particularly at the ministerial level. The recent experience in the United States in trying to achieve a basic restructuring of health care shows how difficult policy co-ordination can be, and yet that was only one aspect of ageing policy. This problem is made even more difficult by the fragmented responsibility brought about by the committee structure of the Congress. Coalition governments have a different set of difficulties to overcome that call for a tradition of compromise and consensus building.

80. Canada (among others) has experimented with the use of Ministers of State who are given policy responsibility for cross-cutting issues while leaving in place the structure and responsibilities of the traditional operating agencies. The United States has a tradition of appointing “Czars” in the White House to co-ordinate policy. Currently such a position exists for drug control. It has also had some success with a cabinet-level office to co-ordinate and negotiate trade policy. It has not thought to use this approach for ageing issues. Finland has adopted a “lead ministry” approach, with the Ministry of Social Affairs and Health and the Ministry of Labour and Education as the main actors in co-ordinating the national ageing programme.

81. Consultative committees and commissions can fulfil a co-ordination role in addition to the public information and education role discussed earlier. Such groups can actually recommend roles to various parts of government in a co-ordinated fashion, and can, for example, bring together tax, pensions and health care policies into a comprehensive package of programmes that take a consistent and coherent approach to ageing.

82. It is also clear that unofficial and informal systems are at work. In France, senior government officials and politicians use informal networks to exchange information and ideas, and the Japanese governmental system is well known for its use of informal consultation. In the United States, which has a high percentage of political appointments in its national government relative to most OECD Member countries, these appointments are used in part to move policy advisors and decision makers in and out of think tanks, universities, and congressional offices, thus creating an extensive informal network of exchange.

83. The co-ordination of services across levels of government creates an additional problem. If co-ordination among ministries responsible for operating programmes and conducting macroeconomic and tax policy can be said to be a problem of horizontal co-operation, working with other levels of government can be said to be a vertical one. There is considerable variation in the degree to which vertical co-ordination is a problem among Member countries, depending in part on the size of their population and the degree of autonomy given to different levels of government.

84. The United States, with its large size and federal system, is perhaps the most complex, with over 75 000 units of government (including school and water districts) by some counts. The large number of states, as compared with Canada and Australia for example, makes it very difficult to work with individual states directly. As a result, other levels of government organise themselves through such institutions as the National Governors’ Association, the National Association of State Legislators and the League of Cities. The survey conducted by the Council of Governors’ Policy Advisors in 1996 on the ageing of America (mentioned above) indicated that although states are aware of the changing demographics, it is viewed mostly as a health care issue. The survey revealed that no state had surveyed the baby boom population regarding its future education needs, its desire for lifelong learning, or anticipation of lifestyle changes. This illustrates that despite all of the discussion of the role of devolution in the United States and elsewhere, ageing policy remains overwhelmingly a national issue.

85. In contrast, the State of West Australia has had an agency for seniors since 1986. It was restructured in 1994. With a small staff of 20, it fulfils a steering role rather than an operational one. It conducts research, distributes information and co-ordinates policy among national, state and local governments. The state government views itself as promoting a positive agenda focusing on the social, cultural and economic benefits of the ageing population. Interestingly, the agency sees its task as reaching a broad cross-section of the population, including children, youth, and young adults, and non-governmental business and non-profit organisations.

86. A very different approach can be found in Finland. There, the National Research and Development Centre for Welfare and Health (STAKES), is an independent agency working under the general guidance of the Ministry of Social Affairs and Health. It carries out research for the Ministry, much of it on issues relating to ageing populations under “result agreements” with the Ministry. It also works directly with municipalities, disseminating its research results to them. It considers both to be its clients. Similarly, the Finnish Institute of Occupational Health has done extensive work on the adaptation of the workplace to accommodate older workers in anticipation of the time when there will be a demographically induced skilled labour shortage in Finland. It also works directly with Finnish enterprises. In these cases the Finnish public management system has eliminated the requirement that research institutions channel their results through third parties.

### **Consensus building**

87. There are a few notable exceptions, but in general building a consensus to support policy reform is not explicitly addressed by the institutions and individuals involved in this survey. Those who produce data and those who use it for policy analysis do not generally see themselves as responsible for fostering a public debate on the issues involved. Indeed, for some research institutions, publicising results to a wide audience may be viewed as suspect. One highly respected policy economist at a “think tank” in the United States said “we write our books as if we expect they will be read by Cabinet members, but in fact we know they are read by university graduate students”.

88. At a meeting of several policy analysts from two such institutions, the group seemed at a loss to answer the questions as to where the leadership should come from in the United States to build an understanding of the implications of ageing populations among the general public. The only specific suggestion was that it should be done by the President, a questionable proposition given the political culture in the United States. However, in connection with the widely recognised need to restructure the social security system because of long-range demographic pressures, the President has proposed that a process of national consensus building be developed. It is not yet clear how this concept will be implemented.

89. Officials responsible for specific policies on ageing have at least three possible clients: their own minister and the government; stakeholders or interest groups; and clients for their services, often viewed also as customers and voters. Australia has just completed a reorganisation of its nationally administered welfare system into a service delivery agency and a separate Department of Social Security, the latter largely responsible for policy analysis and advice. It has explicitly decided that its client is the minister and the government. It does consult extensively with stakeholders and interest groups -- a process, of course, that leads to consensus building. But it is unclear in Australia, as in many other countries, how the consensus-building responsibilities are decided between politicians and officials. A recent example of the problems this can create was the development of a new financing scheme for long-term institutional care. If press reports are to be believed, no-one had prepared the public with a clear explanation of the new

policy. Rather than being viewed as a long-term solution to a badly under-capitalised sector of public services, there was immediate confusion and opposition.

90. The use of high-level public commissions and committees is a technique often used both to develop new policy proposals and to build a consensus to support these policies. Indeed, this is the most commonly used consensus-building technique in the Member countries. These commissions often enhance their consensus-building capacity by holding public meetings during which a broad range of opinions are discussed by people representing a cross-section of the population.

91. Some countries take advantage of commissions with well-respected and well-known public or academic members to encourage consensus building. In France, committees on retirement and health policy have been headed by prominent individuals who have guided the production of reports that reflected their own expertise, in contrast with reports that simply summarise technical data and present alternative views. Japan similarly relies on the prestige of commission members as an important element in gathering support for conclusions. More than one person interviewed in Japan indicated that the public would accept dramatic policy change without major resistance or objection in response to the ageing of the population, once the need for these policies was adequately explained from an authoritative source.

92. In contrast, the Irish use the much more consultative approach discussed earlier. It has been most successful in bringing together representatives of major stakeholders in Ireland -- especially labour and industry groups -- to work out broad, three-year guidelines for economic and social policy. A fourth in this series of strategies was completed in 1996 and was the basis for a new agreement, *Partnership 2000*, signed during the course of this study. In *Partnership 2000*, both the stakeholder representatives and the scope of issues were broadened. A similar approach was used for a long-range review of education policy. Representatives of stakeholders met for two weeks to discuss a series of policy and issue papers prepared for the meeting. That procedure, which was characterised by transparency and free debate, resulted in a report on the policy consensus emerging from the meeting, and later a Department of Education White Paper on future education policy.

93. According to those interviewed, the Irish approach depends on the participants acting in the spirit of compromise to achieve a constructive result. It is also expected that the government, while not committed to accepting the outcome of the meeting in detail, would be substantially guided by the result. Thus, while this technique may appeal to other Member countries as an approach to building consensus support for long-range policies, it may work in some cultures better than in others, and may partly constrain the government's options.

94. The Japanese Ministry of Health and Welfare is considering a consensus-building approach to public pension reform that would represent a substantial deviation from normal practice. This reform is essential because of the stress the ageing population is placing on financing the existing system. Usually, officials responsible for policy development in Japan engage in extensive but informal consultation before official consideration of a policy begins. This consultation may include interested parties outside of the lead ministry, or even outside of government. As a result, when the official consideration of the policy takes place, the result may be a foregone conclusion, or at least debate may be limited or *pro forma*.

95. A proposal under consideration is to distribute widely to the public a publication outlining three alternatives for future pension benefits, emphasising that the higher the benefits the higher the costs. The idea is to encourage a much wider and more public debate of the choices involved. As with the Irish system of consensus building, this would place the government in the position of considering alternatives in public, rather than making its own choice and then pushing it through the *Diet* or selling it to the public.

### *Carrying out policy*

96. In most respects the implementation of policies related to ageing is no different than the implementation of any other policies. There would be little utility in reviewing in this context the full range of issues on this subject. However, there are a few aspects of programme implementation that are particularly relevant to ageing issues. In addition, as demands for public sector financial support increase and caseloads expand in response to demographic pressures, there is both the need and the opportunity to re-examine how public services are provided.

97. One approach is to consider the instruments used -- particularly to evaluate those that have traditionally been used. This is part of the active debate in many countries on restructuring retirement income systems. No longer are public sector defined benefit schemes assumed to be the only or primary approach. The United States, Japan and Australia are discussing or have under way the use of government sponsored or mandated private pensions to supplement (or replace) public ones. Obviously, private pensions and other means of saving for retirement have long been available if individuals wish to invest in them, so these new instruments imply something beyond them. In Australia joining these schemes is not voluntary, and the percentage of payroll going to them has been increasing annually. The governmental role is to establish a system of regulation to minimise the risks associated with private financial institutions. There is considerable potential for governmental instruments (such as reinsurance schemes) that provide indirect public support without placing heavy burdens on national budgets or unduly restricting the functioning of markets or the exercise of private choice.

98. A quite different approach to the choice of public policy instruments is the use of information, including innovative application of information technology. As a public health measure, for example, information has significant potential for improving the physical well-being of elderly people. The Internet is being used to disseminate public information on ageing issues by the state governments of Florida (USA) and Western Australia. By the year 2010 access to the Internet is likely to be substantially more useful, since it will be both technically simpler and less expensive.

99. A third example of innovation in the use of instruments is in providing care for elderly people. As people age their ability to be fully independent diminishes. However, this does not mean that they automatically divide themselves into two discrete and distinctive groups: those who can maintain conventional living arrangements and those who require institutional care. In addition, public support for institutional care has often evolved in such a way that the most costly facilities (hospitals) are the least expensive to the user. These factors have encouraged consideration of a variety of instruments providing flexibility in the provision of care with the goal of finding cost-effective and humane solutions. (A discussion of policy instruments is contained in a document by the Public Management Service.)

100. Related to the choice of instruments are innovations in service delivery. Again, these reforms are not solely applicable to programmes related to ageing, but they are disproportionately relevant to them. Of particular interest from a public management perspective is the development of one-stop shop techniques at the *local* level. (See publication by the Public Management Service on innovations and improvements in service delivery, *Responsive Government: Service Quality Initiatives*, OECD, 1996.) A major, but largely unrecognised, managerial innovation, it is based on reversing the assumption that for government services to be co-ordinated at the local level, they must first be co-ordinated at higher levels. For the reasons discussed above, this may be very difficult to do -- but it may also be unnecessary. Just as a local retail store provides goods from a wide range of suppliers, so can a one-stop public sector service centre provide access to services from a broad range of government ministries, agencies and programmes. The burden of understanding the rules and procedures for each programme is shifted from the citizen as the client to the caseworker -- an obvious efficiency. As people grow more elderly they are likely to require

more services, and to find the process of finding them and the rules that apply to them increasingly difficult to cope with. Thus one-stop shopping is of particular importance to this group.

101. Public management reforms often include the delegation of responsibility downward in governmental structures and devolution of tasks to lower levels of government, non-profit entities or private sector firms. As countries increase the financial and service support to the elderly, these approaches can be expected to increase in prominence. Public managers will need to adjust accordingly. How this applies in any given instance is, of course, not predictable. However, the example from Finland cited earlier may illustrate the point. The independent agency responsible for workplace health and safety has done extensive research on the degree to which conditions are conducive to the characteristics of older workers, in anticipation of the demographically induced reduction in the age cohorts that now supply most workers. This research not only considers physical characteristics of work such as strength and endurance, but also approaches to training that are more suitable for mature people and social characteristics that make the workplace attractive to them. Although the institute is under the general direction of the Ministry of Social Affairs and Health, it applies its findings by working directly with municipalities and firms.

102. The ministry's role has been to steer, in this case by encouraging the institute to become concerned with the implications of demography and to anticipate the need for older workers. Rather than reporting findings back to the ministry and leaving it up to some other organisation, also under the direction of the ministry, to consider how the findings might be applied, the institute does so directly. If such approaches are to be increasingly common, the central authorities will need to focus on communicating needs and missions rather than regulations and instructions.

103. These approaches do not mean that more traditional management concepts will or should be abandoned. Pension cheques will still need to be issued on time, disability programmes administered on an equitable basis and medical facilities built, maintained and staffed. However, the new approaches are consistent with reality, which is that the policy implications of the ageing of the population are complex, and as a result effective governmental responses will need to rely to the extent feasible on self-organising systems. These systems minimise the need for top-down direction and policy co-ordination in detail.

## PART 5 -- CONCLUSION

104. The OECD has set forth a challenging mix of policies to deal with ageing people and ageing populations. With its emphasis on comprehensive approaches to the issues; on the need to consider ageing as a lifetime issue; on the importance of co-ordinating fiscal policy, private sector activity and government service delivery at national, regional and local levels; and on the need for comprehensive strategies of information and consultation, this is a challenging mix of policies that OECD Member countries are at present not well equipped to manage. The challenge is even greater because it has to be addressed while avoiding a return to the old command and control management systems, which were eliminated by a decade of reforms emphasising decentralisation and line managers' autonomy. This calls for innovative solutions and repeated consensus-building efforts. Moreover, in most countries funds are short, not only to pay for benefits and expand and initiate programmes, but to gather data, carry out research and support policy analysis.

105. These problems are exacerbated by the fact that many reform-minded governments are moving toward more flexible systems, devolving responsibility to lower levels within government units or to lower levels of government. More emphasis is placed on private activity, whether through voluntary institutions or profit-making ones. Regulatory burdens are being lightened, and more emphasis is being placed on diversity and creative solutions.

106. Clearly, the response of policy agencies in government is going to require innovation and creativity within a flexible strategic action plan that will take these constraints into account. New models of government activity are going to be needed. Citizens are going to rely more on information and less on direction. Policy co-ordination will need to be based on co-operation and consensus among agencies and departments and among levels of government. Classical, top-down, rule-based control systems will not function well in this new environment.

107. Consensus building will become an important aspect of policy. There needs to be less emphasis on what technicians and analysts see as best policy or best practice, and more on consensus solutions and practices that please citizens, whatever their age.

108. There is a natural tendency of those who grasp some or all aspects of changing demography to sound the alarm -- to warn of serious consequences unless action is taken soon. This study of public management in seven countries suggests caution. First, analysts in a number of countries are warning against overstating the problems associated with ageing populations. In Ireland, the point is made that even under the most pessimistic assumptions economic conditions will be better, not worse, than those that the nation has already observed. Others point out that there are many market and other adjustment mechanisms to ease the transition to new demographic conditions. In Australia, Japan, the United States and France, analysts and officials have pointed out that the objective well-being of the elderly in most respects -- from health status to income to housing -- is likely to be very good by any historical standards, and in France there was a concern that overstating the problem would lead to resistance to reform, rather than the opposite.

109. Second, the analytical bases for many projections are questionable. These techniques would not, ten years ago, have predicted such major changes as:

- the impact of the break-up of the Soviet Union on Finland;
- the extremely low non-inflationary unemployment rate in the United States;
- the stagnation of the Japanese economy; or
- the reversal of immigration patterns in Ireland.

110. When analytic techniques are used for serious public policy issues, credibility is an issue. For example, few analysts would be willing today to support their public pension policy recommendations on recently fashionable rational expectations theories.

111. Third, individuals in market economies and democracies are adaptable. Behaviour changes, including the behaviour of institutions, small and (sometimes) large. Not every contingency requires a government response, not every problem a government solution.

112. These points are well taken. But there are a number of important and responsible public management actions that Member countries may wish to consider, including the following.

- Informing their citizens as best they can of what the future has in store. In so doing statistical and analytic bodies need to be provided with the resources they need in the context of fiscal constraint, and structured to ensure high-quality work that has high public credibility. Informing the public in this way is in keeping with both the spirit and practice of public management reform and the OECD's policy recommendation on coping with ageing populations.
- Using this information to encourage constructive debates and consultations on the issues. Member country political systems are quite diverse in the degree to which they rely on purely vote-based legislative systems as opposed to consensus-based systems to determine policy, so no rule applies to all. However, consensus development can be a powerful tool to achieve solutions to complex problems.
- Ensuring that those aspects (such as macroeconomic policies) that must be dealt with at the national government level are clearly identified and provided with strong leadership at senior levels. At the same time, central management agencies need to be organised so that essential policy co-ordination takes place without demanding unreasonable amounts of time and effort from senior political leaders.
- Treating issues of ageing as an opportunity to use new public management ideas and instruments and to encourage flexibility and creativity. In this connection, information, consultation and incentive mechanisms can be used both to develop policy responses and to make the implementation of these policies more self-executing.

## NOTES

1. Australia, Canada, Finland, France, Ireland, Japan, the United States.
2. See *Governance in Transition: Public Management Reforms in OECD countries* , OECD 1995.
3. As noted in paragraphs 2 and 14.