
Towards Sustainable Development:
the Role of Social Protection

Marco Mira d'Ercole and Andrea Salvini

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Towards Sustainable Development: the Role of Social Protection

Marco Mira d'Ercole and Andrea Salvini

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SUMMARY

1. Three main elements characterise the notion of sustainable development: first, a broad view of human well-being, in which environmental and social elements are important as well as economic ones; second, the view that many of the effects of today's decisions will last over time, thereby affecting the well-being of future generations; third, the view that many of today's problems have their roots in actions and policies in other fields, whose unintended consequences may not be coherent with society's broader priorities and aspirations.

2. While particularly relevant in the environment field, Chapter 1 argues that these notions also permeate analysis of a large range of social concerns. This is so in particular because of their inter-generational dimension. Social problems affecting individuals in a given phase of their life-course often influence their opportunities at a later phase, as well as those of their offspring. Most social programmes also represent a form of intergenerational transfer, whose financing may weigh heavily on the employment opportunities of current and future generations of workers. Chapter 1 also notes the importance and complexity of the links between social, economic and environmental processes, which can either support each other or imply difficult trade-offs between competing goals. This suggests two insights from the sustainable development literature that are of special relevance when applied to the social field. First, the importance of moving beyond a *curative* role for social policy, towards a greater focus on *prevention* and on the incentive structures of agents. Second, the need to move away from the typical one problem / one instrument approach in the formulation of social interventions, towards greater *ex-ante* integration of social goals into other areas of policy making.

3. Approaches to the social aspects of sustainable development translate into a different focus whether applied at the global or at the domestic level. At the global level, as argued in Chapter 2, such discussion calls attention to the collective responsibility of the international community, and of OECD countries in particular, to reduce absolute poverty and to shape globalisation to the benefit of all. This requires coherent policies in the fields of trade, investment, development co-operation and technology transfers, and the leveraging of the initiatives of a wide range of actors (governments, firms, workers, voluntary groups, citizens and consumers).

4. While this global perspective often dominates discussions about sustainable development, this report is mainly devoted to the domestic issues faced by individual OECD countries. At this level, a primary focus for discussions about the social aspects of sustainable development is the role of social protection systems in creating more inclusive societies. While the intergenerational aspects of sustainable development are often expressed in terms of the need to preserve different types of capital (man-made, natural, human and social), Chapter 3 argues that the *sustainability of institutions*, and in particular of those attending to the social needs of individuals, is as important to achieve sustainable development. The social protection system is an essential component of these institutions. Its sustainability requires preserving its capacity to respond to the needs of citizens, today and in the future, by adapting to the radical changes in the conditions under which it was first established.

5. Trends that are affecting the long-term sustainability of the social protection system may be grouped under four headings. First, *demographic changes*, such as longer life expectancy, lower fertility and greater migration pressures, which have created new demands on social protection systems and added

to the costs of financing existing programmes. Second, changes in the *role played by families*, towards greater diversity of family settings and weaker ties to other family members, which have weakened social links for many individuals, increasing their isolation and creating demands for alternative forms of support. Third, changes in the *working environment* and in the nature of work and of joblessness, which have increased pressures on social protection for reconciling firms' search for greater flexibility and workers' needs for security against old and new risks. Fourth, changes in the *distribution of economic resources*, with greater inequality in the distribution of market income and large shifts in disadvantage among demographic groups, which have highlighted the inadequacy of policies aimed at offsetting such shifts *after* they have occurred, through taxes and transfers, and increased the importance of preventive interventions focused on those at greater risks of exclusion. All these changes have altered the nature of the risks confronting individuals, leading to the emergence of new needs and of new constraints affecting the capacity of different actors to respond to them. When institutions fail to adapt to these changes, they end up supporting the wrong people, with the wrong instruments, at the wrong time in their lives.

6. Chapter 4 looks at the needs and vulnerabilities confronting individuals at different stages in their life-course. It argues that these social needs, and the extent to which they are met, have implications for sustainable development both because of the persistence of their effects, and because they are the result of forces outside the immediate remit of social policies. The chapter also discusses the policy reforms needed to address these needs in ways that are both economically effective and socially desirable. Some of the insights, for each of these stages in the individuals' life-course, are given below:

- Experiences during *childhood* affect opportunities and human capital investment in adult life. Needs of children are shaped by both changes in family settings, away from the nuclear type, and labour markets, as jobs become increasingly concentrated among different types of families. Supporting child development, and reconciling this goal with greater economic opportunities for mothers, requires a combination of income transfers, measures to increase the income self-reliance of parents, and provision of quality and affordable early education and care, so as to help families to combine work and care and to prepare children for learning in schools.
- The *education system* plays a crucial role for the accumulation of human and social capital, for economic growth and for the distribution of its benefits in society. Because of the greater importance of knowledge in today's societies, failure in school and poor quality qualifications have large consequences for the well-being of students later in life. Sustaining the pace of human capital accumulation, in a context of lower inflows into the school system, calls for greater focus on the quality of education and on promoting equity in educational opportunities so as to offset forms of disadvantage among families with different resources.
- A long and ineffective *transition from school to work* affects not only the labour market outcomes of youths but also their experience of independent living, partnership formation and decisions to have children. Improving this transition, and addressing the disadvantage faced by youths who did not continue on to further education and training after compulsory schooling, requires greater diversification of the education system to accommodate diversity in learning needs, labour market institutions that do not penalise labour market entrants relative to workers already settled in secure jobs, and programmes targeted to at-risk youths.
- Changing *working conditions* have increased the importance of supporting the adaptability of all workers throughout their life. Life-long learning is still far from being a reality in most countries, and the training that firms provide tends to reinforce skill differences resulting from unequal participation in schooling. Improving the adaptability of workers, and responding to the greater diversity of workers' needs, requires measures to expand provision

of adult training and to make access to it more equal, to shift labour market programmes away from income maintenance towards active measures, and to make work pay.

- Persistent *poverty and exclusion* are critical concerns not only at the global level but also in individual OECD countries. Because of the concentration of poverty and exclusion, attention needs to shift from supporting individuals from the immediate hardship they face towards increasing the degree of self-reliance of families and individuals facing risks of persistent poverty. This calls for measures to support acquisition of skills and entry (or re-entry) into employment, and reforms of programme's features that might encourage benefit dependency.
- Because of population ageing, most OECD countries must confront the challenge of ensuring the *sustainability of their retirement income systems*. Measures that simply increase current contributions or cut future benefits raise prospects of growing conflicts between a larger generation of older benefit recipients and a smaller generation of younger contributors. Diversification of economic resources in old age and a reduction in the imbalance between the time spent working and that in retirement are the guiding principles for reforms aimed at securing the financial sustainability of retirement income systems. However, these reforms should avoid compromising income adequacy in old age for the most vulnerable groups.
- Population ageing also increases the number of individuals facing risks of *illness and disability in old age*, at the same time as lower rates of institutionalisation and higher labour force participation of women are reducing the availability of care in institutions and families. Developing an adequate infrastructure to meet needs for care in old age, while minimising pressures on public budgets, requires partnership between public authorities, families and communities, provision of a continuum of services adapted to needs, and greater integration between health, housing and retirement income policies. Measures to combine care-giving and flexible employment are also needed to minimise the burden falling on care-givers (mainly older women) and avoid reducing their opportunities for paid employment.

RÉSUMÉ

7. Trois éléments principaux caractérisent la notion de développement durable : d'abord, une vision large du bien-être humain, suivant laquelle les aspects sociaux et environnementaux sont importants, au même titre que les aspects économiques ; en second lieu, l'idée qu'une bonne part des conséquences des décisions prises aujourd'hui auront un effet durable et affecteront donc le bien-être des générations futures ; troisièmement la prise en compte du fait qu'un grand nombre de problèmes actuels ont pour origine des actions et des politiques concernant d'autres domaines et dont les conséquences non voulues peuvent ne pas être cohérentes avec les priorités et les aspirations plus larges de la société.

8. Tout en concernant particulièrement le domaine de l'environnement, le chapitre 1 montre que ces idées s'appliquent également à l'analyse de nombreuses questions sociales. Cela tient en particulier à leur dimension inter-générationnelle. Les problèmes sociaux qui touchent les individus à un moment donné de leur vie influent souvent sur leurs perspectives à une étape ultérieure, ainsi que sur celles de leurs enfants. La plupart des programmes sociaux représentent également une forme de transfert entre générations, dont le financement peut peser lourdement sur les possibilités d'emploi des générations actuelles et futures. Le chapitre 1 constate également l'importance et la complexité des liens entre les processus sociaux, économiques et environnementaux, qui peuvent soit se renforcer mutuellement, soit nécessiter des choix difficiles entre objectifs contradictoires. Ce constat suggère que deux idées provenant de la littérature sur le développement durable sont spécialement pertinentes si on les applique au domaine social. En premier lieu, l'importance d'un dépassement du rôle *curatif* des politiques sociales, pour mettre davantage l'accent sur la *prévention* et sur les structures d'incitation. En second lieu, la nécessité de s'écarter de l'approche habituelle « un problème/une mesure » dans la formulation des interventions sociales, pour aller vers une intégration plus large des objectifs sociaux dans les autres domaines couverts par les politiques publiques.

9. L'approche des aspects sociaux du développement durable se traduit par des priorités différentes suivant qu'il s'agit du niveau global ou national. Au niveau global, comme le montre le chapitre 2, cette analyse attire l'attention sur la responsabilité collective de la communauté internationale et en particulier des pays de l'OCDE, pour éliminer la grande pauvreté et pour adapter la globalisation au bénéfice de tous. Il faut pour cela des politiques cohérentes dans le domaine du commerce, de l'investissement, de la coopération pour le développement et des transferts de technologie, et s'appuyer sur les initiatives d'une panoplie d'acteurs (gouvernements, entreprises, travailleurs, associations, citoyens et consommateurs).

10. Si les discussions sur le développement durable adoptent généralement un point de vue global, ce rapport est principalement consacré aux questions sociales qui sont spécifiques à tous les pays de l'OCDE. A ce niveau, un aspect primordial pour la discussion sur les aspects sociaux du développement durable est le rôle des systèmes de protection sociale pour la cohésion sociale. Si les aspects inter-générationnels du développement durable sont souvent exprimés sous forme de besoins de préserver différents types de capital (produit par l'homme, naturel, humain et social), le chapitre 3 montre que la pérennité des institutions, et en particulier de celles qui concernent les besoins sociaux des individus, est également importante pour arriver à un développement durable. Le système de protection sociale est un élément essentiel de ces institutions. Sa pérennité nécessite de préserver sa capacité à répondre aux besoins des citoyens, aujourd'hui et à l'avenir, en s'adaptant aux modifications radicales qui sont intervenues dans le contexte dans lequel historiquement il a été mis en place.

11. Les tendances affectant la pérennité des systèmes de protection sociale peuvent être regroupées en quatre catégories. D'abord, *les évolutions démographiques* telles que l'allongement de la durée de vie, la diminution de la fécondité et de plus grandes pressions migratoires ont créé de nouvelles demandes pour les systèmes de protection sociale et ont accru le coût du financement des programmes existants. En second lieu, la modification du *rôle joué par les familles*, dans le sens d'une plus grande diversité des situations familiales et d'un relâchement des liens avec les autres membres de la famille a affaibli pour beaucoup d'individus leurs liens sociaux, accru leur isolement et créé un besoin d'autres formes de soutien. En troisième lieu, le changement des *conditions d'emploi*, de la nature du travail et du chômage a exercé une pression sur la protection sociale afin de mieux concilier les besoins d'une flexibilité plus grande des entreprises et ceux de sécurité des travailleurs face aux risques anciens et nouveaux. Quatrièmement, les changements intervenus dans la *répartition des ressources économiques*, qui impliquent une inégalité croissante dans la répartition des revenus marchands et l'aggravation de la situation relative de certains groupes de population, ont souligné l'insuffisance des politiques visant à remédier *a posteriori* à cette aggravation, par la fiscalité et par des transferts sociaux, et accru l'importance des mesures préventives visant les personnes qui risquent le plus l'exclusion. Tous ces changements ont modifié la nature des risques auxquels les individus doivent faire face. Ils ont fait apparaître des besoins nouveaux et de nouvelles contraintes affectant la capacité des différents acteurs à faire face à ces risques. Lorsque des institutions ne s'adaptent pas à ces évolutions, elles finissent par manquer leur cible, et par utiliser de mauvais instruments, au mauvais moment.

12. Le chapitre 4 examine les besoins et les risques que rencontrent les individus à différentes étapes de leur vie. Il montre que ces besoins sociaux et les remèdes qui leur sont apportés ont des conséquences pour le développement durable, à la fois en raison de la persistance de leurs effets et parce qu'ils résultent de forces qui échappent à l'influence immédiate des politiques sociales. Le chapitre analyse également les réformes des politiques nécessaires pour répondre à ces besoins d'une manière économiquement efficace et socialement souhaitable. Chaque étape de la vie est examinée sous cet angle :

- Les expériences durant *l'enfance* affectent les perspectives d'avenir de l'individu et la qualité de son investissement dans le capital humain. Les besoins des enfants sont influencés par les changements du cadre familial, qui est de moins en moins une famille nucléaire, ainsi que par le marché du travail, les emplois étant de plus en plus concentrés sur certains types de familles. Soutenir le développement des enfants et réconcilier cet objectif avec davantage d'opportunités économiques pour les mères nécessite une combinaison de transferts de revenus, de mesures pour accroître l'autonomie financière des parents, de dispositifs de qualité et pas trop coûteux d'éducation et d'accueil des jeunes enfants, afin d'aider les familles à combiner le travail et les soins des enfants et de préparer les enfants à leur scolarité.
- Le *système d'éducation* joue un rôle crucial pour l'accumulation de capital humain et social, pour la croissance économique et pour la répartition de ses bénéfices dans la société. Etant donné l'importance croissante des connaissances dans les sociétés actuelles, l'échec scolaire et un niveau de qualifications insuffisant ont de grandes conséquences sur le bien-être ultérieur des élèves. Pour maintenir le rythme d'accumulation du capital humain, alors que les flux d'entrées dans le système scolaire diminuent, il faut mettre davantage l'accent sur la qualité de l'éducation, et sur l'égalité des chances en matière d'éducation, de manière à compenser les handicaps des familles disposant de différents niveaux de ressources.
- Une transition de *la formation initiale à la vie active* longue et inefficace affecte non seulement les perspectives d'emploi des jeunes, mais aussi leur capacité à mener une vie autonome, à former un couple, et à décider d'avoir des enfants. Améliorer cette période de transition et remédier aux difficultés rencontrées par les jeunes qui n'ont pas poursuivi

d'études ni de formation après la scolarité obligatoire suppose une plus grande diversification du système éducatif pour répondre à la diversité des besoins d'apprentissage, ainsi que des institutions du marché du travail qui ne pénalisent pas les nouveaux entrants et des programmes s'adressant aux jeunes à risque.

- L'évolution des *conditions d'emploi et de travail* a donné une plus grande importance à la capacité d'adaptation des travailleurs tout au long de leur vie. Dans la plupart des pays, l'apprentissage à vie est encore loin d'être une réalité et la formation donnée par les entreprises tend à renforcer les différences de qualification qui résultent des inégalités dans la participation aux études scolaires. L'amélioration des capacités d'adaptation des travailleurs et la nécessité de répondre à la diversité croissante de leurs besoins exigent des mesures pour développer la formation des adultes et pour mieux égaliser les chances d'accès à l'éducation, pour réorienter les programmes d'emploi vers des mesures actives plutôt que vers des allocations, et pour faire en sorte que l'emploi soit attrayant.
- La persistance de *la pauvreté* et de *l'exclusion* sont des problèmes essentiels, non seulement au niveau global, mais aussi au niveau de chacun des pays de l'OCDE. En raison de la concentration de la pauvreté et de l'exclusion, la priorité doit passer de l'aide aux personnes dans leurs difficultés immédiates à l'amélioration de l'autonomie des familles et des individus qui risquent d'être pauvres de manière durable. Des mesures sont donc nécessaires pour aider à l'acquisition de compétences et à l'accès (ou au retour) à l'emploi ; il faut également réformer les dispositifs qui seraient de nature à encourager la dépendance vis-à-vis des prestations sociales.
- Du fait du vieillissement de leur population, la plupart des pays de l'OCDE sont confrontés au problème de la *pérennité de leurs systèmes de retraite*. Les mesures qui se limitent à une augmentation du niveau actuel des contributions ou à une diminution des prestations futures risquent de susciter des conflits croissants entre une génération de plus en plus nombreuse de bénéficiaires plus âgés et une génération de moins en moins nombreuse de cotisants plus jeunes. La diversification des ressources économiques des personnes âgées et la diminution des déséquilibres entre le temps passé au travail et en retraite sont les principes qui devraient guider les réformes visant à garantir un équilibre financier durable des systèmes de pensions. Cependant, ces réformes devraient éviter de compromettre le revenu des groupes les plus vulnérables de la population âgée.
- Le vieillissement de la population augmente le nombre de personnes qui présentent des risques de *maladie et de handicap durant leur vieillesse*, alors que le nombre limité d'institutions et l'élévation du taux d'activité des femmes tendent à réduire les possibilités de soin dans les institutions et dans les familles. La mise en place d'une infrastructure adéquate pour répondre aux besoins d'accueil des personnes âgées, tout en limitant les pressions sur les ressources publiques, nécessite un partenariat entre les pouvoirs publics, les familles et les collectivités, un ensemble complet de services adaptés aux besoins et une plus grande intégration entre politiques de santé, de logement et de retraites. Des mesures combinant des possibilités de soin aux personnes âgées et des emplois flexibles sont aussi nécessaires pour réduire la charge incombant aux personnes qui assurent ces soins (principalement des femmes âgées) et pour éviter de réduire leurs chances de trouver un emploi rémunéré.

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INTRODUCTION

13. The notion of sustainable development translates the recognition by the international community of the need to reconcile the protection of global environmental commons with domestic priorities for economic and social development, in particular for the poorest countries. This North-South perspective dominated the policy process associated with the UN Conference on the Environment and Development (UNCED), held in Rio de Janeiro in 1992, and with the World Summit on Sustainable Development (WSSD), held in Johannesburg in 2002.¹ However, beyond this international perspective, the notion of sustainable development is also used within individual countries to stress the importance of achieving balance and coherence between the economic, social and environmental goals of societies. This is the interpretation that OECD Ministers have attributed to sustainable development in 1998 when they “agreed to interpret th(is) term.. as including social and environmental, as well as economic considerations”, and asked the Organisation to start wide-ranging efforts to “pursue the integration of economic, environmental and social policies to enhance welfare” in Member countries.

14. Much of the work carried out by the OECD in response to the 1998 mandate from Ministers has focused on the links between the economic and environmental dimensions of sustainable development. In this first phase of the OECD work on sustainable development, social considerations played a limited role. Social considerations, however, affect the design of a range of policy instruments to protect the environment (*e.g.* because of their social consequences) and the possibility of achieving changes in consumption patterns towards modes that are more environmentally benign (*e.g.* in urban travel). More broadly, social considerations also shape the willingness of individual actors – both domestically and internationally – to engage in more ambitious policies to protect the environment. However, while in all these cases social considerations are important means to achieve environmental goals, the interpretation of sustainable development that the Organisation has put forward also stresses the importance of *social cohesion*² as a fundamental element for maintaining the long-term sustainability of development, and of taking a broad view – going beyond material living standards – of human welfare (OECD, 2001).

15. It is with this approach in mind that OECD Ministers asked the Organisation in 2001 to “analyse further the social aspects of sustainable development, including work on human and social capital, as well as their interaction with their economic and environmental dimensions”, and to report back to them – on this and other items mentioned in their 2001 communiqué – by the time of the Ministerial meeting in 2004. While a range of activities undertaken by the Organisation are relevant to respond to this Ministerial mandate on the social aspects of sustainable development (especially as regards the interactions between the environmental and social dimensions), this paper presents a specific contribution from the

1. Among the key outcomes of WSSD is the adoption of a political declaration on sustainable development (“The Johannesburg Declaration on Sustainable Development”) and of an accompanying “Plan of Implementation”. See <http://www.johannesburgsummit.org/index.html>

2. Promoting social cohesion is regarded as a central goal of social policy in many OECD countries. Although there is no commonly accepted definition, OECD (2001g) defines social cohesion as referring to “the extent to which citizen participate in *societal life*”, and to “the strains put on family relationships and relationships between different societal groups”.

Employment, Labour and Social Affairs Committee (ELSAC). It discusses the key role played by social protection systems in promoting more inclusive societies, reducing poverty, protecting individuals against a range of risks, and facilitating the structural adjustment that will accompany the transition towards more sustainable patterns of production and consumption.

16. This report also complements the work conducted in other parts of the Secretariat aimed at developing indicators covering the economic, social and environmental aspects of sustainable development and at using them to monitor the performance of OECD countries. While only few social issues are included in the sustainable development sections of the *Economic Surveys* currently carried out under the auspices of the OECD Economic and Development Review Committee (*i.e.* the sustainability of retirement income system in OECD countries, and helping developing countries to achieve sustainable growth), the present report aims to provide a general analytic framework and supporting indicators that could allow to extend these reviews to a broader set of social concerns pertaining to OECD countries in the future.

CHAPTER 1. EXTENDING THE NOTION OF SUSTAINABLE DEVELOPMENT TO THE SOCIAL FIELD

17. The notion of sustainable development is today firmly established in the international and domestic political agenda of many OECD countries. Most approaches to sustainable development share two features: first, the recognition of social and environmental needs as separate from, and equally important as, economic needs for human well-being; second, the notion that, for well-being to last over time, the stocks of assets that underpin it (man-made, natural, human and social capital) must be preserved over time. The formulation of sustainable development proposed in OECD (2001*c*) also stressed the importance of well-functioning institutions.³ Institutions matter for sustainable development as they sustain the accumulation of different assets (*e.g.* the education system with respect to human capital) or avoid liabilities that would be costly to re-pay in the future (*e.g.* regulatory agencies to protect the environment). Effective institutions also allow overcoming co-ordination failures in public policies that are at the root of unsustainable practices, by taking a long view of societies' problems, giving voice to dispersed interests, and providing credible commitments to address unsustainable practices (World Bank, 2003). Annex I provides a more detailed description of the notion of sustainable development as elaborated in OECD (2001*c*).

18. Despite these common features, however, important differences remain in the way in which the notion of sustainable development is interpreted in practice. While in some cases attention is concentrated on a relatively narrow range of environmental threats, in particular those of a global nature, in other cases attention has shifted to encompass a broader range of social and economic concerns. This shift in emphasis is evident at both the international and domestic levels. At the international level, social and economic issues (such as absolute poverty, joblessness, sanitation and health) loomed as large on the agenda at the recent World Summit on Sustainable Development in 2002 as the environmental themes (climate, biodiversity, desertification) that dominated discussions at the United Nation Conference on Environment and Development held ten years earlier. At the domestic level, social issues (such as relative poverty, marginalisation, gender equity, integration of immigrants) receive an increasing prominence in the national sustainable development strategies of several OECD countries (see Annex II).

Inter-temporal relationships in the social field

19. The extension of the sustainable development discourse to the social issues that confront OECD countries is justified by both the inter-temporal nature of many social problems, and by the significance of the relationship between social, economic and environmental processes. Inter-temporal relationships occur at the level of both individuals and generations. At the level of individuals, their life-chances are affected to a significant extent by their own previous experience, in terms of labour market outcomes, poverty and family formation. For example, the experience of poverty in young age may affect later labour market outcomes, possibly because of psychological and behavioural effects of childhood poverty, and physical

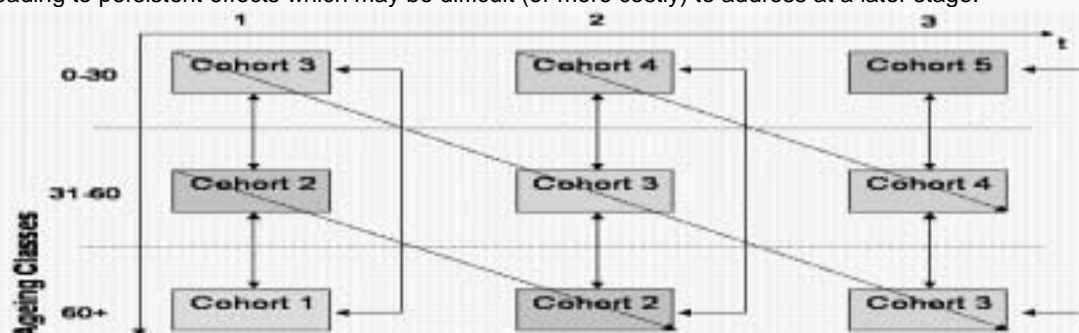
3. Rodrik (2000) distinguishes among institutions that: *i*) protect private property and contract enforcement (including the rule of law); *ii*) moderate some business activities (*e.g.* curbing anti-competitive behaviour); *iii*) support macro-economic stability; *iv*) provide social insurance or protect those most vulnerable; and *v*) moderate and manage social conflict.

effects linked to the effects of diet on brain development.⁴ The life-chances of individuals are also shaped by the experience of their parents, through education, the inheritance of economic and cultural resources, and the transmission of role models.⁵ Because of both of these relationships, some social problems exhibit features of persistence and, in the extreme case, irreversibility.

20. At the level of generations, intergenerational relations underlie the implicit contract embodied in current systems of retirement income provision, whereby a younger generation pays for the support provided to an older generation, in the expectation that future cohorts will do the same when they reach old-age. Conversely, today's investments in initial education represent an intergenerational transfer in the opposite direction, *i.e.* to the benefit of future generations. The significance of these inter-generational transfers in the social sphere makes a life-course approach to social policies particularly important for discussions about sustainable development (Box 1). Because of these inter-temporal relations, sustainability of current development patterns needs to be assessed by looking at all these transfers, rather than by limiting the analysis to transfers of environmental liabilities (WRR, 1999).

Box 1. Inter-temporal relationships in the social sphere

Inter-temporal relationships in the social sphere are represented in the Figure below along two dimensions. First, as each cohort ages, conditions in a given phase of their life course will influence those in the next (for each cohort, these relationships are shown as moves along the diagonal line): because of the significance of these inter-temporal relations, some conditions may come to exhibit features of persistence that make them difficult to reverse. Second, at any given moment, a complex pattern of relationships holds among cohorts (shown by arrows linking different cohorts along each column). These two types of inter-temporal relations also interact with each other: as risks confronting individuals shift across different phases of their life-course, some patterns of inter-generational transfers may become increasingly ineffective, leaving new needs unattended, crowding-out alternative programmes and interventions, and leading to persistent effects which may be difficult (or more costly) to address at a later stage.



The diagram (which is common in demographic studies) shows individual cohorts and the links with others cohorts through time. Each cohort moves through time (along the diagonal) and is linked to others in any given moment (along each column) through a range of transfers (shown as arrows connecting different cohorts). When inter-generational transfers fail to adequately address the needs of any given cohort, persistent effects may result.

4. Longitudinal information tracking children over longer periods of time, as available in a few OECD countries, shows that persistent income poverty during childhood affects children's cognitive development, educational attainment and attendance, and their labour market performance when they reach adult age (Kamerman *et al.*, 2002).
5. Evidence of intergenerational continuities in the transmission of disadvantage is provided by significant correlations between fathers' and son's earnings (Solon, 2002); by a high probability of social housing during adulthood for children whose parent lived in local authority housing (Hobcraft, 1998); and by the influence of parental interest in their children's schooling on their later educational success (Hobcraft, 1998). The evidence summarised by Aldridge (2001) suggests that transmission of disadvantage between generations has remained significant.

Greater coherence of interventions in the social field

21. The second reason why a sustainable development perspective is also appropriate for discussions in the social field is that, to a significant extent, social problems may reflect actions and policies that are outside the immediate remit of social policies, and which are not coherent with societies' social priorities and aspirations. Similarly, social and labour market policies may at times result in adverse outcomes in the economic and environmental dimensions of sustainable development. In these situations, public policies need to identify trade-offs between competing goals, and find ways of shifting these trade-offs over time.

Coherence between the social and economic aspects of sustainable development

22. Even the most immediate manifestations of social distress (such as poverty or crime) are often the result of complex processes. The notion of sustainable development stresses the importance of improving the relationship between social and economic factors, as well as between social and environmental ones, and of shifting possible trade-offs between competing goals over time. This requires paying more attention to economic efficiency in the design of social policies, but also identifying ways in which economic forces may place an excessive load on the carrying capacity of social systems (Enquête Commission, 1998). This suggests the need for a more integrated approach to economic and social policies, and for bridging the gap between the two when conflicts arise.

23. The relation between the economic and social aspects of sustainable development is complex. On one side, social protection systems may play a positive role for economic systems (*e.g.* by dampening the cyclical variability of the economy and facilitating structural adjustment) but can also distort the economic behaviour of individuals in ways that have negative economic effects (*e.g.* when the design of benefit systems reduces incentives to work and save). Paying greater attention to the incentive structure of clients in the design of social programmes, and increasing the cost-effectiveness of social interventions, is hence important for improving the coherence between social and economic goals.

24. On the other side, economic processes will also impact on social outcomes. Economic growth may increase average material well-being and provide the resources to finance a range of interventions in the social field. In some cases, however, the benefits of economic growth may be too unevenly shared, leaving some individuals worse-off and threatening social cohesion. The economic process may also lead to social dislocations that may weigh heavily on the groups that are less equipped to deal with their consequences, as in the case of technical progress displacing unskilled workers, or on geographical areas where alternative employment opportunities may be limited. Finally, to the extent that 'positional' goods (goods whose utility depends on the amount consumed by others) become a more important determinant for personal well-being than absolute levels of consumption in richer societies, the link between economic progress and human well-being may also weaken over time. The above considerations point to the importance of analytic tools to map how changes in one dimension of sustainable development are affecting goals in the other.⁶

Coherence between the social and environmental aspects of sustainable development

25. Relations between social and environmental factors can also be significant. On the one hand, well-functioning social systems may facilitate environmental progress, as unattended social problems will make societies less willing to accept the structural adjustment associated to a policy shift towards more

6. Social Accounting Matrices are one statistical tool for linking the macro-variables typically targeted by economic policies (*e.g.* economic growth, inflation, government deficit) with the micro-statistics for individuals and households that provide the basis for more direct measures of human well-being.

environmentally sustainable patterns of consumption and production. Indeed, concerns about social impacts have on occasions blocked progress in the environmental dimension. On the other hand, environmental degradation may translate into higher health and other social risks for the population, which often disproportionately affect more vulnerable groups such as the elderly and children.

26. Overcoming the resistance to reforms that these social effects may induce will be easier when social protection systems are effective in protecting against a range of contingencies: for example, where training programmes assist the re-deployment of difficult-to-place workers, and where low-income households are protected against the higher prices of necessities (*e.g.* water, energy) that could follow more ambitious environmental policies.⁷

The need for policy integration in the social field

27. The complex links between the different dimensions of sustainable development point to the importance of 'joined-up' policies: policies that result from collaboration between government departments, that leverage the initiatives of a broad range of actors (governments, firms, workers, consumers, citizens) and that recognise the interactions between various social problems, and among social, economic and environmental processes.⁸ This underscores the importance of moving away from the typical "one problem / one instrument" approach to many policy decisions. In the case of economic and social policies, this approach has often implied that economic policies are determined first, and that social policies are then left to address their possible social consequences (Atkinson, 2000). In other cases, social policies have been set first, and economic policies have had to operate within the resulting constraints. However, when links between economic and social factors are significant, a hierarchy of interventions is inefficient in achieving both economic and social goals. An alternative approach is that of undertaking an explicit assessment of the social consequences of policies and of the costs of remedial action. These approaches are being increasingly applied in a variety of fields in the form of 'sustainability assessments'.⁹ Identification of a limited number of social targets that command widespread political acceptance (and of indicators to monitor countries' performance with respect to these targets) is an important step to build

7 The OECD *Environmental Strategy for the First Decade of the 21st Century*, adopted by OECD Environment Ministers in May 2001, identified "enhancing the quality of life" through greater focus on the social and environmental interface as one of its five strategic objectives. Achievement of this objective will require measures to limit the adverse environmental effects of urbanisation and spatial development; to address disparities in exposure to environmental threats, and the effects of environmental policies on employment and income distribution; and to promote awareness, information, participation in decision making and access to justice on environmental matters. Ongoing OECD activities that are contributing to this objective include chapters on the social-environmental interface in individual OECD *Environmental Performance Reviews*, and work on employment and distributive effects of environmental policy, on environmental democracy and environmental education.

8 Some of the initiatives that OECD governments have taken to strengthen their decision making process with respect to sustainable development issues are described in OECD (2002*o*). OECD (2002*p*) provides a checklist of the steps that OECD governments may take with a view of achieving greater internal coherence in their policies, of improving their knowledge management system, and of involving all stakeholders in sustainable development decisions.

9. To that effect, the European Union Strategy for Sustainable Development, adopted in Göthenburg in June 2001, establishes that all major legislative proposals should include "an assessment of the potential economic, environmental and social benefits and costs of action or lack of action, both inside and outside the EU". These assessments "should include, where relevant, the effects on gender equality and equal opportunities.. (and) identify.. the groups who bear the burden of change so that policy makers can judge the need for measures to help these groups to adapt" (EU, 2001*b*).

consensus at the domestic and international levels on acceptable levels of security and basic rights in the social sphere, before integrating these social goals into other policies.

28. More generally, the existence of links between different policies points to the importance of considering the appropriate degree of integration of social goals into other policies, and whether curative interventions are the appropriate (and less costly) remedy. Because of the continuous importance of a remedial orientation in today's social policies (*i.e.* a focus on treating the problems of people in situations of need), and of the availability of adequate financial resources to fund comprehensive welfare systems, these issues have attracted relatively little attention in discussions about social policy in OECD countries (Midgley, 2001). However, as the limits of these interventions and the pressures on financial resources become more important, shifting from remedial to preventive interventions, and finding ways of integrating the two functions within the same programme, becomes increasingly important. Such shift in the specific objectives of social protection implies a greater focus on the sources of individuals' vulnerabilities and on long-term objectives, such as increasing individual capabilities, reducing inequalities in asset allocations, and developing skills (UN, 2001). While it is often difficult to estimate the likely extent of future savings against the current costs of preventive programmes, evaluations for some countries show that well-targeted programmes are often very cost-effective.¹⁰ 'Employment-centred' social policies, which focus on improving the incentives of beneficiaries of social programmes to find employment, provide one example of the greater importance paid to prevention rather than cure.

29. In conclusion, social elements seem today to be more firmly recognised as integral to the notion of sustainable development. However, the term 'social aspects of sustainable development' continues to be used differently in the context of various policy discussions. This diversity reflects the differences in the priorities and concerns of countries at different levels of development. Chapter 2 reviews briefly some of the social aspects that most frequently enter discussions about sustainable development at the international level, before moving to discuss aspects that are more central for OECD countries in Chapter 3.

10 For example, based on an analysis of the costs and benefits of early childhood education programmes targeted to poor children in the United States, Janet Currie (2001) concludes: "...the available evidence suggests that the short- and medium-term benefits could easily offset 40 to 60% of the costs of large-scale, publicly funded early intervention programmes such as Head Start. Thus, even relatively small long-term benefits of such a program may be sufficient to offset the costs of public investment".

CHAPTER 2. SOCIAL ASPECTS OF SUSTAINABLE DEVELOPMENT: A GLOBAL PERSPECTIVE

30. Globalisation – the growing integration of national economies through trade, technology, labour and capital flows – is a key feature of today’s economic life. But globalisation is more than an economic phenomenon: it has cultural, social and environmental dimensions, which knit people more closely together. While local communities and nation states have historically shaped the identities of previous generations of OECD citizens, global concerns have become more important today. The notion of sustainable development has been one way to translate this greater attention paid by the international community to global concerns. In the social field, the World Summit on Social Development (Box 2), held in Copenhagen in 1995, provided a major impetus to the integration of social concerns into the discourse of global development. The World Summit stressed two main notions: first, the importance of equity, participation, and solidarity in building a more inclusive approach to social protection (United Nations, 2001); second, that sustainable social progress cannot be achieved without creating an enabling environment in terms of politics, economics, law and culture (Disney, 2000).¹¹ While few of the activities undertaken by the OECD Employment, labour and Social Affairs Committee have a global reach, this chapter highlights two such activities that feature prominently in sustainable development discussions: the importance of social protection for poverty alleviation in non-member countries, and the role of labour and social standards for shaping globalisation.

Box 2. The World Summit on Social Development

The World Summit on Social Development stressed the importance of international co-operation in the development of economic and social policies. It recognised that economic and social policies should not be considered in isolation from each other, and that both social policies and the special needs of the developing world should be given full consideration when designing and implementing economic policies. At the Summit, governments agreed to ten commitments in the context of the ‘Copenhagen Declaration on Social Development’:

- Create an economic, political, social, cultural and legal environment that enables social development.
- Eradicate absolute poverty by a target date set by each country.
- Support full employment as a basic policy goal.
- Promote social integration based on the enhancement and protection of all human rights.
- Achieve equality and equity between women and men.
- Attain universal and equitable access to education and primary health care.
- Accelerate the development of Africa and of the least developed countries.
- Ensure that structural adjustment programmes include social development goals.
- Increase resources allocated to social development.
- Strengthen co-operation for social development through the United Nations.

11. Other UN events that contributed to the further elaboration of the concept of sustainable development include the World Conference on Human Rights (Vienna, 1993); the International Conference on Population and Development (Cairo, 1994); the Fourth World Conference on Women (Beijing, 1995); the UN Conference on Human Settlements (Istanbul, 1996); and the World Food Summit (Rome, 2002). The Special Session of the UN General Assembly in 1997 emphasised that “economic development, social development and environmental protection are interdependent and mutually reinforcing components of sustainable development”.

Progress in implementing these ten commitments was reviewed at a special session of the UN General Assembly held in Geneva in June 2000. The consensus document adopted at the meeting (*Further Initiatives for Social Development*) renewed the goals of signatory countries to 'people-centred sustainable development' and noted that "social development requires not only economic activity, but also reduction in the inequality in the distribution of wealth and more equitable distribution of the benefits of economic growth within and among nations..".

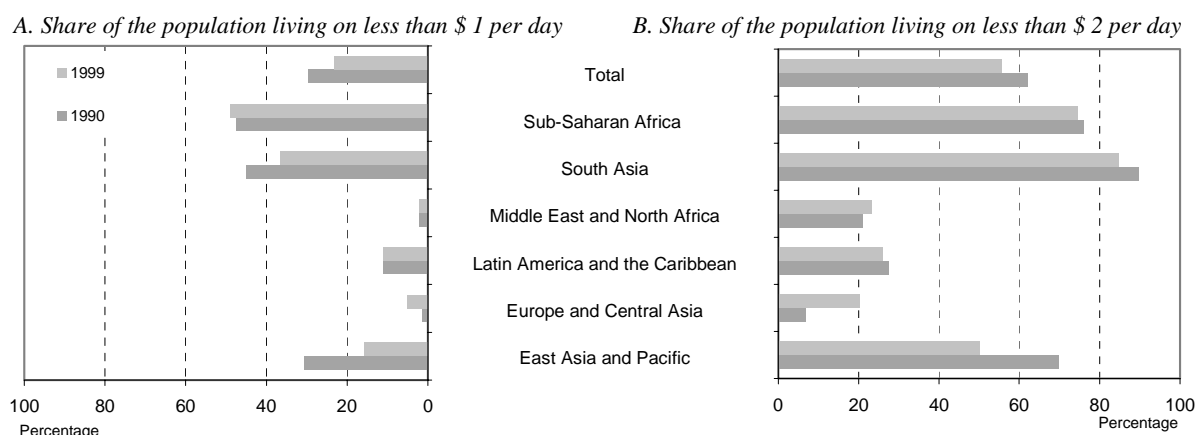
Source: <http://www.un.org/esa/socdev/>

Reducing absolute poverty

31. Reducing absolute poverty is today the over-arching goal of international co-operation.¹² Absolute poverty, which is mainly concentrated in developing and transition countries (Figure 1), has many dimensions beyond income, such as empowerment, vulnerability, and access to education, health, shelter, clean water and sanitation. All these dimensions affect the present and future functioning of individuals. The consequences of absolute poverty last over time, for example by impairing the development of children who are affected by malnutrition or inadequate education. Even when geographically concentrated,¹³ the consequences of absolute poverty can have more global repercussion through conflicts, humanitarian crises, and migration. Because of these effects, reduction of absolute poverty is as much a global as a domestic responsibility. Much progress has been achieved in improving understanding of the policies needed to reduce absolute poverty. Although each individual country has the major responsibility for eradicating poverty within its borders, through the establishment of comprehensive policies at the national level, OECD countries should also contribute to its achievement. The international community has endorsed ambitious targets for halving absolute poverty by 2015 through the development goals contained in the UN Millennium Development Declaration. Translating these commitments into concrete results now requires coherent policies in the fields of trade, investment, technology transfers, intellectual property rights, development aid and capacity building (OECD, 2002a). Because of the importance of lessening any potential trade off between reducing absolute poverty in developing countries and weighing negatively on the domestic conditions in OECD countries, a priority reform is easing the access by developing countries' exports to OECD markets.

12 The World Bank, for example, has made the fight against poverty a central element of its mission statement. Poverty, at the global level, is generally defined in 'absolute' terms (*i.e.* with reference to international poverty lines): the population living on less than 1 (or 2) US dollar (at purchasing power parity exchange rates) per day.

13 Absolute poverty is often concentrated in remote areas, whose characteristics make the delivery of central programmes more difficult. To account for this regional dimension, the Mexican strategy for fighting absolute poverty distinguishes between the needs of the rural and urban poor, co-ordinates the interventions of all agencies involved in the delivery of social programmes, and makes income transfers to poor families conditional on their use of health, educational and nutritional services (OECD, 2003c).

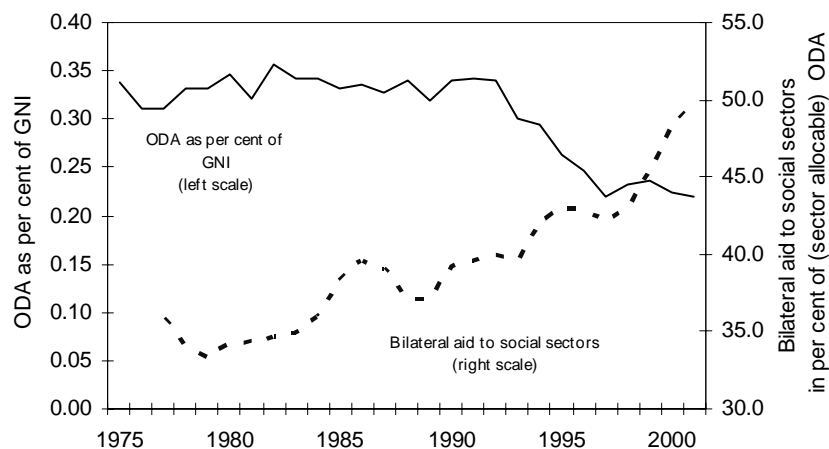
Figure 1. Trends in absolute poverty at the global level, by region

Source: World Bank (2002), *Global Economic Prospects 2003*.

32. Recognition of poverty reduction as the shared priority of the international community needs also to translate into the establishment of effective social programmes for supporting the poor (*e.g.* programmes delivering supplementary feeding, night shelter, literacy and basic health interventions) in individual countries. Because of its role in the fight against poverty, creating effective social protection systems in developing, emerging and transition countries is a necessary condition for sustainable development.¹⁴ While elements of these social protection systems exist in many parts of the developing world, many of these programmes are limited to a minority of workers in the formal sector, while they exclude those most in need: the poor, those employed in non-formal activities, rural communities. Because of their effects in fostering inequalities, rather than reducing them, a priority for reform is to replace these programmes with more affordable systems serving a broader range of beneficiaries. To help achieving this goal, donor countries have been devoting an increasing share of their bilateral development assistance to education, health, and other social programmes (Figure 2). OECD countries are also playing an important role in assisting developing and transition countries to set up well-designed and affordable social protection systems through a variety of initiatives, such as the recent creation of the ILO's "Global Social Trust".¹⁵

14. The importance of social protection for poverty eradication has been reflected in the adoption, in February 2001, of the first detailed declaration on social protection by the UN Secretary General (UN, 2001). This report defines social protection as "... a collective intervention of society to protect citizens from risks and vulnerabilities, sustain their well-being and enhance their capability in managing risks".

15. The "Global Social Trust" was created by the ILO in 2002 to assist poverty alleviation through internationally- financed programmes in the fields of basic income security, education and health services.

Figure 2. Total official development aid and bilateral aid to social sectors

Note. Total aid by DAC countries is expressed as a percentage of gross national income. Bilateral aid to social sectors includes aid for education, health, population and reproductive health, water supply and sanitation, government and civil society and other social services, in per cent of total bilateral aid (three year moving average).

Source: OECD-DAC statistics.

33. While priorities in the field of social protection differ between developing, emerging and transition countries, the experiences of both Russia¹⁶ and East Asia¹⁷ provide ample evidence of how an inadequate social protection system can amplify the consequences of economic shocks on poverty and material deprivation. In both cases, informal support provided by families and communities has been crucial to protect individuals. However, these mechanisms of protection cannot easily cope with shocks that affect a great number of households simultaneously (OECD, 2002b). In the absence of effective social protection systems, the strategies used by individuals and families to adapt to adverse circumstances (*e.g.* taking children away from school, reducing the consumption of essential food and medicines, selling productive assets, increasing the use of barter) can hinder economic recovery and translate a temporary setback in social conditions into a permanent one. Beyond the need to confront the immediate social effects of economic crises, the experience of these countries points to the importance of forward-looking policies to create programmes that anticipate future needs, and that do not simply react to a crisis after it occurs.¹⁸

16. In the Russian experience in the 1990s, social programmes — largely inherited from the Soviet era — proved incapable of dealing with the social consequences of the economic transition, as the universalistic promises of the system could not be fulfilled in the new context of harder financial constraints. This led to a build-up in arrears, which mainly affected the regions and groups most in need of support. Although the failings of the social protection system were partially offset by informal forms of support (mainly self-help and transfers from relatives and friends), some of the consequences of the deterioration in living standards were traumatic (*e.g.* a sharp lowering in life expectancy and other health indicators) while others (*e.g.* the expansion of the underground economy) made economic recovery more difficult to achieve (OECD, 2001a).
17. Countries in East Asia achieved large reductions in the proportion of the population with incomes below \$ 1 per day over the twenty years preceding the crisis, but in many of them the share of the population below \$ 2 per day remained very large. Because of this, the social effects of the crisis were pervasive, as they affected this large pool of individuals. Today, six years after the crisis, the goal of building comprehensive and effective social protection systems remains a priority for the region (OECD, 2002b).
18. Similar lessons have been drawn from an analysis of ten developing countries that achieved, over the past few decades, improvements in education and health indicators exceeding those of other developing countries (Mehrotra, 2000). Success in these countries reflected a combination of high public spending on social services (which were maintained in periods of economic crisis); priority to interventions in those

One of the major challenges facing developing and transition countries is that of building systems of social protection that can effectively contribute to poverty eradication and social development, while at the same time being compatible with the need for macro-economic stability and economic dynamism.

Shaping globalisation to the benefit of all

34. Beyond absolute poverty, OECD countries share a broader responsibility for ensuring that globalisation works to the benefit of all. One dimension of this broader responsibility is to avoid environmental or social harm when firms move to countries with lower standards (or with lower capacity to implement them), and to extend world wide best business practices and work conditions. Although there is little evidence supporting the view that foreign direct investment encourages a race to the bottom in social (as well as environmental) standards, some countries may limit the speed with which they raise standards because of fears of weakening their competitive position and of a flight of mobile capital. At the same time, as wages and employment conditions in foreign enterprises and in the export sector are generally higher than in other domestic firms or sectors, policies that curb the economic opportunities provided by globalisation may adversely affect social conditions in developing countries.

35. In all cases, however, scope exists for leveraging the behaviour of firms and consumers in rich countries to improve social (and environmental) conditions abroad. Many consumers in rich countries care about the social and work conditions associated with the goods they purchase, and are willing to pay a premium for goods produced under better conditions (Freeman, 1998). Harnessing such willingness to pay is important for improving social conditions worldwide, and an increasing number of firms and citizen groups in OECD countries are active in promoting the diffusion of socially-responsible business in the name of sustainable development. The policy challenge posed by this drive towards strengthening international social standards is that of minimising the trade-off between their diffusion world wide, on one side, and pricing developing countries out of the global market, on the other. This trade-off is easier to deal with when initiatives promoting responsible business are coupled with measures that improve the alternatives available to the affected group, for example by combining standards banning child labour with measures to provide children and their families with more and better schooling, and to compensate families for income losses when their children do not work.¹⁹

36. A variety of initiatives, both promoted by governments and undertaken voluntarily by business, are confronting this trade-off by focusing on those standards that can be met in the least costly way. The UN system – through the principles laid down in the UN charter, in the Universal Declaration on Human Rights of 1948, and in a range of UN acts – plays a major role in the promotion of human rights and basic liberties. The international community has also made progress in agreeing on a set of core labour standards, and in promoting their implementation through the ILO Declaration on Fundamental Principles

fields with the highest social rates of return (primary education, immunisation); good practices ensuring efficiency in resource use; and the important role attributed to women as agents of change. However, while these features have proved effective in eliminating the worst signs of indigence, income-poverty has proved more persistent, and the pace of economic growth achieved by these ten ‘best performing’ countries has been relatively slow.

19. OECD work on “Child Labour and Economic Development” sheds light on the links between child labour, poverty and development. This work builds upon data for a variety of OECD and non-OECD countries, as well as on case studies of the measures (legislation, grants to families that send children to school, social labelling initiatives and international programmes) used by countries to eliminate child labour.

and Rights at Work in 1998.²⁰ Following the World Summit on Social Development, initiatives also started in the UN settings to establish a comprehensive code of global best practices in social policy covering basic health and education, water and sanitation, social protection and core labour standards. This process, however, has stalled in recent years (Deacon, 1999).

37. Promotion of standards for human and labour rights is pursued through a variety of instruments. The ILO has procedures in place for reviewing progress by national governments in implementing core labour standards. A range of international, regional and national organisations have also incorporated these core standards into their operations (*e.g.* through trade preferences accorded to countries undertaking to promote them, OECD 2000a). The *OECD Guidelines for Multinational Enterprises* are recommendations addressed by 37 (OECD and non-OECD) governments to multinational enterprises operating in and from their countries. They provide voluntary approaches and standards for responsible business conduct in areas such as employment and industrial relations, product safety, environment, labour management, supply chain responsibilities, disclosure of major risks and competition.²¹ The 2000 review of the guidelines covered the economic, social and environmental dimensions of sustainable development,²² and aimed to ensure that multinational enterprises operate in harmony with government goals in all countries.²³ Finally, the private sector is also active through instruments such as voluntary codes of conducts, labelling schemes of consumer goods, and socially-responsible investment screening to strengthen implementation and adherence to these labour standards, often with a focus on eliminating the worst forms of child labour. Beyond these initiatives, international pressures on governments in low-standard economies and domestic efforts to improve workers' right in those economies are both likely to be required to have sizeable effects on labour conditions in these countries (Friedman, 1998).

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20. These core labour standards include: *i)* freedom of association and the effective recognition of the right of collective bargaining; *ii)* the elimination of all forms of forced or compulsory labour; *iii)* the effective abolition of child labour; and *iv)* the elimination of discrimination in respect to employment and occupation. The ILO declaration notes that these fundamental principles and rights have been “expressed and developed in the form of specific.. obligations” laid down in the ILO’s (eight) fundamental conventions.
21. Other OECD instruments that play an important role in strengthening institutional capacity for sustainable development include the *OECD Principles for Corporate Governance* and the *OECD Anti-Bribery Convention*.
22. These recommendations cover the nine areas of general policies, disclosure, employment and industrial relations, environment, bribery, consumer interest, science and technology, competition, and taxation.
23. OECD (2002j) draws attention to the complex issues that arise when considering how multinational enterprises can encourage their suppliers to observe the standards of corporate responsibility embodied in the OECD Guidelines.

CHAPTER 3. ASSURING THE SUSTAINABILITY OF SOCIAL PROTECTION SYSTEMS: AN OECD PERSPECTIVE

Sustainable social protection systems as a necessary condition for sustainable development

38. Sustainable development encompasses diverse priorities when applied to countries at different levels of economic development. Most OECD countries have already eradicated absolute poverty, apply high standards for human rights, and avoid the more exploitative forms of work. But other social risks and vulnerabilities have emerged, or have persisted, as economic development proceeds: risks of exclusion from the labour market and from mainstream society; risks of relative, rather than absolute, poverty; risks of inadequate access to essential welfare services; risks of disease and disability; risks of facing unforeseen shocks in circumstances where the capacity of individuals to adapt is limited. In other words, the notion of 'needs', as it features in the standard definition of sustainable development (see Annex I), is specific to different cultural and national contexts. While OECD governments share global responsibility for addressing the basic social needs (food, shelter, basic health and primary education) of the poorest countries, they also have a specific responsibility for balancing social, economic and environmental goals in their own societies, and for addressing possible trade-offs between these goals in an informed and accountable way.

39. OECD countries have responded to this responsibility partly through the development of comprehensive social protection systems. Social protection systems broadly define the collective intervention of society to protect citizens from vulnerabilities, sustain their well-being and enhance their capabilities in managing risks. These systems have proved successful in reducing vulnerabilities for the vast majority of the population and ensuring that the structural adjustment associated with continued economic growth did not translate into unacceptable consequences for the well-being of vulnerable groups.²⁴ Because of its contribution to maintaining a policy environment that facilitates further economic growth and environmental sustainability, the social protection system is an *asset of society*, which needs to be nurtured through adequate investments and by sharing the costs of this investment collectively when benefits accrue to society at large. Achieving sustainable development within each OECD society hence requires assuring the sustainability of these institutions, *i.e.* preserving their capacity to respond to the needs of citizens, today and in the future, by adapting to changes in the conditions under which these institutions were first established. This requires not only assuring the financial sustainability of existing programmes, but also adapting programmes to new constraints, responding to new aspirations of individuals, and balancing new and old demands on social protection systems.

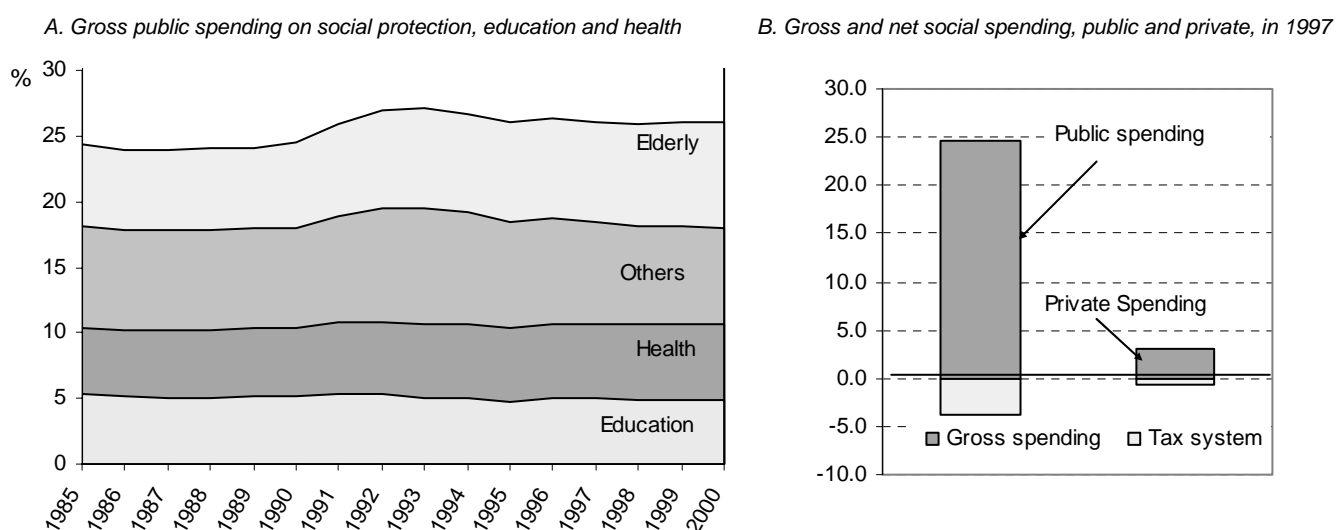
The historic context of OECD social protection systems and economic pressures to reform

40. The social protection systems of most OECD countries developed in a context characterised by high economic growth, low unemployment, strong national states, and limited international competition

24. The "Brundtland Report" in 1987 linked social protection and sustainable development, stressing that social protection systems for the elderly (by providing people with forms of security other than large numbers of children) were essential to limit population growth and the resulting environmental pressures (WCED, 1987).

faced by domestic firms. However, as conditions evolved, these systems also generated high levels of expenditure, which weighed heavily on public budgets. High levels of public expenditures on social protection during the 1980s and 1990s (Figure 3, Panel A) had their roots in decisions made in previous decades to create and extend public programmes in the fields of education, health, old-age and other areas. However, once established, these entitlements programmes created spending obligations that have proved hard to control. Lower economic growth, higher unemployment, and higher demand for health spending (among other factors) in the 1980s and 1990s called into question the financial sustainability of social protection systems. Pressures to reform were also linked to perceptions that the design features of some of these social programmes had perverse effects on individuals' incentives to work and save, which could undermine the economic dimension of sustainable development. However, reforms introduced during this period have delivered limited results in reducing high levels of public spending on social protection.²⁵

Figure 3. Spending on social protection in OECD countries, in per cent of GDP



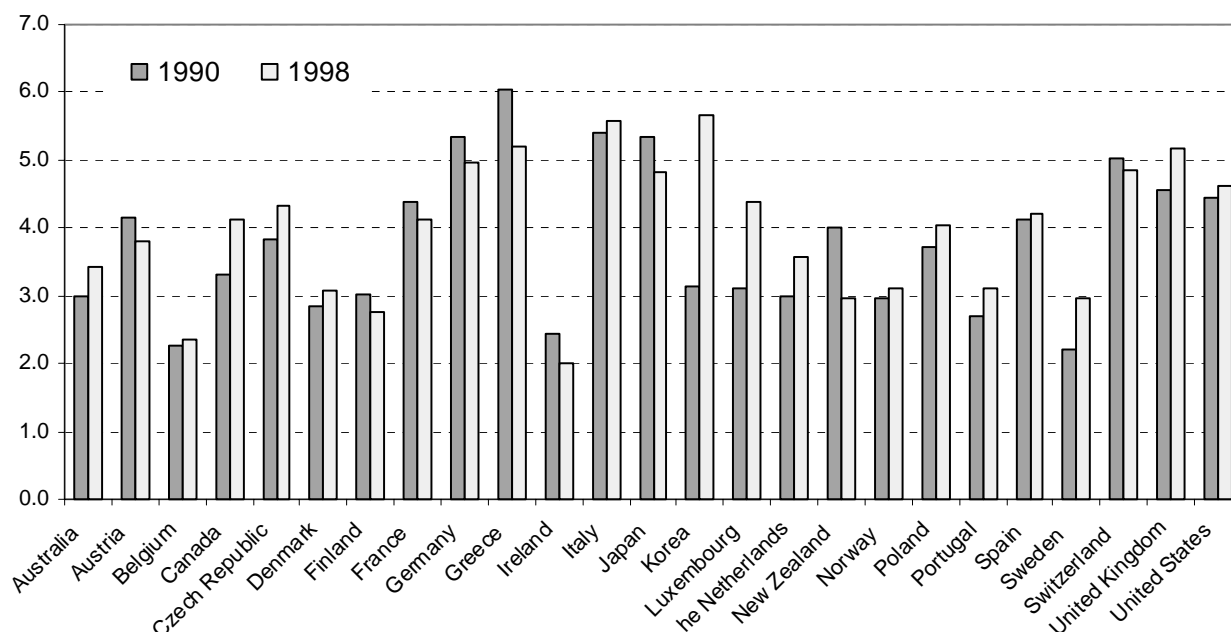
Note. *Panel A*: Data on gross public spending on social protection, education and health refer to the weighted average of 23 OECD countries, in per cent of GDP at market prices; estimates for 1998-2000. *Panel B*: Data refer to gross and net social spending (*i.e.* taking account of the impact of direct and indirect taxes, and of tax brakes for social purposes) across a simple average of 17 OECD countries, as a percentage of GDP at factor costs.

Source: OECD Social Expenditure and Education Expenditure databases.

41. As important as the overall level of social expenditures in motivating reforms is the way in which these expenditures are distributed among the population (Lynch, 2001). As existing social programmes matured, an increasing portion of these expenditures has taken the form of transfers towards the elderly. Public spending per capita towards the elderly is typically three to four times as large as for the non-elderly, with some countries recording much higher values (Figure 4).²⁶ In a majority of countries, this age bias of social spending towards the elderly further increased over the 1990s. In these countries, higher pension spending has increasingly crowded out other programmes, while financing through payroll taxes weighed heavily on labour costs and on the employment opportunities of the working age population.

25. Beyond public spending, social goals have also been pursued through private spending as well as the tax system. However, with few exceptions, OECD government typically claw back more money through direct and indirect taxation of their gross social spending than they spend on tax breaks with social purposes (Figure 3, Panel B).

26. While it is difficult to assess the age-orientation of public spending on health, expert judgments (as available for around 15 OECD countries) suggest that per capita spending towards the elderly tends to be more than twice as high as that for the non-elderly (OECD *Health Data*).

Figure 4. Age orientation of public spending on social protection and education

Note. A proxy measure of the age-orientation of social spending is provided by the ratio of public spending on the elderly (the sum of old-age cash benefits and services for the elderly and the disabled) to public spending on the non-elderly (the sum of education, family services, family cash benefits, labour market programmes, occupational injury, sickness insurance, and disability pensions), adjusted for the ratio of elderly (aged 65 and above) to the non elderly in total population. Excluded from this measure, because of the difficulty in determining the age of recipients, are public spending on housing, survivor pensions, other contingencies and health.

Source: OECD Social Expenditure and Education Databases.

42. Beyond pressures on public budgets and on individuals' incentives to undertake economic activities, social protection is also affected by the forces of globalisation and technological progress. While both these factors have improved economic efficiency and living standards, they have also increased cost-competition among firms, and generated pressures to reduce the cost of social protection. Although evidence remains mixed, globalisation may also affect the capacity of national states to finance social protection (Box 3). More generally, the emergence of actors with a global reach has reduced the degree of autonomy of national states and their capacity to take unilateral initiatives in the field of economic and social policies (Pallier and Viossat, 2001). Globalisation is also increasing pressures on policy makers to address a range of other concerns, such as protecting global environmental commons, securing peace, intervening in regional conflicts and contributing to poverty eradication at the global level, which could compete with other spending obligations at the domestic level.

Box 3. Is globalisation reducing the capacity to finance social protection systems?

Globalisation may affect the capacity of governments to finance social protection either by reducing total tax revenues or by changing its structure. As better transport and communication increase the mobility of different factors of production, securing the revenues needed to finance social protection may become more difficult as mobile production factors can more easily move abroad to escape taxation, leaving a smaller tax base to pay for it. This effect applies to both different factors of production (*i.e.* capital relative to labour) and different types of labour (highly skilled individuals may receive a growing part of their revenues from foreign jurisdictions, or move to low-tax countries). While greater tax competition may increase economic efficiency (lowering taxes where distortions are higher, and thereby expanding the tax base), the *net* effects on total tax revenues are *a priori* difficult to establish. The consequences of lower and less progressive tax revenues, were these to materialise, would be especially difficult to cope with when the distribution of market income is also becoming more unequal.

Evidence on how globalisation is affecting the capacity to finance social protection is mixed. On one side, both total tax

revenues (as a share of GDP) and average effective tax burdens on different bases (capital, labour and consumption) were broadly stable over the 1980s and 1990s, as wider tax bases tended to offset lower statutory tax rates. On the other side, however, aggregate tax data may be a poor guide as to the effect of globalisation on individual tax bases, and both aggregate tax pressure and the structure of taxation could have been different in a counterfactual world without tax competition (Genschel, 2002). According to Tanzi (2000), a number of pressures already evident today may increase tax competition between countries in the future. These include:

- Increased activities and investments outside their country of residence by highly skilled individuals.
- Growing importance of off-shores and tax havens as conduits for financial investment.
- Growing use of electronic commerce outside the tax system.
- Growth of new financial instruments which escape taxation.
- Growing importance of trade within multinationals.
- Increased travel by individuals, which allow them to shop where sales taxes are lower.
- Growing inability to tax financial capital and the incomes of individuals with highly tradable skills.
- Substitution of "real money" with electronic means of transactions.⁰

*. Because of these factors, Tanzi argues that "while the fiscal house is still standing.. one can visualise many fiscal termites that are busy gnawing at its foundations.. Thus.. it would be prudent.. for the welfare states to begin preparing themselves for what could prove to be significant falls in tax levels in future years".

The challenge ahead: adapting social security to changed circumstances

43. Beyond the economic factors mentioned above, a range of persistent pressures are today putting at risk the capacity of social protection systems to continue to deliver positive results. This is because of changes in both the demands these systems are called upon to satisfy (as new risks emerge, and old ones shift among demographic groups and across the different phases of an individual's life-cycle) and in the constraints facing various actors (*e.g.* families) that limit their capacity to protect individuals against vulnerabilities and sustain their well-being. This section provides evidence on some of the pressures that are operating on the social protection system, grouping them under four headings: *i*) changes in the demographic context in which most social programmes were first established; *ii*) changes in the roles played by families; *iii*) changes in the working environment; and *iv*) changes in the distribution of economic resources and opportunities. Trends under each of these headings have implications for the sustainability of social protection systems, either because they are expected to continue into the future, or because current social protection systems have not yet fully adapted to them.

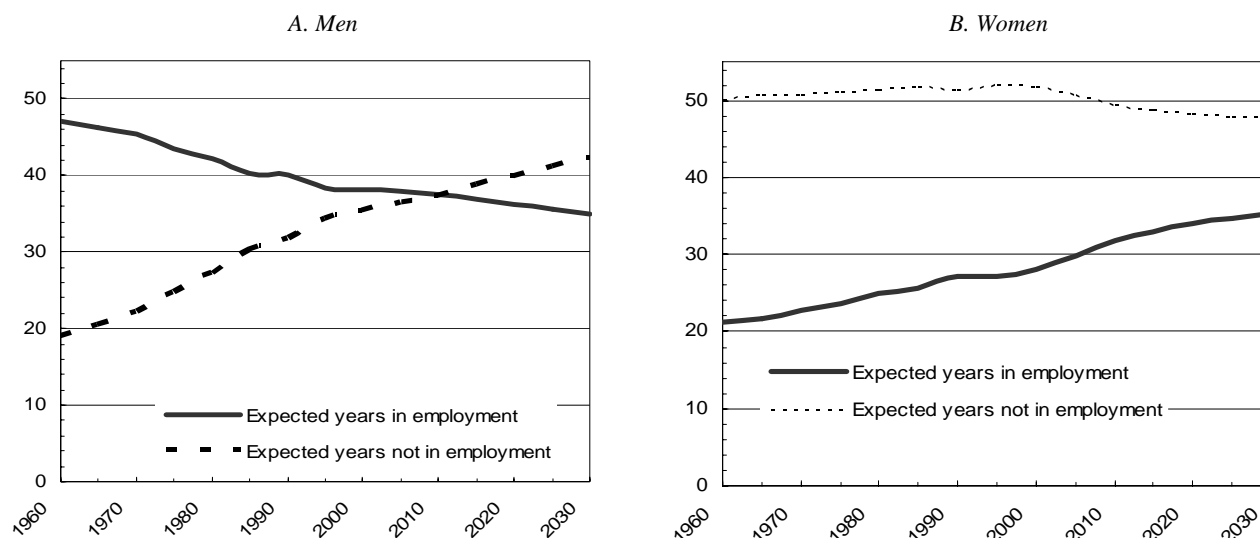
Changes in the demographic context

44. Social programmes conceived when population was growing rapidly have become more difficult to sustain because of a radical shift in demographic trends. Population ageing, by increasing the number of elderly people relative to those of working age, has made the implicit contract among generations underlying existing pay-as-you-go pension systems more costly to finance. This has been compounded by changes in individuals' life-course, with shorter periods spent in employment and longer periods spent in full-time education and retirement, which have reduced the number of years during which individuals contribute to the financing of social protection and increased those during which they receive benefits (Figure 5).²⁷ Both of these trends affect the sustainability of social protection systems by lowering the ratio

27. As shown in Figure 5, longer periods in education and earlier withdrawal from the labour market could cause the number of years spent by men outside employment to exceed those spent working by the middle of the next decade. In the case of women, greater participation to the labour market is narrowing the gap between the years spent out of employment and those spent in work, but the pace at which this is projected to continue in the future will only offset partially trends among men.

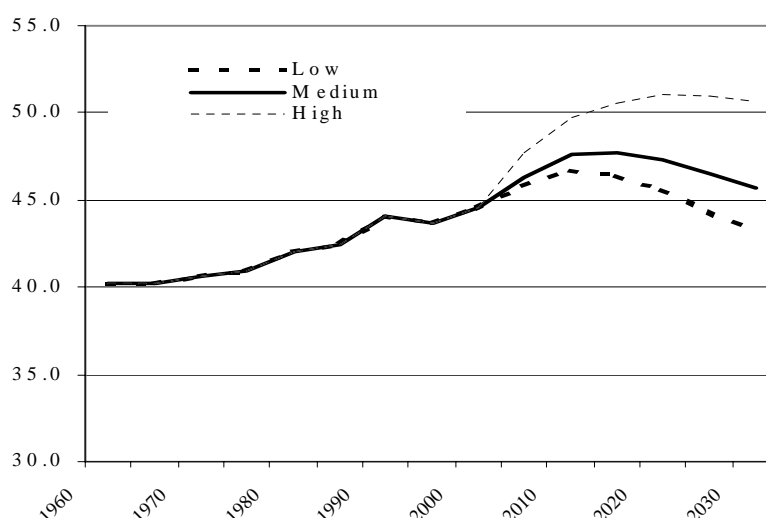
between workers and the total population in the near future (Figure 6), calling for measures to mobilise additional resources and to share more equitably the costs of social programmes among generations.

Figure 5. Expected life-years in and out of employment



Source: OECD (2000c).

Figure 6. Trends and projections for employment-population ratios under alternative scenarios



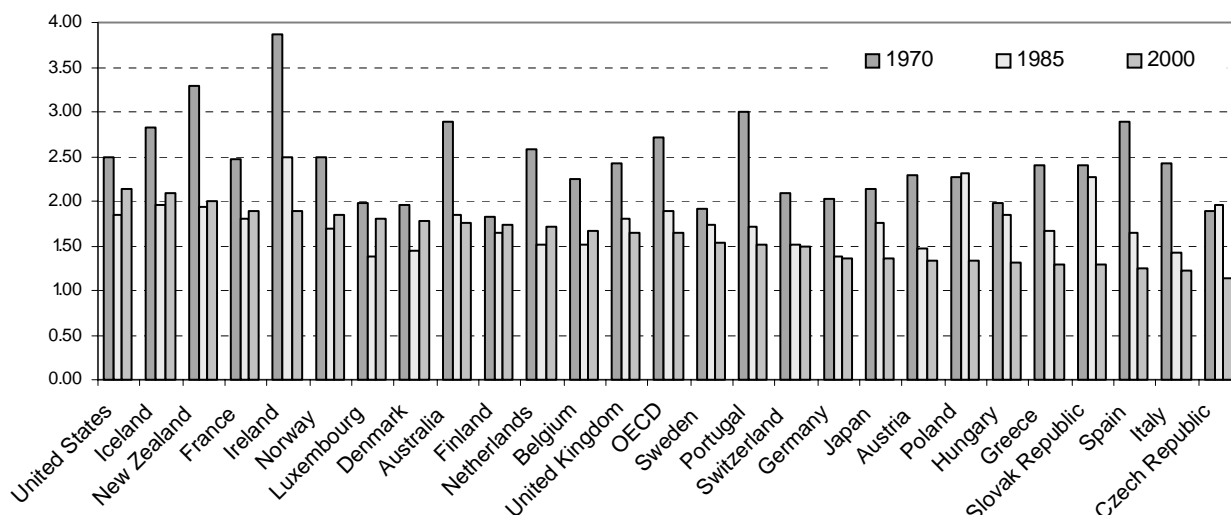
Note: The low scenario assumes that current trends in the labour force participation rates for men will continue to 2030; the medium scenario assumes that male participation rates will remain constant at today's level; the high scenario assumes that the male participation rate will return by 2030 to its 1960 level. The three scenarios assume that women's participation rate will continue increasing in line with recent trends, and that unemployment rates will lower to 5% by 2010 and remain constant thereafter.

Source: OECD (2000c).

45. While longer life expectancy in old age has contributed to population ageing, the major influence has been that of lower fertility. Excess fertility is often discussed in the sustainable development literature as a driver of human pressures on the environment and natural resources. However, fertility rates below those needed to assure a constant population can also have significant implications for sustainable development. Fertility rates have declined sharply in (virtually) all OECD countries since (at least) 1970.

Most of this decline occurred from 1970 to 1985, when the fall was especially sharp in most Anglo-Saxon countries and in several Nordic and Continental European countries (Figure 7). Despite a recovery since 1985 in some countries, fertility is today below the level required to assure generational replacement in most OECD countries.²⁸ The consequences of these low levels of fertility rates on population levels could be dramatic: a total fertility rate of 1.3 (which is close to, or in excess of, that currently prevailing in many European countries and Japan), sustained over time, would reduce population by the end of the century to a quarter of its original size.

Figure 7. Trends in fertility rates in major OECD countries



Note. Data refer to *total* fertility rates (*i.e.* the average number of children who would be born to a synthetic cohort of women whose age-specific birth rates are the same as those actually observed in the year in question). Countries (from left to right) are ranked according to the level of the fertility rate (from the highest to the lowest) in 2000.

Source: OECD (2001*h*).

46. In all OECD countries, lower fertility has been accompanied by an increase in the age at which women have their first child. Postponement of childbearing, which was already evident in the 1970s in several OECD countries, has since amplified and generalised to more countries (Southern and Central European countries).²⁹ In some OECD countries, the timing of first birth has also become more varied, with a growing economic disadvantage of younger parents relative to older ones.³⁰ While there are powerful economic incentives for many young women to delay childbirth (pursuing post-secondary education, gaining employment experience and financial independence), delays in childbirth may also

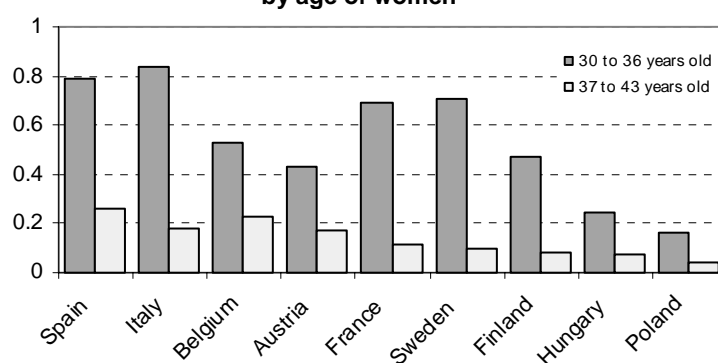
28. Beyond Mexico and Turkey (which do not share the fertility patterns that are common to other OECD countries), the only exceptions are Iceland, the United States and New Zealand — a result that, in the latter two countries, is partly accounted for by large minority populations whose younger profile and higher fertility are contributing to maintaining these countries' fertility rate.

29. The mean age of women at first childbirth increased from around 24 ½ in 1970 to more than 26 in 1995, across OECD countries for which data are available.

30. In Canada, the before-tax difference in family income between younger and older mothers (for two-parent families with an oldest child aged less than 5) increased from 35% in 1971 to 130% in 1996 (Lochhead, 2000).

influence the level of fertility achieved upon completion of women's reproductive age.³¹ Also, delays in childbirth may result in women never attaining their desired fertility. Information about desired fertility at different ages suggests that, in several OECD countries, women would prefer more children than they will actually realise (Figure 8), that these preferences have not changed much among different cohorts and that in all countries they are largely clustered around the replacement level.³²

Figure 8. Discrepancy between desired and actual number of children in European Countries, by age of women



Source: van Peer (2000).

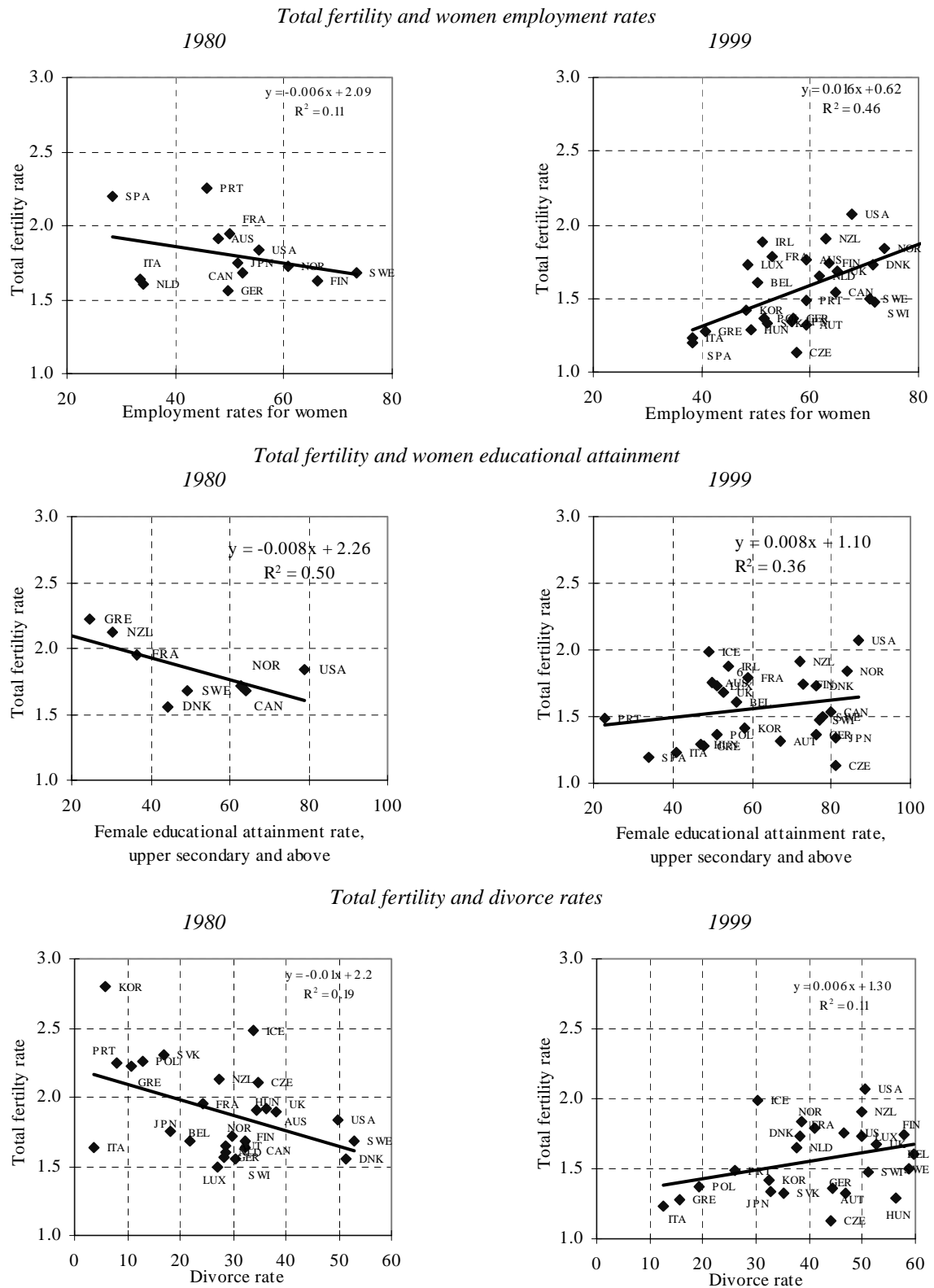
47. While the factors invoked to explain this decline in fertility differ, most explanations identify the emergence of new economic roles for women as one of the most significant. As women's opportunities for paid employment and financial independence increased, this translated into a greater willingness by women to adjust family aspirations to pursue professional goals. The implications for fertility depend, however, on how institutions and policy interventions adapt to this change in women's preferences and opportunities. Where adaptation occurs, countries succeed in combining high employment and education for women (and greater instability in family settings) with higher fertility (Figure 9);³³ where institutions and cultural models remain incoherent with this change in women's economic roles, fertility continues to decline (McDonald, 2001).³⁴

31. OECD countries with the highest mean age of women at first childbirth tend also to display the lowest total fertility rates. Because of this tendency to defer birth, fertility rates, as measured in Figure 7, underestimate the true level of fertility. Data on *completed* fertility indicate a less dramatic decline. Even so, by 1998, in all OECD countries except Iceland, completed fertility was below replacement levels (this difference was small in the United States, Australia, New Zealand, France, in Nordic countries, and in several Central and Eastern European countries). Data on completed fertility are, however, less suited for monitoring changes, as they refer only to that cohort of women who have (almost) completed their reproductive cycle.

32. While there is some question as to the value to assign to survey responses concerning fertility desires and intentions, the evidence of a gap between desires and realisation in several OECD countries is suggestive of the existence of a welfare problem for individuals.

33. This shift may take the form of either an adaptation of welfare systems (*i.e.* using the tax and benefit system to provide subsidised children's services), as in many Scandinavian countries, or of service provision through markets (*i.e.* employer-sponsored care, or by provision of low-cost child-care by immigrants), as in the United States.

34. Differences in institutional adaptation partly account for changes in country rankings of fertility, with Nordic countries recording some of the lowest fertility rates in 1985, and some of the highest rates in 2000, while the opposite occurred in Southern European countries (Castles, 2002).

Figure 9. Cross-country relations between total fertility, women employment and education, and divorce rates

Note. The trend line refers to the same number of countries in the two periods.
Source: OECD data.

48. Demographic trends have led to greater attention being paid to migration as a means to relieve pressures on social protection systems. However, even assuming changes in current migration policies, it is implausible that increased migration flows would occur on the size needed to sustain population levels in OECD countries. If concentrated in short periods of time, higher migration may also put pressure on the urban environment and reception capacity of host countries (Schoerstrom, 2000). Moreover, much would also depend on the capacity of OECD countries to integrate migrants successfully into their economies and societies. In most OECD countries, the employment to population ratio for foreigners is below that of natives, in particular for women (Figure 10).³⁵ Political and cultural constraints to migration are also important, as labour market conditions of some native workers may be negatively affected³⁶, and as perceptions of insecurity and national identity may increase when migrants' ethnic and cultural background differ from those of host countries.³⁷

49. In addition, the integration of migrants confronts OECD social protection systems with new demands (*e.g.* providing language skills and specialised education to new migrants) and concerns (*e.g.* resurgence of infectious diseases due to greater mobility of individuals across frontiers). While evidence on the use by migrants of social services differs across countries and programmes, migrants often under-utilise health services in host countries while being over-represented among the beneficiaries of social assistance programs (*e.g.* the United States, Borjas, 1996).³⁸ Nonetheless, the benefits from larger migration — in terms of widening the contributory basis of social protection systems — are potentially important in several OECD countries.

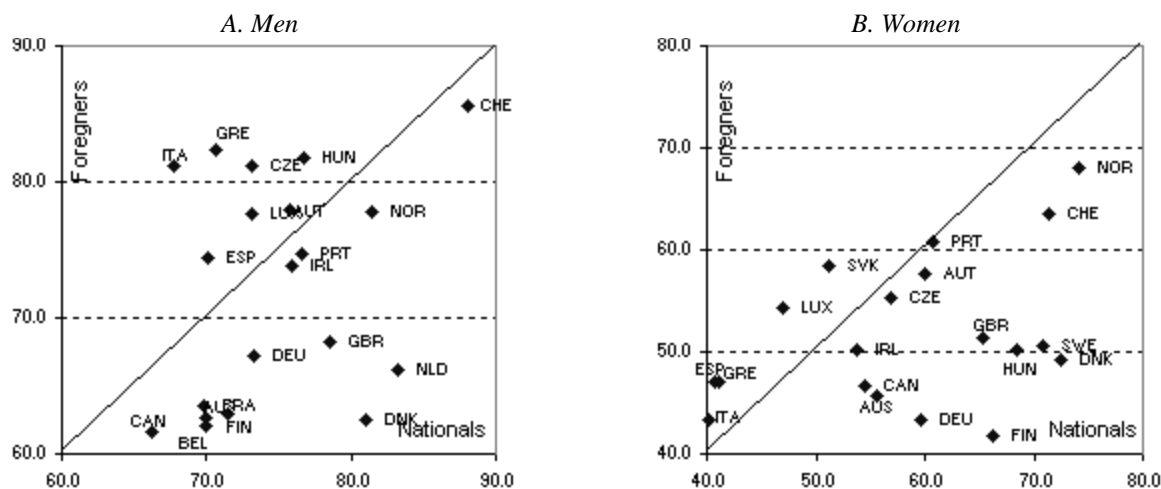
35. In the case of female migrants, their labour force participation rate is generally above that of natives in those countries that experienced recent migration, while the reverse is true in OECD countries with a long tradition of immigration (and where the importance of refugees is higher).

36. These effects, however, are generally small (Borjas, 1999; Coppel *et al.*, 2001) and concentrated on workers with low-skills (Borjas, 1987).

37. Even from the perspective of origin countries, economic effects of migration are not always beneficial. Migrant remittances may finance consumption, rather than investment; and migration of skilled workers may reduce the human capital of origin countries, lower social returns from public spending on education and health, and compromise their future prospects for economic development.

38. This applies in particular to refugees and older immigrants (who, in the United States, account for 21% of all immigrants and for more than 40% of all immigrants who are recipients of welfare benefits).

Figure 10. Employment to population ratios for foreigners and national in 2000-2001, by gender



Data refer to persons 15 to 64 (15 and above for Australia and Canada). Data for Australia and Canada refer to foreign-born population.

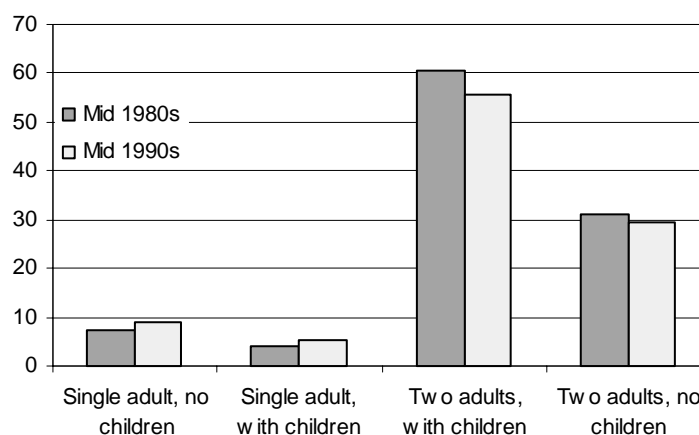
Source: OECD Labour Force Statistics.

Changes in the role of families

50. Families play key roles in protecting individuals and in contributing to their well-being. However, because of increased instability and weaker ties between members, their capacity to continue performing these roles is under stress. Greater risks of family disruptions, increased frequency of cohabitation among unmarried partners, out-of-wedlock births, and changes in living arrangements have made family patterns more diverse, moving them away from the standard nuclear type. While the impact of these changes on individuals varies according to the stage in their life-cycle, a general implication is that a growing number of persons have no, or few, immediate family links, and are dependent on alternative forms of support. These changes in family structures have implications for social protection systems built around insurance principles: where access to social protection is obtained through the employment of a married partner, coverage will not be guaranteed to lone mothers, to unmarried partners, to youths without work, and to older individuals without strong family networks, who can rely only on social assistance programmes. Furthermore, those with few family ties are more vulnerable to disadvantage, having fewer opportunities to share consumption (*e.g.* housing), income and wealth.

51. An important and easily monitored indicator of family instability is greater frequency of family dissolution. The most commonly-used measure of family dissolution is divorce, and trends in this measure point to significant increases in most OECD countries, with a threefold rise on average since 1970. As a result, households have tended to become smaller and their composition has moved away from the traditional nuclear family (father, mother and children), towards more single-parents households and more persons living alone (Figure 11).³⁹ Among couples, consensual unions have also become more important relative to marriages, increasing the proportion of children who are born out of wedlock and (because they are less stable than marriages) the risk of later dissolution of households.

39. Over the period from the mid-1980s to the mid-1990s, the proportion of individuals living in families composed of two adults with children fell by almost 5 percentage points across OECD countries, while both the proportion living in households with a single adult and in couples with no children increased.

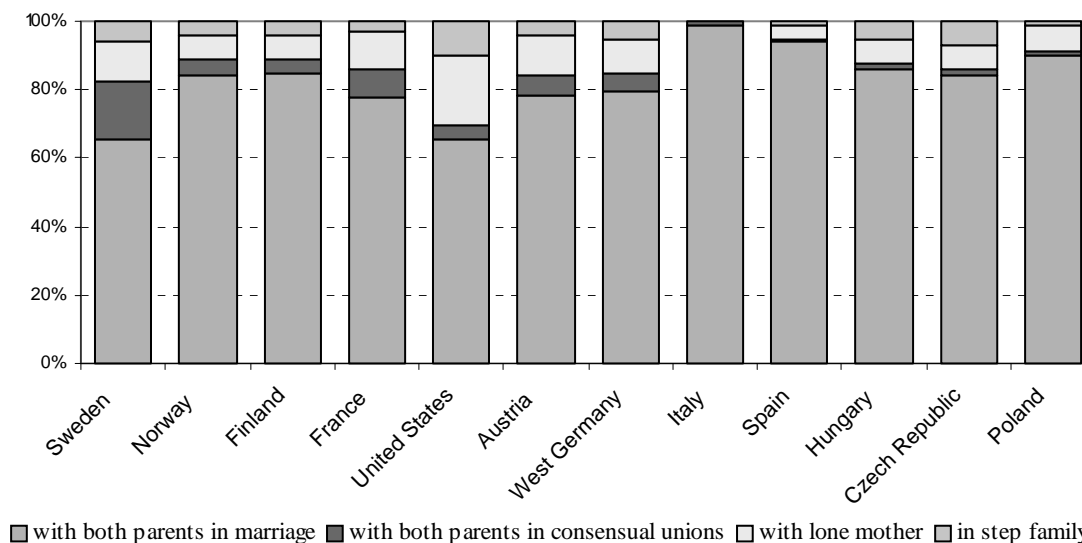
Figure 11. Proportion of individuals living in households with different characteristics

Source: OECD (2001*h*).

52. These changes in family patterns affect children's experiences of family formation, family dissolution, and family re-formation. One measure of these experiences is the share of time that children (aged less than 14) have spent in different types of families (Figure 12).⁴⁰ These changes in living arrangements are important for children's later experience, as some studies have suggested that residing in single-parent or step-parent homes is correlated with a range of risks for children, such as a higher probability of dropping out of school, teen pregnancy, committing crimes and becoming addict to drugs (OECD, 2001*b*). In the case of teenagers and young adults, longer periods spent in education, difficulties in settling in labour markets, and limited supply of affordable housing have led many youths, especially in some European countries, to leave their parents' home later in life, contributing to delayed family formation and lower fertility rates.⁴¹

40. Although the dominant family experience for children has remained that of living with both parents in the context of a marriage, Figure 12 highlights other important differences. Children in Sweden spend a high part of time living with both parents in the context of consensual unions, while in the United States and several countries in Continental Europe a significant part of children's formative experience is spent with a lone mother. In some countries, children also spend a significant fraction of their time within step families.

41. In Italy, the share of youth 25 to 29 years of age living with their parents exceeds 70% for men, while even among men 30 to 34 years old it remains above 50%. In France, the share of youths (20 to 24) living with their families has increased from 46% in 1982 to 55% in 1995.

Figure 12. Cumulative years spent by children in different family types

Note. Percentage of cumulative time spent by children from age 0 to 15 in different family types. Special tabulations from the "Family and Fertility Surveys" project.

Source: Andersson (2001).

53. Changes in family settings also have significant implications for older persons. In an increasing number of cases, older people are living alone, without the support of other family members or of their spouses.⁴² Even when living alone reflects preferences for increased personal autonomy in old-age, a strong network of family relations is often required to avoid social isolation and to provide home care in case of need. Because of this, declines in the support provided by other family members create new demands on social policies. Weaker community ties can also lead to new demands on social policies, but evidence about changes over time in the strength and nature of these ties remains sparse (Box 4).

42. In some OECD countries this trend is expected to extend into the future, while in others it could stop as the gap in old-age mortality between men and women is projected to stabilise.

Box 4. Is declining social capital a threat to sustainable development?

Communities play a fundamental role in supporting personal well-being. They generate norms of reciprocity and assure compliance with these norms, shape the identity and belonging of individuals, and harness their capacity to organise collectively to pursue collective goals. Among the different effects of community ties on the well-being of individuals, health effects have been those most investigated: longevity, for example, is affected by social connectedness, as social networks supply tangible assistance that reduce psychic and physical stress, and as connectedness triggers physiological mechanisms stimulating individuals to fight disease (with social isolation tending often to precede illness). Effects of community involvement on human capital are also important, as highlighted by higher levels of literacy among individuals who participate in community groups than for those who do not: while causation is uncertain, OECD reviews of educational policies have stressed the importance of communities in delivering adult education, and in strengthening a culture of literacy and civic society. Because of these functions, weaker communities can leave individuals feeling increasingly isolated, leading to new demands on social policies and threatening social cohesion. Weaker community ties may also lead to higher risks of dysfunctional behaviour such as crime and victimisation.¹ The notion of social capital – “the networks together with shared norms, values and understanding that facilitate co-operation within and among groups” (OECD, 2001b) – stresses the importance of community ties for economic and social well-being, with a focus on participation by individuals in formal and informal groups and on the extent of their social connectedness.

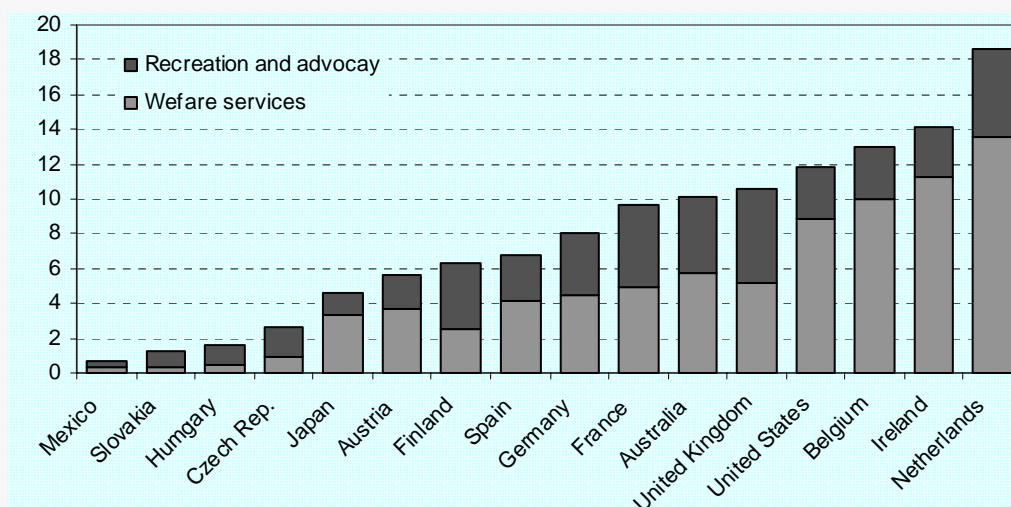
It is easier to assess various dimensions of community ties at a given point in time than changes over time. One indicator of community ties is membership of various groups. There are large differences across countries in terms of both the average number of groups to which respondents belong and the average numbers of groups in which they are active members (OECD, 2001h). Quality of social relations may also be gauged through (survey-based) measures of individual willingness to trust others, which highlight large (and relatively stable) differences in reported levels of trust in other persons across countries (OECD, 2001b). When considering trends over time, indicators of membership in major national organisations, civic and political participation, and various forms of informal connectedness in the United States suggest a strengthening of community ties until the 1960s, and steady declines in the following decades (Putnam, 2002). But in other OECD countries evidence is mixed, with traditional forms of social connection (churches, political parties, unions) being replaced by new types of community involvement and new social movements (often focused on single issues). Alongside data on membership of various groups, several authors have pointed to important shifts taking place in values, norms, and patterns of social behaviour, often in the direction of more personal autonomy, less deference to hierarchical controls, lower group and cultural identities and post-materialistic values (e.g. self-expression, participation and quality of life, Inglehart, 1997).

Whether or not these patterns point to fundamental changes in the strength of communities and in the values and motivations of individuals, the notion of social capital has been instrumental in drawing attention to the role played by communities in attending to the needs of individuals. Because most forms of disadvantage affect not only individuals and their families but also the communities in which they live, communities have a direct stake in improving social conditions, and often better knowledge of the interventions that are likely to work best. Communities can be effective in addressing social problems such as insufficient provision of local public goods, absence of insurance and risk-sharing opportunities, and market imperfections that cannot be handled either by individuals or by governments (Bowles *et al.*, 2000).

One way in which communities are contributing to sustain the well-being of individuals is through non-for-profit groups. The non-profit sector is today a major economic force in several OECD countries (accounting for close to 8% of non-agricultural employment in the countries shown below), and a significant share of its resources (around a fourth of its revenues) is accounted by voluntary contributions of time and money (Salomon *et al.*, 1999). While recreation and advocacy functions (political expression, advocacy, unions, professional and business associations, environmental protections, culture sports and recreation) account for a significant part of its activities, even most significant is direct provision of welfare services to individuals (education, health and other social services).

1. Helliwell (2002), based on data from three waves of the *World Values Surveys*, provides evidence on the importance of community groups for the well-being of both individuals and society. Across countries and individuals, subjective well-being is shaped by both individual factors (e.g. people's self-assessed health, age, employment and marital status) and societal characteristics (e.g. quality of governance). Being a member of a community group also increases satisfaction with one's own life, and spill-over effects from group membership on the well-being of others are significant (and substantially higher than direct effects). Significant spill-over effects also stem from 'trusting' other members of society and from judgments on the non-acceptability of cheating on taxes (a proxy for the willingness of individuals to share the costs of collective action).

**Employment in the non-profit sector in 1995,
as a percentage of non-agricultural employment**



Note. Paid and volunteer work in non-profit organisations excluding religious congregations. Welfare services include health, education, emergency relief, income support and maintenance. Recreation and advocacy include culture and recreation, environment, development and housing, advocacy, philanthropy, international, business and professional activities.

Source. Salomon *et al.* (1999).

Both community ties and behaviour dispositions have implications for the sustainability of social protection. Greater involvement of local communities in policy design and implementation is often needed to adapt social policies to greater diversity in local conditions. The drive towards greater competition in welfare provision and the diffusion of contracting arrangements in the public sector are increasing the role of the voluntary sector for social policies, as well as the importance for governments of setting service standards, fostering accountability of service providers, and establishing safeguards for equal treatment and non-discrimination. Greater emphasis on individuals' self-realisation also affect the sustainability of social protection, as they may make people less interested in pursuing goals of solidarity, reduce their willingness to finance general insurance programmes, and increase demands for personal control over the forms in which they are protected against risks.

Changes in the working environment

54. Changes in the working environment affect the sustainability of social protection in two ways. On one side, declines in labour force participation rates for some groups, long-term unemployment and the development of atypical jobs have narrowed the base for financing social protection, increasing the need for making social programmes more employment-friendly. On the other side, changes in the nature of work and of joblessness have made existing social protection institutions increasingly ineffective in responding to the growing divergence of workers' conditions in the labour market. Social protection systems first established when workers were predominantly men, blue-collar and unionised, with continued careers within the same firm during their working-life, have become less appropriate to respond to needs for training, and to cope with job insecurity and low pay (Sarfati and Bonoli, 2001). These changes in the working environment call for adaptation of social and labour market policies, and for measures to reconcile firms' search for greater flexibility and workers' needs for security against old and new risks.

55. Changes in the working environment have taken a variety of forms, and changed the nature of the risks and vulnerabilities confronting workers and their families. On one side, large groups of the population have continued to remain at the margins of the labour market, as joblessness has become less a short-time experience and is concentrated on specific demographic groups, whose future employment prospects decline as the length of the unemployment spell increases. On the other side, the loosening of the

traditional guarantees provided by long-term work attachment with a single firm has contributed to a growing diversification in the conditions of workers, increasing the importance of enhancing their adaptability throughout their life and of extending acceptable levels of protection to all.

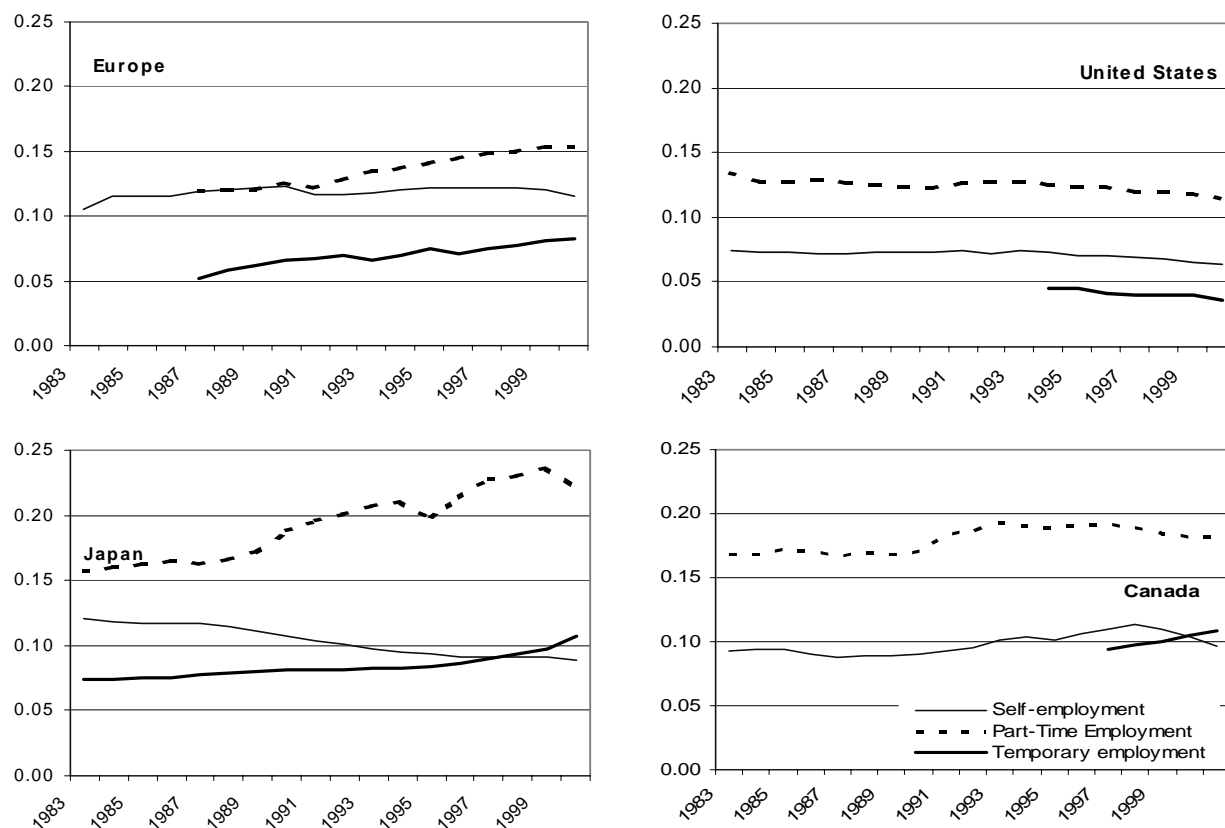
56. The differentiation in work conditions can be observed by looking at both the composition of the labour force and at the nature of jobs being created. On the supply side, the OECD workforce has continued to age, with most of its increase coming from women and ethnic minorities. Higher employment for women has increased the importance of dual-earners families, but has also contributed to greater polarisation between 'work-rich' and 'work-poor' households.⁴³ This differentiation in the demographic composition of the labour force has led to greater differentiation in working schedules (OECD, 1998*a*), away from full-time, full-year jobs, increasing pressures on working-time arrangements and labour market regulations to adapt. It has also increased pressures on both workplaces and policies to make it easier for working mothers to meet the caring needs of their dependent family members (Heymann, 2002).

57. Changes in labour supply have been accompanied by significant transformations in the nature of work, and greater importance of non-standard jobs such as part-time and temporary work. During the 1990s, self-employment also grew faster than total employment in most OECD countries, with the distinction between self- and wage-employment becoming increasingly blurred. Despite some overlap among its various dimensions, non-standard jobs (part-time, temporary and own-account workers) account for more than a third of all jobs in several OECD countries (Figure 13).⁴⁴ Growing importance of these non-standards jobs reflects changes in both the structure of OECD economies (towards services and smaller firms) and firms' responses to a more competitive business environment. However, these trends have also led to concerns about the quality of jobs being created, which may be characterised by worse working conditions and social protection.⁴⁵ These changes in the nature of jobs have made the distinction between work and non-work more opaque, confronting workers with a continuum of risks.

43. Higher employment of women has increased the importance of female earnings in household's income, but this has occurred mainly in households with a partner already working. As a result, an increasing number of individuals belong to households where both adults work or where no one does. This polarisation between 'work-rich' and 'work-poor' households has also affected the distribution of joblessness among households, and the support provided by those with jobs to other family members: in 1997, almost 1 in every 5 households (with a head of working age) had no workers, as compared to fewer than 1 every 10 in 1979 (OECD, 2001).

44. Both part-time work and self-employment have increased significantly in Europe, Canada and Japan since 1980, as industrial re-organisation and outsourcing of non-core activities have become more important. Temporary employment also increased strongly between 1985 and 2000 in several European countries.

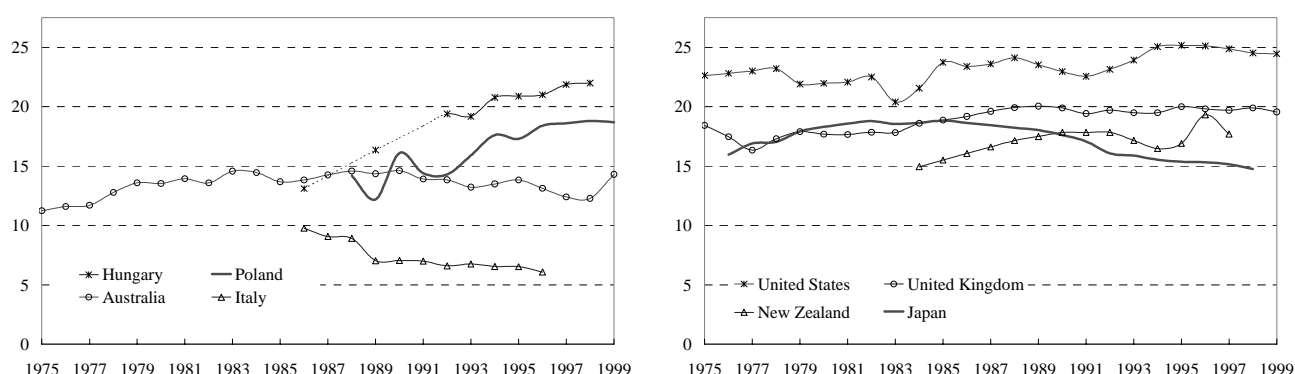
45. Temporary workers earn around 30% less than permanent ones, contribute less to social security, and experience longer and more frequent spells unemployed or out of the labour force. They also report performing more monotonous tasks, and to work more under inflexible schedules, at night and weekends. At the same time, however, most of these workers report being satisfied with their jobs (OECD 2002*d*).

Figure 13. Non-standard employment in some OECD countries

Note. As a share of total employment. Because of some overlap among them, these categories cannot be added up.

Source: OECD Labour Force Statistics.

58. Changes in the working environment have also taken the form of higher earnings inequalities among full-time workers, often reflecting lower earnings of those at the bottom of the earnings ladder and a growing incidence of low-paid workers (Figure 14). In some OECD countries, the growing incidence of low paid jobs has often reflected a deliberate policy to attract persons with low earning potential into work, as a stepping stone to their career development and as a way of avoiding social isolation. However, when low-paid workers get trapped into these jobs over time, a higher incidence of low pay becomes evidence of a long-term policy problem. Low-paid workers are more exposed to job-losses and to longer and more frequent spells of unemployment while, even when having a job, their earnings may be too low to adequately support their families, increasing the ranks of the working poor (OECD, 1998).

Figure 14. Incidence of low-paid employment, 1975 - 1999

Note: Low-paid employment is defined as less than two thirds of median full-time earnings. Incidence is calculated as a percentage of full-time employment.

Source: OECD (2001*h*).

59. To a significant extent, changes in the working environment have reflected the increased importance of technology and skills for firms' success. Workers at the bottom of the earnings scale typically have lower skills and education, and less educated persons experience higher unemployment than better educated ones (and these differences have often widened over time). In some countries, the effects of technical change in lowering demand for less-educated workers have been compounded by failings in the school system (which have limited the supply of more-educated workers), globalisation (through migration and trade) and institutional factors (such as lower unionisation and minimum wages).

60. Changes in the working environment have mainly been the results of how firms have adapted to the greater competitive pressures in the product markets where they operate. While increased product market competition may increase real wages and employment at the aggregate level (OECD, 2002*k*), in some cases these competitive pressures have led to changes in plant locations, greater importance of sub-contracting (often in small and non-unionised firms), and increased focus on firms' core competencies. When downsizing and lay-offs have followed, these often had severe implications for local communities where alternative jobs opportunities were lacking. Labour market changes may have also affected core workers and internal personnel practices, as emphasis on consumers' satisfaction and just-in-time delivery increases the importance of workers' adaptability to a wide range of tasks. New working practices such as job-rotation, quality circles and team production may also increase the premium attached to generic skills as a foundation for specialised in-firm training, and lead to flatter work hierarchies where career progression is no longer guaranteed (Gunderson *et al.*, 2000). While these new working practices tend to be associated with higher productivity and greater demand for skilled workers (Arnal *et al.*, 2001), they may also impact negatively on working conditions, increasing work intensity, mental strain, occupational injuries and hazards (Askenazy *et al.* 2002) and reducing job security (especially for blue-collar workers, those with less education and wages, those in temporary and part-time jobs).⁴⁶

46. Job security also reflects the general macroeconomic environment, and tends to be lower where social and employment protections are weaker. Surveys of workers' attitudes suggest that job security is the most important parameter for workers when judging job quality, and that job security may have declined over time in several countries (OECD, 1997). Perceptions of greater job insecurity will affect family formation and dissolution, as well as shaping workers' attitudes and resistance towards structural adjustments.

Changes in the distribution of economic resources

61. Changes in the distribution of economic resources are a cause for concern in countries that consider equality of outcomes as a principal goal of public policies, but are also problematic in other countries when they lead to higher and more persistent poverty, and to greater risk of social exclusion. Trends towards a widening in the distribution of income also affect the sustainability of social protection systems because they strain the capacity of public policies to counter this trend through larger public transfers and taxes and greater targeting to families with fewer resources. With concentration of disadvantage, the limits of social protection in fighting exclusion become more evident. Less successful groups become more dependent on benefits, and less capable to gain access to jobs providing career prospects, while most successful groups may find that the hedging strategies they have adopted (in the labour market, family choices, savings decisions) provide adequate cover against the risks they face, making them less willing to contribute to social programmes whose benefits accrue to others.⁴⁷ These factors call for a shift in social policies from remedial interventions to those affecting individuals' *ex-ante* opportunities such as initial education, adult training and career progression over workers' life-course.

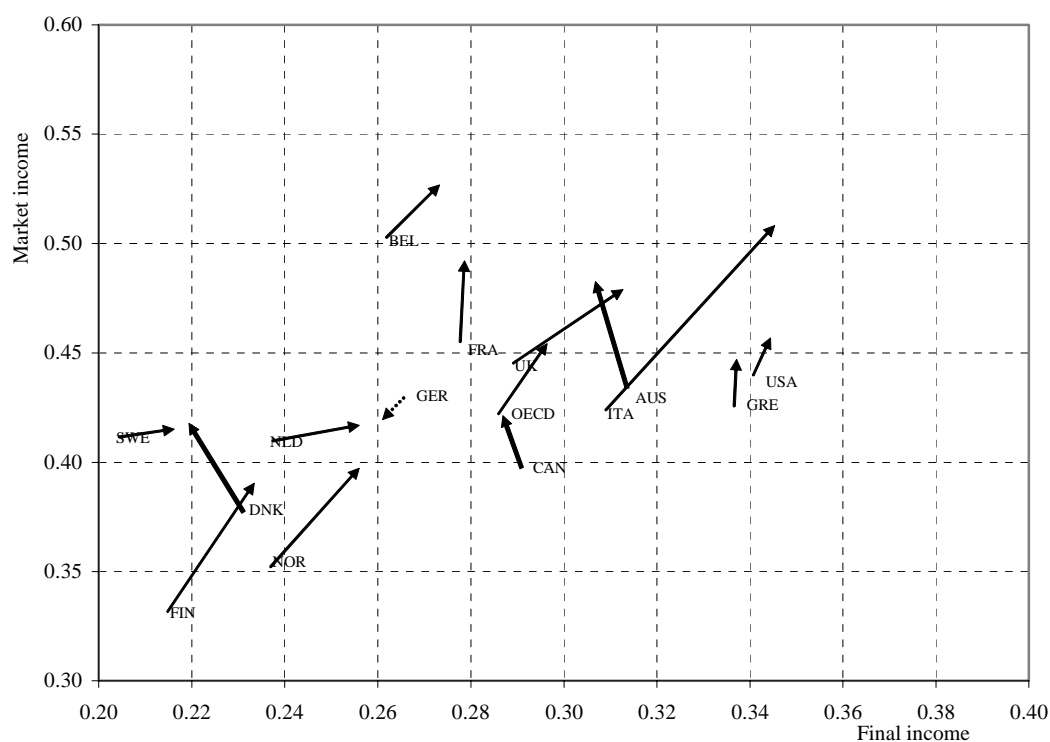
62. Despite large differences in the levels of income inequality, virtually all OECD countries for which information is available have experienced a widening in the distribution of *market income* (the sum of earnings, self-employment and capital income, before taking into account the impact of direct taxes and cash-transfers paid by government) in the decade from mid-1980s to mid-1990s. Individuals of working age have been those most affected by this widening.⁴⁸ Greater inequality in the distribution of earnings (by far the largest component of household income) was in all countries the main determinant of wider distribution of market income. This reflected both higher wage inequality among workers, and in some countries polarisation of jobs between 'work-rich' and 'work-poor' households. Greater importance of capital income (which is more unequally distributed than earnings but smaller in size) further compounded these trends. These trends in the distribution of market income have been offset to different degrees by the tax and benefits system (Figure 15), but this has not prevented significant shifts in the relative position of various demographic groups (Figure 16).⁴⁹

47. Beyond these factors, taxes and benefits will become less effective in countering a widening in the distribution of household income when greater mobility of some tax bases results in either higher labour taxes to finance general redistribution (with negative effects on employment) or in lower tax revenues (compromising the possibility of financing benefits). Most cash benefits also appear to have a lower impact than direct taxes in re-distributing income.

48. For those OECD countries where consistent data extend back to the mid-1970s, the recent widening in the distribution of market income appears to have extended or accelerated previous trends.

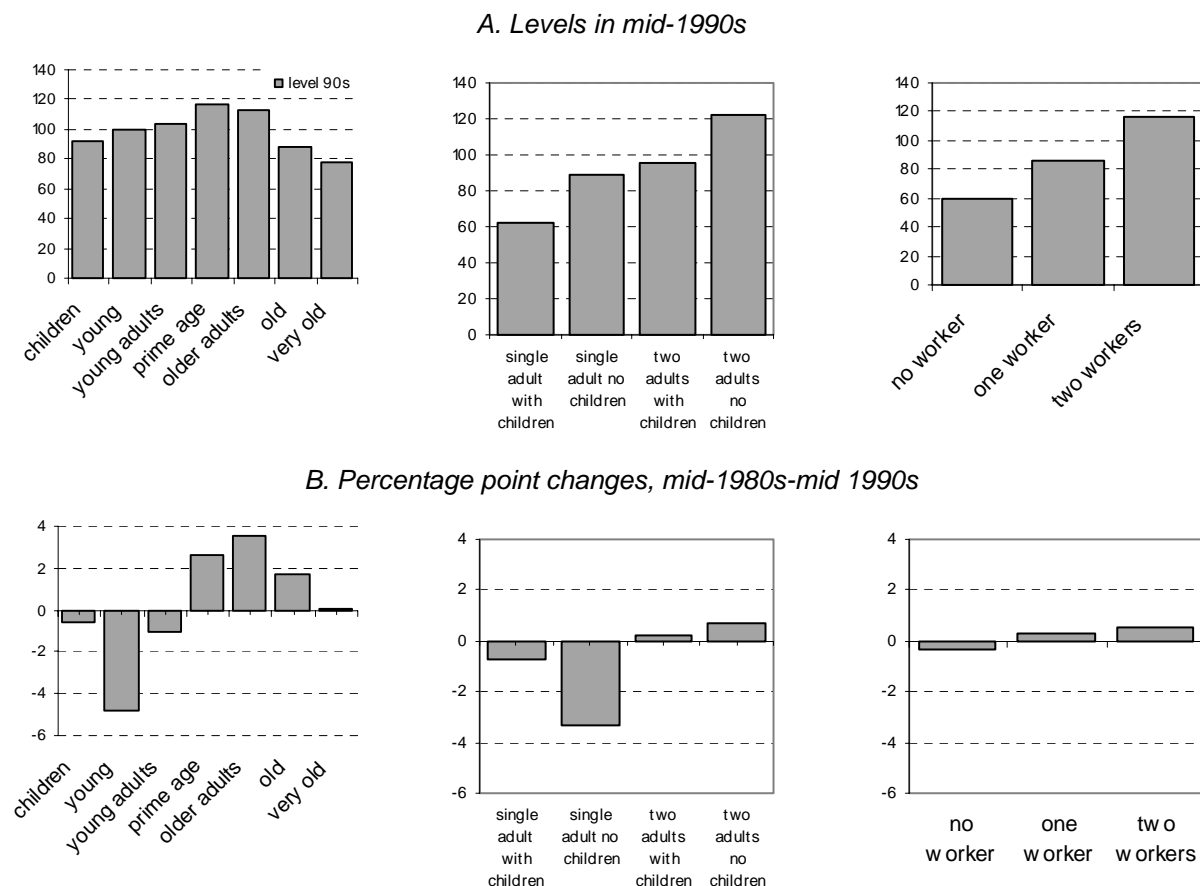
49. These shifts have mainly been from the young and, to a less extent, children and young adults towards prime-age and older persons; from singles towards individuals living in households with two adults, in particular those without children; and, from individuals in households where no one works, towards those with one and, especially, two workers (Förster, 2000).

Figure 15. Trends in income inequality in OECD countries, mid-1980s to mid-1990s



Note: Gini coefficients of household market (vertical axis) and final (or disposable, horizontal axis) income per individual, for the entire population (equivalence scale elasticity of 0.5). Arrows pointing in the north-west direction (bold) indicate a widening in market income that was more than fully offset by taxes and transfers; those pointing in the north-east direction (thin) indicate a widening in the distribution of market income that was only partially offset by taxes and transfers (resulting in higher inequality in the distribution of final income); finally, those pointing in the south-east direction (dashed) indicate lower inequality in both market and final income.

Source: OECD questionnaire on income distribution.

Figure 16. Relative disposable income for major demographic groups in the OECD area

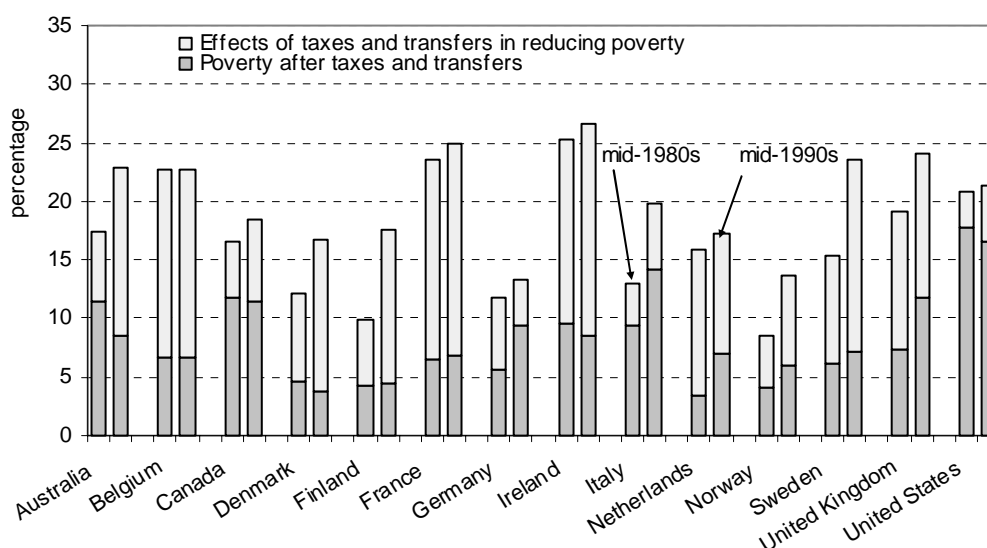
Source: OECD questionnaire on income distribution.

63. Changes in the distribution of economic resources can have implications for the sustainability of social protection systems when they affect groups with less economic resources, and when the size of these changes is such that they may threaten social cohesion. Income poverty, which is the most basic criterion for assessing risks of marginalisation from mainstream society, was broadly stable in most OECD countries throughout the 1990s (Figure 17).⁵⁰ This stability, however, masks significant shifts in the risk of poverty across demographic groups (Förster, 2000). The poverty risk declined in the 1990s among older persons,⁵¹ while it increased by a similar amount among young adults and, to a smaller extent, among children and prime-age persons. In all countries, labour market experience and family conditions are some of the main correlates of income poverty. However, having a job by itself is not always an effective protection against poverty and, in several countries, households with only one earner also experience above-average poverty risks.

50. Income poverty is here defined using a *relative* standard (*i.e.* living in a household whose disposable income, adjusted for family size, is less than half of the median). See chapter 4 for a discussion of relative and absolute standards for measuring poverty.

51. Both on average, and in 12 of the 18 countries.

Figure 17. Headcount measure of poverty, before and after taxes and transfers, mid-1980s and mid 1990s



Note: The headcount measure of poverty is the proportion of the population of working age with equivalent income below 50% of the median.

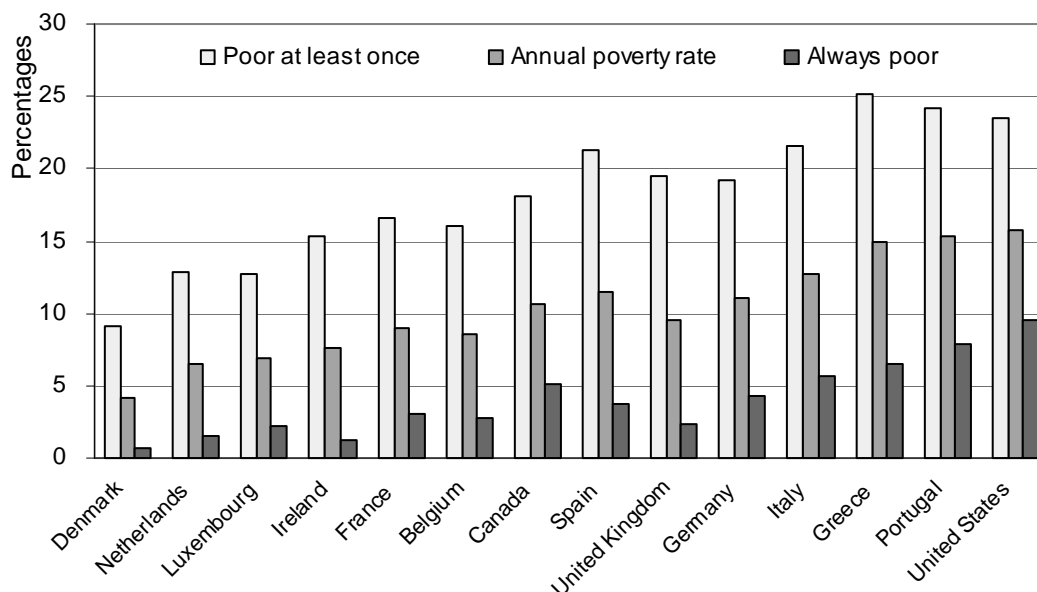
Source: Förster (2000).

64. Most families can deal with a period of low income, as long as it does not last too long. Poverty persistence, however, is far more difficult to cope with and can lead to more deep-seated forms of deprivation. Data on the experience of individuals and families over several years suggest that poverty is in fact both more common than suggested by point-in-time data and more persistent for specific subgroups of the population (Figure 18).⁵² More common as, on average, about 5% of the population not-previously poor enter poverty each year, and as almost half of those poor will exit poverty in the same year. But also more persistent, as a large proportion of the poor in a given year are individuals with income just above the poverty line even in their best years, and who experience repeated spells of poverty over a multi-year period.⁵³ Many of the persistently poor are also working,⁵⁴ suggesting that low-paying and precarious jobs better characterise the experience of many persistently poor households than does continuous exclusion from the labour market.

52. Across the 14 countries covered in Figure 18, the share of the population experiencing poverty at least *once* over a three-year period is 60% higher than the head-count ratio.

53. When the analysis is extended to a longer (6-year) period (for a sub-set of countries), these differences are further amplified: the share of those experiencing poverty at least once (and that of those being always poor) is 100% larger (and 80% lower) than the average head-count ratio (OECD, 2001*d*).

54. In the EU and the United States, those without a job account for, respectively, 40% and 20% of the poor in a given year, while these shares decline to 25% and 10% among those “permanently poor” over a multi-year period (OECD, 2001*i*).

Figure 18. Multi-year poverty rates, 1993-95

Note: Data refer to the total population and are based on income surveys following individuals over a number of years. Because of differences in data sources, the values of the "annual poverty rate" shown here differ from those for the "headcount measure of poverty" shown in Figure 17.

Source: OECD (2001d).

65. Poverty persistence may directly translate into social exclusion, which could limit individuals' ability to participate fully in society and tend to transmit across generations.⁵⁵ Risks of social exclusion are also often geographically concentrated, as poor neighbourhoods' intrinsic characteristics (in terms of location, housing, and opportunities for jobs) may penalise residents and further worsen over time, as better-off individuals move out of these neighbourhoods and worse-off individuals move in, lowering the quality of the environment, services and facilities, weakening community ties and increasing crime.⁵⁶ Social programmes can play an important role in fighting social exclusion and preventing its inter-generational transmission by, for example, promoting the availability of decent and affordable housing, good health and education and access to basic services.⁵⁷

55. The notion of social exclusion is part of the Amsterdam Treaty of the European Union and features prominently in the policies of a number of OECD countries. While definitions of social exclusion vary, Atkinson (1998) identifies three common elements in the emphasis on *relativity* (i.e. exclusion can only be judged by looking at a person's, or group's, circumstances relative to those of others in a given place); *agency* (i.e. exclusion implies an act by some agents, either the excluded person himself or third parties); and *dynamics* (i.e. exclusion reflects not just current circumstances, but dim prospects about the future).

56. Because of this spatial concentration of social exclusion, especially in large metropolitan areas, several OECD countries have complemented their general social protection systems with targeted actions in deprived neighbourhoods, including programmes to facilitate the social and economic integration of local inhabitants (OECD, 1998c).

57. Family income may also be unevenly shared among family members. Micklewright (2002) notes that a large proportion of British mothers report foregoing goods and activities to provide for their children: because of this pattern, one half of parents who are defined as 'poor' have children who are 'not poor'. Similarly, mother's own income seems to be more effective in raising children's consumption and well-being than fathers' income.

CHAPTER 4. ADAPTING SOCIAL PROTECTION TO ACHIEVE SUSTAINABLE DEVELOPMENT: A LIFE-COURSE PERSPECTIVE

66. The social protection system of OECD countries is typically structured according to the stages in the individual's *life-course*: their pre-school experience, formal education, the transition to work, the experience in the labour market (or at the margins of it) during prime age, the move to retirement and to very old-age. The trends and pressures described in Chapter 3 are affecting the capacity of social protection to respond to the needs of individuals during these stages of their life-course in an effective way. They also shift the risks that individuals face across their life-course, and modify the relative importance of policy interventions. Drawing on recent OECD work, this chapter identifies the nature of the sustainability challenges pertaining to each phase of the individual's life-course; presents some indicators that might be used to monitor the performance of OECD countries in preserving social assets and sustaining well-being;⁵⁸ and describes some of the policies required to assure the sustainability of the existing social protection system and to adapt it to new circumstances.⁵⁹ While not describing the experience and differences between individual countries, this analysis provides a framework that could be used for monitoring the policies and performance of OECD countries with respect to a range of social issues.

Supporting child development

Sustainability challenge

67. Providing an environment that enables young children's cognitive, emotional and behavioural development is widely recognised as an essential first step in the human capital investment of individuals. However, as poverty and exclusion have shifted towards younger age groups, more children are today exposed, in several countries, to risks of material deprivation that could affect their later development and opportunities.⁶⁰ In addition, as families get smaller and more fragile, parents face increasing difficulties in attending to the needs of their children in a continuous and effective way, while experiences of family disruptions may affect children educational results. Greater geographic mobility and weaker community ties have also weakened links with other family members, and reduced the availability of informal care outside the nuclear and extended family.

58. Data sources for the performance indicators used throughout this chapter are presented in Annex III.

59. While ensuring protection against health-related risks is a central component of the social protection system, factors shaping the sustainability of the health system (such as demography, technology and the emergence of new risk factors) are not addressed in this document, but are discussed in the context of ongoing OECD work on health systems and performance. While much of the focus of this OECD work is on ways of improving the effectiveness of health interventions, some of the major determinants of health outcomes reflect risk factors that are outside the immediate reach of health interventions. This makes the notion of sustainable development also relevant for the analysis of health systems.

60. Over the 10 years to the mid 1990s, relative poverty among children increased in 10 out of 18 OECD countries for which data are available, from an average value of 10.7% in the mid-1980s to 11.8% in the mid-1990s (Förster, 2000).

Table 1. Supporting child development

	Mortality among children (* 000)		Low birthweight as a proportion of all life births		Relative poverty among children		Percentage of children living in lone parent households		Percentage of children living in households where no one works		Proportion of children who use day care facilities	
	Most recent	1960-most recent	Most recent	Ten-year change	Most recent	Ten-year change	Most recent	Ten-year change	Most recent	Ten-year change	aged below 3	aged 3 to 6
Australia	5.0	-15.2	6.2	0.2	10.9	13.2	3.0	15.0	3.2	15.0	60.0	60.0
Austria	4.9	-32.6	6.3	0.7	..	..	..	3.5	..	4.0	68.0	68.0
Belgium	6.0	-25.2	6.1	0.0	4.1	14.2	..	5.2	..	30.0	97.0	97.0
Canada	5.5	-21.8	5.6	0.2	14.2	12.7	3.3	8.3	2.4	45.0	50.0	50.0
Czech Rep.	5.2	-14.8	5.8	0.3	..	..	..	..	..	..	..	..
Denmark	4.7	-16.8	..	..	3.4	14.2	3.4	6.3	3.3	64.0	91.0	91.0
Finland	4.2	-16.8	4.3	0.6	2.1	10.7	2.5	3.4	2.6	22.0	66.0	66.0
France	4.7	-22.7	6.4	1.1	7.1	7.6	0.9	7.6	1.5	29.0	99.0	99.0
Germany	4.7	-29.1	6.5	0.8	10.6	7.9	3.2	8.5	1.5	8.0	40.0	40.0
Greece	6.7	-33.4	8.1	2.1	12.3	3.6	-2.3	4.5	-2.7	..	..	..
Hungary	9.7	-38.3	8.4	-0.9	..	..	..	..	..	..	..	..
Iceland	2.6	-10.4	4.1	0.9	..	..	..	..	..	..	..	..
Ireland	6.2	-23.1	..	..	..	..	..	..	..	38.0	40.0	40.0
Italy	6.2	-37.7	6.0	0.4	18.8	3.6	1.9	5.7	4.2	6.0	95.0	95.0
Japan	3.6	-27.1	8.6	2.3	..	..	..	..	..	13.0	34.0	34.0
Korea	7.7	-37.3	3.8	1.2	..	..	..	..	..	..	..	..
Luxembourg	5.0	-26.5	6.8	1.4	..	..	..	..	..	..	..	..
Mexico	15.8	-58.2	9.4	3.8	26.2	4.1	3.4	3.2	0.9	..	..	..
Netherlands	5.2	-12.7	4.7	-0.1	9.1	10.6	4.5	12.5	2.0	6.0	98.0	98.0
New Zealand	6.8	-15.8	6.4	0.2	..	..	..	..	..	45.0	90.0	90.0
Norway	4.0	-14.9	4.7	0.1	4.4	16.1	5.4	9.5	4.6	40.0	80.0	80.0
Poland	9.5	-45.3	5.7	-2.4	..	..	..	..	..	..	..	..
Portugal	6.0	-71.5	7.4	1.8	..	..	..	..	..	3.0 / 5.0	75.0	75.0
Slovakia	..	..	6.7	0.9	..	..	..	..	..	46.0	90.0	90.0
Spain	5.0	-38.7	6.2	1.7	..	..	..	..	..	5.0	84.0	84.0
Sweden	3.5	-13.1	4.2	-0.3	2.7	21.3	4.4	5.6	3.5	48.0	80.0	80.0
Switzerland	4.8	-16.3	6.3	1.2	..	..	..	..	..	..	..	..
Turkey	37.9	-159.5	7.9	..	19.7	0.6	0.6	3.3	1.1	..	..	..
United Kingdom	5.7	-16.8	7.6	0.8	18.6	18.3	8.1	14.2	1.4	34.0	60.0	60.0
United States	7.2	-18.8	7.8	0.7	23.2	16.3	1.3	7.1	-1.2	54.0	70.0	70.0
Average of above countries	7.0	-31.4	6.4	0.7	11.7	10.9	2.9	7.3	1.9	29.1	73.4	73.4
Standard deviation	6.4	28.4	1.4	1.1	7.7	5.9	2.4	3.7	1.9	18.9	20.7	20.7

Note: Definitions and data sources are provided in Annex III.

68. Because of the changes in the environment in which child development takes place, OECD countries are increasingly focusing on what the objectives of policies to support child development should be, on the instruments available to attain these goals, and on the trade-offs they face when implementing these policies. Explicit targets for child development have recently been adopted by various OECD governments. These have often tended to focus on eradicating or reducing the extent of poverty among children,⁶¹ with emphasis in countries' sustainable development strategies on both investing today in their future well-being and on reducing the burden that current action might impose on future generations.

Indicators of sustainability

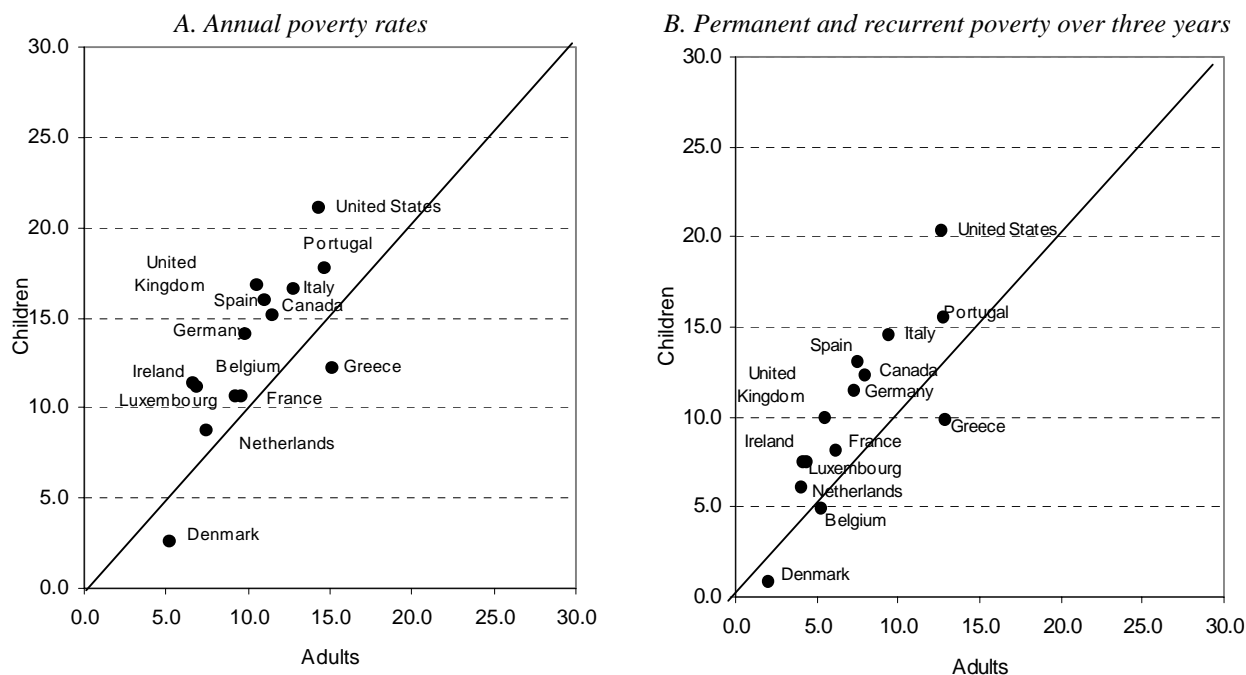
69. The range of outcomes of concern for child development is potentially large, encompassing health, competence and well-being.⁶² Epidemiological studies have documented how specific factors at sensitive periods in early life (*e.g.* infant's weight at birth) might influence adult physical health (*e.g.* diabetes, blood pressure, heart disease) regardless of subsequent experiences (Hertzman, 2000). Studies in brain development and early interventions also suggest that a secure attachment by infants to trusted caregivers (whether in the family or outside), with consistent caring, support and affection early in life, are critical for children's (and ultimately adults') emotional health and control, and for their capacity to react to new situations (Hertzman, 2000). Language and cognitive skills of children are also important for their readiness to learn in schools at a later age, and they are affected by specific stimulation, such as talking and reading, and effective parenting practices. However, quantitative information falls short of what would be needed in several of these areas to assess trends and how policies might influence them.

70. One important indicator of child development is the extent of poverty among children. In several OECD countries, children experience levels of income poverty that are higher than those of adults (Figure 19, panel A), although with large differences across countries – from less than 5% in Denmark, to above 15% in North America, the United Kingdom and Southern European countries (UNICEF 2000). Differences in the persistence of child poverty relative to adults are also significant (Figure 19, panel B), which suggests that specific factors shape the risks of poverty faced by children relative to those faced by the entire population. Children living in lone-parent households, and in households where no adult works, are often disproportionately exposed to poverty risks.⁶³ Availability and use of childcare facilities, in both formal and informal settings, are also important in fostering child development, in particular for children from more disadvantaged backgrounds, and in providing adequate supervision to children when parents are absent from home. A range of indicators to monitor the performance of the social protection system in supporting child development is shown in Table 1.

61. This is the case, for example, in the United Kingdom (with the goal set in 1999 to halve child poverty by 2020) and Ireland (with the goal set in 1999 to reduce child poverty by two thirds by 2007). The EU Lisbon Summit in 2000 has called for decisive steps to eradicate poverty, singling out children for special concern.

62. In several OECD countries, the notion of child development is used to encompass concerns about the conditions of youths of schooling age. In these cases, additional concerns include teenage delinquency, alcohol and drug abuse, unintentional injuries and accidents, suicides and premature fertility.

63. Within OECD countries, growing up as a child with a lone parent increases the risk of poverty, although in some countries (*e.g.* United Kingdom) this disadvantage tend to disappear after controlling for household income. Beyond its impact on poverty, the increased proportion of children growing up in lone-parent families may also imply lower contacts with siblings, with possible implications for their emotional and cognitive development.

Figure 19. Poverty among children and adults

Data are based on panels following individuals over a three-year period (1993-1995). Panel A refers to the average of poverty rates, for children and adults, respectively, across three-years. Panel B refers to individuals whose cumulative (equivalent) income across the three years is less than the sum of the poverty thresholds in the same years.

Source: OECD (2001).

Policy responses

71. While policies can often make the difference for child development outcomes, no single intervention is likely to achieve results by its own. Because of this, successful approaches to child development typically combine different instruments. One such instrument is public transfers towards families with children. Public transfers and taxes towards families with children play a significant role in reducing child poverty at the level of market income in a given point in time, with the extent of this reduction ranging from more than 20% in Sweden and France, to less than 5% in Italy and the United States (UNICEF, 2000).

72. But income transfers alone are not enough to support child development, and many of the measures towards children are aimed at increasing employment among their parents, so as to increase their economic self-reliance. Research in the United States suggests that unemployment, in particular when long-term, is linked to child poverty, abuse and neglect, and that its psychological consequences can affect children's emotional well-being (Kamerman *et al.*, 2002). At the same time, however, unemployment alone does not explain much of the cross-country variation in child poverty; also important is how employment is distributed among households, the extent of low pay, and the specific measures used to address the needs of children (UNICEF 2000).

73. To reduce the risk that children live in households where no adult works, several OECD countries have introduced reforms to increase incentives faced by parents, in particular lone mothers, to move from welfare benefits to employment. In the United Kingdom and the United States, for example, in-work benefits targeted to poor families with children have been important to move parents from welfare to work, to increase the market income of working-poor families, and to strengthen their labour market attachment.

However, these measures may also increase the hardship of those families and their children who remain on welfare (see below).

74. Policies to support child development have to confront difficult trade-offs. When looking beyond income poverty, parental employment may sometimes also have less beneficial effects on child development. Some studies have suggested negative effects from mothers' employment on child cognitive development, in particular when the child is aged less than one, when mothers' employment involves long hours, irregular shifts and work during weekends, and when high-quality and affordable early education and care is not available.⁶⁴ Success in increasing employment of parents, especially lone mothers, may leave children with lower supervision and support, and increase the child-care responsibilities of their older siblings, with negative impact on the latter's school performance. Finally, even in households where both parents work, family responsibilities and career goals may conflict with each other, reducing the amount of time parents devote to supporting the development of their children. These effects increase the importance of complementary policies to help parents in reconciling employment opportunities and family responsibilities, and to ensure adequate care and support for children when parents are not at home.

75. Family-friendly policies aim to provide families with young children with better employment opportunities, to help parents improve their standards of living and fulfil their aspirations, and to give children the care that they need. Helping individuals to reconcile their work and family life will also promote other societal goals, such as providing more stable sources of income, facilitating greater equity and independence of women, and mobilising the labour resources that are needed to secure the sustainability of social protection systems. While employment rates for women, and for mothers in particular, have increased rapidly over recent years, much of this increase has been concentrated among the better-educated (OECD, 2002e).

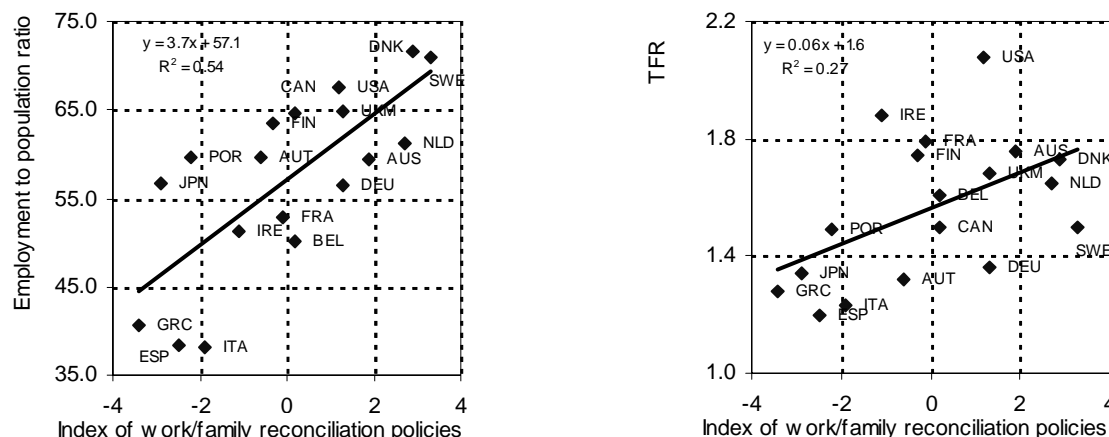
76. Family-friendly policies take a variety of forms including schooling, gender equity, child-care and tax policies. Most OECD countries have moved towards separate taxation of earnings of couples to reduce disincentives to work for spouses, although the practical effects of these reforms in promoting two-earner households also depend on other features of social security systems. Entitlements to maternity and child-care leave, as well as leave reserved for fathers, have also been introduced (and/or their generosity increased) in some countries, with large cross-country differences in provision. Finally, a number of countries have introduced schemes allowing temporary moves from full-time to part-time work, as the latter is often the preferred form of employment among many parents with young children. While the impact of each of these measures differs across countries, a positive relation appears to hold among a composite index of these family-friendly policies and the size of both female employment (Figure 20, Panel A) and fertility (Panel B).

64. Research in the United Kingdom and the United States suggests that mothers' employment in the first (or pre-school) year of a child's life may reduce the child's cognitive development and later educational outcomes (Kamerman *et al.*, 2002). For example, Ruhm (2002), using data from the National Longitudinal Survey of Youth for the United States, separates the effects of mothers' employment from other characteristics: his results suggest large negative impacts of early maternal employment for the reading and mathematics achievements of children aged 5 and 6, and smaller reductions in the verbal ability of those aged 3 to 4 (partially offset by improvements in the next two years of children's life).

Figure 20. Relationship between family friendly policies and women's employment and fertility

A. Family-friendly policies and women's employment rates

B. Family-friendly policies and total fertility rates



Note: The composite index of work/family reconciliation policies is obtained as the sum of indicators for child-care coverage for children less than 3, maternity pay entitlement, extent of flex-time working and of voluntary part-time jobs, and (half of) voluntary family leave provided in firms. To put all the indicators on a common scale, they are scaled so as to have a mean of zero, and standard deviation of one. Data refer to 1999.

Source: OECD (2001f).

77. Most OECD countries have recognised the availability of affordable and high-quality care for young children as a key instrument to reconcile work and family responsibilities, and regard expenditure to expand provision as a form of investment in the future. Reviews of the experience of several OECD countries have stressed the value of early childhood education and care in easing the potential trade-off between parents' employment and children's development, and in improving the well-being of children (OECD 2001e). While there is no consensus as to the appropriate age of attendance, a large body of research indicates that early childhood education and care brings benefits for children's cognitive (better literacy scores later in school), emotional (greater socialisation of children, less aggressive behaviour) and physical development (Palacio-Quintin, 2000). As these benefits are especially strong for children from disadvantaged backgrounds, early childhood education and care will also contribute to narrow the gap separating children and to reduce the concentration of disadvantage later in life.⁶⁵

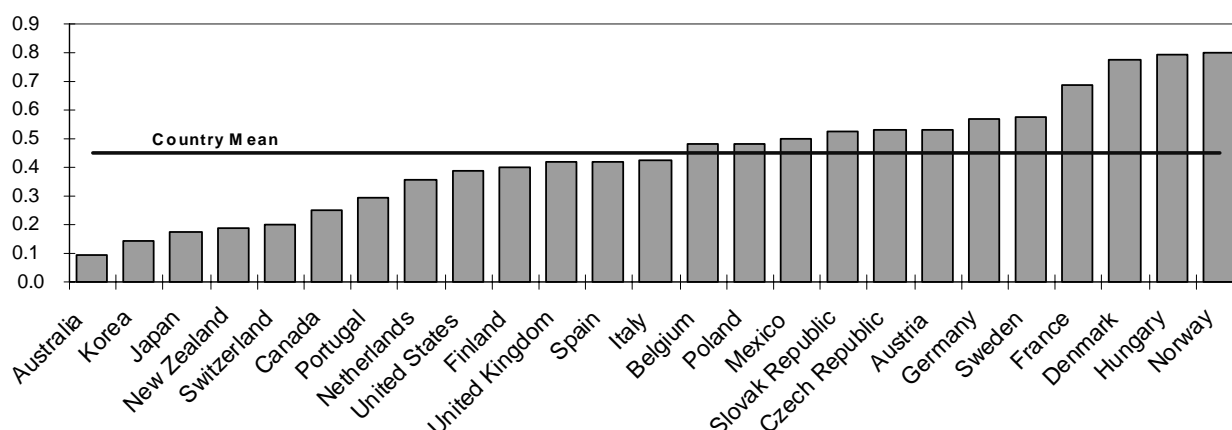
78. The problem is that such care is not always available to respond to needs, and that its cost often puts it beyond the reach of many families. Differences across countries in the extent of these programmes, especially for younger children, are large. Coverage at younger ages remains limited in several OECD countries, while both the costs and quality of services supplied differ significantly across providers (institutionalised centres, family day care, and individual care from relatives or babysitters). Several strategies to support child development focus on improving access to, and quality of, the services provided by early childhood education and care. Factors shaping quality include teachers' qualifications and training, stability of the teacher-child relationship, group size, space availability for children, length of attendance, and safe hygiene practices. Successful strategies also integrate care functions and early

65. In this context, some OECD countries have started to pay special attention to the needs of children of migrants and ethnic minorities, who are often exposed to high risks of poverty and lone parenthood. The special vulnerabilities of children at risk of learning disabilities, and with a weak relationship with their parents, increase the importance of early detection and support for those at risk of later failure.

education services within the same institutional setting, which requires improving the coherence with educational policies.

79. Despite having recognised the contribution that early childhood education and care can make to the later development of children, OECD countries differ in the level and form of support provided. One partial measure of this support is the direct expenditure in pre-primary education by educational institutions (Figure 21), but this excludes cash transfers provided by governments to parents (as in the case of Australia) as well as spending related to the caring of younger children (below the age of 3). Whatever the form of intervention, governments are confronted to important resource constraints to expanding supply of early childhood facilities, and need to respect parental authority and freedom of choice as to the appropriate type of provision. These considerations underscore the importance of leveraging the initiative of a broad range of actors (families, communities, firms) to ensure a diversified supply and the cost-effectiveness of policy interventions. Governments, both nationally and locally, have also important responsibilities to oversee conditions of access and affordability of the services provided by different providers, so as to avoid risks of a two-tiered system serving families with different economic resources.

Figure 21. Expenditure in pre-primary education in 1999, as a share of GDP



1. Direct and indirect expenditure on *educational institutions* from private and public sources. These exclude expenditures on *childhood care* when these are not provided by educational institutions.

Source: OECD (2002c).

Supporting child development

The nature of the challenge

- Supporting early child development is an important stepping stone towards their human capital investment.
- More fragile family ties and a shift in poverty towards families with children increase the importance of measures to support child development and avoid poverty among children.

Policy responses

- Combining transfers to families with children, with more flexible work arrangements and parental leave.
- Increasing parents' employment as a means to reduce children's material deprivation, while considering how the absence of parents from home might impact on children's psychological and cognitive development.
- Expanding access to, and affordability of, early childhood education and care to ease the trade-off between mothers' employment and children's development, especially for children with special needs and from disadvantaged backgrounds.

Improving quality and equity in education

Sustainability challenge

80. The education system plays a key role for the accumulation of human and social capital, and for sustaining economic growth.⁶⁶ At the level of individuals, beyond the economic pay-off in terms of higher earnings, education also delivers benefits in the form of greater personal health and subjective well-being, better parenting practices, lower crime and lower probability of receiving social assistance (OECD, 2001*b*). Because of this wide range of benefits, at both the aggregate and individual levels, the education system occupies a prominent place in all discussions about sustainable development. Quantitative targets for enrolment in primary schools, and for closing the gap in enrolment between girls and boys, figure in the Millenium Development Declaration as key elements for reducing absolute poverty and achieving sustainable development in developing countries. But developed countries as well need to pay greater attention to ways of sustaining the pace of human capital accumulation in the future, and to how the distribution of the competencies gained in school will affect the opportunities of individuals later in life.

81. Historically, participation in the formal education system has been the major determinant of human capital accumulation in OECD countries. Mean age of schooling among the population of working age increased over the past four decades by around a third,⁶⁷ with a significant narrowing in dispersion of educational attainment across countries. However, sustaining this pace of accumulation in the future will be more difficult. The gap in educational attainment between boys and girls, which was large twenty years ago, has now narrowed significantly in most OECD countries, to the point of disappearing in many of them.⁶⁸ Further, demographic trends will reduce future inflows into the school system,⁶⁹ at the same time as differences in the educational attainment of different cohorts begin to narrow.⁷⁰ Because of the lower expected increase in educational attainment, improving *quality* of education will become more important for human capital accumulation in the future. This implies greater focus on the competencies acquired in schools, on the way in which they are used in the labour market, and on the extent to which they motivate further learning through life.

82. While having the potential to contribute to greater prosperity overall, the distribution of educational competencies can also accentuate social divisions and the sustainability of future development. Because concentration of disadvantage undermines support for growth-enhancing policies, and the willingness of the rest of the population to support social protection, wider income inequalities call for measures to increase the earnings potential of individuals with lowest qualifications. A focus on equity is

66. Estimates of the impact of education on GDP growth in OECD countries suggest high returns (*i.e.* a long-run increase of output per head of the population of working age of around 6% for each additional year of education, Bassanini and Scarpetta, 2001).

67. To an average of 11 ½ years, across the OECD countries for which comparable information is available. Estimates of mean age of schooling among the population 25 to 64 years old are based on data on educational attainment in De La Fuentes and Domenech (2001), updated and modified by the Secretariat.

68. Among women aged 55 to 64, only 6% (as compared to 12% of men) have university degrees, and 38% (compared to 50% of men) have upper secondary education. Among those 25 to 34 years old, on the contrary, women have exactly the same attainment as men (OECD, 2001*g*).

69. UN demographic projections (2000 revision) suggest that the OECD population of school-age (0 to 24) might narrow by 10% in the next 40 years, after having increased by 12% in the previous 40.

70. In the past, the strong increase in the educational attainment of youths had widened the gap between older and younger cohorts in most countries (OECD 2001*g*). In the near future, this gap might start to narrow, as younger and more educated cohorts age, and as the increase in attainment of students declines.

all the more important as the expansion of educational opportunities of recent decades has done little to narrow differences in completion among various groups of students. The persistence of a gap in completion rates points to the importance of devising strategies to reduce pockets of low proficiency and attainment, and to address the consequences of family and background characteristics at all levels of the education system. Reconciling these quality and equity goals in the educational system will not be easy, as rapid changes occurring outside the educational systems (such as growing instability of family settings, material deprivation of some groups and migration) have increased the importance of prior disadvantages for educational outcomes. The pay-off of more equitable access to education is not only greater supply of more qualified youths, but also lower labour-market inequalities and lower disadvantage for youths coming from less advantaged backgrounds.

Indicators of sustainability

83. All OECD countries seek to ensure that young people enter working life with a minimum amount of human capital. Participation in compulsory education tends today to be nearly universal in all OECD countries, although in a minority of OECD countries a significant proportion of youths still do not complete compulsory schooling. Beyond this variation in terms of completion of compulsory education, there are much larger differences in the *quality* of the competencies gained. Survey evidence of the (reading) literacy scores of students at, or around, the end of compulsory schooling (15 years old)⁷¹ highlights significant pockets of under-achievement (at or below level 1 of the reading literacy scale), ranging from less than 5% in the best performing countries to more than 20% in a third of all countries. This is a cause of concern, as students with such low levels of literacy are likely to encounter serious difficulties when they enter the labour market, and to fail to benefit from learning opportunities later in life. Within individual countries, there are also large differences in performance between students with low- and high-literacy scores, which to a significant extent reflect the parents' socio-economic background.⁷² Because of the persistence of educational disadvantage among generations, and the importance of educational qualifications in influencing labour market outcomes in adulthood, economic opportunities will tend to transmit from one generation to the next and to become more important over time.

84. Beyond compulsory education, most OECD countries now regard completion of upper secondary education as the minimum requirement for individuals before they enter the labour force. Access to post-secondary education has increased rapidly, to the point that nearly three-quarters of all youths aged 25 to 29 in OECD countries have now completed upper-secondary education, up from around half of all individuals who are now in their early 50s. However, a significant minority of young people continues to fail to complete upper secondary education. Even among those who complete it, there are large differences in literacy levels across countries, and large differences in the proportion of under-achievers, ranging from around 10% to nearly 60%.⁷³ At the tertiary level, around a quarter of all persons aged 30 to 34 reached

71. The OECD *Programme for International Student Assessment* (PISA) provides internationally standardised (pencil and paper) assessments of 15-years old students in the domains of reading, mathematical and scientific literacy. The first survey, in 2000, involved 250 000 students in 32 participating countries.

72. On average, the 25% of 15-year-old students whose parents have jobs with the highest socio-economic status show literacy almost a fifth higher than students from families with the lowest socio-economic status. While it cannot be assumed that all these differences in literacy performance are the direct result of home advantage (the status and resources of parents will also affect students' place of residence and the quality of schools to which they have access), socio-economic background remains one of the most powerful factors influencing school performance (OECD, 2002g).

73. Literacy levels of adults aged 16 to 65 were assessed in 18 countries between 1994 and 1998 using the *International Adult Literacy Survey* (IALS). Participants to the survey also provided information on their educational attainment, other background characteristics, and employment and training experience.

graduation in recent years, up from less than a fifth twenty years ago, although there are large differences across countries. Indicators to monitor the performance of OECD countries in delivering quality and equity of education systems are provided in Table 2.

Policy responses

85. Education already represents a large portion of public expenditure in all OECD countries and, in some of them, a significant part of the private expenditures of individual families. Greater emphasis paid to improving the quality and equity of education outcomes may require changes in the allocation of this spending, with greater public support for measures which, by providing the foundations for later learning and avoiding pockets of underachievement, benefit society at large, relative to those whose benefits accrue mainly to individual students. This may well include spending increases for pre-school education.

86. At the compulsory level, several features of educational policies seem capable of simultaneously meeting quality and equity goals. While, across countries, higher cumulative spending (from both public and private sources) per student is associated with higher students' performance, the relation is not strong, and there is much variation in learning outcomes for a given level of spending (Figure 22, Panel A). Students' reading at home, supportive learning environments, good relations between teachers and students, greater autonomy granted to schools to improve learning outcomes all support student performance (OECD, 2002g). Across countries, students' performance also seems higher, and variation among students narrower, in systems characterised by a lesser degree of differentiation between different types of schools, and by a later age at which this differentiation takes place. Countries in the upper right corner of Figure 22 (Panel B) experience both above-average literacy performance and below-average literacy inequality among students with different parental occupations; the opposite occurs for countries in the lower left corner.⁷⁴ This suggests that quality and equity are not always competing goals, and that successful strategies can achieve both.

74. The influence of home background for students' results extends to other variables beyond parents' occupation, such as access to cultural activities, patterns of communication between parents and children and financial wealth. Students whose home language is different from their language of instruction also perform worse in school than other students (OECD, 2002f).

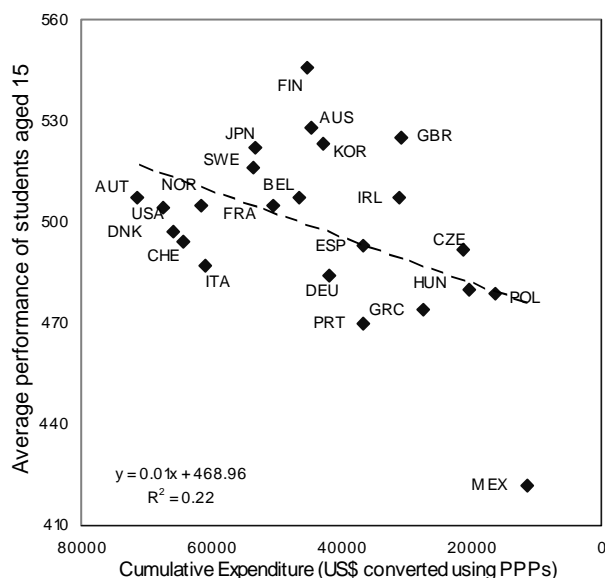
Table 2. Improving quality and equity in education

	Proportion of youths who have not completed compulsory schooling		Under-achievement in reading among students aged 15		Inequality in reading achievement among students aged 15		Proportion of youths without upper secondary education		Under-achievement among youths with upper-secondary attainment		Proportion of youths who completed tertiary education	
	Most recent	Ten-year change	Most recent	By literacy score of students	By socio-economic status of parents	Most recent	Ten-year change	Most recent	Ten-year change	Most recent	Ten-year change	
Australia	..	..	12.4	76.1	85.1	22.7	-17.1	29.0	36.7	8.3
Austria	..	..	14.6	78.0	85.4	26.3	8.5	..	26.0	9.8
Belgium	..	..	19.0	74.4	81.6	..	..	19.8	..	..
Canada	1.8	-0.2	9.6	78.7	88.2	12.9	-0.8	25.7	50.8	6.1		
Czech Rep.	0.5	0.3	17.5	77.7	82.0	9.5	0.7	23.4	10.6	-2.7		
Denmark	0.2	-0.2	17.9	76.7	85.6	34.5	16.1	10.3	33.4	5.5		
Finland	..	..	6.9	80.9	91.0	14.0	0.6	9.9	32.7	-5.1
France	1.5	-0.3	15.2	77.9	85.0	20.6	-9.4	..	39.3	15.3		
Germany	1.8	-1.0	22.6	74.1	78.9	24.9	11.0	19.7	16.8	-8.2		
Greece	8.5	-1.9	24.4	75.3	84.8	19.1	-16.7	..	22.1	-1.1		
Hungary	1.4	-0.3	22.7	75.4	81.9	15.4	-4.0	49.3	14.6	-0.6		
Iceland	0.4	0.3	14.5	78.0	90.2	48.2	14.7	..	21.8	-7.5		
Ireland	6.4	0.7	11.0	78.9	86.1	16.9	-17.9	41.8	48.4	9.6		
Italy	3.3	..	18.9	77.7	87.0	31.2	-16.3	..	13.2	2.4		
Japan	..	..	10.0	80.9	..	..	..	..	..	..
Korea	3.3	..	5.7	83.8	93.9	3.8	-12.4	..	52.5	22.1		
Luxembourg	12.1	..	35.1	73.7	79.3	37.5	-4.8	..	27.3	8.8		
Mexico	33.4	-3.0	44.2	74.7	81.7	74.2	-0.2	..	17.6	0.1		
Netherlands	7.4	..	..	..	..	27.0	-2.8	13.4	30.7	6.7
New Zealand	16.2	-0.7	13.7	75.7	85.2	16.2	-3.4	37.1	27.8	-0.5		
Norway	..	..	17.5	76.0	87.2	3.0	-4.3	23.2	44.1	13.8
Poland	..	..	23.3	75.1	83.3	12.3	0.8	51.7	16.0	4.4
Portugal	29.4	..	26.3	74.5	81.8	56.9	-21.8	34.6	16.0	6.5		
Slovakia	0.6	0.2	..	..	..	5.5	-3.2	..	11.8	0.7
Spain	6.7	-1.9	16.3	78.8	87.1	34.3	-16.9	..	44.0	16.7		
Sweden	0.3	-0.2	12.6	78.5	86.9	15.0	3.0	21.4	43.3	10.2		
Switzerland	0.9	-2.6	20.3	75.1	79.1	15.4	5.1	31.2	22.7	-7.6		
Turkey	47.3	-7.3	..	..	..	57.6	-18.8	..	10.0	2.2
United Kingdom	0.1	-0.1	12.8	77.0	83.1	8.3	-4.1	35.0	35.7	9.1		
United States	3.0	-2.2	17.9	75.6	83.8	14.1	2.3	58.6	35.2	-3.0		
Average of above countries	8.1	-1.1	17.9	77.0	84.8	24.2	-4.0	29.7	28.6	4.4		
Standard deviation	12.4	1.9	8.2	2.4	3.7	17.5	10.3	14.1	13.0	7.7		

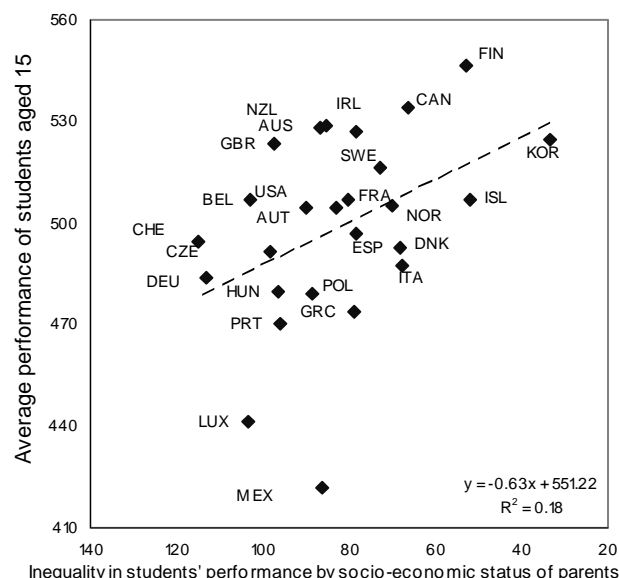
Note: Definitions and data sources are provided in Annex III.

Figure 22. Average student reading performance, cumulative spending per student, and inequality in students achievements according to the socio-economic status of parents

A. Student performance and cumulative spending per student



B. Student performance and inequality in student achievement according to the socio-economic status of parents

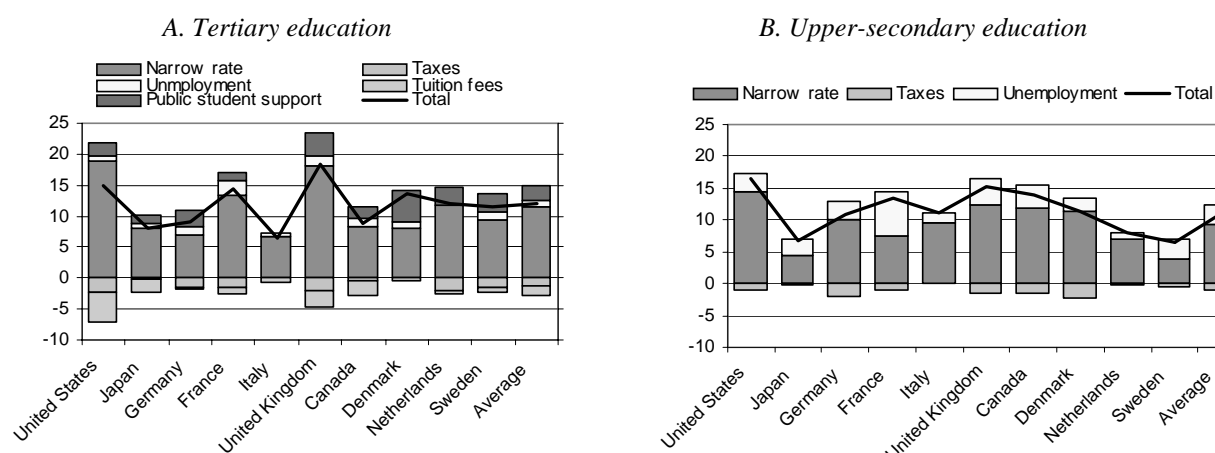


Note: Average reading performance of students aged 15, and differences in reading performance between the top and bottom quartiles of students on the socio-economic index of occupational status of parents.

Source: OECD (2002c).

87. Sustaining the investment in non-compulsory education requires providing adequate incentives to individuals to undertake that investment, and improve the mechanisms by which markets send signals as to the type of skills they require. Summary measures of the private returns from upper-secondary and tertiary education show that these private returns are significant (Figure 23). Because of the large differences in future earnings between low and highly educated persons, students who invest in tertiary education will reap substantial returns from their investment, in particular when they reach university graduation. In many countries, however, governments also contribute directly to keeping these rates of return high, through a combination of subsidised tuition, regulations of the length of study, availability of student loans and grants, and the tax system. However, as access to tertiary education continues to disproportionately favour youths from more favourable backgrounds, this system has also regressive impacts on income distribution (Blöndal *et al.*, 2002).

Figure 23. Private rates of return to tertiary and upper-secondary education, 1999-2000¹



1. Data refer to men. The total private rate of return on post-secondary education (shown as a continuous line) is affected (positively) by the earnings premium from higher education (labelled as "narrow rate"), lower unemployment risks and public support to students and (negatively) by income taxes and tuition fees.

Source: Blöndal *et al.* (2002).

88. In non-compulsory education, improving quality and equity in learning outcomes will require further diversifying supply, in order to provide educational pathways tailored to different learning needs at both the upper-secondary and tertiary levels. Patterns of public financing of education may also need to be reformed, in the direction of greater focus on areas where social benefits are higher (*i.e.* compulsory and early childhood education) and less on those where benefits accrue mainly to the individual learner.⁷⁵ While the pathways chosen will differ, all OECD countries need to balance the need to sustain human capital investment with avoiding failures for students from less advantaged backgrounds.

Improving quality and equity in education

The nature of the challenge

- Lower inflows into the school system and the disappearance of the gap in attendance between boys and girls will make it more difficult to sustain the pace of human capital accumulation in the future, calling for greater focus on improving the quality of learning.
- Concerns for greater inequality and poverty call for greater attention being paid to how learning opportunities are distributed among youths, and to targeted educational interventions to raise the human capital of youths from low-income families.

Policy responses

- Preventing school failure through greater focus on early interventions, identification of youths at risk, and involvement of families and communities to improve school outcomes.
- Encouraging students' engagement in compulsory education, through better learning practices, greater autonomy to schools, lower and delayed differentiation between education streams.
- Diversifying supply in post-compulsory education to respond to different learning needs, and reviewing financing arrangements that mainly benefit students from more favourable backgrounds.

75. While returns to non-compulsory education are at least as large at the bottom of the income distribution as at the top, many poor families behave as if they fail to recognise these benefits (Krueger, 2002). This may reflect credit constraints, greater value attached to current relative to future income, and greater disutility of schooling.

Easing the transition from school to work

Sustainability challenge

89. When the period that youths spend before settling into jobs is excessively long, and when the jobs that youths get do not correspond to the competencies that they have gained in school, human capital is wasted, with negative implications for both economic growth and social equity. The obstacles in the school-to-work transition are often concentrated on youths who have not continued to further education and training upon completion of compulsory education, and whose experience during this period of their life risks permanently reducing their future labour market opportunities. This is often the group that causes the greatest social costs for society, and that benefits the least from its support (Krueger, 2002). More generally, because youths are often highly concentrated in atypical jobs, they may not benefit sufficiently from social protection against a range of contingencies during their working life (*e.g.* dismissal, health and pension coverage), with negative social consequences when they reach adulthood and old age.

90. Beyond waste in human capital and risks of marginalisation of some groups of youths, ineffective transition pathways affect the sustainability of social protection systems because of their wider implications for society. Delays in settling into jobs will lead many young persons to live longer with their parents and to defer the formation of independent families.⁷⁶ The implications of these trends for the reproductive decisions of young women and couples may, in turn, further compound current fertility declines which are eroding the contributory base of existing social programmes.

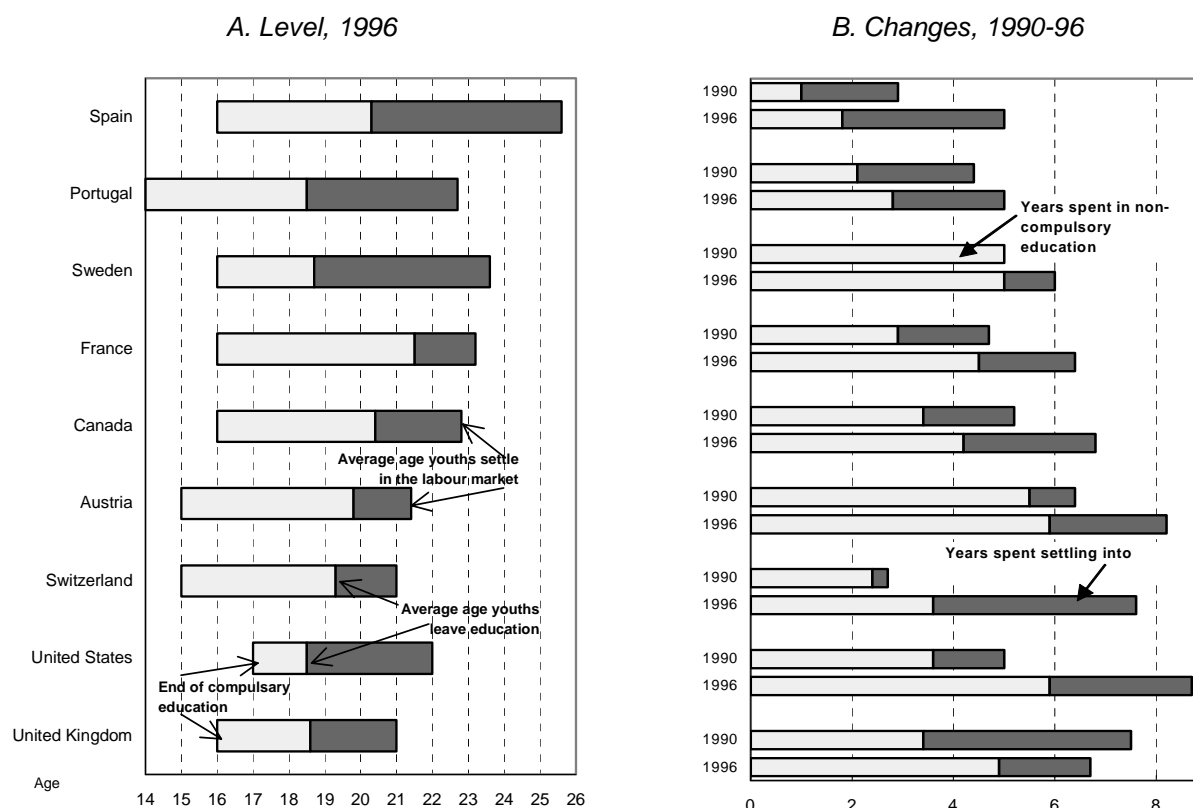
91. In many OECD countries, existing institutions have not proved adequate in easing youths' transition from school to work. On the contrary, a range of factors such as high taxes on labour, high minimum wages, lack of targeted social benefits and training programmes, and rigid educational pathways have further delayed school leavers' access into jobs. Strict employment protection legislation for core workers has also made the labour market less youth-friendly, shifting the demographic composition of employment in favour of prime-age men (OECD, 1999*b*). Improving the transition from school to work hence represents a major challenge for educational, training and labour market practices.

Indicators of sustainability

92. The transition from school to work consists of two periods: that spent in post-compulsory education; and that taken to settle into work (OECD, 2000*b*). While the total length of the transition varies significantly among OECD countries (Figure 24, Panel A),⁷⁷ its duration increased by nearly two years on average in the 1990s, with most of this lengthening reflecting the greater time spent by youths before settling into jobs (Panel B). The transition process has also become more gradual, as periods of work and learning have come to be increasingly spread through life, rather than being concentrated in separate periods.

76. In the mid-1990s, more than 90% of the teenagers lived with their parents. Finland, where only half of all youths aged 15-19 still live with their parents, is the main exception. Among youths aged 20-24, nearly 70% are still living at their parents, while among those aged between 25 and 29 this proportion declines to around 30% (OECD, 1999*a*). Countries where youths tend to stay longer with their parents (as in Southern Europe) tend also to experience the lowest fertility rates.

77. The total length ranges between 5 years in the United Kingdom and United States, to more than 11 years in Italy. Compulsory education ends at the age of 14 in Portugal and up to 17 in the United States.

Figure 24. Duration and composition of the transition from school-to-work

Note: The two extremes of each bar represent, respectively, the statutory age at which compulsory education ends (left) and the average age at which most youths settle in the labour market (*i.e.* the age at which more than 50% of a cohort is employed). The mid-point of each bar represents the average age at which youths leave the education system (the age at which more than 50% of the cohort is out of education).

Source: OECD (2000b).

93. The greater difficulties faced by youths in settling into the labour market are reflected in a range of labour market indicators. Over the past two decades, both the unemployment and non-employment rates for youths have increased in most OECD countries and, in some of them, an increasing proportion of youths have been looking for jobs for more than one year. While this may reflect the success of public policies in increasing youth enrolment in education, which lowers the average abilities of young people entering the labour market, declining labour market prospects for non-students are often a cause of social concern. These trends are all the more disappointing as they have occurred despite favourable economic conditions during most of the 1990s, a sharp decline in the youth share of the working-age population, and improvements in their educational qualification relative to earlier cohorts (OECD, 1999c).

94. Not all youths face the same difficulties settling into jobs. In most OECD countries, labour market problems are largely concentrated in a core group of youths, in particular the less educated. These youths are often characterised by multiple disadvantages, such as growing up in poor and unstable families, living in high-unemployment neighbourhoods, having experienced educational failure and being involved in criminal activities. In all OECD countries, these risks are especially large among teenagers who have not continued to further education and training after completion of compulsory schooling. Even among young adults, however, less educated youths face very large difficulties to enter the labour market, and to benefit

Table 3. Easing the transition from school to work

	Non-employment to population rates among young adults not in education	Unemployment rate among youths not in education		Long-term unemployment rate among young adults		Relative labour market disadvantage of less- educated young adults		Youth not in education, training or employment		Youths still living with their parents	
		15-19	20-24	Most recent	Ten-year changes	Most recent	Most recent	15-19	20-24	Most recent	Ten-year changes
		Most recent	Most recent	Most recent	Most recent	Most recent	Most recent	Most recent	Most recent	Most recent	Most recent
Australia	21.9	24.8	12.3	1.85	-1.5	1.8	7.4	14.5	43.4	2.5	..
Austria	17.6	14.5	5.4	..	..	1.9	..	..	67.6	..	30.6
Belgium	23.3	30.0	13.9	5.11	-0.6	1.7	7.0	15.9	63.7	-2.6	18.5
Canada	23.5	20.4	12.0	..	..	2.1	6.9	11.7	46.3	4.7	..
Czech Rep.	23.5	39.5	13.7	5.52	..	3.4	20.9	20.6	..	..	..
Denmark	14.7	11.5	7.1	0.45	-2.5	1.6	3.4	7.6	..	..	..
Finland	31.2	26.8	16.2	1.52	0.7	1.8	8.7	16.9	13.5	..	4.7
France	28.8	52.1	20.4	..	..	1.6	3.3	17.5	53.3	5.8	17.3
Germany	25.2	18.2	10.4	..	..	1.8	4.5	16.7	55.1	1.2	19.5
Greece	36.8	36.5	25.9	12.53	1.1	0.6	10.1	25.7	74.4	10.0	52.1
Hungary	30.9	24.3	10.9	3.53	..	1.9	10.2	21.4	..	..	..
Iceland	8.3	6.4	4.3	0.31	0.3	..	..	..	..	..	..
Ireland	13.0	10.9	5.1	..	..	2.3	..	..	57.9	-5.1	32.3
Italy	41.8	33.7	24.9	15.86	-3.4	0.8	14.8	29.9	88.9	8.7	62.2
Japan	..	..	..	..	..	..	..	..	..	..	..
Korea	..	..	..	0.12	0.0	1.3	..	..	..	..	..
Luxembourg	17.0	8.0	7.4	1.16	1.2	..	5.0	9.6	64.5	0.0	29.3
Mexico	33.5	4.7	3.7	0.01	..	..	17.9	26.2	..	..	..
Netherlands	..	..	..	..	..	1.4	3.8	8.0	49.3	-2.0	12.8
New Zealand	24.3	20.8	9.1	..	..	1.6	..	..	..	..	..
Norway	..	..	..	0.05	-1.3	1.7	..	..	..	..	..
Poland	49.4	58.5	40.5	14.62	..	..	4.6	27.2	..	..	..
Portugal	16.6	12.0	8.6	1.68	-1.0	0.8	8.4	12.3	82.1	6.0	58.1
Slovakia	43.3	63.6	33.3	16.30	..	0.9	..	..	..	..	..
Spain	25.9	26.4	17.5	5.99	-8.1	1.7	13.8	18.8	90.3	5.3	..
Sweden	17.4	17.2	9.5	0.89	0.3	1.8	4.8	11.4	..	..	64.4
Switzerland	13.9	7.1	5.1	..	..	..	..	8.4	..	..	..
Turkey	52.3	19.3	18.0	4.44	-1.8	..	..	..	..	..	..
United Kingdom	22.2	22.0	8.9	1.26	-1.7	2.6	..	..	45.4	0.0	17.2
United States	21.4	16.8	7.1	0.38	..	2.2	7.3	14.4	44.0	0.8	..
<i>Average of above countries</i>	<i>26.1</i>	<i>24.1</i>	<i>13.5</i>	<i>4.5</i>	<i>-1.2</i>	<i>1.7</i>	<i>8.6</i>	<i>16.7</i>	<i>58.7</i>	<i>2.5</i>	<i>32.2</i>
<i>Standard Deviation</i>	<i>11.3</i>	<i>15.6</i>	<i>9.2</i>	<i>5.5</i>	<i>2.3</i>	<i>0.6</i>	<i>5.0</i>	<i>6.7</i>	<i>19.7</i>	<i>4.4</i>	<i>20.3</i>

Note: Definitions and data sources are provided in Annex III.

from training opportunities: across countries, the share of young adults with less than upper secondary education who are not in employment nor in further education and training ranges between 10% and 1%.

95. Because of this concentration of disadvantage in some groups, inequalities within the youth population, in terms of both employment and earnings, have increased considerably in some countries.⁷⁸ Indicators to monitor the performance of OECD countries in easing the transition from school to work are presented in Table 3.

Policy responses

96. Policies to ease the transition from school to work need to combine measures to increase the overall pace of job creation on a durable basis, reforms of the school system, active labour market programmes, and special interventions targeted to the most disadvantaged youths. While the mix of policies will differ across countries, in all cases it requires early, sustained and coherent application combining education, training and labour market authorities, and involving families, firms and local communities.

97. Several OECD countries have responded to the needs of youths through educational reforms. The relation between the structure of the education system and youth labour market outcomes is not a simple one. Cross-country differences in the structure of educational systems after compulsory education are not systematically related to different transition outcomes (OECD, 2000b).⁷⁹ However, greater diversification of educational pathways tends to make transition easier for those who would otherwise have dropped out of school early. Because of this, more successful reforms have aimed at making the school system more diverse, so as to meet the interest and aspirations of the widest possible range of youths. To this end, both the vocational content of the general education system and general studies within the vocational stream have been strengthened, partially blurring the boundaries between the two. Reforms have also eased the moves between these two paths in upper secondary education, often delaying specialisation until a later age, and extended opportunities to access tertiary education for students in the vocational stream.

98. Creating better linkages between education and workplace experience is also important, and several countries have tried to introduce work-based learning within schools, and to strengthen apprenticeship systems. This may require introducing national standards for the skills acquired in the dual system, involving employers to inform youths and training providers about their skill needs, and combining central regulation with local flexibility to achieve active and project-based learning (OECD, 2001c). The central goal of these reforms is to induce those who would have stopped at compulsory education to study longer. Reducing early-school leaving through education and preventive programmes is one of the main avenues to facilitate the labour market integration of youths. This requires strengthening the connection between upper secondary general education and the labour market, particularly for those who have not qualified for tertiary education, and encouraging moves between classrooms and workplaces.

78. In the United States, for example, earnings of university graduates with one to five years of work experience increased by 30% in the past decade, while those of youths with only secondary education, and the same amount of work experience, fell by 20% in the same period (Acemoglu, 1999).

79. Depending on the structure of their education system after compulsory schooling, OECD countries can be grouped in: *i*) countries with a dominant apprenticeship system, where more than 50% of young people participate in apprenticeship-type programmes; *ii*) countries with mixed pathways, where less than 50% of youths participate in general education programmes, and between 20% and 50% in an apprenticeship-type programmes; *iii*) countries with school-based vocational programmes, where more than 50% of all youths participate in vocational courses, and less than 20% in apprenticeship programmes; and *iv*) countries with general education pathways, where more than 50% of young people are in general education programmes.

99. Labour market policies also play an important role for facilitating the integration of young workers. The general state of the labour market is probably the single most important factor for transition outcomes (OECD, 2002*i*), and policies that improve its functioning will have large pay-off for youths.⁸⁰ Youth employment and unemployment are highly responsive to the overall state of the labour market, especially in countries where high job security protects prime-age workers from risks of job losses during cyclical downturns.

100. Specific labour market interventions tailored to youths are also important to increase the extent to which the labour market is 'youth friendly'. These include facilitating paid work among students, easing the restrictions faced by firms for hiring them, and reforming restrictive or poorly designed provisions of employment protection legislation that impede youth hiring. Participation to active labour market programmes is also important for providing the foundations for lifelong learning. Even if most evaluations of labour market programmes aimed at youths suggest discouraging results, good programmes share a number of characteristics. They are typically conducted in close collaboration with local employers, directed to high-quality jobs, and characterised by good quality of the instruction provided. They also often combine education and on-the-job learning, provide access to further learning opportunities, address related needs of participants (*e.g.* childcare), and are supported by thorough evaluations (OECD 1999*d*). However, the impacts of these programmes have generally been stronger for teenagers than for young adults, whose chances of finding jobs are more dependent on overall labour market conditions.

101. An important role for easing the transition from school to work is also played by special programmes targeted to youths who have left both the education system and the labour market, and who are unlikely to be reached by traditional labour market programmes. These interventions may be targeted to youths facing risks of homelessness, crime offence and drug abuse, and may include regular contacts with a personal counsellor, and delivery of multiple services such as financial and health care during emergencies, psychological advice, renewed eligibility for publicly-funded training, and supported part-time contracts. Such dedicated programmes at the local level are especially important to protect youths when economic conditions worsen.⁸¹

102. OECD (1999*a*) identified the Nordic and English-speaking countries as the countries where youths' transition from school to work is easier, and Central and especially Southern European countries as those where this transition is more difficult. In Nordic countries, specific programmes tailored for youths at risk have proved especially important in achieving this positive result, while youths in English-speaking countries have benefited from the high flexibility of the labour market and from the greater frequency with which youths combine study and work. Countries in Southern Europe, on the contrary, tend to perform unfavourably on both accounts. Even their relatively favourable performance in terms of a low disadvantage for less-qualified youths, compared to their more educated counterparts, reflects the large difficulties that even educated youths face when settling into jobs in these countries. Employment protection legislation is also high in most Southern European countries, where transition from school-to-

80. At the same time, good labour market conditions in general do not ensure that all youths will face an easier transition to the labour market. In the United States, for example, solid employment growth in the 1990s has been associated with high employment and low incidence of long-term unemployment for young adults. However, less educated youths had to struggle harder to find work (OECD 2000*b*).

81. In Sweden, specific programmes at the local level have proved effective in preventing unemployment among teenagers from rising since 1990, despite higher overall unemployment and a marked decline in total employment (OECD 2000*b*).

work is more difficult, while it is low in English-speaking countries, where transition from school-to-work appears to be easier.⁸²

Easing the transition from school to work

The nature of the challenge

- Despite a smaller size of youth cohorts, young people face difficulties in getting access to jobs after education, with human capital being wasted, later labour market outcomes being affected, and family formation being deferred.

Policy responses

- Increasing the overall pace of job creation, and the degree to which the labour market is youth-friendly by reforming those provisions of employment protection legislation that impede youth hiring.
- Improving diversity and flexibility of upper secondary education, so as to meet the interests of a wider range of youths and reducing the proportion of youths who enter the labour market with less than upper secondary education or vocational training.
- Improving the effectiveness of labour market programmes by combining education and on-the-job learning, high-quality instruction and opportunities for further learning, and creating specific programmes to engage the most disadvantaged youths.

Strengthening adaptability during working life

Sustainability challenge

103. Changes in the working environment, in the demographic context and in the nature of poverty described in Chapter 3 have altered the nature of the social interventions required to reconcile a dynamic labour market with social cohesion. Persistent and concentrated unemployment has shifted the emphasis from providing income support to workers during temporary and infrequent spells of joblessness to helping those at risk of permanent exclusion to get access to work, and then to rewarding careers. Higher importance of workers' skills for both firms' success and individuals' well-being has increased the importance of helping workers to adapt to changing circumstances through continued training and up-skilling, while projected declines in the size of OECD working-age population in the near future increase the importance of mobilising additional labour resources. Labour market and social policies have also to meet a range of other risks and vulnerabilities (both old and new) which workers confront, and find ways of reconciling the need of labour market flexibility to that of security for individual workers.

Indicators of sustainability

104. Indicators of the performance of OECD countries in enhancing workers' adaptability combine information about the general state of the labour market and the conditions of individual workers. Because of the importance of mobilising additional resources to sustain economic and social progress in a context of population ageing, several OECD countries have adopted explicit targets for raising the overall employment rate. Beyond mobilising additional labour supply, skill-upgrading of current workers is important to enhance their adaptability. While some workers are well placed to benefit from opportunities to improve their competencies through further education and in-work training, others fail to benefit from these opportunities. Despite some increase in the amount of training provided to workers in recent years, about two thirds of the adult population in most OECD countries do not participate in organised learning activities in the course of the year. For workers that are exposed to risks of literacy underachievement,

82. Nordic countries, however, combine comparatively good outcomes for youths' school-to-work transition with about-average strictness of employment protection legislation.

Table 4. Strengthening adaptability during working life

	Employment to population ratio			Long-term unemployment rate			Literacy under-achievement among the adult population			Incidence of low pay among working age population			Poverty rate among working households			Frequency of work-related accidents		
	Male		Ten-year recent changes	Female		Ten-year recent changes	Most recent		Ten-year changes	Most recent		Ten-year changes	One worker		Most recent	Fatal (*00,000)		Non-fatal (*00)
	Most recent	Ten-year recent changes		Most recent	Ten-year recent changes		Most recent	Ten-year recent changes		Most recent	Ten-year recent changes		Most recent	Ten-year recent changes		Most recent	Ten-year recent changes	
Australia	85.0	-0.5	67.8	5.0	-0.7	46.1	41.4	14.3	-0.3	7.9	3.8	4.0	2.1					
Austria	86.5	-2.5	66.4	9.5	..	..	..	13.5	..	8.8	0.7	4.5	..					
Belgium	85.4	1.7	74.3	5.4	-0.3	43.1	26.0	7.3	..	7.9	0.6	5.4	..					
Canada	89.7	..	74.3	..	..	44.7	40.6	20.9	..	17.3	3.4	7.1	3.1					
Czech Rep.	88.7	1.9	80.1	0.8	-2.1	44.7	32.7	15.1	..	..	..	4.9	..					
Denmark	84.7	-1.0	78.2	-4.1	1.2	33.0	60.1	5.6	..	8.6	0.6	2.0	1.7					
Finland	88.1	-1.4	70.8	4.5	0.0	40.4	64.8	5.9	..	8.4	1.7	2.1	3.0					
France	87.5	-2.9	72.2	5.2	..	..	..	14.9	..	7.5	2.0	4.5	4.0					
Germany	88.8	-1.5	53.0	8.7	2.1	42.9	..	17.0	-8.8	8.1	0.7	3.1	0.9					
Greece	79.5	..	66.9	..	..	69.8	25.5	22.0	4.6	14.1	4.4	4.0	0.7					
Hungary	95.0	-0.2	86.2	5.4	0.2	..	..	..	..	..	..	..	..
Iceland	88.7	9.0	64.1	23.8	..	59.5	26.2	21.1	..	..	..	..	..
Ireland	85.5	-1.3	52.8	8.8	..	..	28.4	6.1	-1.0	17.1	4.5	7.0	4.0					
Italy	92.8	-3.2	64.1	0.4	0.7	..	..	14.7	-2.9	..	..	..	..	
Japan	88.0	-5.1	57.0	3.3	0.1	..	..	23.8	..	..	..	29.0	..					
Korea	93.2	-1.2	63.8	13.5	0.5	..	..	19.0	..	..	..	..	..
Luxembourg	94.6	-0.7	44.6	7.8	0.0	..	..	..	..	25.8	16.0	14.0	3.6					
Mexico	91.9	2.4	71.7	16.6	..	37.9	42.9	14.6	..	7.6	1.0	..	..			
Netherlands	87.6	2.4	71.5	6.6	-1.3	51.2	51.4	17.7	-0.1	..	..	..	..	
New Zealand	88.9	1.7	81.2	5.3	-0.8	30.5	53.5	..	0.0	4.4	0.1	2.5	..					
Norway	75.5	..	63.1	..	..	79.0	19.0	18.7	2.6	..	..	5.2	..					
Poland	90.4	-2.0	74.7	6.0	0.1	84.8	15.7	16.9	..	..	..	8.7	5.5					
Portugal	79.0	..	70.7	..	..	..	..	..	..	..	..	4.3	1.1					
Slovakia	85.9	0.8	52.8	14.5	-3.2	..	..	18.3	..	..	..	9.2	7.5					
Spain	86.6	-4.8	82.5	-5.7	0.6	25.5	59.2	5.3	..	12.7	0.8	1.5	1.0					
Sweden	95.3	-1.7	76.6	4.9	..	49.2	45.3	13.1	..	..	..	2.3	2.6					
Switzerland	79.5	-9.4	26.2	-7.4	-0.4	..	..	..	..	16.7	13.4	24.6	..					
Turkey	87.6	0.2	73.6	5.4	-0.9	51.3	53.7	19.3	-0.6	15.2	2.6	0.9	0.6					
United Kingdom	87.9	0.4	73.5	3.4	-0.2	48.3	48.1	24.5	1.5	26.9	6.0	5.9	..					
United States	87.5	-0.8	67.4	5.9	-0.3	49.0	40.8	15.4	-0.5	12.6	3.7	6.7	2.9					
Average of above countries ¹	4.8	3.3	12.6	6.7	1.2	15.7	14.9	5.8	3.6	6.5	4.5	6.7	1.9					
Standard Deviation																		

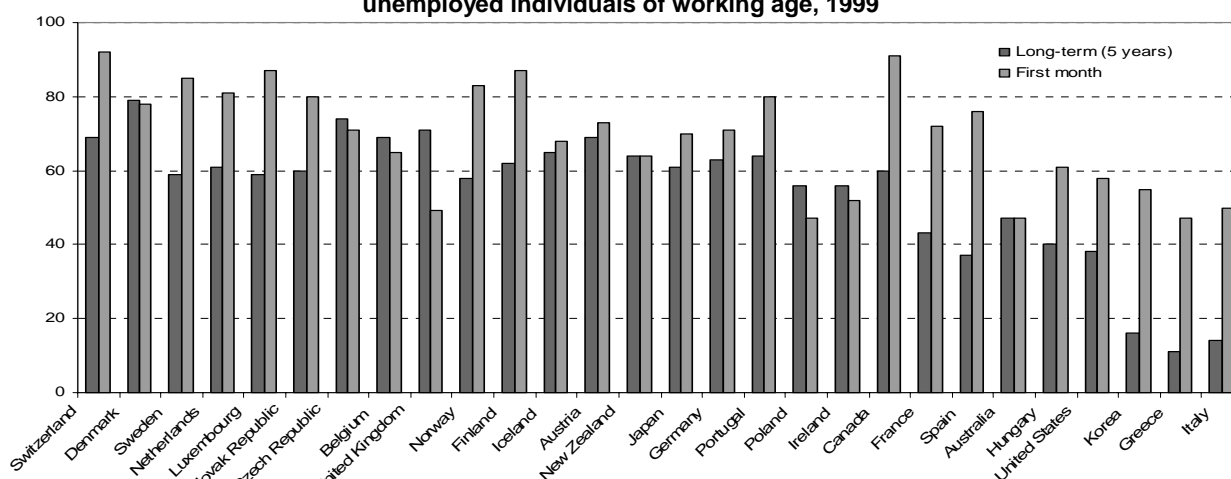
Note: Definitions and data sources are provided in Annex III.

changed labour market conditions may translate into persistent and recurrent joblessness, inadequate social security coverage, and earnings that are insufficient to provide an adequate support to their family. While measures of the persistence and recurrence of low pay are a better indicator of the labour market risks associated to low pay, comparisons of the extent of low pay at a point in time are informative about differences over several years (OECD, 1996). Data on accidents at work are also important for assessing workers' health and safety risks. Indicators to monitor the performance of labour and training policies in meeting these long-term challenges and maintain their sustainability are provided in Table 4.

Policy responses

105. Labour market policies are an essential element of the social protection system of OECD countries. The reforms to labour market policies needed to meet the challenges described above extend to both passive and active policies, and call for changes in their relative importance. Income support systems in OECD countries have typically focused on providing short-term monetary compensation to workers for the loss of their jobs. However, authorities confront difficult trade-offs when setting cash transfers and tax provisions to support workers during unemployment. When replacement rates (the ratio of out-of-work to in-work incomes) are set too low, workers who became unemployed can be exposed to financial hardship, and their job search can be hampered. When set too high, workers have few financial reasons to re-enter employment (unemployment traps) while other family members may have little incentives to work longer hours (poverty traps). This trade-off becomes more difficult to deal with when workers' skills decline with the length of time they stay unemployed, and when the earnings that unemployed workers can realistically hope to get on new jobs are getting lower. Net replacement rates vary significantly across OECD countries according to the length of time spent receiving benefit. For workers who have remained jobless for several years, and who can rely on (means-tested) social assistance after having exhausted their insurance benefits, replacement rates often reach levels that can discourage re-entry into paid employment (Figure 25).

Figure 25. Net replacement rates available to unemployed individuals of working age, 1999



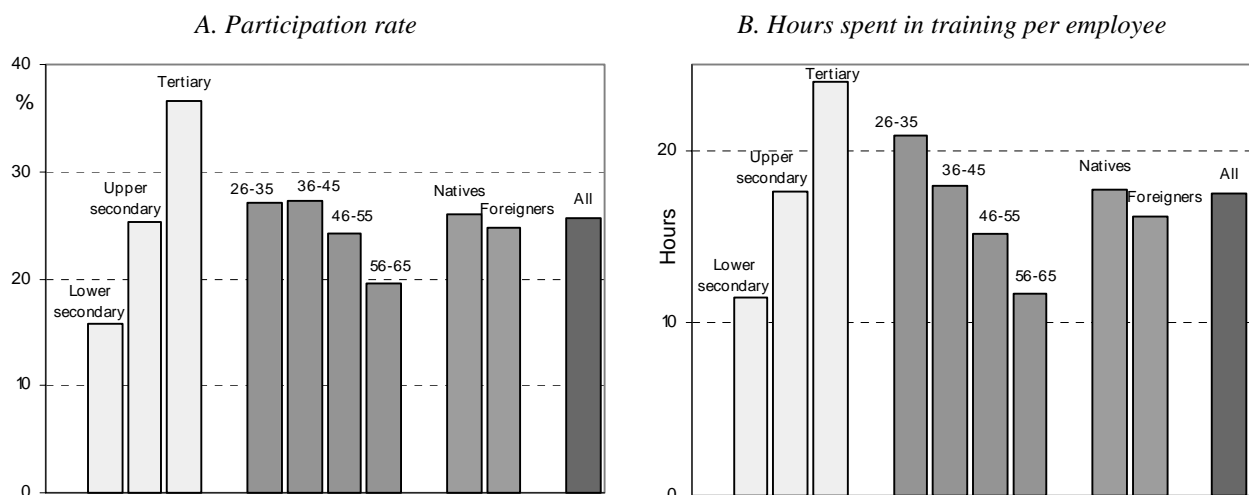
Note: "Net replacement rates" are expressed as the ratio between the net income available to individuals of working age who are "out-of-work", as affected by the social and unemployment compensation programmes of each country, to their net income "in work". The net replacement rates shown in the figure are those available to workers (aged 40 and with 22 years of contributions) with two children (aged 4 and 6 and not in formal childcare) and a non-working spouse (not receiving unemployment benefits), who have lost their jobs and have remained unemployed for, respectively, one month and for over 60 months. These rates are averaged across two levels of previous earnings (100% and 66.7% of average earnings of a production worker).

Source: OECD (2002n).

106. As joblessness has become more concentrated and entrenched, the emphasis of passive income support policies needs to shift away from income maintenance *per se* towards helping the unemployed to move into jobs. This shift implies greater emphasis on identifying and removing the barriers to employment that they face (*e.g.* disabilities, family responsibilities, lack of qualification) and on improving their probability of getting into jobs. To achieve these goals, several countries are moving away from the notion of unemployment benefits as an entitlement of individuals towards greater emphasis on balancing rights and obligations, whereby benefits recipients have to actively search for work, or take steps to improve their employability, in order to qualify for benefits (OECD, 2002*l*). These approaches emphasise the importance of tighter enforcement of eligibility conditions with respect to work availability and job-search requirement, and of providing services, active labour market programmes and social support that are essential to activate the unemployed.

107. Enhanced adaptability of workers requires continuous upgrading of skills. OECD countries differ largely in the extent of training that they provide to their workers, whether measured in terms of the proportion of workers receiving training or of the amount of hours that they receive (Figure 26). On average, across OECD countries, around a quarter of the adult employees participate in employer-sponsored continuous vocational training over the year, for an average of 18 hours per year (OECD, 2002*l*). Beyond the volume of training provided, the effectiveness and quality of training and the way in which opportunities to access training are distributed among workers are also important. Workers with higher educational attainment, younger ages, and employed in higher skilled occupations (such as managers, professional and technicians) have a greater probability of receiving continuous education and training. Young people without an upper secondary qualification are often the least likely to participate in further education and training, which may lead to a vicious circle of inactivity, erosion of human capital and further deterioration of earning potential.

Figure 26. Adults of different characteristics participating in continuous vocational training



Note. Data refers to employees aged 26 to 65 who declared having received employer-sponsored vocational training in the 12 months preceding the survey. Country surveys refer to the years between 1994 and 1998.

Source: OECD education database and *International Adult Literacy Survey* database.

108. The low volume of training received by workers may result in under-provision. Reasons for explaining possible under-investment in continued education and training extend to both workers and firms. Workers willing to undertake further education and training may face credit constraints, lack of certification and limited portability for the skills acquired, pay scales that do not closely reflect individuals'

productivity, and limited knowledge on the skills that are needed. Firms may invest less than is optimal because of poaching by other firms on companies' training of their workers. While few rigorous evaluations exist of what works in this area, a range of interventions could help in making life-long learning a reality for all. These include measures such as across-the-board tax arrangements or grant schemes, to tackle aggregate under-investment, and individual-based demand side policies (*e.g.* loans and subsidy schemes such as individuals' learning accounts) targeted to workers with lower opportunities to receive training (OECD 2003b), as well as changes in those framework conditions that have an indirect effect on training outcomes.⁸³ Firms can provide an important contribution in supporting adaptability of their workers and, more generally, in creating workplaces that meet workers' needs (Box 5).

Box 5. Corporate Social Responsibility

Changes in labour markets have altered the expectations of citizens and society on firms' roles and responsibilities. Corporate social responsibility strategies are one way in which firms have tried to translate these expectations into concrete management changes. An increasing number of companies have recently taken steps to promote their social responsibility, recognising that this is not limited to their shareholders but extends to workers, consumers and citizens at large. By going beyond legal compliance with social and environmental norms, firms can contribute to their competitiveness and productivity, attract and retain workers with higher skills, and avoid negative impacts on their reputation and brand capital. As financial institutions have increased the use of social and environmental reporting and audits to evaluate the risks of their loans and investments in individual firms, corporate social responsibility can also improve companies' rating and reduce financing costs (EU, 2001a).

While the issues covered by corporate social responsibilities schemes are many (affecting both the local and global environment of firms' operations), of specific importance for this analysis are those directed to firms' employees. Firms' practices can contribute to reconciling the work and family responsibilities of their employees through provision of emergency leave for family reasons, flexible working hours and part-time jobs (OECD, 2001f). They can improve management of human resources and increase investment in workers' skills through closer partnership with local actors in the design of training programmes, by establishing training funds and by experimenting with innovative initiatives such as Individual Learning Accounts and training leave. Firms can also promote their social responsibility by including health and safety standards among the criteria of their procurement policies, and by involving workers and local governments when implementing restructuring plans and downsizing (EU, 2001a). Firms' returns from these practices include lower stress at work, higher workers' morale and motivation, and better retention of skilled workers. Through these initiatives, firms can contribute to achieving social development while maintaining business competitiveness.

While the drive towards corporate social responsibility mainly reflects firms' voluntary endeavours, OECD governments have shaped these initiatives and enhanced their effectiveness through legal and regulatory incentives to firms, tax expenditures granted to voluntary groups active in promoting corporate social responsibility, contribution to compliance expertise and moral suasion, and by establishing systems for monitoring performance and rewarding compliance (OECD 2001j).

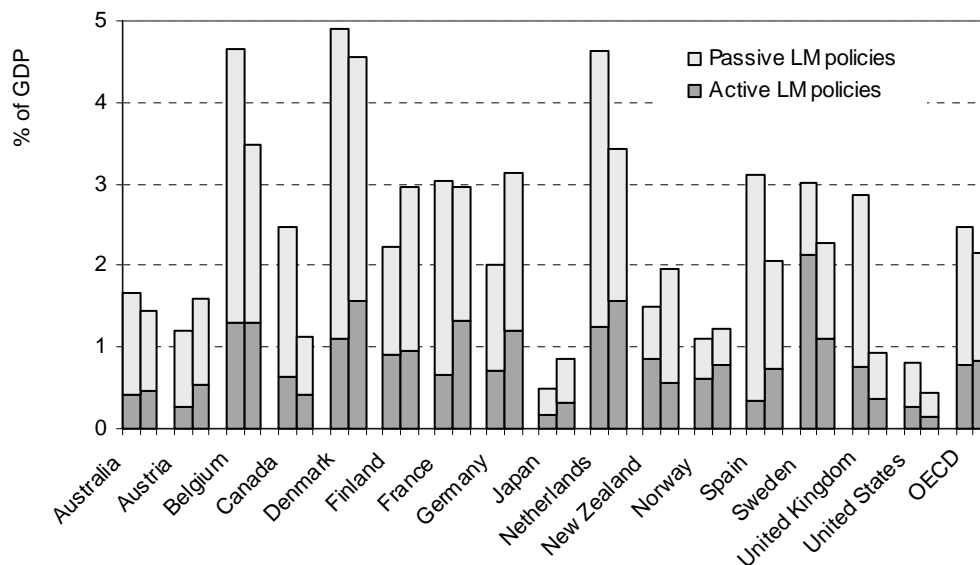
109. Beyond access to work, the quality of jobs, the earnings they pay, the social security coverage they grant, and the access they provide to better career prospects are also important elements for full integration into society. Low pay may contribute to weaken social cohesion when it translates into a higher probability of falling into poverty for working families. Because of concerns about the poor labour market chances of low-paid workers, 'making work pay' policies have been introduced in a number of OECD countries. These policies aim to either reduce the costs faced by firms when hiring workers in low-productivity jobs, or to increase the income of those who take up these jobs. As these benefits can be linked to family conditions, they can promote both efficiency and equity goals, combining higher employment among workers with low earnings potential with lower poverty among working households.⁸⁴

83 For example, delayed retirement will strengthen incentives to train older workers by lengthening the period of time during which new skills would be used and training costs amortised.

84. Making work pay policies are not without limits. Assessments of these programmes in generating employment suggest that, typically, these effects are not large (Pearson and Scarpetta, 2000). Also, their impact in reducing poverty depends on their design (whether they target individuals with low earnings or

110. Overall, reconciling flexibility and security calls for a comprehensive strategy, consistently applied over the medium term. A major plank of this strategy is activation of benefit recipients, and a re-orientation of labour market policies from passive towards active programmes (Figure 27). While it is difficult to measure the extent of this re-orientation⁸⁵, OECD (2002*l*) argues that it still falls short of what is needed. Active labour market policies should be based on systematic evaluation and monitoring, and be tailored to the needs of specific groups and regions. Whatever the difficulties in implementing these reforms, they are also to a large extent unavoidable, as past approaches to labour market policies may end up promoting, rather than alleviating, social exclusions and limiting, rather than facilitating, the structural adjustment of economies.

Figure 27. Spending on labour market policies, as a per cent of GDP, 1985 and 2001



Source: OECD database on labour market policies.

families with low income) and on the extent of overlap between poverty and low earnings. As policies to make work pay must be financed through higher taxes or spending cuts elsewhere, attempts to limit their costs through tight targeting may reduce the incentive faced by some recipients to work longer hours, or induce other family members to withdraw from the labour market. In the longer run, these policies may also lower incentives to invest in training, or drive further down the earnings of low-paid workers. However, despite these drawbacks, these policies merit emulation under a range of circumstance such as the existence of wage floors set at judicious levels, wider earning distributions and lower marginal tax rates. While not a panacea on their own, these policies can work well in relieving poverty and increasing employment of the less skilled when combined with a broader set of interventions to build their human capital and earning potential (OECD, 2000c).

85 For example, spending on passive labour market policies will vary with changes in unemployment rates, while expenditure on active programmes will depend on the number of participants and on the “value for money” of the programmes implemented.

Strengthening adaptability throughout working life

The nature of the challenge

- Prospects of a lower population of working age and changes in the nature of jobs and joblessness call for measures to increase employment of groups at the margins of the labour market, to make the workforce more skilled and adaptable, and to favour social inclusion through quality jobs.

Policy responses

- Reforming passive income support to avoid unemployment traps, and paying greater attention to ways of raising the employability of benefit recipients.
- Expanding workers' opportunities to train, in particular for those with lower skills and education.
- Addressing needs of low paid-workers through measures that top-up their earnings, increase earnings disregards when receiving benefits, and reduce firms' costs when hiring and retaining them.
- Leveraging the initiatives of individual's firms (in the fields of life-long learning, work/family reconciliation, human resource management) so as to reconcile social development and economic competitiveness.

Avoiding poverty and exclusion among individuals of working age

Sustainability challenge

111. Avoiding poverty and exclusion are fundamental goals for sustainable development, not only globally but also within individual OECD countries. Even when basic needs can be met, the resources of poor people in OECD countries may be too far below the norm prevailing in these countries to allow full participation in social and economic life, leading to marginalisation and exclusion. The effects of poverty and exclusion also transmit across generations, affecting the opportunities, roles and aspirations of younger generations. Because of these concerns, some OECD countries have adopted ambitious quantitative targets for reducing poverty, and moved these goals from the periphery to the centre stage of their national policy making. But beyond establishing targets, the experience of those countries that have been most successful in reducing poverty and exclusion also points to the importance of long-term commitment, better co-ordination of different interventions, and mobilisation of a broad range of actors.

112. Reduction of poverty and exclusion cannot be achieved solely through economic growth. While all OECD countries have policies in place to address poverty and exclusion, the trends in the distribution of economic resources described in Chapter 3 call for changes and adaptation in the nature of these policies. Weaker attachment to the labour market for some groups, lower earnings at the bottom of the earnings scale in some countries, poor labour market prospects of youths who don't qualify for unemployment insurance, increased marital instability and numbers of children born outside stable relations have all increased the number of families exposed to risks of poverty and exclusion. Some problems which have been traditionally linked to poverty and exclusion have become more difficult to handle as they become more visible (*e.g.* homeless) while, at the same time, other risk factors (*e.g.* over-indebtedness) have emerged. Because of its persistence and ingrained ness, and as the factors associated to persistent poverty become less randomly distributed among the population, universal insurance may become less adequate to protect against it, weakening the sustainability of social protection systems.

113. Differences in the experience of poverty and exclusion over the individuals' life-cycle call for a similar differentiation in anti-poverty measures. When poverty is transitory, temporary income support may be all that is needed. But for that majority of individuals who, after having exited poverty in a given year, are likely to re-enter it within a short time period, the underlying barriers preventing them to maintain an adequate level of resources over the medium-term have to be identified and addressed (OECD, 2001*i*). The concentration of disadvantage into some groups calls for tailored interventions to increase their earning potential (*e.g.* lack of educational qualification, work-related disabilities, poor language skills and little valuable job experience) and to address the factors that prevent full realisation of that potential.

Indicators of sustainability

114. Income poverty is the most basic criterion for assessing risks of marginalisation from mainstream society. While income may exclude many legitimate factors (*e.g.* illiteracy and disease that limit individuals' capacity to function, irrespectively of their income) as well as economic benefits that stem from publicly-provided goods and services (*e.g.* social housing, free education and health, or subsidised transport), it is nonetheless the criterion most readily available to assess poverty across countries and over time. The differences among OECD countries in their attitudes towards poverty are reflected in the different standards they use to measure it, with some countries relying on absolute poverty levels and others on relative ones. But even in the absence of complete agreement on how best to measure poverty, it may be possible to identify common ground and a common strategy for developing better statistical measures.⁸⁶

115. Most of the indicators shown in Table 5 use a relative standard for income poverty. Changes in the headcount measure of poverty among OECD countries do not highlight consistent patterns over the past decade, but there are large differences across countries in the extent of income-poverty. Also important is the degree of persistence of poverty, as measured by the proportion of individuals who, over a three year period, are recurrently or persistently poor. One indicator of performance in reducing poverty is provided the comparing poverty rates at the level of market income and of disposable income, which provides a measure of the effectiveness of taxes and transfers in reducing poverty. But OECD countries are also increasingly focusing their interventions on helping families to become more self-reliant, which often means reducing the incidence of jobless households and of labour market inactivity among individuals. Emphasis on reconciling income adequacy with empowering people to participate as fully as possible to economic and social life also characterise programmes targeted to individuals affected by disabilities, and which are increasingly aimed at raising the proportion with a job.

Policy responses

116. In all OECD countries, social assistance rests on three different pillars, each with different functions: a first pillar delivering cash assistance for families in need; a second pillar providing services to address the special problems faced by social assistance clients, and which are responsible for their difficulties in entering mainstream society (*e.g.* disability, homelessness, addiction); and a third pillar assisting labour market re-insertion, so as to allow families on social assistance to regain financial independence. Each of these pillars is essential to avoid marginalisation, yet their underlying goals may sometimes conflict with each other. Poorly designed, and overly generous cash assistance benefits, may leave recipients with little incentives to move into employment, generating poverty and unemployment traps while, conversely, benefit cuts aimed at improving incentives to search for jobs may worsen the material conditions of poor households. Trends in low pay have increased the difficulty to set cash benefits at levels that are adequate to ensure adequacy of resources while also retaining the motivation to work.

86. Atkinson and Bourguignon (1999) argue that income-poverty may be conceived as a combination of absolute and relative standards, with an absolute threshold holding until income reaches the level required to cover basic needs, and a relative standard prevailing thereafter. Some OECD countries, such as Ireland, combine measures of relative income poverty and satisfaction of basic needs into a single indicator.

Table 5. Avoiding marginalisation among individuals of working age

	Relative poverty among the population of working age		Degree of persistence of poverty	Effectiveness of taxes and transfers in reducing poverty		Jobless households	Inactivity rate among individuals of working age				Employment among the working age population with disabilities
	Most recent	Ten-year changes	Most recent	Most recent	Most recent		Men		Women		Most recent
							Most recent	Ten-year changes	Most recent	Ten-year changes	
Australia	8.5	-3.0	..	0.63	..	..	10.1	3.0	28.6	-4.2	0.55
Austria	6.1	1.6	..	..	17.2	..	..	..	..	..	0.60
Belgium	6.6	..	3.09	0.71	23.7	..	9.1	1.8	29.3	-7.6	0.54
Canada	11.4	-0.4	2.03	0.38	..	..	8.9	1.3	20.9	-3.3	0.72
Czech Rep.	..	..	..	..	16.9	..	5.0	..	18.2	..	..
Denmark	3.8	-0.8	5.13	0.77	..	..	8.6	2.9	16.5	4.1	0.61
Finland	4.4	0.2	..	0.75	..	..	9.0	0.7	15.0	0.4	0.59
France	6.9	0.4	2.50	0.72	20.9	..	5.9	1.2	21.3	-4.8	0.72
Germany	9.4	3.8	2.35	0.29	20.8	..	5.7	-0.1	21.7	-6.2	0.67
Greece	10.7	-0.3	2.06	..	20.4	..	6.0	-0.3	38.7	-12.3	0.50
Hungary	7.6	0.8	..	..	24.3	..	15.7	..	30.0	..	..
Iceland	..	..	..	..	..	..	3.7	0.7	11.9	-5.1	..
Ireland	11.0	..	2.90	0.68	..	..	8.2	0.2	33.9	-19.0	0.47
Italy	14.1	4.7	2.08	0.29	19.1	..	9.3	0.0	40.7	-9.4	0.60
Japan	..	..	..	..	..	..	3.1	0.4	32.7	-2.2	..
Korea	..	..	..	..	..	..	8.4	3.4	41.6	-4.3	0.74
Luxembourg	..	..	2.50	..	15.5	..	5.8	1.0	34.9	-13.8	0.62
Mexico	21.0	0.3	..	..	..	..	3.8	0.6	54.7	-7.1	0.77
Netherlands	7.0	3.6	2.86	0.60	16.0	..	6.6	0.2	26.2	-13.0	0.60
New Zealand	..	..	..	..	..	..	8.7	2.0	25.5	-4.4	..
Norway	5.9	1.8	..	0.57	..	..	8.6	0.1	16.7	-4.2	0.72
Poland	..	..	..	..	..	..	12.0	..	23.5	..	0.29
Portugal	..	..	1.80	..	9.6	..	7.2	1.6	21.9	-5.8	0.59
Slovakia	..	..	..	..	19.3	..	6.0	..	16.1	..	..
Spain	..	..	2.46	..	15.1	..	8.4	2.6	38.8	-12.5	0.41
Sweden	7.2	1.1	..	0.69	..	..	9.4	3.5	14.4	4.5	0.69
Switzerland	6.2	..	..	..	..	..	3.7	1.6	20.7	-5.6	0.79
Turkey	15.5	-0.7	..	..	..	..	12.6	7.0	71.8	7.2	..
United Kingdom	11.0	4.2	2.97	0.51	18.9	..	8.7	3.2	23.7	-3.5	0.53
United States	16.5	-1.2	1.62	0.23	16.1	..	8.7	1.8	23.6	-2.4	0.58
Average of above countries	9.5	0.9	2.6	0.6	18.3	..	7.8	1.6	28.0	-5.4	0.6
Standard deviation	4.4	2.1	0.9	0.2	3.7	..	2.8	1.6	13.0	5.9	0.1

Note: Definitions and data sources are provided in Annex III.

117. Changes in the nature of poverty and exclusion require changes in the relative importance of the different pillars of social assistance programmes. While social assistance has traditionally focused on relieving material hardship through curative interventions, recent reforms in many OECD countries have started to shift emphasis to the root cause of marginalisation and dependency. The focus is on helping families to become more self-reliant and helping individuals at risk of exclusion to get access to jobs. The greater attention paid to self-reliance of social assistance clients has led to greater emphasis being paid to labour market goals, through reforms in benefits systems' rules so as to encourage work (*e.g.* earnings disregards), tighter requirements to qualify for benefits, and better access to labour market services. Through these reforms, the boundaries separating labour market policies, which have traditionally focused on workers, and social assistance programmes, targeted on individuals which are hard-to-place, have become more blurred. As for unemployment benefits, greater emphasis is being placed on the mutual obligations of social assistance clients and administrators, with support being made conditional on efforts by recipients to take part in training and education, to learn host-country language, or to undertake other socially responsible activities.

118. It is too early to take stock of these reforms and to assess whether they have improved the sustainability of social systems. On one side, the welfare-to-work reforms recently introduced by several OECD countries have succeeded in moving large numbers of welfare recipients into jobs. In the United States, for example, the welfare caseload almost halved nationally following the introduction of reforms in 1996 that limited the duration of benefits, made assistance conditional on work, and changed tax rules to make work more attractive; a majority of leavers are working, often full time, and at wage rates that are close to those of similar groups in the labour force (Loprest, 2002). On the other side, however, welfare-to-work reforms also face challenges. In the short-term, a critical test is coming with the changes in the state of the economy. During a recession, former welfare recipients with weaker skills and work-experience tend to lose their jobs first; many of them may fail to qualify for unemployment insurance, as they have not accumulated enough experience or because they work only part-time; and new welfare leavers may face weaker prospects to find jobs. While these difficulties increase with the length of the cyclical slowdown, even a short-lived recession might translate into limited employment options for welfare recipients for years to come, as employment typically lags economic output, and welfare rolls lag employment (Holzer, 2002). In the longer-term, more recent cohorts of people who exit welfare programmes may face greater personal barriers to work, making their self-sufficiency more difficult to achieve. Because of these features, even reforms that succeed in reducing the number of social assistance clients may worsen the conditions of those remaining on these programmes, while part of the reduction in caseloads may reflect a decline in the proportion of eligible families who choose to apply to social assistance programmes.⁸⁷

119. Effective social assistance programmes to relive poverty and exclusion typically involve a plurality of actors. Local and state governments are frequently responsible for administering the system, and sometimes for its financing. This institutional set up makes vertical co-ordination within government particularly important. There are strong reasons for giving local governments a prominent role in the delivery of social assistance: they can better tailor interventions to the needs of their clients, assess genuine needs requiring exceptional support, and verify that clients behave in ways that justify continued assistance. But designing mechanisms that secure adequate financing to regions where needs are higher, while retaining incentives for local governments to engage in activities to remove people from poverty (such as rewarding them for reducing poverty) is difficult. Split financing between central and local governments may give the latter incentives to shift social-assistance costs to programmes for which they

87. According to Zedlewski *et al.* (2002), about a third of the decline in the welfare caseload recorded in the United States over the 1995-2000 period reflected lower participation by eligible families; lower participation by eligible families also accounts for more than half of the decline in the "food stamp" caseload over the period.

have no direct financial responsibility. While local responsibility over social assistance may favour policy innovations, it may also lead to large differences in how individuals requiring assistance are treated in various regions.

120. Horizontal co-ordination within government is also important. Different government agencies typically share responsibility for different interventions (paying cash benefit, addressing some of the social problems that underlie social assistance clients, such as disability and poor health, and helping labour market re-insertion). When institutional coherence is low, eligible clients may distrust the system and choose not to participate in programmes, leading to a further worsening of poverty as existing programmes fail to reach their potential beneficiaries. Establishing poverty targets that command wide acceptance, and systematically assessing all policy proposals for their effects on poverty, is one way to improve horizontal co-ordination and to make poverty eradication an overarching goal of government policy (Atkinson, 1999). Measures to improve horizontal co-ordination within governments also include ensuring that labour market services are provided to social assistance clients, and increasing the horizontal coherence of social assistance and labour market interventions. In this setting, several OECD countries are exploring how to use 'one-stop-shops' responsible for delivering the full range of social services to their clients.

121. But responsibility for reducing poverty and exclusion goes behind government agencies. Anti-poverty groups, community and voluntary organisations have often played a key role in increasing awareness of the problem, and of its possible solutions (UNICEF, 2000). Governments often rely on voluntary groups to provide key services, and these groups may be relied upon to pick up those who are missed by the official bodies. Further leveraging their roles, however, also creates new challenges for policy makers, when support to poor families is made conditional to forms of behaviour which are difficult to justify from society's perspective, or when some poor citizen receive worse treatment than others.

Avoiding marginalisation among individuals of working age

The nature of the challenge

- Balancing goals for ensuring adequate standard of living and for encouraging self-reliance of social assistance clients, in a context where many jobs may not pay enough to escape poverty.

Policy responses

- Making the reduction of poverty and exclusion an overarching goal of government policy, and assessing the effects of all policy measures on poverty.
- Focusing interventions on those individuals that are hard-to-place, combining rehabilitation and training with adequate levels of income support.
- Improving co-ordination among agencies, both horizontally and vertically, and rewarding agencies for their success in reducing poverty.

Assuring the sustainability of retirement income systems⁸⁸

Sustainability challenge

122. Few older persons were covered by retirement systems when these were established, and benefited for only a few years. Today, because of longer life-expectancy and earlier withdrawal from the labour market, most workers can look forward to between 18 and 20 years of complete retirement. While this outcome can in itself be regarded as an important social progress, its financial costs are nonetheless

88. Sustainability of retirement-income systems is one of the seven issues included in the current cycle of reviews on sustainable development undertaken by the OECD Economic and Development Review Committee.

high, as benefits will have to be paid over a longer period, while the number of years that each worker contributes to these benefits decline. Higher growth in public pension spending in the future will either increase the size of public debt transmitted to future generations, or require larger payroll taxes from current workers (thus reducing their employment opportunities), or compromise the possibility for many of today's workers to receive an adequate pension when they reach old age. Each of these options rise prospects of more intense distributive conflicts among generations and represent a challenge to the social and financial sustainability of social protection.

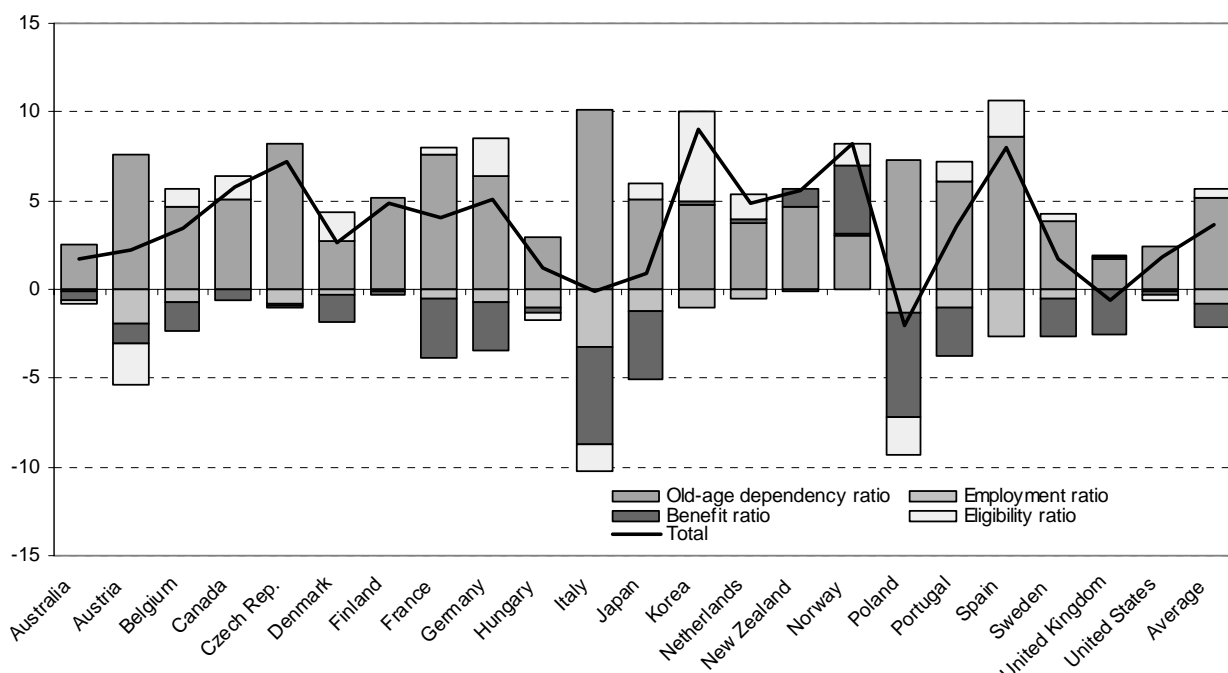
123. Reforms to assure the financial sustainability of retirement income systems have aimed at consolidating public finances and increasing the funding of future spending obligations. They have typically combined measures to delay retirement, to diversify the structure of retirement income so as to better balance the risks that individuals could face in the future, and to introduce reforms with clear timetables and adequate phasing in. Redressing the imbalance between work and retirement requires reforms of pension systems and of other programmes that provide avenues to retire earlier, as well as changes in labour market policies and firms' practices so as to increase retention of older workers. Increasing the diversification of income sources requires increasing the role of occupational and private pensions, but also of private savings and labour income. However, the very success of OECD pension systems in securing income adequacy in old age for most elderly people is making reforms more difficult today, as they increase fears of economic insecurity among the elderly. Possible effects of these measures on income adequacy in old age need to be identified and integrated *ex ante* in reform mixes. Measures to protect the most vulnerable groups can complement reforms aimed at securing financial sustainability, so as to improve the coherence between the economic and social goals of retirement income systems.

*Indicators of sustainability*⁸⁹

124. Indicators for assessing the sustainability of retirement income system pertain to both their prospective macro-economic imbalance and to current measures of well-being for the elderly. With reference to the first, public pension payments in OECD countries are projected to increase by an average of over three points of GDP in the next 50 years, and by as much as eight points in some of them. While the balance of factors underlying this increase varies across countries, the rise in the old-age population ratio is one of the main factors (Figure 28). Beyond demography, high spending growth also reflects labour market factors. The effective age of retirement (*i.e.* withdrawal from the labour market) is, in most OECD countries, between 60 and 63 and, in a few of them, below 60. In most European countries, this age is well below the standard age of retirement. In the United States, on the contrary, the two broadly correspond, while in Japan and Korea workers retire on average at a significantly higher age than the standard. Because of declines in the effective age of retirement, the labour force participation rate of older workers has fallen everywhere over the past few decades, although this decline may have come to an end in many countries in the second half of the 1990s.⁹⁰

89. The indicators shown in this section are those that are being used in the ongoing EDRC reviews of the sustainability of retirement income systems.

90. Because of these factors, the projections shown in Figure 28 may understate future spending pressures, as earlier retirement increases the ratio of retirees to workers beyond what indicated by old-age dependency ratios. Under a variety of alternative assumptions, the ratio of retirees to workers (currently at around 40% in major OECD countries) could raise to between 55 and 75% in the next 30 years (OECD, 2002f).

Figure 28. Projections of public old-age pension spending in OECD countries, 2000-2050¹

Note. Changes in old-age spending, in per cent of GDP, are attributed to changes in the ratio of the elderly to the population of working age (old-age dependency ratio), in the share of the elderly who are receiving pension benefits (eligibility ratio), in the (inverse) ratio of employment to the working age population (employment ratio) and in the generosity of pension benefits relative to GDP per worker (benefit ratio).

Source: Dang *et al.* (2001).

125. Current old-age pension systems also differ in the extent to which they provide income security to older persons. In most OECD countries, average disposable income of older persons is only marginally lower than that of the working age population. This suggests that the income of older workers declines only marginally as they move into retirement.⁹¹ This relatively high level of material well-being for elderly people holds across the range of income groups, and despite large differences in the structure of economic resources available during old age. However, there has been more unevenness across countries in assuring adequate income for those at the bottom of the income scale. On one side, and with few exceptions, the disposable income of the older population at the bottom of the income scale are generally close (and sometimes higher) than those of their working age counterpart; on the other side, however, there are large differences in the extent to which retirement-income provisions have reduced risks of poverty in old-age. There is also unevenness across countries in the extent of diversification of income sources during retirement, and in the importance of private pensions in GDP. Indicators to monitor the sustainability of retirement-income systems are provided in Table 6.

91. Further, because of the falling-off of work-related costs (*e.g.* transport) and of higher asset holdings (*e.g.* housing), the difference between older persons and those of working age is often even lower in terms of consumption expenditures. According to evidence reported by Casey and Yamada (2002), older couples in Germany, Japan and the Netherlands have consumption levels that are as high as those of younger ones.

Table 6. Redressing the imbalance between work and retirement

	Relative disposable income of the elderly		Poverty rates among the elderly		Age of withdrawal from the labour force		Labour force participation rate of older workers		Projected increase in old-age pension spending, per cent of GDP		Private pension funds, per cent of GDP	
	Most recent	Ten-year changes	Most recent	Ten-year changes	Men	Women	65 and over	55-64		Most recent	2000-50 change	Most recent
								Male	Female			
Australia	59.6	-5.0	16.1	-3.2	59.7	61.3	6.0	60.6	36.9	3.0	1.6	63.8
Austria	80.7	6.4	14.9	-0.2	..	..	2.8	42.1	17.5	9.5	2.2	3.6
Belgium	74.9	..	13.8	0.0	..	..	1.3	36.6	15.7	8.8	3.3	6.1
Canada	91.8	8.3	2.5	-6.7	62.6	61.1	6.0	61.3	41.7	5.1	5.8	45.7
Czech Rep.	..	..	0.0	0.0	..	..	4.0	55.0	24.5	7.8	6.8	3.8
Denmark	67.4	3.6	9.2	-11.5	62.4	61.5	4.6	65.5	51.8	6.1	2.7	24.4
Finland	75.5	0.9	7.5	-3.2	59.8	60.0	3.7	51.2	49.5	8.1	4.8	10.7
France	85.3	4.9	10.7	-7.1	59.3	59.8	1.2	43.8	34.1	12.1	3.9	6.3
Germany	81.2	2.7	10.4	-0.4	60.5	60.8	3.0	50.6	32.4	11.8	5.0	3.2
Greece	72.3	-5.0	29.2	2.6	61.7	62.2	5.0	57.0	23.6	..	..	4.6
Hungary	79.7	4.4	6.0	-11.5	..	..	3.1	36.3	15.4	6.0	1.2	2.2
Iceland	..	..	..	..	..	..	19.9	92.8	81.7	..	..	86.0
Ireland	66.7	-8.9	16.7	10.9	..	..	7.9	66.1	29.5	..	..	57.8
Italy	78.9	3.0	15.3	-1.1	59.3	58.4	3.4	57.8	26.6	14.2	-0.3	3.0
Japan	..	..	..	..	69.1	66.0	21.8	83.4	49.2	7.9	0.6	18.7
Korea	..	..	..	..	67.1	67.5	29.6	71.3	47.9	2.1	8.0	3.2
Luxembourg	..	..	..	..	..	..	0.0	38.1	14.3	..	..	..
Mexico	73.0	-6.2	32.9	5.0	..	..	30.5	80.5	27.6	..	..	2.4
Netherlands	0.0	..	1.9	0.6	61.6	60.1	3.1	52.0	26.9	5.2	4.8	119.3
New Zealand	80.2	-4.3	..	..	..	..	8.6	74.6	51.7	4.8	5.7	..
Norway	68.9	3.2	19.1	-3.2	64.2	64.7	13.2	73.6	63.2	4.9	8.0	7.4
Poland	..	..	..	..	..	..	7.5	41.5	24.1	10.8	-2.5	..
Portugal	..	..	..	..	65.3	66.5	19.0	63.7	41.9	..	..	11.4
Slovakia	..	..	..	..	..	..	1.1	43.0	11.2	..	..	..
Spain	..	..	..	..	61.1	61.1	1.6	61.4	23.6	9.4	8.0	2.3
Sweden	84.8	8.6	3.0	-2.4	63.3	61.8	9.4	73.5	67.4	9.2	1.6	..
Switzerland	91.5	..	..	..	..	..	11.4	82.4	56.1	..	..	97.3
Turkey	82.4	-13.5	23.1	2.6	..	..	18.1	50.8	18.4	..	..	..
United Kingdom	70.0	3.3	11.6	2.7	62.0	61.2	4.8	64.4	44.6	4.3	-0.7	84.1
United States	83.9	-1.8	20.3	-1.3	65.1	64.2	13.1	68.1	53.0	4.4	1.8	74.4
Average of above countries	73.8	0.3	13.2	-1.4	62.6	62.2	8.8	60.0	36.7	7.4	3.4	30.9
Standard deviation	18.8	6.2	8.9	5.3	2.8	2.6	8.3	15.1	17.7	3.2	3.0	37.1

Note: Definitions and data sources are provided in Annex III.

Policy responses

126. Most OECD countries have started to introduce reforms aimed at assuring the sustainability of their retirement income systems. In a sustainable development context, the challenge for policies is to introduce a mix of measures that secure the financial sustainability of the system without compromising its capacity to prevent poverty and maintain income security for the elderly. Such reforms would try to integrate *ex ante* economic and social objectives, making informed choice when conflicts between these goals arise, and trying to shift possible trade offs over time. Reconciling economic and social goals in the context of pension systems also asks for better analytical understanding of the risks and potentials of proposed reforms, and greater dialogue to promote societal consensus on the choices made.

127. Reforms measures introduced in several OECD countries include steps to strengthen the link between pension benefits and contributions, to prolong the contribution period needed to qualify for a full pension, and to reduce pension levels directly. Other countries have tightened access to disability and unemployment benefits, and introduced programmes to activate job-search of older workers, thereby reducing risks of long-term unemployment and early exit from the labour market. Other countries yet have aimed at reducing the size of public debt and interest payments, thereby creating room for greater government transfers to finance public pensions.

128. One of the major elements of reforms aimed at assuring the sustainability of retirement income system is redressing the imbalance between work and retirement.⁹² The range of factors that has contributed to the growing imbalance between the time spent working and in retirement is large, encompassing both demand (firms' demand for older workers) and supply factors (preferences for withdrawing early from the labour force). On the supply side, the design features of pension systems and other tax and transfer programmes often influence individual decisions to retire early, even when this responds to individual preferences for more leisure at higher income levels and to institutional constraints that limit the possibility of taking time off while at work. The weak link between the pension benefits received and the contributions paid by individual workers reduce incentives to work beyond the normal retirement age, as additional years of contributions imply little improvement in future pension benefits, while they reduce the number of years over which benefits will be paid. Disincentives to work later also extend to (tax-supported) occupational pensions, especially in countries where defined-benefit systems are important and firms make these benefits available to their workers before the standard retirement age.

129. In addition to features of old-age pension programmes, possibilities of withdrawing early from the labour force are also provided through special early retirement programmes, which allow workers to retire two to five years before the standard age; by lax eligibility criteria applied to older persons for disability and unemployment benefits; and by generous severance packages. Beyond reforms aimed at increasing the supply of older persons, measures are also needed to improve the employment opportunities available to them. Several OECD countries are acting on this by outlawing age discrimination, providing wage subsidies for older workers, and increasing their opportunities to access training. Increases in job opportunities for older workers may also require changes in work methods within firms, greater reliance on flex-time working, and reforms to reduce firms' incentives to lay-off older workers when downsizing.⁹³

92. Simulations of the effects of various reform options suggest that even moderate increases in the effective age of retirement could have large payoffs for the financial sustainability of pension systems: for a 'stylised' country representative of the initial economic conditions and future demographic trends of the OECD area, an early rise in the effective age of retirement of around 1 year would allow to keep the public debt to GDP ratio constant over the next 50 years (OECD, 2001f).

93. These issues are addressed in ongoing OECD reviews of labour market conditions of older workers.

130. Greater diversification of the sources of retirement income can also be pursued for reducing spending pressures in the future, for better balancing risks, and for offering more flexibility to individuals in adjusting to new conditions. This implies greater importance of occupational and private pension plans, but also of individual savings and labour income. Greater diversification of retirement income will however increase the importance of government supervision of pension arrangements, and of addressing limits in the portability of occupational pensions when changing jobs. Moves toward partial or full capitalisation of the pension system, where each cohort saves for its own retirement, while reducing risks linked to demography and political factors, also expose retirement income to capital markets and rate-of-return risks. Preserving financial resources in retirement may require changes in the rules and guarantees with respect to private pension funds, such as effective protection against insolvency of pension-plan providers and mismanagement by plan administrators.

131. Reforms to achieve financial sustainability risk running against some of the social goals of retirement income systems. These reforms will especially affect lower income groups, as net transfers from government represent the dominant share of their income. Preserving the multiple goals of retirement income systems is important for the reform process, as measures directed to a single goal can have adverse consequences on another. Most retirement income systems were built around the premise that older people have lower capacity to withstand adverse shocks, and that retirement income systems are effective mechanisms for sharing risks among generations. In the absence of other supporting measures, a closer link between pension benefits and contributions may leave some groups of older workers with insufficient financial resources to support themselves in retirement, increase risks of income poverty during old-age, and shift the costs of supporting the less well-off from old-age pensions to social assistance. This calls for appropriate action to guarantee the finance of public pension systems and to protect the most vulnerable groups. These reforms may also raise equity issues, as changes in income distribution among the elderly will tend to mirror more closely those among the working age population, and as low-income workers generally hold physically more demanding jobs and have a shorter life expectancy during retirement than higher-income groups.

132. Groups with special vulnerabilities are both old and new. Single women (often widows) living alone, and younger retirees (often unskilled) who have left work early because of lay-off or sickness are over-exposed to risk of poverty in old age in most OECD countries. While the size of both groups has declined over time, as more women now earn their own pension rights and as skills of workers improve, new vulnerable groups have emerged because of changes in labour markets. These include individuals with late entry into the labour market, with jobs that are low-paid or without full pension coverage, with broken careers and contributory record, with frequent shifts into or out of self-employment. These labour market changes increase the importance of adapting pension systems by better protecting basic (minimum) pensions against price and wage inflation, by supporting the earnings-related pensions of workers with low-paid jobs and gaps in their working history, and by improving the portability of occupational pensions for workers changing jobs. Beyond labour market changes, caring responsibilities within families (towards children and other dependent family members) also increase the importance of adapting pension systems, for example through pension credits for the time spend outside paid employment.

Assuring the sustainability of retirement income systems

The nature of the challenge

• Population ageing and earlier withdrawal from the labour market are pushing pension spending above prospective contributions, crowding out other spending programmes, reducing employment, and transferring public debt to future generations.

Policy responses

- Consolidating public finances, so as to pre-finance the budgetary costs of population ageing.
- Establishing closer links between contributions and benefits in public pension systems, so as to reduce incentives to retire early, and blocking alternative pathways to early retirement.
- Addressing the factors limiting firms' retention of older workers, and improving older workers' skills to take up employment opportunities.
- Increasing the diversification of retirement income so as to provide more flexibility to older persons in adjusting to changed circumstances and better balancing of risks.
- Strengthening support for older persons that face risks of poverty and inadequate resources in retirement.

Addressing needs for care during old-age

Sustainability challenge

133. The demographic, life style and labour-market factors described in Chapter 3 also shape the capacity of the existing social protection system to meet demands for care during old age. The elderly, and especially the very old, confront risks of reduced personal autonomy because of disease and disability. Future demand for long-term care during old-age will be shaped by two opposing trends. The first is a demographic one, which is increasing in all OECD countries the numbers of persons surviving up to an advanced age. The second is an epidemiological one, which determines the prevalence of disabilities among the elderly, and which is pointing to a decline in disabilities in old age in several OECD countries. Which of these two factors will dominate in the future is an open question. To the extent that medical technology extends the age where physical and mental capabilities start declining, population ageing will increase both the length of life-span and the quality of that life. In the opposite case, however, a larger number of persons will experience lower personal autonomy for an increasing part of their life.

134. Most of the caring obligations towards the elderly are currently met by families, mainly by spouses (in particular older women without paid employment) and, to a lesser extent, by children. However, constraints to the capacity of families to perform this function are becoming more important. In several OECD countries, the number of women aged 50 to 64 will start declining in the near future, and an increasing proportion of women in this age group will be in paid employment. More frequent family disruptions, lower fertility, and greater geographical mobility are also reducing the support provided by children to their older parents. In this setting, all OECD countries will be confronted to the need of developing an adequate infrastructure to meet these caring needs, while both avoiding much higher public expenditure and minimising the burden (such as reduced employment opportunities) on care-givers.

Indicators of sustainability

135. Assessment of the living conditions of the elderly must rely on a variety of indicators pertaining to demography, health and living arrangements. Across OECD countries, declines in mortality in old age have increased life expectancy to around 15 years for men aged 65, and to close to 19 years for women of the same age, with an increase of almost one year per decade. Much of this increase in life expectancy has occurred at later ages, with life expectancy reaching 7 years for men aged 80 and close to 9 years for women of the same age. A synthetic measure of life expectancy in full health (HALE) suggests that men aged 60 might expect to live 15 more years in full health, and up to 17 years for women of the same age.

136. No trend data are currently available on life expectancy in full health which would provide evidence on whether the longer life for older persons represent additional years lived in good or in bad health. However, survey data on disability among the elderly from several countries indicate a decline in the prevalence of disability among persons aged 65 and over. Most of this improvement reflected declines in severe disability (defined as the incapacity to perform activities essential for everyday life without significant help in terms of personal care), while trends for moderate disability (*i.e.* the presence of some limitations in the same functions) are less favourable and more varied across countries (Jacobzone, 1999).

137. Needs for care in old age are also shaped by residential patterns among the elderly. In most OECD countries, an increasing proportion of the elderly are living alone, in particular because of declines in those living with a child. While this trend towards more independent living mainly reflects greater opportunities for privacy when income levels and health conditions improve, it also increases the importance of external help in performing various tasks in the case of dependency.⁹⁴ An observed trend towards de-institutionalisation among the elderly is also increasing the importance of care provided in non-institutional settings, and of home-help to dependent elderly to avoid social isolation.

138. How these demographic, epidemiological and life style factors will interact in the future to determine demand for care by elderly persons critically depend on assumptions about whether recent improvements in disability and de-institutionalisation will continue. If this happens, these trends could partly offset the effects of longer life expectancy. In the opposite case, however, the number of frail elderly living in the community could increase significantly, putting at risk the capacity of women to join the paid labour force and increasing strains on those who are trying to combine work and caring.⁹⁵ Indicators of the performance of OECD countries in addressing needs for care during old-age are provided in Table 7.

Policy responses

139. Policies to meet the future needs for care by dependent elderly will require combining both formal and informal care. They will need to minimise the overall burden on society of different caring arrangements, and meet the diverse needs for health and long-term care of dependent elderly in alternative ways. This may require shifts of resources among public programmes, and new forms of partnerships at various levels – between different layers of governments and between the private and public sector.

94. Living alone, however, may also have adverse effects of the health of older people. Empirical evidence supports this finding for older people living without their spouse, and for men affected by psychiatric morbidity (Grundy, 2001).

95. Projections suggest that, if current trends in severe morbidity and institutionalisation continue into the future, the number of older persons in need of home and community help might fall in France and Sweden, while its rate of increase could decline in other OECD countries; in the case of constant (severe) disability and institutionalisation, however, their number could increase by around 20% in the United Kingdom, by close to 40% in the United States, and by 60% or more in France and Japan (Jacobzone, 1999).

Table 7. Addressing needs for care in old-age

	Life expectancy for people aged 65			Health adjusted life expectancy at age 60			Changes in life expectancy without disability for persons aged 65		Proportion of the elderly living in institutions		Proportion of elderly living alone	
	Men		Women		Men		Women		Men		Women	
	Most recent	Ten-year changes	Most recent	Ten-year changes	Most recent	Ten-year changes	Most recent	Ten-year changes	Most recent	Ten-year changes	Most recent	Ten-year changes
Australia	16.3	1.1	20.0	1.0	16.4	18.8	-1.6	-0.8	6.8	32.0	6.8	32.0
Austria	15.6	1.2	19.3	1.3	15.7	18.5	..	..	4.9	36.8	4.9	36.8
Belgium	15.6	1.6	19.8	1.5	..	..	..	..	6.4	36.0	6.4	36.0
Canada	16.3	0.7	20.1	0.5	15.3	17.9	1.8	1.4	6.9	36.3	6.9	36.3
Czech Rep.	13.4	1.8	16.9	1.7	12.8	16.0	..	..	..	..	..	..
Denmark	14.7	0.6	17.9	0.0	15.5	16.7	..	..	7.0	42.8	7.0	42.8
Finland	14.9	1.2	19.1	1.4	15.2	18.1	1.5	1.1	6.5	38.0	6.5	38.0
France	16.3	0.7	20.8	0.9	16.1	19.1	1.4	2.1	6.5	..	6.5	..
Germany	15.3	1.0	19.0	1.0	15.0	17.7	1.6	1.5	6.8	41.0	6.8	41.0
Greece	16.2	0.5	18.7	0.7	15.7	17.1	..	..	..	..	..	..
Hungary	12.1	..	..	..	..	..	..	..	..	..	..	..
Iceland	16.4	0.3	19.8	0.5	..	..	..	..	..	..	..	..
Ireland	13.7	..	..	..	13.9	16.1	..	..	5.0	29.0	5.0	29.0
Italy	15.8	0.9	20.2	1.6	15.5	18.2	..	..	3.9	..	3.9	..
Japan	17.1	0.9	22.0	2.0	17.1	20.7	1.2	0.9	6.0	13.8	6.0	13.8
Korea	13.6	1.0	17.3	0.9	12.9	16.6	4.1	4.7	..	17.3	..	17.3
Luxembourg	14.7	..	..	..	..	..	..	..	6.8	..	6.8	..
Mexico	17.6	1.2	18.7	1.0	14.5	14.9	..	..	..	7.1	..	7.1
Netherlands	14.7	0.6	18.8	0.2	15.0	17.3	1.9	1.5	..	39.5	..	39.5
New Zealand	16.1	1.4	19.5	1.2	15.9	17.7	..	..	8.8	28.0	8.8	28.0
Norway	15.7	1.1	19.6	1.0	15.6	17.9	0.4	0.2	..	36.8	..	36.8
Poland	13.4	1.0	17.0	0.9	11.9	14.6	..	..	6.6	..	6.6	..
Portugal	14.4	0.6	17.9	0.9	13.4	16.2	..	..	..	..	..	..
Slovakia	..	..	..	..	..	..	..	..	..	..	..	..
Spain	16.3	0.8	20.3	1.1	15.2	18.2	..	..	2.9	23.4	2.9	23.4
Sweden	16.3	1.0	20.0	1.0	16.5	18.5	..	..	8.7	41.3	8.7	41.3
Switzerland	16.7	1.3	20.6	1.0	16.9	19.4	0.7	2.0	..	..	..	..
Turkey	12.7	0.2	14.3	0.3	11.2	12.4	..	..	..	..	..	..
United Kingdom	15.0	1.0	18.5	0.7	15.0	16.9	0.0	0.9	5.1	35.6	5.1	35.6
United States	16.0	0.9	19.1	0.2	14.9	16.6	0.8	0.5	5.7	30.0	5.7	30.0
Average of above countries	15.3	0.9	19.0	0.9	14.9	17.3	1.1	1.3	6.2	31.4	6.2	31.4
Standard deviation	1.3	0.4	1.5	0.5	1.5	1.7	1.3	1.3	1.5	10.1	1.5	10.1

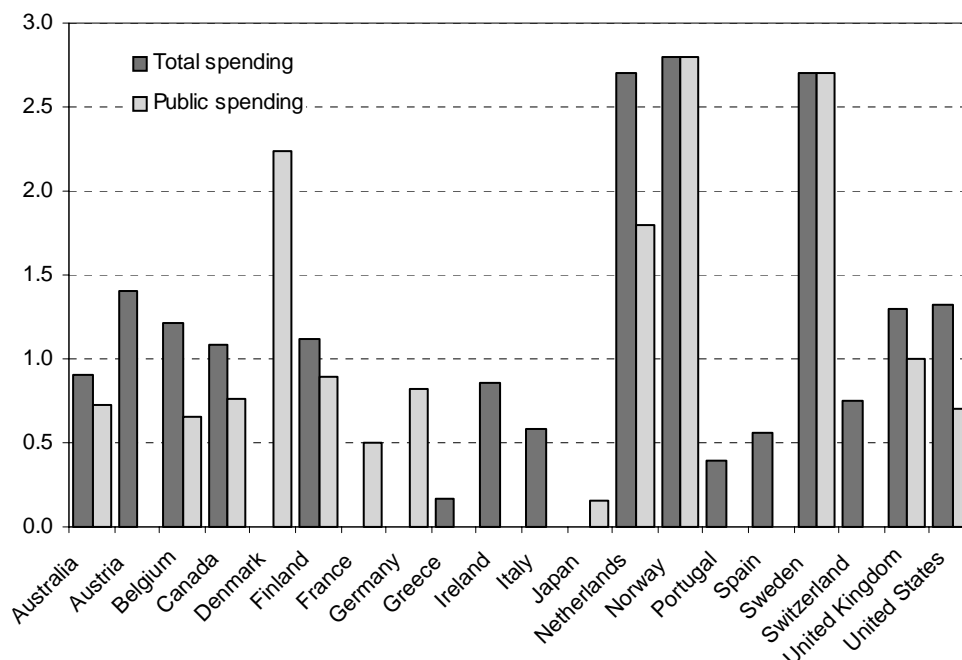
Note: Definitions and data sources are provided in Annex III.

140. OECD countries differ in the level of formal support provided to dependent elderly, and in the role attributed to families, governments and markets in meeting these care needs. Total spending on long-term care for the dependent elderly is comprised in a range between 0.5 and 3% of GDP in most OECD countries (Figure 29). Beyond these expenditures, however, important care functions are performed by the health and pension systems, and these functions may have increased in several OECD countries with recent reforms (even when the services provided in this way may be more expensive and less tailored to needs relative to other forms of provision). These direct monetary outlays represent, however, only a small fraction of the total costs to society, as a significant amount of this care (possible close to 80% of the total, according to experts' judgement) continues to be provided through informal help.

141. While social protection systems are not always equipped to respond to this type of challenge, in all cases they need to find ways of reconciling new social goals with tighter financial constraints. In the case of care in old-age, this will require better co-ordinating long-term care with health and retirement income programmes, so as to combine income transfers and service provision according to the special circumstances of older persons, and to shift resources among them. To extend coverage against disability at older-ages, a few OECD countries have introduced specific forms of private insurance, while others have relied on mandatory insurance, with contributions set in proportion to income and independent of the age and health conditions of individuals.

142. The complexities of long-term care to old-age persons are compounded by the highly decentralised system of long-term care in most OECD countries, with central governments concentrating on guidance, accreditation, and financial transfers to other agencies, and local governments assessing needs and delivering services. While this decentralisation increases the potential to tailor services to local needs, it also raise questions for equity of access and quality of service provided.

Figure 29. Spending on long-term care for the frail elderly, mid-1990s



Source: Jacobzone *et al.* (2000).

143. A central issue for reforms aimed at responding to the needs for care during old-age is that of balancing care provided in institutions, in other formal settings, and at home. Lower proportions of elderly living in institutions, and greater importance of home-care for those affected by moderate disabilities,

reduce financial costs of public programmes and better respond to individuals' preferences for remaining longer in their home. However, de-institutionalisation is less desirable in the case of very severe disabilities, where the costs of providing care at home can be very high (Jacobzone, 1999). Supporting the trend towards de-institutionalisation may also require subsidies to home-carers, provision of public services, availability of adequate housing arrangements, and measures to allow families to combine care and work responsibilities.

144. Families and communities play an important role in avoiding social isolation of frail elderly through provision of informal help. Surveys of government agencies highlight the availability of home and community care as one of their main concerns in this area (Kalish *et al.*, 1998). To increase availability of home care, a number of countries have introduced benefits for care-givers, in the form of short-term compensation (in cash or in kind) or of long-term benefits providing access to other social rights and services (*e.g.* notional pension rights for caring). Surveys of care givers also identify the need for more flexibility from employers – in terms of possibility of taking leave, of reducing hours, and having more flexible daily and weekly schedules – as one of their main concern (Jenson *et al.*, 2000). But very few countries have moved very far in this direction.

145. In the case of moderate forms of invalidity, prospects of a secured and well-cared-of elderly generation are also linked with the issue of immigration. Already today, some elderly are dependent on the caring provided by foreign-born workers. As needs for care in old age increase, and as the constraints which limit supply of this care from other family members increase, this may require reconsidering current restrictions on migration in the light of the contribution that low-skilled migrants can make in supporting the well-being of dependent elderly and in allowing women to enter paid employment.⁹⁶

Addressing needs for care during old-age

The nature of the challenge

- Population ageing and the higher number of elderly living alone will increase the need for care at home at the same time as growing participation of women in paid employment reduces the availability of such care within the family.

Policy responses

- Integrating public policies for long-term care, health, pensions and housing, and shifting resources among these programmes.
- Developing partnership between states, families and communities to provide a continuum of care-services adapted to needs.
- Introducing measures to combine care-giving with flexible employment to help family members in fulfilling their caring obligations.
- Expanding the supply and quality of other forms of informal care.

96. Steps in this direction have recently been taken by some OECD countries.

ANNEX I. FEATURES OF SUSTAINABLE DEVELOPMENT

146. The World Commission on the Environment and Development (WCED) defined sustainable development in 1987 as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. While a variety of alternative formulations have been proposed since, this definition has remained the point of reference for much of the ensuing discussion. However, this definition opens as many new questions and it answers. In particular, what is meant by ‘needs’? And what are the conditions affecting the ‘ability’ of future generations to satisfy these needs?

147. The concept of ‘needs’, as referred to by the WCED, is a broad one. It includes the satisfaction of material needs (food, shelter, etc.) but also needs in terms of access to a clean environment, and needs and rights in the social sphere (*i.e.* the protection from a range of risks that might impact on individuals). Economists have traditionally focused on the first of these categories, while largely neglecting the other two, using the notion of *per capita income* as a yardstick for measuring the degree of satisfaction of material needs. The National Accounts, on which per capita GDP rests, measure all exchanges of goods and services that occur through markets, as well as a range of other transactions (such as the provision of public services) that, while not mediated by markets, translate into well-defined economic costs for the provider. But, as a measure of well-being, per capita GDP has well recognised limits: it includes in ‘income’ some activities that reduce well-being (*i.e.* ‘regrettables’) as well as those that reduce society’s stock of assets (*i.e.* depreciation of capital goods), while it omits activities that, even if not mediated by markets, are important to the well-being of individuals, like those provided by families and communities.⁹⁷ The relation between a broad concept of ‘human well-being’, a more narrow one of ‘economic well-being’, and that of GDP is illustrated in (the right part) of Figure A.1. Because of these limits in economic measures of well-being, the notion of sustainable development implies – when applied to policies – that policy makers should balance a wide range of policy goals other than increasing economic welfare.

148. The second element of the WCED definition of sustainable development concerns the notion of ‘abilities of future generations’. Most economists have focused on this second aspect of sustainable development – *i.e.* on the conditions necessary for achieving sustainability. The approach they have put forward rest on the notion that, to be sustainable, the asset-base that underpins well-being must rise (or, at least, not-decline) through time in per capita terms.⁹⁸ The relation between these assets and human well-being is also depicted in Figure A.1. The categories of assets that are relevant to well-being include: *i)* man-made capital, *i.e.* the machinery, equipment and structures that enter economic production, but also

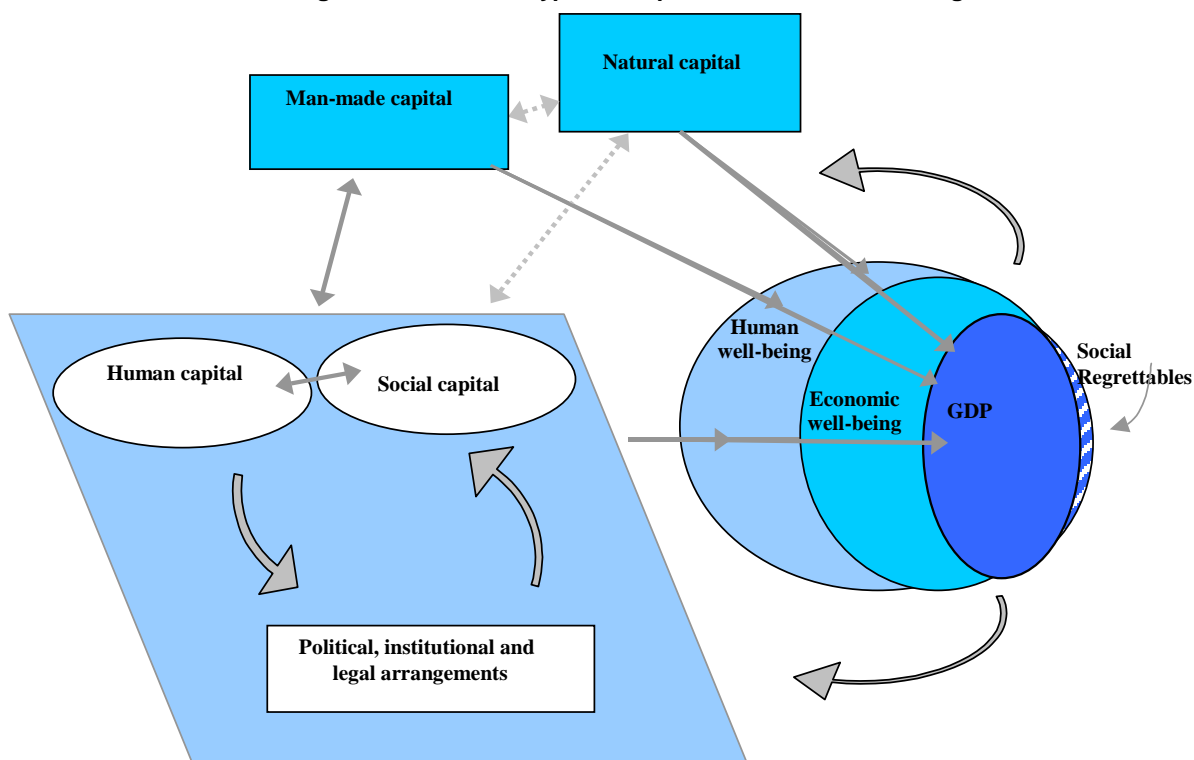
97. While difficult to measure, survey measures of well-being suggest that these non-monetary aspects are nonetheless important. Cross-country comparisons of self-reported well-being — *i.e.* the share of respondents describing themselves as ‘happy’ or ‘very happy’, less that of those describing themselves as ‘unhappy’ or ‘not very happy’, from the 1995 *World Value Surveys* — and per capita GDP, suggest a strong link between the two variables until per capita income reaches a level of around USD 10 000, but a weaker one at higher income levels. This suggests that, in high-income countries, variables not captured by the National Accounts become more important determinants of subjective well-being (Ingelhart, 2000).

98. Even this condition, however, neglects the importance of technical progress in increasing the productivity of a given stock of assets. The necessary condition for sustainability should then be rephrased as increasing per-capita assets in ‘efficiency terms’.

the non-tangible assets of firms (patents) and the financial assets that provide command over current and future output streams (net financial position towards the rest of the world); *ii*) natural capital, *i.e.* the natural resources that enter production and satisfy consumption needs, as well as the environmental assets that have amenity or production value, or that are essential for the life supporting system; *iii*) human capital, *i.e.* the knowledge, skills and competencies which are embodied in individuals; and *iv*) social capital, *i.e.* the networks, values and understanding that facilitate co-operation within and between groups. Beyond their heterogeneity, the notion of ‘capital’ applied to these resources stresses their instrumental value in supporting well-being. Practical use of the sustainability notion in informing policies will depend on judgements about the substitutability among these types of capital in a given situation – *e.g.* whether a decline in natural capital can be offset by an increase in other types of capital. Sustainable development translates a concern that, in many situations, these assets are not perfectly substitutable, as the immediate gains of depleting some of these assets can be outweighed by declines in well-being now or in the future.

149. The efficacy with which assets are used is also a function of the institutional infrastructure of each country, which mediates the relation between resources and well-being. In the terms of Figure A.1, institutions and policies are key elements for achieving sustainability, as they either sustain the accumulation of different types of assets (*e.g.* the education system contributes to the accumulation of human capital) or avoid liabilities (*e.g.* social assistance programmes support individuals in needs) that would be more costly to re-pay in the future. Effective institutions allow to overcome the co-ordination problems that are at the root of under-investment and depletion of different assets, establish shared agreements on how to distribute the costs of different policies, and favour the adaptation of individuals to changed circumstances.

Figure A.1. Different types of capital and human well-being



Source: Adapted from OECD (2001*b*).

ANNEX II. SOCIAL ELEMENTS WITHIN THE SUSTAINABLE DEVELOPMENT STRATEGIES OF OECD COUNTRIES

Introduction

150. Agenda 21, the programme of action agreed at UNED in 1992, called upon individual countries to follow-up the Rio commitments with national implementation strategies aimed to “harmonise the various economic, social and environmental policies and plans that are operating in the country” and “to ensure socially responsible economic development while protecting the resource base and the environment for the benefit of future generations”. Since then, several OECD countries have adopted national sustainable development strategies, and many of them have reported on their implementation in the context of preparation of WSSD.

151. These national strategies on sustainable development often include significant social goals, sometimes supported by indicators to monitor countries' progress in attaining them.⁹⁹ In most cases, however, social objectives are simply listed alongside environmental and (less often) economic goals, but can hardly be regarded as integrated in a comprehensive strategy. While “policy integration” in the environmental field is relatively well-established in most OECD countries, this does not apply yet to most social issues, which continue to be addressed on a one-by-one basis. However, despite this limitation, and the large differences in the range of social concerns addressed, these national strategies illustrate the practical interpretation that OECD countries attach to the notion of ‘social aspects’ of sustainability.

*Social aspects covered in individual country strategies*¹⁰⁰

Austria. At the heart of the *Austrian Strategy for Sustainable Development*, published in April 2002, are 20 key objectives organised in four major clusters: *i*) ensuring quality of life, today and in the future; *ii*) making Austria a more dynamic business location, through innovation and networking; *iii*) protecting the diversity and quality of living spaces; and *iv*) strengthening Austria's responsibilities at the regional and global level. Social considerations figure prominently in the first of these clusters, with emphasis being given to five objectives: *i*) changing consumption habits, towards less resource-intensive lifestyles; *ii*) achieving greater equity between men and women, both at work and within the family; *iii*) providing learning opportunities to all individuals, irrespectively of the phase of their life course; *vi*) assuring a decent life for present and future generations, with a focus on fighting poverty and exclusion and proving meaningful employment to all individuals; and *v*) adapting the social system to a new demographic context so as to preserve inter-generational solidarity. Implementation of this strategy, which is the outcome of co-operation between different ministries and institutions, will be supported by regular monitoring of progress through indicators pertaining to each area.

99. A review of the sustainable development indicators adopted by OECD countries, either in the context of testing the set proposed by UNCSD or for supporting their national strategies, is provided by Hass *et. al.* (2002). These national indicator sets typically include separate sub-set of social indicators covering demography, equity, health and education.

100. Information is derived from the UN website for WSSD and from national documents. OECD countries whose national sustainable development strategies predominantly focus on environmental issues, and where social elements play a marginal role, include Australia, Iceland and Italy. OECD countries that have not yet adopted a national sustainable development strategy include Canada, the Check Republic, Hungary, Mexico, Turkey and the United States.

Belgium. Because of responsibilities of regions in this field, no national strategy for sustainable development currently exists. However, a formalised multi-annual planning process on sustainable development at the federal level has been in place since 1997. Building on the first federal report published in 1999, the 2000-2004 *Federal Plan on Sustainable Development*, adopted in July 2000, aims to “promote the effectiveness and internal coherence of government policy” with respect to sustainable development. It identifies indicators, policies and supporting measures (e.g. in the tax system) to achieve goals in four areas: *i)* poverty and social exclusion, over-indebtedness, and environmental health; *ii)* patterns of consumption and production; *iii)* agriculture, marine environment and biodiversity; and *iv)* energy, transport, ozone and climate. Concerning poverty and social exclusion, the Plan identifies a range of interventions to support employment, health, housing, social services and education. These interventions aim at eliminating poverty, and to ‘mainstream’ poverty concerns into other policies. The Plan also specifies objectives, policies and measures to strengthen participation by women, children and migrants into sustainable development discussions and to improve their standing in society.

Canada. While no national plan for sustainable development has been introduced at the federal level since UNED, Canada’s submission to WSSD (*Sustainable Development: A Canadian Perspective*) reports a range on initiatives by the federal government, provinces and stakeholders aimed at meeting the goals of Agenda 21. These initiatives are grouped under nine headings: *i)* changes to decision-making structures and processes; *ii)* social sustainability; *iii)* sustainable communities; *iv)* health and environment; *v)* conservation and stewardship of biodiversity; *vi)* sustainable development of national resources; *vii)* climate change; *viii)* the Canadian Arctic; and *ix)* international co-operation. “Social sustainability” includes actions taken in respect to social investment (health and education), public debt, eradication of relative poverty, regional imbalances, gender equity, and improving living conditions of Aboriginal people.

Denmark. Denmark’s national strategy for sustainable development (*A shared future – balanced development*) was approved by government in June 2002. The main focus of the strategy is on integrating environmental considerations in a number of specific sectors. The first of the eight “objectives and principles” underlying the strategy stresses the importance of developing a “welfare society”, where “development.. go hand in hand with.. security and stability”. According to the document, progress towards this objective will require developing a more inclusive labour market, providing income security in old age, and addressing the needs of disadvantaged groups to avoid that “social problems become chronic and a burden to society in the future”. To achieve these goals, the Danish strategy envisage a combination of public initiatives, greater role for the voluntary sector in the social field, and greater opportunities for choice by individuals among private and public solutions.

Finland. The *Finnish Government Programme for Sustainable Development*, adopted in 1998, is designed “to promote ecological sustainability as well as the economic, social and cultural preconditions for achieving this end”. To strengthen economic preconditions, the Government is committed, *inter alia*, to: *i)* promote stable and balanced economic growth; *ii)* promote economic activity that increases financial and human capital while safeguarding natural capital; and *iii)* modify taxation to support employment and reduce environmental loads. To strengthen the social preconditions for ecological sustainability, the Governments is committed, *inter alia*, to: *i)* promote general welfare, with special attention to employment, prevention of social exclusion and the living conditions of the elderly; *ii)* improve the health, amenity and social viability of occupational, residential and living environments, and advance the health and physical fitness of the general population; *iii)* strengthen the knowledge base, expertise and skills needed for sustainability; *iv)* safeguard cultural diversity, heritage and identity.

European Union. At the Gothenburg summit in June 2001, the European Council adopted the *European Union Strategy for Sustainable Development*, based on the principle that “the economic, social and environmental effects of all policies should be examined in a co-ordinated way and taken into account in decision making”. Although focusing on a limited range of environmental issues (combating climate

change, ensuring sustainable transport, addressing threats to public health, and managing natural resources more responsibly), the EU Strategy for Sustainable Development is presented as “complet(ing) the Union’s political commitment to economic and social renewal, add(ing) a third, environmental dimension” to the EU *Strategy of Change* adopted in Lisbon in March 2000. The Lisbon Strategy called for an integrated approach to policies aimed at making the Union “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. In the social area, it set strategic goals for: *i*) strengthening education and training; *ii*) creating more and better jobs for all; *iii*) modernising social protection; and *iv*) promoting social inclusion. Implementation of the Lisbon and Gothenburg Strategies is supported by a set of structural indicators.

France. A new National Strategy on Sustainable Development, replacing the one adopted in 1997, was approved by government in June 2003. The new National Strategy is action-oriented, built around 6 strategic axes and 10 action programmes to be implemented over a 5-year period, with annual reviews of implementation and adjustment of policy measures. While the main focus of the strategy is on environmental issues, as well as on the international obligations to reduce absolute poverty at the global level, the first of its 10 action programmes relates to the “social and health dimension of sustainable development”. This describes goals and means in 5 key areas: *i*) human dignity, with a focus on citizens’ rights, developing life-long learning, and fighting poverty and exclusion; *ii*) families, with a focus on promoting child policies and children rights, and facilitating affordable housing; *iii*) non-autonomous persons, with a focus on facilitating their mobility, and promoting work among disabled people; *iv*) intergenerational solidarity, with a focus on caring for the frail elderly, improving health condition of the elderly population, and facilitating the transmission of competences among generations; and *v*) gender roles, with a focus on equal opportunities at work, reconciling work and family responsibilities, fighting all forms of violence against women, and promoting women participation in political and civic life.

Germany. The German strategy for sustainable development (*Perspectives for Germany. Our Strategy for Sustainable Development*), adopted by the Federal Government in April 2002, identifies four priorities: *i*) intergenerational equity; *ii*) quality of life; *iii*) social cohesion; and *iv*) international responsibility. Social considerations figure in each of these fields. “Intergenerational equity” requires avoiding high public debt and short-term economic decisions that could increase burdens on future generations. “Quality of life” calls for attention to health, opportunities for personal development, satisfying work, appropriate living space, sufficient income, social recognition, and towns which are safe and worth living. “Social cohesion” requires combating poverty and social exclusion, preventing a divide of society into winners and losers, involving all groups in economic development and enabling them to participate in social and political life. “International responsibility” calls for attention to poverty in developing countries, to a more equal sharing of the benefits of globalisation among countries, to extending world-wide minimum social standards, and to international efforts to secure peace and prevent international conflicts.

Greece. The Greek *National Strategy for Sustainable Development*, approved by government in June 2002, aims to provide direction for achieving convergence to EU levels in economic, social and environmental conditions over the next decade. Beyond measures to reduce environmental pressures, the Strategy details those required for “further promoting social solidarity”, with a focus on five goals: *i*) reducing exclusion from employment opportunities, through implementation of the 2002 National Action Plan for Employment; *ii*) enhancing equal opportunities between men and women, through measures aimed at reconciling work and family responsibilities and at mainstreaming gender equity in all policies; *iii*) extending access to public goods such as health, education, housing and information to the entire population; *iv*) preventing risks of exclusion, such as those due to obsolescence of skills and inactivity and unemployment among youths; *v*) protecting vulnerable groups against vicious circles of exclusion, with special attention to remote regions, areas affected by national disasters, ethnic minorities and immigrants.

Hungary. Hungary's submission to the World Summit on Sustainable Development (*Hungary: basic features and indicators of social, environmental and economic changes and planning for sustainability*) stress how the structural changes that have accompanied the transition process have allowed important improvements in environmental conditions. However, according to the document, progress on the social side has lagged behind environmental gains. In particular, the document notes that, despite improvements of living conditions for the majority of the population, income inequality and poverty have increased, and unemployment has remained pervasive. The document confirms Hungary's commitment to introduce a national sustainable development strategy tailored to national circumstances; to develop a comprehensive range of national indicators; to strengthen broad dialogue to raise public awareness of sustainable development issues; and to make this strategy a key element of its EU accession process.

Ireland. The main lines of Government policy on sustainable development are defined in *Sustainable Development: A Strategy for Ireland*, published in April 1997, and further elaborated in the national report submitted to WSSD, *Making's Ireland Development Sustainable*. While the Irish sustainable development strategy and follow-up focus primarily on the link between the economy and the environment, they also highlight a range of recent developments in social policy. One of the sustainable development priorities for the future identified by the Irish government is the implementation of the "National Anti-Poverty Strategy" (NAPS), launched in 1997 and revised in 2002, and of its targets for: *i*) reducing at least to 2% consistent poverty¹⁰¹; *ii*) building an inclusive society; *iii*) developing social capital, particularly for disadvantaged communities; and *iv*) eliminating long-term unemployment no later than 2007. The revised NAPS also sets targets for halving the proportion of pupils with serious literacy difficulties by 2006, for reducing by at least 10% the gap in premature mortality between the lowest and the highest socio-economic groups for a range of diseases (circulatory diseases, cancers, injuries and poisoning), and for increasing the lowest rates of social assistance by 2007 (to a level of € 150 per week in constant €). Progress with the implementation of the 2000 *National Children's Strategy* and of the 2001 *National Health Strategy* (which embody goals for extending access and improving health conditions for everyone, and for improving performance and responsiveness of the health system) are also part of the revised Irish sustainable development strategy.

Japan. Most of the initiatives undertaken by Japan in the area of sustainable development relate to environmental and development issues. Japan has stepped up effort to implement its *Initiatives for Sustainable Development* in its territory, at a national and regional level, and to help developing countries through development co-operation. These "Initiatives for Sustainable Development" also mention the importance of establishing a dynamic and affluent society, and to build the social structure needed to facilitate "the equal participation of men and women" in social and economic life.

Korea. Since 1992, Korea implemented several strategies promoting sustainable development at the level of both the general economy and individual sectors. Because of the predominant "environmental" focus of these strategies, the Ministry of Environment has primary responsibility for sustainable development. However, the Korean submission to WSSD (*National Assessment Report on the Implementation of Sustainable Development*) identifies two domestic social priorities that are being pursued through specific plans for sustainable development: *i*) combating poverty and enhancing public health, which are being promoted through investment in social protection and health infrastructure; and *ii*) promoting workers' safety and health, which is being pursued through voluntary programmes and institutional reforms.

101. "Consistent" poverty is defined as having less than 50-60% of average household income *and* experiencing enforced basic deprivation — as highlighted by the presence of at least one in 8 indicators, such as having recourse to debt to meet ordinary living expenses.

Luxembourg. The Luxembourg Strategy for Sustainable Development (*Plan National pour un Développement Durable*), approved by Government in 1997, identifies the priority fields of action for promoting a performing and sustainable economy, protecting the natural and human environment and natural resources, and favouring socio-economic equity. In the social field, the Strategy specifies goals for reducing poverty, increasing employment, assuring adequate housing for low-income households, promoting gender equity, increasing equity among different pension schemes, and improving health outcomes. To achieve these goals, the authorities foresee measures to reform the pension system and shift its financing towards taxation, to introduce earnings disregards in social benefits, to create regional agencies responsible for fighting poverty and exclusion, to implement the National Action Plan on employment, to improve provision of health services and health prevention measures.

Mexico. No national strategy for sustainable development has yet been adopted by the Federal Government of Mexico. However, a more limited program (*Programa para promover el desarrollo sustentable en el Gobierno Federal*) was prepared in 2002 by the Ministry of Environment to co-ordinate the initiatives of 14 federal agencies active in the environmental field. A broad strategy to address the social problems confronting Mexico is detailed in *Contigo*, adopted in 2002 by the Federal Government. This strategy aims to co-ordinate all existing social programmes, to increase the coherence of different interventions and to provide a long-term horizon to government actions in this field. Main priorities are: *i*) supporting individuals' skills and capabilities, through access to quality education, health and nutritional services; *ii*) generating opportunities for the self-sufficiency of individuals, through employment and greater access to credit; *iii*) helping individuals to achieve adequate levels of asset holdings, through measures in the field of housing, property rights, and savings; and *iv*) providing social protection to all individuals against risks, through social protection, private and collective insurance. *Contigo* foresees different programmes according to the life-stage of individuals. These include programmes providing nutritional help to pregnant women (*Diconsa* and *Liconsa*); granting monetary and in-kind transfers to families whose children attend compulsory education (*Oportunidades*); establishing individual funds for students that complete tertiary education; providing access to credit to finance productive (*Opciones productivas*) and housing investment; granting health and education services for elderly people; and providing monetary transfers to poor elderly persons who participate to community activities (*Hábitat*).

Netherlands. The Dutch Strategy for Sustainable Development (as described in *Ten Years after: Implementing Sustainability in Netherlands since 1992*) is structured along four main dimensions: *i*) social and economic dimensions; *ii*) conservation and management of resources; *iii*) strengthening the role of major groups; and *iv*) means of implementation. The main social issues identified in the report are poverty, the conditions of specific demographic groups (such as women, children, youths and ethnic minorities), and the role of stakeholders (such as farmers, NGOs, workers, trade unions, business and industry). The social issues of the Strategy are strictly linked to the "seven pledges" of the UN Millennium Development Declaration (with specific emphasis on securing adequate access to food, water, shelter, education, work, security and protection of the fundamental human rights).

New Zealand. The Sustainable Development Strategy of New Zealand (*Sustainable Development in New Zealand*, published in August 2002) identifies three areas of intervention: *i*) "Social Sustainable Development"; *ii*) "Sustainable Economy"; and *iii*) "Sustainable Natural Resources". In the social area special attention is paid to demographic trends, the new roles of women in society, the development of children and youths, and the need for improvement of health and housing policies. For each of these challenges, emphasis is given to better integrating Maori communities, which are among the groups at greater risks of exclusion. The strategy emphasizes the role of voluntary groups and communities, trade unions and business associations in the implementation of measures to achieve sustainable development both domestically and globally.

Norway. The Norwegian *National Strategy for Sustainable Development*, published in 2002, reviews the main social, environmental and economic problems facing Norway and the diverse set of policy interventions (plans, agreements and official decisions) established to deal with them. This strategy identifies three main priorities that will confront Norway over the next few decades: *i*) greater focus on knowledge, through higher education standards, development of flexible learning systems and life-long learning; *ii*) increasing the capacity to create economic value without affecting the natural environment; and *iii*) improving quality of life in the context of a healthy environment. The *National Strategy* also emphasises the role of Norway in the world community, by committing national and local authorities to strengthen international co-operation; the greater importance of the voluntary sector; and Norway's commitment to sharing values and resources with EU neighbours and developing countries.

Portugal. The Portuguese National Strategy for Sustainable Development (*Estratégia Nacional de Desenvolvimento Sustentável*), adopted by government in June 2002, is structured along four broad strategic areas: *i*) a balanced development of the territory; *ii*) improvement of environmental quality; *iii*) sustainable production and consumption; and *iv*) further progress towards a society of solidarity and knowledge. In the latter area, the Strategy details four “guidelines” for interventions aimed at: *i*) “reinforcing the abilities and competitiveness of the Portuguese population”, through measures to strengthen general education and “citizen” components of curricula, promote training, reinforce scientific and technical culture, and strengthen the use of Information and Communication Technologies; *ii*) “taking responsibility as regards sustainable development”, through greater access to information, participation in decision-making and access to justice, and modernisation of the Public Administration; *iii*) “systematic assessment and monitoring of progress”, through a system of sustainable development indicators; and *iv*) enhance “Portugal’s responsibility within a wide-ranging context”, through measures to reinforce co-operation actions, in particular with Portuguese speaking countries, and to move towards the target of devoting 0.7% of GDP to Official Development Aid.

Slovak Republic. The *National Strategy of Sustainable Development* of the Slovak Republic, establishes a broad set of measures to build a society based on the principles of sustainable development. The Strategy identifies ten long-term priorities for sustainable development in the Slovak Republic (which include “social solidarity and social protection”, and “high quality of human and social resources”) and enumerates 28 “strategic objectives” to be achieved through the Strategy. Several of these “strategic objectives” (and corresponding measures) pertain to the social field. These include: *i*) building a modern and quality education system, and supporting science and research; *ii*) securing the development of peripheral regions; *iii*) achieving a balanced demographic structure through effective population programmes; *iv*) improving the health status of the population; *v*) alleviating social disparities through comprehensive reforms of social protection and employment policies; *vi*) increasing support for disadvantaged groups, such as the elderly, youths, and women; *vii*) achieving full integration of the Roman minority; and *viii*) minimizing the occurrence of socio-pathological phenomena such as crime, use of drugs, racial intolerance and child abuse. The government resolution that approved the Strategy in 2001 stipulates that relevant ministries (including the Ministry of Labour and Social Affairs, and the Ministry of Education) should incorporate the goals of sustainable development into their sectoral plans.

Spain. A draft of the Spanish Strategy for Sustainable Development (*Estrategia Española de Desarrollo Sostenible*), currently available for consultation with stakeholders, aims at balancing progress in the domains of “social progress” (with a focus on quality of life and poverty eradication), “rational use of natural resources”, and “economic development”. To this end, the strategy details measures in seven areas: *i*) economic growth, employment and competitiveness; *ii*) management of natural resources and conservation of biodiversity; *iii*) education, research and technological innovation; *iv*) social and territorial cohesion; *v*) climate change and air pollution; *vi*) sustainable tourism; and *vii*) waste management. With respect to “social and territorial cohesion”, the strategy details goals, measures and indicators for achieving a more balanced demographic structure, through support to families and immigration policies; for reducing

poverty and exclusion, through labour market, training and educational measures; for increasing gender equity; for addressing regional imbalances; and for limiting health risks by extending quality and coverage of the health system.

Sweden. The Swedish *National Strategy for Sustainable Development* describes the overall government's objectives in relation to sustainable development. The Strategy brings together the social, cultural, economic and environmental priorities that are involved by a shift towards more sustainable patterns of economic growth. It includes recommendations pertaining to each of the three dimensions of sustainability (ecological, social and economic) and covers all the relevant areas of policy making. Interventions in each of these areas are based on existing policies, interacting and coordinating with international strategies, and building on the linkages and synergies between various policy areas. The Strategy aims to raise awareness in society in the areas of the fight against poverty, sustainable consumption and production, population and public health, social cohesion, welfare and security, employment and learning, regional and community development.

Switzerland. The revised Swiss Federal Constitution, approved in 1999, elevates sustainable development to the status of a national objective. A new comprehensive strategy on sustainable development was approved by Federal Government in March 2002 (*Sustainable Development Strategy 2002*) to replace the one adopted in 1997. Measures are grouped under ten action areas: economic policy and public services; financial policy; education, research and technology; social cohesion; health; environment and natural resources; spatial and settlement development; mobility; development co-operation and the promotion of peace; methods and instruments. In the area of social cohesion, the Strategy enumerates a range of measures recently introduced to assure social security to all individuals, as well as new measures to counter shifts in poverty risks among social groups, with a focus on avoiding poverty among children. Measures in this respect include the introduction of a federal system of family allowances, and extension of supplementary child care.

United Kingdom. The UK Strategy for Sustainable Development (*A Better Quality for All*), adopted by Government in 1999, identifies four objectives that should be met both domestically and globally: *i*) maintenance of high and stable levels of economic growth and employment; *ii*) social progress which recognises the needs of everyone; *iii*) effective protection of the environment; *iv*) prudent use of natural resources. Social considerations feature prominently in the first two goals. "Maintenance of high and stable levels of economic growth and employment" stresses the importance of adhering to long-term fiscal rules (for investment and debt), of developing skills and of rewarding work. "Social progress which recognises the needs of everyone" encompasses actions to strengthen regional and local economies, to improve local surroundings, to meet people's social needs (in terms of health, housing, transport and culture), to reduce crime and fears of crime, to tackle poverty and social exclusion, and to increase public involvement.

ANNEX III. INDICATORS OF THE SUSTAINABILITY OF SOCIAL PROTECTION SYSTEM ACROSS THE INDIVIDUALS' LIFE-COURSE: DEFINITIONS AND DATA SOURCES

152. This Annex describes the data sources for the indicators of sustainability used in the main text to assess the performance of the social protection system of OECD countries in meeting a range of needs of individuals across the different phases of their life-cycle. For most of the indicators presented, data refer to the most recent observation, and to changes over a ten year period. Most of these indicators are derived from the OECD set of social indicators, as published in various issues of "Society at a Glance", and from other OECD publications.

153. Consistently with the approach followed by the Ad Hoc Group on Sustainable Development for agreeing on a set of indicators to use in the OECD peer review process, focus is on identifying indicators informative about the "performance" of OECD countries at each of the various stages of individuals' life-cycle, rather than on the "policy settings" in place. The Secretariat will work in the coming weeks to update many of these indicators, and to identify alternative sources to provide more up-to-date estimates.

Table 1. Supporting child development

1.1. Mortality among children. Number of deaths among children under one year of age, per 1 000 live births. Changes for Korea, are measured since 1970. Source: OECD (2001), *Society at a Glance*, Paris.

1.2. Low birth-weight as a proportion of all live births. New-born children with weight below 2500 g, as a proportion of all live births. Source: OECD (2002), *Society at a Glance*, Paris.

1.3. Relative poverty among children. Children aged less than 18 living in households with (equivalent) disposable income less than 50% of the median. Most recent data refer to 1992 for Switzerland; 1993 for Austria and Italy; 1994 for Australia, Denmark, France, Germany, Greece, Ireland, Japan, Mexico, Turkey; 1995 for Belgium, Canada, Finland, the Netherlands, Norway, Sweden, the United Kingdom and the United States; 1997 for Hungary. Source: M. Förster (2000), "Trends and Driving Forces in Income Distribution and Poverty in the OECD Area", OECD Labour Market and Social Policy Occasional Papers, No. 42, Paris.

1.4. Percentage of children living in lone parent households. Children aged less than 18 living in households with only one adult of working age, as a percentage of all children. Unpublished tabulations from the OECD questionnaire on income distribution. Years are the same used for indicator 1.3.

1.5. Percentage of children living in households where no one works. Children aged less than 18 living in households where no adult work, as a percentage of all children. Unpublished tabulations from the OECD questionnaire on income distribution. Most recent data refer to the same year used for indicator 1.3.

1.6. Proportion of children who use day-care facilities. The data for children below the age of 3 refer all children using "paid" day-care facilities, either formal or informal. For children from the age of 3 to the mandatory enrolment in schools, data refer to children using formal institutions providing early childhood education and care (ECEC), such as early-childhood centres, residential care, and services provided by accredited childminders. Source: OECD (2001), *Society at a Glance*, Paris.

Table 2. Improving quality and equity in education

2.1. Proportion of youths that have not completed compulsory schooling. Youths aged 20 to 24 who in 2001 had educational attainment at levels 0 and 1 of the UNESCO International Standard Classification of

Education 'revised' version (ISCED-1997). Ten years changes are proxied by looking at changes in this proportion between those aged 20-24 and those 30-34 in 2001 (this assumes that the latter group has not participated to further education courses ageing leading to higher attainment since they left school one decade earlier). "Unknowns" has been removed from the distribution. Source: OECD databases.

2.2. *Under-achievement in reading among students aged 15.* Data are based on the Programme for International Student Assessment (PISA), a standardised assessment of more than a quarter of a million 15-year-old students conducted in 2000 in 32 participating countries. Underachievement is measured by the proportion of students who performed at level 0 and 1 on the reading proficiency scale. Students reaching level 1 are those that are only capable of conducting the most elementary types of reading on the assessment form. Source: OECD (2002), *Education at a Glance*, Paris

2.3. *Inequality in reading achievement among students aged 15.* The measure of inequality in reading achievement by literacy score of students is defined as the ratio between the (average) score of students in the lowest quartile of the reading scale to the score of those in the upper quartile. Inequality in the reading of students by the socio-economic status of parents is the ratio between the score of students belonging to families whose professional status put them in the lowest quartile to the score of students belonging to families in the highest quartile. PISA's index of the "socio-economic index of professional status" is based on the professional status of parents, which are converted to a continued variables based on the income of the different occupations. Source: OECD (2002), *Education at a Glance*, Paris.

2.4. *Proportion of youths without upper secondary education.* Youths aged 20 to 24 who in 2001 had educational attainment at level 2 and below of the International Standard Classification of Education, 'revised' version (UNESCO ISCED-1997). Ten years changes refer to changes in this proportion between those aged 20-24 and those 30-34 in 2001 (this assumes that the latter group has not participated to further education courses ageing leading to higher attainment since they left school one decade earlier). The category "unknown" has been removed from the distribution. Source: OECD databases.

2.5. *Under-achievement among youths with upper-secondary attainment.* Data are based on the International Adult Literacy Survey (IALS) conducted over the 1994-98 period in 23 participating countries. They refer to the percentage of persons aged 16 to 25 with upper secondary education who scored at literacy levels 1 or 2 on the document scale. According to experts, this represent a level of performance below the minimum level of competence needed to cope adequately with the complex demands of everyday life. Source: OECD (2001), *Education Policy Analysis*, Paris.

2.6. *Proportion of youths that completed tertiary education.* Youth aged 25 to 29 who in 2001 had educational attainment at level 5-6 of the International Standard Classification of Education 'revised' version (UNESCO ISCED-1997). Ten years changes refer to changes in this proportion between those aged 25-29 and those 35-39 in 2001 (this assumes that the latter group has not participated to further education courses ageing leading to higher attainment since they left school one decade earlier). The category "unknown" has been removed from the distribution. Source: OECD databases.

Table 3. Easing the transition from school to work

3.1. *Non-employment to population rates among young adults not in education.* Labour Force Survey data for persons aged 20 to 24, in 2000. Source: OECD (2002), *Employment Outlook*, Paris.

3.2. *Unemployment rate.* Labour Force Survey data for persons aged 15 to 19 (teenagers) and 20 to 24 (young adults). Data refer to the year 2001 for "All Youths", and to the year 2000 for "Non-Students". Source: All Youths data in OECD (2002), OECD (2002), *Annual Labour Force Statistics, Part III*, for "All Youths"; OECD (2002), *Employment Outlook 2002*, for "Non-Students".

3.3. *Long-term unemployment rate among young adults.* Persons aged 20 to 24 who have been unemployed for 12 months or more, as a percentage of all active persons in the same age group. Source: OECD (2002), *Annual Labour Force Statistics, Part III*, Paris.

3.4. *Relative labour market disadvantage of young adults with less than upper secondary education.* Ratio between the share of youths aged 20 to 24 with less than upper secondary education in total unemployment, to the share of the same group in total employment. Data refer to 1996 (1997 for New Zealand). Source: OECD (2000), *From initial education to working life*, Paris.

3.5. *Youth not in education, training or employment.* Percentage of teenagers (15-19) and young adults (20-24) neither in school nor in labour force, in the year 1999. Source: OECD Education Database.

3.6. *Youths still living with their parents in 1997.* Youths aged 20-24 and 25-29 living with their parents, as a proportion of all youths of the same age. Source: OECD (1999), *Preparing Youth for the 21st Century: The Transition from Education to the Labour Market*, Paris.

Table 4. Strengthening adaptability during working life

4.1. *Employment to population ratio.* Labour force survey data for the population aged 25 to 54. They refer to 2001 and 1991. Source: OECD (2002), *Annual Labour Force Statistics, Part III*, Paris.

4.2. *Unemployment rates.* Labour force survey data for the population aged 25 to 54. Long-term unemployment refers to spells of 12 months or more. Data are for 2001 and 1991. Source: OECD (2002), *Annual Labour Force Statistics, Part III*, Paris.

4.3. *Literacy under-achievement among the adult population.* Data based on the International Adult Literacy Survey (IALS). They refer to the percentage of active persons aged 25 to 65 who scored at literacy levels 1 or 2 on the document scale. Sources and explanations as for indicator 2.5.

4.4. *Participation in long-life learning.* These data refer to the proportion of all economically active persons aged 25 to 64 who indicated having participated to education and training courses over the previous year. They are based on the International Adult Literacy Survey, and refer to years between 1994 and 1998. The IALS definition of education and training include "any training and education courses, private lessons, correspondence courses, workshops, on-the-job training, arts, crafts, recreation courses or any other training or education". Source: OECD (2002), *Education at a Glance*, Paris.

4.5. *Incidence of low pay among working age population.* This indicator is defined as the proportion of full-time employees who earn less than two-thirds of median earnings for all full-time employees. The data are based on earnings and other surveys, as collected in the OECD structure of earnings database, and refers to years in the mid- to late 1990s. Source: OECD (2001), *Society at a Glance*, Paris.

4.6. *Poverty rate among working households.* Percentage of individuals living in households with one or more persons working, with incomes below 50% of median adjusted disposable income of the entire population. Years of different surveys as indicated for A1.3. Source: M. Förster (2000).

4.7. *Frequency of work related accidents.* Number of reported work-related fatal accidents per 100 000 workers (per 100 workers in the case of non-fatal accidents). Data refer to 2000. Source: ILO.

Table 5. Avoiding marginalisation among individuals of working age

5.1. *Poverty rate among population of working age.* Proportion of the working age population with (equivalent) income below 50% of the median. Years as for indicator 1.3. Source: M. Förster (2000).

5.2. *Degree of persistence of poverty.* This is expressed as the ratio of permanent-income poverty over the 1993-95 period, to the average headcount poverty rate over the same period. Permanent-income poverty is a measure of the extent to which poverty is persistent or recurrent. It is expressed as the percentage of the sample for which the sum of (equivalent) income over the three years falls below the sum of the poverty thresholds in the same years. Data are based on ECHP for EU countries; on SLID for Canada; and on PSID for the United States. Source: OECD (2001). "When Money is Tight: Poverty Dynamics in OECD Countries", *Employment Outlook*, Paris.

5.3. *Effectiveness of taxes and transfers in reducing poverty.* Difference between poverty rates before and after direct taxes and public transfers, as a proportion of the before tax and transfers poverty rate. Data refers to the population aged 18 to 64. Years those used for indicator 5.1. Source: M. Förster (2000).

5.4. *Jobless households.* Households (with at least one person aged 15 to 64) where no one is in employment (part-time or full-time), as a proportion of all households with at least one person aged 15 to 64. Data, based on labour force surveys, refer to 2001. Source: OECD (2002), *Society at a glance*, Paris.

5.5. *Inactivity rate among persons of working age.* Individuals aged 15-64 who are not in the labour force. The data, based on labour force surveys, refer to 2001 and 1991. Source: OECD (2002), *Annual Labour Force Statistics, Part III*, Paris.

5.6. *Employment among the working age population with disabilities.* Individuals who report themselves as being affected by disabilities and with a job, as a proportion of all the population aged 20 to 64 with disabilities. The data are derived from general population surveys, and refer to the late 1990s. Source: OECD (2002), *Society at a glance*, Paris.

Table 6. Assuring the sustainability of retirement income systems

6.1. *Relative disposable income of the elderly.* Ratio of the disposable income of people aged 65 and above to that of people 16 to 64. Data refer to the mid-1990s and mid-1980s and are based on the OECD questionnaire on the distribution of household income. Source: OECD (2002), *Society at a Glance*, Paris.

6.2. *Poverty rates among the elderly.* Percentage of persons aged 65 and above with (equivalent) income below 50% of median disposable income of the entire population. Data refer to persons aged 65 and above. Years are those reported for indicator 1.3. Source: M. Förster (2000).

6.3. *Age of withdrawal from the labour force.* Median age at which people completely withdraw from the labour force. The data, which are based on labour force surveys, refer to 1999. Source: OECD (2001), *Ageing and Income*, Paris.

6.4. *Labour force participation rate of older workers.* Labour force survey data for people aged 55-64, and 65 and over, in 2001. Source: OECD (2002), *Annual Labour Force Statistics, Part III*, Paris.

6.5. *Old-age pension spending as percentage of GDP.* Public spending as a per cent of GDP and changes in percentage points. Projections of pension spending generally peak in 2050, except for Japan (2015); Italy and the United Kingdom (2030); the United States, Denmark, Sweden, Austria, and France (2035); the Netherlands, Norway and Belgium (2040). Source: OECD (2001), "Fiscal implications of ageing: projections of age-related spending", Economics Department Working Paper No. 305, Paris.

6.6. *Private Pension funds.* Total assets, as a percentage of GDP, in 1999. Source: OECD (2001), "Fiscal implications of ageing: projections of age-related spending", OECD Economics Department Working Paper No. 305, Paris.

Table 7. Addressing needs for care in old-age

7.1. *Life expectancy at age 65.* Average number of years that a person could expect to live from age 65 if he or she experienced the age-specific mortality prevalent in a country in a particular year. It does not include the effect of any future decline in age-specific mortality rates. Data refer to 1998 and 1990. Source: OECD (2001), *Society at a Glance*, Paris.

7.2. *Health-adjusted life expectancy at age 60.* This indicator summarises the number of years to be lived in what might be termed as "full health". These data are calculated by weighting the years of ill-health according to severity, and subtracting them from overall life expectancy to give the equivalent years of healthy life. Measurement issues are related to the reliability and comparability of these estimates. Source: WHO (2002), *World Health Report*, Annex Tables, Geneva.

7.3. *Changes in life expectancy without disability for persons 65.* Disability-free life expectancy refers to the average number of years that an individual at age 65 can expect to live free of disability if current patterns of mortality and disability continue to apply. These survey-based estimates, collected through the international network REVES, are subject to measurement problems related to cross-national differences in the definition of disability. Because of this, the data are shown as "percentage point changes per year". Years differ among countries. Source: OECD (2001), *Society at a Glance*, Paris.

7.4. *Proportion of the elderly living in institutions.* Share of the population aged 65 and over in institutions. Institutions cover a range of settings varying with the intensity of medical services provided. Measurement problems are related to differences across countries in statistical sources and in the distinction between homes and institutions. Source: OECD (2001), *Society at a Glance*, Paris.

7.5. *Proportion of elderly living alone.* Most data refer to 1996, as published in OECD (2001), *Society at a Glance*, Paris. For a few countries, data have been updated by the Secretariat based on national sources, in the context of the ongoing OECD project on long-term care for the frail elderly.

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