

# Balancing Security

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The difficulties faced by systems of social protection today – the increased numbers of elderly people, family instability, high and persistent unemployment – are often contrasted with the ‘golden era’ of the three decades after the Second World War. Social policies, it is argued, were designed for a period when there was full employment, when families were stable, and where the most pressing social concern was to ensure that elderly people could benefit from the fruits of economic growth by using taxes to transfer income to them from the working-age population.

Yet the ‘golden era’ was not recognised as such by its contemporaries. In the 1950s, conservatives criticised the welfare state for its inflationary effects. Ten years later the left attacked it for its inadequate egalitarian achievements. The pendulum swung once again to the right in the 1970s with backlash movements against high taxes and the adverse effects on the work ethic. Now, as Table 1 suggests, the crisis is derived from population aging, the decline of the nuclear family as a social unit and high and persistent unemployment. Not only is the pendulum in constant motion; the malaise seems always different. It sometimes seems that the welfare state has always been in crisis.

It is widely claimed, though, that the current crisis is deeper and more damaging than previous difficulties. The truth of that assertion depends on what is meant by ‘the welfare state’. State pension systems may well be unsustainable,<sup>2</sup> but that is only part of the story. Welfare states, as a post-war construct, meant something more than the mere sum of social programmes. The ideal, when launched in the 1940s, was for nation-building and social integration in the face of totalitarian menace.<sup>3</sup> Full employment and redistribution and, more generally, the dismantling of class, ethnic or regional division, were seen as fundamental prerequisites for stable liberal democracy.

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*Today's labour-market, social, macro-economic and demographic realities look starkly different from those prevailing when the welfare state was constructed.<sup>1</sup>*

Judged by those objectives, the post-war welfare state was a success. To the extent that social security became more comprehensive, more people found jobs, and the capacity of the labour market and the family were harnessed to assure social welfare. The architects of the modern welfare state, such as Lord Beveridge in Britain or Gustav Möller in Sweden, were adamant that work and family, and not the state, should constitute the principal foundation of social welfare. The role of social insurance was to allow families to use part of the revenues gained through work to share risks, so that the typical life-cycle would no longer be interspersed with long periods in poverty.

The early history of the welfare state coincided with rapid growth and the near-elimination of unemployment, leading many observers to conclude that social insurance is viable only when economies are healthy. Per capita economic growth has continued steadily over the past quarter-century, and has been faster in the European region than in North America, where unemployment has remained lower. Although the structure of employment has changed extensively, the proportion of the working-age population in employment has not altered dramatically, in spite of the social developments – early retirement, increases in initial schooling – which might have been expected to reduce it. Female participation in the labour force has risen almost everywhere. There has, of course, been a shift to part-time employment: working time as well as employment itself has been re-arranged amongst the population. Labour

markets in OECD countries show every sign of having successfully capitalised on the talents of the most educated and highly skilled parts of their populations. But this very process has ‘selected out’ other groups, not least those with low skills, leaving the welfare state in difficulty.

The uniqueness of the current crisis is that it springs from simultaneous changes in both the family and labour market (the very foundations of the welfare state upon which Beveridge and his contemporaries relied), compounded by the effects of population aging. Although employment rates in general have not fallen, job opportunities for young and low-skilled people are limited. To some extent, in response to these pressures, marriage and childbirth are being deferred, while divorce (combined with births outside wedlock) increases the number of single-parent families who are particularly at risk of poverty. These changes in labour markets and family formation threaten the equilibrium of welfare states whose social programmes were based on a wholly different risk-profile. Population aging asserts long-term pressure and intensifies demand, while the financial means to address either are diminishing.

## The New ‘Social Risks’

The welfare state has been relatively successful to date in providing income security for those already established in the labour force, both during their working life and after retirement. Becoming unemployed, sick, disabled or widowed are not seen as problems with which individuals (and their families) should cope on their own: because they are held to be social phenomena, government has taken some

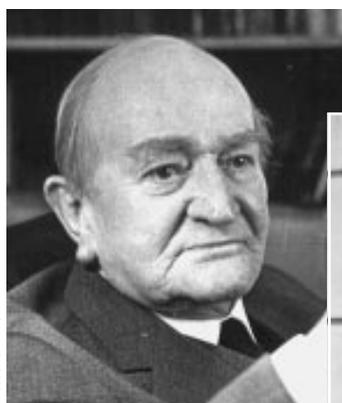
1. *Beyond 2000: The New Social Policy Agenda*. OECD Publications, Paris, forthcoming 1997.

2. See pp. 10–14.

3. These objectives were important factors in the earlier ‘New Deal’ of President Roosevelt in the United States.

# and Sustainability in Social Policy

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Gustav Möller and Lord Beveridge, founders of the modern welfare state: how would they have reacted to its latest crisis – caused this time by unemployment, the decline of the family as a social unit, and population aging?

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responsibility for dealing with their consequences.

New social risks threaten people who fail to become established in careers. Long-term and youth unemployment are social problems to the extent that the individuals and families affected are not considered to be solely responsible for their condition. But the traditional response of the welfare state – income support – is clearly inadequate in meeting individual and social requirements. Lengthy spells of unemployment or low-paid and often insecure jobs result not only in low incomes or, worse, trap people in unemployment but also increase the stress on families and reduce incomes which can be expected in retirement.

The main risk that families now face is that their children will not be able to establish themselves in careers. The transition from school to work can be difficult and many countries are failing young people in this most crucial part of their lives. Perhaps as a result, the average age at which women have their first child has risen, and fertility rates have fallen sharply, permitting parents

to pour more resources into the education of each child in a bid to ensure that he or she has the educational attainment necessary for a successful entry into working life.

Indeed, traditional social-insurance arrangements are powerless against the risk of failing to get established in the labour market or being excluded from reasonably paid jobs for extended periods. They are predicated on the assumption that each generation will make its own way into working life, will establish careers and, through income transfers, will support those who have retired or who are temporarily without work.

An alternative to insurance-based policies is to target help on people with low incomes. This

approach guarantees coverage for people not integrated into the labour force, but it raises its own problems. For example, the differential between earnings in a low-wage job and basic income-support payments can be low, with the result that the financial gains from working are hardly large enough to justify the loss of benefits.

Growth in the proportion of the population in receipt of income support also saps public confidence, with recipients increasingly suspected of abuse, of making fraudulent claims or of making insufficient efforts to find work to support themselves and their families. And where recipients of such support are regionally concentrated, severe political pressures can result, as reflected in recent strains in regional policy in Belgium, Canada and Italy, where perceived imbalance between those paying for social welfare and those receiving it has exacerbated separatist sentiments. When benefits are concentrated on a particular group or geographical area, or recipients feel that they have to manipulate the system in order to make ends meet, the 'legitimacy' of the entire system can be thrown into jeopardy. It is therefore very important that social-protection systems be administered fairly but firmly: lax administration can undermine the very existence of the system itself.

## Radical Reform – or Wait and See?

In the face of these trends policy has often been influenced by the argument that high and persistent unemployment is the result of economic disequilibria. In this view, it is labour markets which are at fault, and there is nothing fundamentally wrong with current systems of social protection as such. Limited reforms – such as reducing the reliance on employers' social-security contributions (which increase the cost of labour and may harm job creation) and ensuring that the scale and duration of benefits are limited (so

Table 1  
Welfare States in Crisis, 1950s–90s

1950s	1960s	1970s	1990s
Too much state	Too little equality	Government overload	Family values decay
Inflation		Stagflation	Aging
		Unemployment	Globalisation Unemployment

Source: OECD

# Balancing Security and Sustainability in Social Policy

## FOCUS

### Directions for Reform

A new approach to social protection will have a stronger emphasis on interventions earlier in life and more preventive (and less remedial) measures. The goal would be to re-define equity and security in terms of barriers towards life-course flexibility, and to avoid definitions which suggest that the goal of social policy is to provide protection against flexibility. For example, existing pension schemes can penalise those who leave their employers to enter new careers. Income support is often structured so as to leave individuals with little financial incentive to work, and those who are working with few returns to increased effort.

Employment opportunities are likely increasingly to favour people who show flexibility, whether through being from a household with other earners (so that short-term fluctuations in income are supportable) or because of their own adaptability. Income-support arrangements should therefore be structured to encourage those in receipt of support to be flexible and to take risks in finding new opportunities. Guaranteeing some degree of income support over the medium term may encourage individuals to take 'risky' jobs, or give them sufficient resources to support their families while they invest in new skills. The twelve-month period used when determining eligibility for family payment in Australia and the six-month period for Family Credit in the United Kingdom are examples of such provisions.

There is likely to be, for the foreseeable future, an excess potential supply of labour, and it makes no sense to insist that people requiring income support should confine their

main activity to looking for work. Other activities attracting income support should nonetheless be based on improving employment prospects: training, community work and unpaid trial employment, for example. A number of countries (Australia and the Nordic lands) have modified the 'work test' for unemployment benefit recipients to an enlarged 'activity'.

The principle of capitalisation of income security, which has been advocated as a very long-term solution to financing security of income in old age, might be more immediately applied to income support during working life. Those receiving income support (apart from the supplements payable for children and other dependents) could be expected to repay a given part of their receipts when and if their income is above a certain floor. Arrangements for providing income support to students of higher education in several countries (Australia and the United Kingdom, for instance) already have some of these features.

Active 'case-management' procedures should be developed. Rather than carefully controlling entitlements to income support on the basis of past contributions, the emphasis for working-age people should be on ensuring that income support (whether or not on a 'capitalised' basis) is linked to activities which are likely to lead to re-entry into employment.

Caring for others, including children and elderly or infirm relatives, should be recognised as 'active' participation and, where necessary, supported in its own right.

increasing the incentive to work) – are therefore desirable. Such measures apart, the only possible role for social policy, the reasoning continues, is to paper over the cracks in the social fabric and wait for the crisis to blow over.

Perhaps, instead, it is time to see current trends in labour markets as the basis on which social policy should be built, rather than as the scape-

goat for its failures. That requires reform of social policy – not least in how it affords protection against distress – in ways which will enhance economic growth without increasing disparity in access to its fruits. The most promising directions for reform involve moving away from income transfers as the main means of providing for distress, to measures which improve the social

and labour-market circumstances of the genuinely poor. Prototypes of such policies already exist in many countries (box, left).

Much discussion treats reform of systems of social protection as being synonymous with reductions in public expenditure. The short-run budgetary costs of the measures proposed in the box are unlikely to be less than those of the transfer payments they are intended to supersede. Indeed, they could easily be higher. In view of the primacy given to fiscal retrenchment as a policy objective in most OECD countries, can they afford reforms of the sort suggested?

Three observations are pertinent in answering this question. First, commentators often assume, somewhat naively, that the degree of social protection available in a given country can be measured by the amount which its government spends on social policy. In truth, spending is a poor indicator. Differences in the volume of social-protection expenditures across countries appear much larger than they actually are. Countries with apparently low social spending often do not tax income transfers, mandate employers to provide social benefits (pensions and sick payments, for example) or encourage private provision through tax subsidies. Table 2 illustrates how important these factors can be. Social-protection expenditures in Denmark, Germany and the Netherlands are not twice as high as a proportion of GDP as those in the United States: fully half of the apparent difference can be ascribed to alternative institutional arrangements. If private spending on health is included, the remaining difference is almost eliminated.

Furthermore, cutting government expenditure will increase the pressure on individual households to provide for themselves. In Sweden, for example, taxes paid by households are 37% of private household expenditure, compared with only 10% in the United States. But expenditures on private health, education, day-care and pensions are equivalent to almost 30% of consumer expenditure in the United States, compared with

4. Gösta Esping-Anderson, 'Welfare States at the End of the Century: The Impact of Labour Market, Family and Demographic Change', in *Beyond 2000: The New Social Policy Agenda*

5. See pp. 10–14.



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Divorce and births outside marriage are forcing up the number of one-parent families – which are particularly vulnerable to poverty.

an equivalent figure of just over 4% in Sweden.<sup>4</sup> Cutting public social expenditure will not necessarily lead to a reduction in the total resources which an economy devotes to 'social' ends – though it will alter the distribution of those resources across the population.

Second, most social expenditure is on pensions and health care, the two areas where political resistance to scaling back the role of

the state is most intense and where changes inevitably have to be phased in over time. Perhaps the biggest achievement of the welfare state has been to almost eliminate poverty amongst the elderly in many countries. But whereas a large proportion of the elderly rely on public provision for most or all of their income, there are increasing signs of over-provision of public support for others. There is a strong case for reviewing the balance of provision of income support to the elderly<sup>5</sup> and refocusing expenditure on younger generations where social problems are growing in importance.

The third reason for seriously considering pre-emptive, preventative policies, despite their cost, is that the alternative is so unattractive. Failure to prevent long-term exclusion from the labour market leaves OECD societies with the options either of continued high costs of paying income-support to a significant proportion of the population for prolonged periods, or of sharply

reducing these payments, with possibly adverse consequences for social cohesion and transmission of disadvantage across generations.



One characteristic which successful economies of the future will have is that they will be inclusive, effectively exploiting the capacities of all individuals. Social expenditure must move towards underwriting social investment, helping recipients to get (re-)established in the labour market and society, instead of merely ensuring that failure to do so does not result in destitution. If social expenditure remains predominantly income support for the inactive, it will fail both society and the individuals it is purporting to help. ■



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Table 2  
**Social Expenditure, 1993**  
% of GDP

	Denmark	Germany	Netherlands	Sweden	United Kingdom	United States
Gross direct social expenditure	30.5	28.7	30.6	38.3	23.4	15.0
Net current publicly mandated social expenditure	23.1	24.9	22.4	29.6	21.5	16.1
Non-public health expenditure	1.2	2.5	2.0	1.3	1.1	7.7

Source: OECD