Society at a Glance 2014
OECD Social Indicators

Executive summary

More than five years on from the financial crisis, high rates of joblessness and income losses are worsening social conditions in many OECD countries. The capacity of governments to meet these challenges is constrained by fiscal consolidation. However, cuts in social spending risk adding to the hardship of the most vulnerable groups and could create problems for the future. OECD countries can effectively meet these challenges only with policies that are well designed and backed by adequate resources. Having been spared the worst impacts of the crisis, major emerging economies face different challenges. However, the experience of OECD countries is relevant for emerging economies as they continue to build and "crisis-proof" their social protection systems.

The financial crisis has fuelled a social crisis

The financial upheaval of 2007-08 created not just an economic and fiscal crisis but also a social crisis. Countries that experienced the deepest and longest downturns are seeing profound knock-on effects on people's job prospects, incomes and living arrangements. Some 48 million people in OECD countries are looking for a job – 15 million more than in September 2007 – and millions more are in financial distress. The numbers living in households without any income from work have doubled in Greece, Ireland and Spain. Low-income groups have been hit hardest as have young people and families with children.

Social consequences could linger for years

With households under pressure and budgets for social support under scrutiny, more and more people report dissatisfaction with their lives, and trust in governments has tumbled. There are also signs that the crisis will cast long shadows on people's future well-being. Indeed, some of the social consequences of the crisis, in areas like family formation, fertility and health, will be felt only in the long term. Fertility rates have dropped further since the start of the crisis, deepening the demographic and fiscal challenges of ageing. Families have also cut back on essential spending, including on food, compromising their current and future well-being. It is still too early to quantify the longer-term effects on people's health, but unemployment and economic difficulties are known to contribute to a range of health problems, including mental illness.

Invest today to avoid rising costs tomorrow

Short-term savings may translate into much higher costs in the future, and governments should make funding of investment-type programmes a priority. Today's cuts in health spending need to avoid triggering rising health care needs tomorrow. Especially hard-hit countries should ensure access to quality services for children and prevent labour market exclusion of school leavers.

Vulnerable groups need support now

To be effective, however, social investments need to be embedded in adequate support for the poorest. Maintaining and strengthening support for the most vulnerable groups must remain a crucial part of any strategy for an economic and social recovery. Governments need to time and design any fiscal consolidation measures accordingly, as the distributional impact of such measures can vary greatly: for example, the poor may suffer more from spending cuts than from tax increases.

Room for cuts in unemployment spending is limited

Weak job markets provide little room for cuts in spending on unemployment benefits, social assistance and active labour market programmes. Where savings can be made, they should be achieved in line with the pace of recovery. Targeted safety-net benefits, in particular, are a priority in countries where such support does not exist, is difficult to access, or where the long-term unemployed are exhausting their unemployment support. Across-the-board cuts in social transfers, such as housing and child/family benefits, should be avoided, as these transfers frequently provide vital support to poor working families and lone parents.

Targeting can deliver savings while protecting the vulnerable

More effective targeting can generate substantial savings while protecting vulnerable groups. Health care reforms, in particular, should prioritise protecting the most vulnerable. However, fine-tuning of targeting is necessary, in order to avoid creating perverse incentives that deter people from finding work. For instance, unemployed people who are about to start a job may suffer losses or may gain very little as they switch from benefits to earning a salary.

Support families' efforts to cope with adversity

There is a strong case for designing government support in ways that harness and complement – rather than replace – households' own capacities to cope with adversity. In this light, it is especially important to provide effective employment support, even if this means higher spending on active social policies in the short term. Labour market activation and in-work support should be maintained at reasonable levels. Where there are large numbers of households without work, policy efforts need to focus on ensuring they benefit quickly once labour market conditions improve. For instance, to be as effective as possible, work-related support and incentives should not be restricted to individual job seekers but should be made available to non-working partners as well.

Governments need to plan for the next crisis

To "crisis-proof" social policies and to maintain effective support throughout the economic cycle, governments must look beyond the recent downturn. First, they need to find ways to build up savings during upswings to ensure they can meet rising costs during downturns. On the spending side, they should link support more to labour market conditions – for example, by credibly reducing benefit spending during the recovery, and by shifting resources from benefits to active labour market policies. On the revenue side, they should work to broaden tax bases, reduce their reliance on labour taxes and adjust tax systems to account for rising income inequality. Second, governments need to continue the structural reforms of social protection systems begun before the crisis. Indeed, the crisis has accelerated the need for these. In the area of pensions, for example, some future retirees risk greater income insecurity as a result of long periods of joblessness during working age. In health care, structural measures that strip out unnecessary services and score efficiency gains are preferable to untargeted cuts that limit health care access for the most vulnerable.

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