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No. 248 March 2005

Spotlight on social policy

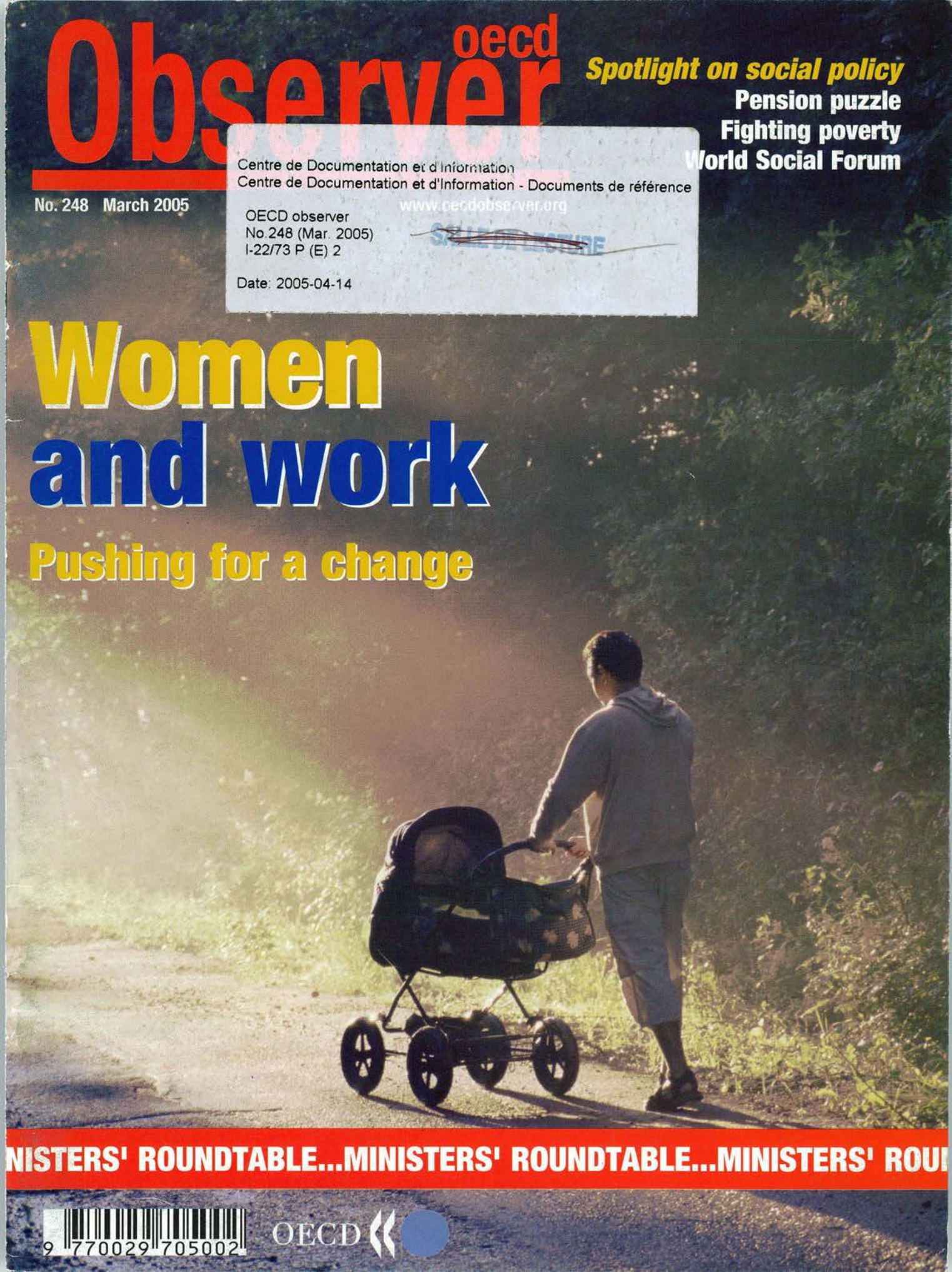
Pension puzzle

Fighting poverty

World Social Forum

Women and work

Pushing for a change



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FORUM 2005

Fuelling the Future

SECURITY, STABILITY, DEVELOPMENT

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Sensible partnership

Secretary-General Donald J. Johnston rightly identifies lack of coherence as a factor impeding the effectiveness of international development strategies ("Giving development a chance", *OECD Observer* No 245, November 2004). But there are, I think, some early signs that useful lessons are now being learned.

From an effectively balkanised situation, with so many of the key players–IFIs, WTO, EU, donor countries and NGOs doing splendid work but essentially ploughing their own furrows–there are (not before time) indications of progress towards a more integrated approach. Donors are working in harness with each other and with recipients, to complementary rather than competing agendas.

The recently published report of the Commission for Africa is an impressive example of a new resolution to consider development strategies in the round. In its 460-odd pages, improved governance takes its place alongside preventive security strategies, the dismantling of trade barriers, action on health, education and exclusion, measures for encouraging investment and entrepreneurship, substantial increases in aid targeted on poverty reduction and last but not least more efficient implementation by the IFIs and Africa's own multinational institutions. Addressing Donald Johnston's point about the flight of skilled professionals from Africa, the Commission recommends that donors should work closely with African governments to fund salary enhancement programmes for particular priority skills which are difficult to recruit or retain.

Meanwhile, EU Trade Commissioner Peter Mandelson, while beating the drum for more trade liberalisation in the WTO's Doha Development Round, is pressing the case for capacity-building in the poorer countries if they are to have a real chance of joining in the world trade system.

What all these "holistic" approaches have in common is a new willingness to build genuine across-the-board partnerships between donors and the developing countries, coupled with practical "bottom-up" initiatives–not out of political correctness, but because collaborative approaches are more likely to deliver the goods.

Let's hope that we can now move quickly from shared analyses and agreed approaches to real plans of action–beginning at the G8 Summit in the UK in July, and at the UN's special summit in September 2005 to review progress towards the Millennium Development Goals.

Maurice Fraser
Fellow in European Politics
London School of Economics

Voting by numbers

You are right that many people would not question the value of data, not least OECD governments (Counting on numbers, No 245, November 2004). One in particular (not our own) has recently been reminding everyone that over the last decade their economy has grown at twice the rate of most competitors, and that living standards are also rising fast. And all this while ordinary people who care little for such numbers still encounter the long waiting lists for healthcare, overcrowded transport networks, pollution and impossibly expensive housing, especially for first-time buyers. Yes, there have been great bounds economically, and yes, prosperity has improved the lot of many. So, why should these other real-life measures of well-being be taken seriously when the statistics say everything's looking up? Well, the answer is simple. Statistics do not vote. People do.

Charlotte Pourley
Brussels, Belgium

On the cover

Pushing for a change
Women and work

OECD Observer
Photo:
©BrandXPictures/Getty Images

Social policies need to fit new realities. They must help individuals overcome barriers to work, particularly women. If both fathers and mothers were to take time off to look after young children, there would be far less conflict between work and family needs.

Making social policy work

Donald J. Johnston, Secretary-General of the OECD

The OECD is once again hosting a meeting of social policy ministers. The last meeting took place seven years ago. Then, priorities and challenges were identified that needed to be addressed urgently in OECD countries. Many of these issues are still on the agenda today.

But this does not mean that little has happened in the years since. On the contrary, we have seen much progress everywhere. Let me just cite three examples: pensioner poverty has been all but eradicated in most countries; many OECD countries have embraced an employment-oriented approach to social policy; and policies to help men and women reconcile the demands of work and family life are being introduced in more and more countries.

This approach fits nicely with what I call the triangular paradigm of progress, anchored in one corner by economic growth, in the other by social cohesion or social stability, with good governance anchoring the third. That is where social policy is found, in support of the equilibrium of the triangle. Growth without a transfer of its benefits through appropriate social policy to society as a whole will ensure neither sustained economic nor social progress. And jobs are the most effective and productive mechanism to ensure that the benefits of economic growth are widely shared. That is why embracing an employment-oriented approach to social policy is so critical. After all, in a knowledge-based society, human capital is the most important contributor to growth.

We have made progress in the field of social policy, but we should not be complacent. Too many children continue to be exposed to poverty. Too many people in their prime age are excluded from employment, with little chance of ever working again. Too many women still find it impossible to combine work and family obligations, and end up foregoing good careers. And too many older persons spend the last years of their lives in isolation and dependency. Traditional social policy measures have not been able to solve these problems. It is time to change our approach. We need new solutions to old problems. And we need to find them urgently, before ageing and the pressure it is putting on government budgets further restrict manoeuvring space.

Moreover, I was disturbed to read the following in an article in *New Scientist:* "The rich are getting richer while the poor remain poor…ponder these numbers from the US…In 1979, the top 1%...earned on average 33.1 times as much as the lowest 20%. In 2000, this multiplier had grown to 88.5%. If inequality is growing in the US, what does this mean for other countries?"

There may be many reasons for this trend, but surely a more active social policy could help arrest it. "Old" social policy was based on a series of assumptions: the different stages in an individual's life, such as childhood, study, work and retirement, were thought to be clearly marked and separated. Gender roles within families were clearer–women stayed at home with the children and men went to work, generally to full-time jobs. Nuclear families stayed together–divorce and separation were rare.

The world has changed. In most OECD countries, reality is different. Life patterns are more flexible as people switch between work, education and retirement. More and more women are earning their own income and sometimes they are the main breadwinners in the household. Children are less and less likely to spend their entire childhood living with both their biological parents. Couples separate and form families with new partners, or decide to stay single. The previously "atypical" career–one that is interrupted or unstable–is now becoming more typical.

Social policies need to adjust to these new arrangements and the stresses they bring if they are to be effective. Helping people is insufficient on its own. Good social policies must aim to prevent rather than cure distress. That means tackling the economic and social conditions in which people live. The new, active approach to social policy has two goals, with two different time frames. On the one hand, we must spend now to meet today's needs, and on the other, we must start investing now to pre-empt future social distress.

Four principles form the core of the OECD's active social policy agenda: first, social policies have to give children the best possible start in life; second, social policies have to help individuals overcome barriers to work; third, social policies must help reconcile work and family life; and finally, social policies have to become less age-dependent.

There is a variety of policy initiatives to be explored within each of these principles. Through the 2005 social policy ministerial and beyond, we must work hard with governments and stakeholders to produce some fresh, innovative approaches that can help us translate economic success into further social progress. Our economies depend on it. ■

• News brief •

Growth warning

Mind the gap


©OECD/Herve Bacquier
Mr Cotis

After two lecades of strong conomic growth n the US and elatively weaker erformances in nost other DECD countries, he gap in conomic rosperity has widened dramatically, ccording to the OECD's chief conomist, Jean-Philippe Cotis.

Speaking at the launch of a new report ighlighting structural impediments to rowth, Mr Cotis described narrowing he gap with top performers as one of he biggest challenges facing many DECD countries today. "Economic atching up, which was widely believed o be automatic, started to stall during he 1980s and degenerated into relative lecline during the 1990s," Mr Cotis aid at a news briefing. "Today, GDP per apita in France, Germany or Italy is 0% below US levels and, at current rends, this gap will increase during the ext few years."

he report, *Economic Policy Reforms: Going for Growth*, is the first in a series ntended to identify policy priorities for nhanced economic growth in each of he OECD's 30 member countries. It raws on benchmark indicators in espect of a range of areas shown by DECD analysis to be crucial for conomic prosperity, ranging from abour costs and educational attainment o the administrative conditions ffecting business start-ups and foreign irect investment. ■

or more, see
ww.oecd.org/eco/EconomicPolicyReforms2005.

GDP stabilises–

Growth was stable in the fourth quarter of 2004, with GDP in the OECD area rising by 0.6% in real terms, the same rate as in the previous three-month period. To judge by preliminary estimates, this means the quarterly growth rate has slowed in the three last quarters of 2004, to over half the rate of growth recorded in preceding quarters.

Among the G7 countries, quarterly GDP growth in the fourth quarter of 2004 varied from -0.3% in Italy to 0.9% in the US. There was growth in Canada, France, the UK and the US, but falls in Germany, Italy, and particularly in Japan, where the three last quarters brought slight falls, of 0.2% in the second, 0.3% in the third and 0.1% in the fourth. The euro area recorded weak growth of 0.2% in the third and fourth quarters of 2004, following four quarters of growth ranging between 0.4% and 0.7%.

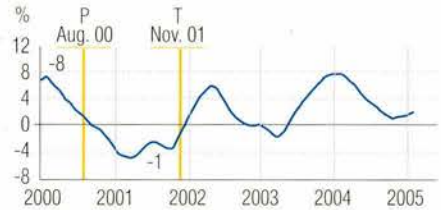
The US had the highest annual growth rate among the G7 countries with 3.9%, while Germany had the lowest with 0.6%. In most G7 countries, the annual growth rate was less than in the previous quarter. France bucked the trend though; its annual growth accelerated from 2.0% in the third quarter to 2.2% in the fourth. ■

–with weaker growth ahead?

Latest leading indicators still point to weakening expansion, according to figures out for January 2005. The OECD composite leading indicator, which is designed to provide early signals of trends in economic activity, pointed to improvements in the US, but a weakening performance for the euro area and the UK.

Mixed trend

Composite leading indicators,



Early signals of the CLI for turning points (P: peak, T: trough) in the reference series, e.g. a peak for October 1997 was predicted by the CLI, 3 months in advance (i.e. -3).

Source: OECD

Leading indicators for the OECD area rose by 0.3 point in January. Its six-month rate of change was up for the third month in a row, following nine months of decline. In the US, leading indicators were up by 0.6 point, with its six-month rate of change rising for the third month in a row after having fallen for ten consecutive months.

By contrast, the euro area's leading indicators fell in January by 0.2 point, while its six-month rate of change has continued to fall since December 2003.

The leading indicators for the UK, France, and Italy decreased in January and their six-month rate of change was down for several months in a row. In January, the OECD indicator for Japan was stable and its six-month rate of change was slightly down, having increased for the previous three months. ■

• News brief •

Jobless rate eases

The jobless rate for the OECD area fell to 6.6% in January 2005, from 6.7% in December and 7% a year earlier. In the euro area, the standardised unemployment rate eased down from 8.9% in January 2004 to 8.8% in January 2005. In Canada, the UK and Italy, the jobless rate, although unchanged from the previous month, declined respectively from 7.3% in January 2004 to 7% a year later, from 4.9% in November 2004 to 4.6% and from 8.4% in September 2004 to 7.8%. The US jobless rate also fell from 5.6% in February 2004 to 5.4% a year later, although it edged up on the previous month. Similarly, in Japan, unemployment fell from 5% in January 2004 to 4.5% in January 2005, while it increased from the previous month. In Germany, joblessness was slightly up, at 9.6% in January 2005. In France, the unemployment rate remained at 9.7%. ■

Inflation falls

The OECD consumer price index rose by 2.5% in the twelve months to January 2005, down from 2.8% year-on-year in December. This fall is due to slower energy price rises, which decreased to 8% year-on-year in January compared with 10.9% in December 2004 and 12.6% in November. On the other hand, excluding food and energy, the year-on-year increase in consumer prices for the OECD area was nearly unchanged at 2.0% in January 2005, compared with 2.1% during the previous month.

Over the twelve months to January 2005, consumer price growth slowed down to 1.9% in the euro area, 3.2% in the UK, 3% in the US, 2% in Canada, 1.9% in Italy and 1.6% in France and Germany. ■

Forum countdown

How to unlock the world's energy potential? How can international outsourcing be best managed? Which way for Europe? How to improve security and make poverty history? These are just some of the main questions that will be discussed at next month's OECD Forum/Ministerial events in Paris. Over 1,000 participants from government, business and civil society are expected at the public Forum. Sweden's prime minister, Göran Persson, who will chair the OECD ministerial council on 3-4 May, will also be the lead guest. Energy discussions in conjunction with the International Energy Agency (IEA) ministerial will also feature. For more on the programme, speakers, sponsors and registration, see www.oecd.org/forum2005. ■

Plus ça change…

"Almost every modern language has a word for "latchkey" children–those who are left on their own after school. How to provide care for such children, what to do when a school-age child is suddenly taken sick or when a baby-sitter does not appear–such problems are not necessarily peculiar to women who work, but do affect this group of jobholders with particular force."

From "In job and family: Measures to help women fulfil a dual role", *OECD Observer*, No. 16, June 1965.

oecd Observer

Wage costs alert

The difference between workers' take-home pay and what it costs to employ them–the so-called tax wedge on earnings–rose in more than half of the OECD's 30 member countries in 200 More countries showed increases than decreases in the share of wage costs taken by tax and social security contributions, net of child allowances and other benefits, according to the latest edition of the annual report, *Taxing Wages*.

Some 18 countries showed an increas in the tax wedge for a single person earning the average wage of a production-line employee during 200 while 11 countries showed a reductio One, Portugal, was unchanged. For a one-earner married couple with two children earning the full average wage 17 countries took a higher tax wedge and 12 had a lower wedge, with only Korea unchanged.

The variations in most cases amounted to only a fraction of a percentage point, but the effect on a OECD-wide basis was an increase in tax wedges of between one-tenth an three-tenths of a percentage point, depending on category. The small overall increase, which follows a recent trend of reductions in tax wedges on earnings, was the result o a range of factors, in particular buoyant wage growth pushing employees into higher tax brackets, phenomenon known as fiscal drag. The figures should serve as a remind of the dampening effect taxation cou have on incentives for individuals to work and for employers to provide jobs, *Taxing Wages* warns. ■

For data, see www.oecd.org/dataoecd/33/59/34548231.pd and order *Taxing Wages 2003/2004* at www.oecdbookshop.org.

Spotlight • Social policy • Spotlight

Time to change

Towards an active social policy agenda

John Martin, Director, and **Mark Pearson**, OECD Employment, Labour and Social Affairs Directorate

Much social progress has been made in recent decades. But there are several serious problems that stubbornly remain on the agenda.

Too many children still risk being poor and too many people are excluded from work. Older people are better off in most countries than they were in the past, but many still spend their later years in isolation and dependency. Traditional social policies cannot solve these problems. Action is needed urgently before population ageing complicates reforms further.

For generations, social policy consisted of protecting people against a few, well-defined risks, such as short-term unemployment, disability during working years, and poverty in old age. It was based on simple assumptions about life experiences. The various stages in an individual's life were clearly mapped out, such as work and study, or maternity and retirement. Families were closely knit, and gender and career roles were well defined. This simple scenario no longer holds. The life-course is more varied and people of all ages switch between jobs or combine different activities. The male breadwinner model is becoming obsolete. Careers may be interrupted not just by spells of unemployment, but by education, caring for the elderly or child rearing, and too often are ended prematurely by disability or involuntary early retirement. People separate and form new households with other partners, while children may spend more time with different parents or in childcare when very young.

Social policies need to fit these new realities. Helping people in distress is not enough. Good social policies must aim to attack the causes, by changing the economic and social conditions in which people live and work. This is what is meant when we talk of *active* social policies, which countries need in order to open up opportunities for a fulfilling life, rather than restricting themselves to policies which try to make poverty slightly less awful than it otherwise would be. Societies have to spend now to support those in need, but they also have to invest now, to reduce social breakdown in the future. Pursuing both objectives is not a tall order, given the vast resources already committed to meeting other economic and social challenges, such as education, healthcare and pensions. There are four areas of policy effort which form the core of today's active social policy agenda.

The first concerns **children**: governments must do everything possible to ensure they get the best possible start in life. Children are not only vulnerable in their own right, but many lifelong social problems have their root causes in childhood. Hungry kids do not perform well at school, and a poor education can become a burden for life. Yet, childhood poverty is all too common in the OECD. Over 12% of children live in households with less than 50% of median

household income, and this percentage has been increasing. Ending childhood poverty is clearly one priority, but that is only part of the story. High levels of child benefits can reduce child poverty but they can be counterproductive if they discourage parents from working. It is not a secret: child poverty tends to be lowest in those countries where female employment activity is high and family support systems are most developed. But for this to happen, women have to be able to work. This in turn requires adequate and affordable childcare.

The second front is to devise policies to help individuals **overcome barriers to work**. Mothers out of the workforce face barriers to getting a job, but they are not alone in this. All those out of work need to have access to jobs if economic and social progress is to be reconciled. Research shows that few jobless people are unwilling to work. Rather, they may be ill, or have to care for children or elderly relatives. Some may wish to work but feel discouraged by low take-home wages. They may have once held down good jobs, but after redundancy, now lack confidence, or the necessary skills to get back to work. Others may simply not know how to go about looking for work. Isolation, alienation and exclusion: all become barriers which they need help to overcome. As the *OECD Jobs Strategy* showed, a wide range of policies, in education, labour, tax and employment, can play a role in this.

Social policies, too, must aim to increase employment if they are to serve the best interests of the most vulnerable in society. We know much more now than we did just a few years ago about what works in getting people back into employment. Public bureaucracies need reforming and to be given incentives, so that they understand that their objective is to help people, not administer programmes. Job-readiness and training schemes are needed, and tax and benefit systems must be reformed so that work pays. If government and society gets their act together in offering effective help, it is reasonable to require those needing support to take advantage of the opportunities newly opened to them. Where countries have followed this active approach to tackling exclusion from the labour market, results have been good–sometimes spectacularly so.

Third, social policies must help **reconcile work and family life**. Birth rates are low in many OECD countries, with women having on average just 1.3 children. Over the course of four generations, 100 years, such a low level of fertility would reduce the population to one quarter of its current size. Even the more common fertility rates of 1.7 or 1.8 children per woman could lead to enormous social and economic costs on society.

Public bureaucracies need reforming and to be given incentives, so that they understand that their objective is to help people, not administer programmes.

There are two issues here. On the one hand, any parent has to feel that childcare is adequate and affordable before deciding to go out to work. On the other hand, women in many countries say that they would have more children if there were fewer obstacles in their way. In short, policies that minimise any conflict between career and family pay a double dividend in terms of higher employment and perhaps higher birth rates, which would help relieve the impending burdens of growing dependency rates.

The final dimension in the active social agenda is to **reorient policies away from an excessive emphasis on pensions**. That people are living longer is a fantastic achievement of modern society, but we have to make sure that the benefits are shared fairly across the generations. Financial transfers for pensions and other age-related benefits are rising with ageing societies, but they are now so high that social investments in the needs of younger generations risk being crowded out. Simply reducing the level of public pensions is difficult: people approaching retirement are owed an income, and breaking the pension promise would undermine trust in government and the implicit social contract which helps bond our societies together. And draconian cuts could result in a resurgence of old-age poverty.

Still, the pressure has to be relieved, especially as health and long-term care expenditures are projected to increase substantially over the coming decades. What can be done? Ensuring that some of the increase in lifespan is spent in work rather than retirement would boost contributions to pension systems and reduce expenditures. But raising the retirement age from the very low rates found in some countries (it is under 60 for men in six OECD countries) is not a simple reform to implement. It can be costly and slow going, as some countries have found out.

Perhaps the most telling way of illustrating the need for this active social policy agenda is to play the "what if" game. If we continue the old policies and do not adopt the active social policy agenda, then we know what will happen–a continuation of the trends from the mid-1970s onwards. Earnings will become more unequally distributed; labour market and social isolation will increase; and fertility rates will remain low, leading to declines in the working-age population, excessive payments to finance an ageing population and economic stagnation. This is not an attractive scenario.

There is no reason for it to come to pass. The evidence is there to show that active social policies can make a real difference to people's lives. And we must not forget that in doing so, active social policies not only help the poorest and most disadvantaged in society. More, and more-productive workers mean healthier economies, and everyone gains from that. Active social policies can benefit us all. ■

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Babies and bosses

Willem Adema, OECD Employment, Labour and Social Affairs Directorate

©David Rooney

Are work and family life compatible? Balancing jobs and family life is a challenge throughout the OECD area, and more effort is needed to make this easier for parents that want to work. Governments can help.

All too often parents find it impossible to balance commitments to family and employers. Little wonder it is becoming more common to start a family later, have fewer children or have no children at all. Some parents may choose to stop working even permanently, despite the fact that they would like to have jobs, because of time constraints, no access to affordable childcare or difficulties in resuming their careers after childbirth.

Reconciling work and family life is important to individuals and societies. Parents who wish to care for their children by giving up work should have their choice respected. Often, however, parents see no way of giving their children the care and attention they need other than by staying at home. Yet children whose parents are not in paid work are more likely to be poor, while mothers who have interrupted their careers to care for their children are at higher risk of poverty when they are older.

But pursuing a career often leads to postponement of childbirth and declining fertility rates. In Switzerland, for example, where combining a career and motherhood is difficult, 40% of university-educated women are still childless at age 40. The ability to generate income in a fulfilling job and the desire to provide the best for one's children, giving them the care and nurturing they need,

do not have to be mutually exclusive. Policies can help parents find the right balance.

Reducing barriers

More women participate in the workforce today than ever before. But differences between men and women in employment opportunities and wages are still considerable. Women who work are more likely to have part-time or lower-level jobs and they often get paid less than men, too.

Poverty has a marked negative effect on child development. Maternal employment is crucial to fighting poverty and ensuring child well-being: children in two-parent families where only one parent has paid work are almost three times more likely to be poor than those in families where both parents are employed. Single parents face particularly severe difficulties in reconciling work and care commitments, being both breadwinner and main carer. As the risk of children growing up in poverty is three times as high in jobless single-parent families, it is important that policy is developed that gives single parents a realistic chance of combining work and care commitments.

Population dynamics point to another reason why female employment is important. The declining number of children, and the ageing of OECD populations more generally, have serious implications for the future shape of societies, and threaten the financial sustainability of social protection systems. As labour supply decreases, living standards and public finances are at risk, and increasing female labour force participation can help resolve this challenge.

It is up to the parents themselves to decide whether one or both parents in a couple should be in paid work, but in reality, governments influence the decisions that parents make.

Many (potential) parents wish to work and have (more) children: information from surveys suggests that the number of children desired by young people is on average 0.5 children per woman above observed fertility levels. So what is stopping people from having children? Probably not work itself; the number of parents in paid work is growing, and nowadays the countries with higher rates of female employment also tend to have the highest fertility rates. Countries with policies that facilitate regular female employment, such as by offering public support for childcare, flexible working hours and tax/benefit systems that ensure that work pays, are also those countries with the highest fertility rates.

Choice

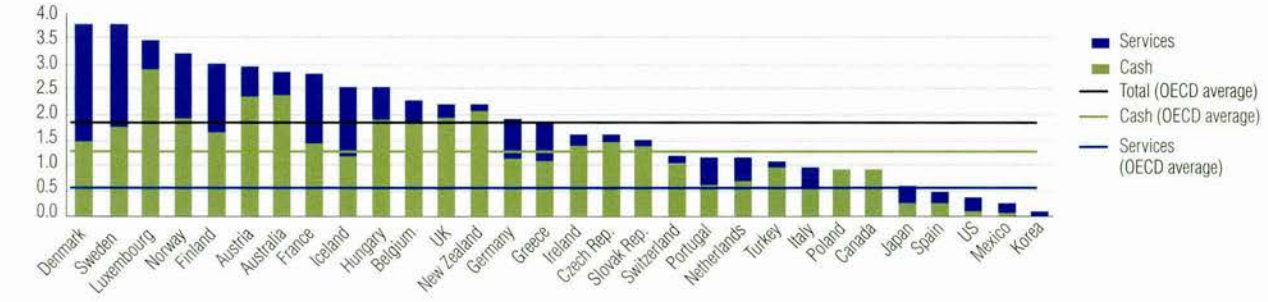
It is up to the parents themselves to decide whether one or both parents in a couple should be in paid work and who should take care of the children. In reality, governments influence the decisions that parents make. Take **tax and benefit** systems. These can discourage mothers from engaging in paid work, or working more hours. For example, a system that taxes the income of the family unit will tax the second earner, often the mother, at the same rate as the father, even though her earnings are usually lower. By taxing earners individually, second earners would face a lower rate and have more financial incentives to work.

Some tax/benefit systems involve long periods of paid leave for parents–up to 3 years or more in Austria, Finland, France and Germany. Income support during leave periods, even when payment rates are well below previous earnings, makes it easier for parents who wish to look after their children themselves. However, excessively long periods without paid work can damage employment and career prospects.

Weak financial incentives to work in the tax/benefit systems of Australia, Ireland, New Zealand and the UK contribute to only around 50% of single parents working. Improving the financial returns to work, by introducing in-work benefits as childcare support for working parents, has helped to reduce joblessness among sole parents in the UK. Nevertheless, sole-

Family business

Public spending devoted to families in cash and services, % of GDP, 2001



Source: OECD

parent employment rates are 15 to 20 percentage points below those in most OECD countries, and this is related to the fact that benefit receipt for sole parents with children below secondary-school age is not conditional on seeking a job.

To reduce long-term benefit dependency and poverty among such families, governments should provide childcare support and introduce make-work-pay policies together with employment support through counselling, training, work-experience placements, etc., for these clients who have been away from the world of paid work for a long time and who frequently need to regain self-confidence and upgrade skills. To take advantage of such a support system, mothers and fathers on income support should be required to use the opportunities open to them, for their own benefit, as well as that of their children.

Public childcare counts

Greater access to formal childcare facilities, subsidised by public authorities, can help those parents who wish to engage in paid work to do so. Childcare costs can be very high. In the US, where parents' fees constitute 76% of childcare financing, low-income families can devote a quarter or more of their family income to childcare. By contrast, for families in Sweden, fees cover 11% of childcare costs on average, with low-income families often paying very low fees, or none at all.

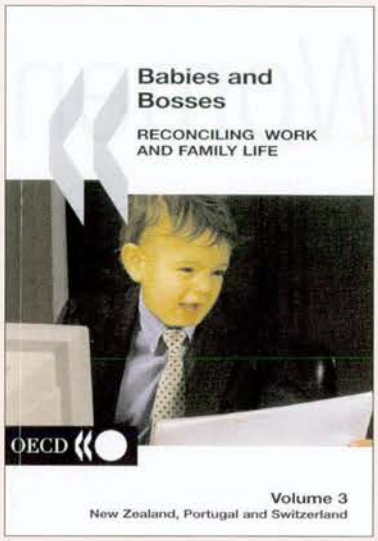
In many countries, good childcare provisions already exist, but these are not always affordable and may not suit working hours. Some countries have little choice but to consider significant increases in financial support to assist with childcare costs. Many others need to better integrate childcare provisions and pre-school education. Babies and toddlers are not the only concern, of course, and for older children, adequate care out of school hours and during holidays is also essential if parents are to hold down full-time jobs. In other words, childcare support should satisfy parental preferences for type and hours of care, with effective quality standards imposed and monitored across all types of formal childcare.

Family-friendly workplaces

In a growing number of countries, such as the Netherlands, policy allows employees to change working hours or, as in Sweden, entitles parents with children of pre-school age to reduce them. Workers in the UK can ask their employers for more flexible working hours. Generally, it is mothers who take advantage of such measures because on average they earn less than their partners, so that household income suffers least if women reduce working hours. Attitudes and culture are also important since many employers (and colleagues) may look dimly on fathers who take parental leave after childbirth.

Firms play a crucial role in helping to reconcile work and family life. They can provide more part-time opportunities, for example, which many parents and firms find useful. Other family-friendly workplace practices also include continued wage payments during maternity leave, flexible working hours, term-time leave, and leave to care for sick children. Such practices are common in the public sector and among large firms with a significant female workforce, and are more commonly associated with highly educated and high-skilled workers, whom firms wish to retain because of the costs of job-matching. They are less likely to apply to women in less skilled occupations.

Even if family-friendly working practices can reduce absenteeism and increase employee commitment, or raise performance, not all employers are convinced that the costs of introducing such measures outweigh the benefits. Beyond part-time work, the business case for providing other family-friendly arrangements is generally unclear, and flexible working practices are not all that widespread. In most countries, governments are content to continue encouraging enterprises to embrace family-friendly workplace practices. Future labour supply concerns may convince more employers of the merits of family-friendly workplaces, but widespread changes are unlikely without government legislation.



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The role of **fathers** is key, too. If both fathers and mothers were to take time off to look after young children, there would be far less conflict between work and child development considerations. In an increasing number of OECD countries, fathers can take paternity leave (ranging from a few days to a few weeks) and/or are eligible to share parental leave with mothers, as policy is trying to get more fathers engaged in providing personal care for their children. However, in practice, fathers rarely take off six months to care for a child on a full-time basis. Men's hours of work actually tend to increase after becoming fathers. Even among dual-earner couples, women spend more time on both housework and childcare than their partners, and many feel pushed into a home-making role, whether they wish it or not. Gender inequality in care-giving within families remains widespread. ■

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- See www.oecd.org/els/social/familyfriendly.
- For further information on the OECD's work on family-friendly policies, please contact Willem Adema at: willem.adema@oecd.org.

Women and work
Resolving the riddle

Florence Jaumotte, OECD Economics Department

There are many economic barriers in OECD labour markets that women have to face. Trying to overcome them is a job governments can help them with. The conundrum is which ones to tackle first.

A survey carried out in EU countries in 1998, which examined the work preferences of couples with small children, found that only one in ten couples supported the traditional male-only breadwinner model. There were a few exceptions. Yet, despite this finding, the survey also found that four out of ten couples depended on one breadwinner, usually with the man going to work.

This finding adds a key dimension to the debate about improving access to employment for women: not only might it help raise income levels and employment performance, as many economists claim, but it is what most women actually seem to want. So, although more women go to work today than 20 years ago in the OECD area, much more could be done to raise activity.

The question is how? Women across the developed world want to go out to work, but some countries do better than others at enabling them to do so. Some 80% of women aged 25-54 go to work in the Nordic countries and in some east European countries. But participation rates languish at around 65% in Ireland, Japan and Luxembourg.

The trouble is finding a common strand or an ideal policy model to follow, since countries with high female employment participation offer quite different explanations. Childcare appears important in all of them, but the question is who provides it and who pays? Sweden, for instance, is renowned for its generous family welfare, unlike the US, where welfare is more private. Yet, both countries have a high female labour participation rate. Meanwhile, Swedish women, like their US counterparts, tend to work full-time, but in Norway, part-time work is more normal. Married women in Scandinavian countries have plenty in common, though. They tend to have generous subsidies for childcare, as well as sizeable child benefits, and generous paid parental leave. These advantages also apply to some extent in Austria and France, where full-time female participation is also prevalent.

This is not to say that encouraging part-time opportunities is not an effective policy. In fact, our research covering 17 countries over the period 1985-1999 shows that an increase in the availability of part-time work opportunities does indeed raise female participation. It can also offer young mothers in full-time employment a period of respite, for instance, reducing their incentive to leave the workforce altogether if under pressure at home. So, even if the effect of childcare subsidies and parental leave is most striking for full-time work, childcare remains potentially important for all working mothers. In Japan and Australia, part-time work and a lower level of support for families with young children go hand in hand and participation tends to be a little lower as a result.

In other words, a high female participation rate can be achieved in different ways, though total hours worked may vary, depending on the emphasis on part-time work. This will clearly affect income levels.

The fact is that preferences for part-time and full-time work differ much across countries. The aforementioned EU survey of couples with young children found that part-time participation is the most preferred working arrangement in Germany, Ireland, the Netherlands and the UK, while full-time participation is preferred in Finland, Sweden, Belgium and France.

Family support can be too generous, though paid parental leave that keeps women out of the labour market for extended periods of time can end up reducing participation rates, as skills are lost and career paths and earnings interrupted. Our analysis suggests that any increase in paid parental leave beyond 20 weeks has a

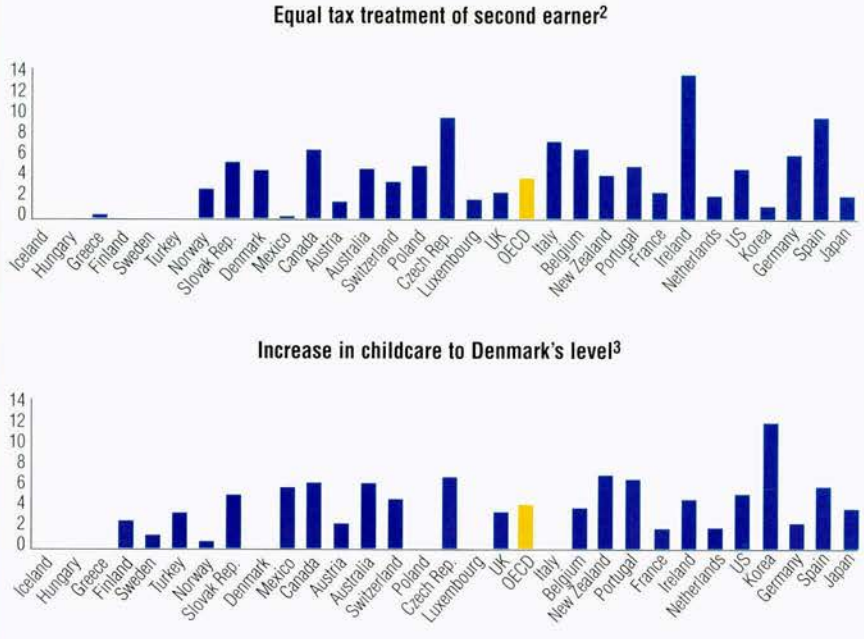
negative effect on women's labour force participation. Also, child benefits, for the maintenance and care of children, appear to discourage particularly those women who would have worked part-time from joining the labour force, simply because they replace household income. They may be justified on grounds of equity, to reduce poverty, for instance, but if the goal is to encourage more female employment activity, then policies should probably aim to tilt the balance in favour of subsidising childcare, rather than staying at home. The policy mix really depends on what governments seek to achieve: higher labour participation, higher income levels, poverty reduction and greater financial independence for women are all legitimate goals.

A married mother's decision to go to work is of course influenced by the tax and social security system. The tax treatment of second earners is less unfavourable compared with equivalent single earners in most Scandinavian countries, as well as in Austria, France and the UK, all of which have high participation rates. Clearly, where the tax rate of the second earner is high relative to equivalent single earners, the female participation rate will be low. This is the case in most countries. This is because when the woman goes out to work, she may lose a household allowance and, in some countries, the couple may have to give up income-based tax relief.

Childcare subsidies and tax cuts are costly. From an economic efficiency point of view, they may, however, be justified to reduce the high effective tax burden on mothers or when the wages of carers are relatively high compared with mothers' own earnings. Also, if low-income mothers find it hard to borrow money, for instance, then some help to finance childcare may be needed. Subsidies should as much as possible be conditioned on work by the mother and targeted at lower-income mothers, who are more responsive to their net wage and also more constrained for liquidity. However, conditioning and targeting have to be managed sensitively, and balanced against children's welfare and the need to reconcile work and family life.

Policies that work[1]

Simulation effects of measures on the participation rate of prime-age women in OECD countries, % change



1. The baseline participation rates are the projected female participation rates for 2025 based on cohort effects and are taken from Burniaux et al. (2003); OECD refers to the unweighted OECD average.
2. Assumes an equal tax treatment of second earners and single individuals (at 67% of an APW), as is already the case in Finland, Sweden, Hungary, Mexico, and Turkey.
3. Assumes that public childcare spending per child converges in all countries to the OECD maximum of US$8,009 observed in Denmark. No simulation could be made for Greece, Hungary, Italy, Luxembourg, and Poland due to lack of data on public childcare spending in these countries.

NB: These scenarios are constrained in that the resulting female participation rate cannot exceed the male participation rate projected for 2025 in the baseline.

Source: OECD.

From an economic efficiency point of view, childcare subsidies may be justified to reduce the high effective tax burden on mothers.

Of course, the supply of childcare is also necessary for these stimuli to be effective. The responsiveness of childcare supply can be improved by lowering service market regulations (thereby facilitating the set-up of home-based childcare arrangements), while maintaining sufficient control over the quality of childcare. Interestingly, more relaxed immigration policies have contributed to a large pool of nannies in some countries.

Certainly, if higher participation is the aim, then social spending might not have to rise as sharply as some believe, as the US and Portugal have shown. Other factors are crucial. Cultural attitudes to work and to female work in particular, education levels of women, labour market conditions, fertility: all come into play. Could it be that a strong cultural work ethic is a major common factor explaining high full-time activity rates among women in the US and Sweden? The condition of the labour market is obviously paramount, for this conditions attitudes, confidence and incentives over time, and often demands constant policy attention. If rules and practices are open to work, then participation will likely rise; or if unemployment is low, women will generally be encouraged to join the work force.

So, which policies count most? In the end, a range of different policies can make a difference, though the evidence does suggest that well-functioning labour markets that do not block access to employment and generate opportunities for career development lead to higher female participation. And family-friendly practices are fundamental. After all, policies that ignore families also ignore the needs of working women. Education is also important, not just for skills, but because it raises ambitions and independence and may also tilt preferences towards full-time rather than part-time work. Again, these factors may explain high female participation rates in countries as diverse as the US and Sweden.

But the importance of childcare should not be underestimated. One conclusion from our study is that public spending on childcare tends to increase female participation. Even where private childcare is strong, the needs of lower earners have to be taken into account. It is of course possible that over time the market will deliver more affordable private childcare, but the evidence so far suggests that for now, some government support may be needed, such as through co-financing.

In short, the policies that work best will be those that help women reconcile not just work with family life, but allow scope for personal ambition and development as well. That is what pro-active policies for women should be about. ■

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Government intervention

Affordable childcare is not just a preoccupation of social affairs ministers, but of government leaders too. Here, Britain's prime minister, Tony Blair–himself a father–addresses the 2004 Daycare Trust annual conference, "Towards Universal Childcare", in London in November 2004, where he outlined plans for affordable school-based childcare for all primary school children in England in the next six years. ■

What OECD ministers are doing

Does social policy help or hinder economic growth? Is it possible to reconcile work and family life, or must this be a tough choice that only parents should make? In this *OECD Observer* roundtable to mark the 2005 social affairs ministerial meeting under the theme, *Extending opportunities: How active social policy can benefit us all*, we have invited ministers from a cross-section of OECD countries to answer the following questions:

"What actions are you taking to improve social performance in your country? How do you reconcile these social objectives with economic goals?"

As their answers show, there is now a strong belief that good social policy is not only important in its own right, but that it promotes sustainable economic growth. There are new and innovative approaches, from the Dutch initiative to help parents deal with the stressful peak years of life to the renewed emphasis in the US on supporting strong families. There are new trends to study too, such as Sweden's rise in fertility, despite its high rate of female employment. Pension reform is a key concern in Germany, while quality childcare and building stronger family-friendly partnerships are highlighted by Australia and Korea.

Aart Jan de Geus, minister for social affairs and employment and chair of the 2005 OECD social affairs meeting, leads the replies. He is followed by Australia's minister for family and community services, **Kay Patterson**, Germany's federal minister for health and social security, **Ulla Schmidt**, Korea's **Geun Tae Kim**, minister for health and welfare and co-chair of the 2005 meeting, Sweden's minister for social affairs, **Berit Andnor**, who is also co-chairing, and from the US, **Wade F. Horn**, who is assistant secretary for children and families at the DHHS. RJC ■

Netherlands

Welfare to strengthen the economy

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Aart Jan de Geus
Minister for Social Affairs and Employment and Chair of the 2005 OECD Social Affairs Ministerial Meeting

Like many OECD countries, the Netherlands is in the middle of a debate on how to amend the welfare state. Trends such as population ageing, globalisation, technological progress and individual freedoms make it necessary to consider changes to the social welfare system that go beyond adjusting benefit rates or sharpening financial incentives. A recent policy initiative by the Dutch government merits attention. We call it the individual life-cycle savings scheme (*levensloopregeling*).

When the current welfare state was built in the 1960s, the Dutch population was young, ethnically homogeneous and living in similar types of households. Today's welfare arrangements were designed to accommodate the predominant life-cycle pattern of that time: education for the young, then working careers (for men) and running the home (for women), followed by retirement.

Dutch society has radically changed since then. The average skill level has greatly improved, women participate more fully in the labour market, and living arrangements have become more heterogeneous. As a result, individual life cycles are much more varied.

New pressures have emerged. Population ageing makes it imperative that people work later into their lives. The knowledge economy demands continuous investment in our human capital throughout our careers. Parents have to find ways to combine work with childcare. Many people are under pressure during this hectic "peak time" of life, when children, education and work lay competing claims on limited time. All too often, these tensions lead working people to withdraw from employment prematurely. This may jeopardise the sustainable financial basis for collective provision and social cohesion.

To address these tensions we introduced the individual life-cycle savings scheme. Under the scheme, workers can save out of their gross wage, and taxation is deferred until the time when the saving is drawn down. The money in the savings account can be used for various forms of unpaid leave, such as caring for children or ill parents, schooling, a sabbatical or, indeed, early retirement. The maximum amount that can be saved is 210% of the latest annual gross wage.

The new scheme allows workers to strike a better balance between their time and income needs during the different phases of their lives. This reduces the risk of unwanted withdrawals from the labour market, particularly by working mothers, and unnecessary absenteeism because of illness or disability. The upshot should be a more responsive welfare state that strengthens the economy, too.

This new life-cycle approach to social policymaking has great potential to create a welfare state that supports efficiency and equity, now and in the future. I look forward to ideas and suggestions from governments and stakeholders on how to develop this approach further. ■

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Australia

Building a virtuous circle

Kay Patterson
Minister for Family and Community Services

The Australian government is seeking to develop a social coalition of families, communities, non-government organisations, business and government to help build and support strong, resilient families. The government's role is twofold–it pursues policies for a strong economy, and social policies to support individuals, families and communities to fulfil their aspirations and deal with difficulties.

Australia's recent strong economic performance and budget surpluses mean we have the ability to give back to families a higher social dividend in the form of better funded and better quality healthcare, education and family assistance.

Australia is well placed to meet the challenges of its ageing society. Its retirement income system is built around compulsory savings through employer contributions to superannuation, voluntary superannuation contributions (supported by generous taxation concessions, and by government co-contributions for low earners) and other private savings. This is underpinned by a publicly-funded, means-tested Age Pension for those in need.

We are committed to developing policies that help parents balance their work and family responsibilities. We have committed to introducing a Family Impact Statement, whereby ministers take account of the impacts of new proposals on families. We are responding to relationship breakdowns by supporting families with programmes that help couples learn a range of skills to assist them to work through difficult times.

Our National Agenda for Early Childhood provides a framework to improve the integration of support services in areas such as health, early learning and care, and creating child-friendly communities. We offer choice and opportunity to families who face different challenges at different times in their family life-cycle, for example, by providing family payments for both working and home-based parents, high quality and affordable childcare, and support to carers of the elderly and disabled.

We pursue a strong economy because of the benefits that flow to individuals, families, and communities. Appropriate social infrastructure in turn facilitates economic activity and prosperity. A virtuous circle is established. ■

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Germany

Reliability and affordability

Ulla Schmidt
Federal Minister for Health and Social Security

No country can detach itself from globalisation and demographic trends, and Germany is no exception. On the contrary, Germany bears a special burden, owing to the impact of German reunification. With Agenda 2010, the government introduced a number of reforms to improve the economic framework and modernise our social systems. Since 2001, we have been implementing, with our pension reforms, a concept which combines reliability with affordability.

A sustainability factor was introduced to ensure that the demographic burden is borne equally by both those paying into the system and the pensioners themselves. Not only do these measures serve to protect the rights of pensioners, at the same time, the contributors–and companies–are


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Korea

Quality childcare

Geun Tae Kim, Minister for Health and Welfare

One of the most serious challenges facing Korea today is the plummeting birth rate. The total fertility rate of our country reached its population replacement level of 2.1 in 1983 and then fell to 1.7, the OECD average, in the late 1990s. This downward trend became even more evident during the 1997-1998 financial crisis. In 2002, fertility in Korea hit a record low of 1.17.

This demographic challenge will be catastrophic for our country unless we take appropriate action in good time. If low fertility continues, it will seriously undermine our economic vitality and increase the burden of supporting the elderly population. In response, specific plans of action are carefully being devised.

In this respect, the proposed Fertility and Ageing Society Act signals a meaningful step forward in tackling this challenge. The new law will provide for a presidential

protected from rising contribution rates. That is why the law is called the Pension Insurance Sustainability Act. This, too, is a question of social balance: if there is little left to share around, then for the gainfully employed, our children and grandchildren, pensions will not increase either, or will do so only negligibly.

The statutory pension insurance remains the centre piece of providing security in old age. However, it will not be enough on its own to guarantee the same standard of living in old age. The supplementary, capital-based funded provision will become increasingly important–alongside the statutory pension insurance–and has consequently been receiving state financing since 2001. It is predominantly families and low-income earners who are receiving assistance in creating funded supplementary old-age provision. Basic protection has served to spread a net against old-age poverty, and early retirement options are being phased out. If old-age protection is to remain stable in the future, it is imperative that older citizens continue to be given a chance on the labour market.

Signs of success are already evident. The contribution rates have been kept stable, despite the difficult economic situation in Germany in recent years. The average effective pension age has increased and old-age poverty has decreased. More and more of our citizens are supplementing their old-age provision. In short, old-age protection in Germany has a future. ■

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committee where major population policies will be shaped and enforced. It will also cover a broad range of issues, from marriage, pregnancy, childbearing and childcare to education, housing and tax schemes.

Greater financial resources will be invested to provide quality childcare. It is expected to raise the share of the public sector in national childcare spending to 60% and to provide more services to fully satisfy the needs of parents. Employees benefit from a 90-day maternity leave, with a guarantee of full wages, along with parental leave of up to twelve months. During parental leave, workers can receive fixed allowances from the employment insurance fund, so that they can take care of their children without worrying about a loss of income. The Korean Labour Standards Act specifies measures to develop a family-friendly work environment. These measures, however, are not mandatory, so we largely rely upon the voluntary participation of employers. The government takes the lead by introducing a flexible working-time system and by allowing part-time work for those who take parental leave. Moreover, the recently introduced five-day working week is expected to create a more family-friendly work environment and promote female employment.

Mothers who go out to work can reduce child poverty. The prospect of a labour shortage makes raising female participation all the more important for sustainable growth. ■

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Sweden

Mutually dependent

Berit Andnor
Minister for Social Affairs

In Sweden the basic principle is that the social security systems must cover all members of society. Everyone pays towards our common welfare with taxes and contributions, and everyone, irrespective of income, is also covered by the system. This gives our welfare system legitimacy and creates security.

It is important to continuously review, evaluate and improve the security systems. It is important that these are funded and sustainable, not least for the sake of future generations. The recently implemented pension reform is an example of how we are meeting these criteria.

Our choice of welfare system also supports the requirements for economic growth, as welfare and growth are mutually dependent. Extensive welfare provision requires high employment and growth. And given the right design, welfare in turn generates growth. It is important that the systems are designed so as to encourage work and that they are individual-based. In recent years we have also worked on reducing marginal effects, for example, by adjusting the design of the tax system and by introducing a ceiling for childcare charges.

Real security promotes initiative and creativity. One basic requirement for coping with major changes in society is that people know there is a safety net, for example, in the form of unemployment insurance, training or collective agreements.

Two encouraging indicators show we are moving in the right direction. For several years in succession, the total fertility rate in Sweden has risen and now stands at 1.8 children per woman. Generous and flexible parental insurance, combined with high-quality childcare for all children, have enabled Swedish parents to reconcile work and children. As a result, while a high proportion of Swedish women are gainfully employed and earn their own living, their fertility rate is also high.

Raising fertility rates is not enough, however. Working lives must be prolonged. During the last five years, the employment rate among people aged 60-64 has risen from 48 to 58%.

These achievements give cause for optimism regarding our future ability to provide good welfare for all our people. ■

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US

A healthy marriage

Wade F. Horn
Assistant Secretary for Children and Families, Department of Health and Human Services

Perhaps the most remarkable development in US social policy under President Bush has been a renewed commitment to support marriage. Spurred by the president's announcement in 2002 to provide financial support for innovative programmes aimed at reducing child poverty and increasing child well-being, the Healthy Marriage Initiative seeks to help couples who have chosen marriage for themselves, gain voluntary access to marriage-education services, where they can acquire the skills and knowledge necessary to form and sustain a healthy marriage.

This is a significant shift in US social policy, given that since the 1960s, the government has largely ignored marriage, and perhaps even unintentionally undermined it. A large body of social science research over the past 20 years that documents the benefits of healthy marriage to children, adults and society supports that shift.

While the emotional and psychological benefits of healthy marriage are well known, research consistently finds that marriage and the family are foundational institutions that profoundly affect the economy. Our language even affirms this connection, as economy and household originate from the same Greek word, *oikos*.

How do healthy marriages boost the economy? Every marriage creates a new household, an economic unit that generates income, spends, saves and invests. The household typically includes children, which contribute human capital to the economy. Marriage influences economic behavior as well. This is especially true for men, who in many cases become more economically responsible when they have a family to support.

No wonder that Gary Becker, the 1992 Nobel laureate in economics, has argued that the married-couple household represents the most economically efficient of all living arrangements. Men and women who are happily married can expect higher average incomes and relatively lower living expenses than other households. Sociologist Linda Waite documents that marriage is a wealth generator, as married couples usually reach retirement with substantially greater assets than their single peers.

Given the clear economic benefits of marriage, the new move to support the formation and stability of healthy marriages goes a long way in helping American social policy reinforce sound economic policy. ■

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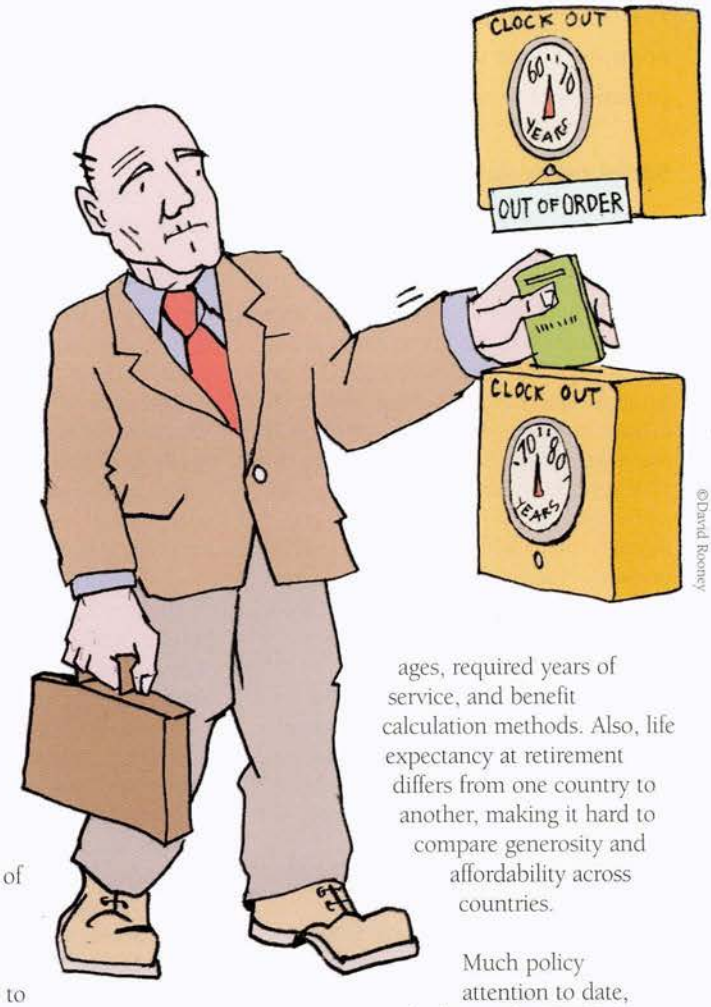
Pension puzzle

Monika Queisser, OECD Employment, Labour and Social Affairs Directorate

Governments have to reform pensions, not just to make them affordable, but sustainable and adequate as well. A major challenge, but there are solutions.



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When Antonio Todde died in 2002, he was preparing to celebrate his 112th birthday. Then the oldest man in the world, Mr Todde claimed his longevity was the result of hard work and a daily glass of local red wine. His homeland of Sardinia is known for its concentration of centenarians: both Mr Todde's parents had lived well into their 90s, and his four children were all alive at the time of his death.

Populations are ageing not only in Sardinia, but all over the world. According to OECD projections for the year 2050, on average across the OECD area, 100 people of working age will have to support 137 children and people over 65; for the EU, the ratio will be even worse: 100 workers will have to support 142 inactive people. The task for policymakers is enormous as they try to keep retirement income provisions adequate and sustainable over the next few decades, faced with such rapid population ageing.

Reforming pensions in light of these demographic changes, with the twin objectives of adequacy and sustainability, has become one of the biggest challenges for social policy. Allowing in more immigrant workers, encouraging more women to work, and taking measures to increase productivity—all of this can certainly help to finance pensions in the short term, but it is not enough. Reforms that reduce public pension liabilities, diversify the sources of income in retirement and lengthen the working life seem inevitable, ending the early retirement trend of past decades.

Most countries have woken up to the need to plan for an ageing society. But reforms are far from easy. They involve long-term policy decisions under uncertain conditions, and often the likely impact of these decisions on the well-being of pensioners today and tomorrow is not spelt out clearly. Pension reform often brings people out onto the streets, and forces governments into retreat. Getting reforms right, therefore, demands involving the public, and that means current as well as future pensioners.

Is there a perfect pension system? Unfortunately, the answer is no. Pension systems are moving targets. They need to adapt to changing economic and social conditions, while at the same time keeping promises that were made to workers in the past. Getting a grip on pension systems and identifying best practices is not easy. Benefits and retirement income depend on a wide range of factors, such as retirement ages, required years of service, and benefit calculation methods. Also, life expectancy at retirement differs from one country to another, making it hard to compare generosity and affordability across countries.

Much policy attention to date, including at the OECD, has focused on the fiscal aspects of the ageing problem, for example, how ageing would affect public expenditures and how much tax burdens would grow. Much less attention has been paid to the impact of reforms on the adequacy and distribution of pensioner incomes, particularly in view of preventing pensioner poverty.

The OECD has developed a framework to assess these impacts. Pension benefits are projected for workers at different levels of earnings, covering all mandatory pension systems for private-sector workers, including minimum pensions, basic and means-tested schemes, earnings-related programmes and defined-contribution schemes. For the first time, these projections also look at the effects of the personal income tax and social security contributions on living standards in work and in retirement.

Pension systems are moving targets. They need to adapt to changing economic and social conditions, while at the same time delivering on promises that were made to workers in the past.

Social adequacy

Our analysis shows that workers on average earnings in OECD countries can expect their post-tax pension to be worth just under 70% of their after-tax earnings. Even the countries with the lowest earnings-related payments (the UK and the US) pay a net replacement rate of around 50% at average earnings. High-income workers at twice average earnings will receive less than 60% net. This means that, on average, full-career workers earning average or higher incomes can expect to receive adequate pensions, considering that retirees do not have work-related expenses to cover and that many of them own their homes.

But what about poorer workers, those earning low wages or working part-time? The role pensions play in guarding against poverty in old age cannot be overstated. Low-income workers are a particularly vulnerable group when it comes to retirement income, since they are less likely to have additional private pension arrangements or other personal assets to cash in. The average OECD low-income worker (earning half of average earnings) will receive a net replacement rate of about 85%. At first sight, this looks rather good. But to measure social adequacy, individual pension entitlements are better expressed as a share of average economy-wide earnings.

Using this latter measure, pensions for low-income workers look less adequate in some countries. In Mexico, the Slovak Republic and the US, for example, pension benefits can be worth 20% or less of average earnings. In Germany, pensions for low-income, full-career workers are worth less than a quarter of average earnings. However, all OECD countries have safety nets in place to protect pensioners from old age poverty. These programmes offer an average minimum retirement benefit for full-career workers of about 30% of average earnings. Pension reforms that cut benefits further for low-income workers will thus result simply in more pensioners having to take up the means-tested programmes, hence robbing Peter to pay Paul in terms of public spending.

Financial sustainability

Are the pensions promises made to future retirees affordable? To answer this question, consider the outcome of the OECD's new comprehensive "pension wealth" indicator, which works out the lump-sum equivalent of all the pension income a worker can expect to receive, taking into account pension level, retirement age and life expectancy in the respective country.

By this count, Luxembourg has the highest pension wealth. For a worker on average wages, it amounts to 18 times those earnings for men and nearly 22 times for women, reflecting their longer life expectancy. This means that if the government gave each pensioner an upfront payment, it would have to fork out an average lump sum of $587,000 on retirement. That is quite a pension bill to take on. Pension wealth for Luxembourg is nearly treble the average for OECD countries. The lowest levels are found in Ireland, Mexico, New Zealand, the UK and the US, where it is less than six times average earnings.

Two crucial factors for pension wealth are pension age and life expectancy. Clearly, pensions would be more affordable if eligibility ages were higher. The official pension eligibility age in most OECD countries is 65, though it is less than that in the Czech Republic, France, Hungary, Korea, the Slovak Republic and Turkey. The ages at which workers *actually* retire, however, are much lower in most countries, due to special early retirement programmes, disability schemes, or other paths out of the labour market. Reforms to make pensions more affordable must therefore address not only the standard retirement ages, but tackle the early retirement problem as well.

Higher life expectancy means that pensions have to be paid for a longer time. All things being equal, countries with lower life expectancy—Hungary, Mexico, Poland, the Slovak Republic and Turkey—can afford to pay men a pension that is 10% higher than, say, in Germany or Italy.

France is a good example of the problem in hand when the two factors come into play: French gross replacement rates are below the OECD average for workers who earn between 75 and 200% of the average, yet the pension wealth indicator exceeds the OECD average because the pension eligibility age of 60 is low and French life expectancy is high.

Another strong message from the evidence we have collected is that many OECD pension systems are just not transparent. People do not understand how they work, and often they do not know how to figure out their entitlements. In Sweden, for example, a white-collar worker on around average earnings at end-career could receive as many as five different pensions: an income-tested public pension, an earnings-related public pension, a defined-contribution personal pension, and two different kinds of occupational pensions. Sweden, to its credit, has taken steps to make things clearer, and other countries are following suit.

There is a particular need to have younger generations understand pension systems better, since their future pensions may depend on the quality of their own financial decisions. Also, a reasoned discussion about pension reform is impossible without clear information. Financial education is now being promoted by the OECD, partly with this new future in mind.

The urgency is greatest for today's 40-50 year-olds since their entitlements are being scaled down, but they have fewer years to adapt to the new systems than younger generations. If you are one of them, and if you hope to beat Mr Todde's longevity record, prepare yourself to work longer, and start planning for your retirement income now. And don't turn your nose up too quickly at that daily glass of red wine. ■

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Tackling poverty

Combating poverty and exclusion depends on active policies that emphasise employment. That also means public effort.

Michael Förster and **Marco Mira d'Ercole**
OECD Employment, Labour and Social Affairs Directorate

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"The greatest of evils and the worst of crimes is poverty". George Bernard Shaw wrote these words in 1907. Today, a century later, his observation is truer than ever, for it is against the backdrop of today's wealthy OECD countries that the costs of poverty seem both so large and reprehensible.

Yet, which OECD government does not attach importance to combating poverty and exclusion? After all, poverty is not just a waste of human resources and potential, but threatens to erode the capacity of governments to sustain economic growth, as well as social and political cohesion. The real question is how to implement more effective policies in reducing poverty, and give them the priority they need within OECD governments' overall policy objectives.

Traditionally, governments have tried to silence the consequences of poverty by treating the symptoms with income support. This has helped alleviate some of the worst symptoms of poverty, but at the cost of dimming personal ambition and work effort, and of keeping poverty alive. A more active approach to social policy can help to achieve lasting reductions in poverty and exclusion by helping recipients back on their feet, to support themselves and their families. **Active social policies** are designed to help people overcome obstacles to getting a job. They focus on better integrating the services available to help benefit recipients, and redefine the social relationship between clients and providers of social support, through a mutual obligation to co-operate in the rehabilitation process.

How is poverty measured? For a start, it is not just a question of income. People may have assets, or simply be in a temporary financial crisis. But income is still part of getting out of poverty, and disposable income is the key measure to use.

There are two basic notions of poverty. First, there are people whose income is simply not enough to be able to afford basic goods or services. This is **absolute poverty**, and most measures show it to be in sharp decline in OECD countries, indeed, by more than 60% between the mid-1980s and 2000 when measured with respect to a constant relative income threshold.

But **relative poverty** is another matter. This assesses people's income, for instance, by benchmarking it with respect to an average or median household income. In essence, it measures how far individuals and families are from affording typical goods and services. In the mid-1980s, the proportion of the OECD population with disposable income at less than half of the median was around 9% on average, and by 2000 this proportion grew slightly, to over 10%.

Poverty's roots

How people find themselves in poverty can be quite a riddle. Often the slide into poverty is gradual, even imperceptible. In his novel, *Down and Out in Paris and London*, George Orwell describes how he realised his poverty only when he was pawning his clothes. Some people suddenly become impoverished, by debt, family breakdown or the death of a spouse, for instance. Other causes include insufficient skills, or physical or mental health problems. But most of all, having a job is the single most important antidote to poverty, and getting people ready and into work should be a primary focus of policy.

The risk of low income for someone living in a jobless household is five times higher than that in households where some members go to work. Poverty is common among lone parents. In fact, the relative poverty rate of single-parent families is three times higher than for families with children in general, but when the lone parent has a job, the risk of falling into poverty is greatly diminished, as it is for couples with children. Little wonder that those OECD countries where employment rates of mothers are highest also show low rates of child poverty.

The **quality of jobs** also matters, of course, particularly as some types of employment provide little protection from poverty (see article by Roland Schneider). Indeed, households with one or more workers account for up to two-thirds of the income-poor in the OECD area. This is a warning that policies must address working poverty, too.

Today, nearly all OECD countries have put employment integration at the very heart of their fight against poverty. Active policies to get people back into the job market, first introduced as **welfare-to-work** for the unemployed, have been extended to other, more excluded groups. They might include an obligation to participate in labour market programmes, and may involve financial penalties. The same principles–called "mutual obligations"–are finding their way into disability programmes, too.

The system seems to work. The number of people receiving certain key welfare benefits fell by more than half from their peak levels in the mid-1990s in the UK and the US, by a third or more in Canada and the Netherlands, and by a quarter in Finland. In the US, most of those off the benefit lists are working, often full-time, with near-average wages. Some disability programmes, like the UK's Pathways to Work pilots, appear quite effective as well. These reforms may not always have cut relative poverty by much, but they have contributed to stop the long-term trend towards greater inequality in the distribution of market income that has affected *all* OECD countries in recent years.

This said, not all people who get jobs get good jobs, or stay in work for long, and even in countries that have successfully reformed their system, for every 100 people who leave welfare, as much as a third may not get a job. Some end up even worse off. Many poor households have low-paid or precarious employment. For them, the focus must be on **welfare-*in*-work**. "Make-work-pay" policies are an option. They take two main forms. First, low-skilled workers are given support through tax credits or benefits that are only available to them when in employment. These in-work benefits are long-standing pillars of the social protection systems in the UK and the US, where they reach, respectively, 5% and 20% of all households. They are directed at families with low earnings, particularly those with children, and provide quite generous benefits administered through the tax system. Similar programmes have been introduced in Australia, Belgium, Canada, France, Germany, Iceland, the Netherlands and New Zealand.

Traditional policies have helped alleviate the worst symptoms of poverty, but at the cost of keeping poverty alive.

The second approach is to increase firms' demand for low-skilled workers, through a combination of general subsidies—most commonly in the form of reductions in employers' social security contributions for low-paid workers, as in the Netherlands and France, and of specific subsidies targeting less easily employable groups, as in Ireland or Spain.

While employment-conditional tax credits have proved to be effective tools in cutting poverty among working families, the major challenge today is getting low-skilled people not just into work, but into good careers. That means paying more policy attention to the **career development** of disadvantaged workers, including upgrading their skills and earning potential.

Social effectiveness

There is no real shortage of social programmes in the OECD area, but most could be made more effective. There is a strong relationship between social spending and poverty: a one-point increase in public social spending as a share of GDP is associated with a one-point decline in the relative poverty rate among the population aged 18-65. Also, the combined effect of taxes and benefits is to lift more than half of the population at risk out of poverty.

For individuals, however, what matters is who is covered by social programmes, the extent to which those entitled to a given benefit actually know about it or receive it, and whether adequate support is provided to escape poverty and exclusion in the long run.

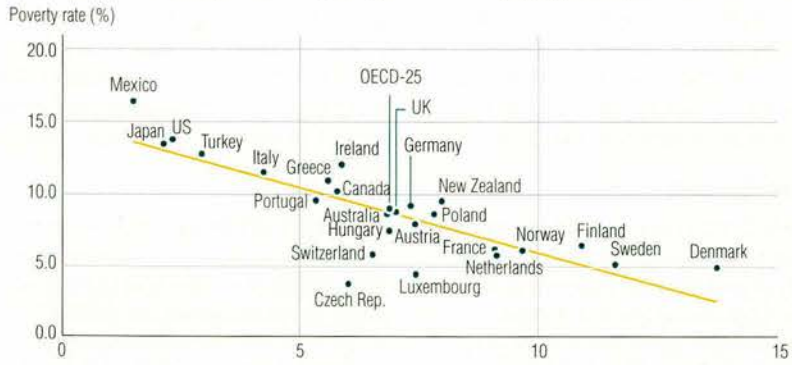
With respect to benefit coverage, more than a third of all non-employed persons reporting a disability in OECD countries in the late 1990s declared that they did not receive benefit income; in Europe, only a third of those classified as unemployed in labour force surveys in 2001 said they had received unemployment benefit over the same period; and in the United States, around 9% of lone mothers without jobs in 2001 reported that they did not receive any benefit income in the 12 months preceding the interview.

Take-up of benefits should also be improved; as few as 40% of those eligible for social assistance take it up, and 60% to 70% in the case of unemployment benefits. Sometimes the benefit entitlements are very small, and so people do not bother claiming them. But ignorance of entitlement, stigma, or just long, complex claims procedures, can be a problem.

Last, with regard to adequacy of benefits, if last-resort minimum benefits are the only form of support, they rarely provide an

Poverty and spending

Non-health public social spending towards working-age population, % GDP



Countries where non-health public social spending is higher also have lower poverty rates.

Source: OECD.

income that is high enough to help people escape relative poverty. The picture improves, however, if child support or housing benefits are added.

Another problem that governments face is tying together the many programmes that may be in operation. A proliferation of different social programmes, each focused on a specific problem, such as joblessness, disability or poor housing, may lead to insufficient attention being paid to the range of needs of an individual client. They may attend training, yet could also qualify for rent allowance, for instance. If the social support system is fragmented, clients end up distrusting it and drop out all together.

Some countries have taken steps to overcome this risk by improving policy coherence to better avert danger. One such measure is Ireland's National Anti-Poverty Strategy, whose "poverty-proofing" system demands that all major policy proposals must indicate their possible impact on groups at risk of poverty. Other countries have taken measures to bring the job placement and benefit payment services under one roof, and to introduce partnerships that involve the private and not-for-profit sectors.

Such steps testify to an awareness that despite years of strong incomes, growth and progress, the cancer of poverty has yet to be cured. Will it always be there? Perhaps not, but the job of reducing it should not let up. For as Shaw also remarked, poverty does not bring unhappiness quite as much as it brings degradation. ■

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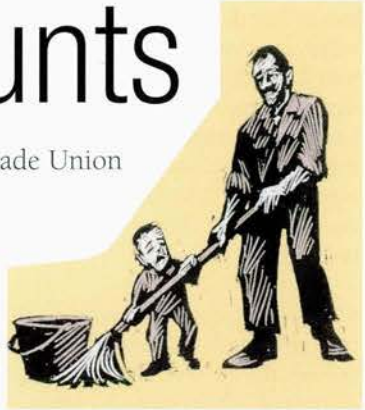
Quality counts

Roland Schneider, Senior Policy Advisor, Trade Union Advisory Committee to the OECD (TUAC)



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A new social agenda was promised at the 1998 OECD social policy ministerial meeting. Will the promise be kept this time? A focus on the quality of jobs would help.

Seven years ago at their last major OECD meeting, social ministers from the industrialised world agreed to promote employment-oriented social policies to combat poverty, inequality and exclusion. This was the promise of a new agenda for social policy. Considering the need to reform social protection systems and social policies, the ministers concluded that any reform should go beyond containing costs and increasing efficiency. They emphasised that social policy should contribute to an increase in the opportunities that allow individuals to participate in society and fully exercise citizenship. They also agreed to ensure the best possible start for children by promoting early childhood development and family friendly policies, which would help families balance work and caring responsibilities, and by improving employment opportunities for those parents without work.

This year, we are likely to hear the same agenda being trotted out again, but has any progress been made? An evaluation of recent results is anything but encouraging. To put it bluntly, social policy reforms have failed to deliver.

This is not a surprise, for policies were driven foremost by a strong desire to cut back social expenditure and to redesign spending patterns. The trend towards fostering employment and making supply-side focused adjustments was already in motion. There was a shift towards job activation. Policies applied restricted eligibility for benefits, reduced the benefit level and turned to targeted benefits instead of universal benefits. They also changed the principles of the social system: instead of protecting individuals against risk, the aim was to change their behaviour by encouraging them to work. As a consequence, the previous division of responsibilities between government, family, society and the market changed. Public welfare provision was replaced by increased individual responsibility. Before we knew it, some of the traditional elements of social protection became privatised.

Recent evidence from the OECD hardly justifies a "more of the same" approach. Poverty has continued to rise, and some recipients of "active" welfare are now worse off than they were before. It has been reported that by 2000, around 11% of the OECD population fell below the median threshold of poverty. In Germany, for instance, social inequality has widened in some areas over the past few years. According to a recent government report, one seventh of Germany's 29 million households lives in poverty. All the while, reform–call it retrenchment–has been taking place. Programmes, sometimes eloquently described as "pathways", have been deemed successful in lifting people from dependency welfare, yet even the OECD acknowledges that many of those leaving welfare do not get jobs. Is that success?

A report released by UNICEF showed that 10% of children in Germany now live in poverty. The condition of children has also deteriorated in countries with strong growth, such as the US, where about 22% of under-18s live in relative poverty. And the UK reports that 15% of its child population lives below the poverty line.

In our view, policies of welfare retrenchment and cuts in social spending have undermined the fight against poverty. A major failure is

that in their desperation to get people off welfare, governments have promoted low-paid, low-skilled, entry-level jobs. In too many cases subsidies allowed employers to lower wages instead of creating real jobs. And many workers are now locked into a low-wage, low-skill "McJobs" environment. Social exclusion was not bridged, merely clad in a uniform.

Inactivity traps have become low-skill, dead-end career traps. Activation policies have built poverty into the very fabric of the labour markets of OECD countries. Surely, governments must design public policies that can improve income security, which is part of the dignity of work. Otherwise, welfare-to-work not only fails to deal with the problem, but simply hands it off to others. The trouble is, when the cheap and precarious jobs run out, the problem will bite back.

Unemployment is the main cause of poverty, but labour market insecurity and unstable employment, in particular for both low-skilled and lone parents, are also important factors. They are also two of the major target groups of welfare-to-work policies. For these policies to work, suitable jobs must be available. Should single mothers have to work at weekends or long evening hours to qualify for welfare? Not if the aim is to promote employment, increase participation of women in the labour market and reconcile work with family life. Likewise, should older workers be asked to commute long distances or do strenuous tasks? Is burger flipping really a pathway of hope for a young person from the inner city?

These are issues of basic job quality, not luxury, without which the most vulnerable people will stay away from work, as is happening. Social policy simply must address the poor quality of many existing jobs, promote the re-design of work systems and offer new and extended opportunities for learning, acquiring new skills and participating in work-related decision-making.

Welfare works

How often must governments be reminded that welfare state commitments, based on the principles of social justice and equity, are sources of productivity and economic competitiveness? It is a government's job to provide protection against social risks that private insurance cannot and will not adequately cover. The OECD itself acknowledges that public spending helps reduce poverty. Beyond direct welfare, public spending acts as an anti-cyclical stabiliser, and is vital in times of recession. The welfare state is not a burden, but as a provider of social security makes a productive input to our societies.

Activation policies have built poverty into the very fabric of OECD labour markets.

But the OECD also seems to be polite about Anglo-Saxon models. Why is this? After all, despite their excellent growth performance, these countries are deeply fractured socially. Is it not true that a fifth of Americans have no medical insurance? In fact, welfare regimes characterised by universal entitlements based on decent replacement rates, a broad supply of social services, active family policies and the promotion of gender equity greatly outperform welfare regimes based on means-testing, targeting and other entitlement screening. Regimes based on employment-related social insurance also under-perform.

Welfare reform policies that knock egalitarian goals for the sake of jobs, budgetary restraint or fiscal sustainability are really only intended to please tax-cutting anti-government lobbies. As an institution of government, the OECD should know this better than most. It is particularly striking that the most redistributive welfare regimes in the Nordic countries have the highest tax burden. By putting that money back into the economy they do substantially better in terms of employment, growth and poverty reduction than many low-tax countries. Contrary to conventional economic wisdom, the relations between redistribution, employment performance and levels of tax spending appear to be rather weak. Market-driven policies, on the other hand, do not defeat inequality and poverty, because poverty is by definition partly a market failure.

This is not to say change is not needed, it is. But it is the management of welfare, not its existence, which is most at fault. Which is better, to manage large states effectively, or small governments badly? Welfare reform is difficult, but it is necessary. And it is not impossible. We all know there is no single best way to reform the world of social protection. Nevertheless, based on comparative studies of recent reforms, at least a set of prerequisites for the modernisation of social protection can be identified. Among these are dialogue, the involvement of all stakeholders and seeking consensus on the diagnosis, principles and objectives of social policy reform. Government money is public money, after all. Moreover, it is important to build a platform of support for political trade-offs, so as to develop a joint public and broadly shared rationale for proposed reform. The public has to decide if it wants more spending on social issues like employment or family-friendly policies or on defence, for instance. And, last but not least, it is important to put in place a comprehensive strategy regarding the major areas of intervention, such as positive interaction between social, employment and economic policies and to transform rather than cut benefits. In short, instead of pushing individuals, benefits must allow people to make real strategic choices. The outcome has to be social betterment, not just cutting welfare lines. ■

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Good neighbours are good for business

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There are good business reasons why companies should work on improving their social performance.

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In June 1769 the potter Josiah Wedgewood opened a new factory, which he called Etruria, near Stoke-on-Trent. Mr Wedgewood's enterprise brought together the latest technology, classical cultural ideas and a radical view of social responsibility towards his workforce: alongside the factory, he built a village where his workers could live in decent conditions. More than a century later, George Cadbury developed social housing for his chocolate factory workers and their families in the village of Bourneville.

Both men believed that the provision of social welfare was good not only for the workforce and the community, but ultimately good for business. They were pioneers of what we now call corporate social responsibility (CSR), or social performance.

Shell's approach has developed from that tradition, although in the modern age, the principle is based not on paternalism, but on partnership and responsibility. It is not simply a question of looking after our own employees, but about managing the effects of our business on the communities and societies in which we operate. And a fundamental element of sustainable development is to manage them both in the immediate and the longer term.

While many of those impacts are positive, there are potential negatives, especially at the local level where communities can be directly affected by our operations. So it is important to get it right.

Meeting the needs and demands of all our stakeholders can be tricky in a climate where society's expectations of where corporate responsibility begins and ends are constantly evolving. Add to this the fact that all communities are essentially unique. There is, however, one principle that holds true in all cases and which guides our approach: that being a good neighbour is good for business.

A 21st century partnership, rather than the paternalism of the industrial age.

So, how to be a good neighbour? If we think of neighbouring communities in the same way we think of our domestic neighbours, then a rational approach emerges. You would not presume to paint your neighbour's front door blue as a gesture of friendship while he was out at work. And equally, you might ask your neighbour what colour to paint your own front door before making your final choice.

This exercise in door painting exemplifies our approach. First, finding out what our neighbours think and want before presuming to act in their best interests. Second, listening to what they think about how we run our business and factoring that into our decisions. To put it simply: listen and respond.

We have learnt from experience that this rule translates into better business decisions and better project design.

Shell Canada has a 60% stake in the Athabasca Oil Sands Project, a large-scale surface mining operation that supplies almost 10% of Canada's oil requirements. The mine is located near the native North American community of Fort McKay, whose aboriginal ancestors inhabited this area for 8,000 years as part of their seasonal hunting, fishing and gathering cycles. Shell worked closely with the community from the start, giving it full access to project development plans and seeking its feedback on the projected social and environmental impacts of the project.

Early engagement with local stakeholders in the development of this project has paid great dividends both for Shell and for the community. Since production began in 2002, over 600 permanent employees have been hired to work at the mine and over 70% of the people hired for these positions are from Alberta. More than $50 million in contracts has been awarded to aboriginal businesses and this number continues to rise.

Creating economic opportunity for the local population and, at the same time, providing a trained workforce for our own operations

aligns both our interests. It is a 21st century partnership, rather than the paternalism of the industrial age. But initiatives do not have to be on a large scale to be of value. Where we face legal issues, on community impacts for instance, we work hard to provide clearer information, via dialogue, setting up hotlines and so on. The approach seems to work, and it reduces costs for all concerned.

Getting it right is not always straightforward and sometimes seems impossible. And those cases where we have not got it right have been well documented. But acting out of mutual self-interest can deliver real value to companies as well as to communities–reducing costs, increasing operational efficiency and reducing wear and tear on corporate reputation.

Shell also works hard to get it right inside the company as well as in the community. Creating a workforce that mirrors the communities in which Shell operates helps us to better understand and build relationships within the communities, reducing the negative and optimising the positive economic and social impact of Shell's presence. About 90% of our operations are carrying out improvement plans and monitoring their performance in line with a diversity and inclusiveness standard. This helps us set up an environment that elicits the very best from our employees. For instance, we have run Women's Career Development Programmes in Shell, and high profile external events on women in business in the Netherlands, the UK and the US.

The whole tenor of the recent debate around corporate social responsibility has been focused on the obligations and responsibilities of companies, which is how it should be in a world where commercial enterprise has such significant effects on communities. But there is another conversation to be had about CSR, which I think for many companies will ultimately prove more persuasive. And that is that being a good neighbour is good for business. ■

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The World Social Forum

What is it really about?

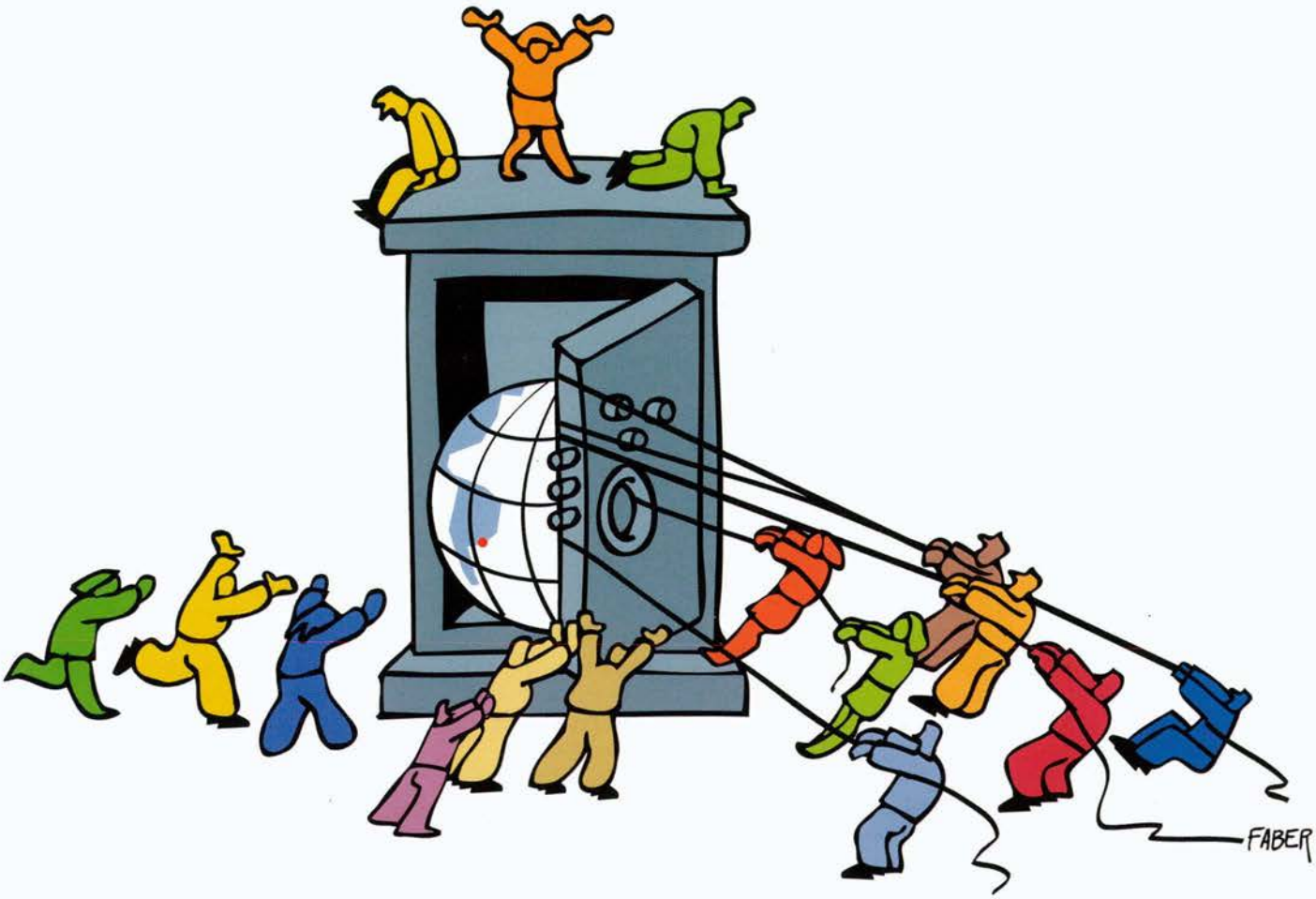
Chico Whitaker*

The 21st century had just begun when something new came into the world: the World Social Forum, which met for the first time in Porto Alegre, Brazil in 2001, to coincide with the already well-established World Economic Forum in Davos. Since then it has gone from strength to strength and it is now a permanent fixture on the international calendar. What is it about?

Is the Forum, as some claim, simply a matter of continuing a struggle that has been going on for more than a century against the domination of capital, by people who persist in believing that we have not come to the "end of history"? Are the Forum's participants simply desperate resistance fighters trying to resist a globalisation process which has long captured all of us, making our nations hostage to the interests of the multinationals and speculators? Or is it a supreme effort to ensure that things "social" are not forgotten by governments or international organisations?

All of these are simplistic views, and miss the point. It could be said that the World Social Forum brings together those for whom human beings and their interests are central to all policymaking, not money. The timing was deliberately intended to show that there is an alternative to the business-driven "pensée unique" pursued by the world leaders every year in Davos.

Another of the WSF's aims is to condemn the harmful effects of globalisation and to establish ties of solidarity that can foster lasting peace between countries. The WSF's



participants are also keen to see democratically elected governments everywhere striving to reduce social inequalities within their countries and beyond.

However, these aims are not new, and any person of goodwill could subscribe to them. The Forum goes further, opening up new avenues of thinking in the quest to solve the world's problems. This is the reason for its success.

At first it was a new type of politics, though this is not an invention of the WSF's founders. All we have done is pool the experience gained from mankind's fight over recent decades against different kinds of domination, from network organisational structures to shared power relations.

If the World Social Forum becomes a political movement, then its potential for action will be lost.

The proposition from the outset was to move from simple resistance, with its protest demonstrations, to a pro-positive crusade. It laid down respect for diversity as an essential principle. Social Forums are open, without discrimination, to all those who wish to change the world, respecting the people's choices, culture and tempo, but rejecting violence as a means of achieving change.

In each gathering, no participant and no activity is more important than another, and everyone is jointly responsible for

The forum will certainly leave its mark on this new century, and organisations such as the OECD will have to listen to its participants.

the event. At the 2005 Forum, this approach probably reached its limit: every activity–some 2,000—was managed by those who had suggested them.

Those who organise the Forums do not exercise control over them. They are only facilitators. This explains why the Charter of Principles–which everyone should read–does not allow political parties and governments to have any hand in organising the Forums, as their power structures are generally competitive and pyramid shaped. No one can speak in the name of the Forum or seek to represent it, since it is neither a movement nor an entity. It is simply a meeting place, in which different civil society organisations may reach beyond the barriers dividing them, to help each other, to learn, to build new alliances and launch new initiatives.

No World Social Forum ever ends with concluding documents that pretentiously (and falsely) claim to shepherd everyone under the same banner. Each organisation or set of organisations can propose measures which are binding on them, however. Some 352 proposals were presented at the closing ceremony of the 2005 Forum. They covered a wide range of questions: from reforming the UN and solving external debt, water, the fight against poverty, knowledge, rights of indigenous people, the spiritual dimension of development, new ways of organising the "grassroots" economy, peace, or against the production of weapons or international treaties that prejudice the poorest countries.

This conception of the forum is not entirely shared by all who take part in the meetings and help organise them. There is, for example, a whole debate about whether the WSF is a "space" or a political movement. Considering its power to convene and mobilise people, those most distressed by the way the world is going or most impatient for rapid change would naturally like the Forum to become a new political player. They see the Forum as a mere talk shop, and think that it needs to identify top priority campaign objectives–even a final communiqué or treaty–and co-ordinate actions needed to achieve them.

The debate is not over, but I and those many like me who believe the social forum *is* a space, a gathering, are under no illusion as to the negative impact that this sort of organisational change would have on the strength of the event.

The WSF is not intended to be "the movement of movements", or a new "world party", with old style leaders and a new "pensée unique" to replace the dominant one. Change will not come that way, but by the action of all of society itself, acting through its myriad social movements, by creating new economic and social realities, and pressuring political parties and governments. The World Social Forum opens up the possibility for these new political players to gain mutual strength, in new networks, in an effort to realise common objectives worldwide. If it just becomes a political movement, then this potential for action will be lost. So far, we have managed to ensure that the Charter of Principles is complied with, which is quite an achievement.

Every meeting under the heading of the World Social Forum process, whether at world, regional or local level, is an opportunity to cultivate a new political culture, in which competition is replaced by co-operation. This helps explain the jubilant mood that prevails at these meetings. The hundreds of thousands of people who subscribe to this process (including a growing number of young people) enjoy the shared optimism about human nature which underlies it. This viewpoint–so different to that adopted by those now in charge of the world economy–was ably summed up by Ms Hazel Henderson in an article on the sham which is the Nobel Prize for Economics (*Le Monde Diplomatique*, February 2005), the main argument of which can be summed up as the following: human beings are not rational economic agents with reptilian brains, obsessed by the desire to maximise their own interests on the basis of fear and scarcity. Their motives are more complex than that, including the desire to care for others and to share.

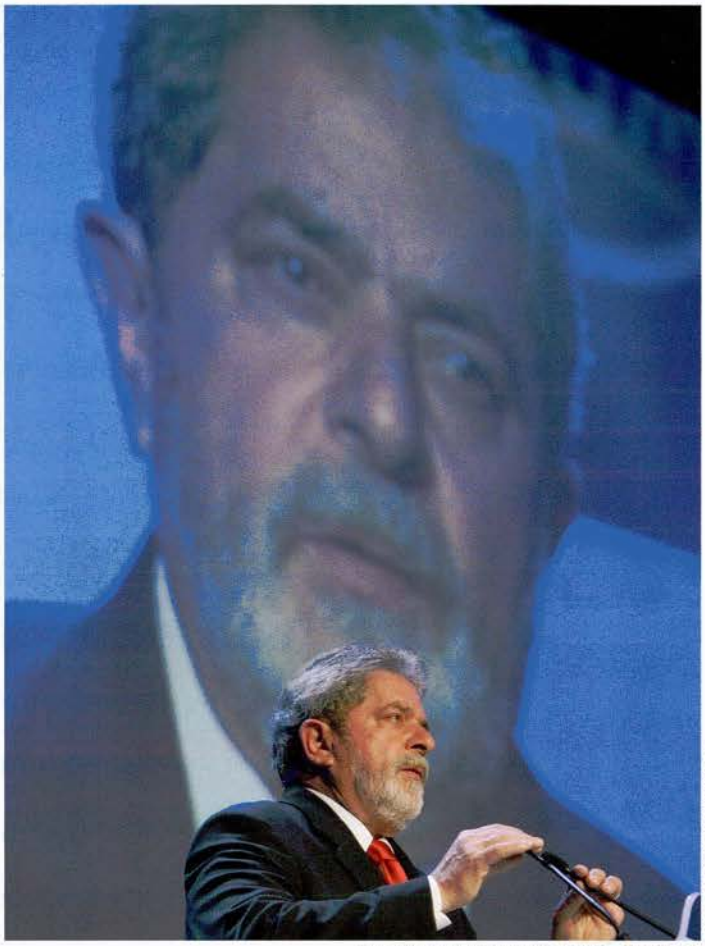
The World Social Forum will certainly leave its mark on this new century, and organisations such as the OECD will have to listen to its participants, through those horizontal and democratic networks known as civil society. These networks are the only means through which the increasingly shared responsibility of all the inhabitants of the planet can muster sufficient power to really bring about "another world". ■

*Chico Whitaker is the Brazilian Justice and Peace Commission representative to the WSF Organisation Committee and International Secretariat. Mr Whitaker's new book, *The World Social Forum Challenge*, is published in Portuguese. He has written several articles, including "Notes about the World Social Forum", which is available in English and French at the WSF website.

The WSF has been held each year since 2001 in Porto Alegre, Brazil, with the exception of 2004, when it was held in Mumbai, India. The 2005 event brought together 150,000 participants. A series of linked Forums will take place in 2006, and in 2007 there will be a world-level meeting in Africa.

Reference

• Visit the WSF website at www.forumsocialmundial.org.br/.



President Luiz Inacio Lula da Silva.

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Brazil's economy

Showing strength

Luiz de Mello, OECD Economics Department

The Brazilian economy is bouncing back, but is the recovery here to stay?

Brazil's economic recovery is now well under way. Following a few years of unimpressive growth, the economy has bounced back more strongly than anticipated, with GDP growth of more than 5% in 2004, the fastest expansion in 10 years. Since taking office in January 2003, the new administration has done a good job in restoring confidence, which had faltered in the run-up to the presidential election. Domestic demand has since picked up, consumers and businesses are more upbeat, and private investment is recovering. But is the recovery here to stay, or could more be done to make it sustainable?

To be sure, the economy appears to have become more resilient to external shocks. Until now, a reliance on foreign financing has tended to make Brazil vulnerable to changes in global market sentiment. But record trade and current account surpluses emerged in 2004 on the back of robust export growth rather than a fall in imports. Importantly, the maintenance of a freely floating exchange rate has been essential in making the economy more responsive to external price signals.

Another fillip has come from the gradual reduction in trade barriers. The usual indicators of vulnerability, such as the ratio of external indebtedness to exports, have improved a great deal. This is encouraging for growth, as it shows the recovery is not merely linked to the upswing in the current economic cycle. It also means the country is better equipped to withstand sudden reversals in international financial conditions, should these occur.

Institutional improvements have also played a role, with several noteworthy reforms over the years helping to strengthen the policymaking framework. The Fiscal Responsibility legislation, which has instilled greater financial discipline at all levels of government, is a case in point. Not surprisingly, given this strong institutional set-up, Brazil's track record in meeting annual budget targets has improved, even under difficult economic conditions.

And on the monetary front, the central bank is committed to targeting as a way of bringing about low and stable inflation in the long run. This should lead over time to lower interest rates–which in Brazil are high at over 10% in real terms–and stronger private investment. A further boost to confidence in the institutional set-up would come if legal operational autonomy were granted to the central bank, whose independence is not yet ensured by law.

So far, so good, though clearly there are challenges. Consider public debt first of all. Cautious fiscal management has helped to reduce public indebtedness to around 52% of GDP in 2004, down from over 58% a year earlier. Though commendable, this is but a first step. The trouble is that fiscal adjustment has been achieved over several years predominantly by hiking taxes and cutting back public investment. As a result, Brazil's tax ratio has risen by nearly 7 percentage points since 1995 to about 35% of GDP in 2004, which is much higher than average for emerging markets.

Yet, OECD experience shows that fiscal consolidation is more likely to be successful over time when based on tighter current spending rather than investment cuts and revenue hikes. Shifting the emphasis of fiscal consolidation from further increasing the tax take to reducing spending would mean that consolidation can be achieved while channelling resources to meet society's economic and social priorities.

New legislation on public-private partnerships should open up opportunities for private investment in a host of infrastructure sectors.

A second challenge is to improve the investment climate to boost investment in support of long-term growth. Changing this is easier said than done. A new bankruptcy law is an important step forward to encourage the creation of credit to the private sector and to reduce interest rate spreads. Effort has been made to address regulatory uncertainty in network industries, such as oil, gas and electricity, which also weighs on investment. These regulatory reforms are well thought out. But implementation will be their ultimate test.

In the case of electricity, for example, a new regulatory framework is now in place, but, as the government has increased its role in long-term planning, the risk of failure should not be underestimated. Water and sanitation is another area where private investment continues to be constrained by a lack of clarity over the assignment of regulatory powers across different levels of government. For instance, it is not clear if the provision of water and sanitation services comes under the purview of the states or the municipalities. Public-private partnerships should help to boost investment in infrastructure, if carried out in a fiscally responsible manner.

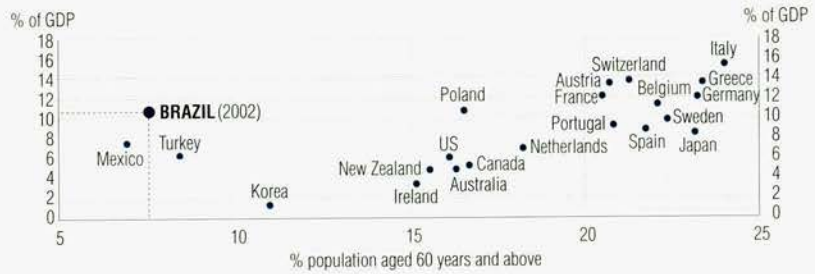
Yet Brazil's experience with regulatory reform in the telecom sector shows what a well designed and executed regulatory framework can do: privatisation has fostered competition, so reducing charges and facilitating access to improved services. New legislation on public-private partnerships should follow this lead and open up opportunities for private investment in a host of infrastructure sectors.

A third challenge is to strengthen policies in pursuit of the government's social agenda. Brazil has come a long way in this area, such as in raising the level of school enrolment. But the government already spends a high proportion of GDP, almost one-quarter, on social programmes, and not always on the ones that are most cost-effective. In fact, public spending on pensions accounts for over 10% of GDP, a higher share than in the average OECD country, despite Brazil's younger population. In contrast, more effective means-tested programmes, such as on subsidies for childcare or care of the elderly and disabled persons, take up a relatively small share of public social spending. Policymakers know that such approaches may be costly to start up and demand administration, but their effects are positive over time in terms of reaching the poor and getting value for money.

All in all, 2004 was a positive year for Brazil. The economic outlook is promising, with the conditions for sustainable growth by and large in place. Budget consolidation has been difficult, but is paying off. The government's reform agenda is vast. It is important not to lose momentum and to make the most of these good times to address those policy areas that have so far proved difficult to reform. ■

Brazilian pensions

Public spending on pensions, 2001



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- OECD (2005), *Economic Survey of Brazil.*

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Middle East and North Africa initiative launched

OECD Secretary General Donald J. Johnston and ministers and senior officials from OECD countries joined heads of government and ministers from Arab states at a conference at the Dead Sea in Jordan on 6-7 February 2005 to launch a major programme to promote good governance for development in the region.

The event inaugurated the programme for "Good Governance for Development in the Arab countries", or GfD, developed by the states of the Middle East and North Africa (MENA) with support from a partnership of the OECD and the United Nations Development Programme (UNDP). The GfD programme has been designed by the Arab states to provide regional support for an ongoing process of governance reform, and to create the conditions needed for economic and social development throughout the region. It was endorsed by 16 Arab states at a ministerial meeting hosted by the Kingdom of Jordan in Amman on 26 September 2004.

The programme is being carried out in co-operation with a broad range of regional and multilateral organisations, including the Arab League, World Bank, and EU, as well as the private sector and civil society.

The GfD Programme will focus on the development and implementation of a series of reform initiatives. Six working groups, each chaired by a MENA country and co-chaired by an OECD country, will provide support for national reform efforts through regional co-operation, and by bringing policy officials in Arab states into contact with a broader international network of their peers.

The working groups will focus on six areas: civil service and integrity; e-government, administrative simplification and regulatory reform; governance of public resources; public service delivery; the role of the judiciary and enforcement; and civil society and the media. A condition of participation is readiness to undertake ambitious policy reforms and to join in a process of monitoring and review by fellow Arab states, supported by counterparts from OECD economies.

This is one pillar of an overall initiative, led by Arab nations, known as the MENA-OECD Initiative on Governance and Investment for Development. The other pillar is the Investment Programme, which aims to improve the attractiveness of the region for foreign investors.

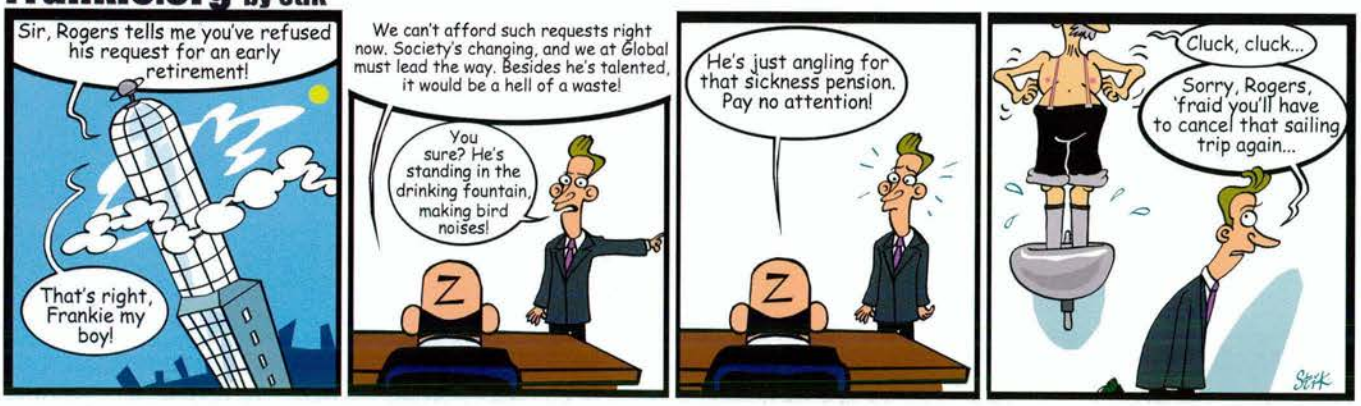
Mr Johnston hailed the new initiative as an example of how the OECD can help countries advance towards their economic development goals by drawing on the processes of monitoring and peer review that are the basis for the OECD's work through its system of specialised committees. "The OECD has many years of experience in using these mechanisms," the secretary-general pointed out. "We are honoured to be asked by our Arab partners to put this experience at their disposal." ■

For more on OECD-MENA, including a copy of Mr Johnston's speech at the Dead Sea conference, visit www.oecd.org/gov or email observer@oecd.org.

New ambassadors

8 March 2005 – Shinichi Kitajima is the new OECD permanent representative for Japan. Ambassador Kitajima was born in Tokyo in 1946. Amb. Kitajima has had a variety of diplomatic postings since joining the Ministry of Foreign Affairs in 1971, including in London, Singapore and Washington, D.C. He has worked extensively on economic and trade issues at high level. From 2002 he was deputy vice-minister for administration at the ministry. ■

Frankie.org by StiK



Calendar of forthcoming events

Please note that many of the meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For further information, consult the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

MARCH — highlights

28-29 **Ministerial conference on Environment and Development in Asia and the Pacific**, organised by UNESCAP. Seoul, Korea.

29-30 **The Internationalisation of R&D**, forum organised by the Directorate for Science, Technology and Industry, in co-operation with the Belgian government. Brussels, Belgium.

31-1/4 **Meeting of ministers responsible for social and family policies**, "Extending opportunities: How active social policy can benefit us all", organised by the Directorate for Employment, Labour and Social Affairs.

APRIL

7 **World Health Day**, with the theme "Make every mother and child count".

7-8 **Designing and Implementing Rural Development Policies**, conference organised by the Directorate for Public Governance and Territorial Development. Oaxaca, Mexico.

7-8 **Frontiers in Benchmarking Techniques and their Application to Official Statistics**, workshop organised by the Statistics Directorate and the Statistical Office of the European Communities (Eurostat). Luxembourg.

11-15 **Environmental Compliance and Enforcement**, conference organised by INECE and the Environment Directorate. Marrakech, Morocco.

16-17 **World Bank/International Monetary Fund** spring meetings. Washington, DC, USA.

19-20 **Consumer Dispute Resolution and Redress in the Global Marketplace**, workshop organised by the Directorate for Science, Technology and Industry. Washington, DC, USA.

20-22 **WTO after 10 Years: Global Problems and Multilateral Solutions**, annual public symposium organised by the World Trade Organization. Geneva, Switzerland.

21 **Statistical Data and Metadata Exchange**, meeting organised by the Statistics Directorate. Bratislava, Slovak Republic.

21-22 **Network on Performance and Results**, meeting of senior budget officials, organised by the Directorate for Public Governance and Territorial Development.

28-30 **Ministerial conference on the 3R –Reduce, Re-use and Recycle– Initiative**, organised by the Japanese Ministry of the Environment. Tokyo, Japan.

MAY

2-3 **OECD Forum 2005**: Fuelling the Future: Security, Stability, Development. Paris, France.

2-3 **Ministerial meeting of the International Energy Agency**.

3-4 **OECD Council meets at Ministerial level**.

9-11 **Mission, Money, Management**, conference on higher education, jointly organised by the OECD and the China National Institute for Educational Research. Beijing, China.

12 ***OECD Economic Outlook* No. 77**, preliminary version published.

23-24 **Environmental Management in the Russian Federation**, conference organised by the Environment Directorate, in co-operation with the World Bank and the Russian government. Moscow, Russia.

24-27 **Reinventing Government: Toward Participatory and Transparent Governance**, 6th annual forum organised in co-operation with the UN and the Korean government. Seoul, Korea.

25-26 **Investment for African Development: Making it Happen**, roundtable organised by NEPAD and the Directorate for Financial and Enterprise Affairs. Entebbe, Uganda.

JUNE

2-3 **Enhancing Cities' Attractiveness for the Future**, conference organised by the Directorate for Public Governance and Territorial Development. Nagoya, Japan.

6-8 **Local Development and Governance in Central, East and Southeast Europe**, conference organised by the OECD Local Economic and Employment Development (LEED) programme. Trento, Italy.

8-10 Plenary meeting of the **Financial Action Task Force on Money Laundering**. Singapore.

14-15 **High-level meeting of the OECD's Committee for Agriculture**.

14-18 **Roads, Primary Asset of Nations: Management and Operations for the 21st Century**, meeting organised by the International Road Federation with the participation of OECD/ European Conference of Ministers of Transport. Bangkok, Thailand

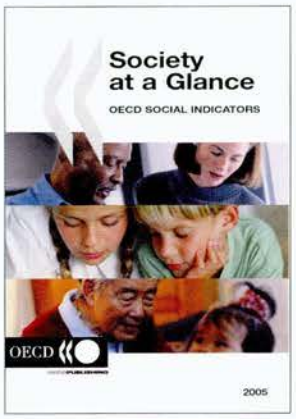
23-24 **Fostering Entrepreneurship: The Role of Higher Education**, conference organised by the Centre for Entrepreneurship, SMEs and Local Development. Trento, Italy.

LATER IN 2005

14-16 September, **Millennium +5, focus on the development goals, high-level summit, UN General Assembly**, New York, USA.

Knowledge society

Society at a Glance: OECD Social Indicators 2005



There are no easy answers to the intractable social questions of our time, like poverty, exclusion and violence. However, *Society at a Glance*, the OECD's bi-annual compendium of social indicators, helps by elucidating some of the facts. By going further than traditional studies, which often base well-being on the level of GDP per capita, *Society at a Glance* examines a wide range of other indicators in a bid to shed light on two key issues: how far have OECD countries progressed in terms of social development; and to what extent has this progress been the result of deliberate policy actions, either by governments or by other social institutions, communities or bodies. It provides comparable data in a variety of categories allowing OECD countries to benchmark themselves against each other.

These include, along with GDP per capita, the number of elderly, a country's population of foreigners, marriage, divorce (Belgium has the highest divorce rate, Mexico the lowest), the number of working mothers, retirement age (highest in Iceland and Mexico, lowest in Hungary, the Slovak Republic and Belgium), social spending (highest in Denmark and Sweden, lowest in Korea), life expectancy (Japan has the highest for women, Iceland for men) and social isolation (lowest in the Netherlands, Ireland and the US; highest among the Japanese and Mexicans). Problems like teenage births, drug use and suicide are also taken into account, but also happiness, with the Netherlands, Iceland and Ireland leading the field. While "life satisfaction" tends to increase with higher incomes, Turkey and Mexico–the two OECD countries with the lowest per capita income–record large differences in average life satisfaction. Only 38.6% of those in Turkey report being satisfied with life versus 79.5% in Mexico. And the list goes on.

Society at a Glance attempts to satisfy the growing demand for quantitative evidence on the social dimension: whether our societies are getting more or less equal, healthy and cohesive. ■

ISBN 9264-007121. See the New Publications pages or www.oecdbookshop.org for ordering details.

The facts of life

OECD Factbook 2005: Economic, Environmental and Social Statistics

The *OECD Factbook 2005*, the OECD's first annual digest of economic, environmental and social statistics covering the OECD's 30 member nations, brings together in a single publication 100 indicators that are essential to evaluating the relative position of any OECD country, both at a given moment and over time, with historical data going back at least 10 years.

Depending on area of interest, information is laid out for the die-hard data enthusiast as well as the casual reader, and goes further than just providing facts and figures, by explaining what's behind the numbers.

Environmentalists may be surprised to find that one of the countries with the smallest populations, Iceland, has the highest ratios of energy supply per capita. *The OECD Factbook 2005* explains that this is due to climate factors and the availability of cheap, non-polluting, thermal energy from hot springs.

Coming perhaps as no surprise, the US is the largest member country in terms of total GDP, with 2002 GDP of $10,429 billion exceeding the combined GDP of the 15 members of the EU. In 1990, however, the reverse was true.

And while Norway and Sweden may have the highest female employment rates of all OECD countries, the percentage of working-age women in jobs has been growing fastest in Ireland, Spain and the Netherlands.

R&D expenditure, a key indicator of government and private sector efforts to obtain competitive advantage in science and technology, has increased relative to GDP in the three main OECD regions over the past three years. In 2001, Iceland, Japan, Finland and Sweden were the only four OECD countries in which the R&D/GDP ratio exceeded 3%, well above the OECD average of 2.3%.

And under the category "Quality of Life", highlighted issues include obesity (asked face-to-face, 22% of Americans admit to being obese, whereas just 3% of Koreans and 4% of Japanese do) and the number of hours worked (down sharpest in France, Ireland, Japan and Portugal; Denmark, Greece and Sweden were the only three to post increases). Whether this really measures quality of life is another issue. ■

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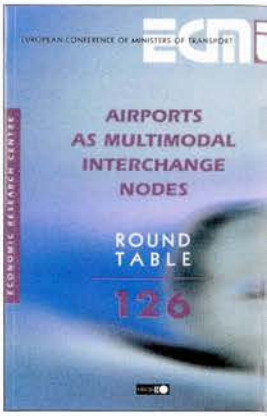
Changing planes

Airports as Multimodal Interchange Nodes

When the giant Airbus A380, the world's largest passenger plane, makes its first commercial landing in 2006, runways will have been extended and ways of quickly and safely disembarking 555 passengers will have been worked out. But once off the plane, how easily will all these travellers get home? Can existing transport modes handle the surge?

Dealing with the passenger flows is already a major challenge to the world's airports. The ECMT's roundtable report, *Airports as Multimodal Interchange Nodes*, predicts that by 2020, global passenger traffic will be two and a half times its current volume, and the number of departures on existing and new passenger routes up by 86%.

Most travellers arrive at the airport by car. Despite growing risks of delay due to increased congestion, private car use is steadily increasing, by passengers as well as airport employees. The already overwhelming preference for curb-side drop-offs and pickups of passengers has created a need for the modern "cell-phone lot"–parking lots where drivers wait to be called by their incoming traveller. Chicago's O'Hare Airport, one of the world's busiest, provides a "kiss and fly" parking lot, where motorists wait for passengers at remote lots that are connected to the terminal by train.



Traditionally, airports have been seen as mode-specific: a conglomeration of runways, taxi-ways and terminal buildings. Questions of how passengers reached the airport were generally overlooked. *Airports as Multimodal Interchange Nodes* examines possible alternative approaches to handling future airport traffic, including coach service, airport/city metro links, railway lines through the airport, and the innovative "horizontal elevator". Also known Personal Rapid Transit, this small, three or four-passenger rai car would provide a dedicated trip from origin to passenger-selected destination within the airport system without stoppi en route, though avoiding elevator traffic-jams in airport satellites could become a challenge when the A380 lands. ■

ISBN 9282-10339. See the New Publications pages or www.oecdbookshop.org for ordering details.

un-E old world

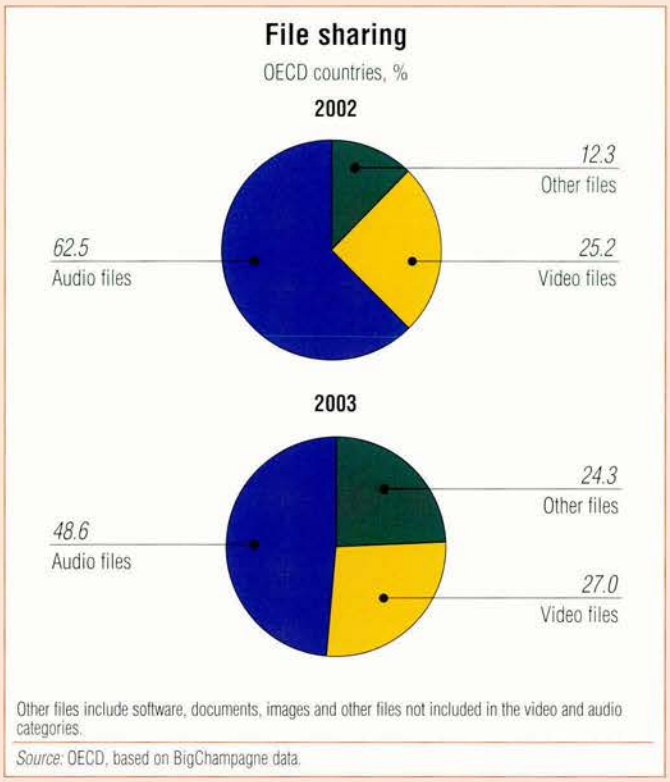
espite the legal wrangles over online entertainment, trading in audio and video on the Internet remains high, particularly among young people.

e downloading of video and other files increased sharply in 2-2003, helped by a rise in improved file-sharing systems, and DVD and CD burning technologies.

udio remains the most shared format by far, in terms of the number of individual files, though in the US, one in five ng "file-sharers" downloaded a movie. In 2001, 53% of Internet s aged 12-17 downloaded music files. But kids are not the only rits. The same year, 29% of all users had downloaded music to their computer, and more than three-quarters of adult rnet users in the US who download music indicated that they not pay for these files.

'hile the music and movie businesses are not about to ppear, audio and video file-sharing is seen by many as a threat pyright and sales revenues, especially as download speeds are kening. By 2008, revenues from DVDs, CDs and other sical media are expected to drop by 8%. A key challenge for rnments and firms is to determine what part of such activity is al and how intellectual property rights frameworks might be sted to tackle it. ■

more information, see *OECD Information Technology Outlook 2004*, able at www.oecdbookshop.org.



Other files include software, documents, images and other files not included in the video and audio categories.

Source: OECD, based on BigChampagne data.

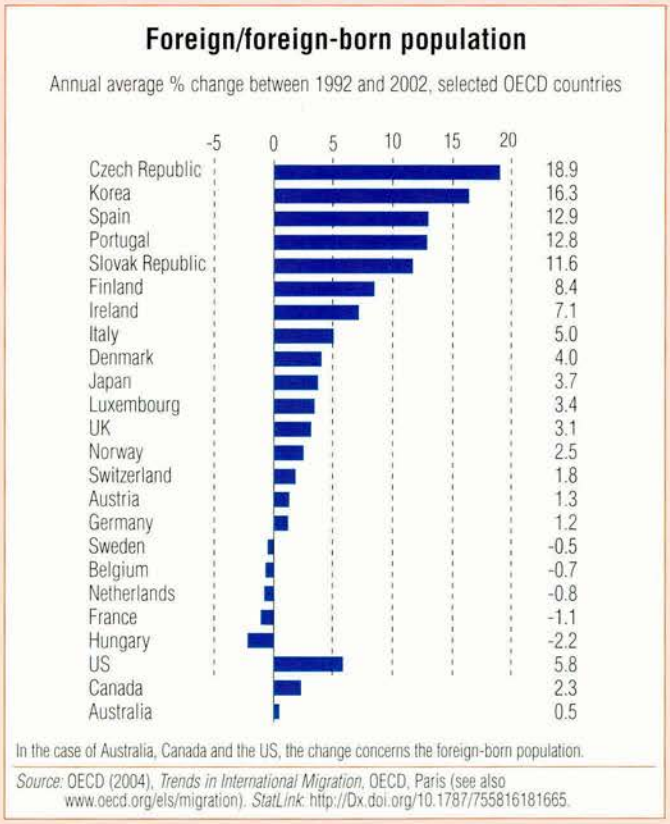
/elcoming hands

an immigration help solve the effects of the projected long-term decline in the labour force of OECD countries? Labour immigration forms the bulk of migration flows in southern pe. In Spain, the number of foreigners tripled in 10 years, and does not include the number of naturalisations, which ased sharply over the same period. In Italy and Portugal, the gn population doubled. In Belgium, France, the Netherlands Sweden, the size of foreign populations fell, as the high rate of ralisations in these countries offset higher inflows.

t how well are foreigners and immigrants integrated into the ur market? Generally speaking, less well than nationals, and in mark and the Netherlands, for instance, foreigners are often at ter risk of being unemployed.

'hile ageing will lead to higher dependency in the OECD, rting labour from abroad might not be the only solution. Many igrants have difficulty finding proper work or holding down -term jobs, and can end up depending on social security selves. Also, ageing and lower birth rates affect these lations too. On the other hand, immigrant labour can be petitive, particularly in skilled sectors, such as medical services, gh this type of immigration can lead to skill shortage problems orer countries of origin. ■

more information, see *OECD Trends in International Migration 2004*, able at www.oecdbookshop.org.



In the case of Australia, Canada and the US, the change concerns the foreign-born population.

Source: OECD (2004), *Trends in International Migration*, OECD, Paris (see also www.oecd.org/els/migration). *StatLink*: http://Dx.doi.org/10.1787/755816181665.

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q4 04	0.10	1.50	Current balance	Q4 04	-11.48	-8.62
	Leading indicator	Dec. 04	0.60	4.10	Unemployment rate	Feb. 05	5.10	5.90
	Consumer price index	Q4 04	0.80	2.60	Interest rate	Feb. 05	5.63	5.57
Austria	Gross domestic product	Q3 04	0.80	2.50	Current balance	Q3 04	-0.45	-0.49
	Leading indicator	Jan. 05	0.70	4.90	Unemployment rate	Jan. 05	4.50	4.50
	Consumer price index	Jan. 05	0.10	2.90	Interest rate		..	..
Belgium	Gross domestic product	Q4 04	0.40	2.60	Current balance	Q3 04	2.24	2.67
	Leading indicator	Jan. 05	-0.50	0.40	Unemployment rate	Jan. 05	8.00	7.80
	Consumer price index	Feb. 05	0.70	2.60	Interest rate		..	..
Canada	Gross domestic product	Q4 04	0.40	3.00	Current balance	Q4 04	5.16	5.06
	Leading indicator	Jan. 05	0.20	-1.10	Unemployment rate	Jan. 05	7.00	7.30
	Consumer price index	Jan. 05	-0.10	2.00	Interest rate	Feb. 05	2.58	2.32
Czech Republic	Gross domestic product	Q3 04	0.80	3.50	Current balance	Q4 04	-1.42	-0.83
	Leading indicator		..	..	Unemployment rate	Jan. 05	8.30	8.30
	Consumer price index	Jan. 05	0.70	1.70	Interest rate	Feb. 05	2.25	2.06
Denmark	Gross domestic product	Q4 04	0.70	2.10	Current balance	Q4 04	1.07	1.62
	Leading indicator	Jan. 05	1.10	12.00	Unemployment rate	Dec. 04	5.10	5.70
	Consumer price index	Jan. 05	-0.30	1.00	Interest rate	Feb. 05	2.14	2.13
Finland	Gross domestic product	Q4 04	0.60	3.60	Current balance	Dec. 04	2.08	0.36
	Leading indicator	Jan. 05	0.30	2.50	Unemployment rate	Jan. 05	8.90	9.00
	Consumer price index	Jan. 05	-0.50	0.20	Interest rate		..	..
France	Gross domestic product	Q4 04	0.80	2.20	Current balance	Dec. 04	-1.59	0.00
	Leading indicator	Jan. 05	-0.20	1.30	Unemployment rate	Jan. 05	9.70	9.70
	Consumer price index	Jan. 05	-0.50	1.60	Interest rate		..	..
Germany	Gross domestic product	Q4 04	-0.20	0.60	Current balance	Q4 04	25.09	19.88
	Leading indicator	Jan. 05	0.00	2.00	Unemployment rate	Jan. 05	9.60	9.50
	Consumer price index	Jan. 05	-0.40	1.60	Interest rate		..	..
Greece	Gross domestic product	Q4 04	-0.10	4.00	Current balance	Dec. 04	-2.15	-2.17
	Leading indicator	Dec. 04	0.60	-2.00	Unemployment rate	Jun. 04	10.50	9.60
	Consumer price index	Jan. 05	0.30	4.10	Interest rate		..	..
Hungary	Gross domestic product	Q3 04	2.60	3.70	Current balance	Q3 04	-2.69	-2.01
	Leading indicator		..	..	Unemployment rate	Jan. 05	6.30	5.70
	Consumer price index	Jan. 05	0.80	4.10	Interest rate	Feb. 05	8.71	12.66
Iceland	Gross domestic product	Q3 04	6.60	7.40	Current balance	Q4 04	-0.47	-0.26
	Leading indicator		..	..	Unemployment rate	Jan. 05	2.70	3.20
	Consumer price index	Feb. 05	0.20	4.50	Interest rate	Jan. 05	7.23	5.10
Ireland	Gross domestic product	Q3 04	-0.70	5.90	Current balance	Q3 04	-0.11	-0.21
	Leading indicator	Jan. 05	0.00	7.70	Unemployment rate	Jan. 05	4.30	4.60
	Consumer price index	Jan. 05	-0.80	2.30	Interest rate		..	..
Italy	Gross domestic product	Q4 04	-0.30	1.00	Current balance	Sep. 04	-1.17	-1.68
	Leading indicator	Jan. 05	-0.20	-0.80	Unemployment rate	Sep. 04	7.80	8.40
	Consumer price index	Feb. 05	0.30	1.90	Interest rate		..	..
Japan	Gross domestic product	Q4 04	-0.10	0.80	Current balance	Dec. 04	17.11	12.46
	Leading indicator	Jan. 05	0.00	0.80	Unemployment rate	Jan. 05	4.50	5.00
	Consumer price index	Jan. 05	-0.50	-0.10	Interest rate	Feb. 05	0.02	0.03
Korea	Gross domestic product	Q3 04	0.60	4.80	Current balance	Jan. 05	3.07	2.15
	Leading indicator		..	..	Unemployment rate	Jan. 05	3.60	3.40
	Consumer price index	Feb. 05	0.60	3.30	Interest rate	Jan. 05	3.50	4.30

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Luxembourg	Gross domestic product	2003	..	2.10	Current balance	Q3 04	0.75	0.54
	Leading indicator	Jan. 05	-0.30	2.20	Unemployment rate	Jan. 05	4.40	4.00
	Consumer price index	Jan. 05	-0.90	2.00	Interest rate		..	..
Mexico	Gross domestic product	Q4 04	1.80	5.00	Current balance	Q3 04	-2.19	-2.12
	Leading indicator	Jan. 05	2.60	5.70	Unemployment rate	Dec. 04	3.80	3.50
	Consumer price index	Jan. 05	0.00	4.50	Interest rate	Feb. 05	9.31	5.63
Netherlands	Gross domestic product	Q4 04	-0.10	1.00	Current balance	Q4 04	11.69	6.24
	Leading indicator	Jan. 05	0.10	2.10	Unemployment rate	Dec. 04	4.70	4.30
	Consumer price index	Jan. 05	0.50	1.50	Interest rate		..	..
New Zealand	Gross domestic product	Q3 04	0.50	4.00	Current balance	Q3 04	-2.02	-1.02
	Leading indicator		..	..	Unemployment rate	Q4 04	3.60	4.60
	Consumer price index	Q4 04	0.90	2.70	Interest rate	Feb. 05	6.83	5.59
Norway	Gross domestic product	Q3 04	-1.00	1.60	Current balance	Q4 04	9.65	7.27
	Leading indicator	Jan. 05	1.70	8.20	Unemployment rate	Nov. 04	4.40	4.50
	Consumer price index	Jan. 05	-0.20	1.10	Interest rate	Feb. 05	1.92	2.01
Poland	Gross domestic product	Q3 04	-0.80	4.30	Current balance	Dec. 04	-0.10	-0.67
	Leading indicator		..	..	Unemployment rate	Jan. 05	18.20	19.10
	Consumer price index	Dec. 04	0.10	4.20	Interest rate	Nov. 04	6.77	5.83
Portugal	Gross domestic product	Q3 04	-1.20	0.80	Current balance	Dec. 04	-1.10	-0.26
	Leading indicator	Jan. 05	-0.50	0.00	Unemployment rate	Jan. 05	6.90	6.30
	Consumer price index	Jan. 05	-0.50	2.00	Interest rate		..	..
Slovak Republic	Gross domestic product	Q3 04	2.00	5.30	Current balance	Q3 04	-0.68	-0.23
	Leading indicator		..	..	Unemployment rate	Jan. 05	16.50	18.40
	Consumer price index	Jan. 05	1.60	3.20	Interest rate	Jan. 05	7.68	7.56
Spain	Gross domestic product	Q4 04	0.80	2.70	Current balance	Nov. 04	-6.49	-4.63
	Leading indicator	Jan. 05	-0.30	2.70	Unemployment rate	Jan. 05	10.30	11.10
	Consumer price index	Jan. 05	-0.80	3.10	Interest rate		..	..
Sweden	Gross domestic product	Q3 04	0.90	3.70	Current balance	Q4 04	8.14	6.26
	Leading indicator	Dec. 04	0.60	7.80	Unemployment rate	Jan. 05	6.10	6.10
	Consumer price index	Jan. 05	-0.50	0.00	Interest rate	Feb. 05	1.97	2.46
Switzerland	Gross domestic product	Q4 04	-0.10	1.20	Current balance	Q3 04	8.47	9.67
	Leading indicator	Jan. 05	0.30	1.40	Unemployment rate	Q4 04	4.30	4.30
	Consumer price index	Feb. 05	0.20	1.40	Interest rate	Jan. 05	0.75	0.25
Turkey	Gross domestic product	Q3 04	28.30	4.50	Current balance	Q4 04	-4.46	-3.31
	Leading indicator	Jan. 05	0.40	2.20	Unemployment rate	Q4 04	10.00	10.30
	Consumer price index	Feb. 05	0.30	9.20	Interest rate	Feb. 05	16.31	23.30
United Kingdom	Gross domestic product	Q4 04	0.70	2.90	Current balance	Q3 04	-15.95	-9.87
	Leading indicator	Jan. 05	-0.20	-0.80	Unemployment rate	Nov. 04	4.60	4.90
	Consumer price index	Jan. 05	-0.50	3.20	Interest rate	Feb. 05	4.82	4.10
United States	Gross domestic product	Q4 04	0.90	3.90	Current balance	Q3 04	-164.71	-131.63
	Leading indicator	Jan. 05	0.60	1.50	Unemployment rate	Feb. 05	5.40	5.60
	Consumer price index	Jan 05	0.20	3.00	Interest rate	Jan. 05	2.61	1.06
Euro area	Gross domestic product	Q3 04	0.20	1.90	Current balance	Nov. 04	0.00	3.75
	Leading indicator	Jan. 05	-0.10	1.60	Unemployment rate	Jan. 05	8.80	8.90
	Consumer price index	Jan. 05	-0.60	1.90	Interest rate	Feb. 05	2.14	2.07

Definitions and notes

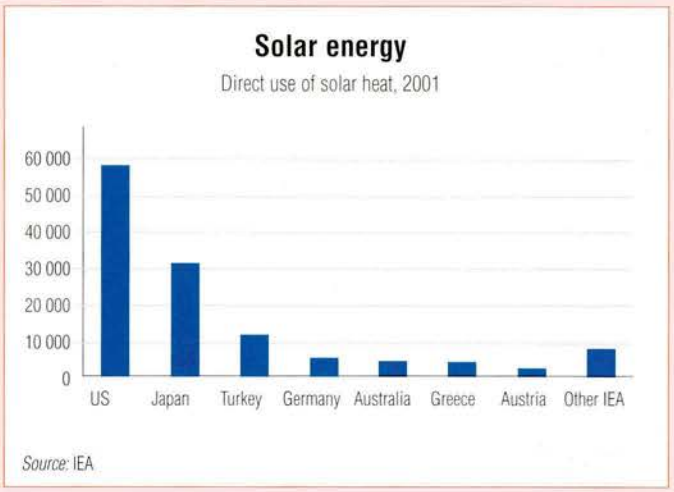
Gross Domestic Product: Volume series; seasonally adjusted except for Hungary, Iceland, Poland, Slovak Republic and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series, etc.), which signals cyclical movements in industrial production from six to nine months in advance; ***Consumer Price Index:*** Measures changes in average retail prices of a fixed basket of goods and services; ***Current Balance:*** US$ billion; seasonally adjusted except for Greece, Ireland and the Netherlands; ***Unemployment Rate:*** % of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico and Turkey; seasonally adjusted, except for Turkey; ***Interest Rate:*** Three months. * refer to Euro zone. ..=not available.

Source: Main Economic Indicators, March 2005

Here comes the sun

With oil prices historically high and worries about global warming, greater attention is being paid to renewable energy potential. Take solar energy, for instance, which is already used for water heating and cooling systems. In 1999-2000, an average of two million square metres of solar collectors for such direct energy use were installed in member countries of the International Energy Agency, a sister organisation of the OECD. The largest producers of solar hot water technologies are the US, Japan and Turkey. Together they account for more than 80% of direct use of solar heat in IEA countries. However, 87% of the solar collectors installed in IEA countries in 1999-2000 were in Austria, Germany, Japan and the US.

Warmer countries are particularly suited to direct solar technology, and Greece nearly doubled its number of solar heating systems from 1.8 million in 1990 to more than 3 million in 2001. Solar thermal heating is expensive, however, with the labour cost of installation being especially high. Some countries now offer subsidies. For instance, the government of Western Australia offers up to AUS$1,000 off the cost of installing solar hot water systems.



As for electricity generation, technology has further to go. Production is almost exclusively in the US, and the only commercial-scale solar thermal electric projects, installed in California from 1984 to 1990, fell victim to the unpredictable business environment for this kind of technology. ■

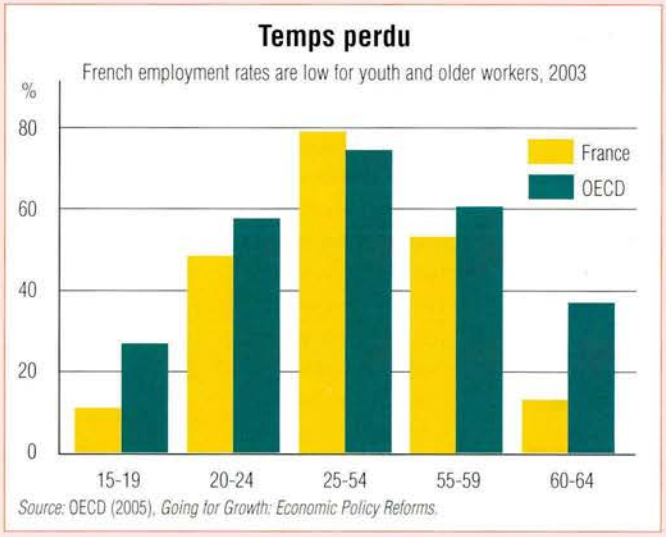
- OECD/IEA (2004), *Energy: Market and Policy Trends in IEA countries*.
- See also "Renewables", in *OECD Observer*, No. 233, August 2002.

We'll call you

On vous rappellera (Don't call us, we'll call you!): this is the title of French writer Sophie Talneau's book in which she satirises the difficulties young French people meet when looking for work. Nearly half of new graduates spend at least a year out of work. Only 30% of France's 15-24 year-olds employed, one of the lowest rates in the OECD.

France's youth employment has fallen gradually since the 1970s, reflecting a rise in educational enrolment rates among 15-24 year-olds. However, enrolment rose in other OECD countries too, with less effect on their youth employment.

The employment of older people in France is also below the OECD norm, at 37%. Yet, France's prime-age employment (25-54 year-olds) is above the OECD average. In short, French workers enter the labour market late and leave it early. In 2002, only 51% of unskilled men aged 50 to 64 in France had jobs, compared with 88% in Iceland. The current official retirement age is 60, lower than most OECD countries.



Reducing unemployment, running at around 10%, is not easy, and given budget pressures from ageing, policies to reform the labour market to improve opportunities for younger and older workers will be needed. ■

See also
- OECD (2005) *Ageing and Employment Policies in France*.
- "French pension pickle", *OECD Observer*, No. 238, July 2003.