Preparing for tomorrow's social policy agenda

New policy responses that emerge from an examination of the economic well-being of the working-age population

SEDAP, April 11 2003

CONTENTS

- Scope

- Economic well-being: where do we stand?

- The drivers of tomorrow's policy agenda

- Main new strands of the policy response

- Is a virtuous circle on the horizon?

- New project: population aging and life-course flexibility

Scope

- Paper for HRDC that
  - Identifies what is likely to be on the policy agenda in 5 years as it relates to the economic well-being of the working-age population
  - Suggests preparatory work that could be undertaken
- Today two new government-wide initiatives
  - New approaches to poverty and exclusion
  - Population aging and life-course flexibility

Where do we stand?

- PAST PERFORMANCE GOOD ON AVERAGE
  - When compared with our own past and the experience of other countries
- Good or mixed scores on all the components of well-being
  - *Personal consumption* – although material living standards have lagged behind those in the U.S. (lower employment and lower productivity – but employment now growing)
  - *Sustainability of wealth* – including human capital (our learning systems score well on most measure and average on some)
  - *Equity* – huge improvements for older people and women have not resulted in large losses elsewhere
  - *Economic security* – mixed record. People do not stay poor or unemployed for long, but cyclical problems especially in the 90's
- And also mainly good scores on most measures of social well-being, including perceived well-being

Index of Economic Well-Being
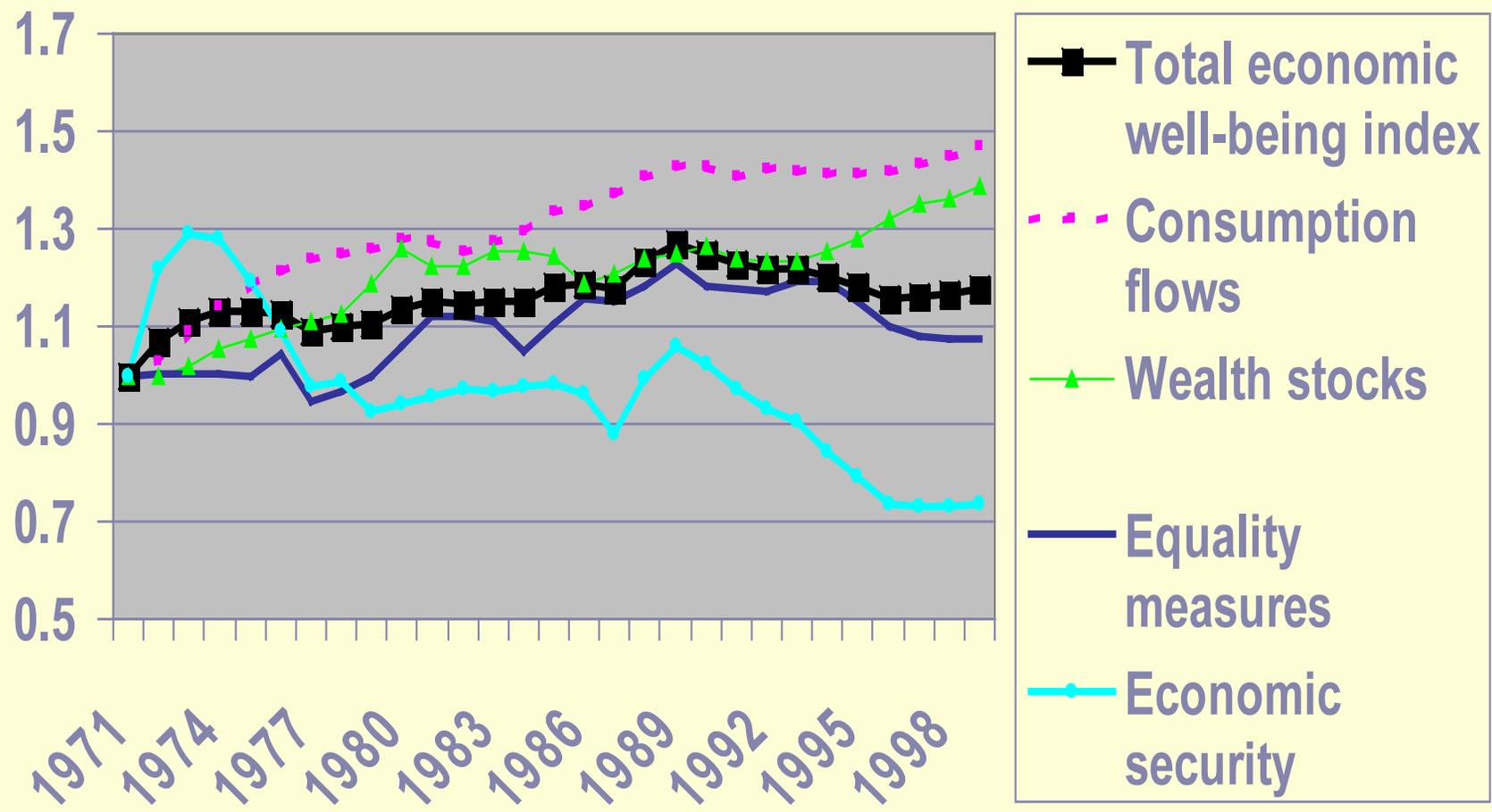
Economic well-being
PERCEPTIONS OF RISK AND SECURITY

Quality of Life from 1990 to 2000
Selected indicators from CPRN report card on perceived risks

	Better	About same	Worse
Confidence in health care system		✓	
Sense of personal safety, crime rates	✓		
Perceived adequacy of income		✓	
Belief that control has been lost over personal economic future	✓		
Perceived likelihood of losing ones job in next year	✓		

Where do we stand?

BEHIND THE AVERAGES

- Growing share of persistent exclusion is concentrated in 5 high at-risk groups
  - People with work-limiting disabilities
  - Recent immigrants
  - Unattached people age 45 to 59
  - Lone parents
  - Aboriginal people
- Most poor children are found within these groups
- Only 4% of those outside these groups were persistently poor

Where do we stand?

- AN OPTIMISTIC VIEW
  - Past trends show strength; 1990's were a downturn
  - Despite productivity gap, we still have higher economic well-being than US when equity and security are added in
  - Big issues have been addressed, and in right order – pensions, EI, children, skills
  - People and markets have been adjusting well and the preconditions for future performance are positive
- A PESSIMISTIC VIEW
  - Recent success reflects past social investment – and we are not renewing that investment (compare quadrupling of PSE capacity in 60's and 70's with cut-backs in social capacity in the 1990's)
  - Some areas never did work well (aboriginals, homeless) and these are growing
  - The only serious comparison is the continuing productivity gap with the U.S.
  - New global economy means more labour market inequality and risk
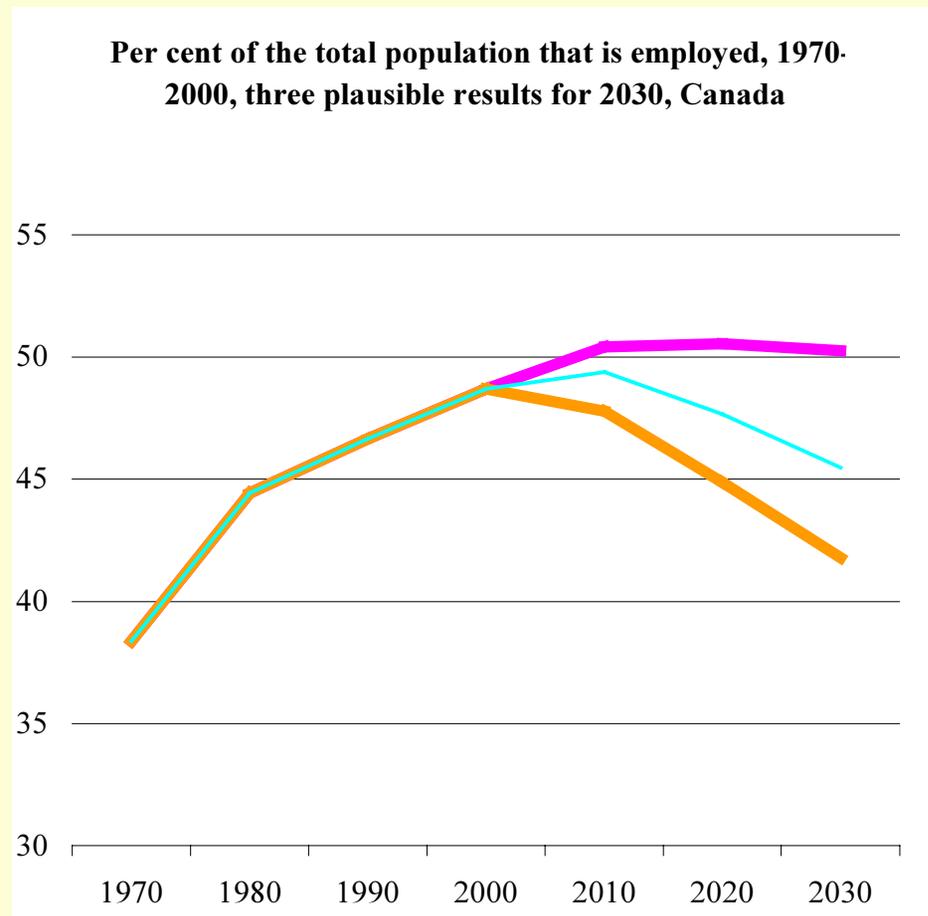
The drivers of tomorrow's policy agenda

INNOVATIONS AGENDA + 2 NEW FACTORS

- Current focus on skills, human development will continue to make sense
  - Nice balance between competitiveness and inclusion
  - A safe response to an uncertain future
  - Just keeping up will be a challenge
- Two new factors will also shape medium-term agenda
  - First, a major change in the consumer-producer ratio
  - Second, pressure on use of time over life
    - Changing retirement incentives
    - Continuing expansion of leisure among older people
    - Shortages of time in mid-life for learning, care-giving, etc

The drivers of tomorrow's policy agenda
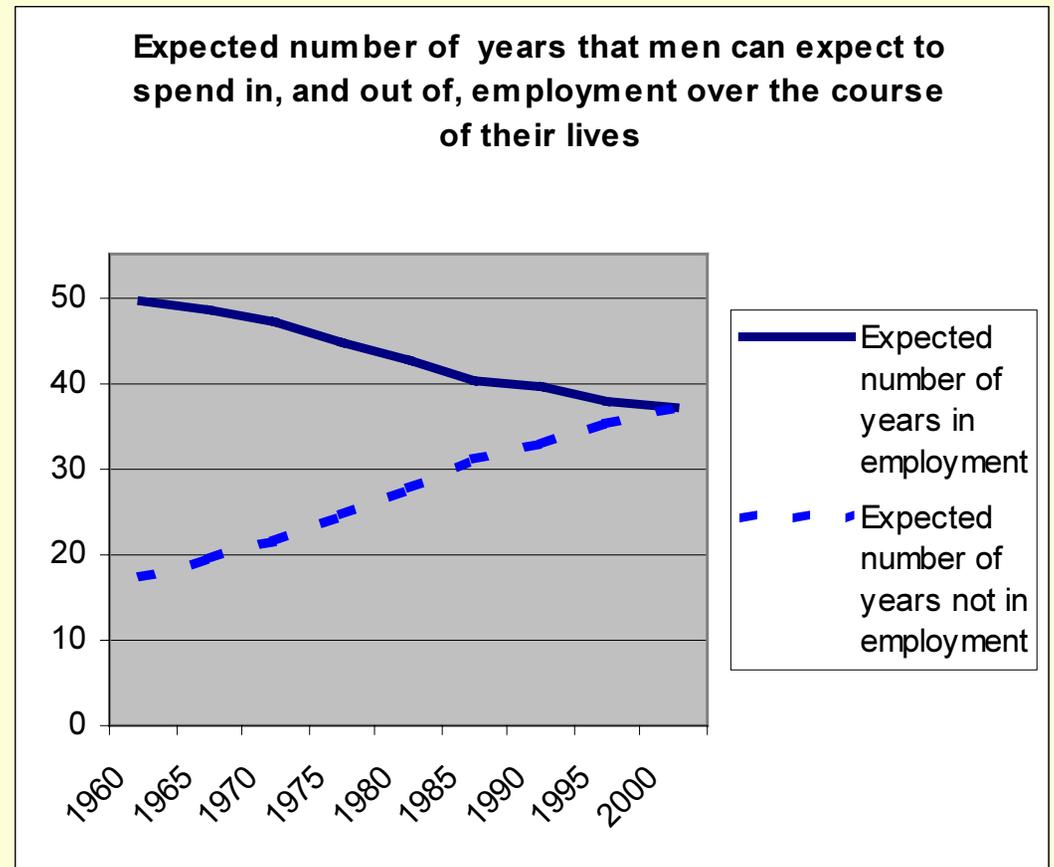## PRODUCER-CONSUMER RATIO

- The retirement of the baby boom generation is likely to completely dominate the medium-term agenda
  - Ends decades of growing producer/consumer ratios that favoured higher living standards
- The extent of the effects are quite uncertain as much adjustment can take place
  - But policy change will almost certainly be needed
- Many potential win-win outcomes
  - Increased living standards
  - Increased economic security and perceived well-being
  - Reducing fiscal pressures
  - Critical to supporting increased life-course flexibility – see below

Per cent of the total population that is employed, 1970-2000, three plausible results for 2030, Canada
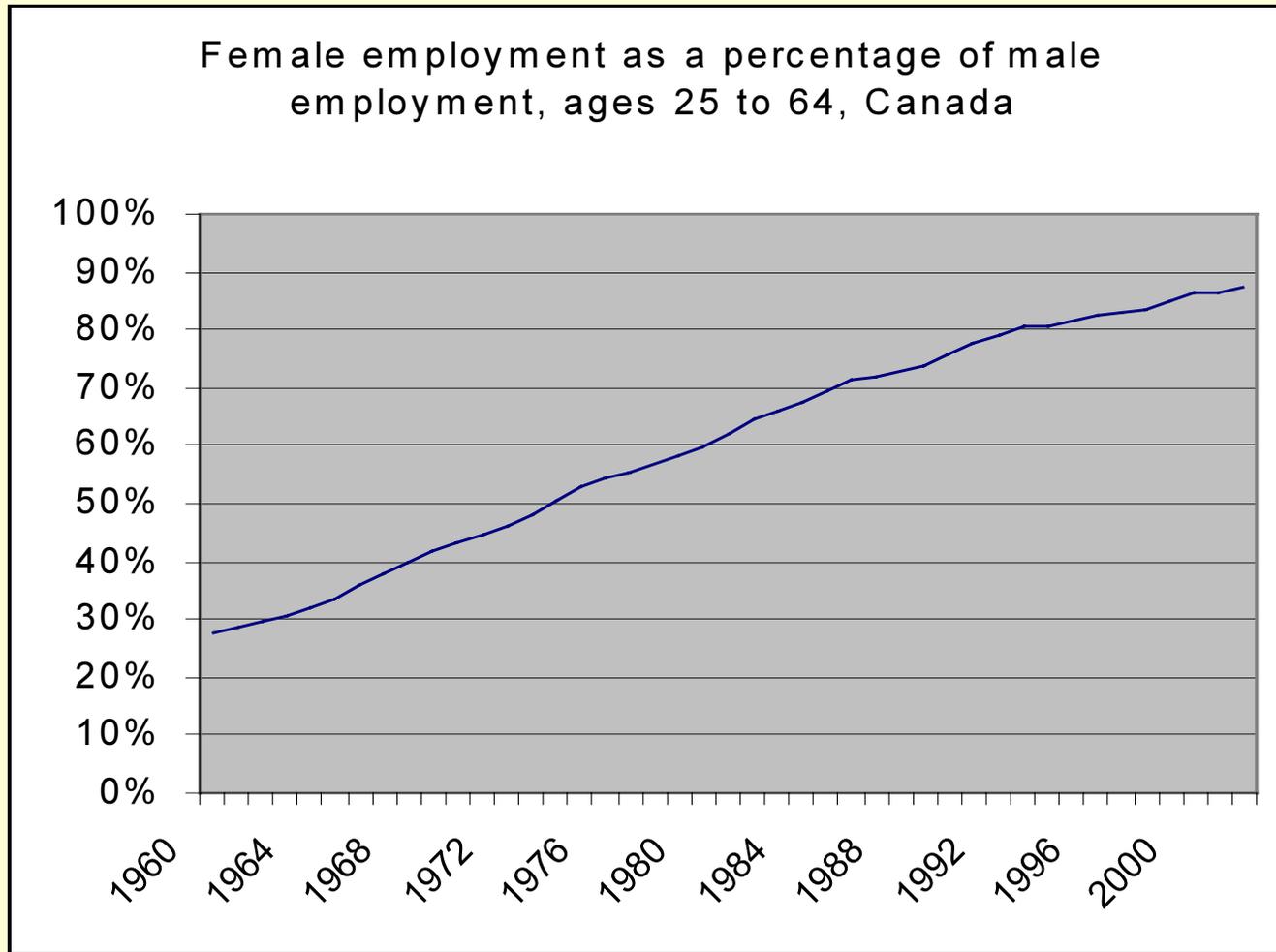
The drivers of tomorrow's policy agenda
RETIREMENT AND REALLOCATION OF LEISURE

- Large change in retirement incentives in 5 to 10 years. Baby boom retirees will be:
  - Healthier, with much longer life expectancy
  - Highly educated
  - Post-materialist values favouring active life in society
  - And – a big change – there will be a demand for their labour
- Without change, an extraordinary, growing pool of leisure among retirees
  - Where it is mainly passive, unhealthy and often unwanted – much the most importance and growing source of social exclusion today
- Lifetime reallocation of leisure would bring many win-win gains – in learning, care-giving, living standards, security, inclusion

Expected number of years that men can expect to spend in, and out of, employment over the course of their lives

— Expected number of years in employment

- - - Expected number of years not in employment

The drivers of tomorrow's policy agenda

Female employment as a percentage of male employment, ages 25 to 64, Canada

Main strands of the policy response

- Today's human development/Innovations agenda continues at center stage
  - Emphasis on early childhood development, higher generic skills especially at bottom, more learning in 'working' years
  - In medium-term, emphasis shifts to learning (not skills) and to ways of shifting from rhetorical to operational goals
  - Innovation Strategy sets development path; therefore not pursued further here
- As well, new areas of policy response:
  - Towards more work and learning, better allocated over life
  - Towards life-course and asset perspectives
  - Towards a capacity for making social investment effective
  - Towards a data-based marriage of decentralization and horizontal integration

Main new strands of the policy response

TOWARDS MORE WORK AND LEARNING, BETTER ALLOCATED OVER LIFE

- <u>Today</u>, policy supports less work
  - Longer schooling + fixed/early retirement ages = less of life in employment
  - We ignore largest pool of time that can be reallocated – in retirement. In the "working years" time is scarce for most – not enough time for learning, for care-giving etc
- <u>Tomorrow,</u> draw on large pool of unallocated leisure in retirement, using only policies that *simultaneously* address
  - Longer-term life-course flexibility
  - Medium-term increases in the total time devoted to work, care-giving, learning
- <u>What needs to be done</u>
  - Prepare for a consultation process in a few years time on policies that affect retirement and life course flexibility (e.g., tax support for private pensions and mid-career learning)
  - Introduce health and retirement longitudinal survey

Main new strands of the policy response

TOWARDS LIFE COURSE AND ASSET PERSPECTIVES

- Today:
  - "Income at a point in time" thinking still dominates income security policies
  - Active, preparing-for-life goals are mainly in separate, and fragmented systems – education, labour market integration, etc

- Tomorrow:
  - A more integrated, preventive approach within a new policy envelope consisting of income security, learning and labour market integration
  - "Income plus a range of assets over the course of life" thinking will become dominant
    - Assets include human capital (even more weight than at present), plus housing assets, financial wealth, information resources and (perhaps) social capital
  - Shift to making a subsequent difference in people's lives becomes an operating goal (as opposed to an aspiration)
  - Focus on persistent problems including those that endure over life and into subsequent generations. (More reliance on individuals/families to deal with low income or economic insecurity that is of short duration and non-recurrent).

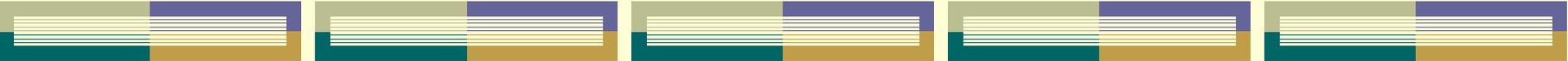# Main new strands of the policy response

TOWARDS LIFE COURSE AND ASSET PERSPECTIVES – 2

- <u>What needs to be done</u>:
  - Get the language right
    - We are deeply influenced/constrained by "income at a point in time" concepts/data
  - Carry out strategic planning studies in the following areas
    - New approaches to social exclusion, e.g.:
      - Implications of life-course/asset perspectives on different groups
      - Implication of concentration of poverty and exclusion in 5 groups
      - Implications on care-giving and receiving
    - Implications of treating housing, financial assets and information as resources along side the existing emphasis on human capital and income
    - Exploring the parallel universe of lifetime accounts that reflect the new life-course and asset-based perspectives to inclusion
      - E.g., learning accounts, RRSP's, third way children's endowment funds, vouchers
      - Lifetime accounts are seen as a neo-conservative/market-oriented tool in Canada, used to privatize welfare – but in reality they can be designed to meet any distributional/cohesion values
      - They have powerful theoretical advantages; the problem is finding ways of making the transition

Main new strands of the policy response

TOWARDS A CAPACITY FOR MAKING SOCIAL INVESTMENTS EFFECTIVE

- <u>Today</u>, policy has:
    - The goal of social <u>investment</u> (getting payoffs in the future)
    - But uses policies based on <u>expenditures</u> (getting payoffs in the present)
- <u>Tomorrow</u>
    - Switch to policies that are driven by specific calculations of expected returns later in life
    - Shift to prevention, enabling people/families/employers with information to allow effective investment in skills
- <u>What needs to be done</u> – develop the systems and collect the skills data
    - System based on newly-available *automatic learning from experience* technology and earlier HRDC pilot work
    - Skills and learning statistics need a big push
    - Expand experimentation on new types of intervention
    - Provide the data on "what has worked best in which individual circumstances" directly to individuals via internet

Main new strands of a policy response

TOWARDS ACCOUNTABILITY: A DATA-BASED MARRIAGE OF DECENTRALIZATION AND HORIZONTAL INTEGRATION

- <u>Today</u> a good federal record by world standards on
  - Vertical integration -- decentralization balanced with Ministerial accountability – in the area of labour market programming
  - Horizontal integration – harmonized action across program streams.
  - Possible because vertical and horizontal dimensions were pursued simultaneously within a single accountability framework (inside HRDC)
  - But linkages to civil society, business and labour, and provinces weak
- <u>Tomorrow</u>: complexity increases greatly with
  - Further extension of horizontal integration within this envelope (education system, taxation, social services, range of income security safety nets).
  - Tighter linkage between health and social envelopes. Social exclusion (and remedial spending) is high when both health and social problems are both present
  - Shift to life-course, social investment approaches
  - Need to harmonize vertical-horizontal integration across jurisdictions

Main new strands of a policy response

TOWARDS A DATA-BASED MARRIAGE OF DECENTRALIZATION AND HORIZONTAL INTEGRATION -- 2

- <u>What needs to be done</u>: Create loosely inter-linked systems of planning, consultation, co-ordination and accountability
  - Initially based on statistics describing the 'new' policy portfolio that encompasses income security, education, skills and labour market integration policies
  - Much richer common data, including data on outcomes, is the correct glue to hold the system together – including governmental and non-governmental actors
  - New social investment technology above will provide the right sort of data
  - Along SUFA lines and as expressed in virtually all developed countries -- federal or not
  - Parallels the recent evolution of co-operation around health data
- Self-interest will make co-ordination <u>*easier*</u> in the future

A VIRTUOUS CIRCLE ON THE HORIZON?

- Future economic well-being will require more producers in relation to consumers
  - Working later is the most likely source of more employees.
  - This is realistic/desirable only if there are good jobs for older people
  - The likelihood of such good jobs is much higher given the labour shortages associated with the retirement of the baby boomers
- Working later opens up the possibility of reallocating the leisure that has been concentrated in older years of life
  - Including to more learning in mid-life years which, in turn, makes working longer a more realistic/desirable outcome
  - More mid-life learning also addresses the productivity gap issue
  - More life-course flexibility brings potential gains on child-care, elder-care, cultural, and voluntary sector fronts
- Those most likely to be at risk by increased retirement ages
  - Are people who face persistent labour market problems over course of life
  - But these are also the people who will gain most from newer approaches to life-course inclusion
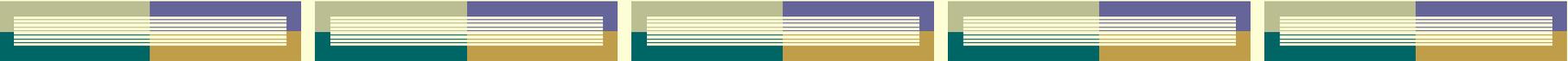
A VIRTUOUS CIRCLE ON THE HORIZON? - 2

- Retirees better off
  - Duration of leisure need not shrink because of growing healthy life expectancy
  - Health and quality of life increase with life-course flexibility. (Retired people today are passive and excluded)
- A new balance that simultaneously addresses economic competitiveness and social inclusion/cohesion in a way that is consistent with
  - Changing public values (towards post-materialism) and expectations
  - Developing strong political alliances across demographic groups (traditionalists, baby boomers, generation X)
  - Fiscal gains
  - Evidence-driven approaches to consultation, planning and accountability encompassing all actors/jurisdictions
  - Greatly improved policy effectiveness – systems that automatically learn from experience of what is working and what is not
  - Tailoring policy much more closely to individual needs and, hence, allowing greater respect for social diversity
- EVERYONE WINS! (Favourable demography + strong fundamentals + exploitation of huge untapped resource of time in older ages)

New government-wide policy research priorities

- POLICY RESEARCH INITIATIVE WITH DEPARTMENTS
- 18 MONTH TIME FRAME FOR WORK
- TOPICS
  - Population aging and life-course flexibility (started)
  - New approaches to poverty and exclusion (started)
  - Social investment theme (on drawing board)
  - Social capital (started)
  - North American linkages (being launched)
  - Sustainable development (likely)

New government-wide policy research priorities
Population aging and life-course flexibility

- Model alternative scenarios on how work and other activities of life might be spread over life
  - LifePath microsimulation, macro fiscal and economic, occupations/skills
  - By sector and population group
- How much will happen by market forces
- Policy initiatives that could help