

# Foreign Labor Developments

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## OECD social ministers focus on rising pension, health costs

MELVIN BRODSKY

The economic implications of social policies are becoming a major concern of the Organization for Economic Cooperation and Development (OECD) as social expenditures account for a larger share of the gross national product (GNP). In their first meeting, social policy ministers of the OECD met on July 6–7, 1988, to discuss social policies for the 1990's. Secretary of Health and Human Services Otis R. Bowen led the U.S. delegation. The specific issues addressed were work and welfare; retirement pensions; and health care systems.

In their discussions, the ministers recognized that social protection systems must adapt to changing economic, social, and demographic conditions. In addition, increased care must be taken to minimize economic disincentives of social programs.

The need for efficient, economical, and flexible social programs will increase over the next 50 years when social expenditures in real terms are expected to rise by one-third.<sup>1</sup> A major reason for this increase is the aging of the population. The OECD projects that the proportion of the population age 65 and older will increase from slightly more than 12 percent to almost 22 percent in the year 2040 when the number of older workers is expected to peak,<sup>2</sup> creating a greater need for public sector social expenditures, particularly old age pensions, disability payments, and medical care. Governments will also be faced with other demands as well. Increasing numbers of single-parent families, long-term unemployment, and persistent poverty all call out for increased government assistance.

### Work and welfare

Ministers expressed support for a closer relationship between social policies, employment, the labor market,

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and education, noting that all are important elements in a dynamic system of social protection. Secretary-General Jean Claude Paye remarked, "Policies for income support should not simply 'passively' support people during periods of unemployment, but should have an active role, more closely integrated with education and training policies, in developing the skills and characteristics which would improve the labor market opportunities of the individual." Secretary Bowen agreed, noting that welfare programs should be judged on how they promote independence. He added that numerous State programs are now experimenting with "workfare" programs to encourage welfare recipients to enter the U.S. labor market.

The ministers agreed to four major policies. First, that income support policies should include both income maintenance and training services. Second, that the implementation of income support, child care, and other policies will enable the growing number of single-parent families with low incomes to combine work and family responsibilities. Third, that the development of tax, employment, welfare, and supporting services should assist in maintaining strong and stable families. For example, Canada and New Zealand have introduced the concept of a refundable tax credit whereby working mothers can take the credit against their tax liability, or if not working, can receive refundable credits as direct cash payments. Fourth, that top priority should be given to the elimination of poverty and its causes.

### Retirement and pensions

Discussions revealed a sense of urgency among the ministers to act at once in the face of rapid growth in public pension expenditures in the OECD countries. Some ministers observed that changes in their pension systems would be very slow and difficult to bring about. It was noted that in most countries, severe demographic pressures will probably not occur during the next 15 to 20 years, but reforms need to be put in place to allow people to plan for their retirement.

The OECD's analytical work in the area of pensions highlights the seriousness of the situation. Between 1960–84, the share of national wealth devoted to financing pensions has doubled, making pensions the largest

item in the budgets of most countries.<sup>3</sup> Because both the benefit levels and the share of the older population eligible for pensions will continue to increase for some time, the situation will worsen. After the year 2010, almost all OECD countries will be faced with a substantial increase in the ratio of aged to working population, reaching a peak around 2040. The OECD estimates that between 1988 and 2040, the demographic effect on pension expenditures relative to the national income will double the pension burden for the OECD area as a whole and will increase by about 80 percent in the United States.<sup>4</sup>

The ministers considered a number of policy options for meeting this challenge. One option is to increase the retirement age with opportunities for individual choice and part-time employment. The OECD estimates that an increase in the retirement age—from 65 to 66 years old—would reduce pension outlays by 5 to 10 percent.<sup>5</sup> A second possibility is to alter the balance between public, occupational, and private pension schemes. The OECD notes that a shift from public to nonpublic pension schemes would ease the pressures on the public system, although not necessarily on society as a whole.

### Health care systems

The ministers noted that while today's health care systems provide excellent services in OECD countries, these systems have become increasingly complex and costly.

Health care budgets in OECD countries have climbed steadily from a 4.2-percent share of GNP in 1960 to a 7.5-percent share in 1986.<sup>6</sup> This represents a growth rate almost twice that of GNP. Health care expenditures in countries with private insurance schemes similar to the United States have risen just as rapidly. For example, total national health expenditures in the United States have increased from \$215.1 billion in 1979 to \$387.4 billion in 1984.<sup>7</sup>

In discussing cost control and management, the ministers examined changes in patient cost sharing, restructuring hospital and medical payment systems, and alternative

health care delivery systems. The Canadian delegate observed that a complicating factor was the high public expectation for health care, and that any change required strong public support. Country discussions showed a strong interest in measures for long-term cost control with the need to encourage healthier life styles. Secretary Bowen's intervention stressed U.S. actions to control costs and maintain quality of health care.

The subject of AIDS as an economic burden proved to be a main focus of discussion. The observer for the World Health Organization noted that AIDS cases reportedly have increased 25 percent in the last 6 months to slightly more than 100,000 and that the disease has entered the epidemic stage. The total cost to health care systems will rise substantially as the number of AIDS cases increases. For example, it is estimated that the total direct costs of medical care for AIDS patients in the United States in 1991 will be between \$8 billion and \$16 billion.<sup>8</sup> Ministers supported research toward controlling and eliminating the disease, increased educational programs, and improved medical care and support systems for AIDS patients. □

### —FOOTNOTES—

<sup>1</sup>See "Making Provision for Aging Populations," *The OECD Observer*, October–November 1987, p. 6.

<sup>2</sup>*Ibid.* p. 5.

<sup>3</sup>*Aging Populations, The Social Implications* (Washington, Organization for Economic Cooperation and Development, 1988), p. 69.

<sup>4</sup>*Retirement Pensions, Demographic Pressures and Economic Constraints* (Washington, Organization for Economic Cooperation and Development, 1988), p. 12.

<sup>5</sup>*Ibid.*, p. 6.

<sup>6</sup>*Health Care Systems: Needs, Control and Efficiency* (Washington, Organization for Economic Cooperation and Development, 1988), p. 5.

<sup>7</sup>*Structural Adjustment and Economic Performance* (Washington, Organization for Economic Cooperation and Development, 1987), p. 323.

<sup>8</sup>*Ibid.*, p. 11.