International Reform Monitor
Issue 14

A Cross-National Comparison of Social Policies, Labor Market Policies and Industrial Relations

BertelsmannStiftung

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About the project

The International Reform Monitor is a Bertelsmann Stiftung project in which 15 experts report annually on the most important reforms in industrial relations and social and labor market policies.

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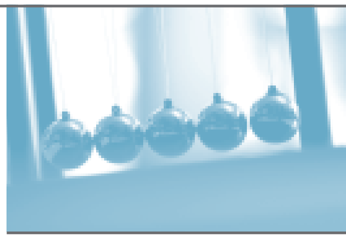


Reform during global financial and economic crisis

Since the fall of 2008, international financial and economic turmoil has profoundly shaped the course of reform processes around the world. As the crisis first unfolded, it was unclear what impact this turmoil would have on financial markets and the real economy, and in turn, on labor markets and social systems. But two years on, considerable differences began to emerge in terms of economic performance and the ability of individual states to respond to the crisis with appropriate social measures.

When the crisis hit Europe, the world's top exporter – Germany – suffered the effects of rapidly shrinking foreign demand. And as trust in banks eroded worldwide, so too did the financial resources available to German firms. All of this placed considerable pressure on German business, which found its scope of action growing increasingly narrow. Despite all the uncertainty, several governments around the world took swift and resolute action in containing the effects of the crisis. The Bertelsmann Stiftung publication, Managing the Crisis – A Comparative Analysis of Economic Governance in 14 Countries (2010) takes a closer look at several of these measures, identifying them as the most resolute, immediate, pragmatic and comprehensive set of responses to a global recession on record. The initial resistance to short-term emergency measures and fiscal expansion, found in all affected countries, dissipated rather quickly as the potentially devastating effects of the crisis became clear. As a result, many governments were able to act decisively and introduce crisis measures with little controversy. Each government targeted a swift rehabilitation of financial markets in order to stabilize economic performance and ensure that businesses could act within a functioning market.

Although the patterns of response in the early stages of the crisis might have shared common features, the concrete actions taken to address medium- and long-term challenges differed considerably from country to country.

The crisis lay bare the close linkages that have developed between finance and the real economy, and it demonstrated the threat these linkages pose to labor markets and social welfare systems. Yet the consequences of this state of affairs are not the same everywhere. In fact, negative economic growth does not always have a negative effect on unemployment. For example, although Germany was relatively hard hit by the crisis because of its strong dependence on exports, unemployment levels did not change significantly as the crisis began. A similar situation could be observed in the Netherlands. Spain, however, experienced a sharp rise in unemployment, but a less severe decline in GDP than that seen in other countries (Möller 2010). These discrepancies show how, on the one hand, governments have different policy instruments to cushion the effects of the crisis and, on the other hand, sound reform policy can protect labor markets from the full brunt of crisis for a given period.

States with established developed economies are facing several challenges that have been underway since long before the onset of the crisis. Indeed, experts have focused for some time now on the architectural sustainability of various social welfare systems and the structural changes underway in labor markets globally. Demographic change, developments in technology and the internationalization of goods, services and workforces have put established labor markets around the world under considerable pressure. The measures taken today in labor and social policy reform address short-term problems (e.g., rising unemployment in the wake of the crisis), the long-term consequences of the financial and economic crisis (e.g., large deficits) and other developments which are not necessarily related to the crisis.

As a survey of social and labor market policies in selected OECD countries, the International Reform Monitor is designed to identify the most important measures taken among a broad range of reforms. The Bertelsmann Stiftung has conducted this survey at regular intervals since 1999, building a set of qualitative data from which policymakers and policy professionals can draw upon. The Reform Monitor is concerned less with changes in the status-quo and more with the specifics of individual reform components and the relevant actors involved with these reforms.

Context is an important factor to consider here, as the path dependencies of a specific country or supranational decisions will affect how reform is pursued, introduced and implemented. This is particularly the case when the contents of a policy are upheld as a positive example for other countries to follow. Social and labor market policies in particular are subject to the effects of path dependencies; they are bound to be shaped by the course already taken. This is a natural consequence of the extremely high transaction costs associated with making changes to policies already in place. Economic costs are not the only costs involved here. At risk too is public support, which can falter or erode when policymakers introduce reforms. This can be seen in the considerable loss of confidence suffered by the German government in the wake of measures introduced as part of the Agenda 2010 reforms. With public support for these policies shrinking, German policymakers in recent years have found their hands tied. The Social Democrats (SPD) in particular have suffered the heaviest losses among all of Germany's major parties – a situation from which they have yet to recover – even though the reform measures taken then from 2003 to 2005 have yielded positive results: Employment rates in Germany increased by 4.6 percentage points from 2001 to 2009 (Figure 1).

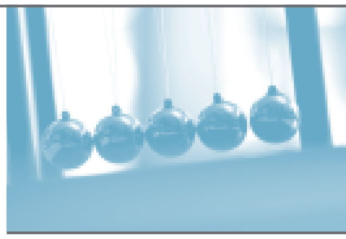
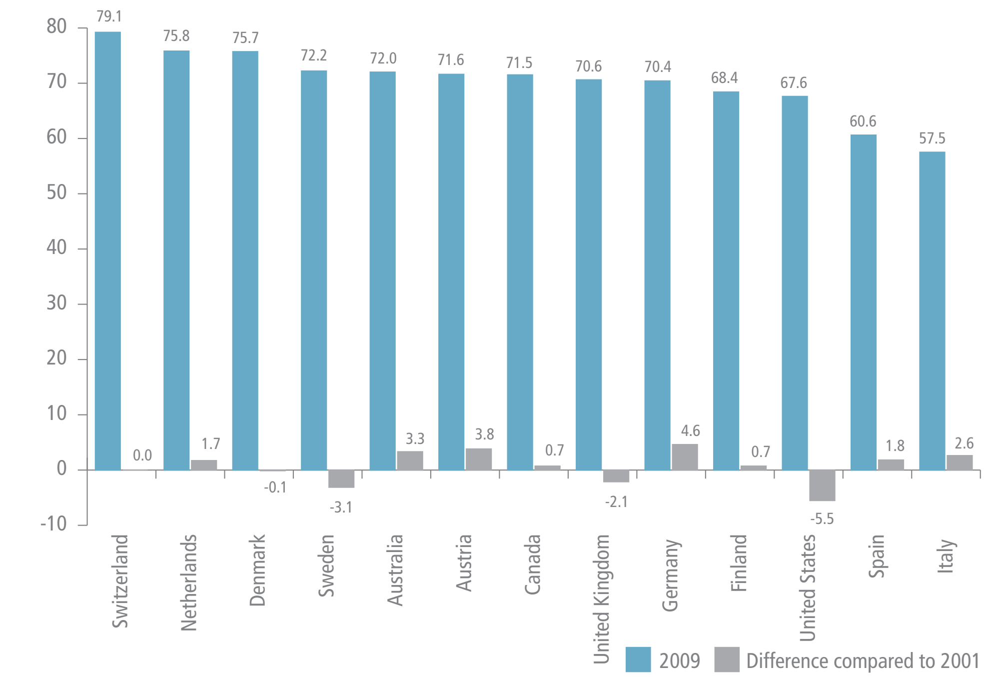


Figure 1: Change in employment rates (2009 vs. 2001) in percentage points



Sources: OECD. | BertelsmannStiftung

Identifying good practices in reform demands that we consider sociopolitical contexts if we want to determine whether plans for reform in one context can be transferred relatively easily to another context, or rather if specific components of a social policy are applicable in another country. The countries included in the Reform Monitor survey can be classified in terms of how their social and labor market policies are configured. These classifications underscore specific features of the sociopolitical traditions found in these countries.

Table 1: Countries surveyed by the International Reform Monitor 2010

liberal welfare state	social democratic welfare state	conservative welfare state
Australia	Sweden	Austria
Canada	Denmark	Germany
United Kingdom	Finland	Netherlands
United States		Spain
Switzerland		Italy

Source: Compiled by the authors, based on Esping-Andersen 1990. | BertelsmannStiftung

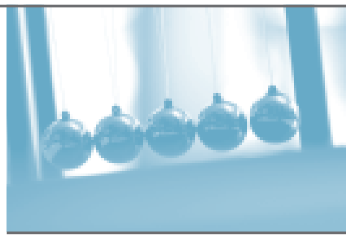
We base our classification (see Table 1) of welfare states on the widely accepted typology of welfare states established by Gøsta Esping-Andersen in “The Three Worlds of Welfare Capitalism” (1990). Esping-Andersen’s typology identifies three regime types of welfare capitalism: social democratic, conservative and liberal. The defining features of each are based on the roles in which the state, markets and the family play in weaving the sociopolitical fabric of a society. The typology of a social democratic welfare state features an emphasis on the state playing a key role in the redistribution of wealth. In conservative welfare states, it is the family which tends to bear responsibility for social security. The liberal form of welfare capitalism, in which the state refrains from assuming any responsibility for social stratification, embodies most clearly the ideals of individualism and the primacy of the market.

These types are distinguished according to the following three factors: the means by which the system is funded, the level of social stratification and the level of decommodification, or the extent to which personal well-being is decoupled from the market. This concept includes the right to social security as a right independent of the market forces. Stratification refers to the extent to which social disparities in the world of work are reproduced by a society’s system of social security. When these market-induced disparities are transferred directly onto society, profound class differences are sure to develop.

Esping-Andersen’s typology is not without its critics. Experts have suggested alternative typologies or developed further specific aspects of the existing typology. Many have pointed to states in the Mediterranean as a case demanding special attention. However, the differences between these states and those found on the European continent are marginal. The systems found in both are built upon principles similar to those found in central European states (Esping-Andersen/Myles 2010).

It should be noted that Esping-Andersen’s typology is based on ideal-types; it is not designed to provide an exact portrait of the real world. The concept of a continental European welfare state, for example, draws upon the fact that these states feature systems that are based on the principles of Otto von Bismarck’s social insurance legislation of the 19th century. Within this framework, the majority of benefits are linked to an individual’s employment; they are not universal in nature, as is the case in the social-democratic welfare states of northern Europe. Funding for social security in continental European systems is similar in structure to that found in liberal welfare states. However, they are generally more modest because they are based primarily on tax revenues.

Despite these differences, there is a notable trend towards converging approaches. Many of the existing systems, which are built on principles dating back to the end of the 19th century, have taken on features of systems found elsewhere in order to respond to similar challenges. Globalization and developments in technology have put considerable pressure on labor markets and social systems, in particular those that are based on high levels of employment. In addition, demographic change is having a profound impact, though to varying degrees, on countries everywhere. Increas-



ingly more states are being forced to reconsider the ways in which pension and health plans for the elderly are financed in order to ensure the sustainability of these programs. An increasing number of hybrid arrangements are emerging that rely upon two pillars of funding: social insurance systems and tax revenues. How these pillars are balanced against each other and the mechanisms of distribution used will vary, depending on the original type of system.

The International Reform Monitor 2010 examines reform activities in selected countries from September 2008 through December 2009. In cases where particularly important changes or developments transpired before the period under review, experts were encouraged to take this under consideration in their report. It should also be mentioned that not every possible change was reported, as doing so would have gone beyond the scope of the project. Drawing upon Peter Hall's understanding of second- or third-order changes (1993), experts were asked to address only those changes that affect elementary concepts or political paradigms. Minor adjustments to policy that do not represent new ideas are ignored.

Reforms carried out in each of the countries surveyed can be grouped as follows:

- short-term crisis-alleviation measures;
- measures in response to demographic change and the need for pension reform;
- measures facilitating labor market participation, activation and social-security system financing;
- various measures.

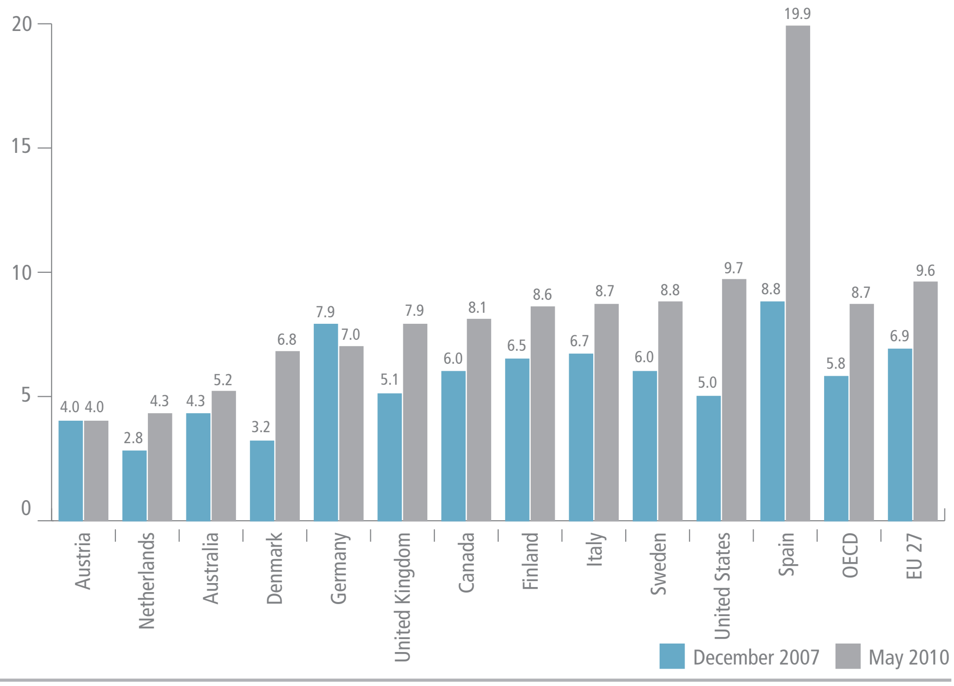
In the following, the reforms and processes involved with each are discussed. The description of each reform is followed up by an expert evaluation. Each reform is also rated along a five-point scale in terms of four areas: innovation, relevance, impact upon the public debate and path dependence. The full reports on each reform are available for download at www.reformmonitor.org.

Short-term crisis-alleviation measures

Short-time work compensation (Kurzarbeit)

The international financial and economic crisis had varying degrees of impact on OECD countries' labor markets (Figure 2). While countries such as the United States, Ireland and Spain experienced a relatively sharp rise in unemployment, the consequences of the economic downturn in the Netherlands, Germany and Austria were less serious. This was attributable in large part to the various labor-market measures these countries implemented in response to the crisis. Germany, Austria and the Netherlands all adopted short-time work compensation (STC) programs as a key policy instrument in keeping unemployment levels low. In each of these countries, these shortened-hour work programs had long been institutionalized as an essential element of policy even before the crisis, primarily in industries such as construction that are subject to seasonal up- and downturns. Adjustment to the present-day challenges has helped minimize the effect of the crisis on labor markets in these countries.

Figure 2: Change in unemployment in the OECD countries, December 2007 – May 2010



Note: Data for Switzerland are not available.

Sources: OECD.

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Austria

Rendering the short-time work compensation program more flexible, and extending the job-security period during the financial crisis

Innovation	**
Relevance	****
Impact	****
Path dependence	****

In Austria, the short-time work program was made more flexible in the wake of the crisis by allowing working hours to vary between 10 percent and 90 percent of normal hours. As part of the program, the duration of eligibility was also extended several times – thus, Austria now offers compensation for reduced-hour work for up to 24 months. The expansion of the short-time work compensation program was carried out quickly in Austria, passed by parliament in February 2009 shortly after Germany's adoption of a similar plan, while the Netherlands moved forward in April 2009 with its own version of this anti-crisis instrument. In each of these countries, the social partners were consulted during the proposal's approval process.

In Austria, where program details are sector-specific, an agreement with social partners in that sector must be reached. The Austrian short-time work compensation guidelines mandate that participating workers must continue to be employed for a certain period after the program's end. The definition of this period is left to the social partners. The rationale for this is primarily to offer protection against abuse of the program, as well as against other long-term developments such as demographic change. Companies are well-advised to keep skilled workers on the payroll in order to be able to respond appropriately to the demands of the next period of economic growth.

In addition, the potential effect of the short-time work program's policy configuration on Austria's international competitiveness, particularly with respect to neighboring Germany, has played a substantial role in public discussion. Accordingly, the regulations have been adjusted several times in order to follow the German model. Competitiveness relative to Germany was also strengthened through the introduction of training during the period of reduced-hour work, through a special training subsidy program (Kurzarbeitshilfe mit Qualifizierung).

> The short-time work compensation program has met with positive reception in Austria, and seems to be a promising measure to mitigate the effects of the crisis. The addition of the training component has yielded particularly positive effects. In the long term, the policy instrument can be successful only if eligibility for the short-time work compensation program is limited to companies facing temporary difficulties. Otherwise, structural change will be hindered.

The Netherlands

Innovation	****
Relevance	****
Influence	****
Path dependence	***

Introduction of a part-time benefit program enabling firms to retain important employees

The Netherlands' STC program features a slightly different operational design. In April 2009, after the government had compared its policies to other states' STC policies, it thoroughly revised its own scheme and transferred these instruments to the partial benefits program (Deeltijd WW) program. The country's STC policies are now integrated into its unemployment insurance framework. The program is aimed exclusively at core employees; temporary workers are ineligible for the program's benefits

Working hours can be reduced by no more than 50 percent. In addition, eligibility for STC benefits, at 15 months, is significantly shorter than in Germany and Austria, and must be re-approved every 13 weeks.

An evaluation was performed just two months after the introduction of the WW program. Subsequently, the budget has been expanded despite the emergence of loud criticism. Among the points highlighted as flaws were accusations that employers were requesting part-time eligibility for their full staffs, rather than simply the most important employees. To combat this, the measure's eligibility period was changed to depend on the percentage of a company's employees receiving benefits. Following this adjustment, the short-time work compensation is paid for 15 months as long as no more than 30 percent of the firm's workforce is claiming benefits. If 30 percent to 60 percent of a company's workers are receiving reduced-hours compensation, eligibility is reduced to 12 months. If more than 60 percent of employees are receiving short-time work benefits, eligibility ends after nine months.

To protect against abuse of the policy, provisions were added creating a minimum program participation of six months, and a minimum reduction of employee working time of 20 percent. This should prevent relatively less troubled firms from benefiting unfairly from the program. The Dutch employment agency, the Institute for Employee Insurance, oversees the management of benefits and distributes funds first to employers, who then pass them on to the workers. Another element of the reform called on employers reducing hours to provide training for their employees. However, this element has been criticized for lacking enforcement mechanisms with which to sanction violators (Irvine/de Jong 2009).

> The partial unemployment benefits program is an appropriate measure in a period of financial crisis, giving companies the opportunity to avoid skills shortages in a future upturn. By modifying the policy's provisions, the government has ensured that a clear distinction be drawn between crisis and structural measures.

Germany

Extension of and increased subsidies for short-time work compensation

Innovation	****
Relevance	***
Influence	***
Path dependence	***

In Germany, as in Austria and the Netherlands, the STC program played a relatively minor role before the onset of the crisis. However, as the crisis hit, the threat of a rise in unemployment led the German government within the framework of two stimulus packages to expand the policy already in place and make it more flexible. Policymakers therefore lifted – for a limited time – an eligibility threshold that had required at least 30 percent of a company's employees to be facing a reduction in hours and associated loss of pay. In addition, social security contributions were reduced by 50 percent.

If workers participate in training programs during their period of reduced working hours, social security contributions can be eliminated altogether. In June 2010, the maximum period of eligibility was extended to 24 months. The policy's provisions were of primary importance to the manufacturing sector and the automobile industry.

> The German labor market is characterized by substantial internal flexibility. The STC program is therefore an appropriate measure to respond to economic challenges. The extension of program eligibility to 24 months can be considered problematic due to the associated postponement of structural adjustment, as can the policy of full reimbursement of social security contributions. This policy mix does not provide incentives for structural changes within participating companies.

In mitigating the direct consequences of the financial crisis, this measure proved to be extremely successful. Countries that possessed an appropriate policy even before the financial market turmoil were able to expand this with relatively little effort, thereby winning support both from the populace at large and from key stakeholders such as labor and employers' associations. Nevertheless, it remains to be seen how unemployment figures will develop as the STC program comes to a close. Although this measure proved to be extremely useful, it is also characterized by high costs, and cannot permanently solve the problem of low labor demand. Furthermore, there is a risk that structural change will be greatly hindered by the protection of unsustainable industrial sectors. However, should economic developments in the coming months continue to improve, this policy instrument will have proved to be an appropriate short-term measure and would emerge as a new form of automatic stabilization.

Extending the duration of unemployment benefits

Extending unemployment benefits in a time of employment crisis

Canada and the United States do not possess policy instruments such as part-time or reduced-hour work support. In seeking to lessen economic hardship, these systems reacted primarily with passive labor market policies which extend eligibility periods for unemployment benefits. The effects of the financial crisis were immediately felt in the labor market, with the U.S. unemployment rate doubling in a very short period of time.

United States

Innovation	***
Relevance	**
Influence	**
Path dependence	****

Labor market policy in the United States is an artifact of the country's federal structure, which means all states formulate their own individual policies. The extension of unemployment benefits eligibility was therefore not easy to enforce from the federal level, leading to several revisions of the policy. In general, unemployment benefits in the United States are available for 26 weeks. Furthermore, all U.S. states have the option to extend the period of benefit eligibility. However, for this to take place, unemployment rates must pass a certain threshold, which varies across the states. Even during the crisis, this threshold was not reached in 35 states.

The temporary Extended Unemployment Compensation (EUC) program allowed unemployment benefits to be extended in a larger number of states. The program extends the benefit period between 20 and 33 weeks, depending on the prevailing levels of unemployment. This resulted in a benefits extension of 20 weeks in 40 states and an extension of 33 weeks in eight states. To provide incentives for states to reduce the minimum level of unemployment needed to trigger an extension and to make the extension of unemployment benefits accessible to needy individuals, the financing structure for unemployment benefits was also temporarily modified. Previously, costs were divided between the individual state and the federal government; however, in the first months of 2010, the federal government took over financing of the additional weeks completely. Following the last review of benefit periods, unemployed persons in the United States can receive benefits for up to 18 months – a duration that can be regarded as historic in the United States.

> Never before has such a long eligibility period been possible. Additional help was also implemented targeting health insurance plans that had been offered by employers or had been co-financed. This public financing of health insurance represents the only real novelty in the country's anti-crisis policy. A notably negative aspect of the policy is the absence of any attempt to unify the various ways to qualify for unemployment benefits. Nevertheless, the measures have had overall positive effect, as they have contributed to the stabilization of consumption and mitigated the immediate consequences of the economic and financial crisis.

Canada

Extending the maximum duration of unemployment benefits

Innovation *
Relevance *****
Influence **
Path dependence *

In Canada, eligibility for unemployment benefits was extended from between 14 and 45 weeks to between 19 and 50 weeks – thus, not as significantly as in the United States. The duration of benefits is dependent on the hours worked by the applicant in the "qualifying period" (average 52 weeks); the specific length of qualifying period is in turn dependent on the level of unemployment in the particular region.[1]

The stage of an applicant's career or working life also affects the amount and duration of payments. For those who have held only a single job, the eligibility threshold is slightly higher (910 hours in 52 weeks). One goal of the opposition party's reform proposals was to unify the various state rules, but this proved unsuccessful despite the pressure of the crisis. Precisely for this reason, the change in rules had only a minimal impact on workers' actual conditions, as many of the unemployed did not benefit from the measure. Indeed, only 30 percent of the unemployed qualify under the eligibility rules. In theory, the program should particularly protect those workers who have been net contributors to the system for many years. Yet whereas 30 percent receive benefits, only 21 percent were able to qualify for the eligibility extension.[2] Moreover, the benefit extension period is limited, expiring in September 2010.

Although this reform represented merely a modification of the existing program, it proved controversial in Canada. All political parties supported the adjustment as a reaction to the crisis, but views as to the precise details of implementation varied widely. When a working group composed of representatives from all parties collapsed, the Liberal Party withdrew their support for the governing Conservative Party. To win the support of the New Democratic Party, the Conservative Party crafted a reform plan guided by its ideas, which led to general dissatisfaction with the solution on the part of the other parties. Above all, the reform plan was criticized for failing to be comprehensive enough. The unification of application and authorization procedures was abandoned, and the two-week waiting period for applicant eligibility remained. In addition, some critics complained about discrimination against certain groups of workers. In the manufacturing industry, many workers (due to seasonal employment) and women (due to the high rate of part-time work) were not able to satisfy the qualification criteria, and thus were not able to benefit from the extension.

> The expert considers this reform to be primarily a political measure, by which the government in office prevented the necessity of new elections. In its current configuration, the reform is not extensive enough, and reaches only a fraction of the population.

1 The number of hours varies between 420 and 700. The specific thresholds can be found at the following link: www.servicecanada.gc.ca/eng/ei/types/regular.shtml#Insurable.
2 A detailed list of eligibility statistics is available at www2.parl.gc.ca/Content/LOP/LegislativeSummaries/40/2/c50-e.pdf.

Income Tax Reform

United States

The temporary reduction in income tax was enacted as part of the stimulus program, intended to serve as a countermeasure against the economic and financial crisis.

Alongside the expansion of unemployment benefits eligibility, a key U.S. anti-crisis measure was the temporary income tax reform contained in the American Recovery and Reinvestment Act of 2009. The tax credit offered low-income workers a tax rebate equivalent to 6.2 percent of their income: This was capped at 400 U.S. dollars for single taxpayers and 800 U.S. dollars for married couples, while taxpayers with high income were excluded completely. Students and families with more than three children were given additional advantages under this "Making Work Pay" package. The tax cuts had a positive impact on a large part of the population, and therefore represent an effective countermeasure against the consequences of the crisis.

> The tax credits address the majority of the American people. Only high-income workers were excluded from the tax relief program.

Protection against dismissal

The Netherlands

Innovation	***
Relevance	***
Influence	**
Path dependence	****

The amendment to the Employment Protection Act allows companies to keep key workers in times of crisis.

Seeking to enable companies to pursue a sustainable course through the crisis, policymakers in the Netherlands changed existing regulations on employment termination. Following the principle of proportionality, workers engaged in similar activities within a firm had been divided into the following age groups: 15 to 25 years old, 25 to 35 years old, 35 to 45 years old, 45 to 55 years old, and 55 years and older. The basic rule is that the last one hired within a given age group will be the first to be laid off. This principle is designed to prevent age discrimination, and ensure a relatively equal distribution of ages across a firm's employee base. In the course of the financial crisis, temporary exceptions to this rule were approved.

If a particular employee is irreplaceable for a firm, faces more difficult labor market conditions than other employees, or is essential for the firm due to close links with a client, the company can deviate from the ordinary rule. In the oldest and youngest age cohorts, this exception can amount to no more than 10 percent , and must be approved by the Dutch employment agency (Uitvoeringsinstituut Werknemers Verzekeringen, UWV). Firm's requests are approved only if it can be

shown that the worker's knowledge and skills are indeed essential. This is designed to ensure that companies' human capital is not unduly weakened during the crisis. The negative implications for the oldest and youngest workers were deemed acceptable. However, due to the measure's expiration in September 2011, and the limitation of the modified procedure's application to 10 percent, the negative effects are not expected to run too deep.

> By changing the provisions for employee termination, companies are allowed to retain key workers. The potentially negative implications for older and younger employees are limited due to the exception's maximum application to just 10 percent.

Switzerland

Various measures combating long-term and youth unemployment, and promoting continuing education, were included as part of an economic stimulus package.

Innovation	*
Relevance	***
Influence	**
Path dependence	n.a..

As a part of the stimulus package implemented in response to the international financial and economic crisis, the Swiss government established three core programs. These had as their goal a reduction in long-term and youth unemployment and youth unemployment during the crisis. In addition, the measures focused on the promotion of job and skills training.

If the unemployment rate exceeds 5 percent, positions in the state administration or in mandated organizations will be subsidized for a limited period. Eight thousand of the long-term unemployed were able to benefit from this measure. In addition, wages for young workers entering the labor market were subsidized and internships with the federal government were provided. Continuing education programs were offered to workers forced onto reduced-hour schedules and recent graduates.

> The size of the stimulus plan is relatively small in comparison to other countries; however, Switzerland's labor market was not affected as deeply as some others. The success of measures combating youth and long-term unemployment is difficult to assess. However, temporary support for integration of the long-term unemployed into the labor market does not appear to make sense, as long-term unemployment is a structural problem.

Demographic change and pension reform

Finland

Innovation ****
Relevance ****
Influence ****
Path dependence ***

Indirect labor costs were reduced by eliminating employers' contributions to state pensions

A fundamental shift in pension financing in Finland took place partly in response to the financial crisis, but was not implemented as a temporary measure. Employer contributions to the national pension fund system, which had fallen into three categories topping out at 3.9 percent of income, were reduced by 0.8 percentage points in April 2009, and were eliminated entirely by 2010. This led to a reduction in labor costs, particularly in export-oriented industries (most of which had fallen into the highest contribution category). A subsequent increase in employment of about 0.5 percent was projected for the 2010 – 2012 period.

This reform was initiated and negotiated by Finland's labor and employers' associations. The government agreed, although faced protest from the left-leaning opposition party, which argued against an excessive relief of business's responsibilities and the associated burdening of the state. The government agreed, although faced protest from the left-leaning opposition party, which argued against an excessive relief of business's responsibilities and the associated burdening of the state. This reform was intensively discussed in public, as it represents not just a slight modification of existing policy, but rather a fundamental change in the financing of the social security system.

> This reform is expected to have a positive effect on the labor market, while strengthening companies' financial position.

Italy

Innovation *****
Relevance *****
Influence ***
Path dependence ***

Alignment of retirement ages for men and women in public service

Along with Great Britain, Italy falls into the ranks of the few Western industrialized countries in which men and women have different legal retirement ages (Figure 3). Due to an EU directive implementing the principle of equal opportunity and equal treatment for men and women in matters of employment and occupation (Directive 54, dated July 5, 2006), EU member states were required to adjust retirement ages for men and women in public service to follow norms of gender equality. The policy states that social security benefits must be equitable in occupational settings. Since pensions for civil servants and public employees fell into this category of social services, they had to be adjusted.

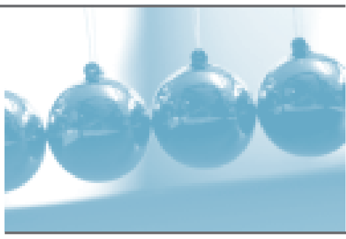
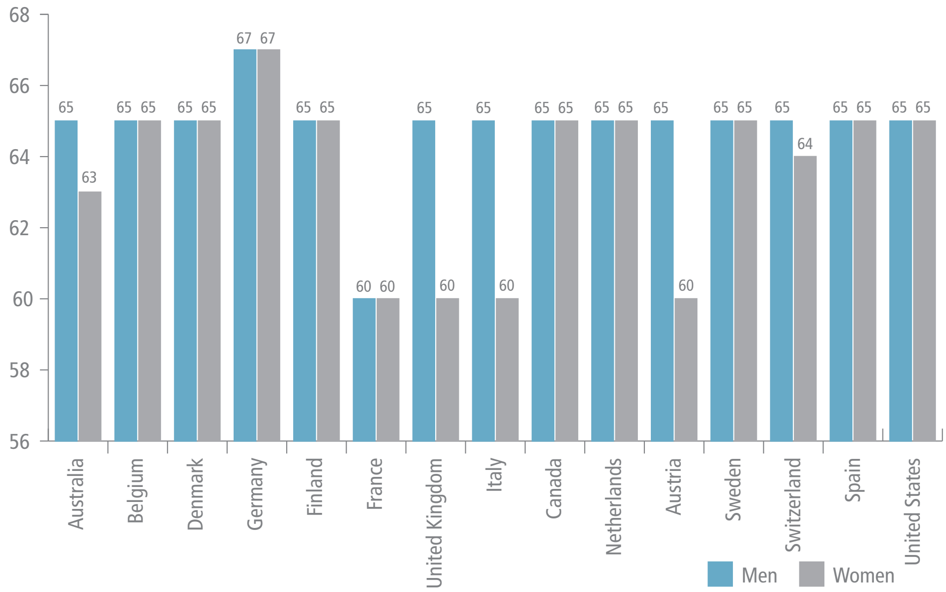


Figure 3: Statutory retirement ages compared, 2010



Note: Australia's statutory retirement age will gradually increase until 2013, Germany's until 2029, and the United States' until 2020.

Source: SSA.

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In Italy's case, the European Court of Justice (ECJ) offered additional emphasis with the issuance of a November 2008 ruling demanding that retirement ages for civil servants and public employees be equalized. Italy continued to delay despite the ruling, and only after repeated requests from the European Commission was the law to equalize civil service retirement ages finally implemented on January 1, 2010.[3]

Due to job discrimination during their careers, and the double burden of motherhood and work, many women were against this reform, since they had previously been eligible to receive their full benefits package at an earlier date. Because the social welfare system relies strongly on the family, women often find themselves caring for children more than once in their life. Older women often find themselves back in the role of caregivers, looking after their grandchildren. As a result of this situation, the government also plans to make changes to its family policy. A transition period lasting until 2018 is currently planned; however, this led to an immediate warning from the EU, in June 2010. The EU considers the continuation until 2018 of a policy classified as discriminatory to be "unacceptable."

> The adjustment of the retirement age in Italy appears overdue, and should thus be carried out.

[3] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1034&format=HTML&aged=0&language=DE&guiLanguage=en.

Canada

Innovation	***
Relevance	***
Influence	****
Path dependence	***

Introduction of pension splitting

The Canadian pension system consists of three pillars:

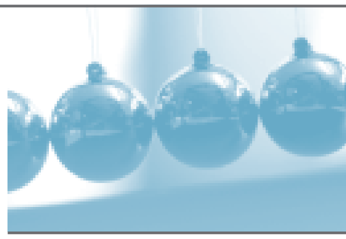
- the Old Age Security (OAS) and Guaranteed Income Supplement (GIS);
- occupational pensions, in the form of the Canada Pension Plan (CPP); and
- private plans, such as the Registered Retirement Savings Plan (RRSP) or the Registered Retirement Income Funds (RRIF).

To be covered under the first pillar, retirement is not mandatory; rather, the individual must have reached the age of 65. The amount of benefits depends on an individual's income. The average monthly payment is 490 U.S. dollars, with a maximum of 521 U.S. dollars, and is paid out only below a certain income limit. This limit was 66,733 U.S. dollars in 2010. For older individuals with lower incomes, additional payments (through the GIS program) are available, which in contrast to other benefits are tax-free.

Since June 2007, pension splitting has been possible. Today, married or partnered couples can transfer up to 50 percent of the higher-earning partner's pension benefits to the lower-earning partner, in order to put themselves in a lower tax bracket. In addition to lowering tax revenues, this measure may also lead to higher claims on the OAS system. The reduction in tax revenue can be substantial, amounting to as much as 30 percent.

This has also been reflected in a decline in tax revenue for the Canadian states and provinces. In the years 2007 and 2008, a budget shortfall of over 600 million U.S. dollars was expected. However, no cost-benefit analysis was conducted, having been waived as a part of the consultation process.

> This reform appears to have been passed in large part because of the significant political influence wielded by senior citizens: "The reform transfers approximately 800 U.S. dollars per year to a group, namely elderly couples receiving pension income, that was not economically disadvantaged to begin with. It is an inequitable policy that was implemented for purely political reasons." (Expert opinion).



The Netherlands

Pension law to protect the equity of pension funds and improve access to information on the pension status of insured individuals

Innovation	****
Relevance	****
Influence	****
Path dependence	**

The Canadian pension system consists of three pillars:

- the state pension;
- occupational pensions; and
- private plans, which are not mandatory.

The 2007 reform focused on the second pension pillar, with the twin goals of securing the financing of occupational pensions, while making them more transparent. The system, administered officially by the social partners and the Pensions and Insurance Board (Pensioen & Verzekeringskamer, PVK), had suffered from a lack of transparency before this time. Thus, it was not easy to discover whether a given pension fund was in fact solvent, and employees were not adequately informed as to their pension status. In addition, the existing rule discriminated against younger workers, as employees under 25 were not included in the company pension plan.

To rectify this problem, pension funds were obliged to inform contributors once a year of the status of their pension, as well as of any adjustments due to inflation. Persons who no longer make contributions must be informed every five years. In the industrial sector, companies are also required to set up forums for employee participation. Even before the financial crisis, this reform tightened the standards for Dutch pension funds. In order to meet the provisions of the new financial framework (Financieel Toetsingskader, FTK), the funds must swap their equity holdings for bonds in order to ensure the value of reserves allocated for eventual pension distribution (i.e., the market value of the fund's various assets cannot be less than the value of liabilities). About 85 percent of pension funds are focused on payment security, and as long as permitted by solvency of the fund, are tied either to inflation or wage growth. If the ratio between asset market value and liabilities falls below 105 percent, the fund must immediately report this to the sector's supervisor, the Dutch central bank.

> The revision of the Pensions Act is viewed with positive regard. Transparency and monitoring of pension funds' performance are particularly salient issues in the aftermath of economic and financial crisis.

Innovation ****
Relevance ****
Influence **
Path dependence ****

Workers over the age of 62 receive tax relief if they are still working

Beyond the issue of transparency in the pension system, the Dutch government has also sought to lengthen the period of employment before retirement. Although the work-continuation tax credit is not associated with a binding EU directive, it follows the general tenor of the Lisbon strategy and the current EU-2020 strategy. To ensure sustainability both in working lives and the pension system, incentives to extend the working life were created; this program was aimed both at preventing future labor shortages and at reducing financial burdens on retirees who stayed in the workforce longer, since their pension payments would not be taxed in the Netherlands.

In this way, the influence of the previously dominant early retirement policy (Vervroegde Uittreding, VUT) was counteracted. This latter policy had been pursued since the late 1970s, in order to counter high youth unemployment levels. However, the early retirement program was limited as far as possible in 2004 (though some benefits must still be provided through a transitional period). In order to achieve a higher employment rate among older people, and thus lighten the burden on the pension system and reduce the labor shortage, tax incentives were implemented as of January 1, 2009, in the following amounts:

- 62 years old: Tax deduction of 7 percent, to a maximum of 2,296 euros.
- 63 years old: Tax deduction of 7 percent, to a maximum of 3,214 euros.
- 64 years old: Tax deduction of 7 percent, to a maximum of 4,592 euros.
- 65 years old: Tax deduction of 2 percent, to a maximum of 918 euros.
- 66 years old: Tax deduction of 2 percent, to a maximum of 918 euros.
- 67 years old: Tax deduction of 1 percent, to a maximum of 459 euros.

> Labor force participation among older people in the Netherlands is in fact quite low in international comparison (Figure 4). It remains to be seen whether this incentive system will in fact increase the employment rate among this demographic. The tax relief is a good way to promote labor market participation by older workers.

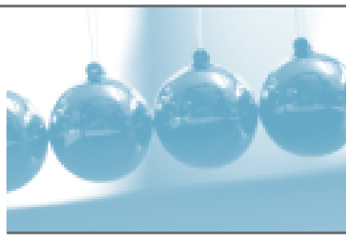
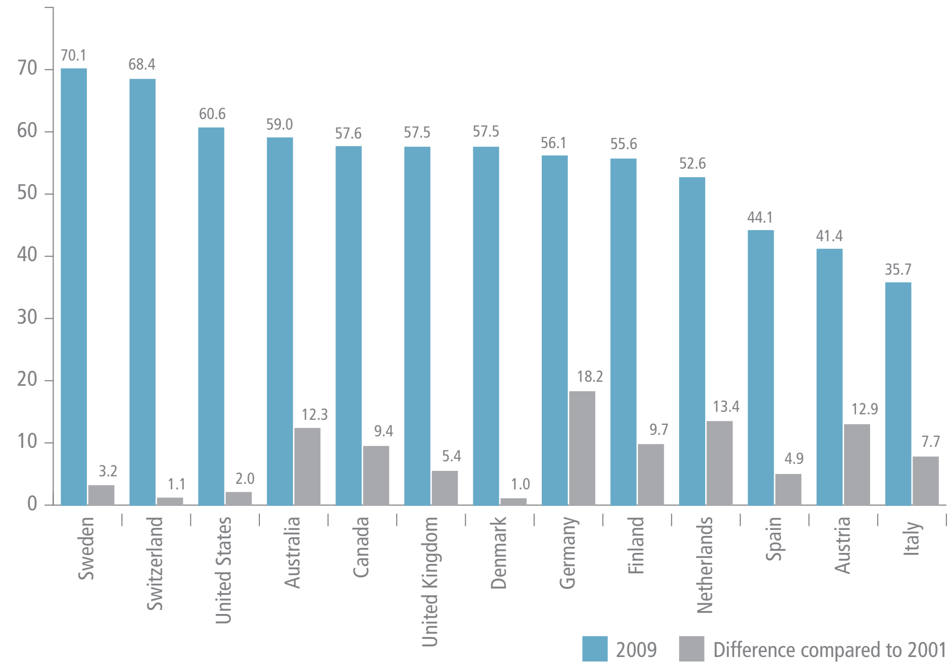


Figure 4: Employment rate of older people (55 to 64 years old), 2009



Sources: OECD.

BertelsmannStiftung

Sweden

Adjustment of the terms of blue-collar workers' pension agreements to match salaried employee's agreement

Innovation **
Relevance *****
Influence ****
Path dependence ****

The Swedish pension system also consists of three pillars:

- the state pension system;
- occupational pensions; and
- private pension plans.

Occupational pensions are based on collective bargaining contracts between the Swedish workers' and employers' unions, and cover about 90 percent of workers. Pension contributions by employers and workers, and thus the resulting pensions, are governed by a variety of collective agreements in each profession. The ITP agreement governs contributions paid by salaried employees, or so-called white-collar workers, while until 2007 the STP plan covered occupation-based pensions for "blue-collar" workers.

Initially, agreements between employees and employers were reformed through modifications to the ITP plan, converting the defined-benefit pension system (with specified future benefits) to a defined-contribution orientation (in which the level of current contributions was set). After the 2007 reforms, the collective plan for salaried employees who were born after 1979 required employers to contribute 4.5 percent of the employee's income for salaries up to 7.5 of the income base amount or IBA (a figure set by the Swedish government annually, and used in the calculation of pension amounts), or 30 percent for the portion of income over 7.5 IBAs. This created a difference between premium payments for salaried employees and those in the STP plan, which covered worker's pensions, of one percentage point. However, this difference was rectified by the May 2007 SAF-LO agreement between the Swedish Employers Organization (SAF) and the Swedish Trade Union Federation (LO), which was aimed at equalizing the employer contribution percentage and thus the resulting pension levels, eliminating the disparity between the two groups.

The new collective agreement for workers will be implemented gradually, resulting in the following premium increases (Table 2):

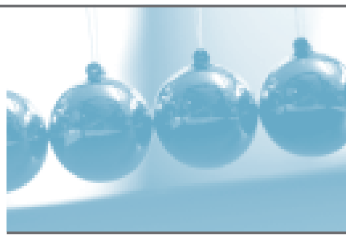
Table 2: Employer contributions, 2007 to 2012, in percent of workers' incomes

Year	Earnings under 7.5 IBA	Earnings over 7.5 IBA
2007	3.5	3.5
2008	3.9	6.0
2009	4.0	12.0
2010	4.1	18.0
2011	4.3	24.0
2012	4.5	30.0

Note: IBA = income base amount = SEK 45,900 in 2007 (approximately 5,000 euros). This is a benchmark adjusted every January 1, essentially reflecting the average salary increase. (see www.mercer.com/referencecontent.htm?idContent=1288990).

Quelle: OECD Private Pension Outlook 2009. | BertelsmannStiftung

> With this reform, Sweden responded to the changing working conditions in the industrial and services sectors. About 1.5 million workers who belong to the LO will benefit from the reform. Monthly pension amounts will increase by 54 euros to 540 euros, depending on a worker's income and age. The collective agreement modifying occupational pensions serves as a contribution to social equity between workers and employers.



United Kingdom

Widening of eligibility for state pensions, especially for women. This reform is part of a larger project that was initiated by the Turner report.

Innovation	****
Relevance	*****
Influence	****
Path dependence	***

The Pensions Act of 2007 and 2008 represents a comprehensive restructuring of the U.K. pension system, and is considered to be the most far-reaching reform since the introduction of the Beveridge system in the 1950s.

The central objective of the reform project was the sustainable design of the pension system through a gradual increase in the retirement age and the introduction of a new system of incentives for private pensions by workers. The reforms are based on the findings of the Turner Pension Commission ("A New Pension Settlement for the 21st Century") and two subsequent white papers ("Security in Retirement: Towards a New Pensions System" and "Personal Accounts: A New Way to Save"). Beyond the increase in the retirement age, increases in state pension benefits will no longer be tied to inflation, but rather to the average rise in incomes. Various measures widening eligibility for the state system were implemented for persons who provide informal care. Additionally, workers' savings will be augmented through the National Pensions Saving Scheme (NPSS).

Modifications to the system had already been made by the late 1990s and early 2000s, but had resulted in legal inconsistencies. The Turner Commission was designed to remedy this situation through the submission of comprehensive proposals for reform. Thus, so-called career credits were introduced for people providing care for others. People responsible for care of a child under 12 years of age (eligible for child benefits), or for a severely disabled person for at least 20 hours per week (eligible for care allowances), are entitled to National Insurance credits. The time spent giving care is thus no longer accounted for by considering years in which pension contributions had been made, but rather with reference to accumulated pension credits. In addition, the minimum number of years of contributions needed for eligibility was reduced, from 44 years to 30 years for men, and from 39 years to 30 years for women. Following these changes, 75 percent of women retiring in 2010 are expected to be entitled to the full state pension, thus reducing the incidence of old-age poverty.

This reform process is a typical example of evidence-based policy-making. By involving a commission, a substantive debate of a practical nature leads to reform measures that reach beyond ideological orientation. Political parties are generally more inclined toward ideologically motivated reform, in order to satisfy members' and voters' expectations. By contrast, establishing a commission can point the way to reform by enabling a dispassionate discussion of feasibility, while the resulting commission reports can show that change is objectively necessary.

> This pension reform can in all respects be considered to be impressive, as it takes a decisive step toward sustainability. From a procedural perspective, the significant role played by the Turner Commission was remarkable. Nevertheless, the financial crisis has raised questions as to the true sustainability of the Turner Commission's concept .

Innovation ****
Relevance ***
Influence ***
Path dependence **

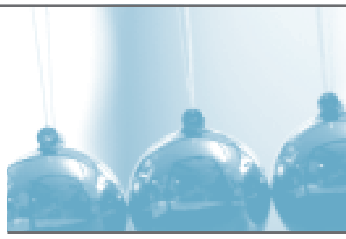
Quality assurance for occupational pensions and the introduction of a mandatory second pillar

In addition to state pensions, the white papers and the Turner Commission led to reforms in the occupational pension system (State Second Pension). From 2012 on, all employers are obliged to enroll employees with an occupational pension provider (either the employer itself, a fund supervised by the government or a so-called Personal Accounts Scheme). Employers must provide reports on the status of their workers to the Pensions Regulator, and make a minimum contribution in the amount of 3 percent of the employee's salary. Employees are responsible for paying premiums of 4 percent, and another 1 percent comes as an indirect benefit from the state in the form of tax relief.

Since 2004, the government-appointed Pensions Regulator has been the public entity responsible for overseeing occupational pensions in the United Kingdom. The new legislation extends the Pensions Regulator's legal authority, which is now responsible for enforcing new minimum standards for pensions, which can either be defined-contribution (with a set level of ongoing contributions) or defined-benefit (with an established level of future payments). The role of the Pensions Regulator can be considered as almost entirely preventive; that is, it can draw attention to potential abuses in advance. In the event of a pension fund's insolvency, the Pensions Protection Fund (PPF) intervenes to attempt to prevent default.

Private pension funds, made possible through an opt-out mechanism, will be overseen in the future by the Personal Accounts Delivery Authority (PADA).

> This reform represents a comprehensive overhaul of the U.K. pension system. Rights and responsibilities are redistributed as a result of this reform. Nevertheless, it remains unclear whether the postponement of implementation to 2012 will result in a weakening of the reform's provisions. In addition, low-income workers are put at a disadvantage, because they are obliged to invest a significant portion of their income toward retirement.



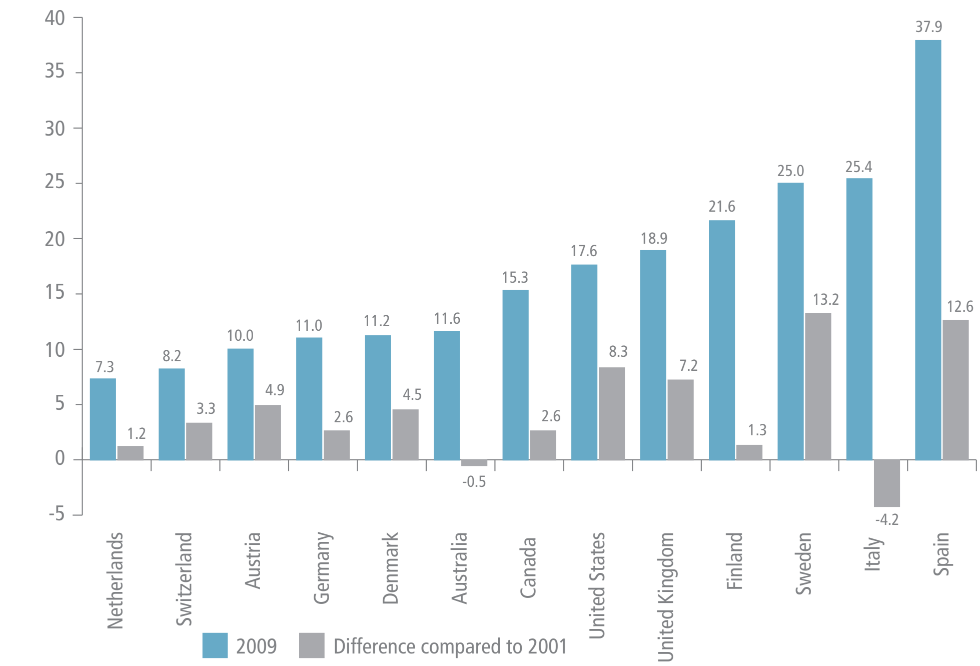
Labor market participation, activation and social-security system financing

The Netherlands

Introduction of the Youth Investment Act (WIJ)

Youth unemployment rates in the Netherlands are the OECD's lowest, and have increased little in the last seven years (Figure 5).

Figure 5: Youth unemployment (15 years to 24 years), 2009



Sources: OECD. | BertelsmannStiftung

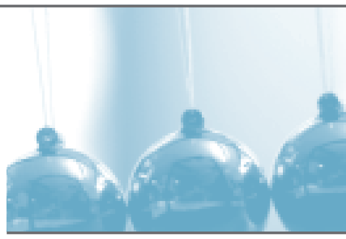
Nevertheless, the Dutch government implemented a program aimed at the additional activation of young people aged between 18 and 27 years old. In March 2008, a total of 25,500 youth between 18 and 27 years old were dependent on social assistance provided under the Labor and Employment Act (WWB).

The composition of social assistance benefits varies across different groups. Recipients over 65 years of age receive a basic allowance, in accordance with the old-age (AOW) pension. Single people between 21 and 65 years of age receive 50 percent of the minimum wage, single parents receive 70 percent of the minimum wage and married couples receive a total of 100 percent of the minimum wage. Benefits for young people aged 18, 19 or 20 years are treated as part of the child allowance, which since 2009 has been set at between 195 euros and 278 euros for children born after 1995. Benefits for young people aged 18, 19 or 20 years are treated as part of the child allowance, which since 2009 has been set at between 195 euros and 278 euros for children born after 1995. The activation policies are central to this aid; benefits recipients are thus subject to various conditions, including the duty to:

- register with the employment agency (UWV WERKbedrijf);
- apply for jobs, even those that don't match the applicant's precise educational background;
- participate in continuing education or job-training programs; and
- notify the employment agency of changes of address or in personal status.

Given today's low youth unemployment rates, there is a relatively low level of urgency in integrating youth into the labor market. This reform can thus be seen as a sustainability policy. The Youth Investment Act (Wet investeren in jongeren, WIJ) is designed to promote sustainable employment for young people under 27, and therefore requires local authorities to offer young people either jobs or training, or a mixture of both. Those who reject this offer forfeit their eligibility for benefits. If training is provided, local authorities bear their costs. In order to ensure that the objective of sustainable labor market integration is being achieved, a program evaluation must be presented to parliament after four years of operation. The government expects savings due to this measure to total 18 million euros in 2009 alone. Additional integration of youth into the labor market is expected, although even young people who have just completed their education and are looking for a suitable job are expected to be affected. In this sense, the policy may prove counterproductive, since young people are not given adequate opportunity for a comprehensive job search, and may thus be pressured to accept offers that do not match their training. If this proves to be the case, the sustainability of the policy can be doubted.

> This measure ensures that young people are either at work or participating in a training program. Nevertheless, this reform is not a perfect fit, as young people who have just completed their education are not given enough time to look for suitable work before the measure's provisions take effect.



Unemployment insurance reform

Innovation ****
Relevance ****
Influence ****
Path dependence ***

An additional reform in the Netherlands is driven by the goal of a more intensive activation policy: Unemployment insurance is to be financed by contributions from workers and employers, and administered by the UWV. Previously, unemployed persons were eligible for three benefits programs in succession. Persons who had been employed for at least 26 of the last 39 weeks were entitled to unemployment compensation for up to six months, with benefits amounting to 70 percent of the minimum wage. People employed for at least four of the previous five years, for at least 52 days per year, were eligible for a maximum of five years of benefits (the precise duration depended on the recipient's work history), in the amount of 70 percent of the recipient's last gross salary. Following the expiration of these income-related support measures, subsequent compensation up to the end of the five-year maximum benefit eligibility period could be requested, in the amount of 70 percent of the minimum wage.

The 2006 reform had increased activation as its goal, as well as an overall simplification of benefit calculations. Thus, the three-part benefits system was streamlined and integrated into an income-based system. The maximum period of benefits eligibility was reduced from five years to three years and two months, structured as follows: During the first three months of unemployment, recipients are entitled to 75 percent of wages, with a subsequent decline to 70 percent. The basis of calculation is always the daily wage. Only those who have worked at least 26 of the last 39 weeks are entitled to wage replacement benefits at the 75 percent level. For an extension of benefits in the amount of 70 percent of the recipient's last income level, the worker must have been employed during four of the last five years, for at least 52 days per year. The duration of these benefits depends on the individual's occupational history; to be eligible for the maximum period of duration, the recipient must have 38 years of labor-market participation.

The Dutch national budget will save around 254 million euros by 2011 as a result of this reform. The reform was carried out despite opposition by the tripartite Social Economic Council (Sociaal-Economische Raad, SER), which warned of particularly damaging effects for young people, temporary workers and individuals entering or returning to the work force. The unemployment insurance reform was influenced by Denmark's flexicurity system, which also has relatively high wage replacement rates and short eligibility periods for benefits. However, it remains an open question whether the Dutch labor market is similarly flexible, so as to compensate for the shorter eligibility periods.

> Although this reform increases pressure on the young, on temporary workers, and on workers entering or returning to the labor force, these activation measures seem reasonable.

Innovation ****
Relevance ****
Influence ****
Path dependence ****

Restructuring of disability benefits to increase the program's focus on reintegration

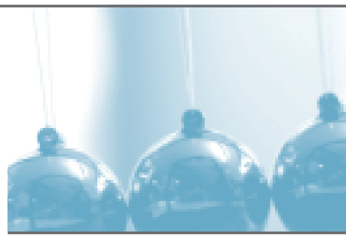
In the course of the activation-focused policies initiated in 2006, the Netherlands also reformed disability pensions. The Law on Work and Income (Wet Werk en Inkomen naar Arbeidsvermogen, WIA) was composed of two pillars: First, regulation of employment for partially disabled people (Werkhervatting gedeeltelijk arbeidsgehandicapten – WGA), and second, in the form of income support for the fully disabled (Inkomensvoorziening volledig arbeidsongeschikten, IVA).

The first of these programs was aimed at partial integration into employment, with more focus put on activation than on benefit payments. Work disabilities were made subject to strict oversight, while incentives for employment were strengthened. Thus, in the first phase of this program, partially disabled individuals were given support payments worth 70 percent of the difference between their present wages and the wages paid before the onset of the disability. In the second phase, payments were made dependent on the recipient's capacity for possible workload. Individuals capable of working more than 50 percent of a normal work week receive supplementary payments in an amount dependent on their wages. Individuals who are unable to work 50 percent of ordinary hours receive payments based on the minimum wage People classified as fully disabled are covered by the IVA program, and receive 70 percent of their previous wages. As of June 2006, this percentage was increased to 75 percent of the previous salary. In addition, in the course of this reform, the government stopped calculating employers' contributions to the program based on the annual number of workers who register as disabled. A new rule prohibiting the dismissal of partially disabled workers was also put in place, in order to provide more incentives for workplace health.

Part of the activation policy was to increase the degree of disability needed to qualify for long-term disability funding (previously WAO, now WIA), from 15 percent to 35 percent. In addition, the classification process for long-term disability status was shifted to come only after two years, rather than after a single year of occupational disability. Reintegration measures were transferred directly into the benefits program itself.

The Dutch government had already taken several steps to reduce the number of those receiving disability payments, most recently with a reduction in benefit levels in the 1990s. However, these previous inducements had been undermined by an agreement between the social partners, which arranged for the offer of a private pension compensating for the decline in benefits. A similar response is expected today. The social partners in the agricultural sector have already agreed to such an arrangement. However, the government has responded by making eligibility for the private support dependent on participation in a reintegration program.

The reform was met with significant resistance. Critics on the employers' side argued that the opacity of the measure's provisions would complicate implementation. Another problem was noted in the fact that young people classified as disabled are subject to a different law (the Law



on Disability Support for Disabled Youths, Wajong), with a different classification of degree of disability. Under that system, recipients are eligible for benefits if their degree of disability reached at least 25 percent. Thus, they are not covered by the reform, which introduces inequality into the system.

> The reform's outcome can be evaluated positively, as more emphasis is now placed on reintegration. However, implementation of the reform can be described as deficient. Despite the complexity of the circumstances, the reform was implemented quite quickly, even in the absence of serious budgetary pressure. It remains unclear whether a longer consultation period would have led to greater popular support, and thus to a more stable reform.

Payment of supplementary benefits by local governments even after taking employment

Innovation	***
Relevance	***
Influence	***
Path dependence	****

In order to receive social welfare assistance in the Netherlands, certain criteria must be met: Applicants must have reached the age of majority, must reside in the Netherlands, must not be eligible for other entitlement programs, and cannot have savings of more than 5,455 euros.

Welfare benefits are calculated with reference to the minimum wage: Single persons are entitled to 50 percent of the minimum wage, single mothers to 70 percent of the minimum wage, and couples to 100 percent of the minimum wage. The recipient must be registered with the employment office as seeking employment, and must take part in training services offered by the local authorities. Previously, people who had been dependent on social welfare payments for five years, and had no prospect of reintegration into the labor market, could request supplementary payments from local government bodies. This extension was eliminated as soon as the person found employment, with the result that such individuals, thanks to low wages, had little incentive to take up work.

In an attempt to increase activation incentives, local government bodies have since January 2009 been given more freedom in making these extended payments. Previously, people had to prove that they had lived on welfare payments for five years, and had no prospect of work, in order to receive the supplementary payments. Now individuals in employment can also receive benefits. In addition, municipalities now have additional means available for the support of families with children in low-wage jobs. Taking a paid job no longer leads to the immediate discontinuation of supplementary benefits.

> The payment of supplementary benefits helps to help reduce poverty among the working poor at the margins of the labor market, while increasing incentives for workforce participation.

Austria

Innovation ***
Relevance *****
Influence ****
Path dependence ****

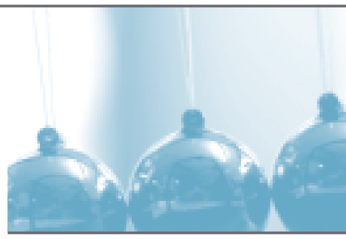
Harmonization and expansion of the Austrian federal states' various social models

In Austria too, policymakers have undertaken a fundamental reform of the basic allowance program in order to improve access to active labor market measures and increase activation among benefit recipients. Beginning in September 2009, a needs-based minimum benefit system (MBS) came into force, aimed at expanding and harmonizing the ways in which various states' aid policies are managed. The State Assistance Act (Länderhilfegesetz) regulates access in every state to Austria's social assistance benefit program, which can take the form of a wage supplement and is available to people who have no other income. Previously, support levels and conditions of eligibility for benefits varied between the states, due to the enabling legislation's flexibility in determining program form.

Unsurprisingly, given this context of a decentralized architecture, reforming the social assistance system became the subject of broad-ranging debate between the state and federal governments. The goals of reform were to align regional conditions and to provide incentives for work, despite the fact that Austria has a relatively low at-risk-of-poverty rate. In addition to increasing the coverage rate and minimizing regional differences, policymakers also sought to ensure that all benefit recipients were included in the public health insurance plan. There were also de facto barriers in place that impeded the implementation of active labor market policy.

The MBS has replaced the previous social assistance program, and comes with certain conditions: It is means-tested, and benefit levels are calculated with reference to other social services and the value of a recipient's property. The monthly minimum benefit amounts to 772.40 euros, from which payments are deducted for public health insurance premiums. The amount is adjusted according to the number of needy individuals in a household. In addition, the payment is subject to the willingness of the recipient to take any feasible employment offer; work should not be rejected due to overqualification or a prospective change in industry. Payments may be temporarily reduced by 50 percent if a recipient rejects an offer of work. And although rarely practiced, states can also seek to recover previously paid benefits after a recipient finds employment, a condition that has deterred many people from claiming benefits. Since the reform, government recovery rights have been limited to inherited property, gifts, or non-liquid assets.

Due to regional and local agencies' jurisdiction over the social assistance system, many of the unemployed had no contact with the Public Employment Service (Arbeitsmarktservice, AMS), the public labor-market service provider under Austrian law, and hence no access to its various offers. Nor were the AMS offers well-tailored to the circumstances of social-assistance recipients. However, since the introduction of the MBS, the AMS has been made responsible for all the unemployed, not only those receiving unemployment insurance benefits. In addition, the agency's programs must now do more to target recipients of social assistance. In preparing the reform, discussions focused in particular on



funding issues, especially because regions with higher caseloads will see a more substantial budgetary impact, and therefore sought full compensation for the additional costs. Additional criticism was focused on benefit levels, which the Social Democratic Party and various charitable organizations deemed too low. The social partners agreed to support the reform, although the definition of reasonable work proved to be the subject of considerable debate. In the course of the discussion, the law was gradually weakened. If in the beginning, talk focused on the creation of a guaranteed minimum income, the reform as implemented can rather be described as a minimum benefit.

> The introduction of the BMS will reduce regional disparities, create a more comprehensive social model and establish work incentives.

Sweden

Unemployment insurance reforms establishing more stringent eligibility requirements

Innovation	**
Relevance	****
Influence	***
Path dependence	****

Sweden has also acted to reform its unemployment insurance system. The safeguarding of unemployed persons' welfare in Sweden is founded on two individual programs, neither of which is means-tested, but both of which are subject to certain conditions. These consist of a basic benefit and a separate voluntary income-based unemployment insurance plan. To receive the basic allowance, the person must be registered as unemployed and must take part in the active labor-market policy measures. Furthermore, the recipient must have worked at least 80 hours per month for at least six months, or 480 hours in the course of six consecutive months, for at least 50 hours per month. Unemployment compensation of SEK 320 per day is paid for a period of 300 days.

In order to qualify for income-related unemployment payments, participation in an unemployment insurance fund for at least one year is required. The same conditions apply as for the basic allowance, including the 300-day benefit duration period. The level of unemployment benefits fell with the implementation of the January 2007 reforms, along with the duration of eligibility for unemployment benefits: Unemployed individuals have since that time received 80 percent of the previous level of benefits for their first 200 days in the program, with a subsequent drop to 70 percent. Payments for the first 200 days are capped at SEK 18,700. Before the reform, the maximum payment was SEK 730 per day; afterward, this ceiling was reduced to SEK 680 per day. In addition, the conditions for eligibility were changed. Previously, job-search activities could be limited to a particular region and occupational field during the first 100 days; however, this provision was discarded under the new rules. If an unemployed individual declines an offer of work without good cause, benefits can be cut by up to 50 percent or even eliminated altogether. In addition, the waiting period before recipients can first collect benefits was extended from five to seven days.

The financing of the funds was also changed in 2007. Benefit payments disbursed by the insurance funds are heavily subsidized by the government. However, the funds are also responsible for payments to the government. Before the reform, these payments were calculated based on the number of members and the benefits that were paid out on a daily basis. After the reform, compensation payments to the government were set at 33 percent of the monthly amount disbursed for unemployment benefits, which led to an increase in the amount of the levy for funds with a relatively high-income membership. This increase was passed on to employees, who had to pay higher insurance premiums up to a maximum of SEK 300 per month. This in turn led to an immediate, significant decrease in the number of participating fund members; however, that number could likely be increased again if the funds' payments to the government were once again reduced.

> The assessment of this reform is mixed: Whereas the reorganization of the system has increased the focus on activation, the funds' current financing structure, based on recent developments, appears unsustainable. Otherwise, the reforms not only promote greater labor-market participation, but also a shift of costs from public to private balance sheets.

United Kingdom

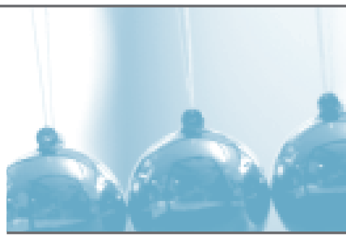
Innovation	****
Relevance	****
Influence	****
Path dependence	**

The Welfare Reform Act is aimed at making the British social system more efficient and transparent. Conditions of access to benefits were modified, and various other changes of a procedural nature were made.

The British welfare system was comprehensively reformed in order to make the system more efficient and transparent The Welfare Reform Act 2007 includes reform elements discussed below.

The revision changed the way in which the disabled are provided for. Thus, the Incapacity Benefits (IB) program and the categories of "incapacitated from work" and "disabled worker" were replaced by the Employment and Support Allowance (ESA). At the same time, barriers to eligibility were raised, while identifying support arrangements aimed at bringing individuals into the workforce became a priority. Cooperation mechanisms between central and local offices were improved. The reform is a part of the "Pathways to Work" program, intended to provide supplementary support for unemployed persons in order to reduce the number of inactive and unemployed individuals, while making access to disability benefits more difficult. Previously, barriers were relatively low, with the level of benefits increasing over the course of program participation.

The measures are expected to reduce the number of beneficiaries from 2.5 million in 2007 to 1 million by 2015. A 13-week assessment process (Work Capability Assessments, WCA) will evaluate in detail whether and to what degree an applicant fulfills the conditions for certification as disabled. The outcome of this assessment will determine whether the applicant is fully able to work, or is partially or temporarily incapacitated. People who are not classified as fully disabled must participate in a "Work Focused Health Related Assessment," in which a classification of disability level is assigned, and in which those with special needs can receive personal attention. Depending on the results of this classification, an individual will then be entitled to claim a basic allowance, which is linked to the



Jobseeker Allowance. This benefit is conditioned on the recipient's participation in six job interviews; failing this, the level of benefits may be cut.

Additional services will be approved for individuals who are classified as fully disabled. Benefits will no longer increase over time. These measures have not been free of controversy. Although the number of those classified as disabled may indeed fall, critics doubt whether this mode of labor force activation is appropriate. Additionally, the placement test has been criticized for potentially overestimating subjects' capabilities. Proponents of the changes argue that the reduction in the number of those classified as disabled will lead in individual cases to more intensive assistance, since these persons would no longer be "parked" in the ghetto of disability.

> The verdict on this comprehensive reform is mixed. On the one hand, the shift of focus from the simple provision of benefits to greater workforce integration is welcome. On the other, it seems to lead not only to the simple reintegration of disabled individuals, but also to hidden benefit cuts insofar as people are reclassified into other groups. Critics argue that the capacity of people for work will be overestimated. Moreover, access to the labor market in times of recession is already difficult.

Among other features, the Employment Act of 2008 contains a revision of job-termination and appeals procedures, and stronger oversight of the minimum wage.

Innovation	**
Relevance	***
Influence	***
Path dependence	*

The Employment Act 2008, the various reform provisions of which came into effect in April 2009, represents a further revision to U.K. labor-market policy, and addressed four primary issues:

- the former employment-termination and appeals process;
- compliance with the minimum wage;
- the Employment Agency Regulation System; and
- regulations governing expulsion from trade unions.

The employment-termination and appeals process was simplified in the course of the reform. Previously, employees were required to comply with a complaints procedure before filing claims with an employment tribunal. Terminations were generally considered unfair if the employer failed to follow the proper dismissal and appeals procedure. The statutory procedure was repealed, and in its place was set a voluntary code of conduct containing benefits for both parties.

The national minimum wage was introduced in 1999, but had been only weakly enforced. The Employment Act was designed to remedy this by simplifying the calculation of the minimum wage and strengthening penalties for violators.

In addition, the legislative package gave trade unions the ability to exclude members belonging to an extremist political party. This stemmed from a 2007 European Court of Justice decision, which declared trade union expulsions made on these grounds to be legitimate.

The provisions of the act proved largely uncontroversial. The abolition of compulsory layoff procedures was supported by employers and workers alike.

The simplification of older regulations was also the goal of the revision of the country's anti-discrimination law, the Equality Bill 2009. Unlike Germany, the United Kingdom was not driven by compliance with the governing EU directive, as its legal framework on this issue had already been aligned with EU law. Indeed, this framework was largely a combination of earlier, individually passed components that had accumulated over the past 40 years. The new law is comprehensive, and applies in all parts of the country except for Northern Ireland. Most existing laws on the issue were consolidated and replaced. Under the new law, care must be taken not only to encourage diversity in the workforce, but also to avoid discrimination on socioeconomic disadvantages.

> This revision of existing law was generally endorsed, although most actors saw the result as a kind of compromise. Some critics say the new legislation does not go far enough, and most employers consider its provisions to be difficult to enforce.

Outlook

The measures enacted by the countries represented in the International Reform Monitor fall into three primary areas :

1. Crisis-alleviation measures

First, all nations were concerned with mitigating the impact of the international financial and economic crisis, each in a way consonant with their individual economic and sociopolitical traditions. Continental European countries built on existing short-time or reduced-hour work regulations, which had previously served to bridge seasonal slumps in orders. With payment eligibility periods extended and access improved, this instrument was heavily used, resulting in relatively low unemployment rates. The United States and Canada, both liberal welfare state systems, responded by extending eligibility periods for unemployment insurance. In addition, individual states in these countries were given incentives to expand access to their unemployment insurance programs. These measures were designed to avoid a collapse in consumption and further weakening of the economy.

2. Demographic change and pension reforms

Even before the crisis, the prospect of ensuring pension systems' sustainability represented a serious challenge. Demographic change and the increasing number of irregular or broken occupational histories have put increasing pressure on these systems. In many states, providing state pensions in adequate amounts is becoming a mathematical impossibility. A variety of paths can be taken to offset this development. One is the introduction of mandatory occupational pension systems; another is the attempt to establish second and third pension-system pillars, thus minimizing risks for future retirees. However, the shift in the provision of retirement benefits from the state to private pension plans increases the risk that this private coverage could be completely undermined through risky market speculation. Especially since the financial crisis, states have sought to create legal obligations for pension funds that minimize these risks. Furthermore, changes in accepted work histories have been discussed, in order to allow access to retirement benefits even in the case of careers interrupted by time out to care for others. However, incentives to stay in the workforce longer have also been provided. Tax-relief measures and progressive increases in the official retirement age are both intended to serve as signals that a longer term of employment over the course of a lifetime is desirable.

3. Labor market participation

Participation in the labor market is regarded as the best guarantee against poverty. This is reflected in the reform processes undertaken by the International Reform Monitor countries. Increasingly, less emphasis has been put on simple transfer payments, and correspondingly more focus on activation. For example, regulations governing unemployment benefits have been tightened; unemployed individuals must now fulfill certain conditions to be eligible for benefits at all. Social welfare benefits too are no longer paid free of further obligation, but increasingly have the goal of integrating recipients into the labor market insofar as individually possible. Training activities aimed at increasing employability and financial incentives designed to increase an individual's income once taking a job both represent public-sector services aimed at increasing the employment rate.

However, the experts of the International Reform Monitor do not consider these measures to be unambiguously positive. When social services are increased by means of a reduction in barriers to access, this is accompanied by an indirect reduction in benefits. This reduction means that workers who, due to the physically demanding nature of their work, are unable to remain employed until the official retirement age, are disproportionately affected by an increase in this retirement age. The same applies to experiments with integrating disabled people into the workforce.

In a globalized world, labor market and social policies are no longer purely national affairs. Therefore, the Reform Monitor 2010 will for the first time examine the influence of international institutions on national policy, asking to what extent international legislation has served to initiate local political reforms. Only a few reforms considered in this project can be clearly attributed to the influence of such external legislative action.

This capability can be ascribed in particular to the European Union. However, policy in EU member states is shaped, but not determined, by EU policy. This is in large part due to the limited capacity of the EU in classically national policy realms such as labor-market and social policy. Beyond antidiscrimination, issues of labor mobility, and its influence over the distribution of European Social Fund disbursements, the EU has limited power to act in matters of social policy, particularly in comparison to its capacities relating to the single market policy. Nevertheless, the EU is designed to be an initiator of ideas, and thus influences the public debate in this way. In particular, the "open method of coordination" allows voluntary agreements on goals and comparable indicators to be used in measuring member states' progress toward common objectives.

At the heart of European social policy has stood the concept of flexicurity, meant to ensure the security and flexibility of Europe's labor markets. However, the positive connotation of flexicurity has been compromised, in part by the crisis. Countries such as Denmark, which had taken a leading role in implementing the flexicurity model, were subject to disproportionately high increases in unemployment after the crisis broke. In addition, public confidence in politics has been shaken. This is true too of trust in the concept of flexicurity, in particular as to whether in a time of increasingly tight budgets, both security and flexibility can be realistically ensured. It thus remains to be seen, whether member states will be able to agree on increasing EU influence over the flexicurity concept at the national level.

Today, the main focus of the work of the Commissioner for Employment and Social Affairs is on developing sustainable models for national pension policies. In July 2010, the European Commission released its Green Paper on the design of pension systems. The paper focuses primarily on the adequacy and sustainability of pensions. The Commission further called for an appropriate balance between the duration of a working life and the duration of retirement, and applauded the introduction of incentives aimed at increasing retirement ages. In addition, the paper argues that pension system transparency must be increased in order to provide future retirees with the best possible information. Without undermining sovereignty, the EU is seeking to strengthen its member states through the future design of pension systems, utilizing familiar social-policy practices such as monitoring, the open method of coordination, and other such instruments. Future studies of national pension systems will be certain to draw substantially on these European proposals.

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