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The internationalisation of public welfare policy

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The Internationalisation of Public Welfare Policy

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Abstract
With increasing globalisation of knowledge, there are increased opportunities to 'learn' from the experience of policy interventions elsewhere. This paper presents evidence on the extent of international convergence in public policy, with particular focus on labour, welfare, savings and retirement policy. Questions addressed in this framework include: to what extent is policy diffusion or convergence a real and relevant phenomenon? What role have economists played in the transfer of policy across national domains? Has policy transfer led to 'better' public policy? Are there any practical limitations to policy convergence?

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1 Introduction

Over the last two decades, government have taken an increasingly proactive approach to welfare policy. In an age of globalisation, governments anxious to reform welfare policy have increasingly sought to learn from international experience. This paper looks at the extent to which welfare reform has been driven by public policy ideas that have been disseminated across national boundaries, a process that has been termed ‘policy transfer’. Specifically, the paper examines the development and adaptation of three closely related domains of public policy in several OECD countries – labour market policies, employment conditional payments ('making work pay' policies), and policies to delay retirement and to promote retirement saving. In doing so, the paper differentiates between types of policy transfer that have been identified in the political science literature, and suggests that different processes are at work in the three dimensions of public policy that we consider. We show that bringing the economist’s evaluative capacities to bear on the issue of policy transfer enhances our understanding of the concept.

How has the increased globalisation of economic activity provided greater opportunities to 'learn' from experience with interventions elsewhere? There are a number of factors that have facilitated policy transfer. First, globalisation and technological development allow policy ideas and initiatives to be easily communicated in the international arena (Stone, 2000). Second, the growth in regionalism among nation states and the development of regional identities in the last decade or so of the twentieth century has stimulated more active dialogue on comparative policy. Third, many OECD governments claim to pursue programmes of 'evidence based' policy. Fourth, international agencies like the IMF, OECD, the World Bank and the WTO actively facilitate policy transfer.

The spectrum of policy domains across which policy transfer seems to be occurring is a broad one and it is not the purpose of this paper to provide an exhaustive survey. Rather, our paper sets out a simple organising framework for thinking about policy transfer and then focuses on specific policy domains. We begin in Section 2 by defining and setting out conceptual issues arising from policy transfer. The core of the paper then examines policy transfer in the context of welfare and labour market interventions in OECD countries, and in particular in the United Kingdom. Section 3 considers policies designed to reduce unemployment. Section 4 concentrates on specific welfare policy measures designed to ‘make work pay’ (OECD, 1997), with particular focus on the evolution of tax credits in the US, the UK and a number of other OECD countries. Section 5 considers policies designed to encourage retirement saving and to maintain public pension programmes. Finally, Section 6 concludes with some lessons that may be drawn from a comparison of these three case studies.

2 Policy Transfer: some issues

2.1 Policy transfer defined

"Policy transfer" is a well-established concept in the political science literature. According to Dolowitz and Marsh (2000), it is a process whereby "… knowledge about policies' administrative arrangements and ideas in one political setting is used in the development of policies' administrative arrangements, institutions and ideas in another setting." (p.5) Much of this political science literature has focused on institutional mechanisms and on the process of policy transfer.[1] Although this is a large literature, and is therefore hard to summarise succinctly, it contains some features that are familiar to economists; some less so. Typically the literature is taxonomic, classifying policies by the extent of the transfer (how do we know whether a policy is 'transferred' or indigenous?) or by the nature of the transfer (a continuum from 'rational' – which is close to a 'best practice' argument – through to 'coercive' – with IMF-based policy typically highlighted as an example of the latter). It is also heavily case study oriented, lending weight to critics that question the selective nature of the evidence on successful policy transfer. This has led some advocates of the policy transfer approach to policy analysis to seek examples of transplanted policies that appear *not* to work (Dolowitz, 2001).

An important link with the economics discipline arises from the public choice view of policy formulation, which views a given set of policies as the outcome of a process of interaction between competing interest groups**.** By analysing the sources of political support for the policy transfer, it is argued, analysts can derive a prediction as to who are the 'gainers' and 'losers' from the process. Indeed, in such circumstances the economic interests of those with 'swing' political power may determine the policy outcome (Saint-Paul 2000, 2002).

What can economists add to this analysis of policy transfer? First, and most importantly, they can provide methods of policy evaluation. Without an evidence base, and methods to analyse evidence, it is impossible to judge the outcome of a policy intervention and hence its suitability for use in another context or region. In the absence of 'evidence-based policy', it is impossible to 'read off' from the nature of the policy transfer mechanism or from its political constituency whether a given policy does in fact enhance welfare overall, or that of a specific group. Second, economists can contribute towards the formal theory of policy determination (see later). Finally, economists can combine the theory of policy determination with empirical evidence to assess the quality of these theories, although such studies are rare.[2]

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1 See, *inter alia,* Davies *et al* (2000), Dolowitz and Marsh (1996, 2000), Evans and Davies (1999), Hill (1996), Jacobs and Barnett (2000), James and Lodge (2003), Stone (1999), Walker (1999), Walker and Wiseman (2003), Wolman (1992).

2 Acemoglu *et al* (2001) or Saint-Paul (1996) represent two contributions to this literature.

2.2 Motives for policy transfer

An alternative approach to the public choice framework has seen policy transfer as a process whereby governments adopt what they see as best practice, or better practice, by reference to experience with those policies elsewhere. In this sense there is a parallel with the literature on technological diffusion over time, by which innovations spread geographically and across industries as firms gradually learn about the new technology and its advantages – indeed the political science literature sometimes uses the term 'social diffusion' when describing 'rational' policy transfer (Berry and Berry, 1999). This suggests that in the long run, well-functioning countries should converge to the "frontier" policies in a similar way to the long-run convergence of income per capita among countries (at least within a 'convergence club' such as the group of OECD countries).

An essentially technocratic approach to policy transfer, perhaps reflecting a growing convergence of the international political debate, underlies the idea of 'rational' policy in the political science literature, but this is not the only type of policy transfer identified in that literature (as indicated above). Unfortunately, there is no obvious selection mechanism that roots out poor practice and rewards best practice analogous to the operation of the economic marketplace. It would take an absurdly optimistic view of the democratic process to believe that this was a mechanism systematically rewarding the pursuit of best practice policies. Rather it manages to remove after some period of time some of the very worst policies which impoverish large parts of the electorate (at least in comparison to dictatorship). One utilitarian tradition follows James Mill's view of electoral democracy as a machine for periodically removing the worst gangs of plunderers of the state coffers.

Diamond (1998) suggests military strength as another selection mechanism: countries pursuing very poor policies become vulnerable to hostile takeovers by more economically successful nation states. Unfortunately, the richer country may choose merely to expropriate the poorer nation of its wealth rather than export its better practices (Acemoglu *et al*, 2001). So while such selection mechanisms may exist, they are extremely weak and unlikely to generate convergence.

A third alternative scenario to the 'best practice' framework is where policy transfer is driven by fad or bandwagon effects – herding behaviour is a common phenomenon in many environments from stock markets to the fashion industry (e.g Banerjee, 1992). A possibility in these alternative scenarios is that 'bad' policies, in the evaluative sense, are sometimes transferred. A specific possibility of this occurs where there is public pressure to introduce a reform quickly and an 'off-the-shelf' policy from elsewhere is adopted.[3] In similar vein, there may be many reasons why apparently successful

[3] See Dolowitz (2001) again on the Child Support Agency. A limitation of the political science approach would seem to be that a 'bad' policy is judged solely by the response of interest groups to the policy. In contrast, an economic

policies in one national context are not transferred. This may simply be that they are 'inappropriate' in another context (i.e. not best practice), or because alternative coalitions of interest groups block such transfers as in the public choice model, or through sheer historical accident. But it may also be that the outcome from policy is either hard to evaluate, or else simply poorly evaluated. This strengthens the case for appropriate evaluation techniques, since it is likely that particular interest groups would find it easier to re-negotiate what constitutes 'best practice' in the absence of rigorous evaluations.

2.3 Policy convergence?

Much of the political science literature on policy transfer and convergence is concerned directly with the process by which policy ideas are communicated or adapted across national domains. The literature is less clear as to whether the transfer of similar policy ideas can achieve similar policy objectives, if indeed this is the primary motivation for the policy transfer. Arguably, policy objectives are converging more than the policy instruments themselves. Two dimensions of public policy serve to illustrate the point.

It is common to frame welfare policy debates in terms of three overriding objectives – i) tackling child poverty; ii) supporting low incomes, and iii) promoting employment or increasing human capital. In targeting these 'three pillars' of welfare reform, many governments around the world have apparently adopted similar policy approaches, taking the view that a combination of active labour market policies, simplification in welfare payments, tight eligibility conditions and some form of employment-contingent payment is sufficient to deliver the required outcomes. Here is a policy domain in which increasing similarity of policy objectives have given rise to a convergence in the structure and balance of policy instruments.

But this is by no means the only pattern of evolution for public policy. A useful contrast is provided when one explores the development of savings and retirement policies. Although public policies are again motivated by common objectives across national domains (for example, in the face of ageing, to maintain the living standards of current and future pensioners while keeping public expenditures under control), there appears to be much *less* agreement on the types of policies most suited to deliver on those objectives. We discuss this lack of agreement, and offer some possible explanations, in Section 5 below.

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evaluation of the policy might suggest a different set of criteria: for example do alternative child support policies affect the probability of dissolution of partnerships where children are involved? – see Walker and Zhu (2004).

A similar issue arises from the distinction between specific policy transfers and generic policy 'models'. An illustration of the former is provided in Section 4, describing the evolution of tax credits in the US, the UK and elsewhere. Two examples of more generic policy models derive from the mid-1990s. One concerns the influence of the OECD-based 'Jobs Study' (1994, 1995) on welfare policies designed to 'make work pay' by the variety of measures described above. The next section describes the Job Study recommendations more fully. A second illustration of a generic reform model (although still criticised by many for its specificity) was the World Bank's (1994) attempt to derive a multi-pillar model of pension delivery that was sufficiently flexible to encompass much of the variety of actual pension regimes in the world whilst at the same time steering those regimes towards particular objectives and design features. Such encompassing policy frameworks suffer from the intrinsic difficulty of balancing flexibility and adaptability in different institutional settings against frameworks that are *so* general as to permit nation states (or indeed particular interest groups within those states) to avoid making any real choices.

3 The Diffusion of Unemployment Policies

Dealing with the causes and consequences of rising unemployment levels in the 1980s and 1990s posed major policy challenges to many OECD countries. Dissatisfaction with the efficacy of narrowly defined policies of demand management and monetary control led to greater interest in examining the impact of supply side constraints, especially in the labour market, on economic performance. International organisations (including the OECD, the IMF and the European Commission) actively promoted the necessity of reform to labour market institutions (especially in dealing with the persistence of unemployment in large Continental European nations). Much of the empirical evidence underlying these recommendations is controversial and derives from cross country panel data studies with questionable indicators for 'institutions'.[4] The more compelling evidence uses micro data which suggests that some policies, such as job assistance/monitoring/sanctions to enforce search, are more effective than others, such as government training.

The OECD Jobs Study (1994, 1995) is a good example of an explicit attempt to transfer policy from a perceived 'policy leader' (the relatively deregulated US) to its followers. The broad recommendations of the Jobs Study favoured reforming the unemployment benefit system (through

[4] Layard, Nickell and Jackman (1991) look at how the level of unemployment correlates with measures of country-specific institutions. Blanchard and Wolfers (2000) look at the way unemployment has changed in response to the interaction between levels of institutions and shocks. Nickell (2003) looks at how the changes of unemployment can be accounted for by changes in institutions. The empirical consensus on the impact of institutions has been challenged by some, such as Baker *et al* (2004). The national indicators utilised in such studies have also been questioned and reformulated (see, for example, Disney, 2000a and 2004).

lower replacement rates, shorter durations, and stricter administration of work search), weaker employment protection, lowering marginal and average tax rates, and reforms to collective bargaining to allow wages to reflect more closely local demand. The degree to which countries have followed OECD recommendations is considered in several follow up reports that monitored performance (e.g. OECD, 1997, 1999). The accompanying analyses argue that those who adopted the OECD's recommendations had better unemployment outcomes[5].

Arguably this monitoring put political pressure on slow reforming countries to change. OECD (1999, pp.182-183) presents a scorecard for all OECD countries of how many of its original Job Study recommendations have been followed up, ignored or actually gone into reverse (Germany had the most labour market recommendations – 23 and the US the joint least – 4). Overall a picture of some convergence is presented. Across all the OECD nations 160 of the original 264 recommendations had some action and only 16 'opposite actions' had taken place. In addition to the inherent biases from self-evaluation, however, the OECD found that only 43 of the positive actions were 'sufficient'.

But even if there was policy change it is very difficult to identify whether this change was causally related to the OECD's pressure. Moreover, has there been that much policy change in practice? Other quantitative indicators of institutions show little signs of 'convergence'. On average there have actually been *increases* in the generosity of unemployment benefits (as indicated by replacement rates) and benefit duration in the OECD as a whole over time (see Nickell, 2003). Figure 1 shows that the benefit duration measure for European countries (where the OECD made such a large number of recommendations) has drifted upwards, with no sign of any reduction in the variance of the measure. By contrast there has been some drop in the mean value of employment protection and of union density. Another area where there has been some consistent movement is in the strictness of unemployment benefit entitlement – many OECD countries have moved to enforce the "work search" requirement more tightly over the last 20 years.

Microeconomic studies of particular policies have suggested that, within the whole reform 'package' (active labour market policies, simplification in welfare payments, tighter eligibility conditions and employment-contingent payments), some policies are more effective than others. Training measures for the unemployed have been rather ineffective (Heckman *et al*, 1999), but reforms to benefit administration seem to have had more impact. A combination of job search assistance plus strict monitoring and sanctions does appear to be effective in improving employment chances in a variety

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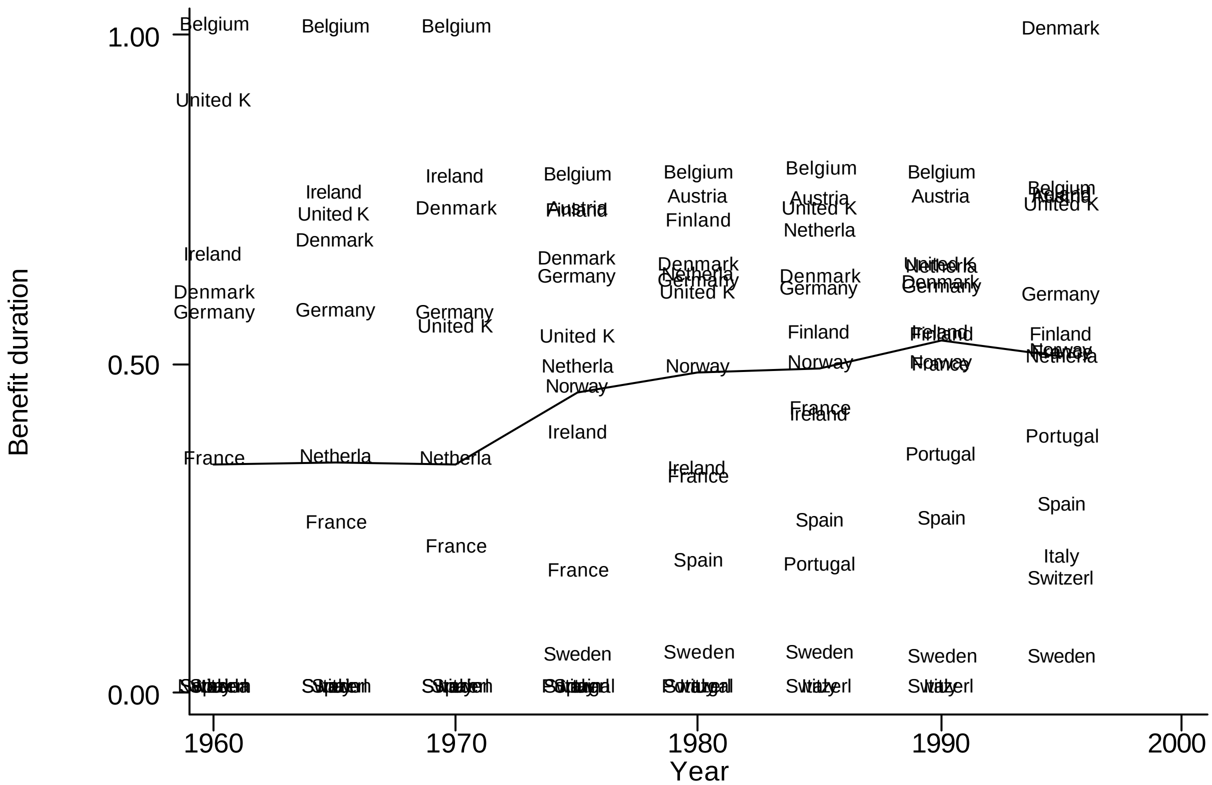
5 This is hotly contested by, for example, Baker *et al*, (2004) and Schmitt and Wadsworth (2002).

of countries and experimental settings[6]. We now turn to a more detailed examination of one such policy: the UK New Deal.

Figure 1: Benefit Duration: Mean and heterogeneity in EU countries



Source: Raw data taken from Nickell *et al* (2002) and amended by Baker *et al* (2004). The benefit duration ratio is an index between zero and unity (calculated as a weighted average of the ratio of the average benefit level during the second, third and fourth year of unemployment to the average benefit level during the first year of unemployment). The line is the (unweighted) mean across European countries.

3.1 Unemployment Policy in the United Kingdom: Example of the New Deal

The UK government introduced a range of "New Deal" programmes for lone parents, the young unemployed, for older workers, and for the disabled. Participants in each of these programmes are assigned a Personal Advisor, who provides assistance with job search. There have been several evaluations of the New Deal for Young People (NDYP) using different non-experimental methods. For example, Blundell *et al* (2004) evaluate the combined impact of job search assistance and the wage subsidy using identification from area and from age. They compared patterns of

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[6] Representative studies include Johnson and Kleppinger (1994), Ashenfelter *et al* (1999), Meyer (1995), Black *et al* (2003) on the US; Van den Berg and Van der Klaauw (2001), Abbring *et al* (1997), Van den Berg *et al* (1998) on the Netherlands; Jensen *et al* (1999) on Denmark; Dolton and O'Neill (1996) on the UK.

employment within the pilot areas (where the New Deal was introduced earlier) to non-pilot areas and also used the fact that 25 year olds were ineligible whereas 24 year olds were eligible for the treatment. Both comparison groups revealed a significant positive effect of the New Deal on employment of a similar order of magnitude (the chances of finding a job were raised by about 20%), although there is some evidence that the impact was strongest in the first quarter.

The increase in employment created by the job search/wage subsidy element of the New Deal is positive, but modest - most studies put the number of jobs created year to be under 20,000. Nevertheless, the benefits are likely to outweigh the costs as individuals who did not get a job would have continued to receive Job Seekers Allowance in any case (see Riley and Young, 2001; Van Reenen, 2004).

The reasons for the success of the NDYP relate to the combination of sanctions-enforced mandatory participation, job search assistance, and the possibility of wage subsidies for those who have difficulty in finding unsubsidised jobs. This is consistent with US microeconometric evidence.[7] What is less clear is the impact of the other New Deal options (i.e. training and government jobs). This element of active labour market policies has come in for increased critical scrutiny. Although unemployment is reduced whilst people are on these schemes, their overall employment chances are often not improved by such interventions (Calmfors, Forslund and Helmstrom, 2002).

3.2 A summing up: unemployment policies

There has been a consensus among a number of international bodies, including the International Monetary Fund and, less overtly, the OECD, that the adoption of 'flexible' US-style labour market institutions would be the cure of unemployment in Europe. The model of policy transfer implied by our analysis of these policies lie somewhere along the spectrum between 'rational' (voluntary) policy transfer and social coercion – the latter element illustrated by the use of scorecards and other target indicators to flag up 'problem' economies. Given this particular form of policy transfer, it is perhaps not surprising that there has been little clear convergence in the policies that have ultimately been adopted – for example those on unemployment benefit level or durations. In contrast, there does seem to have been a general move towards stronger job search assistance and enforcing the work search through monitoring, sanctions and job subsidies. The results from the evaluation literature give some support for this evolving focus on job search assistance, monitoring and enforcement. Such policies have sometimes been combined with other elements of active labour market policy (ALMP) such as education, training and government support. The evaluation literature gives less

[7] See Blundell *et al* (2003, 2003, 2004) for surveys of the experimental evaluations of Welfare to Work, Katz (1998) on wage subsidies and Bloom and Michalopoulos (2001).

support for ALMP-style policies, but it may be that offering such policies is part of the political trade off needed to obtain buy-in for reforms from organised labour. In response to the unemployment shock of the 1980s, for example, both Denmark and the Netherlands introduced tough work search requirements, but did so in the context of generous levels of unemployment benefit. Such generosity was less necessary in the UK, because unions had been weakened.

4 An emerging consensus on in-work benefits?

Making Work Pay (MWP) programmes – that is, programmes that improve in-work benefits relative to out-of-work benefits – reflect the other side of the coin to unemployment policies. Increasing the incentives to enter work should complement policies designed to tackle unemployment and non-participation. The experience of MWP programmes accords more closely with the policy transfer model that sees transfer as the voluntary diffusion of successful policies, suitably adjusted for local conditions and amended in the light of perceived limitations of existing 'versions' of the policy. A number of countries (Canada, Ireland, New Zealand, the United Kingdom and the United States) have relatively long experiences of employment-conditional payments as part of their systems of welfare support. A number of other countries (Belgium, Finland, France, Holland, Denmark) have recently adopted similar policies of subsidising low-paid workers' wages as a way of improving work incentives, and others (Australia) are actively considering whether to adopt MWP policies as part of their respective programmes of welfare reform. To illustrate these aspects, we consider the degree to which such programmes can generate positive employment effects, the specific design features of an MWP policy that either help or hinder in that regard, and the extent to which the experience of existing MWP programs have actively informed new policy developments.

4.1 MWP policy evaluation

Much of the evidence on the employment and labour supply effects of MWP programs centres on the experience of the UK and US. This is natural, given the long history of MWP programs in these two countries compared with others in the OECD. It is worth emphasising how much the behavioural effects of MWP policies are conditioned by the design features specific to the US Earned Income Tax Credit (EITC) and the UK Working Tax Credit (WTC). In both cases, the tax credit is assessed on family incomes. The UK tax credit system combines with an individual-based tax system, while the US EITC operates within a family-based tax system. Both tax credits have increased substantially over the last two decades, providing an opportunity both for *ex-ante* and *ex-*

post evaluation[8]. Most programs implemented or proposed elsewhere in the OECD are relatively recent innovations, and can therefore only be assessed on an *ex-ante* basis.

Most evaluation studies of the effects of the US EITC suggest that expansions in EITC entitlement have promoted employment among (principally female) single-headed households. For example, Meyer and Rosenbaum (1999) estimate that around two-thirds of the increase in employment rates among single-parent households between 1984 and 1996 could be attributed to the expansion in EITC entitlement over the same period. Similarly, Ellwood (2000) suggests that around 30% of the increase in employment among female-headed families over recent years can be attributed to EITC expansion. And in a widely cited study, Eissa and Liebman (1996) estimate that the 1986 EITC expansion led to an increase of between 2.8 and 6 percentage points in labour force participation rates of single parents.

In contrast, many evaluation studies that explore the employment effects of EITC expansion among two-adult households report more ambiguous employment responses. For example, Eissa and Hoynes (1998) estimate that the EITC expansions of 1993 and 1996 generated a combined increase of around 0.2 percentage points in employment among males in two-adult households with children, but a *decrease* in employment among women of up to 1.2 percentage points. Whilst apparently counter-intuitive, these negative responses among secondary earners in two-adult households (principally women) derive from the fact that EITC entitlement is assessed on family income, so that any reduction in employment among secondary earners actually increases the family's EITC entitlement.

Similar effects have been uncovered in the United Kingdom. Empirical studies of the effects of the move from Family Credit to the Working Families' Tax Credit (WFTC) in the late 1990s estimated a net increase in employment ranging from between 10,000 to 100,000 people (Blundell, Duncan, McCrae and Meghir, 2000). However, this net figure combines an increase of around 2.2 percentage points in the employment rate among single-headed households with a *reduction* of around 0.5 percentage points in the employment rate among women in couples. And evaluation studies of the Earnings Supplement Programme and the Self-Sufficiency Project (SSP) suggest that after a year on SSP, 'program group members were twice as likely as control group members to be working full time' (Card *et al*. 2000).

[8] *Ex ante* evaluation methods principally involve the (micro)simulation of the effects of policy reform using structural models of economic behaviour. There are a number of related *ex post* evaluation methods (e.g. matching estimators, difference-in-difference and natural experiment techniques). For a survey of the former, see Creedy and Duncan (2002), and for the latter, see Blundell and Costa Dias (2002).

4.2 MWP policy convergence?

In charting the evolution of Making Work Pay policies across Australasia, Europe and the United States, it is interesting to consider whether or not a consensus is emerging in the design of welfare programs. It is certainly true that established MWP policies in the United States and the United Kingdom have evolved in a fashion that has arguably brought policy design features in these two countries closer together (Duncan and Greenaway, 2004; Walker, 1999). In fact, reforms to the United States' EITC and the United Kingdom's Working Tax Credit policies have provided much of the *ex post* evaluation evidence on which subsequent policy initiatives (in Europe, in particular) have been based. Nevertheless, it is interesting to note that new policy initiatives around the world are not simple clones of existing MWP policy structures in the US or the UK. This is in part due to different national institutions and policy settings, creating different initial conditions for the introduction of MWP policy. Moreover, *ex post* evaluations, whilst informative, can never translate as an entirely accurate picture of the effects of similar MWP policies in different countries. The existence of heterogeneous treatment effects across national boundaries itself creates scope for variation in policy, and places a limit on the degree of policy transfer that can reliably take place.

Table 1 provides a summary of the main features of MWP programs currently in existence, ordered by the year of introduction of the first employment-contingent scheme in each country. For example, the first employment-conditional benefit in the United Kingdom (Family Income Supplement, FIS) was first introduced in 1971. Later reforms ultimately led to the UK's current MWP program (the Working Tax Credit) being introduced in 2003. Looking carefully at Table 1, we do see some form of consensus emerging, but not precisely towards either the UK or the US model. The new MWP policy models are typically delivered as tax credits rather than through benefits agencies. They are relatively modest in terms of generosity, and generally assessed against individual rather than family incomes. All are phased in with earned income, and none include a specific hours contingency for entitlement. This apparent convergence in MWP policy does seem to represent a classic case study in policy transfer, since a number of the lessons drawn from the implementation of existing MWP policies (many of which stem directly from evaluation studies) appear to have influenced the design of new programs.

Among the major issues of interest to countries framing new MWP policy are the employment effects and cost effectiveness of MWP policies. The evaluation evidence on the employment effects of MWP policies suggests an uneven impact across demographic groups, something that has been of major concern to European countries (such as Denmark and France) that have recently introduced new MWP programs. Results from evaluations of MWP programs in the UK and US persistently show that second earners in two-worker households typically have a reduced incentive to work, principally because MWP payments are assessed on family income in both policy models. Of course, moving to a system of individual assessment raises distributional concerns regarding the family income of those receiving tax credit support. Moving to a system of joint taxation raises similar concerns regarding the incentives such a system creates for single- relative to two-earner households. The fact that most new policies are assessed on individual income indicates a degree of concern with this aspect of longer-standing MWP policies. Indeed, the recent welfare reform debate in Australia on the potential role of employment-conditional payments in the new tax system reinforces this point most convincingly:

> *"There is considerable research available on the potential impact of schemes such as the EITC. Firstly, they can make a significant difference in encouraging income support recipients into work. This is especially the case for lone parents in the United States. Their impact on couples with children is less positive. Although they induce some people to move from income support to work, they also reduce workforce participation by some second earners in a family as assistance is withdrawn a t higher income levels. In the Australian context, it would be critical to integrate any such tax credit […] to ensure that the expected positive work incentive effects flowing from the [new tax] package were not compromised."*
>
> Reference Group on Welfare Reform (2000), p44

When judged narrowly in terms of their effectiveness in promoting employment, most evidence on the cost-effectiveness of MWP policies suggests that they are relatively expensive. This would raise obvious concerns if this were the sole criterion by which to judge such programs. However, MWP programs also serve a distributional purpose, to provide financial support to specific groups of low-income working families (perhaps those with young children, as was the case in the UK under WFTC, and as is the case under the differentiated rate structure of EITC in the US). The extent to which the provision of income support to families already in work should be regarded as "deadweight", rather than redistribution, is therefore a question that can only be answered in the context of the objectives that have informed the structure of the MWP policy.

Table 1. The evolution of 'Making Work Pay' policies

Country	Current programme	Year of introduction[1]	Agency responsible for payment	Unit of assessment	Maximum entitlement (euros p.a.)	Conditions of entitlement			
						Phase-in range?	Phase-out range?	Minimum hours condition?	Minimum income condition?
UK	Working Tax Credit (WTC)	1971	Benefits agency (1971-1999) Tax administration (1999-)	Families	6150+	No	Yes	Yes	Yes
US	Earned Income Tax Credit (EITC)	1975	Tax administration	Families	4000	Yes	Yes	No	No
Canada	Canadian Child Tax Benefit (CCTB)	1978	Tax administration	Families	3150	Yes	Yes	No	
Ireland	Family Income Supplement (FIS)	1984	Benefits agency	Families	2260+	No	Yes	Yes	Yes
New Zealand	Family Tax Credit (FTC)	1986	Tax administration	Families	750	No	Yes	Yes	No
Finland	Earned Income Tax Credit	1996	Tax administration	Individual	290	Yes	Yes	No	Yes
Belgium	Income Tax Credit	2001	Tax administration	Individual	500	Yes	Yes	No	Yes
France	Prime pour l'emploi (PPE)	2001	Tax administration	Individual	630	Yes	Yes	No	No
Netherlands	Employment Tax Credit	2001	Tax administration	Individual	920	Yes	No	No	No
Denmark	Earned Income Tax Credit	2003	Tax administration	Individual		Yes	No	No	No

Sources : Gradus and Jusling (2001); Pearson and Scarpetta (2000); Duncan and Greenaway (2004).
Notes : [1] 'Year of introduction' refers to the **first** instance of the MWP policy in the country concerned, and **not** the date of introduction of the current programme

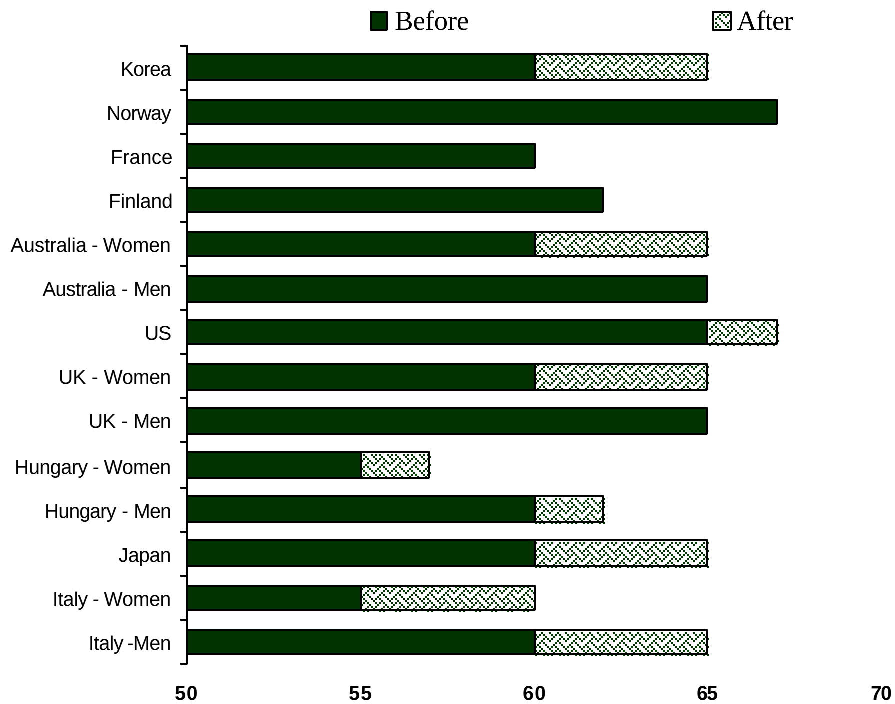
5 Retirement saving and labour market participation

Reforms to public pensions and retirement saving policies are particularly high on the agenda in many developed countries as a result of fiscal pressures arising from population ageing. The fundamental equation of population ageing – that future generations of retirees will need to work for longer, consume less whilst working, or consume less whilst retired – means that the nature of the policy debate is far-reaching and broad. But reforms to pension systems targeted at encouraging longer working lives (or, more usually, removing disincentives for shorter working lives) can be seen as an employment policy for older workers that complements the earlier analysis in this paper. Indeed, the OECD analysis of the problem of inactivity of older people (for example, Blöndal and Scarpetta, 1998) mirrors many of the priorities of the Jobs Study analysis described in Section 3 – lower effective taxes on older workers, and the dismantling of institutional policies such as the subsidisation of early retirement, the relaxation of conditions governing access to disability insurance, and the imposition of retirement tests and other penalties attached to work in later life. Given these common themes, has there been any degree of convergence of such retirement policies that reflects a process of policy transfer? In this section we begin by examining such retirement and late-life employment dimensions of pension policies, before going on to consider pension and retirement saving programmes more generally.

The most common areas for reform of pension systems are to the normal retirement age and the link between contributions and benefits, but others include early and late retirement options, the indexation of benefits, the inheritance of pension rights on widowhood or divorce, and the integration between public pension income and other types of retirement incomes. Some broad commonalities in policy reform have certainly emerged across countries. These include a general tendency to reduce the generosity of indexation of benefits in retirement and a distinct movement to raise the 'normal' age of receipt of public pension benefits (as illustrated in Figure 2).[9]

[9] Although most cross-country studies, such as Blöndal and Scarpetta (1998), suggest that actual replacement rates in public pension programmes have generally been *increasing* over the last thirty years.

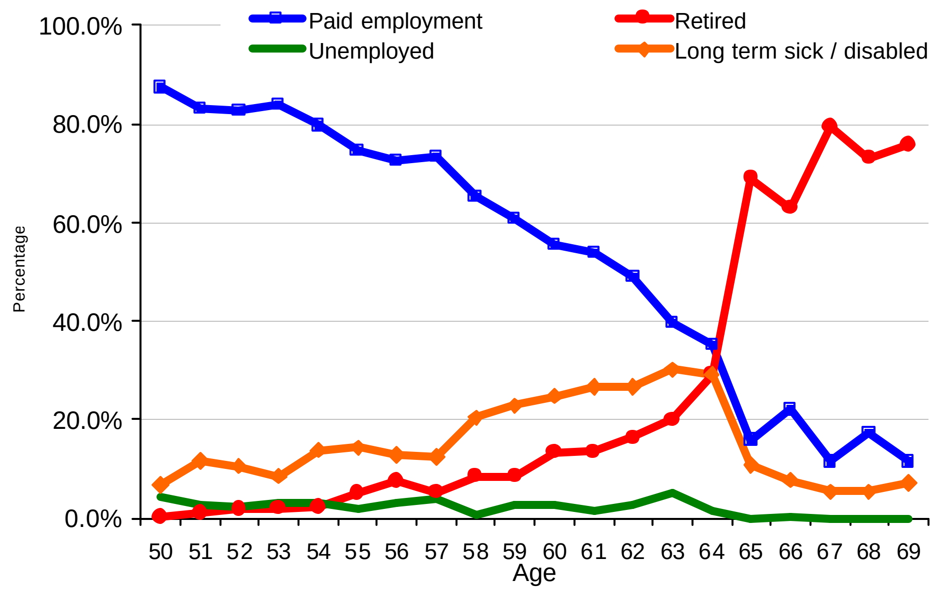
Figure 2: Reforms to age of eligibility for state retirement benefits around the world



Source: Duval (2003)

At a superficial level, the commonality of policy trends provides evidence of policy transfer. But what is the nature of the policy transfer in this case? A striking feature of retirement income programmes is that retirement income provision is very heterogeneous across countries. To analyse the 'mechanics' of retirement, we need to understand the nature of this heterogeneity even if, in aggregate, apparently similar retirement patterns emerge. As an example, consider the labour market activity of older workers in the UK - Figure 3 shows the economic activity status of men aged from 50 to 69. It shows clearly that employment rates are already low for men in their early sixties [as they are, in differing degrees, in many other OECD countries – see Blöndal and Scarpetta (1998) and Gruber and Wise (1999) for many similar illustrations]. But Figure 2 also shows that those out of the paid labour market at these ages are divided fairly evenly into tho se who are retired and those who are inactive on long term sick or disability benefits. Banks and Casanova (2003), using data from the English Longitudinal Study of Ageing, show that this split is systematic by wealth, particularly amongst those aged 50-59. More specifically, they show a U-shaped pattern of labour market inactivity across the wealth distribution, with high wealth groups having high rates of early retirement, low wealth groups having high rates of inactivity, and only the middle wealth groups having high rates of economic activity. This distribution in large part arises from the combination in the UK of a substantial private pension sector and a relatively generous public disability income programme; institutional features that are not replicated in many other OECD countries.

Figure 3: Economic activity rates of men, 55-69, in the UK



Source: Banks, Blundell, Disney and Emmerson (2002), calculated from 2001 Family Resources Survey

Similar patterns of inactivity rates are observed in other countries with markedly different institutional arrangements in their public pension systems, but not necessarily the U-shaped pattern of retirement rates across individuals with different incomes. Gruber and Wise (1999), for example, show that although the pattern of exits may be similar, the programmes that inactive individuals move onto differ considerably across countries. A similar phenomenon emerges if one looks at income replacement across countries — even in cases where the level of income replaced on labour market exit at older ages is similar, the composition of income (in the sense of the relative importance of unemployment, disability or early retirement programmes for example) may differ substantially (see Disney and Whitehouse, 2001).

Of course, pension and retirement programmes have many other dimensions than simply their propensity to create late-life employment incentives, and as we begin to look at these dimensions further, the full diversity of policy arrangements and policy reform begins to emerge. It is certainly hard to look at the direction of reform in this area and see a single model or design emerging, whether it is the multi-pillar programme advocated as a generic model by the World Bank (1994) or a systemic move towards more 'actuarial fairness' in public pension programmes, as implemented in varying degrees in Germany, Italy and Sweden (Disney, 2000b, Casey *et al*, 2003).

The sense in which programmes *are* converging is that the broad direction of reform across countries has been to make pension programmes less generous to future cohorts, where generosity is typically measured by forecast spending as a per cent of GDP, by the age of eligibility for benefits, or by future predicted replacement rate for a 'typical' earner. Such 'convergence' is unsurprising, however, given that the fiscal stresses caused by population ageing mean that most governments face similar intertemporal budget constraints. As some of the sceptics in the political science literature ask about policy transfer: are we really observing policy transfer or simply seeing common problems that are resolved in heterogeneous ways by local polities[10]?

True convergence in social security, pension and retirement saving programmes may be too much to expect at this point in time, for at least three types of reasons. First, even if a preferred model for social security were to emerge, demographic and labour market conditions are very different internationally and, as a result, the effects of moving to new systems (both in terms of the long run benefits and the transition costs associated with the reform), given initial conditions, are both large and variable across countries. The number and types of winners and losers from the same reform in two different countries could differ substantially, and this will depend on much more than just current labour market states (as it would with unemployment and in-work benefit policies). Second, an explicitly dynamic welfare policy such as social security requires a stance to be taken on intra- and inter-cohort redistribution and it is clear from existing structures and reform that different countries will choose different equity-efficiency trade offs. This will affect both the relative weight attached to cohorts of gainers and losers in transition, and quite possibly the overall perceived long run benefits of reform altogether. Third and finally, pension reforms take an entire working life before their full effects can be evaluated. As a result the experimental evaluation methods that have informed the design of unemployment and in-work benefit programmes discussed in previous sections are not available to policy makers in this area.

Even in the absence of explicit policy transfer or convergence on pensions there is a very real sense in which the nature of the policy debate itself has become increasingly international. International empirical evidence is being collected and specific policy reforms and experiments are being carefully watched by analysts and policy makers around the world — the wholesale privatisation of social

[10] And even such convergence in generosity is not uncontroversial, since inferring generosity across the whole distribution from such simple summary statistics (often coupled with forecasts of future governments' commitments) raises its own methodological and analytical problems.

security systems in Latin America and the move to a notional defined contribution based system in Sweden and other countries being notable examples. In addition to other empirical methods, econometric models identified through international variation in policy (measured at the microeconomic level) are being used to understand the behavioural process for wealth accumulation and retirement choices. Coupled with this, internationally comparable longitudinal data on the income, employment, wealth, health and pensions of older people is becoming available for the US, UK and Europe. Such data will create an enhanced evidence base on which the more sophisticated behavioural models necessary for informed policy analysis in this area can be estimated.

6 Summary and conclusions

We began this paper by asking what economists can add to the debate on public policy transfer, a debate that has hitherto been more the domain of political scientists who have focused on the policy transfer process, and the institutional environment within which such transfer takes place. In providing answers to this question, we explored three domains of public policy; unemployment programmes; in-work benefit and tax credit programmes; and policies to assist with retirement saving. By way of a general answer to the question posed, economic science has been able to bring methods of policy evaluation and policy determination (either separately or in combination) to understand both the policy process and the policy outcome, and thereby assist in the process of policy formation. Economists have provided methods of judging theories of diffusion and spread of 'best' or 'better' practice. And economists have been able to assist directly in the process of policy learning and adaptation through careful evaluation studies of particular *ex post* policy experiments or *ex ante* policy ideas, as evidenced by the evolution of MWP programmes over the last decade.

However, our case studies serve to highlight different aspects of the policy transfer literature or, at least, different policy models. We argued that MWP policies in many ways conform to the classic 'rational' policy transfer model in which policies are based on diffusion of evidence from early implementers, with adjustment to local conditions and also to limitations in existing policy uncovered by policy evaluation. In contrast, unemployment policies can be placed further along the 'rational'-'coercive' spectrum of policy transfers, with strong elements of social coercion (principally through the OECD's use of scorecards and indicators) but with incomplete policy implementation. It is also evident that unemployment policy trends (for example, in the generosity of unemployment insurance programmes) are quite inconsistent with the OECD's prescribed policy model. We have shown that *ex post* policy evaluations of different components of the policy 'package' serve to discriminate between those elements that appear to work and those that do not. It is less clear whether these evaluations have led to a reorientation of the overall unemployment policy package towards the elements of the policy package that are apparently more successful.

The case study of reforms to retirement income programmes is somewhat harder to reconcile with the policy transfer ‘paradigm’. At first sight, many countries have followed similar strategies, such as raising the retirement age, in response to demographic ageing and programme cost considerations. But these apparent similarities conceal great institutional differences in demography and labour market conditions across countries, and differences in the effects of retirement policies across the distribution of households within each country. Despite influential studies of global ageing such as that of the World Bank (1994), these common policies are driven by common problems, rather than by international transfer either of the policy agenda or the policy solution. This is evidenced by the variety of reforms to pension programmes that are actually being adopted in practice (for example, very different views exist on whether ‘privatisation’ of pension programmes is a feasible option). In a sense, this illustration (that commonality of outcomes need not reflect the existence of policy transfer as such) mirrors a debate that has recently taken place in the poltical science literature as to what constitutes evidence of ‘policy transfer’ (James and Lodge, 2003).

In general, however, whilst there may not always be evidence of policy convergence, policy design is increasingly being informed by international experiences. With the internationalisation of the policy debate, the widening and deepening of the empirical evidence base, and the recent methodological advances in policy evaluation techniques, measurement of policy outcomes should improve. This should enhance policy transfer where it is appropriate and, as this process continues, differences in policy stance across countries will be increasingly interpreted as revealing differences in political, social and economic preferences as opposed to accidents of design or history.

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