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Globalisation and the Internationalisation of Public Policy

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Globalisation and the Internationalisation of Public 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

What are the links between globalisation and economic policy? For trade economists, since Taussig (1923) or even List (1841), this is essentially a question about whether, by introducing a particular policy innovation, it is possible to improve upon aggregate welfare attained under free trade. The optimal tariff is the classic case in point, where a large country can use a tariff to turn the terms of trade in its favour, though there are a whole series of second best arguments for intervention, which were systematically developed by Meade (1955) and Corden (1974). Although the imperfect competition and international trade literature resulted in some further refinement, the fundamental tenets of optimal intervention were left largely intact.

In the main, this literature was concerned with border measures. Increasingly, however, non-border measures of one form or another have come to dominate the policy agenda, not just in bilateral discussions (for example, the acceptability of genetically modified foodstuffs) but also in multilateral negotiations (for example, the role of new issues in the Uruguay Round agenda). This has shifted the focus of discussion on globalisation and economic policy away from optimal intervention in response to a given distortion and towards policy co-ordination and policy transfer. The former is the process whereby independent nation states co-ordinate intervention in order to minimise negative spillovers from uncoordinated action; the latter is the process whereby policies developed in one domain are adopted or adapted in another.

Policy transfer is the focus of this paper. With increasing globalisation of economic activity, there are increased opportunities to 'learn' from experience with intervention elsewhere. Although it continues to be the case that the public and social policy decision making process is fashioned largely by national priorities, it is nonetheless also the case that more than ever before national policy decisions are being informed by international experiences and policy structures. A number of factors have contributed to this. First, as a result of globalisation and technological development, policy ideas and initiatives are more easily communicated in the international arena.¹ Second, the surge in regionalism 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 World Bank and IMF actively facilitate or implement the transfer of policy.

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 survey it. Rather, we set out a simple organising

¹ See Stone (2000) for a discussion of the role of policy institutes and think tanks in the transfer of policy ideas.

framework for thinking about policy transfer and policy co-ordination and then focus on a specific policy domain.

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 examines a specific welfare policy designed to ‘make work pay’ (OECD, 1997) – the evolution of tax credits in the US, the UK and a number of other 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 Globalisation, Policy Co-ordination and Policy Transfer

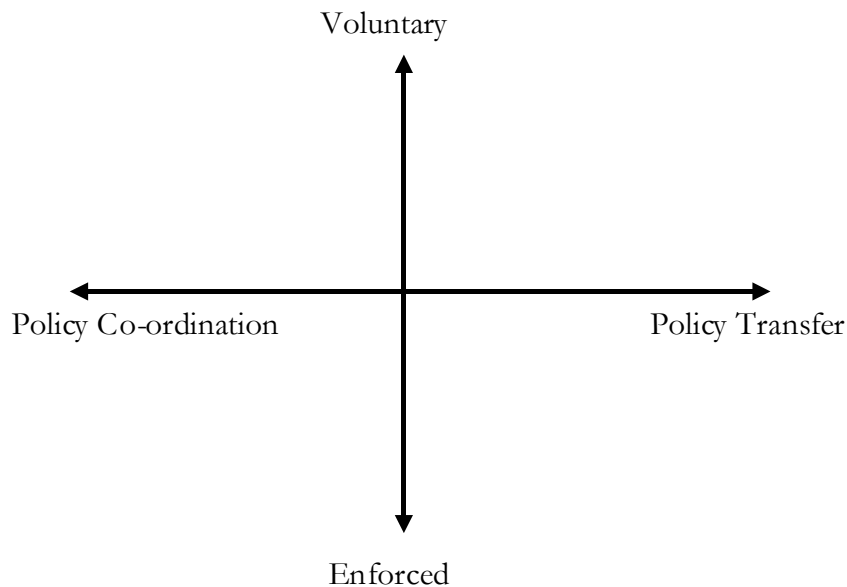
2.1 some basic concepts

We begin by clarifying basic concepts. Globalisation we define as the internationalisation of economic activity, driven by increased armslength trade, increased cross-border investment and increasing migration. It is well known that globalisation increases interdependence between economies. With increased openness, shocks that originate in one economy are more likely to impact on another. This is also true of policy innovation: in a closed economy there is no scope for policy induced spillovers, in an open economy there is, and the more open the economies concerned, the greater the potential. Thus, with increasing openness comes pressures for *policy co-ordination* to minimise the spillovers from uncoordinated *policy competition*. In Figure 1, policy co-ordination is mapped in the north-east and south-east quadrants, depending upon whether it is voluntary or enforced. Table 1 gives examples of each in different policy domains.

2.2 Policy coordination defined

Policy co-ordination is generally a response to policy competition. The latter can take place with regard to border and non-border measures and any co-ordination introduced to deal with it can be voluntary or enforced. Tariff wars are the classic example of policy competition in the trade domain and the GATT's principle of non-discrimination combined with binding, the particular (rules based) device used to co-ordinate policy and minimise spillovers. The mechanisms are voluntary in the sense that Members opt in but there are punishment mechanisms in place to deal with defection: including withdrawal of privileges and sanctioned retaliation.

Figure 1 Policy Co-ordination and Policy Transfer



Macroeconomic policy is another area where the literature on policy competition and policy co-ordination is well developed.² G7/G8 attempts to manage exchange rate fluctuations are an obvious case in point. More generally, fixed exchange rate regimes can be thought of as a device for exchange rate co-ordination. In the case of the Eurozone in Western Europe, this has been taken one step further: a single currency imposes a single co-ordinated monetary policy. In turn, this requires the Stability Pact to ensure fiscal co-ordination. Moreover, in the case of the latter, compliance is enforced by financial penalties (see Gros and Thygesen 1998 for details).

As noted earlier, the globalisation process has increased the visibility of non-border measures and brought pressures for greater co-ordination across a whole raft of policy domains. For the first time, the Uruguay Round brought many non-border issues into the multilateral domain: regulatory arrangements in services provision; protection of intellectual property; trade related investment measures. These issues comprise part of the core for the so-called 'built-in agenda' of the Doha Round. But that Round is also likely to push discussions and attempts at co-ordination into completely new domains, including competition policy, welfare and labour market policies and environmental issues.

² For a review of the literature, see Hughes Hallett (1989).

Table 1. *Examples of Policy Co-ordination and Policy Transfer.*

	POLICY CO-ORDINATION	
	Voluntary	Enforced
Trade Policy	Most Favoured Nation	Tariff Binding
Macroeconomic Policy	Exchange Rate Management	EU Stability Pact
Industrial Policy		US Special 301 Provisions
Environmental Policy	Kyoto Protocol	
	POLICY TRANSFER	
	Voluntary	Enforced
Trade Policy	Unilateral Liberalisation	SAL Liberalisation
Macroeconomic Policy	Central Bank Independence	Single Currency
Industrial Policy	Privatisation	SAL Privatisation
Welfare Policy	Tax Credits	

2.3 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.³ 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).

³ See, *inter alia*, 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 (2001), Wolman (1992).

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 next section). Finally, economists can combine the theory of policy determination with empirical evidence to assess the quality of these theories⁴.

2.4 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.⁵ 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 OECD countries). Unfortunately, there is no obvious selection mechanism that roots out poor practice and rewards best practice analogous to economic marketplaces⁶.

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).⁷ A possibility in these alternative scenarios is that ‘bad’ policies (in the evaluative sense) are sometimes transferred.

In similar vein, there may be many reasons why apparently successful policies (in one national context) are not transferred. This may simply be that they are ‘inappropriate’ in another context (not best practice), or because alternative coalitions of interest groups block such transfers (public choice), 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

⁴ This final step is the most ambitious and there are few examples. Saint-Paul (1996) and Acemoglu et al (2003) are exceptions.

⁵ See Berry and Berry (1999).

⁶ Although some have suggested selection mechanisms such as war or democracy.

⁷ See Banerjee (1992) for example.

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.

2.5 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, to maintain the living standards of pensioners in the face of ageing, while controlling costs), 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.

A similar issue arises from the distinction between specific policy transfers and generic policy ‘models’. An illustration of the former is contained in Section 4, describing the evolution of tax credits in the US, the UK and elsewhere. Two examples of generic ‘models’ derive from the mid-1990s. One concerns the influence of the OECD-based ‘Jobs Study’ (1995) on welfare policies designed to ‘make work pay’ by the variety of measures described above. 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 interest groups within those states) to avoid making any real choices.

3 The Diffusion of Unemployment Policies

Rising unemployment levels in the 1980s and 1990s posed a major threat to both macroeconomic and political stability in a number of OECD questions. Dissatisfaction with the efficacy of narrowly defined policies of demand management and monetary control led to greater interest in examining the role of supply side constraints, especially in the labour market, on economic performance⁸. Policy transfer involved finding common institutional reforms as well as reforms designed to limit out-of-work benefits and to lower marginal and average tax rates that would alleviate these constraints; a view exemplified by the OECD Jobs Study (1995) and confirmed by many cross-country studies using national indicators to proxy structure and constructed ‘averages’ of economic variable such as tax rates and replacement rates.⁹ Although the OECD, IMF and others have supported a US style “deregulation” approach towards labour market institutions¹⁰, the quantitative indicators of replacement ratios and benefit durations show no signs of such a convergence – if anything there is evidence of increases in the generosity (replacement rate) and duration of unemployment benefits in the standard policy databases (see Nickell, 2003). One area, however, where there has been some consistent movement is in the strictness of unemployment benefit entitlement: countries have moved to enforce the “work search” requirement more strictly 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

⁸ Nickell, Layard and Jackman (1991) look at how the level of unemployment correlates with the levels of 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.

⁹ 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 (see Disney, 2000a and 2004).

¹⁰ In terms of labour market institutions this means reducing employment protection legislation, weakening union bargaining power, reducing the level and generosity of unemployment benefits and improving job search (e.g. through enforcing the work search rule).

assistance plus strict monitoring and sanctions does appear to be effective in improving employment chances in a variety of countries¹¹.

3.1 Policy in the United Kingdom

In the United Kingdom, financial assistance for the unemployed was delivered through Income Support until 1996, before being replaced by the new Jobseekers Allowance (JSA). One of the key initiatives of the UK government was the introduction in 1998-99 of 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 provide assistance with job search & job application (see Table 1). Although generally mandatory, participation in New Deal programmes for some groups (lone parents in particular) is voluntary.

The active labour market policies introduced in the UK had several precedents, not least of which was the Restart initiatives beginning in 1986 that introduced mandatory job-focused interviews for the long-term unemployed¹². Similar schemes had existed for some time in various guises in the United States and Australia. American programs stretch as far back as the 1969 Family Assistance Plan proposed (but never completed) by the Nixon administration. And the Australian *Working Nation* white paper of 1994 makes specific provision for active labour market programs (the *Job Compact, JobSkills, SkillsShare*) to assist in labour market re-entry.

3.2 Policy evaluation in the United Kingdom

Evaluation of the New Deal is difficult because of the absence of random assignment. Nevertheless, there have been several evaluations of the New Deal for Young People using different non-experimental methods. Blundell et al (2004) evaluate the combined impact of job search assistance and the wage subsidy using two sources of identification from area and from age. They compared 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 and 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%)¹³.

¹¹ Representative studies include Johnson and Kleppinger (1994), Ashenfelter et al, 1999, Meyer, 1995, Black et al, 2003 on the US; Van der Berg and Van der Klaauw (2001), Abbring et al (1997), Van der Berg et al (1998) on the Netherlands; Jensen et al on Denmark; Dolton and O’Neill (1996) on the UK.

¹² See Van Reenen (2001) for the history and Dolton and O’Neill (1996) for a positive evaluation.

¹³ Although there was some evidence that the “impact effect” in the first quarter was stronger than in subsequent quarters.

Table 1. *Description of UK New Deal programmes*

<i>New Deal for Lone Parents (NDLP)</i>	<i>New Deal for Young People (NDYP)</i>	<i>New Deal for 25+ (ND25+)</i>
<i>Programme description</i>		
<p>NDLP is a <i>voluntary</i> programme. Lone parents on Income Support and with a youngest child aged 3+ are invited to an interview. Those with younger children may also choose to join.</p> <p>NDLP personal advisers deliver a comprehensive package of advice and support tailored to meet the needs of the individual lone parents (including advice on sources of support for childcare costs)</p> <p>All lone parents on IS with a youngest child of school age are required to attend a Personal Adviser meeting.</p>	<p>NDYP is a <i>mandatory</i> programme for those aged 18-24 who have been unemployed for six months.</p> <p>NDYP has 3 phases:</p> <ul style="list-style-type: none"> • a <i>Gateway</i> period of intensive tailored advice and guidance for up to four months with additional specialist provision as required. • Those not finding work during Gateway are offered one of four options each including an element of education or training: a subsidised job with an employer; full-time education or training; work on the Environment Task Force or with the voluntary sector. • Follow-through provides extra adviser support to ensure that as many as possible move on into jobs. 	<p>ND25+ is a <i>mandatory</i> programme for those unemployed more than two years. It involved a series of advisory interviews followed by <i>voluntary</i> participation in subsidised employment, education or training.</p> <p>ND25+ has 3 phases:</p> <ul style="list-style-type: none"> • a <i>Gateway</i> period of up to 4 months; • a period of full-time intensive activity (IAP), including periods of project-based work experience, work placements with an employer and subsidised employment. IAP lasts 13 weeks (but may be extended to 26). It is mandatory for those aged 25-49. The over 50s may access IAP provision on a voluntary basis. • a follow-through period, usually of 6 weeks, of supported job search

Source: Blundell *et al* (2003)

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 case¹⁴.

There is evidence that participants in the New Deal for Lone Parents were more likely to find jobs than non-participants. But unlike the NDYP participation is not mandatory. Therefore these lone parents who move from the New Deal to paid employment are probably more motivated, or positively disposed to finding work, and would therefore have been more likely to find employment in any event.

¹⁴ Van Reenen (2004), Riley and Young (2001)

The finding of a positive employment effect from the NDYP of sanctions-enforced job search assistance and wage subsidies is consistent with a large body of US evidence¹⁵. 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 interventions¹⁶.

3.3 A summing up: unemployment policies

Despite the consensus among many international bodies like the IMF that the adoption of US style labour market institutions would be the cure of unemployment, there is no clear convergence in policies (e.g. on unemployment benefit level or durations). There does seem a general move towards stronger job search assistance and enforcing the work search with monitoring and sanctions and job subsidies. The evaluation literature gives some support here. These moves are often combined with other elements of active labour market policy such as education, training and government support. The evaluation literature gives less support for these, 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 were sufficiently weakened.

4 An emerging consensus on in-work benefits?

The preoccupation with Making Work Pay (MWP) programmes – that is, programmes that improve in-work benefits relative to out-of-work benefits – in welfare policy discussions around the world indicates a general perception that policies of this form can be effective in redistributing incomes and promoting work incentives among low-wage households. 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

¹⁵ See Blundell et al (2004) for a survey of the experimental evaluations of Welfare to Work, Katz (1998) on wage subsidies and Bloom and Michalopoulos (2001)

¹⁶ For example, Calmfors, Forslund and Hemstrom (2002)

improving work incentives, and others (Australia) are actively considering whether to adopt MWP policies as part of their respective programmes of welfare reform. It is therefore important to 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 informed new policy developments¹⁷.

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. Before citing empirical evidence, it is therefore worth emphasising how much the behavioural effects of MWP policies are conditioned by the design features specific to the US EITC and the UK WFTC. 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. This provides an opportunity both for *ex-ante* and *ex-post* evaluation.¹⁸ Most programs implemented or proposed elsewhere in the OECD are relatively recent innovations, and can therefore only be assessed on an *ex-ante* basis.

There is evidence that the Earned Income Tax Credit (EITC) in the United States, which subsidises those workers who accept employment but who have low family incomes, promotes employment (Hotz and Scholz, 2000). Meyer and Rosenbaum (1999) calculate that 63% of the increase in labour force participation rates of lone-parent families (the main group of beneficiaries) between 1984 and 1996 was due to the EITC. Eissa and Liebman (1998) believe that the 1986 expansion of the EITC increased labour force participation of lone parents by 2.8 percentage points, rising to 6 percentage points for those lone-parents who had the lowest level of education. Ellwood (2002) believes that welfare reform accounts for half of the increase in employment of female-headed households over recent years, the EITC another 30%, with the remainder being due to improved labour market conditions.

Fewer empirical studies exist on the impact of EITC on the labour market behaviour of two-adult households. Those that do report ambiguous employment and labour supply responses.

¹⁷ Of course, the particular design features of such programs are important, and we identify later a number of problems and concerns that have emerged from international experiences in the design and implementation of MWP policies.

¹⁸ *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 (eg. matching

For example, Eissa and Hoynes (2000) analyse the combined effects of the 1993 and 1996 expansions in EITC entitlement on patterns of employment among married couples. They find a modest increase in participation among males in two-adult households with children (of around 0.2 percentage points), but a *decrease* in employment among women of up to 1.2 percentage points. The reasons for this apparently counter-intuitive result are actually rather intuitive. Because the EITC is assessed on family income, a reduction in labour supply among secondary earners (usually women) increases the family's EITC entitlement. A spouse may therefore withdraw from the labour market without too much of a reduction in overall household income.

Similar effects have been uncovered in the United Kingdom. Empirical studies of the effects of the move from Family Credit to the 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.

Elsewhere, Canada has been experimenting with earnings supplements (the Earnings Supplement Programme and the Self-Sufficiency Project). The final report on the project shows that the SSP increased both employment significantly one year after the project started, 'program group members were twice as likely as control group members to be working full time' (Michalopoulos *et al.* 2002). Because employment went up, aggregate earnings also went up - by as much as 20 per cent on average. This is a significant effect, but not substantial enough to make the programme pay for itself.

However, care is required in assessing the cost-effectiveness of MWP policies. Most in-work transfers around the world have been designed with the twin objectives of redistributing financial resources to low-income families and promoting employment incentives. For some in-work transfer payments, there may be additional criteria, perhaps to redistribute towards families with children or to target more specifically low-wage rather than low-income households. The cost-effectiveness of MWP programs should therefore be judged relative to the weight governments attach to these objectives. Much of the cost of a MWP program may come from providing additional financial gain to families already in work. These costs may be interpreted narrowly as "deadweight" if the sole intention of the policy is to promote employment. However, if the

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).

MWP program is also intended to serve a distributive purpose, then to interpret the cost as deadweight is too harsh.

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 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.¹⁹ 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.²⁰ 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. However, *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 2 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.²¹ Looking carefully, 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.

¹⁹ See Duncan, Pearson and Scholz (2003) and Walker (1999) for more detailed discussion of parallel MWP policy developments in UK and US.

²⁰ Of course, this is no surprise given that both programs have been in existence in some form since the early 1970's.

²¹ 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.

Table 2. 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
US	Earned Income Tax Credit (EITC)	1975	Tax administration	Families	4000	Yes	Yes	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
New Zealand	Family Tax Credit (FTC)	1986	Tax administration	Families	750	No	Yes	No
Finland	Earned Income Tax Credit	1996	Tax administration	Individual	290	Yes	Yes	No
Belgium	Income Tax Credit	2001	Tax administration	Individual	500	Yes	Yes	No
France	Prime pour l'emploi (PPE)	2001	Tax administration	Individual	630	Yes	Yes	No
Netherlands	Employment Tax Credit	2001	Tax administration	Individual	920	Yes	No	No
Denmark	Earned Income Tax Credit	2003	Tax administration	Individual		Yes	No	No

Sources: Gradus and Jusling (2001); Pearson and Scarpetta (2000); Duncan and Greenaway (2003).

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;

It is apparent that lessons (many of which stem directly from evaluation studies) have been drawn from the experiences and implementation of WTC and EITC policy, and these lessons have informed the design of new programs. Among the major issues of interest to countries framing new MWP policy are:

➤ The employment effects of MWP policies

Evaluation evidence on 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 when MWP payments are assessed on family income. The fact that most new policies are assessed on individual income indicates a degree of concern with this aspect of longer-standing MWP policies. 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.

➤ Cost-effectiveness of MWP policies

When judged narrowly in terms of their effectiveness in promoting employment, most evidence suggests that MWP policies are relatively expensive. This would raise obvious concern 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 is regarded as “deadweight”, rather as 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.

5 Retirement saving and labour market participation

As is well known, the ageing populations of developed countries present policy makers with some of their most important and pressing policy concerns. The ensuing debates and discussions are taking place across the world, both in academic and policy circles, so it seems natural to ask if

there is any evidence of convergence or policy transfer in the sense we discussed for unemployment policies and in-work benefits above. But 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 a far-reaching and broad. We can sum it up as a concern with policies that are targeted at either retirement outcomes or retirement saving.

Of course, the set of policies that plausibly affect retirement or retirement saving outcomes is clearly extensive, including tax incentives for private saving, the design and delivery of public pensions, and the tax and legislative arrangements applicable to employer pensions and other private pensions. But in the broader context of savings, all aspects of the welfare state could potentially matter; and in the context of labour market outcomes for older workers several supply-side programmes such as disability benefits, unemployment insurance and income assistance, as well as demand-side policies targeting employment arrangements for older workers, also come into play. The number and diversity of policy programmes involved raises important issues relating to the meaning of ‘policy transfer’, discussed below. Initially, however, we begin with the most fundamental of policies in this area – public pensions.

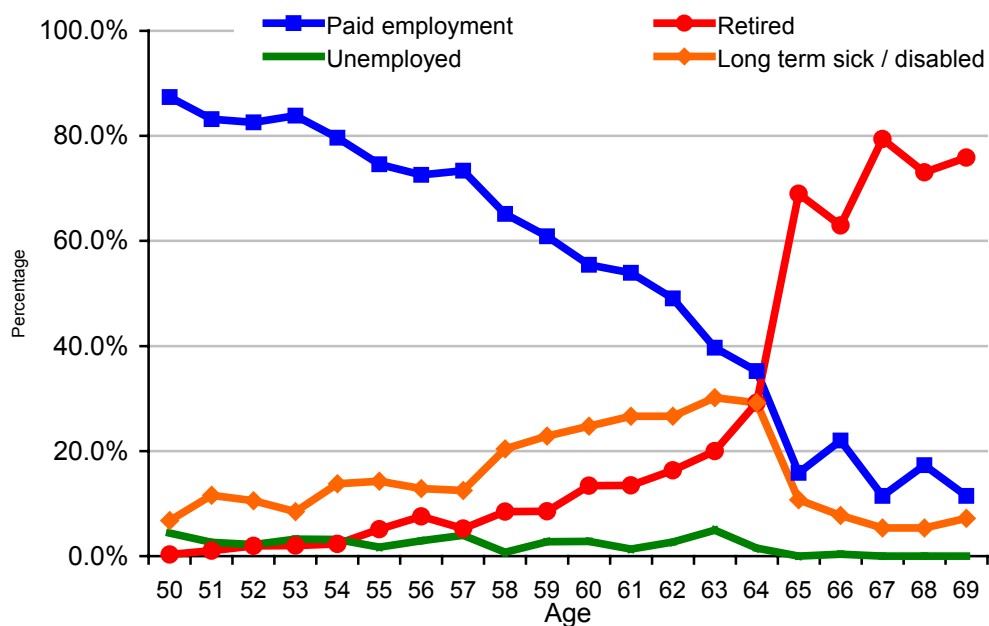
5.1 Public pensions and retirement outcomes

Even within a single programme for retirement saving such as public pensions the number of dimensions in which policy can differ is high. The most common areas for discussion are the normal retirement age and the link between contributions and benefits, and the extent of public versus private provision, 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. Although there are some commonalities in policy reform (for example, a general tendency to reduce the generosity of indexation of benefits in retirement and to raise the ‘normal’ age of receipt of public pension benefits) it is hard to look at the direction of reform 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.²²

²² For an overview of recent parametric and structural reforms in OECD countries, see Disney (2000b) and Casey et al (2003) for illustrations.

Even if programme parameters change, they affect outcomes only indirectly through their incentives for saving and labour supply at older ages. As an example of this, consider the evidence on the labour market activity of older workers. Figure 1 shows the economic activity status of men aged from 50 to 69 in the UK. It shows clearly that employment rates are low for men in their early sixties (as they are in fact around the world). In addition, those out of the paid labour market at these ages are divided fairly evenly into those who are retired and those who are inactive on long term sick or disability benefits. Banks and Casanova (2003) use data from the English Longitudinal Study of Ageing to 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.

5.1.1 Figure 1: Economic activity rates of men, 55-69, in the UK



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

These diverse patterns of labour market activity amongst men (and women) in their fifties and early sixties are observed in the UK despite the state pension age being 65 for men and 60 for women. Perhaps more importantly, similar patterns are observed in other countries with markedly different institutional arrangements in their public pension systems (see Gruber and Wise (1999) for example, who show that although the pattern of exits may be similar, the

programmes that inactive individuals move onto differ 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).

5.2 Why is there an absence of convergence?

One sense, and indeed perhaps the only 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.²³ But this is neither particularly surprising (given that fiscal stresses caused by population ageing are common across the world) nor even wholly uncontroversial, in the sense that 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.

Even such broad evidence on convergence needs to be interpreted carefully, since it is the interaction of all programmes affecting incentives for retirement saving and retirement itself, and the associated outcomes, that need to be considered as the ultimate statement of policy stance. As an example, despite some similarities to other social security programmes, reforms to the State Earnings Related Pension in the UK need to be interpreted completely differently to similar reforms around the world because of the nature of contracting out arrangements for those with private pensions in the UK. Within this context, it is hard to make reliable statements about convergence or policy transfer.

There is a sense, however, in which true convergence in social security, pension and retirement saving programmes is perhaps too much to expect, for at least three different types of reasons. Firstly, 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 are not available to policy makers. Additionally, the structural models of life-cycle choices that would be needed to predict policy outcomes directly are not yet sufficiently developed in the sense of incorporating individual heterogeneity, non-linearities in

²³ 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.

the various budget constraints, and the effects of uncertainty. Hence, such methods are not really ready for use in detailed policy design.²⁴

The second reason policy convergence is perhaps an unreasonable goal in this area is that, even if a preferred model 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 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). Related to this is the third reason that convergence is a long way off: An explicitly dynamic welfare policy such as social security requires a stance to be taken on intra and inter-cohort redistribution, and it seems quite likely that, even once efficiency gains have been established, 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.

Whilst it is possible to argue that all three of these points also apply to the types of policies discussed in the previous two sections it seems clear that, in comparison to a policy targeted at contemporaneous outcomes such as current employment or current income, such arguments are more transparent in the area of retirement saving. This is particularly true when, as is often the case, labour market policies and reforms are analysed in the context of a static model of economic behaviour.

However, even in the (understandable) absence of explicit policy transfer or convergence there is a very real sense in which the nature of the policy debate itself has become increasingly international. Empirical evidence is being drawn from other countries, and specific policy reforms and experiments are being carefully watched by analysts and policy makers around the world — the wholesale privatisation of social security systems in Latin America and the move to a notional defined contribution based system in Sweden 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 behavioural process for wealth accumulation and retirement choices. Coupled with this, internationally comparable

²⁴ Within the context of the ‘traditional’ life-cycle model, however, such models are not far away. French (2003) for example incorporates all these features into an individual-based model of retirement behaviour that is then used for examining policy reform scenarios.

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 put forward 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 some difficulties in the policy transfer debate. First, policy ideas may not always need to converge in order to bring about a convergence in policy objectives. To meet the objective of promoting employment, or to tackle the growing problem of population ageing, a number of different policies (or combinations of policies) may be able to deliver equivalent or similar primary outcomes. In such circumstances, it seems sensible to widen the range of criteria for evaluating policies (for example, such considerations as minimising administrative cost and the complexity of policy design). Typically, too, moreover, there are additional criteria and constraints against which to evaluate policy, including distributional considerations. However, measurement of distributional outcomes raises a variety of new problems – notably in pension policy where 'redistribution' should ideally be evaluated across the lifetime and even across 'generations'; simple 'snapshots' that compare current pensioners and workers are highly misleading, especially when reforms have long transition periods and cohorts differ in their access to other resources.

Second, a particular policy idea cannot necessarily be assumed to deliver equivalent outcomes in different institutional or cultural domains – cross country evaluation studies are needed to understand behavioural heterogeneity. Although we can learn from explicit experimental evaluations of the same (or a similar) policy in different institutional environments, the non-parametric nature of experimental evaluations may not always tell us which particular institutional or population difference leads to any particular differences that emerge across regions or countries.

In general, whilst there may not always be evidence of policy convergence, policy design is increasingly being informed by international experiences. With the internalisation of the policy debate, the widening and deepening of the empirical evidence base, and the recent methodological advances in policy evaluation techniques, the preconditions for policy transfer are beginning to fall into place, and are already fully in place in some domains. As such, and as this process continues, differences in policy stance across countries will be increasingly interpretable as revealing differences in political, social and economic preferences as opposed to accidents of design or history.

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- ²⁵ Seminal contributions include Taussig (1927), Meade (1955) and Corden (1974).
- ²⁶ See Stone (2000) for a discussion of the role of policy institutes and think tanks in the transfer of policy ideas.
- ²⁷ See, *inter alia*, 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 (2001), Wolman (1992).
- ²⁸ This final step is the most ambitious and there are few examples. Saint-Paul (1996) and Acemoglu et al (2003) are exceptions.
- ²⁹ See Berry and Berry (1999).
- ³⁰ Although some have suggested selection mechanisms such as war or democracy.
- ³¹ See Banerjee (1992) for example.
- ³² Nickell, Layard and Jackman (1991) look at how the level of unemployment correlates with the levels of 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.
- ³³ 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).
- ³⁴ In terms of labour market institutions this means reducing employment protection legislation, weakening union bargaining power, reducing the level and generosity of unemployment benefits and improving job search (e.g. through enforcing the work search rule).
- ³⁵ Representative studies include Johnson and Kleppinger (1994), Ashenfelter et al, 1999, Meyer, 1995, Black et al, 2003 on the US; Van der Berg and Van der Klaauw (2001), Abbring et al (1997), Van der Berg et al (1998) on the Netherlands; Jensen et al on Denmark; Dolton and O'Neill (1996) on the UK.
- ³⁶ See Van Reenen (2001) for the history and Dolton and O'Neill (1996) for a positive evaluation.
- ³⁷ Although there was some evidence that the “impact effect” in the first quarter was stronger than in subsequent quarters.
- ³⁸ Van Reenen (2004), Riley and Young (2001)
- ³⁹ See Blundell et al (2004) for a survey of the experimental evaluations of Welfare to Work, Katz (1998) on wage subsidies and Bloom and Michalopoulos (2001)
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- ⁴⁰ For example, Calmfors, Forslund and Hemstrom (2002)
- ⁴¹ Of course, the particular design features of such programs are important, and we identify later a number of problems and concerns that have emerged from international experiences in the design and implementation of MWP policies.
- ⁴² *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 (eg. 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).
- ⁴³ See Duncan, Pearson and Scholz (2003) and Walker (1999) for more detailed discussion of parallel MWP policy developments in UK and US.
- ⁴⁴ Of course, this is no surprise given that both programs have been in existence in some form since the early 1970's.
- ⁴⁵ 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.
- ⁴⁶ For an overview of recent parametric and structural reforms in OECD countries, see Disney (2000b) and Casey et al (2003) for illustrations.
- ⁴⁷ 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.
- ⁴⁸ Within the context of the ‘traditional’ life-cycle model, however, such models are not far away. French (2003) for example incorporates all these features into an individual-based model of retirement behaviour that is then used for examining policy reform scenarios.