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SOCIAL EUROPE: DRAMATIC VISIONS AND REAL COMPLEXITY

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ABSTRACT

Social Europe: Dramatic Visions and Real Complexity*

Many social policy reforms have been carried out in Europe in the last 15 years. Most of these reforms are marginal. Often they are mutually inconsistent. Yet, something is changing in the European social policy landscape and not in the direction implied by the presence of a ‘race to the bottom’ in social welfare provision. There are no signs of convergence of social policy models across Europe. Further reforms will have to be respectful of the initial conditions, that is, they necessarily have to adapt to the various Social Europes. By imposing the same pattern of reforms to the different European social policy models there is a high risk of jeopardizing reform efforts altogether. An additional reason for not imposing a single European social policy model is that social policy reforms need to be comprehensive, hence they should necessarily work on country-specific institutional clusters. All this makes a strong case for maintaining EU-level decision-making on social policy reforms under unanimity rule. Majority voting on these issues is likely to involve strong pressures to harmonize institutions, while some countries will always be in a minority. One country may receive the worst of each welfare system and make the furthering and broadening of the scope of reforms even more difficult.

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NON-TECHNICAL SUMMARY

This Paper draws on the experience of the quasi-monetary union of the DM-area (Austria, Belgium, Germany and the Netherlands) in the last 20 years and on an inventory of social policy reforms in Europe in the 1986–97 period, which has been assembled at the Fondazione Rodolfo Debenedetti in Milan. It shows that, contrary to two recurrent and extreme views of the future of employment and social welfare systems in the united Europe, past experience does not suggest that stronger economic integration will involve a 'race to the bottom' in social welfare provision or a paralysis of the current reform efforts.

Rather than converging to a lower level of social welfare provisions, many different social policy models prevailing in Europe in the 1980s still exist. They are not static though: rather, they are evolving in rather complex, sometimes diverging, ways. While social spending overall has not declined even during the fiscal consolidation efforts of the 1990s, the composition of social spending has changed significantly, altering the profile of social policies in the various countries.

An important policy consideration suggested by the Paper is that reforms ought to be respectful of the initial conditions, that is, it is necessary that they adapt to the various Social Europes. By imposing the same pattern of reforms on the different European social policy models there is a high risk of jeopardizing reform efforts altogether. An additional reason for not imposing a single European social policy model is that social policy reforms need to be comprehensive, hence they should necessarily work on country-specific institutional clusters.

All this makes a strong case for maintaining EU-level decision-making on social policy reforms under unanimity rule. Majority-voting on these issues is likely to involve strong pressures to harmonize institutions and some countries will always be in a minority. One may get the worst of each welfare system and make the furthering and broadening of the scope of reforms even more difficult.

Does this mean that nothing can be done at the EU level to support reform efforts aimed at improving the efficiency of European welfare systems? There is a way to reconcile stronger conditionality on the part of European sovranational authorities with country-specific reform trajectories. This involves assigning to the European Commission the power to impose improvements in the administration of welfare policies in the various countries, e.g. in making cash transfers to able-bodied individuals of working age contingent on stringent work-tests. Pressures to reform may come also by imposing more transparency in social policy expenditure accounts. Common standards may be adopted to estimate the debt of public pension systems, develop social policy expenditure projections and provide generational accounts which can best isolate the various (often improper) functions played by public pension in the EU countries.

Policy review exercises carried out at the EU level as well as multilateral surveillance by international organizations on the implementation of structural reforms can also appreciate institutional differences across EU countries and be respectful of national specificity. However, peer reviews and multilateral surveillance exercises can do little to bind governments to pushing through reforms. The pressure of national lobbies is much stronger than the persuasion profusely dispensed in the context of these policy review processes. These may have some impact on national policies only when they are used for screening purposes, for instance, in the context of negotiations with countries aiming to join the EU. In this case, the desire to please the Commission may be sufficiently strong to stimulate candidate countries to make the steps that are advocated in these multilateral surveillance exercises. It is much more difficult for policy reviews to have any impact on national policies for the countries that are already in. This clearly does not mean that it is not worth trying. Last but not least, it is worth trying because social policies and, above all, social policy reforms are a domain of experimentation. There is much to learn from experience and it is important to make sure that those who can best make use of the information coming from these experiments do have access to it.

Social Europe: Dramatic Visions and Real Complexity[1]

by Tito Boeri

Bocconi University, IGIER and CEPR

1. Introduction

The two most recurrent views of the future of employment and social welfare systems in the united Europe are rather extreme and dramatic.

On the one hand, there are those who argue that the single market and the monetary union (for the countries belonging to EMU) will make it more difficult to carry out badly needed structural reforms in Europe. The action of governments will be biased in favour of the status quo for a number of reasons. First, incentives to free-riding will increase as closer economic integration makes it easier for governments to shift onto other countries the burden of their own structural inefficiencies. The monetary union, in particular, will reduce incentives to reform labour market regulations in order to cope with the inflationary bias associated with structural unemployment (Calmfors, 1998). As it is the European Central Bank (ECB) which determines, in any event, monetary policy in the currency union as a whole, labour market reforms in a given country will have only a small effect on the common rate of inflation[2]. Second, Europe will be caught into a slow-growth high-structural rigidities equilibrium: in order to grow, structural rigidities and inefficiencies of European welfare systems should be removed, but structural reforms can only be made when macroeconomic conditions are favourable. Slow growth makes it more difficult, if not altogether impossible, to reform because there is a stronger demand for social protection and job security, institutional features that structural reforms are supposed to reduce or, at least, make less automatic. Moreover, the benefits from structural

[1] The author wishes to thank Giuseppe Bertola, Alan Krueger and Giuseppe Nicoletti for useful comments on an initial draft.

[2] Cukierman and Lippi (1999) have a model in which centralised wage setting is de-centralised under EMU and this reduces incentives of unions to restrain real wages.

reforms take more time to materialise when aggregate demand is weak (Minford, 1994), and hence Governments with a relatively short time-horizon may be discouraged from taking initiative on this front. Tight macroeconomic policies imposed under the Stability Pact (for the members of EMU) and the Maastricht criteria (for the countries wishing to join the EMU) will not improve matters in this respect.

On the other hand, there are those who claim that closer market integration and the loss of monetary authority (for the countries belonging to the EMU) will force Governments to deal with structural issues as there is hardly anything else to do. This is, in essence, a Thatcherian-style "There-Is-No-Alternative" or TINA statement (the label comes from Lars Calmfors, 1998). Governments in the monetary union will have to concentrate their efforts on structural policies (Bean, 1998). As monetary policy is decided elsewhere, countries will be able to cope with (asymmetric) shocks only if they increase the flexibility of their product and labour markets. This may be a desirable development as long as the rigidities of European markets, the so-called Eurosclerosis, has often to bear the brunt of blame for the dismail growth performance of the EU vis-á-vis the US. The issue is that the dismantling of European "social protections" will not be selective and hence may involve features of European welfare systems, e.g. social assistance of the last resort, which remedy market failures and are essential to maintain social cohesion. This is because the removal of the remaining barriers to the mobility of goods and services and the greater price transparency involved by the adoption of a common currency in the core EU countries will increase competitive pressures on national fiscal systems setting in motion a *race-to-the-bottom* in social welfare provision (Sinn, 1998) in an attempt to attract foreign direct investments (FDIs). The impossibility to adjust parities vis-à-vis the main trading partners, will also increase competitive pressures on employment protection and collective bargaining institutions[3]. In a nutshell, European integration will certainly be bad for the unions (Burda, 1999), but it is likely to be bad also for some features of the welfare state which is preferable to keep in place.

[3] "Comme il n'est plus possible d'utiliser les parités monétaires pour ajuster les écarts de compétitivité, les autres économies ne pourraient réagir qu'en se lançant à leur tour dans une course à la baisse de leur couts salariaux" (from the interview to Oskar Lafontaine appeared on "Le Monde" on February 10, 1999).

2. Lessons from European Integration Episodes

Which one of these two extreme views, if any, comes closest to reality?

We may be able to learn something useful from the past, from a very recent past. After all, product market integration and monetary unions are not completely unknown events for Europe. There are countries like Austria, Belgium, and the Netherlands which have maintained fixed parities with the D-Mark, virtually sharing the same currency, in the last 20 years. The French Franc has also been an "hard currency", kept well within the narrow EMS bands since 1987. If these are not truly monetary unions, they are very close approximations of them. Thus, the experience of the D-Mark area and core-EMS countries can be informative for our purposes. In particular, race to the bottom pressures on wages and bargaining institutions should have arisen within these "currency areas", characterised from the very start by marked differences in unit labour costs and unemployment levels (hence also potential differences in the dynamics of wages). The countries belonging to such unions were also very closely interconnected (e.g., one third of Dutch exports goes to Germany).

Since the completion of the internal market in 1979, product market regulations of current EU members have been significantly reformed, with the dismantling of many implicit barriers to the mobility of goods. Product market regulations are commonly considered to be the most effective land of operation of the European Commission. Disciplines like mutual recognition on case-law have played a very important role in enforcing the single market principles. There are still product markets, notably services, in Europe relatively sheltered from competition and these account for a significant component of EU GDP[4]. Moreover, most of the sheltered sectors supply inputs to other productions, e.g., agriculture, energy and automotive parts[5], which clearly reduces the scope of price competition also in the industries heavily using these intermediate inputs. Yet, price competition in manufacturing is relatively high and trade, notably of the intra-industry type, has been constantly

[4] Up to 50 per cent according to EC (1998).
[5] Cf. EC (1998).

increasing[6]. FDIs have also picked up as intra-EU foreign direct investment inflows currently account for more than one per cent of the European Union GDP (from less than 0.25 of that in the late 1970s). Several measures of economic integration, e.g., defined on the basis of clustering techniques over macroeconomic series and the structure of private consumption (OECD, 1999) point to increasing market integration within the EU. It follows that developments not only in the D-Mark area and core-EMS groups, but also in the EU at large are informative as to the likely consequences of integration on labour market and social welfare institutions.

Figures 1 to 6 give some clues as to the evolution of these institutions in the three areas listed above -- D-Mark zone, core-EMS group and EU as a whole -- in the course of the last two decades. Top and bottom provisions in the mid-1980s and in the 1990s[7] are highlighted in order to show the degree of convergence across countries and better assess the presence of a "race to the bottom".

The first two charts (Figures 1 and 2) show the dynamics of *statutory* and *actual* social security contributions rates as a percentage of the gross wage bill. Actual social security contributions rates are obtained by taking the ratio of social security revenues to the total wage bill plus employers' social security contributions. This measure is complementary to statutory contribution rates insofar as countries are often granting to some regions or to low-skilled workers partial exemptions from social security payments in order to subsidise employment. For instance, in Southern Italy employers were relieved from paying a wide array of contributions. Hence the sum of statutory payroll taxes earmarked to the various funds may well hide declines in the actual fiscal pressure on labour associated with the financing of social security provisions. The visual impression given by Figure 1 is not quite one of fiscal competition eroding the contribution base for social policies. Statutory contribution rates have indeed increased in most countries over time, and it is quite revealing the fact that such a tendency has been particularly pronounced within the D-Mark zone,

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[6] Cf. OECD (1999).

[7] Whenever possible (not for all measures we have time-series), 3-years averages were taken for both the initial and the final observations. This reduces the scope of measurement errors

with Germany and Austria leading the "race to the top". The relative positions of the various countries in terms of incidence of payroll taxation do not seem to change significantly over time. The (Spearman) rank-correlation coefficients, reported at the bottom of the table together with the standard deviations of the two distributions confirm this visual impression.

The picture does not change substantially when the focus is on actual contribution rates. There are just a few arrows pointing downwards, in spite of the fact that some countries have recently shifted social security financing away from payroll taxes to income or indirect taxation. Overall, there is no visible sign that social security taxes were put under strain by European integration. Although the past offers a highly imperfect guidance on the radical transformations to occur, like the build-up of EMU, the fact that social security contributions have increased in the quasi-monetary unions of central Europe does not lend support to the “race-to-the-bottom” scenario.

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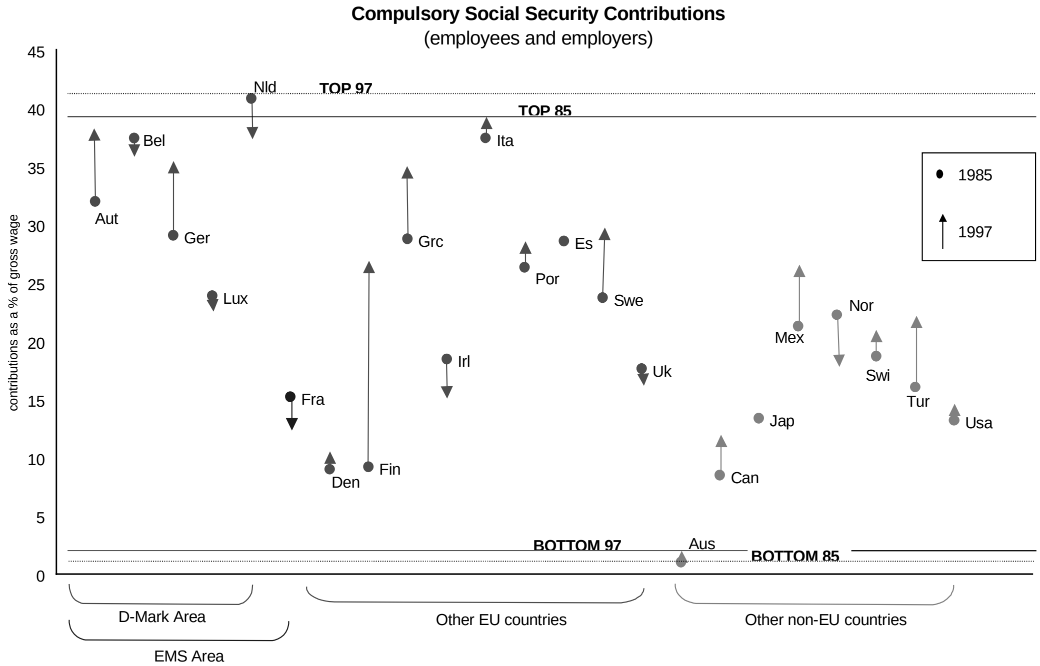
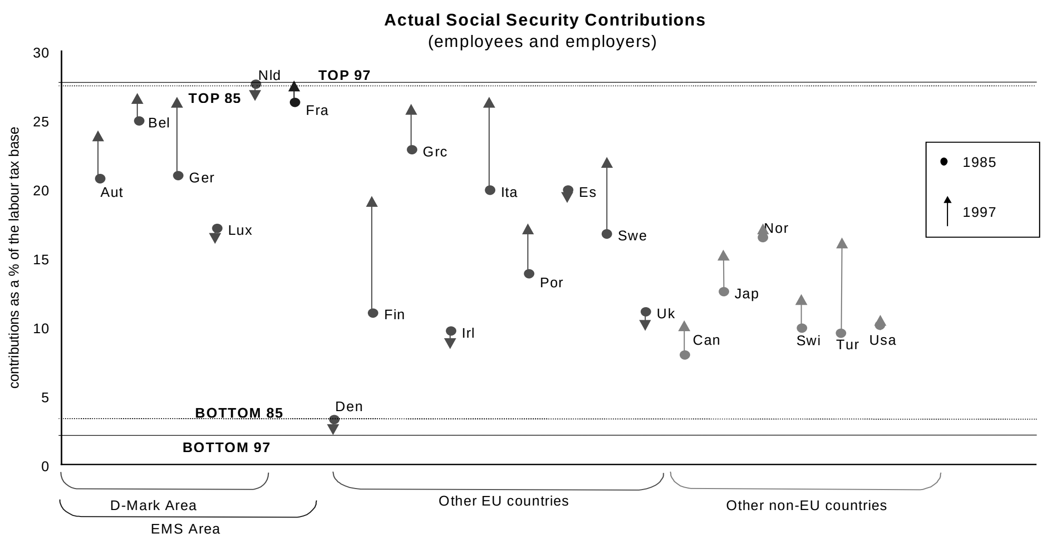
in the initial levels, which would be negatively correlated with changes (the arrows) giving a wrong impression of convergence.

Figure 1



Note: Compulsory social security contributions paid by employees and employers as a percentage of the gross wages. The (Spearman) rank correlation coefficient between the initial and the final distributions is 0.91, which is statistically significant at 99% confidence levels. The standard deviation of the initial distribution is 14.74, and of the final distribution is 10.43.
Source: OECD, 1998a.

Figure 2



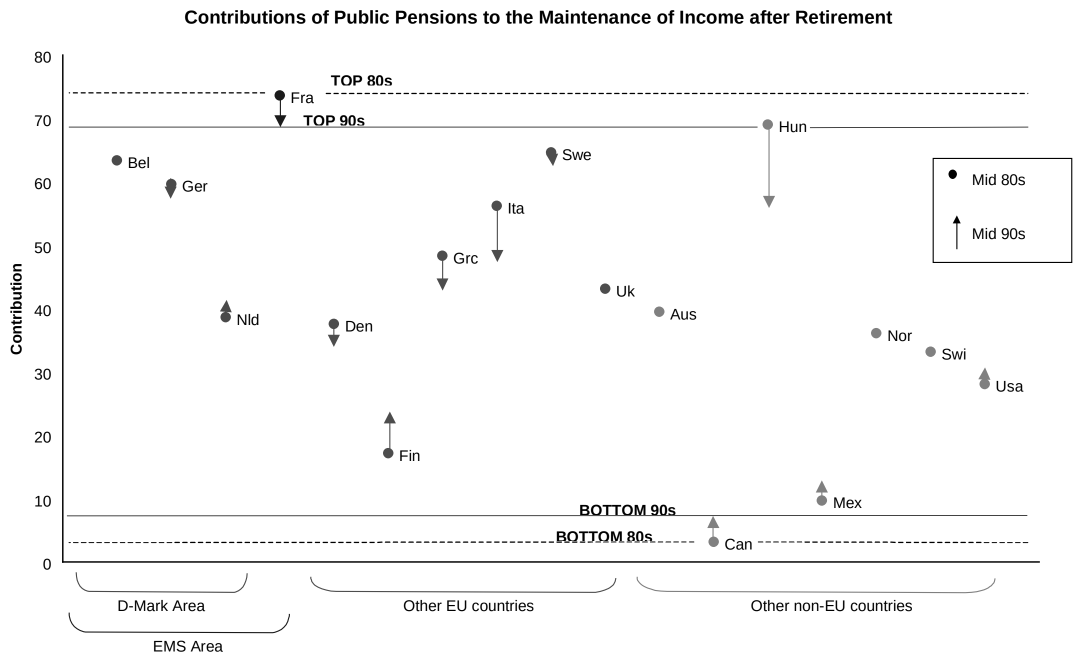
Note: Total contributions paid by employees and employers as a percentage of the labour tax base (total wage bill+employers' contributions). Data for Belgium, Canada and Japan refer to years 1985-1996. Data for Germany refer to the years 1985-1994. The (Spearman) rank correlation coefficient between the initial and the final distributions is 0.91, which is statistically significant at 99% confidence levels. The standard deviation of the initial distribution is 6.62, and of the final distribution is 6.89.
Source: OECD, 1998a.

The next three charts are on social expenditure, namely on the generosity of the three basic components of social security: pensions, unemployment benefits and social assistance.

Figure 3 shows the ratio between the (public) pensions received by persons aged 65-74 and the disposable income of 55 to 64 years old individuals. This is a summary measure of the actual contribution offered by public pensions to the replacement of pre-retirement earnings. Data come from national sources, which have been assembled (in a way satisfying cross-country comparability requirements) by OECD. If anything, the chart points to a mild degree of convergence in the generosity of public pension systems as the range of actual replacement rates is narrowing down significantly (the standard deviation of the distribution is lower in the final than in the initial years) and the countries with the more (less) generous arrangements are visibly cutting down (increasing) provisions vis-à-vis earnings before retirement. This impression is conveyed by simple regressions of rates of changes in pension expenditure to GDP ratios against the initial levels[8]. It should be stressed that this mild convergence does not seem to be occurring at the bottom of the distribution, but towards its middle, e.g., in the position which was initially occupied by the UK. This trend was paralleled by the increase of statutory and actual contribution rates which has been documented above. Hence, increasing replacement rates are not necessarily associated with higher returns from public pensions. Micro-simulation studies[9] suggest that rates of returns of public pensions are declining in all countries for which data are available.

[8] The correlation coefficients between change and initial levels is -,75 which significant at 99 per cent.
[9] Disney and Whitehouse (1993) for the UK, Castellino (1995) for Italy and Leimer (1992) for the USA.

Figure 3

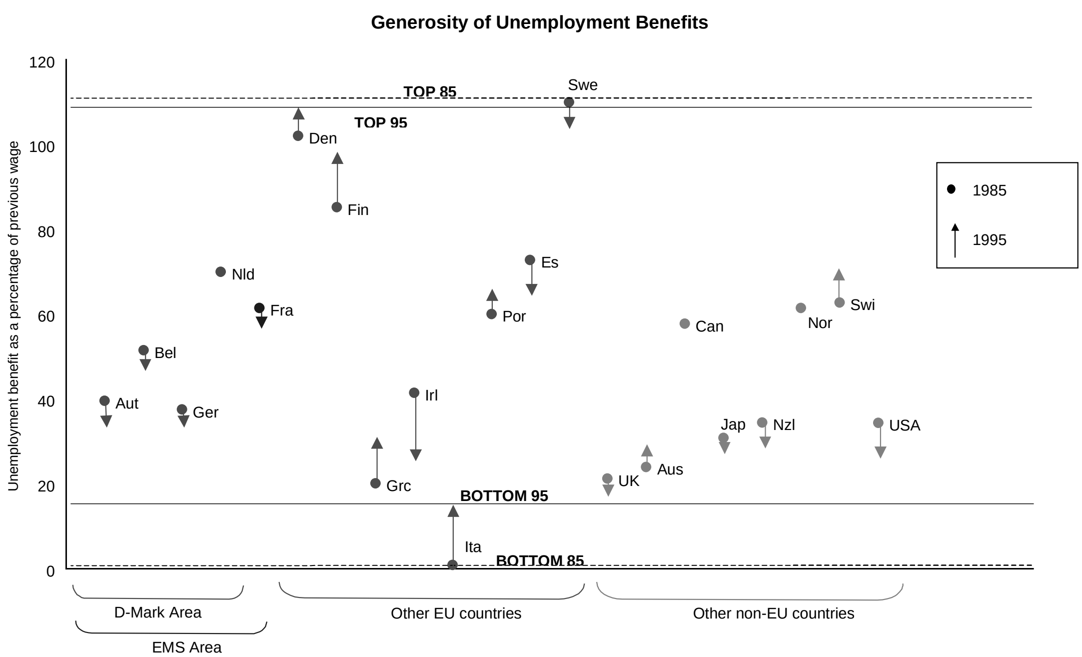


Note: Pensions received by persons aged 65-74 as a percentage of the total disposable income of persons aged 55-64. The (Spearman) rank correlation coefficient between the initial and the final distributions is 0.97 which is statistically significant at 99% confidence levels. The standard deviation of the initial distribution is 20.56, and of the final distribution is 19.
Source: OECD, 1998

Figure 4 offers a summary measure of generosity of unemployment benefits. Typically the OECD (e.g., in the context of the OECD Jobs Study[10]) produces such measures by taking simple averages of nominal replacement rates over the first five years of unemployment. This is inaccurate as the replacement rates offered in the first year of joblessness are clearly more important than, say, the benefits provided in the fifth year of unemployment. Moreover, no account is made by the OECD summary generosity measure of the actual coverage of benefits, which means that, say, a very generous benefit given to 10 per cent of the unemployed is given the same score in terms of generosity than a low subsidy offered to a large fraction of the jobless population. The two biases work in the same direction insofar as coverage is decreasing with unemployment duration (not lastly because eligibility to benefits for long unemployment duration becomes conditional to passing an income and asset test). Hence, in Figure 4 we have corrected the OECD measures in two ways. First, we focus only on the first two years of unemployment (in any event, in most countries individuals with unemployment durations longer than 24 months are eligible only to means-tested social assistance, whose coverage and level is assessed in Figure 5 below). Second, we have weighted replacement rates for the second year of unemployment by the incidence of long-term unemployment. This means that, in a country where 50 per cent of unemployment is long-term (lasts more than 12 months), a weight of .5 is given to replacement rates offered in the second year of joblessness[11].

Figure 4 suggests that there has been some tendency towards reducing the generosity of benefits, but this trend has not been uniform across the board. Declines in the generosity are visible in the D-Mark zone, but these are rather marginal, i.e., reduce generosity by a couple of percentage points at most.

Figure 4



Note: Average of Gross Replacement Rates (gross unemployment benefits as a percentage of the gross wage) at two income levels (100% and 67% of average wage) for a single person during the first two years of unemployment. The (Spearman) rank correlation coefficient between the initial and the final distributions is 0.87 which is statistically significant at 99% confidence levels. The standard deviation of the initial distribution is 20.21, and of the final distribution is 17.46.
Source: Fondazione RDB estimates based on OECD, 1998b.

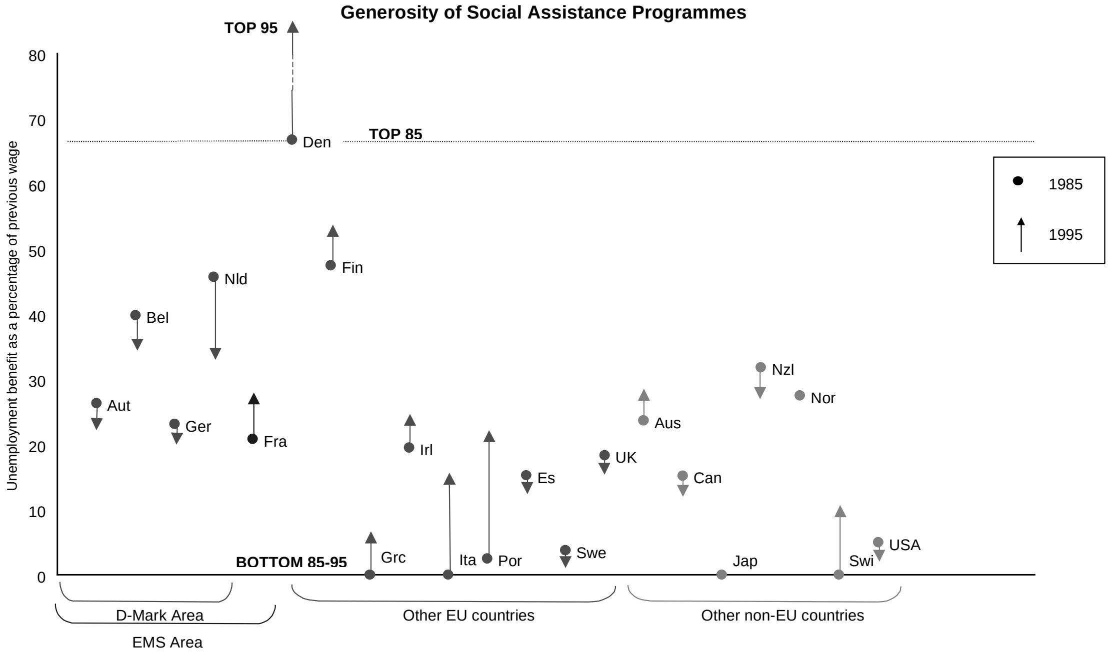
[10] Cf. OECD (1994).
[11] We are aware of the fact that the duration of unemployment may be affected by the duration of benefits. Yet, this "endogeneity" problem of our measure seems to us to pose less serious problems than attributing the same weight to all years of unemployment.

Figure 5 provides information on trends in social assistance provision, those cash transfer schemes aimed at satisfying the primary goal of social welfare, namely guaranteeing subsistence to people in need. This key function of welfare systems is often pointed out as being in danger of being dismantled by those who fear the consequences of a race to the bottom. The generosity measures are in this case provided by the ratio of social assistance expenditure[12] to the number of persons having income lower or equal than fifty per cent of the average wage. Many arrows are in this chart oriented northwards and the top of the distribution itself is shifting upwards. Thus, in this primary field of social protection the visual impression is one of a "*race-to-the-top*" rather than of a race-to-the-bottom[13]. It should be stressed that social assistance is generally funded out of general government revenues, hence it will not be affected by possible reductions in statutory and effective social security contributions paid for by employers on the top of their wage bills.

[12] Social assistance expenditure is measured according to the OECD Social Expenditure Database.

[13] Notice that arrows in the D-Mark area are all oriented downwards. Yet, these changes are small and D-Mark countries were still providing in 1995 more generous income of the last resort schemes than the other EU countries.

Figure 5



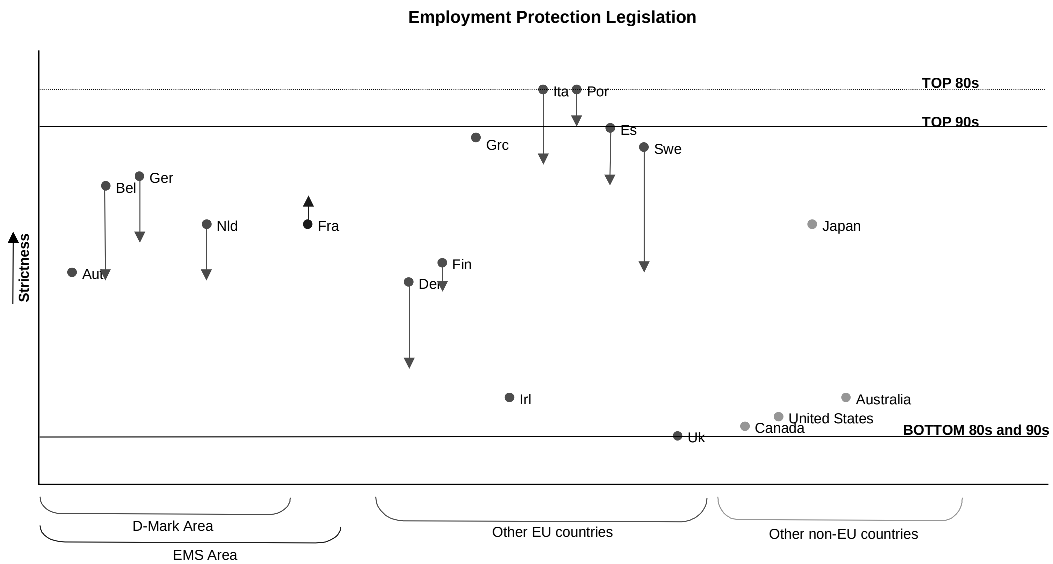
Note: Average of the gross replacement rates offered by social assistance at two income levels (100% and 67% of average gross wage) for three family types (single person, couple with only one worker, couple with one worker and children) from the second to the fifth year of unemployment. The (Spearman) rank correlation coefficient between the initial and the final distribution is 0.82 which is statistically significant at 95% confidence levels. The standard deviation of the initial distribution is 6.26, and of the final distribution is 9.59.
Source: Fondazione RDB estimates based on OECD, 1998.

Finally, Figure 6 deals with employment protection regulations, that is, the set of rules governing unfair dismissals, layoffs for economic reasons, severance payments, minimum notice periods, administrative authorisation for dismissals as well as prior discussion with representative of unions and/or labour market administrations. The measures provided in the Chart are increasing in the guarantees offered to employees and have been recently revised (and updated) by the OECD[14] in an attempt to capture the spread in many EU countries of temporary contracts. A number of caveats apply to these measures[15]; nonetheless they offer a good overview of trends in barriers to dismissals, trends which are, for once, unambiguous. We observe in fact in almost all European countries a decline in the extent of employment protection whilst no changes are visible outside the EU. Although this higher "flexibility" in employment adjustment is very often the by-product of new contractual types, rather

[14] Cf. OECD (1999).
[15] See Bertola et al. (1999) for a discussion of problems with existing measures of employment protection.

than of reforms of regulations for permanent workers, the tendency towards reductions in the degree of employment protection is visible and noticeable and the standard deviation of the distribution is declining over time[16].

Figure 6



Note: OECD Summary Indicator of the Strictness of Employment Protection Legislation (weighted average of indicators for regular contracts and temporary contracts. The (Spearman) rank correlation coefficient between the initial and the final distribution is 0.92 which is statistically significant at 99% confidence levels. The standard deviation of the initial distribution is 1.23, and of the final is 1.05.
Source: OECD, 1999.

Overall, there does not seem to be a uniform across-the-board tendency towards reducing social welfare provisions across Europe. Some schemes, e.g., unemployment benefits, are becoming less generous and there is a marked tendency towards the reduction of the system of job-guarantees offered in the past to employees. In other fields, the most noticeable being social assistance, the trend goes the other way round: the generosity of provisions is increasing over time. More important still, the fact of having been in a quasi-currency union does not appear to matter much. Evolutions in social spending and social security taxation are, in most

[16] The correlation coefficient between 1985-95 changes and levels in the mid-1980s of employment protection is also negative (-.54) and statistically significant at 95 per cent confidence levels pointing also to “beta convergence” in the strictness of employment protection.

cases, broadly the same between, on the one hand, D-Mark area or core-EMS countries, and, on the other hand, the remaining EU members.

What can we conclude from this? That, *past experience* as yet does not lend support to the view that European social welfare systems are challenged and at serious risk of being dismantled because of the competitive pressures associated with closer market integration and the EMU. Cuts to social spending are not uniform across the board, but selective and do not seem to be confined to "currency unions". This may suggest that some rationalisation is going on, but Governments have some leverage in deciding which institutional features should be kept in place and which ones should be downscaled. Actually governments can, as in the case of income support of the last resort, even make existing provisions more generous over time. Needless to say, more careful analyses of the changes in the composition of social spending (as those carried out in the first part of this volume) can shed more light on these selective interventions on the generosity of social welfare systems.

3. Learning from Social Welfare Reforms

How about the rather gloomy view, mentioned at the outset, that Europe will not be able to reform its welfare systems because it does not grow sufficiently fast (and does not grow because it does not reform labour and social welfare institutions)?

Based on a variety of sources (including country economic reviews carried out by OECD, Income Data Source studies, EC-MISSOC reports, etc.), we have taken stock of reforms carried out in Europe in the field of non-employment benefits (encompassing not only unemployment benefits, but also the various cash transfers provided to individuals in working age[17]), pensions and employment protection. Details on the inventory of social policy reforms produced at the Fondazione Rodolfo Debenedetti and on the single regulatory changes are offered in the Appendix to this

[17] Social assistance to persons in working-age, disability pensions and sickness benefits belong to these category.

volume. Hence, we can confine ourselves herein just to providing information on the criteria followed in the classification of the various reforms.

The inventory of reforms is organised along two main dimensions.

On the one hand we distinguish reforms on the basis of their broad orientation, that is, whether they tend to reduce or increase the generosity of public pensions and non-employment benefits and make employment protection more or less stringent. This is, after all, the same dimension along which the figures commented so far were organised and therefore we believe that it is not necessary to add more information here.

On the other hand, we distinguish reforms depending on whether they are *marginal* or *radical*. This procedure is done in two stages. At first, we rely on qualitative assessments, which are based on an evaluation of the scope of the various reforms. In particular, we preliminarily classify as radical those reforms that satisfy at least one of the following criteria:

- reduce replacement rates at the average production worker (APW[18]) level by at least 10 per cent;
- are comprehensive, that is, do not address just minor features of the cash transfer schemes (e.g., the minimum employment record required to qualify for unemployment benefits), but rather reform their broader design, and
- involve existing entitlements rather than being simply phased-in for the new beneficiaries of the various schemes (e.g., reforms of employment protection should concern also workers under permanent contracts).

In the second stage of the classification procedure we look at the actual behaviour of the series which should be most affected by the reforms and only if we observe a change in the underlying trend of these series we confirm our qualitative

[18] See OECD (1997).

assessment. Clearly the second-stage of the procedure can only be implemented for the reforms carried out before 1993 as we need a minimum number of observations in order to establish whether a change in the underlying trend has occurred. Sometimes even in the case of reforms done before 1993 the second-stage validation procedure cannot be implemented, as some reforms are followed just a few years after by regulatory changes moving in the opposite direction, undoing part of the initial institutional changes. In all the cases where the second stage procedure cannot be implemented, only the first stage assessment is used. The latter was validated in 85 per cent of the cases.

Which series did we use in the empirical validation procedures? It clearly depends on the institutional features subject to reforms. In the case of employment protection we looked at labour market flows, notably unemployment inflows, as previous work has found a strong negative correlation between employment protection and the incidence of unemployment[19]. The impact of reforms on stocks (e.g., employment and unemployment levels or labour force participation rates) can, in any event, only be appreciated when working with long series, something which is not within our feasibility set. In the case of pension reforms, we looked at the dynamics of pension expenditures and revenues earmarked to the public pension funds: we expect radical reforms to significantly affect at least one of the two. Thereby altering equilibrium contribution rates (the payroll rates required to clear the public pension budget). Example of radical reforms are the 1992 German pension reform, as well as the Amato reform carried out in Italy in 1992. Finally, in the case of non-employment benefits, we used proxy outflows from unemployment[20] (or outflows from the live registers to jobs in the countries for which such data are available): we expect radical reforms to significantly affect exit flows from unemployment (unfortunately we have no data on outflows from non-employment).

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[19] See, for instance, Boeri, 1999.

[20] Proxy outflow rates are computed as follows $O_{t,t+1} = I_{t,t+1} - (U_{t+1} - U_t)$ where O denotes proxy outflws, I inflows and U unemployment levels. All primary data come from the OECD Unemployment Duration database.

The main results of this exercise are summarised in Table 1. The first fact to notice from the table is that, contrary to popular wisdom and to the belief that labour market and social welfare institutions cannot be modified, many changes have occurred over the observation period (lasting 12 years). We counted almost 200 reforms, that is, more than one per year *and* country. However the changes have often been marginal (172 out 198 reforms, that is roughly 85 per cent of the regulatory changes did not pass our two-stage procedure identifying radical reforms). Moreover the reforms are almost evenly split between those reducing generosity and protection (107 out of 198, that is, about 55 per cent) and those increasing generosity and employment protection. It is also not infrequent to find reforms going one against the other over a few years. These inconsistencies -- which can be better appreciated by looking at the arrow charts in the appendix -- and the marginal nature of most reforms have significantly increased the institutional complexity of the European social welfare landscape. In the field of employment protection, for instance, we have assisted to a multiplication of contractual types, with a number of fixed-term and unstable jobs going hand-in-hand with permanent and still heavily protected positions. All this has increased the dualism of European labour markets, making them more segmented not only between insiders and outsiders but also among various types of outsiders.

Table 1

		Decreasing Generosity and Protection			Increasing Generosity and Protection			
		GDP growth <0 %	*GDP growth 0-1.5 %*	*GDP growth >1.5 %*	*GDP growth <0 %*	*GDP growth 0-1.5 %*	*GDP growth >1.5 %*	***Total per row***
Employment Protection Legislation	*Marginal*	2	5	13	0	4	12	**36**
	Radical	0	0	6	2	0	0	**8**
Non-Employment Benefits	*Marginal*	6	8	23	3	5	24	**69**
	Radical	0	2	5	0	0	2	**9**
Public Pensions	*Marginal*	6	6	18	5	4	28	**67**
	Radical	1	1	5	0	0	2	**9**
Total per column		**15**	**22**	**70**	**10**	**13**	**68**	**198**

*Source: Fondazione **R**ODOLFO **DEB**ENEDETTI*

Another important fact revealed by the table is that among the reforms which have tightened benefits or reduced employment protection (70, that is, approximately 1.4 per year) not a few (15) have been carried out even during recessionary periods (negative GDP growth) and some (22) under slow growth (zero to 1.5 per cent GDP growth). Actually, during recessions or under slow growth it would seem that it is more frequent to tighten generosity and reduce protection (37 reforms) than proceeding the other way round (23 reforms) while strong pressure to increase generosity is made during relatively strong growth scenarios (GDP growing at more than 1.5 per cent per year). However, only 4 of the “unpopular” reforms were radical among those carried out when GDP was growing less than 1.5 per cent per year.

Overall, the view that slow growth prevents reforms does not find support from our analysis. It is true that radical and unpopular reforms are difficult under these circumstances, but when macroeconomic conditions are not too favourable it is more likely that regulatory changes will go in the direction of reducing the generosity of benefits and employment protection rather than the other way round. A tentative explanation for this rather surprising result is that public authorities and social partners may have a stronger feel of urgency when macroeconomic conditions are less favourable -- recessions are often times of "extraordinary politics" -- than during upturns.

Thus, none of the two extreme views recalled at the outset is supported as such by our investigations. This is, on the one hand, reassuring as none of the two extreme scenarios (the dismantling of social Europe and its paralysis) seemed particularly appealing, but, on the other hand, leaves us with many other questions on employment and welfare in the united Europe unanswered. There is a vast array of intermediate scenarios to be explored and empirically assessed. The only thing we can be sure about is that institutions are not static at all. Institutions, as Bob Dylan would say, they are a' Changing, although not always we know in which direction they evolve. The overall *impression* is one of changes taking place in rather complex and disordered ways with country-specific reform trajectories and, as yet, little, if any, convergence in outcomes.

4. Understanding Complexity

One may argue that such an agnostic answer provided by the data does not come as a surprise at all. European social welfare is so articulated (and even more so after the marginal and inconsistent reforms carried out in the last 15 years), institutions are so diverse that it would make little sense to imagine that they could converge or even just be subject to the same trends. Not only institutions themselves, but also the combinations or clusters of institutions, are country-specific. The various regulations in the social and labour sphere are often complementary, provide support one to another[21]. For this very reason, it would be foolish to expect common trends to arise in the united Europe.

By the same token, there is no reason why the current country-specific evolutions should be blocked under closer European integration. Regulations will continue to evolve, reforms to be made. After all, institutional heterogeneity means that there is not just one arbitrage condition to be met and a very few factors, actually just one, namely capital, that are moving around[22].

Another possible reaction to the results presented above is that past experience is actually not informative as to the future course of events as what we are presently experiencing is a radical transformation, something which challenges any extrapolation from past behaviour and makes the future highly unpredictable.

Whatever the interpretation one may wish to provide for the empirical evidence produced in this paper, it is certainly true that European social welfare systems are still highly heterogeneous. Table 2 and 3 document this heterogeneity[23]: they display the rank correlation coefficients across the various institutional features described above in the mid-1980s and in the mid-1990s respectively. Many correlation coefficients are not statistically significant (one asterisk denotes significance at 90 per cent, two asterisks at 95 and three asterisks at 99 per cent). Among the few significant pairwise associations, three are particularly revealing. First, the countries with stricter employment protection regulations tend to provide also rather generous public pensions both in the mid-1980s and in the mid-1990s.

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[21] Institutional complementarities are characterised, inter alia, by Coe and Snower (1997), Orszag and Snower (1998), Blanchard and Wolfers (1999) and Bertola et al. (1999).

[22] Alan Krueger (1999) provides a number of valid reasons not to expect intra-EU migration to significantly pick-up under stronger economic integration.

[23] See Bertola et al for deeper analises of the heterogeneity of social welfare institututions in Europe.

Table 2. Rank (Spearman) Correlation Coefficients for the mid80s

	EPL	UB	Public Pension	Social Assistance	Compulsory Contributions	Actual Contributions
EPL	1					
UB	-0.06	1				
Public Pension	0.63 **	0.02	1			
Social Assistance	-0.37	0.58 ***	-0.35	1		
Compulsory Contributions	0.62 ***	-0.05	0.47 *	-0.07	1	
Actual Contributions	0.55 **	0.05	0.71 **	0.09	0.76 ***	1

Note: *** denotes a significance level at 99%, ** at 95%, * at 90%.

Table 3. Rank (Spearman) Correlation Coefficients for the mid90s

	EPL	UB	Public Pension	Social Assistance	Compulsory Contributions	Actual Contributions
EPL	1					
UB	0.13	1				
Public Pension	0.75 **	-0.1	1			
Social Assistance	-0.2	0.48 **	-0.23	1		
Compulsory Contributions	0.47 **	0.03	0.42	-0.02	1	
Actual Contributions	0.45 *	0.15	0.74 ***	0.22	0.7 ***	1

Note: *** denotes a significance level at 99%, ** at 95%, * at 90%.

This correlation seems to be induced by the Southern European welfare systems (Greece, Italy, Portugal and Spain), where strong obstacles to dismissals go hand in hand with a dominance of pensions on the social security budget and where early retirement schemes are widely used in order to provide some degrees of freedom in workforce adjustment to employers facing redundancies. The second significant correlation has to do with the financing of social welfare systems: pension generosity appears to be the factor which is most strictly correlated with the incidence of payroll taxation. This is not surprising as pensions are the single most important social expenditure item and other components of social welfare systems (e.g., social assistance) are typically financed out of general government revenues. Yet, the positive correlation between, on the one hand, generosity of public pensions and, on the other hand, rates of social security contributions point to the fact that early retirements (and the strict employment protection regulations they are associated with) reduce employment rates, thereby eroding away the tax base of social security contributions. The third correlation is between, on the one hand, unemployment benefits coverage and, on the other hand, generosity of social assistance schemes. Such an association is mainly driven by continental European countries like Austria, Belgium, France, Germany and The Netherlands, which spend about 30 per cent of their GDP in social welfare systems granting a rather generous treatment to individuals in working age who are not working[24].

5. The scope for the coordinations of reforms: some final remarks

Social Europes are evolving in rather complex, sometimes diverging, ways. While social spending overall has not declined during the fiscal consolidation efforts of the 1990s, the composition of social spending has changed, altering the profile of social policies in the various countries. Many reforms have occurred in the last two decades which have to a large extent preserved the country clusters of institutional features prevailing in the 1980s.

An important policy consideration which is suggested by our analysis is that reforms ought to be respectful of the initial conditions, that is, they have necessarily to adapt to the various Social Europes. By imposing the same pattern of reforms to the different European social policy models there is a high risk of jeopardising altogether reform efforts. An additional reason for not imposing a single European social policy model is that social policy reforms need to be comprehensive, hence they should necessarily work on country-specific institutional clusters.

[24] The above clusters only partly overlap with Esping-Andersen (1990) and Ferrera (1998) taxonomies of European welfare systems.

All this makes a strong case for maintaining EU-level decision-making on social policy reforms under unanimity rule. Majority voting on these issues is likely to involve strong pressures to harmonise institutions and some countries being always in minority. We may get the worse of each welfare system and make it even more difficult the furthering and broadening of the scope of reforms.

Does this mean that nothing can be done at the EU level to support reform efforts aimed at improving the efficiency of European welfare systems? There is a way to reconcile stronger conditionality on the part of European sovranational authorities with country-specific reform trajectories. This involevs assigning to the European Commission powers in imposing improvements in the administration of welfare policies in the various countries, e.g. in conditioning cash transfers to able-bodied individuals in working age to stringent work-tests. Pressures to reform may come also by imposing more transparency in social policy expenditure accounts. Common standards may be adopted to estimate the debt of public pension systems, develop social policy expenditure projections and provide generational accounts which can best isolate the various (often improper) functions played by public pension in the EU countries.

Policy review exercises carried out at the EU-level as well as multilateral surveillance by international organisations on the implementation of structural reforms can also appreciate institutional differences across EU countries and be respectful of national specificity. However, peer reviews and multilateral surveillance exercises can do little to bind government to push through reforms. The pressure of national lobbies is much stronger than the persuasion profusely dispensed in the context of these policy review processes. These may have some impact on national policies only when they are used for screening purposes, for instance, in the context of negotiations with countries aiming to join the EU. In this case, the desire to please the Commission may be sufficiently strong to stimulate candidate countries to make the steps which are advocated in these multilateral surveillance exercises. It is much more difficult that policy reviews can have some impact on national policies for the countries that are already in. This does not mean, clearly, that it is not worth trying.

It is worth trying not lastly because social policies and, above all, social policy reforms are a domain of experimentation. There is much to learn from experience and it is important to make sure that those who can best make use of the information coming from these experiments do have access to it.

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Annex

Reforms of Employment Protection Legislation (EPL) in Europe ('86-'97)

	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97
AUSTRIA								⇦			⇦	
BELGIUM									⇨			
DENMARK					⇨				⇦			
FINLAND											⇨	
FRANCE	⇨ ⇦			⇦	⇦		⇦	⬅				
GERMANY								⬅	⇨		➡	⇨
GREECE					⇨	⇨						
IRELAND						⇨		⇦	⇦			
ITALY		⇨		⇦	⇦	⇨ ⇦						⇨
LUXEMBOURG								⇦	⇨			⇨
NETHERLANDS				⇨		⇨			⇦	➡		
PORTUGAL				⇨		➡ ⇦					➡	
SPAIN									➡ ⇦			➡
SWEDEN							⇨				⇨	
UNITED KINGDOM								⇨				

*Source: Fondazione **R**ODOLFO **D**E**B**ENEDETTI*

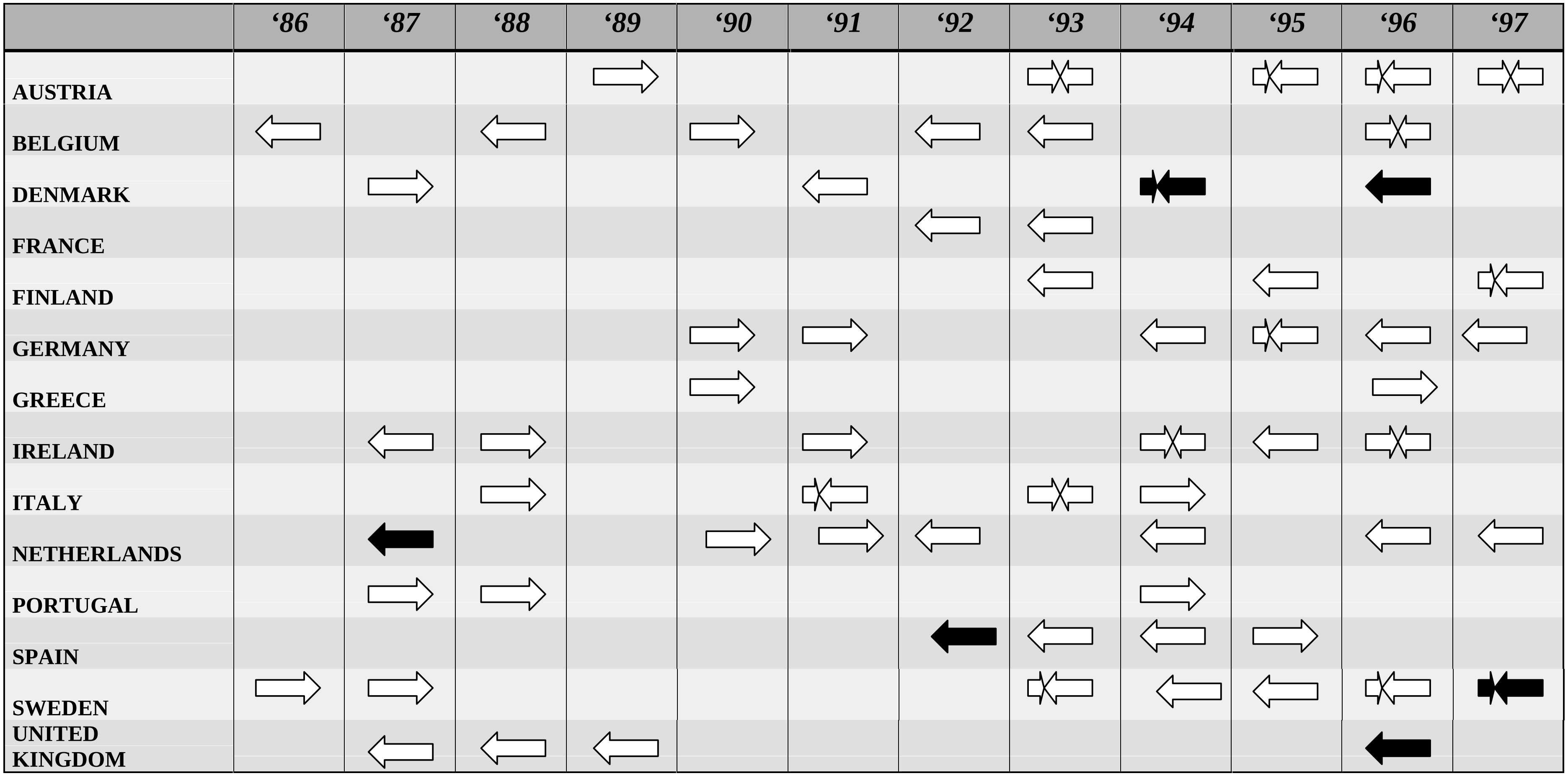
Marginal reforms increasing the flexibility of the system ⇨
Structural reforms increasing the flexibility of the system ➡
Marginal reforms reducing the flexibility of the system ⇦
Structural reforms reducing the flexibility of the system ⬅

Reforms of Employment Protection Legislation (EPL) in Europe (1986-1997)	
AUSTRIA	**’93:** THE EMPLOYMENT SECURITY LAW IS INTRODUCED, written justifications to the labour office and compulsory contributions to older-worker retraining programmes may be required in the event of the lay-off of workers over 50. THE EMPLOYMENT CONTRACT ADJUSTMENT LAW CAME INTO FORCE. It stipulates that when a company is taken over, the existing employment contracts have to be taken over too. This does not apply if the sale is the result of bankruptcy proceedings. **’96:** IN ORDER TO PROMOTE THE RECRUITMENT OF OLDER WORKERS AND TO PREVENT LAY-OFFS A “PLUS/MINUS” SYSTEM WAS INTRODUCED IN 1ST APRIL 1996. It specifies that employers have to pay only half of the employer’s unemployment benefit contribution if they take on an employee over 50 years of age. If they take on someone over 55 this contribution waived entirely. If an employer lays off an employee of over 50 who has been working for the company for 10 years or more, on the other hand, he/she has to pay a special unemployment contribution until the employee in question reaches the age of 55 (for women) or 60 (for men).
BELGIUM	**’94:** NOTICE PERIODS FOR HIGH-INCOME WHITE-COLLARS MADE SUBJECT TO NEGOTIATION (permanent workers). A NEW TYPE OF CONTRACT CAME INTO FORCE (“EMPLOI-TREMPLIN”), IT IS POSSIBLE FOR A SPECIFIC CATEGORY OF WORKERS (aged less then 30 years and with less then six months of experience) TO INTERRUPT THE EMPLOYMENT RELATION ON THE BASIS OF A SHORTER NOTICE PERIOD (one month in case of dismissal or one week in case of voluntary separation).
DENMARK	**’90:** TEMPORARY WORK AGENCIES (TWA) WERE DEREGULATED. **’94:** NOTICE PERIOD EXTENDED. A new law (AFLM 1/6/'94, nr.414) extends the notice period in very large establishments making half the workforce redundant.
FINLAND	**’96:** EMPLOYERS' NOTICE PERIOD IS SHORTENED. For workers with tenure of less then one year the notice period is halved: it is reduced from two months to one month.
FRANCE	**’86:** ADMINISTRATIVE AUTHORISATION FOR INDIVIDUAL DISMISSAL FOR ECONOMIC REASONS IS ABOLISHED. Administrative authorisation was previously required only for collective dismissals of more then 9 employees. From July 1986 to 31 December 1986 (3/7/1986 nr.86-797). THE LIST LIMITING THE CIRCUMSTANCES IN WHICH THE USE OF FIXED-TERM CONTRACT IS ALLOWED IS ABOLISHED. THE USE OF “INTERMITTENT” WORK CONTRACT (CONTAINING PROVISIONS FOR TEMPORARY INTERRUPTIONS), IS AUTHORISED. Ordinance 11/8/'86. **’86:** THE EMPLOYERS MUST STATE THE GROUND OF THE INDIVIDUAL DISMISSALS IN WRITING. Law 30/12/1986 nr. 86-1320 **’89:** INDIVIDUAL DISMISSALS FOR REASONS NOT RELATED TO THE PERSON, (but depending from modification of the employment contract as a result of economic difficulties), MUST BE NOTIFIED IN A LETTER (including the grounds of the dismissal Statuary requirements that collective redundancies are accompanied by "social plans" (early retirement schemes, retraining contract). Law 2/8/1989, nr.89-549. **’90:** THE LIST LIMITING THE CIRCUMSTANCES IN WHICH THE USE OF FIXED-TERM CONTRACTS AND TEMPORARY STAFF IS PERMISSIBLE IS RESTORED. (law 12/7/’90 nr.90). **’92:** THE LAW (29/7/92) ESTABLISHED THAT ALL SEPARATIONS (i.e. resignations or the refusal of a radical modification of the employment contract) DUE TO ECONOMIC REASONS ARE SUBJECT TO THE REGULATION CONCERNING DISMISSALS FOR ECONOMIC REASON. **’93:** STATUTORY REQUIREMENTS ARE INTRODUCED CONCERNING THE CONTENTS OF SOCIAL PLANS (if there is no social plan or the measures proposed are inadequate, the redundancies will be considered null). law 27/1/1993 nr.93-12. IN 1995 THE *COUR DE CASSATION* WILL INTERPRET THE 1993 LEGISLATION RESTRICTIVELY.
GERMANY	**’93:** NOTICE PERIOD FOR BLUE-COLLAR WORKERS EXTENDED AND ALIGNED WITH THOSE OF WHITE-COLLAR WORKERS. **’94:** TWA AND PRIVATE EMPLOYMENT SERVICES ARE ALLOWED. **'96:** THE EMPLOYMENT THRESHOLD, AT WHICH EPLs APPLIES, IS INCREASED from 5 to 10 employees (on a full basis) per firm. A LAW COMES INTO FORCE LIBERALISING EMPLOYMENT CONDITIONS. Legal conditions covering dismissals are relaxed. **’97:** EXEMPTION FROM GENERAL DISMISSAL LAW WIDENED; SOCIAL CRITERIA FOR DISMISSALS RELAXED.

GREECE	**’90:** A NEW LAW REPLACES COMPULSORY ARBITRATION OF LABOUR DISPUTES RELATED TO DISMISSALS WITH SPECIAL BOARDS RESPONSIBLE FOR THE CREATION OF A GROUP OF INDEPENDENT MEDIATORS AND ARBITRATORS. On the board sit three independent professors in addition to 3 employers’ and 3 union representative as well as one Ministry of Labour official and a chairman elected by the rest. **’91**: LIBERALISATION OF COLLECTIVE AGREEMENT.
IRELAND	**’91**: A LAW INCREASES JOB SECURITY FOR PART-TIMERS, ensuring, at the same time, that they qualify for a wide range of benefits. **’93**: AMENDMENT TO THE UNFAIR DISMISSAL ACT introduces compulsory reinstatement of an employee unfairly dismissed. **’94:** EMPLOYMENT (INFORMATION) ACT CAME INTO EFFECT. This act requires an employer to provide employees with a written statement of the contract conditions including the length of the notice period required in case of dismissals.
ITALY	**'87**: FIXED TERM CONTRACTS CAN BE USED MORE WIDELY, if allowed by sectoral collective agreements. INCREASED THE AGE LIMIT OF APPRENTICESHIP, among artisans, to 29 years. REORGANISATION OF EMPLOYMENT OFFICES. Law 28/2/1987 nr.56. **’89**: THE EMPLOYMENT THRESHOLD GUARANTEES IN CASES OF DISMISSAL ON DISCIPLINARY GROUND EXTENDED TO SMALL FIRMS (with less than 16 employees). **'90**: COMPULSORY REINSTATEMENT AND/OR COMPENSATION IN CASE OF UNFAIR DISMISSAL IS EXTENDED, to employers of non-commercial organisation employing more then 15 employees in the same production unit and those employees in enterprises with more then 60 employees in total. Law 11/5/1990. **'91**: A LAW REGULATES COLLECTIVE REDUNDANCIES, establishing standards related to notice and consultation. Law 23/7/1991 nr.223. REINSTATEMENT FOR THE LACK OF DISMISSAL COMMUNICATION IN WRITTEN FORM. **'97**: IN CASE OF VIOLATION OF FIXED-TERM CONTRACTS LEGAL DISCIPLINE, A NEW ACT LIMITED THE DRASTIC SANCTION. (conversion of fixed-term contract into an open-ended one) only to serious cases. TWA WERE LEGALISED. THE LAW HAS STATED THAT THE TRAINING CONTRACT CAN BE EXTENDED, from 2 to years in the south of Italy in case of a change into a permanent contract. THE LAW HAS ESTABLISHED THAT THE TERM OF APPRENTICESHIP CONTRACT CAN VARY IN ALL SECTORS.
LUXEMBOURG	**'93**: LEGISLATION CONCERNING COLLECTIVE DISMISSALS TIGHTENED. **'94**: THE GOVERNMENT PRESENTS A NEW PACKAGE OF MEASURES TO PRESERVE EMPLOYMENT. Including a reorganisation of the Public Employment Service. **’97**: MEASURES TO ENCOURAGE RECRUITING MORE PEOPLE ON FIXED-TERM CONTRACTS. REFORM OF THE PUBLIC EMPLOYMENT SERVICE (PES). The emphasis is on improving the communication between the PES, enterprises and job seekers, The obligation for employers to notify all vacancies to the PES.
NETHERLANDS	**'89**: DISMISSALS WHICH RESULT FROM BANKRUPTCY OF COMPANIES NO LONGER NEED AUTHORISATION BY THE PUBLIC EMPLOYMENT OFFICE (PES). **'91**: THE OFFICIAL EMPLOYMENT SERVICE WAS OVERHAULED BY THE PROVISION OF EMPLOYMENT ACT. This entailed a number of steps to decentralise the service and involve employer organisations and trade unions both in its operation on policy formation. The ban on private recruitment agencies for permanent employment was lifted, they are now allowed to operate alongside the official service. They do however need a license from the Ministry of Labour in order to operate. **'94**: IMPLEMENTATION OF THE EU DIRECTIVE ON PROOF OF AN EMPLOYMENT CONTRACT (91/533/ec art 653 civil code). This requires employers to provide every employee with the basic terms on conditions of their employment in writing no later than one month after their employment commences. (SEE IRELAND, 1994 – HARMONISATION OF NATIONAL LAW TO EU DIRECTIVES-). **’95**: THE GOVERNMENT DECIDES TO EASE DISMISSAL PROCEDURES. According to the new rules, an employer can dismiss his employee at the same time or even before asking permission from the director of the Public Employment Office.
PORTUGAL	**’89**:SEVERAL RESTRICTIONS ON LAY-OFFS' LEGISLATION ARE PHASED OUT. The length of the decision process was reduced and administrative redtape revoked. At the same time, legislation governing dismissals was deeply changed: individual dismissals due to failure to adapt

	were reintroduced; the list of circumstances that can be considered cause for individual dismissal due to economic reasons are broadened. **'89**: PART-TIME EMPLOYEES HAVE THE SAME CONTRACTUAL RIGHTS AS FULL TIME EMPLOYEES. This means that they have the same basic employment rights such as the right to claim for unfair dismissal. Art. 648 civil code. **'91**: FIRING RESTRICTIONS EASED. Through a wider range of admissible lay-off. **'96**: THE GOVERNMENT, THE EMPLOYERS' ASSOCIATIONS (AIP) AND THE TRADE UNIONS SIGN THE STRATEGIC SOCIAL PACT. Wider use of atypical work term contracts. In the public sector, fixed term contracts can, under special circumstances, be extended two more times beyond normal requirements before being automatically transformed into a permanent contract. Incentives on using temporary employment agencies, stronger sanctions against firms employing children or false independent workers.
SPAIN	**'94**: INDIVIDUAL DISMISSALS EASED: zero days of notice is required when length of service is below 15 days for blue collar workers or below 1 month for white collar workers. Thereafter (only for objective dismissal): one month when length of service is below one year, 2 months when length of service is between one and two years and 3 months for two or more years' service. COLLECTIVE REDUNDANCIES: the firms can initiate a collective dismissal if the dismissal affects to 10 or 30 percent of workers depending on the size of the firms. The legally acceptable causes for collective dismissals have been expanded to include production and organisational causes. Law 19/5/1994 nr.11. **'94**: TWA LEGALISED, INCREASED RESTRICTIONS ON FIXED TERM CONTRACTS. **'97**: THE REFORM HAS EXTENDED THE CAUSES THAT MAY GIVE RISE TO AN INDIVIDUAL DISMISSAL. It includes the possibility of staff adjustments with a view to overcoming problems related to a lack of competitiveness. Decree 17/5/1997 nr.8. **'97**: PAYMENT FOR UNFAIR DISMISSAL IS REDUCED to 33 days per year of seniority for new permanent contracts of employment (aimed at young and disadvantaged workers), with a maximum of 24 months wages. Decree 17/5/1997 nr.8
SWEDEN	**'92**: THE GOVERNMENT WAGE GUARANTEE IN THE CASE OF EMPLOYERS' BANKRUPTCY IS LOWERED. **'96**: LOCAL UNION MAY FREELY AGREE ON RECRUITMENT AND DISMISSAL PROVISIONS, economic sanctions in case of breach of the rules are to be adapted to the enterprise's ability to pay. REFOCUSING OF THE ACTIVITIES OF EMPLOYMENT OFFICES. From administering ALMPs towards their traditional role of improving the matching between unemployed and vacancies. Formulation of individual plans reflecting the job-seekers qualifications. A reassessment of balance between EPL and the enterprise adaptability attempts to bring out an agreement between social partners on further changes in this framework.
UNITED KINGDOM	**'93** TRIAL PERIOD EXTENDED FROM 1 TO 2 YEARS.

Reforms of Non-Employment Benefits in Europe (1986-1997)



*Source: Fondazione **R**ODOLFO **D**E**B**ENEDETTI*

Marginal reforms increasing the generosity of the system
Structural reforms increasing the generosity of the system
Marginal reforms reducing the generosity of the system
Structural reforms reducing the generosity of the system

Reforms of Non-Employment Benefits in Europe (1986-1997)	
AUSTRIA	**’89**: An amendment to the Unemployment Law approved: entry conditions for youth and long-term unemployed are improved. **’93** The definition of "suitable job-offer" is tightened • Early retirement for employees over 55 is introduced. **’95**: Weeks of work necessary to requalify for Unemployment Insurance in the case of repeated spells of unemployment are reduced from 26 to 20 weeks • The special pre-retirement benefit (Sonderunterstützung), higher than the normal Unemployment Benefit and available from the age of 54 for women and from the age of 59 for men is abolished • Entitlement for Unemployment Benefits and Special Help for long-term unemployed is restricted • Unemployment Benefits for those on high incomes cut and the minimum age for support of older unemployed in a few special sectors is raised. **’96:** Incentives for early retirement in the public sector are phased-out • The qualifying period for Unemployment Benefits is increased from 26 to 28 months and the earnings history for the calculation of benefits is increased from 6 to 12 months • A “bonus-malus” system is introduced to encourage employment of older workers and to discourage their dismissal • Number of months of contributions necessary for early retirement is increased from 420 to 450 and early retirement for older workers on account of long-term unemployment is phased-out. **’97**: The unemployed made eligible for continued receipt of Unemployment Benefits even if they accept temporary employment • For early retirees the earnings base from which pension entitlements are computed is increased by three years to the eighteen 'best years' of a person's work history. To be phased in between 2003 and 2020 • The eligibility conditions for early retirement on account of reduced capability to work are sharpened by extending the required contribution period within the previous 180 months from 36 months to 72 months and requiring a spell of reduced capability to work of at least 20 weeks to qualify for the pension. To be enforced from 1998 onwards.
BELGIUM	**’86**: Certain categories of the unemployed are excluded from benefits because of a new method of calculation of Unemployment Benefits. **’88**: The Unemployment Benefits replacement rate is lowered markedly with the December tax reform. **’90**: An Agreement between the employers’ federation and trade unions is stipulated: Unemployment Benefits for people aged between 50 and 55 are increased. **’92**: A fiscal package on Unemployment Insurance is approved: • Temporary unemployment schemes and part-time unemployment are made less financially attractive • The number of daily unemployment benefit payments that can be combined with part-time employment is limited to a maximum of 13 per month; the maximum wage at which it is possible to cumulate benefits and wages is reduced • Monitoring of the availability of unemployed to take up “suitable job offers” is increased • Minimum age for early retirement is increased from 55 to 56. **’93** The "Global Plan" is approved in November: Eligibility for Unemployment Benefits is tightened and linked more closely to work by, inter alia, extending the period during which school-leavers are not entitled to Unemployment Benefits. **’96**: Conditions under which older unemployed are exempted from job search are eased • Stronger incentives for people interrupting unemployment are introduced (interruption de chômage) • Rules governing the exclusion from the unemployment schemes on grounds of abnormally long periods of unemployment are tightened.
DENMARK	**’87**: Unemployment Benefits and retirement payments are significantly increased • Rules diminishing Unemployment Benefits after a certain period of unemployment are abolished.

	'91: Budgetary outlays for Unemployment Benefits are reduced: • Compensation for the first 25 hours of unemployment is abolished. **'91**: Eligibility conditions and rules on refusing suitable job offers are tightened. **'94**: A comprehensive Labour Market Reform is approved by the Parliament: • The maximum duration of unemployment insurance benefits is limited to seven years • The Unemployment Benefits period is split in two (four plus three years) with full-time activation through job offers, training and education compulsory in the second period • The possibility of renewing entitlements to Unemployment Benefits by participation in active programmes is abolished • Policy implementation is decentralised to regional labour market authorities. **'96**: Another Labour Market Reform is approved: • Eligibility criteria for access to Unemployment Benefits are tightened (52 instead of 26 weeks necessary to qualify) • The minimun age for access to Unemployment Benefits is raised from 17 to 19 • The maximum duration of Unemployment Benefits is lowered to 5 years.
FINLAND	**'93**: The Government's employment commitment imposed by the Employment Act of 1988 is removed • The benefit period in the basic flat-rate of Unemployment Assistance scheme is limited • Unemployment assistance eligibility requirements and duration brought in line with those of the Unemployment Insurance earnings-related supplementary benefit. **'95**: The Employment Programme is approved in September: • Unemployment Insurance recipients required to work for at least ten months in order to requalify for benefits • The benefit level at which Unemployment Insurance participants requalify is linked to the compensation received during the ten months period rather than to the pre-unemployment earnings before unemployment • The automatic extension of Unemployment Insurance benefits for those over 55 is reduced from five years to three. **'97**: The period of prior employment for entitlement to the earnings-related unemployment benefit is extended from 6 to 10 months and the basis for earnings-related daily allowances to be calculated from the date when the employment requirement is fulfilled; new allowances shall be at least 80% of the previous allowances • Incentives for earning additional income while benefiting from unemployment insurance are improved • The period of unemployment benefit for the long-term unemployed over 53 years of age is shortened by two years • Persons aged between 20 and 24 lacking any vocational training are no longer entitled to labour market support if, without any acceptable reason they refuse a suitable job offer, or a slot in a training course • Unemployed persons are allowed to make short, occasional trips abroad without loosing the right to daily unemployment benefit if there is advance notice of the trip and they can be immediately contacted during the trip and are able to accept work offered within a few weeks • Long-term unemployed persons who have been active in the labour market in paid employment or as entrepreneurs for at least 12 years and registered as unemployed job seekers with the employment office for at least 12 of the preceding 24 months have the right to daily unemployment benefits or to Labour Market Support benefits during a period of voluntary training aimed at promoting professional skills for a period not exceeding two years • The possibility to be reintegrated into unemployment compensation rolls after having been on subsidised employment is tightened • Reduction in benefit level for renewal of unemployment insurance is adopted • New benefit rules are implemented to discourage entry into early retirement • The "education guarantee", a special in-school benefit at a level equal to the Unemployment Assistance scheme which was previously available only to unemployed workers out of work for at least 6 of the previous 18 months is "opened-up" to all unemployed workers.

FRANCE	**'92**: A downward sliding scale for benefit payments (allocation unique dégressive) is agreed upon. **'93**: Benefits cut by reducing their duration, which now varies according to the age and the length of prior affiliation to the unemployment insurance system.
GERMANY	**'90**: Eastern Germany Unemployment Insurance merged with the western German Labour Office • The two previous GDR social security institutions – the social security insurance for employees and the State social insurance system – are collapsed into one organisation "The Social Insurance of the GDR" • Early retirement schemes for employees over 57 are introduced. **'91**: Early retirement schemes are extended to employees over 55. **'94**: Most of the payments of benefits under unemployment insurance and labour market policy are reduced by 3 percentage points. **'95**: Several changes to unemployment insurance are implemented to halt the trend towards early retirement through the use of generous UI provisions for older workers • The duration of UI in case of unjustified dismissals is limited to 24 months • The duration of benefits is linked to the amount of redundancy payments. **'96**: A gradual withdrawal of early retirement provisions is agreed upon. **'97**: Redundancy payments (Abfindungen) now generally credited against unemployment insurance benefits up to a fixed limit • The minimum age for receiving unemployment benefits for more than a year is raised by three years • Abolition of the possibility of refusing job offers on the grounds that they do not correspond to the vocational qualification of the unemployed; offers must be accepted during the first three months of unemployment if the wage offer is within 20 per cent of the previous wage and this discount rate is 30% in the following three months; from the seventh month job offers must be accepted if the net income is greater than unemployment benefits • Tighter controls of the eligibility criteria are introduced • Abolition of the possibility of renewal of the right to Unemployment Insurance through participation to training courses. • The age of early retirement for women and for the unemployed having a long contribution record are raised with effect in the year 2000.
GREECE	**'90**: The duration of unemployment benefits is raised from 7 to 12 months • The system of employment incentives and unemployment benefits consolidated (a system of multiple-use voucher is introduced to allow the unemployed to choose to apply the money value of the voucher to either training, a wage subsidy or unemployment benefits) • Early retirement schemes are introduced for older unemployed workers. **'96**: Unemployment Benefits set at a flat rate of Dr 2710 per day plus 10% for each family member (reduction in generosity on account of increasing financial deficits of the agency responsible for distributing unemployment benefits).
IRELAND	**'87**: The earning-related component of the Unemployment Benefits is reduced to 12% for new applicants • Earning-related benefits are halved. **'88**: Social insurance is extended to farmers and the self-employed. **'91**: Social insurance coverage is extended to part-time workers. **'94**: The earnings-related supplement to unemployment benefits, which was payable for one year, is phased-out • Unemployment benefits are made taxable • Unemployment benefits for the long-term unemployed are raised by more than the rate of inflation, but less than in the previous years • Unemployment assistance is sharply increased to equalise the payments under the two systems. **'95**: Unemployment benefits replacement rates are reduced while cutting taxes on the low paid and providing full indexation of benefits to prices. **'96**: The rise of unemployment benefits kept below the increase in average earnings • The universal child benefit is increased by 7%, while the child dependant allowance paid to unemployed parents left unchanged, thus making

	employment relatively more attractive • Long-term unemployed who start working are allowed to retain the dependent allowance for three months and their free medical card for three years instead of two.
ITALY	**'88**: The daily Ordinary Unemployment Benefit is raised to 8% of the average wage. **'91**: The Wage Supplementation Fund (Cassa Integrazione Guadagni, CIG), for workers put on short-time or zero-time work is reformed: • Time-limits put on the duration of the benefits • Special Wage Supplementation Fund (Cassa Integrazione Guadagni Straordinaria, CIGS), is replaced by a generous "mobility allowance" paid to employees laid off in the context of "mass lay-offs" • Ordinary Wage Supplementation Fund (Cassa Integrazione Guadagni Ordinaria, CIGO) subjects to a ceiling after six months. **'93:** New entitlements to early retirement are frozen • The "ordinary" unemployment benefit replacement rates are raised to 30% of previous earnings. **'94:** A plan to cushion the effects of rising unemployment is approved: • The unemployment allowance is increased • Benefits paid by the Wage Supplementation Fund are extended to small and medium-sized enterprise • The coverage of Special Unemployment Benefits is extended to construction workers with at least three years of job seniority on Solidarity Contracts and mobility lists • Early retirement benefits are extended to workers in the steel industry, to workers in large enterprises and for employees of Alitalia. • Income support provided by the Wage Supplementation Fund (Cassa Integrazione Guadagni) is extended to include banks, trade and public utilities.
NETHERLANDS	**'87**: The two key parts of the previous Unemployment Benefits scheme (WW, unemployment insurance and WWW, unemployment assistance) are combined and eligibility requirements are tightened • The maximum duration of benefits is more closely linked to the age and length of the contribution period. • The Revision of the Social Security System Act is enacted to reduce the incentive to obtain a disability pension rather than an unemployment benefit • Criteria governing access to disability pensions are tightened • Claimants who are less than 80% disabled will receive a pro-rated disability pension supplemented by an unemployment related component declining over time • The total benefit will decline over time as the unemployment-related portion of the benefit falls, with a maximum benefit period of five years • Eligibility requirements for unemployment benefits are tightened: the worker obliged to accept an appropriate job even outside his geographical region. **'90**: The minimum wage and social benefits are again linked to wage growth after the nominal freeze decided in 1983 **'91**: The obligation of the PES to inform the institutions in charge of unemployment benefits of insufficient job search efforts by benefit claimants introduced with the new PES Law of January; sanctions for refusing a suitable job offer increased: refusal now entails a complete and permanent loss of unemployment benefits • A new Social Insurance Organisation Act is approved: the implementation of social security laws concerning unemployment, sickness and disability schemes is now entrusted to a tripartite national public body to assure a better balance between administrative costs and the quality of implementation and to make the implementation effectively independent of the social partners. **'91**: Social security benefits and the minimum wage are raised by 1.27% • Social security benefits and the minimum wage are increased by 1.7%. **'92**: The link between the minimum wage and social benefits is no longer automatic: the government is no longer obliged to respect the full linkage if

	the dependency level (the ratio of full-time equivalent beneficiaries to full-time employed persons) exceeds a reference level. **'95**: The indexation of the legal minimum wage and social security benefit to the contractual wage is restored for 1996. **'96:** Local authorities are given more responsibility in the implementation of income-support legislation with the General Social Assistance Act, which stresses also the Activation obligation (anyone who receives income support, except for single parents with children under five years of age, must in principle be available for work) • Eligibility to Unemployment Benefits after voluntary quits is removed • Penalties for violating the rules on unemployment benefits are made mandatory and no longer applied discretionally by the administration.
PORTUGAL	**'87**: First-time job-seekers are entitled to compensation subject to certain conditions. **'88**: Unemployment benefits regulations are revised: minimum qualifying contribution period is reduced and age henceforth taken into account in determining the period of receipt. **'94**: A fundamental reform of the social security scheme for self-employed workers came into effect; the contribution rate is scheduled to reach parity with the overall rate for dependent employment by 1999.
SPAIN	**'92**: A decree to redress fiscal slippage approved by the Government: the minimum contribution period for eligibility is raised from 6 to 12 months • The duration is reduced by about one third • Lump-sum Unemployment Insurance schemes offering lump-sum payments are phased out. • The system of minimum unemployment assistance allowances is reformed: it now provides those who have worked for at least three months but are not eligible to unemployment insurance with 75 per cent of the minimum wage • The amount is reduced by over 10 per cent • The unemployed are no longer allowed to take up the unemployment insurance payment in a single instalment in order to start a new business as a self-employed worker. **'93**: Unemployment benefits amounts are lowered. **'94**: Unemployment benefits become subject both to income taxes and social security contributions, even if the tax regime is more generous than for wage income. **'95**: The special unemployment subsidy for temporary farm workers in Andalucia and Extremadura, the empleo rural, is reformed in February: • Eligibility requirements are lowered (the minimum days worked in a year to qualify for benefits reduced from 60 to 40) • Entitlement are increased for youths and older workers (entitlements of unmarried youths under 20 years old raised from 1.5 days of benefit per day of contribution to 2.25 days, while those of youths between age 20 and 25 receive three days benefit).
SWEDEN	**'86**: Training participation is considered equivalent to work for benefit eligibility purposes. **'87**: An unemployed person approaching benefits exhaustion is given the right to receive a job offer of a duration that would renew his entitlements. **'93**: The Unemployment Insurance replacement rate is reduced from 90 to 80 per cent • A five-day waiting period is introduced in the unemployment insurance • The unemployed are entitled to a slot in a training course that could be used for requalification • Compensation in the relief work scheme is reduced by 10 per cent • Rules for early retirement are tightened • The public employment service monopoly of formal job brokerages is abolished. **'94**: Membership of unemployment insurance funds made mandatory • The possibility of acquiring indefinite benefit periods through participation in labour market measures is abandoned • The youth practice labour market scheme is phased-out. **'95**: The replacement rate is reduced from 80 to 75 per cent • Sanctions for not complying with the job availability criteria for unemployment benefits are tightened.

	'96: Replacement rates in social security schemes are lowered from 80 to75 per cent • The Employment Bill put forward by the Government: • Length of spells on unemployment insurance to be limited (an upper limit of three years is introduced) • The replacement rate to be increased to 80 per cent • The qualifying period to be increased from 5 to 9 months. **'97**: The Employment Bill repealed before it entered into force and the revised proposal forwarded in March: • The qualifying period is increased from 5 to 6 months (it had been proposed 9 months) • The proposal for an upper limit of the duration is dropped • The underlying structure of the Unemployment Benefit is changed: the benefit now consists of an earning-related part and a flat rate component • The maximum Unemployment Insurance (earning-related component) benefit is raised • The possibility of requalifying for benefits through participation subsidised jobs no longer available.
UNITED KINGDOM	**'87**: Further limitations are placed on unemployment benefit claims. **'88**: Unemployment Benefit replacement rates are reduced by increasing waiting periods for eligibility. The Earning-related supplement to the basic unemployment allowance is abolished. • Entitlement to benefit is calculated on net rather than gross earnings. **'89**: Unemployment Insurance replacement rates are reduced, especially for short-term unemployed by lengthening minimum waiting period for eligibility • Rules on refusing a job offer are tightened. **'96**: Unemployment Benefit is replaced by the Job-Seekers' Allowance • The duration of the Job Seekers Allowance is halved (from 12 to 6 months) • The replacement rate of the Job Seeker Allowance is lowered. • The Income Support scheme is replaced by the means-tested component of the JSA as a safety-net with a marginal withdrawal rate of 100 per cent.

Reforms of Pension Systems in Europe (1986-1997)

	‘86	‘87	‘88	‘89	‘90	‘91	‘92	‘93	‘94	‘95	‘96	‘97
AUSTRIA			⇨	⇨	⇨			⇨⇦		⇨		⇨
BELGIUM	⇦	➡			⇨	⇨			⇦			⇦
DENMARK		⇨				⇦					⇦	
FINLAND				⇦		⇨	⇨⇦	⇦	⇨⇦	⇦	⇦	
FRANCE						⇦		⇨⇦	⇨⇦	⇨	⇨	
GERMANY		⇦				⇨	➡⬅	⇨	⇦	⇨	⇨	⇦
GREECE					⇦		⇦				⇨	
IRELAND					⇦							
ITALY			⇦				⬅	⇦	⇦	⬅		
NETHERLANDS		⇦	⇦		⇨	⇨⇦		⇨		⇦	⬅	⇨
PORTUGAL		⇨	⇨	⇨	⇨	⇨		⬅				
SPAIN					⇨			⇨				⬅
SWEDEN		⇨					⇦		⇨	⇦		
UNITED KINGDOM		⬅	⇦	⇨						⇦		

*Source: Fondazione **R**ODOLFO **D**E**B**ENEDETTI*

Marginal reforms increasing the generosity of the system ⇨
Structural reforms increasing the generosity of the system ➡
Marginal reforms reducing the generosity of the system ⇦
Structural reforms reducing the generosity of the system ⬅

Reforms of Pension Systems in Europe (1986-1997)	
AUSTRIA	**'88**: The rate of compulsory social security contributions to public pension to be increased by 0,5 of a percentage point to 9,5 per cent as of 1st January 1989. **'89**: The rate of compulsory contribution to the public sector pension fund is raised by 0,25 of a percentage point to 9,75 per cent. **'90**: The Law regulating private pension funds and enterprise pension systems is enacted: • pensions to be increased 5 per cent as of 1st January 1991 • minimum pensions for singles to be raised to Sch 6,000 (Sch 8,000 for couples). **'93**: An amendment to the general social security law came into effect: • Pensions entitlements will require at least 25 years of contributions into the system with four years' credit given for time-off for raising children • The basis for calculation of benefits will be the fifteen highest-earning years • A job can be held while drawing on a normal old-age pension, although above earnings of Sch 7,000 per month the pension is reduced. **'95**: Compulsory social security contributions to public pension for civil servants are raised by 1,5 points. **'97**: The pension reform is approved: • Over the entire contribution period pension rights are accumulated at a uniform rate of 2 per cent of the calculation base for each year of insurance. For each year of early retirement the above mentioned percentage is reduced by 2 percentage points up to a maximum of 15 per cent or 10 percentage points. The law will be entered from 2000. • The criteria for taking-up a part time pension have been relaxed with respect to the required reduction of hours of work • Pension claims arising from raising children increased. The law will be enhanced as of January 2000. • Individuals nursing family members who give up employment can still be covered by the pension insurance under related favourable conditions • A new form of part-time pension is introduced, requiring a shorter contribution period • The degree of self financing - as opposed to financing out of the government budget - in the pension insurance for self-employed and for farmers is increased by Sch 250 million annually. Valid from 1998 onwards • The pension base for civil servants is changed from the last salary to the same base as the general pension system. Phased in between 2003 and 2020 • Pensions for civil servants to be annually adjusted applying the adjustment factor of the general pension system. • Social security coverage extended to occasional jobs.
BELGIUM	**'86**: The self-employed and wage earners are no longer allowed to draw their pension before the age of 60 and the pension age set at 65 for both men and women. **'87** A general reform of old age, invalidity and survivors' pensions is approved: • A single insurance scheme covering manual and non-manual workers, shopkeepers and tradesmen, industrialists, farmers and professionals is introduced • A 7 per cent increase in all private sector pensions is approved • A five-stage increase in the guaranteed minimum pension is agreed upon. **'90**: The Government decides to increase employees' pensions from 1 to 3 per cent according to the retirement date, with effect on October 1st. This measure will cost BF 1.3 billion in 1990 and BF 5.3 billion for a full year. **'91**: Compulsory employers' and employees' social security contributions are slightly increased. **'94**: A global plan is approved to redress the financial position of social security system: • A new method of calculating pensions with a longer base period is introduced: Pensions for men and women are harmonised; the pension regime for women will be brought in line with that of men by the year 2009.

	'97: Pensionable age for women will be gradually increased and aligned with those of men (65 years). The minimum working period for early retirement will be gradually increased to 35 year by the year 2005.
DENMARK	**'87**: In the budget for 1988 significant increases in public old age pension are approved. **'91**: Pensions provisions are reduced in the budget for 1992. **'96**: Amendments to occupational and individual pension savings are adopted by the Parliament to allow, inter alia, pensions rights to be transferred between jobs.
FINLAND	**'89**: The minimum age for entitlement to an unemployment pension (early retirement) to be raised gradually from 55 to 60 years and other eligibility requirements are tightened. **'91**: Private sector employers' contribution rates to social security are temporarily reduced by 1 per cent • Public sector rates set at 3.4 and 5 per cent. **'92**: Employers' national pension contributions are lowered to 2.4 per cent in the private sector and to 3.95 per cent in the public sector • Individuals' national pension insurance contribution rate is increased by 1,5 percentage points to 2.2 and to 3.7 per cent of annual taxable income exceeding Mk 80,000. **'93**: Several measures are adopted with the aim of bringing the pension rules in the public sector in line with those in the private sector: • The old-age retirement for public sector workers is raised from 63 to 65 years, the same as in the private sector • The annual accrual factor for public sector workers is reduced from 2.2 to 1.5 of the pensionable age These adjustments initially applied to newly recruited civil servants since 1995 will affect all civil servants aged 55 or below • A change in the index for the pensionable wage to take account of reductions in purchasing power of active workers with the introduction of employees' pension contribution applied (previously only the employers paid such contributions). **'94**: The minimum age for early disability retirement is raised from 55 to 58 years and the accrual factor of workers in the 60 to 65 years age bracket is raised from 1.5 to 2.5 per cent (effectively lifting their pension by 1 per cent of the pensionable wage for every additional year of work) • A change in the method of computing the pensionable wage of older workers is introduced: earnings after the age of 55 disregarded if they would lead to a reduced pension level • In order to encourage part-time employment of older workers the required minimum retirement age for part-timers is lowered from 60 to 58 years • Pensionable wage and post-retirement benefits are not indexed for inflation in 1994. **'95**: A fixed increase of 1.5 per cent per year of nominal pensions replaces the automatic indexation mechanism. • Pension benefits cut by 4.5 per cent to reflect the fall in earnings of employees caused by the increase in employment pension and unemployment insurance contributions • A reform of the employment pension scheme for the private sector is agreed upon by the central labour market organisation. The pension rules are revised, with the benefit calculated on the basis of earnings in the last 10 years instead of the last 4. The new rules will be introduced gradually, starting on 1 January 1996. **'96**: The accrual factors for early-retired and disabled workers are reduced from 1.5 to 1.2 per cent for those aged between 50 and 60 years and from 1.5 to 0.8 per cent for the remaining five years until regular retirement • The annual adjustment of post-retirement benefits of people aged 65 and above is based on 80 and 20 per cent weights of the CPI and the earnings index, respectively a measure which tends to reduce the level of pension benefits relative to the overall earnings • The flat-rate component of the national pensions to be abolished by the end of the decade.
FRANCE	**'91**: Introduction of a new tax - the contribution sociale généralisée - at a flat rate of 1 per cent on all incomes • Employee retirement-pension contribution rates cut by 1 point plus a flat FF 42 per month. **'93**: A reform of the "régime général" is decided in July: • The amount of pension is related more closely to the basis on which contributions are calculated (the best-paid 25 years instead of the 10 best-

	paid) • The period of contribution is increased. • Pension is indexed to prices instead of (net or gross) wages; nevertheless in case of rapid increases of net wages (high productivity growth) some occasional and discretionary reindexation could be introduced (clause de rendez-vous) • Leaving at the age of 60 will still be possible but, in order to benefit from the full rate pensioners, will face minimum contribution period conditions which will become progressively tighter: from 37.5 years to 40 for people leaving in 2003 • Non-contributory pension rights are transferred to a solidarity fund financed out of taxes, to reinforce the insurance character of the system. **'94**: An agreement between the social partners on balancing the pension scheme for managerial staff (Association générale des institutions des retraités cadres - AGIRC) is reached: • Pensions are freezed in 1994 • A pensioners' solidarity contribution is introduced • A timetable for raising the compulsory rate of employer and employee contributions set • Pensions of farmers are raised by 10 per cent. **'95**: Old-age and disability pensions are raised by 1.2 per cent • Employers' contributions to the pension scheme for local authority employees are raised by 3.8 per cent. **'96**: Old-age and disability pensions are raised by 2.1 per cent • An agreement between the social partners is reached concerning the balancing of the complementary pension system (ARRCO and AGIRC) until 2005.
GERMANY	**'87**: The contribution rate to the pension insurance funds is lowered from 19.2 per cent to 18.7 per cent of eligible income; the contribution to the Federal Labour Office is raised from 4.0 per cent to 4.3 per cent **'91**: Social security contributions are increased by 2,5 percentage points. **'92**: A reform proposal put forward and agreed upon by the Government: • The de facto net-wage adjustment principle for pensions is formally adopted (the average pension is indexed to the average net wage) • The retirement age is gradually increased from 60/63 years for women and men respectively to a uniform retirement age of 65 years (starting in 2001 and completed in 2012 for women and 2006 for men). This implies the abolition of the present flexible retirement-age scheme; early retirement may still be obtained with a reduction in pension levels, while pension benefits for those working after the age of 65 are increased • For contributions between 1973 and 1992 multiples (used in computing the individual relative contribution position) below 75 percent are multiplied by 1.5 up to the maximum of 75 percent, effectively reducing the redistribution for workers with income position below 50 percent • Contributions to the pension system during periods where contributors are receiving income-support payments paid by the unemployment insurance fund is to be increased • Contribution-free years of higher education are reduced • Pensions for low-income earners to be upgraded • Age 65 set as the pivotal age for benefit computations: for each year of earlier retirement up to five years and under certain conditions, benefits will be reduced by 3.6 percentage points in addition to the effect of few service years. Rewards for later retirement were also introduced: the pension is increased by 6 percent for each year of retirement postponed. • The possibility of partial retirement is introduced: all rules and regulations apply in proportion • In the new Länder old-age pensions are raised by 11.65 per cent and legislation on pensions extended to the new Länder. **'93**: Old-age benefits are increased by 3.86 per cent in Western Germany and by 14.24 per cent in eastern Germany **'94**: Contributions to pension insurance funds are increased by 1.7 per cent. **'95**: The contribution rate for the public pension insurance fund is decreased from 19.2 to 18.6 per cent

	• In the new Länder old-age benefits are increased by a nominal 2.78 per cent. Due to the introduction of the sickness insurance the effective rise is 2.23 per cent. **’96**: The pension contribution rate is increased from 18.6 to 19.2 per cent. **’97**: Contribution rates for the pension insurance are increased from 19.2 to 20.3 per cent of the wage base • The accrual of pension rights which are not based on contributions is restricted • The pension level for immigrants is reduced. The 1999 pension reform Law is passed: • A phased decline in the average replacement rate from 1999 is introduced • Higher transfers from the federal budget to the pension system are agreed upon • Eligibility criteria for invalidity pensions are tightened • Pension claims for contribution free periods of child raising are increased.
GREECE	**’90**: A pension reform law is approved: • For the private sector the minimum contribution period giving right to a minimum pension at age 65 is lengthened from 13.5 years to 15 years and the minimum pension is increased by 1 per cent for each additional year of contribution above 15 years. In addition to the minimum retirement age, the "35 year" rule will be gradually raised from 58 to 60 by 2002, for men only • For the public sector a minimum contribution period of 25 years is introduced, which mainly affects women who could previously retire after 15 years' service and at the age of 42 years • Civil servants recruited after 1990 will have to pay a contribution rate of 5.75 (civil servants recruited before will continue to be exempted from pension contributions and other public sector employees to pay minimal rates - less than 3 per cent on average) • Contribution rates for private sector employees will be gradually raised by 3 percentage points, two-thirds of which will be met by employers • The ceiling for calculating contribution rates is raised • For the public sector a minimum pensionable age is introduced for those hired after end-1982 (60 for men and 58 for women) which will be gradually raised to those applied in the private sector • For all pensioners an overall limit is placed on the total value of all pensions per individual pensioner equivalent to four times the 1991 per capita GDP; for all funds but applying mostly to the broader public sector and professionals, the replacement rate of new retirees will be capped for primary pensions at 80 per cent and for supplementary pensions at 20 per cent of the applicable salary base. • The criteria for defining occupations as "hazardous" are tightened • Eligibility to invalidity pensions is tightened: the minimum degree of invalidity required to receive a pension is raised from 35 to 50 per cent and checks on past decisions enforced. **’92**: A new pension reform law is adopted: • In the public sector the minimum employment period required to retire without an age limit is extended from 32,5 to 35 years; for people who have worked for more than 25 years but less than 35 the minimum age is raised from 60,5 to 65 and a back-loaded pension formula is introduced to provide a greater incentive to retire later • All civil servants will pay a contribution to the pensions system raising from 3 per cent in 1993 to 6.7 in 1995; for all other public employees the rate is 22 per cent for employers and 11 per cent for employees • Private sector employers' contributions are increased from 12.5 to 13.3 per cent; employees' contributions are raised from 5.8 to 6.7 per cent • For the self-employed where contributions are based on a set of voluntarily chosen income classes the lower classes eliminated and the earnings base for contributions is gradually raised • Pensions in the private sector are no longer indexed to changes in the blue-collar minimum wage but adjusted in line with civil servant pensions which are adjusted according to the government inflation objective

	• The replacement rate for private sector pensions is lowered from 80 to 70 per cent of the previous earnings • The minimum age to be eligible for non-insured people is lowered from 68 to 65 years and the benefit made more generous. **'96**: A new means-tested old-age pension supplement is introduced.
IRELAND	**'90:** A law come into force establishing: a pension commission, guarantees on pension rights, a minimum regime of capitalisation, diffusion of information and equal treatment for men and women. The objective of the law is to build up a clear framework for the improvement of private pension funds and to simplify the general rules of pension programmes. • The Pension Commission is a group of 14 persons; it is appointed to regulate and control the development of private pension funds and to inform the Minister of Social Affairs about all issues regarding pension programmes. • The new law states that pension rights must be transferred and re-evaluated when a job change occurs. A complete information on pension schemes must be assured.
ITALY	**'88**: Compulsory contributions to public pension are raised and pension ceilings for senior executives are raised. **'88**: Pension rights are to be calculated on the basis of 10 years (instead of 5). **'92**: New law on pension programmes: • Retirement age: 65 for men and 60 for women by year 2002; • Calculation of old age pension: earnings-based, reference earnings = whole career with adjustment of past earnings for inflation and 1% real growth. Yield coefficient harmonised at 2%; • Eligibility to old age pensions will require at least 20 years of contributions by the year 2000; • Indexation of pensions: based on price inflation with scope for additional indexation to real earnings. • Contribution rate: 26.5% for private employees, 15% for the self employed. Seniority pensions: • Eligibility gradually is raised to 35 years of contributions for all workers. Private pension funds: • Introduced with 15% withholding tax on funds deposited. **'93**: Freeze on seniority pensions. **'94**: Budget law: Seniority pensions: • Cuts to the benefits received by public workers retiring with less than 35 years of contributions. **'95**: Budget law: • Retirement age: 65 for men and 60 for women by year 2000; • Indexation of pensions: 1995 indexation delayed until January 1996. • Private pension funds: 15% withholding tax suspended. **'95**: New law on pension programmes: • Retirement age: flexible from 57 to 65 for both men and women; • New formula to calculate old age pension, "pro-rata" is introduced: those having at the time of reform less than 18 years of contribution, will enter contribution system; capitalisation of contributions based on nominal GDP growth; the coefficient converting cumulative contributions into annual pensions is based on residual life expectancy, plus adjustment to real GDP growth (1.5%). • Eligibility to social pensions requires at least 5 years of contributions, subject to the condition that pension is at least 20% higher than old-age assistance; Indexation of pensions to price inflation. • Contribution rate: 32% for employees; 20% for the self-employed. Seniority pensions:

	• Eligibility is raised to 40 years of contributions, or 35 years of contributions plus an age of 57. • Private pension funds: earnings-ceiling for participation in public system, to favour the creation of private funds; fiscal incentives for contributions paid.
NETHERLANDS	**’87**: Continuation of nominal freeze of social security benefits. **’88**: The freeze of social security benefits in nominal terms is continued. **’90**: Contributions for the AOW (old age pensions), AWW (widows and orphans pensions), schemes are included in the personal income tax system. **’91**: Social security benefits are raised by 1.27%. **’91**: The Government submits a set of policy proposals relating to retirement pensions to Parliament. It includes a proposal to base pensions on the average wage during the career instead of his last earned wage. Moreover, it contains a proposal to improve pension rights for two-earner couples relative to single-earner couples. **’93**: The Government eases investment rules for the General Government Pension Fund (ABP), allowing it to invest up to 10% of its funds abroad. **’95**: The early retirement system will be transformed from a pay-as-you-go system to a funded system. **’96**: The Pension Fund for Civil Servants is privatised. **’97**: The Budget is presented, it includes an increase in social security contributions.
PORTUGAL	**’87**: Old-age and disability pension provisions are increased from 1st December. General scheme pensions are increased by 1 to 23 per cent and non-contributory pensions (farmers) by 14.7%. This decision implies additional expenditure of Esc.34 billion (0.6% of GDP). **’88**: Pensionable age is lowered from 62 to 60 years. **’89**: The Government increases retirement and invalidity pensions paid by the social security scheme. **’90**: Invalidity pensions and retirement pensions are increased by 17% in average. **’91**: Retirement provisions are increased by 15 per cent on average. **’93**: Reforms on pension formula: • The basis to calculate old-age pension will be 15 (rather than 10) years, and the accrual rate will be reduced from 2.2 per cent to 2 per cent. • A gradual rise in the retirement age for women from 62 in 1993 to 65 years by 1999. • An increase in the contribution period required for full pension. • A reduction in the contribution rate paid by employers of 0.75 percentage points, offset by a rise in VAT rates of 1 point, receipts of which are marked for social security.
SPAIN	**’90**: Unions and the Government agree on an increase in pensions averaging 10 per cent and on a full compensation (to civil servants and pensioners) for the overshooting in 1989 inflation target. **’93**: The minimum legal pensions for 1994 are raised by 3.5 per cent and the latter will be revised if actual inflation exceeds 3.5 per cent. **’97**: In July the Parliament has approved legislation introducing several reform to pension system: • Gradual extension of the basis to calculate pensions from the last 8 years of contributions to the last 15 years. • Unification of the different contribution ceilings at the level of the highest one. • Reduction of front-loaded accumulation of pension rights, which provides incentives to retire early by having an accumulation rate which diminishes in relation to the years of contributions.
SWEDEN	**’87**: Semi-retirement pensions are increased from 50 to 65 per cent of the loss of earned income. **’92**: The pensionable age is raised from 65 to 66 years and public pensions are reduced with effect from January 1993. **’94**: The age limit for part-time retirement is raised from 60 to 61 years. The replacement rate is lowered from 65 to 55 per cent. **’94**: The tax on private pension schemes is increased.
UNITED KINGDOM	**’87**: New tax regime for personal pensions is introduced. Employees will be able to contract-out of the SERPS (State Earnings Related Pension) by joining an individual pension scheme to which the State Department will pay a minimum contribution.

	’88: Pensionable age for women is increased to 65 year from 60. **'89**: Employers allowed to set up "top-up" pension schemes for their employees, with no limits on benefits but without special tax relief. A (price-indexed) limit is placed on pensions paid from tax-approved schemes, based on earnings of £60000 a year. Annual contribution li mit for a personal pension scheme increased in line with earnings and subject to an overall cash limit (based on the earnings limit). **’95**: Pension Act: It provides a raising of the State pension age for females from 60 to 65 years, starting in 2010 with those born in April 1950 and completing the transition in 2020 with those born in April 1955 • Introduction of a new private pension scheme.