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# A World in Transition

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## Foreword

What reforms must governments initiate in order to ensure the sustainability of their societies? What examples of success can we identify by systematically comparing countries around the world? And who will shape the political and economic future in the 21st century?

This E-Book Reader is a supplement to the upcoming edition (June 2014) of our German-language quarterly *change*, which takes as its focus “A World in Transition.” Addressing sustainability in governance, strategic steering capacity in policymaking, and the most important global and regional developments of the past three years, the contributions featured here are excerpts from publications published by the Verlag Bertelsmann Stiftung. For more information about our products, please see:  
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We thank you for your interest and wish you an engaging read,

*Christian Rickerts*

*Director Corporate Communications*

*Bertelsmann Stiftung*

# Sustainable Governance Indicators 2011 (excerpt)

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**Sustainable Governance Indicators 2011**

Policy Performance and Governance Capacities in the OECD

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## Preface

The OECD world has been hard hit by the global economic and financial crisis. In 2009, many countries experienced their worst recession since the end of World War II, and many continue to struggle today with the severe aftereffects of crisis. The Sustainable Governance Indicators 2011 (SGI 2011) survey period stretches from the beginning of May 2008 to the end of April 2010, thus covering precisely the time in which governments were particularly challenged to react to the crisis quickly and resolutely. Yet the acute, short-term pressure of looming problems, as the crisis produced and continues to produce, must not lead to neglect of the fundamental need for sustainability. Indeed, policymakers must retain a focus on the long-term viability of sociopolitical, economic, and environmental systems in order to maximize the opportunities and quality of life afforded both to current *and* future generations.

Decisions on investment, consumption, conservation, and the exploitation of resources are not made by abstract “generations” but, rather, by quite specific individual and collective actors. In the sustainable creation and protection of citizens’ opportunities, government action plays an undeniably prominent role through concrete policies and steering activities in areas such as finance, education, health, family policy, pensions, the environment, and research and development.

It is with an eye to the issue of sustainable governance that the SGI 2011 allow the strengths and weaknesses of OECD states’ political and economic systems to be identified with considerable precision. This is true of countries’ crisis-related vulnerabilities and short-term crisis-management capabilities as well as of the capability to successfully meet critical future challenges. These include not only ongoing economic globalization, but also demographic change in the form of aging societies, migration trends, new security risks, and the increasing scarcity of resources. As broad drivers of policy-making, these various challenges can be broken down into specific issues and a variety of separate policy areas, in each of which weaknesses rather than optimum performances are often clearly evident. From this analysis of strengths and weaknesses emerges a clear picture of each country’s reform needs.

OECD states’ reform needs are represented as a part of the SGI 2011’s Status Index, which provides answers to two essential questions: First, how successfully do individual countries realize sustainable policy outcomes in the context of a socially responsible market economy?

And, second, what is the quality of the country's rule of law and democratic framework? For it is only in the context of a solid democratic order, which ensures truly equal opportunities for participation and a rigorous adherence to the rule of law, that sustainable policy outcomes can ultimately be achieved.

Alongside the question of reform needs is that of whether political systems have the fundamental *capacity* to implement critical reforms and political measures effectively. Answering this question is not a trivial task, as the formulation, passage, and implementation of reforms in modern democracies involve the participation of numerous actors. The SGI 2011 measure the *reform capacity* of the various OECD states through its Management Index, which seeks to do justice to the issue's complexity through a broad set of individual indicators. The Management Index closely examines governments' political steering capabilities as well as their interactions with other institutional and societal actors—particularly citizens, legislatures, interest groups, and the media—through each phase of the policy cycle. In taking this broad perspective, the SGI project goes far beyond other comparable indices.

The overall approach of the Bertelsmann Stiftung's *Sustainable Governance Indicators* is driven by the premise that the higher a government's reform and policy-shaping capacity, the more likely its actions are to improve the country's political, economic, and social state in the medium to long term with respect to the above-noted key issues, thus effectively addressing the country's reform needs. This hypothesis should not be taken to imply that a reform-capable government always carries out the “right” reforms (whatever those may be) and thus achieves the best possible results. It simply suggests that reform needs should decline in countries whose governments demonstrate a strong capacity for reform, and vice versa. Only time will tell whether this holds true throughout the OECD member states.

The development of the SGI 2011 took place in part through a thorough internal and external evaluation of its 2009 pilot-edition predecessor. This led to various adjustments being made both in the survey process and in the index design itself, placing methodological limits on the ability to make direct comparisons between the SGI 2011 and the SGI 2009 results. However, in the course of the SGI 2011 survey, a process of interpolation was carried out for the adjusted indicator sets that was aimed at developing correspondingly adjusted values for the SGI 2009 survey period (January 2005 through March 2007). This has made possible a comparison between the recalculated SGI 2009 results and those of the newly released SGI 2011 (particularly through the project's website, found at [www.sgi-network.org](http://www.sgi-network.org)).

The 2011 edition of the SGI was also the first of the project's editions to incorporate new OECD member Chile, which—as the results show—had no need to fear comparison with many longtime OECD states. The Sustainable Governance Indicators 2013 will also evaluate Slovenia, Israel, and Estonia, which have joined the OECD in the interim, but could not be considered in this round.

More than 80 renowned experts from around the world participated in the SGI 2011's complex and multi-stage process of data collection and data review. As in the SGI 2009 pilot edition, the focus of interest lies not solely on quantitative data, but also on country experts' detailed qualitative evaluations. The full conclusions of the SGI 2011 are thus not to be found in a single number or ranking but, rather, in the systematic comparative treatment of a variety of qualitative assessments, their transparent portrayal, and their comparison with other coun-



tries' results. In order to provide this layer of added value on top of simply quantitative data, our SGI country experts have compiled extensive reports on each of the 31 surveyed OECD countries, working on the basis of a detailed, standardized codebook.

This publication is meant to serve as an introduction to the project as whole. The contributions presented here draw upon the vast body of data and knowledge collected and made available at [www.sgi-network.org](http://www.sgi-network.org). The website not only provides users full access to all the data, assessments, and results; it also allows users to draw comparisons between countries at each level of assessment. The SGI's combined total of nearly 150 qualitative and quantitative indicators outline the sustainable policy performance in each OECD country surveyed.

This volume begins by explaining the theoretical and methodological underpinnings of the SGI as a rather complex measuring tool. In their contribution "Sustainable Policy Outcomes, High Democratic Standards, and Sound Political Steering as Benchmarks for Measuring Sustainable Governance in the OECD," Daniel Schraad-Tischler and Najim Azahaf provide a short introduction to the approach used by the SGI team in measuring sustainable governance. Focusing in particular on the two pillars of the SGI, the Status Index and the Management Index, they establish the context for the two following contributions, in which the conceptual and theoretical roots of both indices and their components are explored. In "The Status Index: Sustainable Governance and Policy Performance," Friedbert W. Rüb and Tom Ulbricht discuss the theoretical framework of the Status Index, its constituent parts, and how they relate. They examine from a theoretical perspective the conditions for sustainable governance in terms of the quality of democratic standards and how well policies perform in 15 areas, using these premises to delineate the composition of the Status Index.

In a similar manner, Werner Jann and Markus Seyfried provide a theoretical overview of the Management Index and its architecture. They explore in particular the theoretical underpinnings of governance as a concept and how it is understood—in terms of political steering—within the SGI context. The architecture of the Management Index reflects the SGI's dynamic understanding of governance by examining both a government's capacity to act ("Executive Capacity") and the extent to which non-governmental actors and institutions are endowed with the participatory competence to hold the government accountable to its actions ("Executive Accountability"). This includes citizens, legislatures, parties, associations, and the media, that is, actors that monitor the government's activities and whose effective inclusion in the political process improve the quality of governance. Ending the theoretical-methodological section is the contribution "Sustainable Governance Indicators 2011: Concepts and Methodology," by Martin Brusis and Jörg Siegmund, in which the weighting and aggregation methods used to calculate SGI results are described, as is the SGI's multi-stage process of data collection, review, and validation. This multi-stage process involves individual country experts, regional coordinators, and a board of scholars and experts, each monitoring the results provided by the other in order to deliver the highest possible measure of objectivity, reliability, and validity.

The second section of this volume is concerned with the empirical results of the SGI 2011: How well do the 31 OECD states surveyed fare in terms of their reform needs and reform capacity? What are their respective strengths and weaknesses? In their contribution, Kathrin Dümig and Reimut Zohlnhöfer focus on the overall results for the Status Index. In the follow-

ing contribution, Markus Seyfried examines the cross-national results for the Management Index. His analysis shows that the northern European states of Sweden, Norway, Finland, and Denmark, together with New Zealand, perform best in both the Status Index and the Management Index. These countries underscore the fact that, even in globalized world fraught with interdependencies, governments continue to exercise considerable agency in formulating and implementing effective, sustainable policies. The institutional layout of government bureaucracies is in no way the only factor decisive in shaping a government's steering capacity. For this reason, the Sustainable Governance Indicators emphasize the importance of participation in policy-making processes by exploring the extent to which governments effectively incorporate the knowledge and feedback of societal actors through sound democratic institutions.

The two contributions discussing the results for the Status Index and the Management Index also provide initial inroads into the variety of comparisons and research opportunities presented by the Sustainable Governance Indicators. However, summary overviews of the results are limited in their capacity to deliver the substantive contexts needed for more targeted research questions and interests. This volume therefore includes excerpts from the individual country reports—the executive summary and strategic outlook—for each of the 31 OECD countries surveyed. These excerpts, which summarize the key findings for each country and identify the urgent challenges to be addressed, introduce the reader to the substantive quality of the SGI project, the full extent of which can be explored online at [www.sgi-network.org](http://www.sgi-network.org). Readers are encouraged to download full reports and explore the variety of comparisons made possible by the website.

The website allows users to pursue their individual interests and identify concrete examples of successful practices that can inspire or influence reform measures in other countries. This is not to suggest that policies and approaches yielding success in one country will necessarily yield the same success in another political system. Long-standing institutional path dependencies, the diversity of political cultures, and diverging concepts of the welfare state must be taken into account when considering the state of affairs in another country. Nevertheless, this should not prevent those in search of effective approaches to draw inspiration from the priorities set and success of measures taken in other countries. The SGI 2011 deliver a vast body of qualitative and quantitative data with enormous potential for those vested in improving the state of governance.

An international project of this academic caliber and complexity that sets such high standards of independence and political relevance would not have been possible without the help of several individuals whose knowledge and expertise fueled the two years of work involved in developing this edition of the Sustainable Governance Indicators. We would therefore like to thank the experts from around the globe for providing the individual country reports and the seven regional coordinators—Nils C. Bandelow, Frank Bönker, César Colino, Aurel Croissant, Detlef Jahn, Martin Thunert, and Reimut Zohlhöfer—for taking on the responsibilities involved with evaluating these reports in order to establish the final reports and scores. We extend our thanks and appreciation as well to the members of the SGI Board, whose expertise and counsel have favorably informed the process. We thank as well all those who have provided technical and practical support in handling, managing, visualizing, and publishing the

results for this edition of the SGI. In this capacity, we thank in particular Dieter Dollacker and Dirk Waldik for developing and designing the project's online work platform, the database, and our website, [www.sgi-network.org](http://www.sgi-network.org), as well as Barbara Serfozo for managing the editorial process and translation of various texts. Last but by no means least, I would like to thank all of my colleagues at the Bertelsmann Stiftung who have provided operational and conceptual support. For their tireless effort and commitment, I would like to thank in particular the members of the project team: Najim Azahaf, Thorsten Hellmann, Pia Paulini, Daniel Schraad-Tischler, and Robert Schwarz.

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Bertelsmann Stiftung

# Status Index Findings for the SGI 2011: A Comparison of Policy Performance

*Kathrin Dümig, Reimut Zohlnhöfer*

## Introduction

The Sustainable Governance Indicators (SGI) project centers on the question of how necessary reform is in 31 member states of the Organization for Economic Cooperation and Development (OECD) and of how capable each is of reform. The findings of this analysis (available online at [www.sgi-network.org](http://www.sgi-network.org)) provide an extensive collection of internationally comparable data, along with reports for each individual country. This chapter takes a closer look at the Status Index findings. The Status Index is one of the two main pillars of the SGI project. It aims to compare Policy Performance and the Quality of Democracy in the 31 states under review. Along with these countries' rankings, this chapter details exemplary successes and failures in individual countries and policy areas.

The SGI project proceeds from the assumption that the established industrial nations face a variety of challenges at the start of the 21st century. Among these is economic globalization. In particular, the increasing intensity of trade and the far-reaching internationalization of financial markets have significantly changed the basic conditions for national economic policy (see, e.g., Zohlnhöfer 2009, 17 ff.; Scharpf 2000). Some of the literature assumes that governments must compete for investments with favorable local conditions, making deregulation and tax reduction imperative for economic policy—upon threat of losing manufacturing and jobs. Social welfare systems are also under increasing pressure because their financing can no longer be assured. At the same time, according to this reasoning, the classic tools of economic policy are growing ever more ineffective, at least at the national level. Beyond economic policy, too, national governments are increasingly confronted with problems whose causes and solutions no longer lie solely within their country's borders. In the realm of national security policy, these include international terrorism, but also the threat of global climate change.

At the same time, challenges can be identified in the established industrial nations whose causes lie at least partly within national borders—challenges that are homemade, so to speak. The central problems of this sort are of economic, social, and environmental nature. To begin with, they include the financial and structural problems of social welfare systems. The demo-

graphic changes affecting most industrial countries (albeit to varying degrees) play an important role here. The welfare state can fall into serious crisis when the number of benefit recipients—especially retirees—rises while the number of people paying into the system declines. Education policy presents a further challenge for the established industrial countries. Due in part to the intensifying global division of labor, the potential for job growth lies mainly in high-quality goods and services, which heightens the demands on national education systems. In addition, deficiencies in integrating immigrants can be observed in some countries. Finally, the environmental challenges of the 21st century require not only cooperation within the international community, but also reform efforts within nation-states.

In sum, the industrial countries' various external and internal challenges necessitate certain adjustments and reforms. At the same time, though, it must be emphasized that one cannot assume that these adjustments will take place automatically or that one can (or should) expect precisely the same strategy for all countries. Instead, each country's reform efforts should be adapted to its particular political and social traditions. Still, it cannot be denied that certain reforms are needed to facilitate appropriate reactions to novel problems and challenges.

With this said, the SGI project poses two main questions: How successful are the established industrial countries in coping with the above challenges? And how great is the strategic reform capacity of each country, especially in its government's interactions with various civil-society actors? On the basis of these two key questions, the SGI project compiles two indices that depict the need for reform and the reform capacity of the 31 OECD members surveyed.

To assess the need for reform, the SGI draw on the concept of sustainability, which applies across policy areas, because one can assume that the aforementioned economic, social, and environmental challenges can be met only with the help of sustainable policies. The first pillar of the SGI project thus examines the political performance of the established industrial countries in those policy areas that are especially affected by the aforementioned challenges. The result of this analysis is the Status Index. It indicates the degree to which each state has already implemented sustainable policies. This index thus shows, on the one hand, how well-matched each country's reform policy already is to its challenges and, on the other hand, the areas where the need for further reform is especially great. The second pillar of the project, the analysis of reform capacity, deals with governance. Its result, the Management Index, thus indicates the strength of each country's strategic reform capacity.

To compile both indices, an international team of around 70 scholars and country experts analyzed and quantified the need for reform and the reform capacity in the 31 OECD countries surveyed. The study spanned 1 May 2008 to 30 April 2010. The SGI project delivers a large collection of data in the form of the two main indices, each comprised of several indicators assessing each country's individual policy areas and institutional characteristics. In addition, it provides detailed reports on economic, social, and environmental developments in the individual countries. The project's objective is for the two indices to facilitate the identification of best practices and strategic reform options. On this basis, it further aims to activate mutual learning processes in the OECD countries.

The following sections will first explain more precisely the design of the Status Index. This is followed by a detailed description and explanation of the findings for the OECD countries surveyed by the SGI.

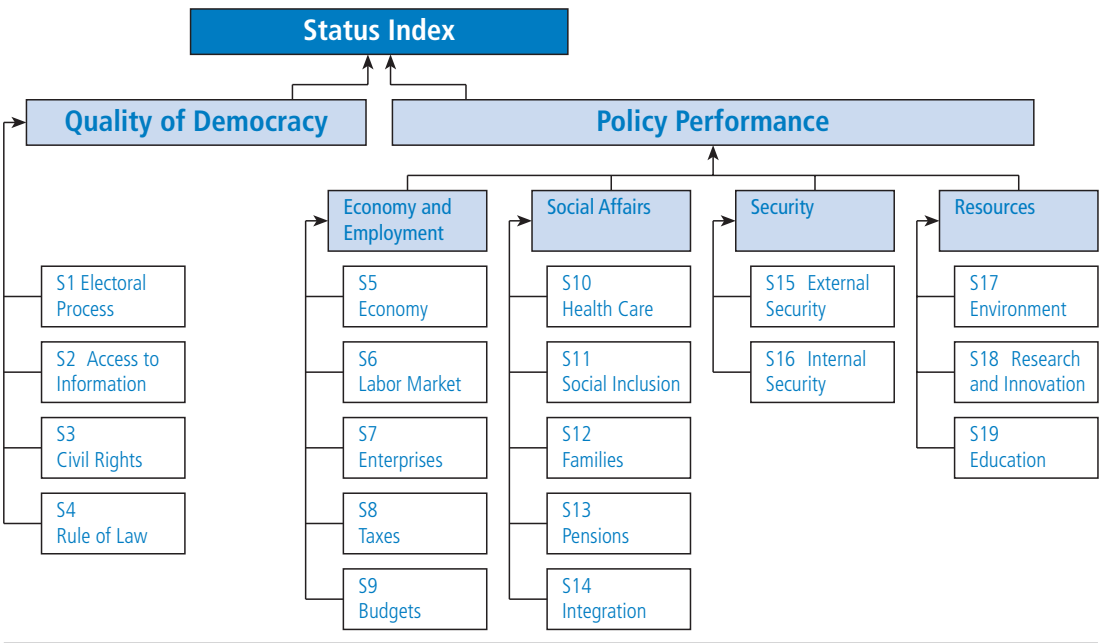
### The Status Index: The contours of reform in 31 OECD countries

The Status Index measures the extant of reform activity and the need for reform in various policy areas. It consists of two dimensions, which are equally weighted in the overall index. The first dimension measures the Quality of Democracy, while the second measures the Policy Performance of each country (see Figure 1).

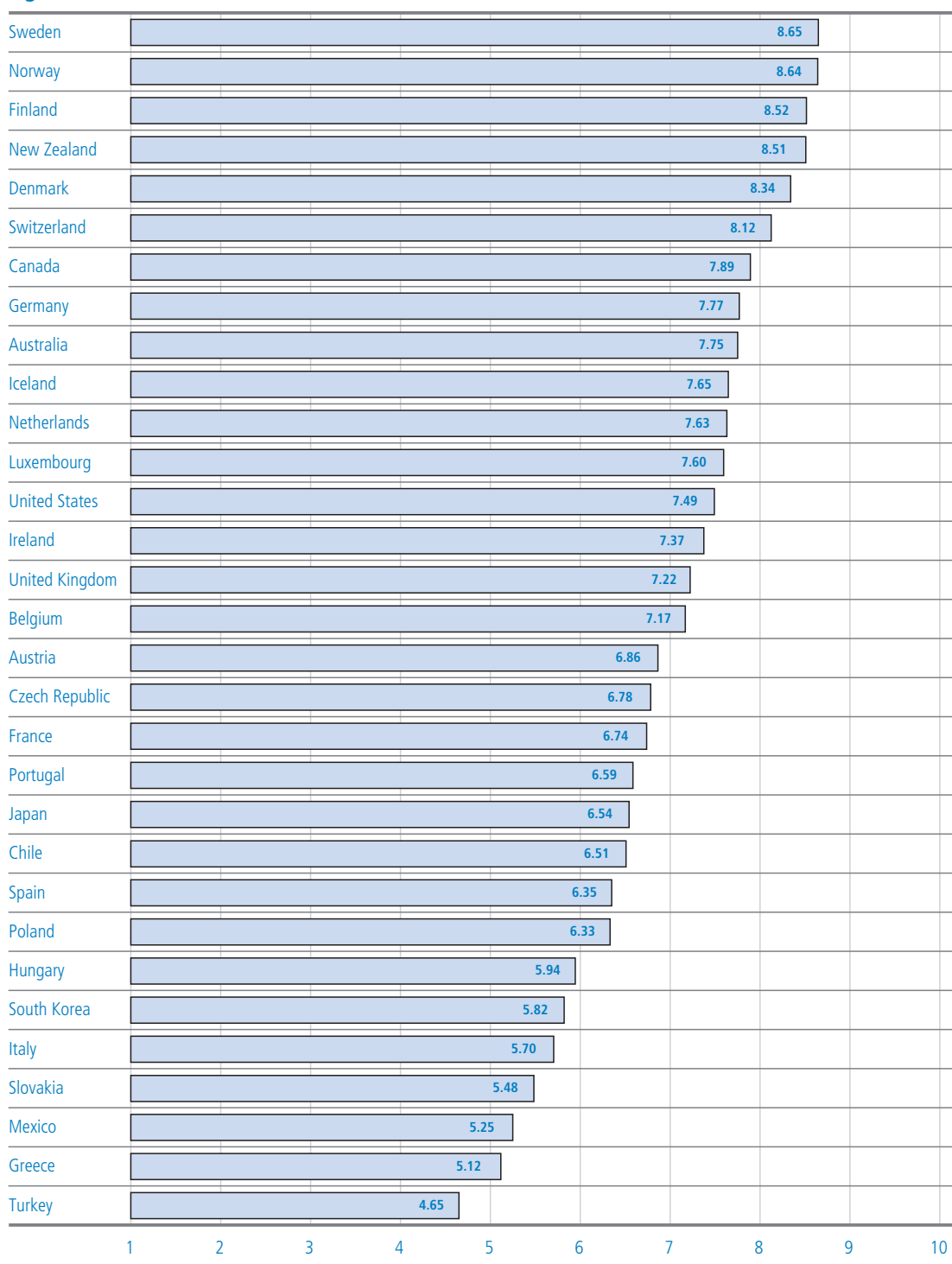
The quality of a country's democracy is measured against a normative definition of democratic structures. It includes four overarching categories, each of which incorporates two additional factors: (1) the Electoral Process, including analysis of party financing and rules for recognition of parties and for voter registration; (2) Access to Information, observable in the extent of freedom of the press and media pluralism; (3) Civil Rights; and (4) the Rule of Law, which includes legal certainty, judicial review of laws, and the fight against corruption. The first dimension of the Status Index thus indicates how well a country's existing democratic order fits the definition of democracy. The overall premise is that a high quality of democracy is essential to a political system's long-term stability and, thus, also to implementation of sustainable policy.

The second dimension of the Status Index provides information on individual countries' performance in specific policy fields. The four areas analyzed here are especially important for achieving sustainable policy: (1) Economy and Employment, with a number of sub-fields such as tax, budgetary, and labor market policy; (2) Social Affairs, comprised of health, social inclusion, family, pensions, and integration policy; (3) Security policy, attending to both internal and external security; and (4) Resources, encompassing environmental policy as well as

**Figure 1: Status Index architecture**



**Figure 2: Status Index results**



research and education policy. To evaluate current reform activities, quantitative indicators—such as economic growth and unemployment rates—are used together with qualitative assessments by SGI experts.

Figure 2 shows the findings of the Status Index. In its individual indicators, scores of 1 to 10 were assigned, with higher scores implying greater sustainability. The overall Status Index scores are derived by calculating the arithmetic means of the scores for its respective two dimensions Quality of Democracy and Policy Performance (on the methods of aggregation see Brusis and Siegmund in this volume). For further analysis, the 31 countries were first divided into groups. With scores greater than 8, Sweden, Norway, Finland, New Zealand, Denmark, and Switzerland belong to the top group. The second group—the upper midrange, so to speak—comprises countries that score above 7: Canada, Germany, Australia, Iceland, the Netherlands, Luxembourg, the United States, Ireland, Great Britain, and Belgium. The lower midrange, with a Status Index between 6 and 7, consists of Austria, the Czech Republic, France, Portugal, Japan, Chile, Spain, and Poland. The lowest scores were recorded for Hungary, South Korea, Italy, Slovakia, Mexico, Greece, and Turkey. However, note that, in some cases, the scores of the countries in one group are not far from those in the next; this is especially true when the top group is directly compared with the upper midrange.

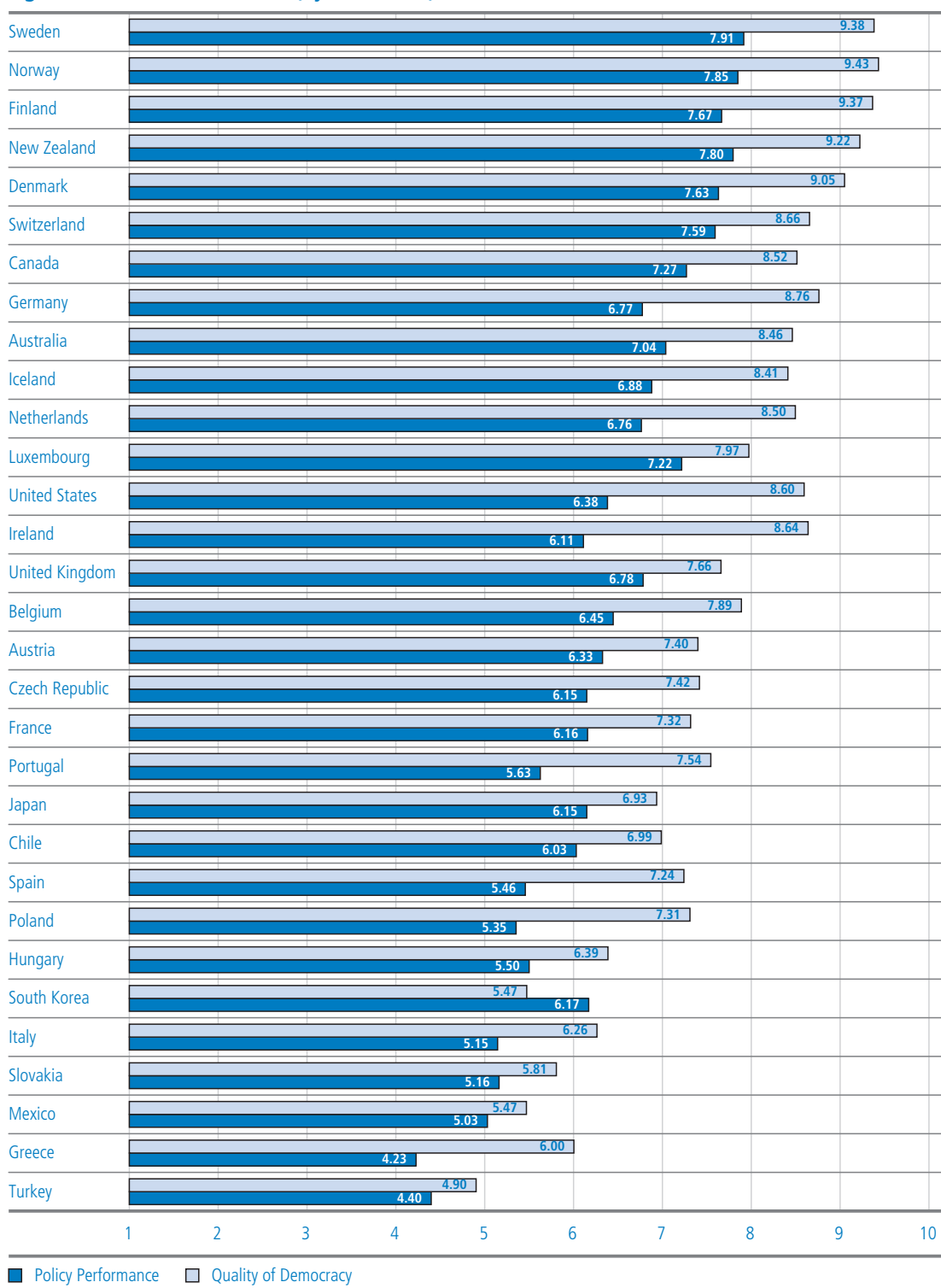
When one looks at how the OECD members are ranked in the Status Index, certain features stand out. The northern European countries dominate the top group but, at the same time, two of the countries represented have distinctly different traditions—New Zealand, with its Anglo-Saxon influence, and continental European Switzerland. Surprising, too, is that the established typologies of comparative politics cannot explain the placement of the OECD countries in the Status Index. For example, majoritarian democracies in Lijphart's sense (1999) do not systematically score better or worse than consensus democracies; statistically there is no relationship between the Status Index and its two dimensions, on the one hand, and Lijphart's executive-parties and federal-unitary dimensions, on the other. Classifying the countries as federalist and centralist states also fails to help explain the differences in reform activity, as Sweden and Switzerland demonstrate. It is indeed striking that the top group includes every country that, according to Esping-Andersen (1990), would be categorized as the Scandinavian (social democratic) type of welfare state. At the same time, however, liberal welfare states can also achieve high scores, as shown by New Zealand (and Switzerland), as well as by Canada in the upper midrange. Based on the top group, one can cautiously conclude that the smaller, more open national economies tend more toward pursuing sustainable policies. In addition, most of the countries scoring better than 8 on the Status Index are shaped by corporatism (see Sioroff 1999).<sup>1</sup>

In sum, the Status Index findings indicate that the long-standing, established OECD member states tend to achieve higher scores—though there are exceptions, too: As a new member, Chile places in the lower midrange, while Italy and Greece rank significantly worse

1 The correlation coefficient between the Sioroff Index for the 1990s and the overall Status Index ranking is 0.49 (N = 23, significant at the 5 % level). The correlation to Policy Performance is even stronger, with a correlation coefficient of 0.53 (N = 23, significant at the 5 % level).



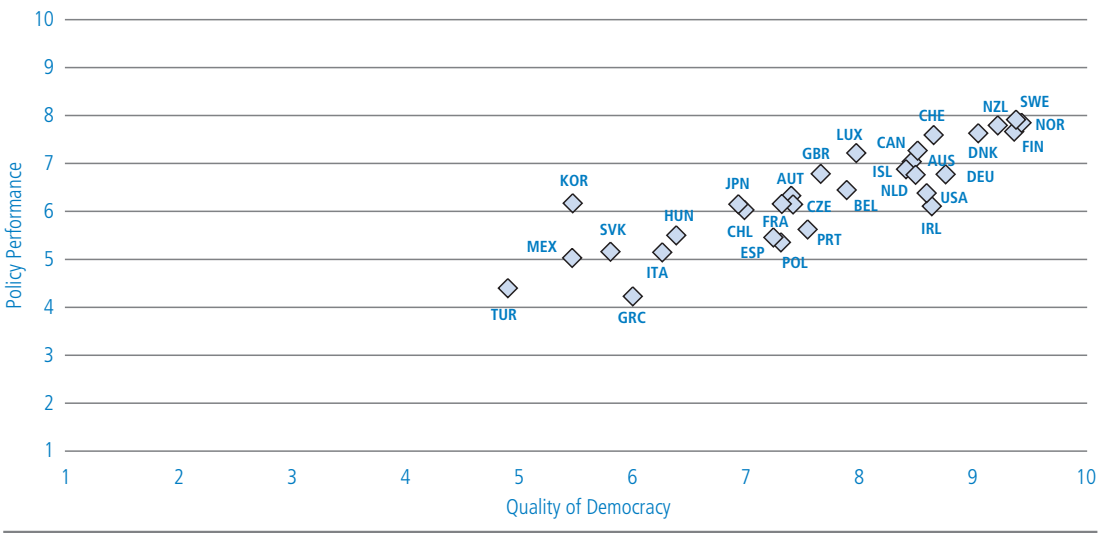
**Figure 3: Status Index results (by dimension)**



than some Eastern European newcomers to the OECD (including the Czech Republic, Poland, and Hungary).

Since the Status Index consists of two dimensions that measure quite different aspects of each country's performance, Figure 3 shows results separately for the Quality of Democracy and Policy Performance dimensions in the 31 OECD countries surveyed. Notably, irrespective of their overall ranking, every country except South Korea scores higher in the first dimension than in the second, that is, the Quality of Democracy is rated higher than performance in individual policy areas. As Figure 4 shows, the correlation between the two dimensions of the Status Index is nonetheless unequivocal: The higher the scores for the Quality of Democracy, the more successful countries will be in Policy Performance, as well.<sup>2</sup> This correlation is built into the design of the Status Index, which assumes, after all, that high-quality democracy can help realize sustainable policy.

**Figure 4: Quality of Democracy and Policy Performance**



### The top group: robust democracies and impressive performance

Sweden, Norway, Finland, New Zealand, Denmark, and Switzerland belong to the frontrunners, each scoring better than 8 in the Status Index. Despite the dominance of northern Europe, the countries with the best scores cannot be termed a homogenous group. New Zealand and Switzerland—countries with Anglo-Saxon and continental European influences—also show a high level of reform activity.

2 The correlation coefficient between the Quality of Democracy and Policy Performance is 0.88 (N = 31, significant at the 1 % level).

### Leading the Status Index: Sweden

Sweden leads this year—though not in both dimensions, since Norway scores slightly better on Quality of Democracy. The quality of democratic structures is nonetheless very high in Sweden. Swedish society is more egalitarian than average, and the country achieves top scores in anti-discrimination policy, too. In addition, its level of corruption is one of the lowest in the world. Among its minor weaknesses is party financing because Sweden has no legislation mandating that political parties publicly report private donations. With respect to civil rights, NGOs such as Amnesty International criticize Sweden for detaining terror suspects for extended periods without trial and rendering them to American intelligences services.

The Swedish economy grew strongly in the years before the economic and financial crisis. In the wake of the crisis, however, unemployment has risen considerably, though the long-term jobless rate and the number of low-skilled workers that are unemployed are still comparatively low. All of Sweden's political parties place a high priority on fighting unemployment. During the economic crisis, the ruling center-right coalition thus significantly increased expenditures on continuing-training programs and other labor market policy instruments. Since the 1990s, the comparatively highly regulated Swedish labor market has been liberalized somewhat: For one thing, in recent years, the government has withdrawn from the voluntary unemployment insurance schemes.

Up to now, Swedish tax policy has been relatively successful in harmonizing the goals of distributing income equally, generating state revenue to finance its extensive welfare state, and protecting competitiveness. However, Sweden's tax burden is controversial; after all, Swedish tax rates are among the highest in the OECD, along with Denmark's. In terms of budgetary policy, the ruling center-right government can be described as rather conservative, like its social-democratic predecessors. Thanks to its low national debt, Sweden was in a much stronger position than many other OECD countries at the outbreak of the economic and financial crisis. Rising unemployment and an expansionary fiscal policy to combat the recession have caused an increase in the budget deficit, however.

On social policy (SGI category of Social Affairs), Sweden achieves very good scores in all categories. One slight weakness is the low efficiency of the state health system, which is evident mainly in long waiting times for inpatient procedures. The ruling coalition thus passed reforms in recent years to partially privatize the health care system. When it comes to social inclusion, however, Sweden's policy is exceptionally sustainable, particularly in the areas of poverty eradication and gender equality; here, the country (together with Denmark) leads all 31 countries surveyed. Swedish family policy has long promoted the compatibility of family and career with the help of an extensive network of childcare facilities—a strategy that many other OECD countries have adopted by now. The integration of immigrants will likely be among the main future challenges in Sweden, however, as in the other northern European countries.

Sweden attains top scores for sustainability in its environmental policy, where its current reforms to reduce CO<sub>2</sub> emissions exceed the EU standards. SGI experts attest to Sweden's sustainable reform activities in research and education policy, as well.

Norway, Sweden, Finland, and New Zealand achieve very similar scores for the Quality of Democracy. In all four countries, democratic structures are rated as very good, with a few features and weak points worth mentioning. In anti-discrimination policy, for example, Norway passed a law in 2006 requiring publicly traded companies to fill 40 percent of the positions on their board of directors with women—a law that was implemented within two years without major difficulties. Denmark, New Zealand, and Finland achieve especially high scores for preventing and fighting corruption, which is also rare in Norway. Although corruption in Finland is generally low, party financing must be mentioned as a weak point. It became known in 2008 and 2009 that several parties had failed to declare the source of private donations in accordance with legal regulations. Finland's campaign finance law was tightened in response to this scandal. Denmark likewise achieves very good ratings for Quality of Democracy, albeit lower than the rest of the northern European countries. This is due to weaker scores for its anti-discrimination policy. Although Danish society has traditionally been liberal, it has tightened its immigration laws—including eligibility for welfare benefits and spouse immigration—since the liberal-conservative government took office in 2001. The driving force behind toughening the laws was the populist right-wing Danish People's Party, which supports the ruling minority coalition. Switzerland, the last country in the top group, likewise earns good scores for the Quality of Democracy. However, the gap by which it trails Sweden, Norway, and Finland is striking, especially since Switzerland is very close to the other top countries in the second dimension, Policy Performance. SGI experts see Switzerland's party financing as one weak spot: Since its parties receive no public funding, Switzerland has no legal regulations requiring disclosure of their income sources.

How does the top group fare regarding performance in the various policy areas? While the scores in the first dimension of the Status Index lie relatively close together, more distinct differences were found in the individual policy areas. Overall, the group leader, Sweden, and Finland and Denmark achieve somewhat lower ratings than Norway, Switzerland, and New Zealand for economic and employment policy.

While none of the top group's countries escaped the economic and financial crisis unscathed, most of their economies are doing comparatively well, according to the economic indicators. Norway achieves the best scores in the whole OECD with regard to unemployment, followed closely by Switzerland. With sometimes high negative growth rates in 2008 and 2009, New Zealand, Finland, and Denmark felt the effects of the recession more acutely. Thanks to an expansion of employment policy instruments, the unemployment rate rose less sharply in New Zealand than in Finland, where labor-market performance—especially in the area of youth unemployment—was one weakness in its otherwise successful economic policy. In order to securely finance their extensive welfare states, the tax burden is above-average in all of the northern European countries, with Denmark's tax ratio the highest in the OECD. In return, the complexity of the northern European tax systems is relatively low. New Zealand's tax burden is in the midrange, while Switzerland's is well under the OECD average. In the realm of budgetary policy, Norway's is especially sustainable: Thanks to its oil and gas revenue, the national debt and budget deficits present no problems. The Norwegian state established the Petroleum Fund of Norway in 1990 (now called the Government Pension Fund) to ensure that successive generations will continue to profit from the revenue from this nonre-

newable resource. At the same time, though, the country's dependence on oil and gas can also be termed a weak point, since the Norwegian economy is comparatively uncompetitive in other sectors. Like Norway, New Zealand is pursuing an exceptionally sustainable fiscal policy. While new borrowing rose steeply due to the financial crisis, prior to this, New Zealand ran annual budget surpluses for 14 years. Since 2008, budget deficits have grown appreciably in Finland and Denmark, too. Their national debt, however, remains low, as does Switzerland's.

Performance in various social policy areas is analyzed in the second category. Norway leads here overall, closely followed by New Zealand and Sweden, while Switzerland occupies last place in the group by a wide margin. SGI experts appraise the health system of all countries in the top group as similarly sustainable. However, a minor weakness is seen in Norway's and Sweden's health policies, with their rather low efficiency despite high expenditures. The northern European countries take the lead in social inclusion: Norway, Sweden, Denmark, and Finland earn top marks in poverty eradication, income distribution, and gender equality, thanks to their universal welfare states and egalitarian social structure. Social inclusion is high in New Zealand, too, though the country fares somewhat worse on poverty eradication and income distribution. However, Switzerland significantly trails the rest of the top group, especially in gender equality. Sweden, Norway, Denmark, and New Zealand are exemplary in family policy: Their extensive childcare facilities make it easier for men and women to combine family and career, and they may also help explain these countries' above-average birth rates (New Zealand's is the highest among the countries surveyed). Switzerland's family policy, by contrast, can be described as sustainable only to a limited extent. It lags especially in facilitating the combination of family and career, and the Swiss birth rate is also noticeably lower than the other countries' in the top group.

All of the countries earn high marks for their pension systems. Since the 1990s, they have all undergone reforms intended to encourage private investment for old age and to make their systems' financing more sustainable, mainly by extending the number of working years before retirement. Although the northern European countries rank highest overall in social policy, the integration of immigrants represents one of their main weaknesses. The central challenge for Sweden, Finland, and Denmark—as well as for Switzerland—is to improve the integration of immigrants in the labor market and society. This goes especially for Finland, which lands in 21st place among all the states surveyed in this area. By contrast, New Zealand—with its point-based immigration system—is recognized as having the best policy in the OECD states surveyed (together with Canada).

Security, the third category within the dimension of Policy Performance, refers to external and internal security policy. The countries in the top group all score high here, and SGI experts assess them similarly. The threat of international terrorism is judged to be higher for Denmark than for the other countries, however, due to its military operations in Afghanistan and the reaction to the Mohammed caricatures published in 2005.

Resources, the final category of the second dimension of the Status Index, asks whether the OECD countries surveyed pursue sustainable policies in regard to their available resources. The areas analyzed are thus environmental policy, research and development, and education policy. Overall, Finland and Sweden lead the top group in this area, followed by Switzerland and Denmark. SGI experts attest to sustainable environmental policy especially in

Finland, Switzerland, and Denmark, as well as in the frontrunner, Sweden. In Finland, however, the governing coalition's decision to build new atomic energy plants is highly controversial. Standouts of Norway's environmental policy are its low CO<sub>2</sub> emissions and the world's highest reliance on renewable energy as a share of its overall energy supply. In research and development, in addition to Sweden, Finland and Switzerland measure up very well, though along different paths: In Finland, public funding is dominant in research and development, while in Switzerland financing is predominantly private. Switzerland leads the world, incidentally, in patent applications. SGI experts see a need to catch up in research and development policy in Norway and New Zealand. In education policy, Finland achieves the best marks by far. Overall, the goal of life-long learning is widespread, especially in the northern European countries, which reinforces the sustainability of their education policy.

### Upper midrange: Above-average performance with minor shortcomings

The second group consists of ten countries: Canada, Germany, Australia, Iceland, the Netherlands, Luxembourg, the United States, Ireland, Great Britain, and Belgium. The upper midrange is thus at least as geographically and culturally heterogeneous as the top group.

On the Quality of Democracy, the countries in the upper midrange have similarly strong scores as the top group, with Germany, Ireland, and the United States earning the highest marks. There are also occasional shortcomings, however. In some countries, including Canada, Australia, and Great Britain, media pluralism is endangered because media ownership is concentrated in just a few companies. In Luxemburg, on the other hand, the political parties have comparatively strong influence over the media. Party financing in the Netherlands scores about as poorly as in Switzerland and Greece since transparency is not adequately safeguarded for private campaign donations. Canada and the United States score especially high on fighting corruption, while SGI experts see room for improvement in Germany, the Netherlands, Great Britain, and Belgium.

In the second dimension of the Status Index, Policy Performance, the scores are more scattered for the upper-midrange countries, and the divergence from the top group is greater. General economic indicators for these countries—such as economic growth, inflation, and competitiveness—are mostly relatively good. In particular, Canada, Australia, Germany, the Netherlands, and the United States achieve high scores here. Yet, with Iceland and Ireland, the upper midrange also includes two countries that were hit especially hard by the economic and financial crisis. By now, Iceland's economy is receiving support from a reconstruction program under the International Monetary Fund. The stability of the Irish banking systems has also sustained lasting damage. Toxic assets whose book value amounted to 40 percent of the gross domestic product had to be transferred to the Irish “bad bank” agency during the study period. Ireland and Iceland—along with Great Britain—thus earn the worst scores for bank solvency.

The countries' performance on employment indicators is mixed. Australia and the Netherlands still have relatively low unemployment and high employment rates despite the crisis. In