

International Reform Monitor

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Labour Market Policy
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Project Information

The “International Reform Monitor” is a project of the Bertelsmann Foundation. It is published bi-annually in German and English. Compact and up-to-date, it provides information about current and interesting reforms in the fields of: social policy, labour market policy and industrial relations from an international perspective. Because reforms are also reported on at the legislative stage and local authority level, you have the opportunity here to inform yourself about international reforms, which perhaps have not been published in your country.

An integral part of the Reform Monitor is an international network of competent and renowned research- and policy advisory institutions in 15 countries (see cover). These partner institutions select reforms, that are suitable for changing the status quo in their own country, and which could also be of interest to other countries. Their reports on these reforms are based on semi-standardized surveys which are carried out every six months. Prognos AG, Basle and Berlin, is responsible for organising and implementing the surveys. Prognos, in close co-operation with the Bertelsmann Foundation, also produces the summarised, International Reform Monitor.

A detailed description of each reform as well as further information on countries and research results in the fields of: social policy, labour market policy and industrial relations, can be found in Internet under <http://www.reformmonitor.org>.

Editorial

The Convergence of Welfare States

Almost all industrialised countries in the Western hemisphere are affected by developments such as: increasing globalisation, reduced economic growth, ageing populations, and an increasing diversification of life-styles. These are the common factors that determine the framework for the activities of the different welfare states. And it is this common socio-economic background which makes it necessary for the different welfare states to adjust their regimes and their political concepts, concerning social and labour market policy as well as industrial relations.

How do different states react to changing socio-economic environment? Are most countries moving towards a “liberal welfare state” or, are they on the contrary moving towards a so-called “corporatist welfare state”? Are there any common patterns for the different reforms?

Looking at the more than 50 reforms that have been reported by experts in 15 different countries this summer, two major directions of reform can be observed. One trend represents a move away from a universal to one of selective provision. In Sweden, new standards and procedures for paying social assistance benefits

have been implemented, Denmark has created a labour market programme for young people in particular, and the British New Deal programme focuses on problem groups within the labour market, such as the long-term unemployed, single parents and disabled workers. The other group of reforms aims at providing a more complete welfare state, either, by closing gaps opened by previous reforms or introducing new measures in areas where they never existed before: the implementation of a national minimum income support in Italy, universal health care coverage in France, and the introduction of long-term care insurance in Japan.

Nevertheless, a consensus has come to light. In none of the 15 countries has the welfare state become a “relic”. On the contrary, there is in many cases an astonishing amount of convergence in the policies they pursue. This is even the case when they set totally different standards of social security provision, or have very different levels in the degree of centralisation in labour market policy. On health policies, this becomes very evident when we look at the reforms in the USA and Sweden. The aim of the reforms under these two very different welfare systems is to improve the health insurance cover for children. On labour market policy, the reforms in Australia and Spain are very good examples of convergence in different welfare states. Australia, which was originally very centrally organised, has delegated some of its powers to branches and firm level, whereas, the very decentralised Spanish system is being complimented by centralised elements.

One of the major aims of this six-monthly Reform Monitor is to keep track of the different directions of reforms in the various welfare states. We will see if the phenomenon of policy convergence will continue. One thing however is sure: they will never be the same!

Andreas Esche

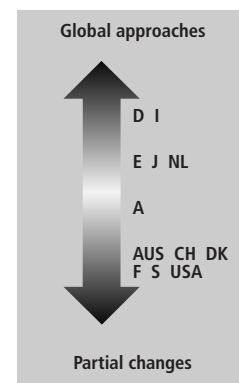
Katharina Spieß

1 Social Policy

Health Care and Long-term Care

Health Care

Because of various socio-economic developments (e.g., the ageing of the population, the increasing multi-morbidity and reductions in economic growth) there are serious *budgetary constraints* in the health care sector in almost all industrialised countries. Thus it seems reasonable to expect that various countries have undertaken some kind of effort to cope with increasing health care costs. A brief look at the reforms reported in the social policy area, can already confirm this assumption: in the majority of countries the health care system is on the move. One major group of countries, Germany, Japan, Italy, the Netherlands and Spain, is going in the direction of more “*global approaches*”, in the sense that they are focusing their reforms on various aspects of the health care system. Another group of countries, Australia, Austria and Switzerland, report *reforms in particular areas*, for instance financing hospitals. Apart from these two groups of reforms, which aim to increase the *efficiency of resource allocation* in the health sector, three other countries (France, Sweden, and the USA) report reforms which are focused on *equity issues*, such as universal access to health care for



all groups of the society. Apart from these major groups of reform issues, the *quality* of medical services is another important aspect in various countries. Efficiency and equity objectives are to be reached, either by keeping the former quality level or by increasing it. The Danish reform, however, is an example, which is solely directed to quality issues.

Germany –
Introducing a global budget, strengthening the role of insurance funds

The particular main aim of the new German health care reform, which has already been approved by the lower house, is to achieve an *increase in the efficiency and quality level* without the need for an increase in public health insurance contributions. These goals are to be achieved by *changes in nearly all areas of public health care*, such as

- restricting expenditure within a global budget, to be linked to the annual level of wage increases for those insured,
- replacing the dual funding of hospitals¹ by assigning sole financial responsibility to the insurance funds,
- introducing a restricted list of drugs, the cost of which are refunded, if prescribed by a physician. (a “positive list”)

► On the whole, the criticism of this reform by some experts is its emphasis on central planning, which, it is claimed, gives too little space for competition. One example of this is the future role of insurance funds: rather than seriously competing against each other, they are to act together and uniformly. Moreover, as the ruling parties don’t hold a majority in the upper house, the reform is unlikely to get through in full.

Italy –
Definition of assistance standards, new forms of financing

The Italian health care reform aims at better health care *quality and efficiency* through the introduction of *new rules and regulations in the National Health System² organisation*. The implementation of the reform is planned to start in 2000. The reform goals are to be attained mainly through the following measures:

- 1 Up to now, the German *Länder* are responsible for planning and financing hospital investment and the health insurance funds finance running costs.
- 2 The Italian Health Care System is organised in the following way: The “purchasers” are assigned to Local Health Care Units, which are planned, supervised and controlled by the regions. The latter get their money from a National Health Fund. The “providers” are assigned to any structure – either public or private – accredited with the National Health System.

- redefinition of essential and uniform assistance standards in terms of available finance, namely the average level of public spending granted to each citizen
- introduction of “quality certification” for private and public providers, whereby the National Health System exercises its function of citizens’ protection at different levels (e.g., licensing and definition of minimum standards)
- introduction of a new form of financing, where “National Health System integrative funds” refund the health care costs not covered by the essential and uniform assistance levels (e.g., elderly nursing)
- new regulations for various issues concerning medical staff (such as training, pension age and their contractual relation with the National Health System).

The reform defines a *mixed funding system* for public and private providers: In-patient and out-patient care are to be funded by tariffs on the basis of Diagnosis Related Groups (DRG) instead of case-based funding. However, the regional authorities are responsible for certain medical services, such as: transplantations, the treatment of chronic diseases, which will continue to be paid for on a case-based funding basis. The reform gives *Local Health Care Units* a public legal personality, entrepreneurial self-management and an obligation to respect the constraints of their budgets.

◉ As in the German case, opponents of the reform argue that it results in an excessive role for government and gives too little space for competition.

After a reform in 1997 to reduce health care costs, Japan is currently on its way to new changes in the public health system. The objective is a *radical reform of the medical insurance* and the *medical service supply system* to increase the *efficiency and quality* of the future health care system. So far, the focal points of the new reform have been fixed: the medical service system for the elderly, the medical service provision system, drug prices and the medical fee system. However, discussion on different reform proposals is still ongoing.

◉ Strong opposition to changes in the drug prices, for example, came from the Japan Medical Association and the pharmaceuti-

Japan –
Reform of the
medical insurance
and service supply
system under
discussion

cal industry. Because of their resistance, a “reference pricing system” was abandoned in 1999.

Netherlands –
More market
orientation and
institutional changes

In accord with the consensus orientation of Dutch institutions and organisations the reported reform of the Dutch health care system is a *step by step process*, which started several years ago. Among the most recent changes are the following: in the sickness fund sector the insured may opt to change their (compulsory) sickness fund once a year, fixed tariffs for care providers were replaced by maximum tariffs, and sickness insurance funds were permitted to operate their own pharmacies. Furthermore there will be institutional changes: the supervision and implementation of the insurance laws, on the one hand, and administration and financial management, on the other hand, will be the responsibility of *two separate institutions* (the so-called “Health Care Insurance Board” and the “Supervisory Board for Health Care Insurance”). In respect of health care coverage, low-income self-employed will be compulsory insured by one of the Dutch sickness funds. Additional new incremental changes have been announced by the government and are expected to be implemented in the near future.

First results of the different reform steps show that the government has contained the costs of health care below 10 percent of GDP, without affecting the quality or access to the medical facilities offered.

► In partial response to strong opposition to compulsory insurance for the low-income self-employed by the employers’ federation (VNO-NCW), the government provided a contribution to the Sickness Insurance Fund.

Spain –
Consolidation and
modernisation of the
National Health
System: first
consequences

In Spain, a parliamentary agreement on the *Consolidation and Modernisation* of the National Health System was reached at the end of 1997. To achieve this goal the following changes have been, or are going to be implemented: funding by social contributions will be replaced by exclusive funding from taxes, the list of subsidised drugs is reduced and new regulations concerning the *management of services* opened the way to the creation of health foundations, consortia and other mixed formulae for *private participation*.

First results, however, are ambivalent in respect to the success of the different reform elements: on the one hand, public expenditure on drugs subsidies has continued to increase and, on the other hand, new foundations to manage public hospitals were created.

❶ Overall opponents of the reform criticise the new forms of management, and the new public foundations, that they think can escape from public control.

The main aim of the Australian health care reform is to reverse falling incidence of private health insurance.³ It is argued that falling private insurance usage threatens the viability of the private hospital system and also threatens to place immense pressure on the ability of the public hospital system to meet demand diverted from the private system. From the beginning of 1999, individuals purchasing private health insurance have *30 percent of their costs* met by a *rebate*, which is financed by a national budget.

❷ Opponents of the reform, however, claim that the reform will not encourage a more stable health insurance system and will divert attention from the need for a more fundamental reform.

At the beginning of 1997 a *diagnosis-related hospital financing system* was introduced in Austria – a system which takes the *increasing multi-morbidity* into account. It replaces a financing system based on flat rates per day. Overall the reform aims to reduce the average length of stay and the occupancy of hospital beds by patients who need long-term, but not hospital care. The new financing system is based on the International Classification of Diseases. Diagnoses earn “points”. The number of points may vary with the patient’s age and length of stay. The monetary value of one point is determined retrospectively depending on the total number of points earned by all hospitals in a province. Up to nine additional diagnoses for a single patient may increase the number

Australia –
Thirty percent rebate
for private health
insurance

Austria –
Diagnosis-related
hospital financing:
first results

3 Under the Australian Medicare System 75 percent of the scheduled fee for services performed within hospitals are reimbursed. The patient bears the cost of the “gap” between the Medicare subsidy and the fee that the doctor actually charges. This potential gap for in-hospital medical fees is legally insurable. Private hospitals and private beds in public hospitals provide about 26 percent of the beds in the hospital system and cater for much of the care provided to patients with private insurance.

of points. A *global budget* for all publicly funded hospitals in a province was also introduced.

Pilot tests in Austrian provinces led to improvements in the quality of the diagnosis reporting system and to *shorter lengths of stay*. At national level the pattern of reported diagnoses changed with the reform and the *number of additional diagnoses increased*, with great variance in style and volume depending on hospitals.

► Among the various criticisms of the reform an important concern is that the new financing system, which depends on reported diagnoses rather than actual treatments, might only result in an increase in reported diagnoses but not in improved treatment.

Switzerland –
Obstacles to change
insurers removed ...

One of the main aims of the two Swiss reforms in the field of health care is to achieve a measure of *control over the rising costs*. A revision of the Federal Health Insurance Law in 1996 aims to increase the effectiveness of this law by various measures which are expected to be implemented in 2000. The remaining *obstacles to changing insurers* will be removed⁴: Because it often leads to a significant worsening of the insurance conditions, insurance companies will not be allowed to compel the insured to change the supplementary insurance which they have with them, when they move from one mandatory health insurance company to another.

► Overall some experts doubt that the central aim of the revised law will be achieved; this would require particular incentives to be changed.

Equal competition
between hospitals,
new ways to charge
for medical
services ...

In addition to this revision of the reform of the compulsory health insurance, the system of financing hospitals in Switzerland is currently under review at the level of regional governments. The implementation of this reform is planned to start in 2001. The particular objective is to reduce health care costs by charging medical services according to the *costs incurred by the treatment*. In the former Swiss system, hospitals as such were financed. For other hospital costs the insurers should pay a sum to patients who are in

4 With the Federal Health Insurance Law of 1996 the free choice of insurers was introduced, in principle. However, in reality some obstacles to changing insurers still remained.

approved hospitals. A novelty is that this payment should no longer depend on the *institution* or on the type of *insurance* (private or public). In addition to this, the cantons and the insurers should not only share the costs associated with in-patient care, but they should also share the costs for “*partial inpatient care*”. This is intended to lead to a substitution between (complete) in-patient care and “partial in-patient care”.

► In the view of some experts this reform solves some of the most serious problems, however, it does not go far enough as a reform and introduces new incentives that are not constructive. For example, if hospitals deficits continue to be subsidised, then this could prevent the medical services from achieving their goal, which is to charge for medical care according to cost incurred by the patients.

Given the fact that 1.2 percent of *the French* population, namely *poor people*, are currently not covered by the compulsory health insurance, the French health care reform aims to achieve equal access to health care for everyone legally residing in France. From the beginning of 2000, those who have no other health care coverage will be automatically covered by the general health insurance scheme. Moreover, low-income households will get free access to different health services from any kind of provider (non-profit or for-profit) through the provision of a *free supplementary health insurance*. The additional costs of the health system will be covered by the government budget and a new tax paid by private insurance companies and mutual insurance funds on supplementary health insurance contracts.

► Although there is a general consensus on the objectives of the reform, experts have calculated that the refund by the government may be insufficient to cover the cost of the compulsory basket of reimbursements to be provided by mutual funds and private insurance companies.

As with the French reform the Swedish reform intends to reduce inequities in the health care sector. Since 1998 *families with children* – irrespective of parental income – no longer have to pay *fees* for health care services. The rationale behind this reform was the fear that families with children would be deterred from using

France –
Universal health care coverage

Sweden –
Abolition of fees for children in health care

health care services as the fees have increased significantly in recent years.

► Opponents of the reform fear that the complete abolition of user charges might lead to undesired over-consumption of costly services by children – they have argued for a reduction of user charges only.

USA –
Subsidised health
insurance protection
for children

In the US State of Wisconsin, a reform, comparable in direction to the Swedish one, came into effect in the middle of 1999. The rationale behind this reform, which aims to provide health insurance to parents and children not currently insured under a public or private health insurance plan, however, is different: it is a reaction to the US welfare reform bill passed in 1996. As a result of this national reform fewer children of low income families were insured under Medicaid and fewer working-age parents were eligible for health care⁵. The State of Wisconsin and some other states are trying to remedy these problems by creating a health insurance programme for the low-income parents. The “Badger Care” programme established by Wisconsin provides *generously subsidised health insurance protection* for children and their parents with incomes below 185 percent of the Federal Poverty Threshold (or about € 23,400 per year for a family of three). Families who currently participate in “Badger Care” and whose income is above 185 percent of Federal Poverty Threshold remain eligible to participate in “Badger Care” as long as their incomes remain below 200 percent of Federal Poverty Threshold (or about € 25,600 for a family of three). Families with incomes below 150 percent of the Federal Poverty Threshold will not have to pay premium contributions to obtain this insurance. All currently participating families with incomes between 150 percent and 200 percent of Federal

5 As part of the US national welfare reform the Families with Dependent Children programme was replaced by the Temporary Assistance to Needy Families programme, which sharply curtailed low-income families’ eligibility for cash assistance benefits. Before and after the welfare reform, children of low-income families who receive cash assistance benefits were automatically insured under the Medicaid programme – the parents, however, under the former programme only. Although the changes in the cash assistance programmes should affect only the parents’ but not the children’s eligibility for Medicaid benefits, the number of children insured under Medicaid has declined. Many children may have lost their Medicaid insurance because their parents failed to apply for that insurance when they lost eligibility for cash assistance payments.

Poverty Threshold must pay a monthly premium equal to 3.5 per cent of family income.

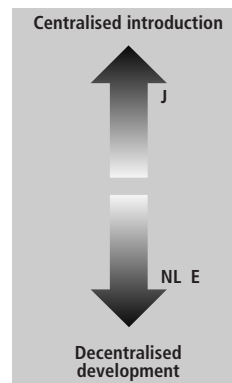
☛ The success of this programme depends however, on the one hand on the degree to which hospitals and other medical service providers succeed in encouraging uninsured patients to apply for the “Badger Care” insurance protection. On the other hand, private employers may be encouraged by the reform to scale back the generosity of their health insurance plans for their low-income workers. If this scenario becomes reality, the cost of the “Badger Care” programme could explode.

As part of the National Strategy for Quality Improvement in the health sector, Denmark started an initiative aiming at the development of indicators which can be used to measure the quality of eleven selected *clinical areas*. A first implementation of such indicators is expected to start at the beginning of 2000. The measures should contain three types of information: the results of treatment, the ability to meet the needs and expectation of patients, and the ability to meet the needs and expectations of the purchasers of hospital services. The aim of the initiative is to set a *national standard for quality*. In addition, individual hospitals should be enabled to compare their quality of treatment to that of other hospitals and the users of hospital services should be provided with better information.

**Denmark –
National standard**

This latter goal is also one of the aims of a second reform of the Danish health care system. In particular this second reform aims to provide patients with better information regarding their own illness and possible treatments (Legal Rights of Patients Act).

☛ The success of the first reform will very much depend on the establishment of effective indicators which can be used to set national targets. There is unlikely to be serious opposition since the group which proposed the reform contained members from most of the relevant organisations.



Japan –
Introduction of
long-term care
insurance

Long-term Care

Reforms concerning *long-term care* issues were reported in three countries. In Japan a new long-term care insurance is introduced at *centralised level*, while the Netherlands and Spain report developments in their current systems. These developments tend towards a more *decentralised system*, which is also more demand-led.

Beginning in 2000, elderly people and people needing nursing care in Japan will be eligible for a benefit payment for both in-home and institutional care services. The benefit will be paid by a newly established long-term care insurance system, which will be based on the principle of collective solidarity. The benefits will be financed 50 percent by the new insurance *premia* and the other 50 percent from the *general budget* of the government. The *municipalities* are to become the insurers.

◉ Although some municipalities have argued against the idea of becoming insurers, so far, this opposition has not had any impact on the implementation of the system.

Netherlands
Demand directed
care system

In the Netherlands the reforms in the long-term care sector are directed at transforming the long-term care insurance system (AWBZ)⁶ to a more *demand directed* care system. As a result of this reform, which started at the end of 1998, the role of the insurer has changed drastically: a centralised system was replaced by 31 *regional “care offices”*. These independent regional “care offices” (under the responsibility of community councils) decide which package of long-term care is most suitable for which patient instead of the former standard package of care (for example, a mix of home and hospital care). Furthermore, new registration systems were introduced. They are supposed to give a clearer picture of the care needed and the number and characteristics of patients waiting for medical care.

⁶ In the Netherlands long-term illness, such as hospital care exceeding one year, long-term nursing home care and long-term institutional care for mentally and physically handicapped persons – the catastrophic risks – are insured by the AWBZ.

❶ Opponents of this reform wonder whether the new institutions will really represent the consumers and if it will be able to guarantee a demand-led system.

In 1997 the Spanish region of *Catalonia* established a new system of fees for users (and their responsible relatives) of publicly-funded social services, such as home-help services, nursing and elderly care services⁷. The fee is calculated according to the user's respective family's income. The *user can choose* between different centres, especially amongst publicly-managed and privately-managed ones and there is an economic *guarantee for users without sufficient resources*. The rationale behind the reform is to improve the system of provision, to introduce more flexibility and to increase the number of privately-managed places of social care services.

First results show that during the first year of the reform the number of places provided in nursing homes and other residential services for the elderly increased by 3 percent (-2,4 percent in publicly managed centres, +2,6 percent in non-profit private centres, and, +5,7 percent in profit-making private centres).

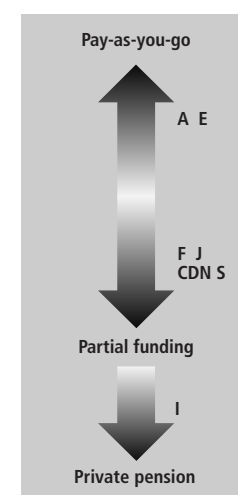
❷ A critical issue of the reform is the complexity of evaluating the financial responsibility of families and relatives and enforcing payments, which produces costs, delays and equity problems.

Pensions Provision

Political discussions in many countries are being increasingly focused on the system for financing *public pension schemes*. Especially in countries with a pay-as-you-go system the method of financing is becoming more and more inappropriate to changed economic, labour market and demographic realities (e.g. slower growth in earnings, and a rapid decline in the ratio between contributors and beneficiaries, a result of the age structure in almost all western societies). Given this background, some countries –

⁷ In Spain nursing homes in the health care system are free, but they only provide care for elderly chronically ill who require continuous nursing for up to three months. The reform described affects only nursing homes and care services under the public system of social services.

Spain –
Fees for publicly-funded provision of care services



such as Sweden, Canada, Spain, and, Japan – started to reform their public pension systems some years ago. However, the reform process in most of these countries is still ongoing. Other countries, like France, are at the stage of discussing precise reform proposals. Most of the reported reforms in this policy field can be characterised as *fundamental reforms*, in the sense that they focus on several aspects of public pension schemes. They involve *financing changes* and *benefit changes*. A significant group of countries is shifting from a pay-as-you-go system to at least *partial funding*. In addition to these reforms of public pension schemes, other countries, such as Italy, report reforms directed at the *private pension system*. And a third group of countries, like Austria, link the reform of their pension system to an *overall change in the whole social security system*, as other social insurance systems face similar problems to those in pensions insurance (see corresponding reforms in the health care sector).

Sweden –
Fundamental reform
in the direction of an
earnings-related
system still ongoing

The reform of the National Basic Pension and the earnings-related National Supplementary Pension Scheme in Sweden started in 1995. The step by step implementation of the reform, however, is still ongoing and will end in 2003. The particular rationale behind this reform is to *improve incentives and cost control* while reducing inequities. One important aspect of the reform was to *make the earnings-related system* the first, rather than the second tier of the pension system. Since the reform, a basic benefit is paid only if the pensioner has little or no earnings-related pension. Another important element of the reform is the shift from a contributory system, analogous to taxation, to a direct relation between contributions and benefits. In the reformed system 16 percent of wages are contributed to a pay-as-you-go system. 2.5 percentage units of the entire contribution will be saved and will earn interest in a *premium reserve account*. Those insured will be able to choose a private investment agent for this part of their pension.

🔍 On the whole the change in the technical logic of the system is so great, and the system so complicated, that it has caused a lot of confusion. In particular, the individualisation of the funded part of the system is very expensive to manage and in the opinion of experts, its merits are yet unclear.

After a substantial reform of the Japanese Public Pension System⁸ in 1994 the Japanese government is going to *reform* its pension system *again*, starting the implementation of new elements at the beginning of 2000. Focal points of the reform are the following: *increased starting age for benefit payments* (earnings-related part) from 60 to 65 years of age, introduction of a gross earnings method for the calculation of the contributions, a ceiling to pension levels, and a more flexible management of *public pension reserve funds*. The latter will be part of a fundamental reform of the fiscal investment and loan system, which is still on its way.

☛ In general labour unions are concerned about the increase of the starting age for benefits payment, while employers' organisations argue that the increased burden on the national treasury should have been financed by raising the VAT.

Japan –
Financing and benefit changes

The implementation of the Canada Pension Plan reform started in 1997 and is going to finish in 2003.⁹ The main changes resulting from this reform are, first, a shift from pay-as-you-go to *partial funding*, based on a more rapid increase in pension premia over seven years. The resulting increased surplus will be invested more broadly than under the old system, in a diversified portfolio of assets. Second, the basic annual exemption (i. e. the earnings level below which premia are not levied) will be frozen at € 2,333 and no longer indexed to wages. The *contribution rate* will rise to 9.9 percent by 2003, and will then be held steady. Third there will be *benefit changes* which will slightly trim future benefits by 1.7 percent. A number of other issues (such as the partial pension) have not however been addressed by this reform, but are on the agenda for review

☛ In general experts evaluate the combination of major financing and minor benefit changes as appropriate measures to meet the overall objective of this round of reforms. However, it is noted that the impact of the financing changes is regressive, weighing heaviest

Canada –
Partial funding and minor benefit changes

8 The Japanese pension system can be described as a two-tiered system with a basic benefit and an earnings-related part.

9 The Canada Pension Plan forms the second tier of Canada's retirement income system. The first tier are federal income-tested elderly benefits paid to all but well-off seniors. The third tier are private pensions.

on lower-wage workers and self-employed and thus indicating the necessity for further reforms.

France –
Concrete proposals
such as introducing a
reserve fund

In France the discussions on new reforms in the field of the public pension system are still ongoing. The government plans to come up with a proposal on the content and the time schedule of the reform at the end of 1999. However, in the “Rapport Charpin” the Central Planning Commission is already offering concrete proposals. One of the major changes is the recommendation to introduce the *funding principle* into the pension system, through the creation of a contribution-based reserve fund within the pay-as-you-go-system. Another important message of the report is the necessity to revise the rules applied to *special schemes* (such as those for civil servants and employees of state-owned firms), to clarify the magnitude of advantages granted to each category of workers and investigate to what extent the risks or disadvantages specific to these occupations can be justified. Additional proposed changes include the gradual increase in the period of contributions necessary to qualify for a full pension and better certification of some periods of inactivity such as apprenticeship, training or unemployment.

► Opponents of the reform argue that the proposal is based on the assumption that there will be no major change within the labour market, that it is based on simple arithmetics excluding any self-regulating mechanisms, and that in particular, it does not take account of the current process of reorganisation/reduction of working time.

Spain –
Separating sources of
income and reducing
benefits

The reform of the Spanish pension system¹⁰ started in the middle of 1997. In contrast to pension reforms in other countries, the Spanish reform does not involve a major shift to (partial) funding. Rather the reform includes as a first element a separation of sources of income: the universal benefits received by persons who have not contributed will be financed by *state taxes* and the contributory

10 The Spanish pension system is a three-tier system. The first tier provide earnings-related benefits, the second tier is a non-contributory system to compensate for lack of income and the third tier are complementary private pension schemes.

system will be financed by *social contributions* by employers and employees. The second element is a new balance between lifetime contributions and pension benefits, and is intended to reduce benefits, mainly by a gradual increase in the *period of qualifying contributions* that is used to determine the pension. Apart from this reform, a further political goal of the Spanish government is to promote *complementary pension schemes*. Since 1998, some of the difficulties in the legal framework for these complementary funds have been addressed, and the legal reform process will be completed in the near future.

◉ The strongest opposition to the reform relates to the excessive cuts in future pensions; it is also argued that the reform has not addressed other modifications considered more necessary (e.g. integration of special social security regimes).

The reported Italian pension reform is intended to create and develop a *private system of pension funds*. The reform proposal, which is still waiting approval by parliament, aims to do this by giving more fiscal incentives to pension fund savings, especially in contrast to other forms of long-term financial investment. Apart from this the reform is also meant to create a more homogeneous and transparent system of *capital income taxation*. In general the reform will improve the fiscal position of incomes deriving from instruments providing resources for retirement. This includes improved *tax relief* for pension fund contributions paid by employees and employers. There will be new special tax regulations in favour of annuities distributed by pension funds and benefits distributed in the form of capital (e.g. the proportions of annuities and benefits corresponding to the interest accumulated on contributions to pension funds are tax-exempt). *Life insurance policies* with pension goals will be taxed in the same way as pension funds. For other life insurance policies there will be much fewer tax incentives. The same is true for taxation on *severance pay*¹¹.

Italy –
New tax incentives in favour of (private) pension funds

11 Severance pay is a peculiar institution of the Italian system of industrial relations. It can be considered as a deferred salary and a form of forced saving with the purpose of creating a stock of wealth at retirement.

► Opponents of the reform have issued a warning of the possibility of “tax evasion”, as life insurance policies of different nature can have the formal structure of those subject to the lightest fiscal regime.

Severance pays and pension funds: new incentives

Along the line of creating and developing Italy’s private pension system another reform, which particularly focuses on *severance pay*, is to be implemented from the beginning of 1999. This reform intends to *encourage pension funds* in addition to the fiscal incentives described above. The novelty is, that on the basis of free mutual agreements between employers and employees, the amount of severance pay accumulated from 1999 to 2002 can be transformed *directly* into shares and/or bonds issued by the firm, which are then transferred to the pension fund which the firms are in.

► Experts, however, have their doubts, if four years of implementation are sufficient to bring about significant effects.

Austria – Social security coverage broadened

As part of its pension reform Austria aims to *broaden its social security coverage* to new groups. Besides more technical changes concerning early retirement, for example, Austria’s pension reform is designed to broaden the insurance schemes’ contributor base, in particular for pensions (and health) insurance. In addition the reform aims to erode some of the incentives for *employees working less than 13 hours per week* or earning less than a certain amount per month (“minor employment”) and for *spurious self-employment*. As in other West European countries these types of employment status had begun to proliferate in Austria. Since the beginning of 1998, part-time employees and self-employed are no longer exempted from social security contributions. As soon as an employee’s monthly wage bill exceeds 1.5 times the “minor employment limit”, employers have to pay their share of the social security insurance contribution. The employees, however, can contribute to social security on a voluntary basis. For the self-employed there are two different regulations, referring to two different groups of self-employed. For the so called “*freelance workers*”, who work independently but for the most part on the employer’s equipment and at the employer’s risk, the employer has to contribute a total of 17.2 percent of the free employee’s remuneration to pension,

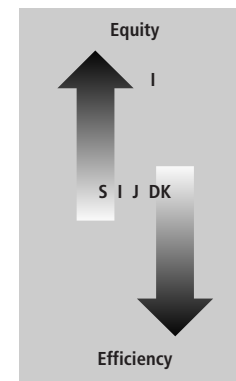
health and accident insurance, the employee another 13.5 percent. The so called “*new self-employed*”, earning more than € 6,453 per year, have to contribute 15.5 percent to the pension insurance and 9.3 percent to the health insurance.

⦿ Although this reform is an attempt to widen the income base of the insurance schemes, experts consider it half-hearted and too complicated to be administered.

State Welfare

Most of the reforms reported in the field of state welfare focus on issues relating to a country’s *social assistance programme*. It is characteristic for almost all the countries reporting reforms in this policy field, that they try to achieve a *better distribution* of social benefits and an increase in the *efficiency of resource allocation* in the welfare sector, although the ways in which they do this show a broad variety of alternatives, from strengthening the user’s role (e.g. Japan) to ending with a clearer definition of benefit levels (e.g. Italy and Sweden).

The Act on Active Social Policy, implemented at the beginning of 1998, is part of a larger Danish reform package to revise the entire legislative base of social service and assistance – indicating a change in *attitudes* towards these provisions. The revision especially emphasises the connection between *rights and responsibilities*. One of the most important aspects of the Act is the increased emphasis on “*social activation*”, i.e. direct or indirect activities aimed at raising the recipient’s abilities to establish or re-establish a connection to the labour market and the society in general. A major element, which is under discussion in the Danish public, is the *compulsory nature* of activities: recipients of social assistance have the right and the obligation to participate in activities for a minimum of 30 hours per week. Failing to fulfil this obligation can lead to withdrawal or reduction in social assistance. The Act also increased the emphasis on so-called “*flexijobs*”, created and subsidised at ordinary workplaces for people with a permanently reduced working ability.



Denmark –
Right and obligation
for (social)
'activation'

So far, only a few thousand people are employed in “flexijobs”. However, the target of the government is that 30,000 to 40,000 new “flexijobs” should be created before 2005.

◉ In general some politicians, especially on the left of the political spectrum, have criticised the “flexijob” scheme as being a poor substitute for creating a fairer labour market. Those on the right of the political spectrum criticise the scheme for failing to address the problems on the labour market caused by rigid wage structures.

Italy –
Implementation of a
minimum income
support

Having been the only European country apart from Greece without a minimum income support programme, Italy will start the implementation of such a programme in 2001. Currently 39 municipalities are involved in an experimental phase. This minimum income support will provide a *differential benefit*. The willingness to work and participate in training programmes will be a precondition for obtaining the benefit. The cost of minimum income support will be borne mainly by the central budget (90 percent) and to a minor degree by local budgets (10 percent).

◉ The major argument against the reform is the availability of resources to fund this programme subject to the government budget constraint.

Introduction of an
economic condition
indicator

Another Italian reform currently at the experimental stage is the introduction of an *economic condition indicator* (ISE), which helps to select applicants for social benefits on the basis of a more equitable and efficient means-testing indicator. To calculate ISE, *household size*, *family income* and *family net wealth*, and other socio-demographic conditions will be taken into account. Although the indicator will be a general selection instrument, the local administrations that provide social benefits specify the eligibility criteria (e.g. the value of possessions calculated in accordance with specific provisions). The indicator might also be used to differentiate the prices of public utilities (e.g. electricity charges) according to the user’s economic position. For the health care sector it has already been decided to use it to determine charges to patients.

◉ In the view of experts the success of the reform depends very much on efficient monitoring of information given by applicants. Such a control, however, might be limited by the law on privacy.

Since the beginning of 1998 there have been new standards and procedures for paying social assistance benefits in Sweden. Overall this Swedish reform resulted in a *clearer national standardisation* of benefit levels.¹² The reform defined *three different levels* of benefits: benefits for basic needs, benefits for longer-term needs and other benefits. With the first there is no local discretion; with the second there is some local discretion accompanied by an appeals procedure; with the third there is full local discretion.

► Some critics argue that there is too little local discretion, others that there is too much.

Sweden –
Clarification of social assistance benefits at different levels

In another reform of the Swedish housing allowance, the primary focus was on a clearer targeting of social benefits as well. The most important change concerning this benefit was a new way of assessing and controlling the income and benefit levels. Since 1997 the allowances have been calculated on the *predicted income* of the recipient, who has to pay a supplement if actual income is higher.

► Opponents of the reform argue among other things, that the yearly assessment of incomes is too rigid when it comes to dealing with the economic problems of low-income people.

New way of assessing housing allowances

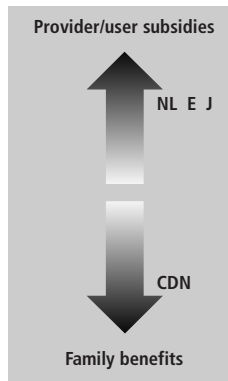
In Japan a reform of the social welfare system is currently at the discussion stage. The reform's objective is to establish a system which respects the *choice of the individual*.¹³ Although there are as yet no final decisions on concrete measures, it is already decided that in the new system the person who receives the welfare service will select their own services, use them according to a contract with the party which supplies them and pay part of the costs to the provider.

► So far, there has been no criticism of the reform. As the detailed changes in the system become clearer, more debate in society is expected.

Japan –
Increasing emphasis on choice

12 Social assistance has a strong decentralised tradition in Sweden.

13 Before the reform, specifically in case of services requiring institutionalisation, the Japanese government assessed the need of the person in question, suggested an appropriate institution and reimbursed the providers for their costs. In return the user had to reimburse part of the cost to the government.



Netherlands, Spain, Japan –
New measures in favour of non-parental and parental child care

Canada –
New child benefit regulations: close federal-provincial collaboration

Family Issues

In the field of family issues, the reforms reported reflect the variety of possible measures in favour of families: a *subsidy for non-parental* (the Netherlands) or *parental child care* (Spain and Japan) and *benefits to families with children* (Canada).

In the *Netherlands* different measures, such as additional possibilities for firms to subtract the cost of their staff child care facilities from taxation, additional possibilities for parents to subtract their day-care costs from income taxation and subsidised child care for mothers on social assistance, aim to *double places in non-parental child care*. In *Spain* – as one part of the active employment policies – contracts for employees recruited to replace those on maternity leave are *exempted* from the employer’s *social security* contribution. And as part of *Japan*’s pension reform, enterprises are *exempted* from paying the employer’s portion of the pension insurance fee during *child-care leave periods*.

In Canada the reform of the two existing child benefit systems seeks to provide an equal, income-tested, and tax-delivered child benefit to all low-income families with children¹⁴. Up to 1997, the year when the first stage of the reform was implemented, families on welfare received about double the amount of child benefits as other low-income families, because they received *provincial welfare benefits* for their children as well as *federal child benefits*. Working poor received the latter only. Therefore in the old system the child benefit was part of the “welfare trap”, decreasing the incentive to work. In the new National Child Benefit System the federal Child Tax Benefit and the welfare-delivered child benefits will be replaced by a *Canada Child Tax Benefit*. Provincial and territorial governments can redirect their welfare savings – resulting from increased federal child benefits – to spending on other programmes for low-income families with children (e.g., income support, health, social and employment services). Overall, the National Child Ben-

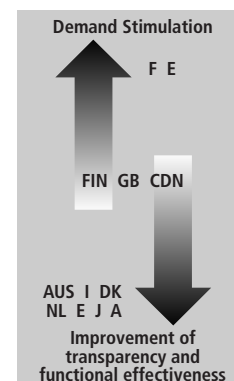
14 The old and new Canadian child benefit systems serve eight in ten families (with low and middle incomes), excluding only those with high incomes.

efit is the first positive initiative of the new “Social Union Framework” (i.e., new federalism) involving close federal-provincial collaboration in Canada, and an example of the way in which duplications and overlaps in family and welfare programmes on the federal and provincial/territorial level could be removed, to begin a fundamental restructuring of income security policy for families.

► Opponents argue that the reform discriminates against families on welfare, because they will see no net increase in their child benefits (their provincial welfare benefits on behalf of children are being reduced by the amount of increase in their federal child benefits), unlike working poor and other low-income families not on welfare.

2 Labour Market Policy

In the broad field of labour market policies *two major groups* of reported reforms could be distinguished, reflecting two possible types of active labour market policy. The first group concentrates on a *stimulation of demand for labour*, by measures such as wage subsidies or the removal of employers' obligation to contribute to social security. The French and Spanish reforms aim to create new jobs and reduce unemployment by relaunching the process of reducing *working-time* with new or additional regulations at federal or regional level. Great Britain and Finland aim to increase the demand for labour by subsidising the employment of particular groups in the labour market. A second group of measures improves the *transparency and functional effectiveness* of labour markets. Australia and Italy are reforming their *systems of employment programmes* by means of *fewer regulations and more privatisation*, whereas the Canadian and Danish reforms are designed to cope with the unemployment problem by a set of *instruments*, such as (re)training programmes. Another subgroup of labour market reforms – which address the unemployment problem as only one among other focal points but which also aim to increase *transparency and functional effectiveness* – can be summarised under the heading of new measures concerning “*flexicurity*”. The Netherlands and Spain report reforms which pursue a new balance



between labour market flexibility and increased security for workers (especially those in precarious situations). The increasing importance of the *service sector* is part of the rationale behind the labour market reforms in Japan (increasing flexibility) and Austria (reforming vocational training).

France –
Second law on
reduced working
time

In France the reform process of reducing weekly and annual working time is still ongoing. In 1998 the government announced the new normal weekly working time of *35 hours* and offered incentives (mainly through relief from social security contributions) to companies which embarked on a process of working time reduction and the creation of additional jobs; a *second law* is currently being prepared and is expected to be passed by the French parliament before the end of 1999. Based on the 1998 regulations, the normal weekly working time will be 35 hours for companies with more than 20 employees from 2000 onwards; for smaller companies the start will be 2002. In between, negotiations with trade unions are encouraged – at both sectoral and company levels – on the modalities for the working time reduction. The second law will take stock of *agreements already concluded* and set out the *new rules* to be applied to different aspects, such as variations in working time over the year, specific rules to be applied to part-time jobs, overtime, minimum wage, application to managers and professionals, and vocational training.

Moreover, the second law will specify the year 2000 as a transitional period for companies with over 20 employees (2002 for others), when *overtime* of between 35 and 39 hours a week will be subject to an additional 10 percent charge. At the end of this transition period, overtime will be charged at an extra 25 percent. So far, it is estimated that the reform has resulted in about 57,000 jobs, which have either been created (3 out of 4) or maintained (1 out of 4) for 1,142,427 workers concerned by the agreements. To date, 4,000 company agreements and 69 sectorial agreements have been concluded.

◉ Arguments raised by opponents cover a variety of issues, such as the well-known critique, that the increased labour costs caused by such a reduction in working-time threatens the competitiveness of firms and that such regulations increase the complexity of em-

ployment legislation, which is quite the opposite of what is supposedly needed by firms to obtain more flexibility. Nevertheless, some experts argue that while the reform may not create significant short-term employment increases it should do so in the longer run.

Inspired by the French reform of working time, *eleven regional governments* in Spain, together with the trade unions and in some cases with the employers' organisations, have signed agreements for the creation of new jobs based on a reduction and restructuring of working time (in most cases between 1998 and 1999). The *contents* of the different agreements *vary* from measures with a limited impact to those, as in Andalusia, with much more wide-ranging effects. In Andalusia, agreements provide financial incentives for employment creation by measures such as the introduction of a 35-hour week, reducing overtime, and filling vacancies.

❶ The main criticism of the reform comes from employers' organisations. Some of them have adopted these reforms, but with reservations and subject to agreement by individual companies.

As part of their "welfare to work" policy, the British Labour government started its "*New Deal*" programmes in 1998. The long-term aim is to *reduce unemployment* and welfare dependency, to enhance *labour market flexibility* and to lead to a highly skilled workforce. The first two target groups – young adults (aged between 18 and 24) unemployed for six months or more, and older adults unemployed for two years or more, *have to choose* between subsidised employment in the private sector, subsidised and temporary work in the voluntary or environmental sector, and full-time education or training. Failure to participate can lead to a two-week *loss of benefits*. The other two target groups of the reforms, one parent families and disabled persons, have *greater freedom of choice* between work and continuing to receive benefits.

After more than one year of the "New Deal", first results show a significant widening of access to training schemes and movements from benefits into work. By November 1998, 100,000 unemployed young people had moved on to one of the four options, and

Spain –
Eleven regional agreements on reduced working time

Great Britain –
"New Deal"
programmes: first results

60,100 adults had done so, with 4,200 finding jobs. Employers showed considerable interest, but with more favourable attitudes towards younger than to older unemployed people.

► One of the most controversial issues of the reform was and still is the emphasis on compulsion. Although the gateway offers options, these are cascaded so that paid work is the preferred first option to voluntary work, education and training. According to some experts this is counter-productive to the aim of getting a highly skilled work force.

Finland –
Shift to services in order to support job-seeking efforts

Finland has been reforming its employment policy system since 1998, and the changes will be fully in force by the beginning of 2000. The aim is to shift the emphasis of labour market policy from subsidised employment and labour market training to *services, in order to support the job-seeking efforts* of the unemployed. The reform involves improvements in the unemployment service procedures, such as regular in-depth interviews of the unemployed, the introduction of “skills charts”¹⁵ and job-seeking training. Since the reform, the labour market support, designed for those persons no longer eligible for unemployment benefits, and the employment subsidy can be combined and paid *directly* to employers in the private sector and in municipalities employing such persons. In these cases the duration of this subsidy is twice as long as the “normal” subsidy.

As a first result of the “combined subsidy”, a total of over 10,000 persons have already obtained employment.

► There has not been any major opposition to the reform. However, Finnish experts argue that even lower replacement rates of the unemployment benefits would have a larger effect.

Australia –
Set up a market for the provision of labour market programmes

The intention of a recent Australian labour market reform is to set up a *market for the provision of labour market programmes*. The reform is intended to break the previous welfare culture, which was attached to a single government agency, and to ensure that

15 The know-how, education and past work experience of the unemployed are reviewed in the employment office. On the basis of this, also an evaluation of the need, scope and contents of his or her future training is made.

labour market assistance has a clear focus on real job outcomes. Since the middle of 1998, “*Job Network*”, a new network of about 300 private, community and government organisations has replaced the previously centralised and government-controlled apparatus for running labour market programmes, such as job placement, training and retraining, wage subsidies and job creation programmes. The idea of setting up an employment placement market is realised in such a way that potential providers, employment placement enterprises, compete for the provision of job placement services for the unemployed. Contracts will be awarded by tender, with selection based on performance, quality, and price. Once a year a new tender is agreed and will determine which enterprises will be part of the “new” Job Network. Labour market assistance will be defined for regional labour markets. Fees will be set for clients based on the achievement of defined categories of outcome.

◉ Although it is too early to evaluate the programme, some experts do not think the reform will lower unemployment much, as the fundamental reasons for high unemployment have little to do with the way labour market programmes are delivered.

Italy commenced a reform at the end of 1997, similar to that in Australia, designed to *decentralise* the *public employment services*, training and re-training services. The regions are supposed to become the administrative units, which will organise “Employment Centres” distributed at local level. Such “Employment Centres” should be able to focus on the issues of local labour markets. Up to now some regional employment agencies (mainly in the North of Italy) have started to develop programmes able to provide effective services to unemployed people and firms with skill shortages. In addition a further reform goal – not yet implemented – aims to set new conditions for the coexistence of private and public employment services and to remove *administrative obstacles* to the operation of private services.

◉ Overall there is no overt opposition to the reform. The obstacles are mainly due to resistance to organisational changes within public administration at both central and local level.

Italy –
Decentralisation of
public employment
services

Denmark –
Right and obligation
for young
unemployed for
training or education
broadened

The Danish “Youth Effort”, implemented in 1996, was extended in 1999 to young unemployed people who *have already completed basic training or education*. The “Youth Effort” in its original version was restricted to young unemployed people under 25 years of age, who had *little or no basic training or education*. If these two groups of young people have received unemployment benefits for more than six months in a nine-month period, they now have a *right and an obligation* to start a course of training or education of at least 18 months’ duration. Those who refuse lose their entitlement to unemployment benefits. Whilst in training or education the unemployment benefit is halved, to equal normal student grants.

To the extent that the original programme can already be evaluated, surveys show that the “Youth Effort” has not only made young people more inclined to start basic vocational training or education, but has also had a positive effect on their employment prospects. It should however be mentioned that these findings derive from relatively small samples.

► The reform was nevertheless criticised both for its compulsory nature and for forcing young people who had previously enjoyed a normal working income to live on a substantially lower income whilst in training or education.

Canada –
Community-wide
poverty reduction
initiative: “Opportu-
nity 2000”

Canada is a good example of a single *regional initiative* to reduce poverty and *get unemployed people back to work*. “Opportunity 2000” is a four-year initiative in the Waterloo Region (Ontario), which started in 1997. It is sponsored by a non-profit community economic development agency. So far, the programme has initiated a variety of activities. Among them is an active *leadership round-table* (involving business, community groups and government representatives), the development (by a committee of business representatives) of a *human resources manual* on exemplary employment practices for distribution to other employers, the establishment of *several partnerships* to work on poverty reduction through local economic development, training, job search assistance and loans for business start-ups, and the *raising of more than –1.3 million* to support the project. Overall “Opportunity 2000” can serve as model for a new form of community economic development that includes public/private partnerships.

❶ Critics of the reform argue that this type of community-based poverty reduction initiative might encourage governments to invest less money in income security and social services, because of the project's success in raising private money to support its work.

The background of a recent Dutch labour market reform is the increasing importance attached to the concept of “flexicurity”. This concept tries to link a number of previously separate areas of policy-making, such as *flexibilization and deregulation* of the labour market on the one hand, and employment security and the concern for the negative consequences of flexible employment on the other hand. Correspondingly, the new Flexibility and Security Legislation¹⁶, which has been in force since the beginning of 1999, is meant to provide a stronger legal position (i.e., employment security) for *atypical workers*, such as agency workers. At the same time the new law aims to enhance labour market flexibility by (slightly) *reducing dismissal protection* for regular employees and giving more leeway to *temporary work agencies*. In general the new law has introduced a great number of new provisions and altered many existing provisions. Among them are the definition of a worker's agreement with a temporary work agency as a contract of employment, the right of “on-call workers” to receive a minimum of three hours' pay each time they are called in to work, the withdrawal of the obligation for a temporary employment agency to be in possession of a permit, the abolition of the maximum term for this type of employment (formerly 6 months), and the shortening of the period of notice of dismissal.

Although it is too early to report on first results, an initial study shows that only small groups of agency workers were affected by the reform – both in a positive and negative sense.

❷ In general many employers and temporary work agencies criticise the new law for producing an increased administrative burden, more rules and discontinuity within firms.

Netherlands –
“Flexicurity”:
a new paradigm?

16 The Dutch Flexibility and Security Legislation benefited greatly from the efforts by the social partners, who reached agreement on this topic in the “Labour Foundation” (*Stichting van der Arbeid*).

Spain –
Incentives for the
promotion of
indefinite contracts

In Spain a reform to reduce the *high rate of temporary work*¹⁷ was implemented in 1997. Up to now further changes concerning temporary work regulations are still ongoing. In general the reform is intended to promote permanent contracts for the groups of unemployed with difficulty in achieving this type of work contract. Although there is no explicit reference to the *flexicurity* concept the measures implemented to reach these goals fit into the flexicurity framework. On the one hand, there are incentives to offer temporary contracts to the target group through a 40 to 60 percent reduction in employers' social security contributions; the incentives introduced in 1999, however, are smaller than those introduced in 1997. On the other hand, there is a reduction of the costs of dismissal: under some conditions, compensation for unfair dismissal is less in the case of new permanent contracts than for other permanent workers.

First effects of the reform show an increase of almost one million new permanent contracts.

► However, these figures show a fairly recent development and are, above all, too modest to have a clear impact on the rate of temporary jobs.

Better protection and
new fiscal incentives
for part-time jobs

Another agreement between the Spanish national government and the two main trade union confederations was signed in 1998. This agreement also corresponds to the “flexicurity” concept, but again only implicitly; it aims to improve the *quality of part-time work*, combining the labour flexibility demanded by companies with guarantees of non-discrimination and equal treatment for the workers, in particular in the field of social security entitlements.¹⁸ It specifies that the part-time working day cannot exceed 77 percent of the full-time working day. Other contractual issues, such as overtime, and social security coverage, are regulated as well. In 1999, the Spanish parliament passed a new law comple-

17 In 1996 this sector represented 33.3 percent of the paid population in Spain, three times the European average.

18 Compared to other European countries there is relatively little part-time work in Spain. In 1998 8 percent of the employed population worked part-time, compared with the EU average of 17 percent. One reason for this is seen in the low level of social protection for part-time workers in Spain.

menting this reform with incentives for initiating *permanent part-time contracts* and for converting temporary part-time contracts into permanent ones during the year.

Although the reform is very recent, first data seem to indicate that the new part-time contract reform has been well received by companies, despite the opposition of business organisation and the complex regulatory framework.

► According to some experts, the reform has not resolved the basic problem with part-time work, which is shown by the fact that most part-time workers accept this kind of work because they have no other option.

The reported Japanese reform is designed to *relax the regulations on working time* such as the so-called “discretionary work scheme”¹⁹. Additionally, the goal is to relax the regulations on individual employment contracts. The background of the reform has to be seen in the light of the recent socio-economic changes, which have resulted in increased *diversification of working styles* and employment relations. Major amendments in the reform, which came into effect in 1999, cover a diversity of very different issues. Among them are the possibility to extend the period for temporary working contracts up to three years (instead of one year), *more flexible* requirements for *averaging working hours* on a monthly basis, and the introduction of a statutory basis for overtime working. Moreover, *overtime, holiday and late night work restrictions* for women workers were abolished. The elimination of these restrictions took place in line with the 1998 revisions to the *Equal Employment Opportunity Law*²⁰. Another amendment which will come into effect in 2000 will expand the coverage of “discretionary work schemes” to planning staff and the like.

**Japan –
Deregulation of
employment
contracts**

19 The term “discretionary work schemes” in Japan stands for the following working time regulation: When an employer assigns a worker to duties for which the means of accomplishment and allocation of time must be left largely to the discretion of the employee, the working time of such an employee shall be regarded as the number of hours set forth in a particular agreement, even if the employee work longer than the number of hours set forth in the agreement.

20 This law also widened the scope of prohibition against discriminatory treatment in respect to recruitment, hiring, work assignment and promotion.

► Among all the changes the expansion of the coverage of “discretionary work schemes” was one of the most debated issues among employers and labour unions. Therefore a revision of the reform expanded the coverage of these schemes with a number of safeguards such as the requirement that a worker-management committee should determine the implementation of this scheme.

Austria –
Training curricula for
new occupations

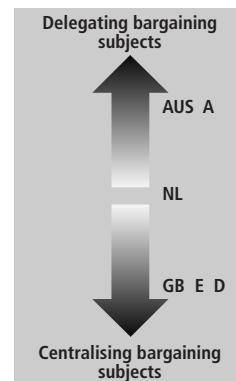
The Austrian government has been reforming its training policy to reflect the increasing importance of the service sector and other significant developments in the economy. In order to create additional opportunities for *apprenticeship and training*, new occupations were added to the catalogue of occupational qualifications in 1997. Existing ones were either combined or subdivided. New training curricula have been designed.

However, this initiative by the Ministry of Economic Affairs has resulted in only about 3 percent of additional apprenticeships in new occupations.

► Given this fact, it is argued that the measures have been on too small a scale to improve the competitiveness of the apprenticeship system.

3 Industrial Relations

Industrial relations issues can be regulated by *national law*, they can be fixed by *agreements between the social partners* or they might be the result of agreements at the *level of individual firms*. This diversity of the possible means of regulating issues – which affect the relations between the unions, the employer’s federations and other intermediaries on the one hand, and between employers and employees on the other – is reflected in the reforms reported in the field of industrial relations. Australia and Great Britain report reforms based on national legislation; the Austrian, Spanish, and German reforms are the results of agreements between the social partners (and in some cases the government) and the Dutch “employability” reform is an example of a topic which is reflected in agreements at both national and firm level. The *content* of the various reforms covers a *wide range* of regulations. There is one group of reforms *delegating* more bargaining power to the *firm level* (e.g., Australia and Austria). Another group of reforms *centralises* specific bargaining subjects at a *higher level* (e.g. Great Britain, Spain, and in a way Germany as well).



In Austria the Industry Federal Section of the Austrian Chamber of the Economy, the Union of Metal, Mining and Energy Workers and the Industry Section of the Union of Salaried Employees

Austria –
“Distribution option”

negotiated wage and salary collective agreements with a so-called “*distribution option*”. This option opened the possibility for works agreements to limit the *across-the-board rise* in the actual wages to 1.9 percent (instead of 2.1 percent) if the company agreed to raise the total payroll by an additional 0.5 percent. This additional percentage is to be distributed to groups designated in the works agreement, but principally in line with criteria of *low income* and *high performance*, favouring women in particular. However, the application of this option is limited to companies with a works council, as these alone are empowered to sign such agreements.

In 1997, the first year in which the “distribution option” became possible, it was used by 144 companies out of about 530 which had a works council. A renewal of this agreement in 1998 was less effective: only 100 of the eligible companies reported a “distribution option”.

► In evaluating the “distribution option” experts argue that this scheme is unworkable when overall wage increases are very low, since a meaningfully sized option would then erode too great a part of the overall increase.

Australia – Simplification of the federal award system

The intention of Australia’s new Federal Workplace Relations Law, which came into effect in 1997, is to increase the *flexibility of wage and employment conditions*²¹. In particular the legislation aims to provide a more favourable environment for enterprise bargaining. The former award system was considerably simplified to operate as a *safety net* of fair and enforceable *minimum standards* including pay, leave, and other key conditions. Other employment matters are to be settled at enterprise or workplace level whether formally or informally. Other aspects of the reform include new regulations in the unfair dismissal legislation and the harmonisation of federal and state industrial relations systems.

► Unions, however, are concerned that the reform will result in a loss of horizontal equity, while other experts think it will prove a valuable component to revive the Australian economy.

21 Formerly Australian wages and work conditions were specified in a complex system of highly prescriptive centrally determined awards, based on compulsory arbitration by the Federal Industrial Relations Commission and similar bodies in the individual states.

In April 1999 a *national minimum wage* was introduced for Britain's employees. This minimum wage initiative corresponds to the general policy orientation of the current government, which favours labour market flexibility but also believes that the state should underwrite *certain minimum standards*. The minimum hourly rates of pay are set by the Secretary of State, on the advice of the *Low Pay Commission* (LPC), which comprises academics, trade unionists and employers. The current regulations consist of a minimum hourly rate of –5.46 for those aged 22 and over and a “development rate” of –4.55 (rising to –4.85 in April 2000) for those aged 18 to 20. There are special regulations for those receiving training or who have just started a new employment. Employers can be fined for failing to pay the specified minima and for failing to maintain adequate records.

The LPC estimated that about 2 million employees (9 percent of the labour force) will be affected by the minimum wage. About half of those will be part-time female workers, mainly in sectors such as hotels and restaurants, clothing and footwear, and cleaning and security.

► Even if most employers dislike the principle of the minimum wage, in general they are content with its application. The main employers' organisation (CBI) referred to the current minimum wage level as “the top of the acceptable range”. Although it is too early to evaluate this reform, employee representatives in particular are concerned that some employees may be pressured to work unpaid and unrecorded extra hours, because the legislation does not require additional payments for overtime, shift-work or unso- cial hours.

The Spanish *Interconfederal Agreement on Collective Bargaining* of 1997 (signed by most representative business and union organisations) *defined a new structure* for collective bargaining.²² Its objective was to distribute subjects among the different levels of negotiation for reasons of specialisation. Among the subjects to be reserved for national sectoral collective agreements are form of

Great Britain –
National minimum
wage: takes effect in
1999

Spain –
Reference framework
for collective
bargaining: first
applications

22 Until the Interconfederal Agreement on Collective Bargaining, collective bargaining in Spain was disjointed and without any framework regulating its content.

contract, salary structure, the maximum working day, and job security.

In 1998 the metal workers trade unions and business organisations signed an agreement on the structure of collective bargaining. It was the first agreement of this type following the 1997 agreement. Up to now 12 new sectoral agreements have been negotiated, as well as changes in the structure of three other sectoral agreements. ► However, the list of subjects for negotiation is not binding and is merely a set of recommendations for the bargaining parties. Therefore experts argue that the impact of this agreement depends on the will and commitment of the parties involved.

Germany –
“Alliance for Jobs”

Inspired by the Dutch “Labour Foundation” the German government initiated the so-called “*Alliance for Jobs*”. The objective of the “Alliance for Jobs” is to get both social partners and the government at one table to discuss and decide on proposals to deal with the persistently high unemployment in Germany. A first meeting of its members – senior representatives of the *government, trade and employer’s associations* and *trade unions* – took place at the end of 1998. The alliance’s structure consists of various committees at different levels and for different topics (e.g. training, tax policy, pension reform, unemployment insurance, and working time policy. One of the expert groups is the “*Benchmarking Group*”, to which the participating organisations send academic and other experts. The purpose is to identify problems and to establish a uniform set of data and economic indicators, thus creating an agreed database for future action. As a result of the first meeting of the highest level committee the trade unions and the employers’ confederation issued a joint statement developing common orientations for *wage determination and collective bargaining*. In addition the work of the various committees resulted in a new proposal for making *part-time work by elderly* employees more attractive for small and medium-size companies. Other results of the alliance’s work is the trade associations’ promise to establish an additional *10,000 apprenticeships* and a “*consensus on training*”, which supplements the government’s programme of “*100,000 jobs for young people*”. ► As the German principle of “*Tarifautonomie*” (free collective bargaining) does not give the government the right to control wage

determination, the alliance's success very much depends on the goodwill of the social partners.²³ Moreover, experts doubt if the alliance will become a success.

The notion of “*employability*” underlines a recent and general concern in almost all European countries: the nature of the internal labour market within firms is changing and *life-time employment* can no longer be guaranteed. There is a common consensus that an adequate labour market policy should therefore enable people to acquire the necessary skills and competence, to overcome a period of unemployment and to change jobs within a short period of time. Given this background one of the four pillars of the *European Community's employment policy* is “employability”.

In the Netherlands, “employability” has increasingly become a subject for political and public discussion in the field of industrial relations. In the current Dutch *National Action Plan for Employment*, six guidelines have been formulated under the pillar “employability”: guidelines relating to policies for different age groups of long-term unemployed, new training instruments for short-term unemployed, an increase in apprenticeship places, a further development of possibilities for life-long learning, and an attempt to improve the quality of the national educational system. But the issue of employability has not been taken up by the government alone, it is an issue in many *collective wage agreements* as well, though its impact varies. In companies like Philips, Unilever, AKZO Nobel, and the Dutch railways, the issue of “employability” is at the top of the *personnel policy* agenda. Philips, for example, published a document “Employability, a necessity”, written by staff of the firm's personnel department and the trade unions. This document received national attention.

► Critics of the “employability concept” address a variety of issues: some argue that it is only a label that is too general and notoriously vague, others complain that the “employability concept” has been implemented in the form of company-specific training, but that other priorities are far more difficult to realise.

Netherlands –
“Employability”: a
new concern in
industrial relations

23 This is of particular interest as the Dutch “Labour Foundation” owes its success largely to the government's power to influence wage determination.