

International Reform Monitor

Bertelsmann Stiftung (ed.)

International Reform Monitor

Social Policy
Labor Market Policy
Industrial Relations

Issue 10
2005

Bibliographic information published by Die Deutsche Bibliothek

Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available on the Internet at <http://dnb.ddb.de>.

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Cover illustration: Thomas Kunsch, Bielefeld

Typesetting: digitron GmbH, Bielefeld

Printing: Hans Kock Buch- und Offsetdruck GmbH, Bielefeld

ISBN 3-89204-780-4

www.bertelsmann-stiftung.de/verlag

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Introduction

What is the optimal scope for reforms?

While creating, enacting and implementing reforms is always a tough business, this is especially true for comprehensive initiatives that aim at overhauling entire branches of the social security system or large areas of the labor market.

This issue of the Reform Monitor contains an unusual array of such reforms: reforms that had advanced very far in the political process but were canceled nevertheless before they could finally be enacted. Most spectacularly, in Switzerland, the comprehensive reform of the national health insurance system failed due to the lack of parliamentary support in the decisive vote on the respective bill. In the same country, the federal pension scheme was rejected in a popular vote, an event less extraordinary. In Japan, comprehensive pension reform has stalled after a fierce internal fight between the ruling parties and after meeting with opposition in parliament over peripheral issues. Pension reform itself will continue to dominate the political debate, as it did in 2004.

It is by no means a new phenomenon that governments face enormous difficulties in conceiving and, first and foremost, seeing through far-reaching reforms with a broad impact. Thus the question arises: What is the optimal scope of reforms?

A large-scale approach has the advantage of dealing with a problem in its entirety. Possible side effects can thus be avoided to a large degree, and an integrated solution can be achieved. From a political point of view, a large-scale solution is preferable because it has the potential of making an unpleasant issue go away for well over an election period.

There are, however, a few drawbacks associated with a comprehensive reform approach. First of all, the larger the scope, the larger the number of veto players who will try to prevent or alter the reform according to the interests of their constituency. Those players comprise parliamentary opposition, special interest groups and parts of the electorate itself. Additionally, in some countries, the courts quite frequently influence the implementation chances of reforms. Countries with a high degree of decentralization face increasing difficulties the more a reform affects the various constituencies in different ways. This same is true for a parliament with a powerful second chamber that pursues objectives of its own.

All these veto players can dilute the original reform endeavor substantially or prevent its realization altogether. And even if a broad reform coalition can be achieved, the opposition always has an incentive to renege on a compromise when it anticipates a change of opinion in the electorate. Also, large-scale reforms usually entail substantial drawbacks for a large number of voters, be they just perceived or real. In most cases, the government will be held responsible for those drawbacks and not be reelected, as was the case in Sweden in the early 1990s.

Thus, it seems that small steps rather than giant leaps are the more promising approach to sustainable reforms. The apparent long-term success of reforms in Denmark or the Netherlands corroborate this view.

However, there are two important prerequisites that make small steps almost as difficult as giant leaps. First, there still has to be an overarching idea or strategy, be it implicit or explicit, that lays out the path toward reform. Second, notwithstanding different attitudes towards specific policy measures, a broad consensus has to be achieved in order to not lose sight of the intended reform or see it abandoned altogether.

Eric Thode

Kai Gramke

Social Policy

Health Care

Six reforms are reported in this section of the reform monitor. The English-speaking countries in particular undertook fundamental reforms. They are covered in some detail.

In the largest expansion of Medicare since it was created in 1965, the U.S. Congress passed legislation to provide Americans on Medicare with the first federal assistance in paying for prescription drugs consumed outside hospitals. It also took the first steps toward allowing private plans to compete with Medicare.

Canada has introduced the Canada Health Council, which will be the first-ever national organization with a mandate to provide governments, experts and the public with independent, objective assessments on the progress and pace of health care reform and the ongoing performance of the health care system.

The Australian government has launched a four-year, €1.4 billion package that seeks to bolster Medicare, the universal health insurance plan, and improve the availability of affordable medical care in outer metropolitan and rural areas. In a second reform, Australia will provide governmental guarantees for unfunded medical liabilities, in order to reduce the costs of medical negligence claims against doctors and to prevent shortages from developing in specialist areas.

The Swiss Parliament has rejected the second revision of the nation's health insurance law, which was aimed at increasing transparency and solidarity within the health care system. Sweden is streamlining its employment and sickness benefits so that the sickness benefit that individuals can draw will not exceed the maximum allowance within the unemployment-insurance system.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Australia:

Extension of
Medicare benefits
and services

Innovation **

Impact **

Interest ****

The Australian government has launched MedicarePlus, a four-year, €1.4 billion package that seeks to bolster Medicare, the universal health insurance plan, and improve the availability of affordable medical care in outer metropolitan and rural areas.

Medical treatment and prescription drugs in Australia are subsidized by the federal government through Medicare and the Pharmaceutical Benefits Scheme (PBS), respectively. Medicare is a federally funded, universal, public health insurance plan, introduced in 1983. It delivers subsidized out-of-hospital medical treatment to all patients who are residents of Australia. Public hospitals in Australia are financed by state governments, which in turn depend on the federal government for most of their funding. The Medicare plan also subsidizes services delivered by medical practitioners in hospitals. The subsidy has traditionally been generous, to the point that many doctors have chosen to adopt a practice known as “bulk-billing.”

In this system, the patient is charged no out-of-pocket fee; the doctor simply bills the federal government for all patients collectively at the rate of the subsidy (i.e., in bulk). The alternative is to charge the patient a higher fee and have the patient seek reimbursement of the subsidy from the government. By law, Australian citizens and permanent residents cannot take out private insurance for out-of-hospital medical treatment. Any gap between the fee charged by medical practitioners and the Medicare subsidy is, therefore, covered by patients.

Health care has become an extremely important political issue in Australia, with many Australians believing that health care has been decreasing in availability and increasing in cost. The perception of increased cost is supported by evidence that the practice of bulk-billing has been declining in recent years, from 74 percent of all out-of-hospital consultations in 2000 to 68 percent in 2003. In addition, there is concern that the federal government seeks to dismantle Medicare and the PBS. Because any such changes to the current system would be highly unpopular with voters, the government is eager to demonstrate its commitment to these two pillars of the Australian health care system.

The issue of availability of health care is primarily confined to rural and outer metropolitan areas, while affordability of health care is an issue throughout the country. “A Fairer Medicare” was announced in April 2003 by the federal health minister (see issue 9, p. 12), but this was widely regarded as an inadequate response to rising costs and reduced availability of services. An indication of how seriously the government takes this issue was its replacement of the minister of health with a high-profile government leader, the former minister for employment and workplace relations.

Shortly after his appointment, the new minister introduced the MedicarePlus program, which was subsequently modified in March 2004, following negotiations with minor parties in the Senate to ensure passage of the legislation. MedicarePlus completely replaces “A Fairer Medicare,” retaining some of the elements of the original package, discarding others, and adding a number of new elements. The new package involves nearly three times the expenditure of “A Fairer Medicare” and consists of three key elements. First, the government will pay doctors an additional €4.40 per consultation (above the 85 percent of the scheduled fee that is normally payable) if the doctor does not require the patient to make any payment and that patient is under 16 years of age or holds a “concession card.” These cards are primarily issued to welfare recipients, families with a very low income, pensioners, and most self-funded retirees. There are currently 7 million concession cardholders in Australia, out of a population of 20 million.

Second, the government will meet 80 percent of annual out-of-hospital medical expenses in excess of €400 per family. For concession cardholders and lower-income families with dependent children, the government will meet 80 percent of annual expenses in excess of €170 per family. These expenses include doctor consultations and medical tests (such as x-rays), but not drugs. The third key change comprises steps taken to increase the supply of medical practitioners, especially where they are most needed: 450 more general practitioner training places; 1,600 new nurses; and 725 qualified health professionals from overseas who will be recruited on the condition that they agree to work in areas of greatest need (i. e., outer metropolitan and rural areas).

The third element of the package contains assistance and encouragement for non-practicing doctors to re-enter the work force, the creation of 234 medical-school places each year (for those who obligate themselves to work in needy areas for five years following graduation), and funds to assist those doctors choosing to practice in outer metropolitan or rural areas. However, few details have been provided on the nature of the efforts that will be made to attract overseas health professionals, encourage re-entry of non-practicing doctors or assist doctors to practice in needy areas. The package announced on 10 March 2004 is to run for four years at an additional cost of €1.6 billion. It is anticipated that the additional costs associated with MedicarePlus will thereafter be €0.7 billion per year.

▷ A main argument of critics, including members of the Senate who threatened to vote against the bill, is that the reform remains inadequate. An increasingly widespread view is that the purpose of Medicare is to provide all patients with medical treatment at no cost. This was never, however, the intent of Medicare when it was introduced in 1983. The common practice of bulk-billing has led to this perception. Opponents in the Senate are therefore arguing that more should be done to encourage doctors to bulk-bill all patients.

A lobbying group for welfare recipients, the Australian Council of Social Service (ACOSS), claims the package will disadvantage low-wage single people. This is because they will not attract the €4.40 bulk-billing incentive and hence will need to have accrued €400 (versus a family maximum of €400 for other groups) in annual personal medical expenses before they qualify for this “safety net.” The nation’s leading labor organization, the Australian Council of Trade Unions (ACTU), has also come out against the package, claiming it will disadvantage all low-wage earners. The Australian Medical Association, which represents doctors, is strongly opposed to the creation of medical training places with conditions attached. It argues that financial incentives to practice in areas of need would be much more effective.

Experts view the reform as important mainly because it involves a reasonably sizeable increase in Medicare funding. Also viewed as a significant innovation is the introduction of different rates of government reimbursement of doctors depending on the

financial circumstances of the patient. This is an important break with the last 20 years, during which time the Medicare subsidy has been based solely on government-assessed treatment costs (the scheduled fees that doctors argue are generally below actual costs), with no variation according to the income or health needs of the patient. The principle of varying the subsidy according to the means of the patient has operated for prescription drugs, but not consultations. This break with the past appears to be quite unpopular, suggesting that further efforts to move in this direction will be difficult politically.

The rate of bulk-billing for consultations of concession card-holders and children under 16 is expected to increase, while reductions in medical expenses associated with the safety-net aspect of the package will largely be confined to families with dependent children. The measures to increase the supply of doctors and nurses are the most vaguely formulated area of the package and are likely to have only a minimal impact.

The Australian medical liability insurance system has been reformed in order to reduce the costs associated with liability claims and to prevent shortages from developing in specialist areas. This is to be achieved by providing governmental guarantees for unfunded liabilities and by reducing medical liability premiums through both direct subsidies and tort-law reform. These latter reforms are aimed at reducing the costs of claims of medical negligence against doctors. They are quite complex, given the differing practices in the individual states.

In Australia, patients who suffer injury or loss as a result of medical negligence have the right to sue medical practitioners for pain and suffering and for economic losses resulting from the negligence. All negligence claims against doctors are settled through the legal system, and most doctors in Australia, therefore, carry insurance against such claims (i.e., medical liability insurance). Insurance policies can, in principle, be held with any insurance company willing to offer medical liability insurance that satisfies the government's requirements regarding coverage. In practice, however, most doctors pay premiums to medical indemnity organizations (MDOs), of which there are only seven in Australia (each usually dominant in a particular state).

Australia:

Medical liability reform

Innovation **

Impact **

Interest ***

The Australian Medical Association (AMA), representing doctors' interests, has been campaigning since at least late 2000 for reforms in the area of medical liability. It claims that doctors' insurance costs have been spiraling. Its campaign has become increasingly vocal as the underlying cause of these rises—increases in the number and value of medical liability claims—has been compounded by failures in the insurance market. Specifically, the costs of re-insurance have escalated internationally since the attacks of 11 September 2001, and the largest provider of medical liability insurance, United Medical Protection (UMP), went bankrupt in mid-2002. This raised a second issue of doctors being left exposed to claims arising from treatment when covered by medical liability insurance policies held with UMP.

The federal government provided a short-term guarantee to meet UMP liabilities as of 30 June 2002, and it introduced an “incurred but not reported” (IBNR) fee on doctors previously insured with UMP in order to fund claims not yet made. This IBNR fee was very large in many cases, and hence quite unpopular with medical practitioners. Costs associated with medical liability have been blamed for both increased costs of medical treatment and doctor shortages, particularly in high-risk areas of specialization such as obstetrics.

Throughout 2003, there was a series of “crises” across the country that received a great deal of attention in the media. These featured doctors purportedly on the verge of withdrawing from practice because of their inability to obtain medical liability insurance, or because insurance costs were excessive. Toward the end of 2003, more than 100 doctors in public hospitals in New South Wales and Queensland tendered their resignations, which were to be effective at the beginning of 2004 provided adequate action had not been taken by the federal government.

The reform that was subsequently initiated consists of three measures: (1) a reduction in the IBNR fee; (2) a reduction in medical liability premiums by direct subsidies, and by committing the government to pay 50 percent of all medical liability settlements above €170,000; and (3) provision of a guaranteed “run-off re-insurance vehicle” that provides guaranteed insurance coverage to doctors who have permanently retired or gone on maternity leave.

The reform also involves the cooperation of the state governments that have the legislative authority for tort-law reform. All states have passed laws restricting the rights of claimants to sue doctors, although there is substantial variation in the specific laws across the six states. The total cost of the reform to the federal government is estimated to be €105 million over four years, on top of €253 million in commitments already made for the same period in response to the collapse of UMP.

➤ Although the AMA has expressed a preference for more governmental subsidization, there has been no real opposition to the reforms. The AMA has also suggested that further changes to laws applicable to medical negligence cases would be desirable, including referral of all decisions on negligence and the medical consequences of negligence to panels of medical experts (rather than judges and juries).

Experts are optimistic that the reform will make significant inroads into defusing the problem, with the AMA’s response to the reform considered a positive signal in this regard. Nonetheless, they believe that the steps taken by the federal government do not amount to fundamental reform, and that the issue will resurface in the next two to five years. In any event, the Australian experience with respect to the insurance market does illustrate the potential for problems to arise in such markets in the absence of governmental intervention. In particular, the insurance market as it currently operates seems ill-suited to situations where liabilities often arise many years after the coverage period. Some experts believe the most innovative aspect of the measures is the tort-law reform undertaken by the state governments.

The Canada Health Council, established in January 2004, is the first-ever national organization with a mandate to provide governments, experts, and the public with independent, objective assessments of the progress and pace of health reform and the ongoing performance of the health care system. It is intended to be a body at “arm’s length” from the government, with representatives from among experts, the government, and the public. The federal government will provide it with up to €6.1 million per year over the next five years.

Canada operates a public health insurance system that is

Canada:

Launch of the Canada Health Council

Innovation *****
 Impact ****
 Interest *****

struggling to cope with rising real expenditures. Responsibility for public health care in Canada's highly decentralized federation is shared between the federal and provincial or territorial governments. The provinces and territories have primary responsibility for operating health care services in their jurisdictions. After severe cuts in federal funding as a result of the federal government's antideficit campaign, the federal government has begun to restore some of its lost funding to the territories and provinces in return for significant structural reforms.

In this context, the federally established Commission on the Future of Health in Canada recommended creating the Health Council of Canada (see issue 6, p. 10). Its mandate will be to monitor and report on the progress of reform and on the performance of Canada's health care system, health conditions, and on the major determinants of health (including social and economic factors). The Health Council was intended to have 27 members, with an independent chairman, 13 representatives from the federal, provincial and territorial governments, and 13 representatives from health experts and the public. Quebec and Alberta, however, have not yet joined the council. The Health Council will draw on existing studies and consultations and report through federal, provincial, and territorial health ministers.

➤ Critics argue that the mandate is too narrowly focused on the Accord on Health Care Renewal. Furthermore, it is feared that the council will not be truly independent, as provincial governments effectively must agree on membership, and six jurisdictions have named their deputy ministers of health as government members. In particular, it is argued that the council will shy away from releasing "report cards" on health systems in the different provinces and territories because of provincial opposition.

Others maintain that the Health Council is too large and hence unworkable (considering its 27 members, versus the 14 that the Commission on the Future of Health suggested), and that its national representativeness is compromised by the absence of two provinces.

Other arguments are that the Health Council is too costly, bureaucratic, and intrusive on provincial prerogatives. Experts judge the reform to be of the highest importance, both for short- and medium-term progress in reforming Canada's health care

system. They also credit it with providing a focal point for improving the performance of the health system and for advancing the practical understanding of the country's health conditions and determinants.

The second revision of the nation's health insurance law was rejected by the Swiss Parliament. The main aim of the reform was to increase transparency and solidarity within the health care system. Furthermore, it envisaged several measures to reduce the ever-growing expenditures in the health system via better cost control and more competition in the health sector (see issue 9, p. 17).

Among the changes proposed were a ceiling on health insurance premiums, relaxation of the provision on compulsory contracting, and plans to favor special schemes such as medical networks. The reform was intended to tackle several shortcomings in Switzerland's health system, but none of the changes, taken alone, were fundamental. Altogether, however, the reform provided a comprehensive package for mitigating some of the Swiss health care system's most pressing problems.

The problems of the health care system figure prominently among the biggest concerns of Swiss citizens, many of whom perceive the system as being too focused on expenditures (at the expense of performance). Furthermore, it is very complex and lacks transparency, as each canton has a different structure. Per capita insurance premiums have been rising steadily in recent years. From 2001 to 2002, for example, the average increase was almost 10 percent—whereas the cost increase was calculated to be only 5 percent. Accordingly, many households with low or medium incomes face problems in paying the continually rising premiums. As children are also subjected to the per capita contributions, it is particularly families that face problems in affording insurance—despite cantonal premium-support plans.

A large part of the Swiss health care system—notably, the supply of hospitals—is under cantonal jurisdiction. Responsibility for hospital funding is shared by the cantons and the health insurance providers on an expenditure basis, with little coordination between these two sources of financing.

Indeed, inefficiencies and the lack of transparency are espe-

Switzerland:

Second revision of health insurance law rejected

Innovation **

Impact ***

Interest ****

cially common in the important sector of hospital care. The reasons for this are numerous. First, the cantons play several roles: they are the owners of the public hospitals, but also participate in their financing and in administering the rates for the hospitals' services. As they own the public hospitals, they have an incentive to favor these over private facilities. Second, the financing of treatment is shared between health insurance systems and the cantons. However, the financial participation of the cantons is dependent on the kind of treatment involved. For example, the costs of ambulant procedures are borne solely by the health insurers, whereas the costs of inpatient treatment are shared between the cantons and health insurers. The insurers thus face strong incentives to favor inpatient treatment, which is more costly.

Finally, cantonal subsidies for the hospitals are generally based on the hospitals' expenditures and are not related to their performance. This has promoted growing inefficiencies. Further inefficiencies arise from the fact that health insurance providers are virtually obliged to enter into wage agreements with all suppliers of health services ("compulsory contracting"). This compulsory contracting has prevented the evolution of efficient structures in the health care system, as insurers have had few possibilities to deny payment of exorbitantly high charges.

Switzerland has a unique system of per capita health insurance premiums. The new law envisaged ceilings on the health insurance premium burden for families (between 2 percent and 10 percent of annual income), and for individuals (4 percent to 6 percent). This would have involved additional costs of €200 million annually for the premium-support plans, with the federal government increasing the corresponding transfers to the cantons by €130 million. At the same time, there were plans to ease the provision on compulsory contracting. In the future, health insurers would have had some choice in deciding whether they will collaborate with certain health service providers.

It was also planned to favor special schemes, such as medical networks (i. e., several doctors sharing a common budget), which tend to be more cost-effective. Insured persons who participated in these plans would have benefited from less costly membership rates, and hospital services would have been refunded on a

lump-sum basis. Financing of these refunds would have been shared equally by the cantons and health insurers. Now that the revision has been rejected, some of the most pressing problems will have to be tackled by means of ordinances and decrees. The federal participation for the financing of the premium support plans is now being based on federal legislation, with the various other areas concerned to be treated separately. In the meantime a new attempt at health insurance revision has been made that tackles essentially the same problems.

⇒ In general, critics regarded the reform as half-hearted. The nation's medical association criticized the planned favoring of medical networks by pointing out that the lump-sum refund for treatments could lead to a situation in which costly examinations were no longer undertaken. Furthermore, the increased transparency and competition that the reform would have imposed on the health care sector would also have reduced profits for health care professionals.

Liberals, on the other hand, argued that the cost-reduction measures envisaged in the reform were far from sufficient. The Social Democrats and the Green Party argued that the premium burden on households with low incomes would have remained too large. The Christian Democratic Party wanted to introduce subsidies for children's premiums, but this proposal was not included in the final draft of the law. It therefore abstained from the vote in parliament.

Experts find the rejection of the much-needed revision of the health insurance law particularly noteworthy, since it took place in the very last stage of the Swiss legislative process. This had occurred only once before in the history of the Swiss confederation. They viewed the reform as a step in the right direction (i.e., toward enhancing transparency and competition, as well as toward better control of expenditures and provision of services), but they agreed with the general opinion that the reform was not ambitious enough.

The revision, therefore, had few supporters and many enemies, which led to its failure. Even if the reform had passed the final vote in parliament, it would have had a difficult standing in the face of the likely popular referendum that was already being initiated against it. A fundamental reform had been envisaged for

several years, and the legislative process was particularly burdensome. Despite agreement that a revision was necessary, it was not possible to achieve a consensus on details. The conclusion is clear: in the sensitive area of health insurance, reforms can only be achieved stepwise.

Sweden:

Streamlining
employment and
sickness benefits

Innovation **

Impact *

Interest ***

Sweden is streamlining its employment and sickness benefits so that the sickness benefit individuals can draw will not exceed the maximum allowance within the unemployment-insurance system. The Swedish social security system is largely based on the “loss of income principle” such that around 80 percent of income loss is compensated for. However, there is a ceiling above which no increased compensation is possible. This ceiling in the social security system is generally 7.5 times the so-called base amount (equaling an annual income of around €30,000). In the unemployment-insurance system, the ceiling is 6.5 times the base amount, or around €25,000. Before the reform, the maximum benefit was hence higher in sickness compensation than in unemployment compensation, which meant that some individuals who were unemployed had incentives to become sick-listed instead. It has been calculated that around 20 percent of those on sick leave are unemployed.

The initiators believe that all unemployed individuals who are insured and who are put on sick leave should be treated in the same way. For unemployed individuals who are insured within the unemployment-insurance system, the sickness allowance in case of illness shall be equivalent to the amount that would have been received under unemployment-benefit stipulations. The main objective is to relate compensation to the income at the point when the recipient became ill.

Critics argue that the reform is a way to punish the unemployed, and that it would have been more reasonable to increase the ceiling in the unemployment system instead. Experts find the reform interesting despite its relatively limited scope, since it shows that the system is treating unemployment and sickness differently. They also point out that ceilings are becoming more problematic in the functioning of the system. As around 50 percent of the country’s income earners have reached the ceiling, the idea of an income-related social-insurance system is increasingly

being abandoned. This is a driving force for increased collective or individual private insurance, as well as a factor that increases the risk of declining popular support for the public system.

In the largest expansion of Medicare since it was created in 1965, Congress passed legislation to provide Americans on Medicare with the first federal assistance in paying for prescription drugs consumed outside hospitals. It also took the first steps toward allowing private plans to compete with Medicare. Congress is allocating €320 billion over 10 years to help pay for the Medicare drug-benefit coverage.

For the first time, Medicare will offer subsidies for prescription drugs to any of its beneficiaries who buy a separate private-insurance policy for drugs. The question of how to change the program has been mired for years in ideological conflicts that, at root, reflect the Democratic Party's preference for governmental programs to help vulnerable residents, and the Republican Party's goal of relying more on the private sector to deliver social services.

Established in 1965, Medicare is a federal health insurance program designed to provide health insurance for people 65 and older, the disabled, and people with end-stage renal disease. Medicare coverage provides insurance for hospital care, physician services, brief stays in skilled nursing facilities, and short-term skilled home care related to a medical problem. Medicare coverage and insurance payments are determined by the nature of services required by the patient, not the specific diagnosis.

Medicare currently has around 39 million beneficiaries. Its financing is derived from a 2.9 percent payroll tax, premium payments from the insured population, and general revenues of the federal government. The Medicare program is on precarious financial footing and is forecast to run out of funding within around two decades. This is because Americans are living longer and the large baby boomer generation is set to begin retiring.

The new benefits will be introduced in two stages. In the spring of 2004, drug discount cards became available. They will be phased out in 2006, when the prescription drug benefit is introduced. Elements of the plan include:

(1) Prescription drugs: Medicare patients can buy so-called interim discount cards that proponents predict could save people

USA:

Far-reaching
extension of
Medicare drug
benefit coverage

Innovation *****

Impact *****

Interest *****

up to 15 percent off the retail price of medicine. All Medicare beneficiaries will be eligible for the card, except those enrolled in Medicaid. Starting in 2006, the costs of prescription drugs will be covered partly by Medicare. Coverage will require patients to pay a monthly premium averaging €28 during the first year. In summary, for annual drug consumption below €200, insured persons receive nothing; for spending above €200 but below €1,800, insured persons are reimbursed 75 percent of drug expenditures; for spending between €1,800 and €2,900 per year, no insurance payments are made; and for drug consumption in excess of €2,900 per year, 95 percent of marginal spending is reimbursed.

(2) Low-income assistance: Medicare patients with incomes less than 150 percent of the federal poverty line (currently about €10,500 a year for an individual or nearly €14,500 for a couple) will receive extra support with drug expenditures. They will benefit from cost-sharing and premium assistance with no gap in coverage.

(3) Retiree coverage: Private, employer-provided retiree health insurance plans offering actuarially equivalent coverage receive 28 percent of the annual drug costs between €200 and €4,000. About 70 percent of persons 65 and older have insurance plans provided by former employers or purchased in the private market that cover some of the costs of prescription drugs. This will give €57 billion in payments and tax advantages over 10 years to the nation's employers if they continue to provide drug coverage to retired workers. Its intent is to discourage companies from dropping such coverage once federal prescription benefits begin.

(4) Income provision: In a major departure from its tradition of treating all beneficiaries alike, Medicare for the first time will charge higher premiums for visits to doctors and other outpatient care to patients with higher incomes.

(5) Private plans and competition: Starting in 2010, the government will conduct an experiment designed to foster greater market competition in the program. The experiment, to take place over six years in six metropolitan areas, will require Medicare's original, fee-for-service version to compete directly (on the basis of price) against private health plans for patients. Legislation also provides a new chronic-care benefit in all Medicare coverage options, and new preventive services.

(6) Tax provisions: The new law allows employers to establish tax-free health savings accounts (HSAs) for the lifetime health care needs of their employees under age 65. Employer and employee contributions to the accounts are tax-free, as are distributions from the accounts for medical needs. The only persons allowed to contribute to an HSA will be those not yet eligible for Medicare and who are covered under a “high deductible” health plan and not covered by any other health plan. The law prohibits the federal government from setting drug prices, thus limiting its ability to restrain future increases in the costs of prescription drugs.

⇒ Some Democrats fear that incentives for private competition will be a threat to Medicare’s future and will overly benefit private health plans, insurance companies, and pharmaceutical manufacturers. Democrats predict that patients will have to pay more to stay in the current version of Medicare, and thus will be coerced into the private plans. Private plans will offer low prices to attract persons who are healthier, leaving Medicare to insure retirees who are less healthy and whose health care costs are above the average.

Experts find this reform an important extension of the insurance protection available to the aged and disabled. The basic approach will be costly to nonelderly taxpayers, because the law provides no mechanism to restrain rising drug costs. Some critics consider illogical the stipulations concerning drug coverage for insured people who are not indigent. From the perspective of rational insurance design, it makes no sense to reimburse people for 75 percent of the cost of the 200th through the 1,800th euro spent on prescription medicines but to reimburse them nothing for the 1,800th through the 2,900th euro.

Changes and Results

Two policies to reduce the level of sick leave—a reduced period of employer-paid sick leave, and improved coordination between the National Social Insurance Board and the National Labor Market Association—have so far failed to have a significant impact. The level of long-term sick leave is relatively unchanged, although

Sweden:

No significant reduction in sick leave

there has been a decrease in the number of new cases of sick-listing. The decrease in sick leave shorter than six months by 18.5 percent, or by 19,300 cases in one year, was offset by an increase in long-term sick leave by 13,600 cases.

In the last reports, several policies to reduce sick leave were described (see issue 8, p. 19; issue 9, p. 26). One of those was an extension of the employer-paid sick-leave period from 14 days to 21. This is now planned to be restored to the original 14 days because of severe criticism from both employer and employee associations. However, this change, initiated by the government, the Left Party, and the Green Party, also demanded that employers pay 15 percent of the social-insurance office's costs for sick-pay after the first 14 days. The cofinancing by the employer ceases if the employee returns to work on a part-time basis or takes part in rehabilitation. The aim is to create incentives for employers to reduce long-term sick leave and to encourage their employees to return more quickly to the workplace.

Within the framework of the plan of action to reduce long-term sick leave, the Swedish government has commissioned the National Social Insurance Board and the National Labor Market Administration to develop forms of cooperation in order to get individuals on sick leave back to work. The key element in this cooperation is the National Labor Market Administration's establishment of a special unit that handles cases of sick-listed individuals who are unemployed or in need of a new job in order to end an absence related to illness. According to the governmental commission, the lack of such labor-market activities is one of the causes behind the increase in long-term sick leave over the last few years.

The National Labor Market Administration will provide possibilities for vocational training as well as counseling and education toward entering new occupations. It may also, when necessary, provide employers with subsidies in order to facilitate employment. The National Social Insurance Board is responsible for the rehabilitation programs and administers the compensation for the individuals who take part in the actions described above.

⇒ Experts consider this a small but interesting example of formal cooperation between the Labor Market Association and the Social Insurance Board regarding people in the "gray zone" between

unemployment and illness. It is likely that at least some sick-listed individuals have the capacity to work at another job within their firms or have the ability after vocational rehabilitation to find a job with another employer.

More information and changes are available on the Danish health care reform intended to reduce waiting times in the hospital (see issue 6, p. 13; issue 7, p. 17; issue 8, p. 16). Since 2002, the number of operations increased to more than 40,000, while the waiting time for patients has been reduced by 20 percent for 18 types of procedures. In the annual budget of 2004, the government set aside an additional €150 million for the counties to further reduce waiting times.

⇒ Experts point out that the reform played an important role in the run-up to the 2001 elections, and seemed to have changed the formerly widespread public dissatisfaction with the performance of the country's hospitals. However, the continuing criticism about the reform's focus on surgery, and the lack of attention to medical treatment, highlights the continuing difficulties the government has in administering a national health service (faced by any government, regardless of political color).

Denmark:
Further reduction
of hospital
waiting times

Pensions and Social Security

Reforms in this section of the monitor are evenly divided between social security and pension aspects. Whereas Sweden and Japan focus on pension systems, the Netherlands has introduced a comprehensive reform bundle aimed at social security issues.

In Sweden, pensioners are guaranteed a certain standard of living through a special allowance for those who cannot attain that standard through the regular pension system. In Japan, the discount system for national pension premiums is currently being revised to decrease the premium default rate (i.e., the rate of nonpayment on premiums) into the National Pension system. Also, for divorces occurring after April 2007, the pension entitlement can be split between the two parties, provided they agree.

The Netherlands intends to provide an incentive to both em-

ployers and employees to shorten sick-leave periods by extending the sick-leave period paid by the employer from one to two years. In addition, coverage by the Disability Benefits Act (i.e., entitlement to disability benefits) will be deferred by one year. Furthermore, to bring down the costs of social expenditures, and as part of the new Dutch government's efforts to create a social security system that motivates people to work, the right to continued benefits after unemployment benefits have expired has been eliminated. Finally, employers in the Netherlands are no longer required to pay a base premium for disability benefits for employees aged 55 and over.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Sweden:

Guaranteed basic
income
for pensioners

Innovation **
Impact **
Interest *

Individuals in Sweden 65 and older are guaranteed a certain standard of living through a special allowance for those who cannot attain that standard through the regular pension system.

Before the reform, poor old-age pensioners were entitled to means-tested social assistance on the same grounds as anyone else, regardless of age. Generally, the dependence on social-allowance benefits among old-age pensioners is relatively low, and a normal standard of living is usually attained through the pension system. However, this is not always the case for immigrants. Since it takes 40 years of living in Sweden before age 65 for a person to be entitled to a full pension, individuals who have been living there less time do not qualify for a pension that covers the cost of living.

The new allowance is tax-free and is provided only when all other allowances to which the individual is entitled have been paid out. The size of the allowance is dependent on how far the individual's income is below a certain minimum level and is linked to the poverty level defined in the means-tested social-assistance system. (This level is lower for married persons.) The main objective is to minimize the prevalent dependence on social assistance among the elderly.

➤ Critics have objections regarding the age limit of 65, but support the reform in general. The Swedish Integration Board, the governmental body coordinating policies, rights, and opportunities for immigrants, believes that there are individuals on disabili-

ty pensions who have similar difficulties in reaching the subsistence level of income. Experts find that the reform epitomizes the guiding principle of the Swedish welfare system, that means-tested social assistance should only be used for temporary situations, and not for defined permanent lack of economic support. In their view, the reform is innovative in the sense that it is a new response to a specific and well-known problem.

In Japan, for divorces occurring after April 2007, the pension entitlement can be split between the two parties, provided there is a mutual agreement between them and/or the courts. The split share is to be determined by agreement of both parties, but (usually) the nonworking spouse’s portion should not exceed 50 percent.

Japan’s public pension system has two pillars: the National Pension; and the Employees Pension Insurance (EPI) system. Currently, a nonworking spouse of an EPI system subscriber has an individual pension only for the basic pension, and the working spouse (usually the husband) is entitled to the entire earnings-related portion of the EPI. Thus, in case of a divorce, the non-working spouse is entitled only to the basic pension, which is relatively small compared to the EPI.

However, the working spouse also pays a fixed percentage of his or her earnings to contribute to the basic pension system, regardless of whether the other spouse is working. Spouses who earn more than the specified amount of income are required to pay the same rate of premium on their income. Thus, households in which both spouses work are disadvantaged (i.e., they pay more in premiums to get the same amount of pension compared to a household with only one working spouse).

Another inequality arises from the fact that couples of which both partners are insured in the National Pension system (e.g., the self-employed, small-company employees, etc.) are both required to pay the premium in order to receive the basic pension. The increase in divorce, especially among middle-aged to elderly couples, has often resulted in the financial poverty of one divorced spouse, usually the wife, especially in cases where the nonworking spouse does not have work experience or has not sufficiently contributed to the EPI. This is often the case, because

Japan:	
Division of pension entitlement after divorce	
Innovation	***
Impact	****
Interest	****

many Japanese wives, even though they may have worked for some years before marriage or child-bearing, quit work and then live solely on their husbands' incomes. Many wives do return to work after the children are grown up, but then often do so part-time and hence stay within the income limit to remain as the "dependent" of the husband.

In the new plan, the nonworking spouse is entitled to up to 50 percent of the pension available to the working spouse in case of divorce. The guiding principle is to acknowledge the value of the nonworking spouse's housework, with the success of the provision depending on the two parties' coming to an agreement on the share of the entitlement. Considering that many divorces in Japan happen without any agreement on alimony or even child support (when there are children), this condition could be difficult to achieve.

▷ Critics argue that while the reform may improve the situation of nonworking spouses of EPI-system subscribers, it worsens the unfair differentiation between working and nonworking wives, and between wives of EPI system subscribers and wives of National Pension subscribers. Because the reform does not apply to spouses who have their own income (and who therefore are not a "dependent" on the other spouse), it could have unintended ill effects. For example, those who decide not to work and then split the working spouse's pension could have a higher pension than those who work but have low earnings. This could discourage the wives from re-entering (or remaining in) the labor force.

In addition, the reform does not help subscribers of the National Pension system. First, they must pay their own premiums (unlike nonworking spouses who are married to someone entitled to the EPI pension), and their pension is basic. This reform does not address their problem of low pensions, whether the recipient is divorced or not. Some conservatives claim this reform could encourage divorce, since it gives more financial independence to wives. Experts agree that many equally pressing inequality issues are not addressed, but do not believe that the reform will drive up divorce rates. The reform, rather, gives nonworking spouses the freedom to opt out of failing marriages.

In Japan, the discount system for National Pension premiums is currently being revised. The proposal is aiming at a more differentiated system of exemptions so as to provide incentives to pay at least a fraction of the premium. The reform is an attempt to decrease the default rate (i.e., the rate of those not paying the premiums) on payments into the National Pension system.

The National Pension and the Employees Pension Insurance (EPI) system are two pillars of the Japanese public-pension system. The National Pension system covers the self-employed, farmers, employees of small firms, and their spouses. They are required by law to pay a fixed premium (€100 per month per subscriber), with the collection mechanism not tied to the tax system. The National Pension pays out a fixed amount, and pensioners who contributed for a shorter period than required for the full sum receive a fractionally smaller amount. The premium is a fixed sum for everyone, regardless of income, since it is difficult to correctly calculate the levels of income of self-employed persons.

There is a premium-exempt system for people with low incomes. If they can prove that their income in the previous year was below a certain level, half or the full amount of the premium is exempt. However, every year of premium exemption only counts as one-third of a year in the pension calculation. If a person decides not to pay the premium without filing to be exempt, the year is not counted at all.

The number of subscribers not paying premiums has been increasing rapidly. The country's adverse economic conditions seem to be the primary reason, but many attribute the unwillingness to pay pension premiums to waning public confidence in the system. The default rate in 2002 was 37.2 percent. The problem of defaulting is especially severe among persons younger than 25 (eligibility to join the National Pension systems begins at age 20). Many at this age are still students and do not have steady jobs. The unemployment rate for young people is much higher than the rate for members of other age groups.

Before 2002, subscribers to the National Pension system either paid the full premium or were exempt. In 2002, a half-exempt system was introduced, whereby individuals could pay half the premium and be exempted from paying the other half, provided

Japan:

Revision of discount scheme for National Pension premiums

Innovation **
Impact ****
Interest **

their income fell below a certain level. The envisaged reform takes this scheme further by providing more detailed categories. The objective of the reform is to increase the number of people who pay premiums so that premium revenue will increase, while keeping the number of pensioners without a pension entitlement from increasing.

The success of the provision depends on how responsive people are to the price (premium) change of the National Pension. Previous studies have shown that the income/premium ratio is statistically significant in the decision on defaulting or paying, with the overall effect, however, being small. Currently, various changes to the discounting system are being considered. For single persons, the income limit for the full- and half-exempt system is to be lowered. The present premium-exempt system, with two classifications, will be split into four.

A relief mechanism will be introduced when a person has failed to file for the exemption and pay premiums. For up to a year, the application can be filed, and if the criteria are met, the exemption will be given for the missed year. It is furthermore envisaged to make a discount available for subscribers who pay premiums in advance. The shortfall in premium revenue should be compensated for by the increase in the number of people who pay. So far, the reform has the status of a cabinet proposal. To become law, it must pass in the diet.

⇒ Experts acknowledge that although it is true that it is difficult for low-income people to pay the premiums for the National Pension system, it is also true that many people who can afford to pay are not doing so. In their view, the only way to solve this problem is to integrate the premium-collection system into the tax-collection system, and to collect higher premiums from the high-income self-employed. At the same time, sufficient exemptions should be given to low-income individuals without affecting their future pension amounts. Although it offers some leeway on premiums, the current exemption system also erodes future pension amounts.

Netherlands:
Employer-paid sick
leave extended

On January 1, 2004, the employer-paid sick-leave period in the Netherlands went from one to two years. In addition, coverage by the Disability Benefits Act (i. e., entitlement to disability benefits)

was deferred by one year. The reform was intended to provide an incentive to both employers and employees to shorten sick-leave periods.

Innovation ***
Impact ****
Interest ****

In the Netherlands, employees had been covered by a private system of benefits (70 percent of their pay, depending on the duration of employment) for the first year of illness. This system is being extended to cover two years. The rationale behind this measure of the new center-right government, in place since summer 2003, is the concept of encouraging people to take more individual responsibility, and hence lowering social expenditures.

Cuts in social expenditures are to be made in a large number of areas. Prolonging the period in which employers must pay sick leave from one to two years is intended to encourage employers to prompt ill employees to rejoin the work force. For the employee, the financial incentive to be re-employed is that he or she will be paid no more than 70 percent of the last earned wage (provided that the industry and labor social partners do not negotiate additional compensation).

Employers, furthermore, are obligated by law to pay at least the minimum wage for the first year, although this has not been extended to the second year. The period of pay extension is put on par with the period of responsibility for work force reintegration and the period of protection from dismissal. If employers do not take sufficient measures to reintegrate an employee, they can be penalized by having to pay an additional year of sick-leave benefits. On the other hand, if ill employees do not meet their obligations, their employers may temporarily suspend payments or dismiss them.

⇒ Critics point out that employers will be burdened with higher costs. The minister of social affairs and employment has countered that there will be no extra costs for employers, as there is one year of disability benefits less for the additional year of sick leave. He also pointed out that employers will benefit from the decrease in premiums. Experts expect the reform to provide employers with a financial incentive to promote reintegration of ill workers into the work force. On the whole, the reform will contribute to bringing down social-service expenditures, but it is unlikely that the reform will lead to a dramatic increase in the participation in the labor market of people now on sick leave.

Netherlands:

Repeal of Continued
Employment Benefit
Act

Innovation **

Impact **

Interest ***

The right to continued benefits after unemployment benefits have expired has been eliminated for individuals who become unemployed on or after August 11, 2003. The reform aims to bring down the costs of social expenditures and is part of the new Dutch government's efforts to create a social security system that motivates people to work.

Depending on the duration of employment, people who become unemployed are entitled to a benefit of 70 percent of their last earned income. In the case of sustained unemployment, an employee is currently entitled to a continued benefit of a maximum of 70 percent of the official minimum wage. For most workers, the maximum duration of this continued benefit is two years (three and a half years for employees aged 57½ or older), after which social-assistance benefits can be drawn.

A large proportion of the unemployed are not entitled to social assistance, however, because of other sources of income in the household, e.g., from property owned by the household or income from a partner. This will provide an extra motivation for such people to resume employment.

Around 40,000 persons are currently entitled to the continued benefit. The Dutch government expected the repeal to save more than €20 million in 2004, rising to €500 million in 2012. As a result of the expected rise in unemployment, the extent of support provided under the Unemployment Benefits Act will increase, according to the government, from 160,000 benefit-years in 2002 to 340,000 benefit-years in 2007, if no policy changes are made.

The Dutch government intends to restrain the extent to which the benefits of the Unemployment Benefits Act are drawn upon by abolishing the long-term entitlement to benefits. In addition, the use of the Unemployment Benefits Act as a redundancy plan is to be curbed.

▷ Critics argue that the government is hollowing out the Unemployment Benefits Act and imposing the social costs of unemployment on individuals unable to influence the supply of jobs in the labor market. Elderly persons, young working couples, and women who have re-entered the labor market are particularly affected by the reform.

Additionally, the reform will lead to higher costs for munic-

palities because of the increase in the number of people living on welfare. According to Dutch legislation, the government may have to compensate for these costs by providing the municipalities with extra funding. Experts consider the reform a suitable measure for fostering individual responsibility by encouraging people to search for a new job when they have become unemployed. In any event, the aim to bring down the costs of social benefits will be achieved.

Although the government has shelved the plans for a new Unemployment Benefits Act after fierce opposition by the trade unions, the issue is still pressing and will certainly be addressed when the political environment is more suitable.

Employers in the Netherlands are no longer required to pay a base premium for disability benefits for employees aged 55 and over. For new employees, the premium is abolished if they are 50 or older.

Employers currently pay a reduced premium for employees aged 57 and over. In order to control the costs of an aging population, the Dutch government is taking steps to encourage the employment of elderly persons and make it more difficult for older people to draw disability benefits. This reform is a measure to stimulate employment of older persons, as well as oblige persons 57½ and older to seek employment.

⇒ Critics generally disagree with the planned changes to the Disability Benefits Act because of the benefit cutbacks they entail. This particular reform is perceived to lower revenues, thus triggering further welfare cuts. Experts find the reform an important step toward keeping more elderly people in the labor market.

Changes and Results

Since its inception in December 1997, the “Work for the Dole” program has been refined and expanded considerably (see issue 2, p. 30). Currently, all recipients of unemployment benefits (e.g., Newstart Allowance and Youth Allowance) are required to participate in a “mutual obligation” activity after they have received benefits for six consecutive months (and then every 12 months

Netherlands:

Abolition of disability premium for older employees

Innovation ★★★

Impact ★★★

Interest **

Australia:

Research on “Work for the Dole” program yields contradictory findings

after that, as long as they continue to draw unemployment payments).

One of these mutual-obligation activities is “Work for the Dole,” participation in which can be required of a Newstart Allowance or Youth Allowance recipient if he or she is 18 to 39 years of age. In the year ending June 30, 2003, about 50,000 people (of some 450,000 who receive unemployment payments) participated in the program. The Australian government has continued its strong support of the program during its six years in operation, indicating that it views the reform as successful.

Internal research conducted by the federal agency that administers the program, the Department of Employment and Workplace Relations (DEWR), has shown that it is generally viewed positively by participants. More importantly, the DEWR argues that the program is effective in reducing the time recipients spend receiving unemployment benefits.

However, independent research commissioned in 2003 by the Commonwealth Department of Family and Community Services (responsible for administering the welfare system) comes to a different conclusion. It shows “Work for the Dole” in fact has adverse effects on the total time spent on unemployment benefits, most likely because it reduces job-search efforts. The DEWR has countered that this evaluation focused only on the early stages of the program before significant improvements had been made.

▷ Experts stress that while the independent study centered on a pilot phase of the program, the findings are still likely to be valid. The relatively narrow focus of the study—on length of time on unemployment payments in the short term—and the apparent popularity of the program with participants suggest, however, that this finding should not be considered the final verdict. Nonetheless, the potential for such programs to reduce job-search efforts is an important side effect that policy-makers must take into consideration.

Switzerland:

Eleventh revision of
the Federal Mandatory
Pension and Disability
Insurance Scheme
Law rejected

The 11th revision of the Swiss Federal Mandatory Pension and Disability Insurance Scheme Law (AHV) envisaged changes in pensions for widows, widowers and orphans and would have raised the country’s VAT by 0.8 percent to support financing of

the disability-insurance system. On May 16, 2004, both the revision of the AHV and the VAT increase were rejected by a popular vote. It was the first time in Swiss history that a revision of this federal insurance system failed.

The final version of the proposal differed in some respects from the initial bill submitted in 2000 by the federal council (see issue 8, p. 21). Changes to the original plan were made during the legislative process by altering the amount of pensions for widows and orphans and by eliminating the special provisions regarding assistance for low-income earners who make use of the flexible retirement-age plan. The schedule for the financing of the pension system through VAT increases was also changed.

The restriction of pensions to widows and widowers with children was to be implemented with a transition period, as in the initial bill (present recipients are not affected). However, as a further measure, in the final version of the new law the amount widows and widowers are entitled to would have been cut six years after the new law had become effective, from 80 percent to 60 percent of the normal old-age pension.

In contrast, the orphan pension was to be raised from 40 percent to 60 percent of the normal old-age pension. This once more emphasizes the idea that widows and widowers are expected to return to employment after their children enter adulthood. Since the orphan pension will go to the widow or widower who had custody of the child, this measure was regarded as justifiable and was seen as an incentive during the transition period for widows and widowers without children to work, even though they still received the pension.

The flexible retirement plan presented in the original bill of 2000 envisaged the pensions being reduced in an actuarially neutral manner (with fixed contributions and a longer benefit period). However, it also included a provision for assisting low-income earners by imposing smaller pension reductions should they choose a flexible retirement schedule. This provision was removed in the legislative process. On the other hand, women born between 1948 and 1952 who retire at age 64 (instead of 65) would have had their pensions adjusted only by half the actuarial factor. Otherwise, the plan had been agreed on as planned, thus rendering the flexible retirement scheme nearly fully cost-neutral.

This would have led to yearly net savings of €170 million compared to the initial plan.

The VAT was not raised in 2003, although this was originally planned to provide further funding for the pension system. The VAT increase requires a constitutional change, involving a relatively long legislative process. It was only in October 2003 that the federal assembly passed a resolution empowering the federal government to raise the VAT for financing the pension system, if deemed necessary, by 1 percent for the pension fund and by 0.8 percent for the disability-insurance system.

With both the revision of the AHV and the VAT increase having been rejected, the whole procedure has to be restarted, resulting in a significant delay in dealing with current financial difficulties.

▷ Experts find the additional adjustments of the widow and orphan pensions reasonable because they create incentives for widows and widowers without underage children to seek employment. The final proposal regarding the flexible retirement plan succeeds in both the goal of creating a more flexible pension system and in the goal of avoiding the creation of a further burden on pension-system financing (as the plan is cost-neutral in the long run). It is also important that the regulation in its final form is neutral in relation to incentives. The regulation does not make early retirement more attractive.

Though approval of both the new law and the VAT alteration would have rendered the system stable for an estimated 10 to 15 years, the rejection by the voters of both items means action will be needed in the very near future. The legislative procedure in Switzerland, however, is not conducive to quick reforms.

Netherlands:

Modification of the law on differential disability premiums

Beginning January 1, 2004, disability premiums for firms employing fewer than 25 people have been differentiated by their line of business.

The PEMBA Act (Differentiation in Contribution and Introduction of Market Incentives in Connection with the Disability Scheme [WAO]) was one of a number of reform measures taken in the Netherlands to reduce the costs of social security. It was seen as providing employers with an incentive to retain ill and disabled individuals in their work forces. Since the PEMBA Act

was introduced in 1998, employers have paid a compulsory basic premium and a differential contribution according to the number of employees in the organization seeking payments under the Disability Benefits Act.

In January 2003, the Dutch government decided to abolish the PEMBA Act for small employers, meaning that small companies are no longer obligated to pay the differentiated contribution. In 2003, all companies were required to pay a premium of 2.38 percent (see issue 8, p. 29).

As of January 1, 2004, the PEMBA Act has been strengthened for small employers. In the decree, it is stipulated that disability premiums for firms employing fewer than 25 people will be differentiated by their line of business. Since 2004, employers in the same line of business have been required to pay a higher contribution to the disability-insurance system when more people working in that line of business seek benefits under the Disability Insurance Act.

As a result of the new premium differentiation, around 70 percent of small employers are believed to pay a lower premium now than the fixed premium of 2.38 percent in 2003. In contrast, a smaller number of employers in lines of business with a high disability risk will be paying a higher premium. The result should be a decrease in people seeking coverage under the Disability Insurance Act.

⇒ Experts believe that the differentiation in premiums for disability insurance may encourage employers to improve the working conditions for their employees and retain ill employees longer. On the other hand, the increase in the burden for some small entrepreneurs may lead to a situation in which fewer entrepreneurs start a firm in a certain line of business. In addition, differentiation undermines the element of solidarity in the disability-insurance system.

The one-time supplementary payment to the retirees worst-off financially (see issue 8, p. 17; issue 9, p. 35) has been turned into an annual supplementary payment with the same conditions (€673 for retirees whose familial assets, such as bank deposits and stocks and bonds, amounted to less than the threshold of €7,200). For cohabiting or married pensioners, one of the two

Denmark:

One-time supplementary payment to pensioners becomes annual payment

payments is reduced by 50 percent. Total costs of the reform are an estimated €57 million annually. It is set to run until 2006, when it will be reconsidered in light of the country's welfare commission report (see this issue, p. 69).

⇒ Critics point out that the focus on the nation's needy elderly citizens is laudable but also problematic. In 2003, many retirees did not qualify for the payment because of assets above the threshold, and consequently the allocated budget for the reform was underspent. They see single mothers as a group more in need of financial support than retirees. However, it will be difficult to repeal the law in the future for political reasons as retirees account for almost a third of the electorate.

Nursing and Elder Care

France:

Extended working
time to finance
elder care

Innovation ***
Impact ***
Interest ***

To increase the resources available for the financing of elder care, French workers will be required to provide seven hours of additional work per year. Originally, it has been envisaged to turn the public holiday of Whitmonday into an ordinary work day. In the meantime, the government has handed the decision on how to provide the additional work hours to the social partners. Possible solutions include sacrificing a day of vacation or providing less compensation for overtime work. Additionally, employers' social security contributions and investment taxes will be raised. The results expected by the government are additional resources amounting to €9 billion during the time frame up to 2008.

Formerly, the assistance for dependent older persons (allocation personnalisée d'autonomie, APA) was financed through a special fund. The rising costs in nursing and elder care, however, have rendered it increasingly difficult for the APA fund to meet its obligations. In order to support its financing, the provision of an additional seven hours of work by each worker per year will be required beginning in 2005. At the same time, there will be an increase of 0.3 percent in employer social security contributions on wages, and a progressive increase in investment taxes from 2.0 percent to 2.3 percent.

⇒ Critics argue that the increase in resources will be not as great as expected because of a decrease in employment linked to the tax

raise. Moreover, the extension of working time could have a negative effect on employment in the short run. Experts say that this reform will result in additional funds being available for elder care even if the final amount of funds may well remain below the estimates of the government.

However, the possible negative effect on employment would have been reduced if a different form of social contribution (or tax) had been increased, namely the CSG (contribution sociale généralisée). This is the welfare contribution that includes not only wages and investment revenues, but also supplementary income such as unemployment allowances and retirement benefits.

State Welfare and Social Assistance

Two reforms are reported in this section of the monitor. Australia is funding a pilot program that provides Disability Support Pension recipients with access to a range of employment services under Job Network, the federal program for providing employment services to the unemployed.

In an attempt to reduce long-term unemployment, social assistance and unemployment-assistance payments in Germany have been combined into one payment for all “employable” persons not receiving other types of income support.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

The Australian Department of Employment and Workplace Relations (DEWR) is funding a six-month pilot program that provides Disability Support Pension (DSP) recipients with access to a range of employment services under Job Network, the federal government program for providing employment services to the unemployed.

The DSP is intended to be a welfare benefit for disabled persons. Eligibility is restricted to those aged 16 to 64 who are assessed to be unable to work at least 30 hours per week at the minimum wage because of a health condition. It is paid at the rate of half average weekly wage and salary earnings of all em-

Australia:
Job Network services
for disability
pensioners

Innovation ***
Impact *
Interest **

ployees, and it is not limited in duration. In recent decades, the number of DSP recipients has grown at an alarming rate. The number of recipients has risen from about 300,000 (or 2.7 percent of the eligible population) in 1990, to 670,000 (5.1 percent of the eligible population) in December 2003.

Associated with this rise has been a significant increase in costs to the federal government. Governmental outlays for the Disability Support Pension are now at about €4.1 billion per year, excluding administration costs. Some of the increase is accounted for by the transfer of welfare recipients from other benefit programs that have been eliminated, but most of the increase reflects new entrants to the welfare system.

The federal government has indicated that it would like to reduce or at least slow the growth in the number of DSP recipients. Attempts were made in early 2003 to tighten eligibility criteria and impose requirements on some DSP recipients to obtain paid employment. The attempts met vocal and stiff opposition from welfare and disability lobby groups, as well as from opposition political parties. The government, therefore, has had to back down from these proposed changes, leaving the problem of growth in DSP numbers unresolved.

Under the new plan, DSP recipients will be encouraged to make use of specially tailored employment services offered by Job Network providers. The Job Network is a federally funded collection of private, public, nonprofit and community providers of employment services for unemployed persons. The specific services made available are determined by the government and are, for the most part, those that recipients of unemployment benefits are required by the government to utilize in order to maintain eligibility for payments (see issue 5, p. 36; issue 9, p. 66).

Under the pilot program, the DEWR is contracting 11 Job Network providers to offer a range of employment services specifically targeting DSP recipients and to develop strategies to attract DSP recipients to utilize these services. As part of the program, the DEWR is adapting the “active participation model” to serve DSP recipients. The active participation model was introduced in 2003 and specifies the services to be provided through the Job Network, including when and under what circumstances they are to be delivered. The pilot program is to cost €490,000. It is an

attempt to reintegrate disabled persons into the labor market using incentives, in contrast to the approach taken in early 2003, which involved imposing requirements and penalties on recipients.

⇒ There has been little opposition to the pilot program, although disability groups have expressed concern that some disabled people could be pressured into inappropriate jobs. Although only a short-term pilot program, the reform is judged by experts to be important because it is the first large-scale move toward reintegrating disability pensioners into the labor market. The government failed a year ago in an attempt to move toward “activity testing” recipients and raising the threshold requirements for DSP eligibility. This reform is an alternative approach to achieving the same outcome.

Experts anticipate the program will have virtually no impact on reintegrating DSP recipients but foresee that it will assist the government in future efforts to impose requirements on DSP recipients to seek and obtain work where possible.

As of January 2005, in an attempt to reduce long-term unemployment, the social assistance and unemployment assistance have been combined into one payment for all “employable” persons not receiving other types of income support. The new name for this payment will be “Unemployment Benefit II” (Arbeitslosengeld II).

Currently, both programs are means-tested and tax-financed welfare programs, but they differ in regard both to the amount received and the entitlement criteria. It is hoped that this reform will induce long-term unemployed individuals to accept even low-paying jobs.

For several decades, one of the major challenges facing German economic policy has been high unemployment. This is mainly because of structural factors, as only a relatively small share of unemployment is cyclical. The primary problem is long-term unemployment, with the extremely high level of structural unemployment not dropping significantly even during economic boom periods. Most economists consider the negative incentive effects of the long entitlement periods for unemployment compensation and the open-ended eligibility for social as-

Germany:

Social assistance and unemployment assistance merged

Innovation ***

Impact ***

Interest *****

sistance important reasons for the high level of structural unemployment in Germany.¹

Entitlement to unemployment assistance after unemployment benefits have expired considerably increases the probability of long-term unemployment. The lengthening of the entitlement period for unemployment benefits up to 32 months has also led to a strong increase in the inflow rate of older men entering unemployment. This supports the view that in the second half of the 1980s and in the 1990s, unemployment insurance was used on a large scale as an instrument to finance the period remaining up to early retirement at age 60, which could be claimed after a period of long-term unemployment.

Social assistance also contributes substantially to long-term unemployment. For larger households, the difference between net earned income for low-wage earners and the level of social benefits (the so-called “wage gap”) is in many cases very small. As social assistance is almost completely withdrawn when even small amounts of income are earned, there is very little financial incentive for recipients of social assistance to get a job.

After the reform, persons currently living on either unemployment assistance or social assistance, but deemed able to work (i. e., those who can work at least three hours a day) will be entitled to the new benefit being referred to as “Unemployment Benefit II.” For those not able to work at least three hours a day, social assistance will remain available.

1 Unemployment compensation consists of an unemployment benefit and unemployment assistance. The unemployment benefit is an insurance payment and is designed to secure an individual’s previous “standard of living”. It is thus linked to previous earned income; the income replacement ratio (unemployment benefits as a percentage of previous net earned income) is 60 percent for childless recipients, and 67 percent for recipients with at least one child. Unemployment benefits are granted for a limited period of time. The entitlement period varies from six months for the younger unemployed, to up to 32 months for those aged 57 and over with a long previous employment period covered by unemployment insurance. In contrast to the unemployment benefit, unemployment assistance is tax-financed and means-tested, i. e., it is granted as long as the cost of living can not be covered from other sources. This means test is somewhat more generous than the one for social assistance with respect to other household members’ incomes and assets. In spite of the means test, unemployment assistance is also based on previous earned income; the income replacement ratio for childless recipients is 53 percent, and for recipients with at least one child it is 57 percent.

The new “Unemployment Benefit II” contains a supplement to the current level of social benefits that takes into account the number of members in the recipient’s family. In addition, recipients may obtain a wage subsidy for up to two years if they get a job. The new benefit includes contributions to the statutory health insurance, long-term-care insurance, and pension insurance systems. Those entitled to this new benefit will also have access to counseling and job placement through new job centers that are being established. The government hopes that the combination of more intensive job brokerage and financial incentives will induce long-term unemployed people to accept low-paying jobs.

▷ Critics argue that the reform does not go far enough because it only sets additional incentives for those who were previously entitled to unemployment benefits, but not for recipients of social assistance (the level of which has, if anything, been raised rather than lowered). Even for former recipients of unemployment assistance, the reform does not provide sufficient incentives to accept low-paying jobs. Also, there is still no effective work test for recipients of the new unemployment benefit.

Others point out that the planned centralization of job brokerage and counseling at the job centers run by the Federal Employment Agency will not increase the matching of the long-term unemployed to low-wage jobs. An effective work test could be better accomplished by leaving the responsibility to the social-welfare offices at the community level.

A general argument is that there are simply no jobs available for the long-term unemployed. Trade unions in particular believe that the danger exists of downward wage flexibility and “wage dumping.”

Experts agree with most of the criticism. A significant increase in employment among recipients of unemployment assistance and social assistance requires more dramatic welfare reform. They hold that a considerable reduction of social benefits in combination with more generous possibilities of earning additional income would increase the willingness of welfare recipients to take low-wage jobs. Furthermore, it would lead to a substantial increase in the employment of current welfare recipients.

Family Issues

Child care is at the heart of two reforms from Austria and Denmark that are reported in this section of the monitor. Austria will introduce a legal entitlement to part-time work for parents of children of preschool age. The aim of the reform is to facilitate the reconciliation of work and familial obligations, particularly for mothers with young children.

Denmark introduced a framework for teaching plans in day-care centers to make children socially and linguistically better prepared when they leave day-care centers and start school. The reform is especially aimed at children from socially disadvantaged families.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Austria:

Introduction of
parents' right
to part-time work

Innovation ***

Impact **

Interest ****

In July 2004, Austria introduced a legal entitlement to part-time work for parents of children of preschool age. The aim of the reform is to facilitate the reconciliation of work and familial obligations, particularly for mothers with young children.

The reform has been launched within the context of the continuing debate about the country's insufficient child-care facilities, and in view of the demographic shifts affecting Austria. In Austria, 41 percent of 390,000 mothers with at least one child under the age of 7 are employed. Of them, about 66,000 are working full-time, 94,000 part-time. The number of part-time working women has increased considerably in recent years.

As a result of the reform, all parents with children below 7 are entitled to switch from full-time to part-time employment if they work for a company with at least 20 employees, and if they have been employed with the firm for at least three years. During the part-time work period, employees have the standard protection against dismissal and the right to return to the full-time job.

The scope of the reform is limited in that company size and tenure restrictions considerably reduce the number of entitled parents. However, in companies with less than 20 employees, an establishment agreement can provide for entitlement for part-time work for parents with children up to the age of 4. Considering the group of those aged 20 to 45, around 717,000 employees

would meet the criteria. According to the nation's average birth rate and the number of mothers working before birth, there are around 55,000 potentially eligible individuals.

▷ Opposition political parties and trade unions agree in principle with the proposal. They argue, however, that it could reduce the chances for re-entering full-time employment, especially for women. They call for compensation for losses in future pension benefits because of the lower contributions being paid in, and they criticize the restriction on company size.

Experts point out that the legal entitlement to part-time work, which is currently quite controversial in Austria, can contribute to achieving a balance of work and family life, even though only a small group of parents are entitled to part-time work under this plan. However, the chance that the share of men working part-time will increase is fairly low, and higher costs could lead to a reduction of employment opportunities for young women because of increased discrimination.

Diminishing the impact of a negative social inheritance has been a central goal of the present Danish government. In this context, Denmark introduced a framework for teaching plans in day-care centers to make children socially and linguistically better prepared when they leave day-care centers and start school. The reform is especially aimed at children from socially disadvantaged families.

In Denmark, 90 percent of children between 3 years of age and school age are in publicly subsidized day-care centers. The research in social inheritance has shown that these years before children attend school have a strong impact on their development and possibilities later in life. Studies have also shown that early support can compensate partly for negative social inheritance. Day-care centers play a central and important role in this regard.

The reform sets up a framework of teaching plans as a key element of daily activities in day-care centers. Each day-care center can develop concrete measures and subjects suitable for the children in its care within certain given themes, such as language and social skills. Supplementary education of day-care staff is part of the reform. The teaching plans are not intended as a means of introducing and making the school a part of the day-care system,

Denmark:

Teaching plans
in day-care centers

Innovation ****
Impact ****
Interest ****

but rather are intended as way of focusing on the development of the children's abilities, and thereby improving the children's possibilities later in life. It is expected that additional financial support (funded through the general budget) of €3.4 million in 2004 and 2005 is required. In the long run, funding is expected to be €740,000 annually.

⇒ The reform has faced very fierce opposition. It is feared that using teaching plans instead of directly supporting disadvantaged children will stigmatize them, and lead to day-care becoming a generally negative experience for them. It is argued that more financial support and staffing are required for day-care activities instead of formalized teaching plans that effectively turn day-care centers into schools. Experts state that done in a proper way that appeals to children's natural curiosity and creativity, teaching plans could be advantageous for all children and perhaps especially for those with less resourceful parents who cannot encourage and stimulate their children.

Changes and Results

Canada:

Small but positive effects of child-care benefit

The increase in child benefits for low-income families under the National Child Benefit (NCB)² reform (see issue 1, p. 28) reduced the number of low-income children in Canada by 55,000 in 2000. This is a 5.1 percent decline in the number of low-income families.

The NCB has had a small but positive effect on the incidence of poverty among families with children. The rate fell by 0.6 percentage points (from 11.6 to 11 percent). Overall, families' average disposable income increased from €10,300 to €10,800. The NCB increased the average disposable income of working poor families with children by €730 or 7 percent, from €10,200 to €11,000.

2 The National Child Benefit (NCB) is a unique federal and provincial/territorial undertaking that has three main objectives: (1) to prevent and reduce the depth of child poverty; (2) to promote attachment to the labor market by ensuring that families will always be better off as a result of working instead of receiving welfare benefits; and (3) reducing duplication and overlap in federal and provincial/territorial programs.

In 1997, before the NCB reform, single parents with a 4-year-old child gained only 3.8 percent in disposable income if they moved from welfare to full-time work at the minimum wage; in 2001, their disposable income rose by 12.5 percent because of increases in child benefits for working-poor families (to bring their child benefits closer to the level of those received by families on welfare).

Single parents with two children aged 10 and 13 lost 8.5 percent of their disposable income in 1997 if they went from welfare to full-time work at the minimum wage; in 2001, because of the NCB, they experienced a 2-percent increase instead. For a two-parent family with two children aged 10 and 13, a move from welfare to full-time work at the minimum wage gained them 30.8 percent in 1997, but 37.9 percent in 2001 because of the NCB.

NCB child benefits are simpler to deliver than welfare child benefits (as they are based directly on the level of disposable income), and are non-stigmatizing and portable. In a number of jurisdictions, the federal Canada child tax benefit is also used to deliver provincial and territorial child benefits. This has resulted in reduced administrative costs.

⇒ Experts argue that while the poverty and disposable income impacts of the National Child Benefit are relatively small, they nonetheless are quite important and will increase with real improvements in the level of federal child benefits. The early evidence of positive impacts on welfare dependence and incomes of working poor families is judged equally substantial.

Experts also point out that the federal part of the NCB, the Canada child tax benefit (CCTB), has more significant effects on poverty. The 2004 CCTB, which pays higher maximum benefits for low-income families, has reduced the family poverty rate to 12.4 percent and led to an increase in disposable income by €2,100 (versus income without the CCTB).

Labor Market Policy

As in the past, labor-market reforms cover a wide variety of issues. Austria will tighten rules for recipients of unemployment benefits by obliging them to accept jobs that may be a long distance away from their homes and that may be unrelated to their original occupations. In Canada, the new (Liberal) government of Ontario is gradually increasing the province's minimum wage, following the previous (Conservative) government's wage freeze in place since January 1995.

Finland has merged the procedures for issuing work and residence permits into one system to align immigration with labor-market requirements. The United Kingdom government is midway through the process of implementing the antidiscrimination measures adopted by the EU in 2000, and is combining the various existing equality institutions into a single body.

A new lifelong vocational-training plan has been introduced in France as a by-product of the latest bargaining round between the country's industry and labor social partners. In exchange for an increase in financial contributions by employers to lifelong training and a guarantee of 20 hours of training to employees each year, trade unions agreed that part of vocational-training plans can take place outside regular working hours for half of normal wages.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Beginning in 2005, stricter obligations apply to recipients of unemployment benefits concerning the criteria of reasonable job offers. Recipients will be required to take jobs that may be a long distance away from their homes and that may be unrelated to their original occupations. Against the background of increasing unemployment, these measures are intended to provide a stronger incentive for the unemployed to accept work of some kind, and to reduce the average duration of unemployment.

Unemployment is relatively low in Austria, and unemployment benefits are not overly generous. According to national statistics, however, unemployment has increased considerably over the last decade. Under current regulations, benefit recipients are obliged to get a job that is unrelated to their previous occupation only when their regular unemployment benefits have been exhausted and they are covered solely by the unemployment-assistance system. Under the present plan, they may refuse jobs paying less than the collectively agreed rate for the job. In some instances, the current regulations with respect to remuneration are quite vague, referring only to the requirement of “adequate pay.”

According to the new rules, after 100 jobless days, unemployed people would be required to accept a job offered, even if it is unrelated to their previous occupation. As compensation, a “pay guarantee” is to be introduced that allows unemployed individuals to refuse a job for a period of 120 days from the first day of unemployment if the pay is below 80 percent of their previous taxable earnings; after this 120-day period, the minimum would be reduced to 75 percent. In regard to distance to work for unemployed persons, the “provisions of suitability” proposed by the industry and labor social partners provide that they would not be obliged to accept jobs for which the travel time to work exceeds a quarter of actual working hours. Unemployed people offered a part-time job for at least 20 hours a week, however, would be obliged to accept the job, even if the commuting time is as much as one and a half hours.

It has been proposed to suspend unemployment benefits or unemployment-assistance allowances for a continuous period of six weeks in the case of an unjustified job refusal, and eight weeks in the case of a second unjustified refusal. According to the

Austria:

Stricter rules for recipients of unemployment benefits

Innovation *

Impact **

Interest ***

social partners' agreement, as a core aspect of the planned reform, the Public Employment Service (AMS) would be obliged by law to develop individual advisory plans for all job-seekers in order to at least maintain (or improve, if possible) their skills.

▷ There are almost no opponents to the social partners' proposal. Some critics, however, argue that tightening rules for recipients of unemployment benefits will not create new jobs and may increase the pressure on the unemployed to accept unsuitable and low-paying positions. In particular, women with child-care duties could be negatively affected. Experts, on the other hand, do not feel that the present rules will harm the Austrian labor market and expect the new rules regarding commuting times to facilitate the matching of unemployed persons with openings. On the whole, only modest effects are expected from the reform.

Finland:

Major reform of
the Aliens Act

Innovation **

Impact **

Interest ****

In a reform of the Finnish Aliens Act, the basic structures for issuing work and residence permits have been merged into one system to align immigration with the requirements of the labor market. The bill is connected to the EU's expansion in May 2004, and the decision to impose a temporary delay in liberalizing the free movement of labor from the accession countries (except Malta and Cyprus) for at least two years.

The current Finnish Aliens Act dates from 1991. Since that time, the number of foreigners in Finland has increased considerably. In 1990, there were only around 20,000 foreigners in the country; at present, they number around 110,000. Though at around 2 percent, the proportion of foreigners (according to citizenship) is still one of the lowest in Europe, it is expected to rise swiftly because of the expansion of the EU. The rapid aging of the population will reduce the size of the working-age population, with the resulting shortage of labor leading to stronger demand for foreign workers.

As of May 2004, work permits are no longer issued as separate documents. Instead, a residence permit is a precondition for an alien's employment in Finland. The new combined residence and work permit will no longer apply to a single employer but to an entire branch of the economy.

The procedure for issuing worker's residence permits would have two phases. First, the employment office would take the

requirements of the labor market into account before issuing a permit. Next, the permit would be issued by the Directorate of Immigration if there were no restrictions relating to public order or security. The proposed system would be a more efficient and flexible instrument of labor policy than the present one.

The proposal also introduces two major changes relating to the issuing of residence permits. First, it is proposed that the authority for issuing residence permits to all persons residing abroad be transferred from Finnish diplomatic or consular missions to the Directorate of Immigration. In the future, Finnish missions would issue only visas.

Second, in the future, family members of Finnish citizens will be able to enter Finland and apply for the permit in Finland. Under current practices, applicants must submit their applications abroad. Also, family members of a Finnish citizen who are EU citizens would be treated in the same manner as EU citizens using their right of free movement. No marked changes are foreseen for the content of provisions on international protection, and it is proposed that asylum procedures be kept largely identical to those stipulated by the present law.

The last important legislative amendment concerning asylum procedures in Finland came into force in July 2000. It was aimed at speeding up asylum procedures and reducing the number of groundless applications.

↳ Critics, particularly unions, have called for tighter controls on the inflow of foreign workers, especially illegal immigrants. Experts find the bill essential for a better functioning labor market but do not think it sufficient as part of a specific and deliberate immigration policy in the context of rising demand for skilled foreign labor.

The new (Liberal) government of Ontario is increasing the province's minimum wage gradually, beginning in February 2004 and continuing through February 2007, following the previous (Conservative) government's wage freeze in place since January 1995. The minimum wage will increase from €4.20 to €4.40 in 2004; to €4.60 in 2005; to €4.75 in 2006; and to €4.90 in 2007. The gradual phasing-in of Ontario's minimum-wage rate over four years is intended to enable businesses to adjust to these increases

Canada:

Ontario increases minimum wage

Innovation **

Impact ***

Interest ****

so that they can remain competitive with those elsewhere in Canada and in the U.S.

Canada has 14 minimum wage rates that vary widely, with each of the 10 provinces and three territories setting and monitoring compliance to their own minimum wages.³ A significant number of Ontario workers, estimated at 223,500 in 2000, work for the minimum wage, although they account for only 4.5 percent of all employees in the province. The minimum wage work force ranges from a low of 2 percent in Alberta to a high of 8.7 percent in Newfoundland.

Ontario, though, has the largest share in Canada of both minimum-wage workers and of employees overall. This means that the province's rising minimum wage affects a considerable group—38.5 percent at last count—of Canada's minimum-wage work force. Minimum wage workers remain substantially below the poverty line.

Critics argue that raising the minimum wage is a "job killer" that hurts lower-paid individuals. They maintain that the increase will cause employers to trim their payroll costs and reduce the employment of low-wage workers. Experts counter the job-killer claim by pointing to Canadian and U.S. research that has shown that modest and phased increases are easily borne by employers and may have positive results for employers (e.g., by reducing employee turnover and the resulting loss of on-the-job training benefits).

France:

New lifelong
vocational training
plan

Innovation ****

Impact ***

Interest **

A new lifelong vocational-training plan has been introduced in France as a by-product of the latest bargaining round between the country's industry and labor social partners. In exchange for an increase in financial contributions by employers to lifelong training and a guarantee of 20 hours' training to employees each year, trade unions agreed that part of vocational-training plans takes place outside regular working hours for half of normal wages.

3 The federal minimum wage, which covers private sector industries that are inter-provincial or international in scope and, in practice, federal government employees, is set the same as the provincial/territorial rate in each jurisdiction.

Continuing vocational training has made progress through collective bargaining and legislation for 30 years. A national employer contribution based on a percentage of the payroll was made compulsory in 1971, and employees have a legal right to vocational training. However, a large part of the working population does not have access to continuing vocational training. These individuals are mostly low-qualified, part-time, and aged workers, and those working in small and medium-sized companies, mainly in industries such as farming, construction, and services.

Starting in 2004, firms with more than 10 employees will be required to devote 1.6 percent of their annual payroll to the training of their employees (instead of 1.5 percent as before).⁴ Firms with fewer than 10 employees will have to contribute 0.4 percent beginning in 2004, and 0.5 percent beginning in 2005.

The training funds will be managed jointly by firms and employee representatives (in the same fashion as an unemployment-insurance or supplementary-pension plan). Full-time employees are granted at least 20 hours vocational training per year as part of the provision called the “individual entitlement to training” (French acronym: DIF). The DIF is accrued each year, is transferable to a new job, and can be accumulated during a six-year period up to a maximum of 120 hours. If the training scheme takes place outside regular working hours, the employee receives from the employer a benefit equivalent to half his or her regular wage.

The training plan is to be chosen by the employee, but it requires the agreement of the employer. The three existing types of training contracts take the form of a series of periods of practical vocational experience and periods of theoretical training aimed at young people, and are to be consolidated and reduced in time (from 24 to 12 months, and from 25 percent of the working time per week to 15 percent).

For employees in permanent employment who need to acquire new skills (e.g., employees who lack technical or organizational qualifications, employees having worked for more than 20 years or who are older than 45, employees planning to set up their own

4 On average, firms’ expenditures dedicated to continuing training reach 3 percent, considerably more than the legal contribution (the figure varies, however, from firm to firm).

companies, and women resuming work after maternity leave), periods of vocational training are to be introduced. Apprenticeships (contracts that include initial on-the-job training and training organized at an apprentice training center) are open to persons over the age of 25. The law also raises the upper daily limit on working hours for apprentices from seven to eight.

➤ Critics, especially among the (left-wing) opposition, feel that the training contract replacing past contracts has been excessively reduced and thus prevents young workers from taking exams and acquiring qualifications. In addition, they point out that setting a ceiling of 120 hours on individual entitlements to continuous vocational training is too restrictive. In addition, government resources will be reduced because employers will be exempted from paying social security contributions on the allowances they pay to employees undergoing training. The opposition also argues that the notion of “lifelong vocational training” focuses too much on employer needs and too little on those of individuals seeking to acquire new skills.

Still others point to the lack of funding. Today, employees receive an average of six hours of training a year, while according to the new law they should have access to 20 hours of training courses. The contributions paid by employers, however, have only been increased by one percentage point.

Experts regard this reform as an interesting step in the direction of promoting “lifelong learning” and expect that it will increase the participation in training of less skilled workers and of those working in firms with fewer than 10 employees. However, they also see drawbacks to this reform. First, there is no complete transferability of rights yet; second, many of those with short-term contracts will not obtain access to training, as eligibility for this requires workers to have spent at least a year with their companies.

United Kingdom:

Anti-discrimination
legislation introduced

Innovation ***
Impact ***
Interest ***

The government is midway through the process of implementing the antidiscrimination measures adopted by the EU in 2000, and is merging the various existing equality institutions into a single body. The United Kingdom has had legislation on sex discrimination in employment since the 1970s, as well as on race discrimination (unlike many other European countries). However, addi-

tional legislation was required by the EU Employment and Race Directives outlawing discrimination on the grounds of age, religious beliefs, and sexual orientation.

Most of the new legislation came into force in 2003. Amendments to the Disability Discrimination Act 1995 took effect in October 2004, and new legislation outlawing discrimination on the grounds of age will be in effect by the end of 2006. Part of the implementation process is an attempt to merge the separate equality bodies (the Equal Opportunities Commission, Race Relations Commission, and Disability Rights Commission), which currently cover different aspects of the equality agenda.⁵ The three existing equality bodies are to be merged into a single entity, provisionally titled the Commission for Equality and Human Rights. A 24-member task force has been established to advise on the implementation of this decision, which will likely take effect in 2006.

↳ There has been little opposition to these measures, but there are uncertainties as to the precise implications of some of the provisions (notably on religious beliefs) that may have to be tested in the courts. There are also doubts about how aware employers and employees are of the new laws. Unions have claimed that there are loopholes in the legislation, for example regarding the continued ability of pension plans to favor married people. There are some fears that merging the three current equality bodies may be used as a cost-cutting exercise. Experts state that much will depend on how well-funded the new commission will be.

Changes and Results

Doing away with mandatory retirement was part of the election promise given by the Conservative government in Ontario (see issue 9, p. 30). The Conservatives lost the election, but the Liberals, who won, have stated that they will also push to ban mandatory-retirement rules.

Canada:

Ban on mandatory retirement rules in Ontario promised

⁵ The exception here is in Northern Ireland, where a single Equality Commission has existed since 1998.

The prime minister of Canada, Paul Martin, has stated that mandatory-retirement rules should be prohibited. Although jurisdiction on this issue lies largely at the provincial rather than the federal level, the federal government could play a role in asking the Supreme Court of Canada to reconsider a ruling made in 1990. This ruling stated that mandatory retirement rules do not contravene provisions of the Charter of Rights and Freedoms, and are hence allowable.

In addition, some commentators still feel that there is a possibility of labor shortages over the next few decades as baby boomers leave the work force. Letting workers continue to work as long as they want, they say, could help ease the expected shortages. However, a recent poll showed that 45 percent of workers disagree with the statement made by the prime minister that companies should not be allowed to force workers to retire at a certain age.

⇒ Experts continue to hold that the ban on mandatory retirement rules in Ontario should be carried out simply for the freedom of choice it will afford. However, behavior is unlikely to change noticeably, and for this reason prohibiting mandatory retirement will not play a significant role in easing the assumed labor shortages.

Switzerland:

Smooth implementation of Treaty on the Freedom of Movement between Switzerland and the EU

The first steps of the gradual establishment of the freedom of movement between Switzerland and the EU have gone fairly smoothly (see issue 7, p. 42). Even taking into account that the movement of persons into Switzerland is not yet fully liberalized⁶, there is no need to expect high flows of migration after full liberalization of labor movement.

The initial demand for permanent working permits in Switzerland was quite high, however, and the first quota of 15,000 permanent permits for EU citizens was exhausted after 10 months. Yet this massive demand overestimates the effect of the liberalization on the labor market. When the earlier bilateral treaties came into effect, many former cross-border commuters transferred their domicile to Switzerland. As these people had already

⁶ Transition rules are currently in effect: employees from EU member countries will still need a working permit until May 31, 2007.

worked in Switzerland before, these transfers had no major effect on the labor market.

Perhaps the greatest effect was on small and medium-sized firms, which until recently were restricted in their possibilities for permanently employing foreigners. These enterprises are now able to satisfy their need for medium- and low-skilled workers. As a result of these developments, the largest increase in immigration was from Germany (a traditional source of many cross-border commuters) and Portugal (probably satisfying the need of smaller and medium-sized firms for medium- and low-skilled workers).

In contrast to the pronounced demand for permanent permits, demand for short-term working permits in Switzerland was quite low. Because of the difficult economic situation in the relevant sectors (mainly agriculture and the hotel and restaurant industry), only half of the annual contingent (115,000 permits) has been exhausted.

With the enlargement of the European Union by 10 new members in May 2004, the question of the extension of the Treaty on the Freedom of Movement to the new member countries arose. The European Union originally insisted on equal treatment for old and new member countries, and an enlargement of the quota that corresponds to the EU enlargement (i. e., by 20 percent, meaning 3,000 new permits). Switzerland, however, is reluctant to allow such a large increase in the quota and is seeking to maintain control over immigration from the new member countries for as long as possible. Negotiations concerning this topic continue.

In the meantime, the regulations for mutual recognition of health insurances pose some problems as well. The first challenge arises from the right to choose where to be insured. As soon as employees are subjected to compulsory health coverage in Switzerland, they can opt between health insurance in Switzerland or in their country of residence. However, this right of choice can be exercised only if the employer is a resident of a country that allows for the right of choice in health insurance (which is not the case in all EU countries).

A second difficulty arises from structural differences between the Swiss and EU health systems. The prevailing principle of

health insurance in the EU is coinsurance (i.e., nonemployed family members are automatically coinsured with the employed family member). In contrast, Switzerland's health insurance system is based on separate insurance coverage for each family member.

Several other adaptations in the area of social security were also necessary. Cooperation between Swiss and EU offices, however, is generally considered to function well, and after a phase of adjustment, most elements of the transnational social security system are now working without major problems. Especially in the beginning, the static nature of the bilateral treaties proved problematic: the treaties refer to EU law at the point of time when the treaties were signed. This leads to problems because of the dynamic nature of EU law, which is particularly pronounced in the area of social security.

This problem is solved through an accelerated adjustment procedure, in which the joint committee (the body that administers employment contracts) can easily modify a contract as long as no new commitments for Switzerland or legal changes in Swiss national law are involved.

⇒ Experts argue that even after full liberalization, a massive influx of immigrants, which is Swiss citizens' biggest fear with regard to the bilateral agreements, is unlikely to materialize. In this regard, one of the major arguments against bilateral negotiations has become unsustainable. The positive experience with the bilateral treaties can be expected to have a beneficial impact on both the negotiation of a new round of bilateral treaties with the EU (which is currently under way), and on public opinion in Switzerland regarding the country's further integration into Europe.

In the area of social security, however, perhaps the biggest flaw in the bilateral approach became apparent: as the treaties are basically static, continuous adjustment is necessary. This in turn increases uncertainty and transaction costs. There is some evidence that this has posed an obstacle to highly-skilled immigration from EU countries.

Industrial Relations

Two reforms from Denmark and Canada are reported in this section of the monitor. Quebec allows nonunion businesses to subcontract to unionized workers without incurring the obligations in union contracts. The measures are part of a broad effort to become more competitive relative to other Canadian provinces.

In Denmark, the Confederation of Danish Industries and the Central Organization of Industrial Employees renewed the collective agreements in the industrial sector for a three-year period, setting the standard for the remaining collective agreements. In exchange for a no-strike agreement and more flexibility in working times, the agreement provides employees with a number of social improvements.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Quebec has amended its labor regulations to simplify subcontracting by allowing nonunion businesses to subcontract to unionized workers without incurring the obligations in union contracts. The measures are part of a broad effort to become more competitive relative to other Canadian provinces.

Quebec is Canada's second most populous province, and the province with the highest proportion of its work force unionized and hence extensively covered by collective-bargaining agreements. Before the amendments, firms contracting out have been required to honor the terms of their collective agreement contracts, regardless of whether the subcontracting firm itself was unionized.

The Liberals, in government since April 2003, campaigned on a platform that was explicit regarding proposed changes to many

Canada:

Quebec labor
regulation amended

Innovation ***

Impact *****

Interest *****

social programs. These included a revision of the Labor Standards Act to eliminate this requirement to honor such contracts. Opposition to the reform has been particularly fierce among the unions. In fact, increased subcontracting may lower wages among public-sector workers whose services are privatized. Average income, however, is expected to remain about the same, because entrepreneurs running small companies can hire more efficiently and so become more profitable. Overall productivity, meanwhile, is expected to be positively affected.

The Liberal government has argued for its reforms by expressing the belief that the highly taxed and regulated Quebec economy is not able to compete effectively with other jurisdictions. The changes are part of a larger package of reforms that includes merging union bargaining units in the health sector, barring union accreditation in private nursing homes and day-care centers, and raising the user cost of public day care from \$5 to \$7 per day. However, some regulation on subcontracting is maintained by the reforms: The new law forbids employers from subcontracting their core business or from simply removing a union. This reform is a major challenge to the authority that Quebec's labor unions have typically enjoyed in the past.

⇒ Critics, particularly within the unions, fear that the reform will lead to major drops in average wages and will negatively affect job security. In the meantime, they argue, businesses will earn ever-larger profits. On the other hand, some commentators (mostly outside Quebec) have said that the reform could go even further, for example by removing the safeguard that currently prohibits firms from subcontracting parts of their core business. They point out that even with the new reform, the labor market of Quebec is still heavily regulated relative to the labor markets of other Canadian provinces.

Experts find that the most important aspect of the reform is that it proves that the government is able to take a stand against the unions. Quebec, like many Canadian provinces, has looming difficulties with the financial sustainability of its social programs. This reform marks an important first step, and its success will pave the way for support for further necessary regulatory reforms.

The Confederation of Danish Industries and the Central Organization of Industrial Employees in Denmark renewed the collective agreements in the industrial sector for three years. In exchange for a no-strike agreement and more flexibility in working times, the agreement provides employees with a number of social improvements. The agreements cover the largest and most important part of the private sector, and they set the standard for the remaining collective agreements.

Denmark's current minimum wage of €11.80 is to be increased by €0.30 per year. The pension rate is to be increased from 9 percent to 10.8 percent during a three-year period, with the employee paying a third of the increase. Payment of apprentices has been increased by an average of 4.5 percent per year, and full pay during illness has been extended from five weeks to nine. One week's pay has been introduced for parents whose children are hospitalized.

Payment for public holidays and Sundays is to be increased from 3.5 percent of pay to 4 percent, and 24 December is a national holiday. For dismissed workers with more than three years' seniority, the employer must pay for two weeks of vocational training. The collective agreement contains special clauses on varied weekly working times. Departure from the agreement on the local level is possible, provided shop stewards and company management approve. It is no longer necessary to acquire approval of the national organizations for such deviations.

Full pay during parental leave is to be extended from 14 weeks to 20. The maximum pay per hour during the last six weeks will be €16.50 and will be available for both men and women. Furthermore, full pay for the last four weeks of pregnancy leave has been introduced. In this respect, a completely new clause regulating the possible consequences of the new legislation has been included.

If legislation concerning the costs of employers in connection with parental leave, including legislation about a central parental leave fund, is introduced, the political parties will restart negotiations and may even suspend the respective clauses if no agreement can be reached. This is based on an ongoing political debate about the potential need to establish a maternity-leave fund to help secure a more equitable distribution of expenses with re-

Denmark:

New collective agreement highlights weaknesses of Danish labor negotiations model

Innovation ***
Impact ***
Interest ***

spect to improved maternity leave. Today, some sectors of the labor market in which women primarily are employed are more affected than others by the additional expenses in connection with maternity leave. Currently an all-party parliamentary working group is crafting a proposal for such a maternity fund.

➤ The special maternity fund clause in the agreement has fueled the debate about having a centralized fund. Some observers argue that the clause can be seen as indirect and threatening pressure on the government, whereas the parties behind the agreement regard the clause as a guideline for politicians.

Experts point to the fact that the agreement within a decentralized system tries to deal with a central problem of the gender-differentiated Danish labor market. It is especially in industrial areas where very few women are employed that the incentives to participate and to achieve collective and joint solutions to this problem are virtually nonexistent. Consequently, this reform highlights some of the weaknesses of the so-called “Danish model” for labor-market negotiations, i.e., a model with decentralized negotiations between the parties in the labor market instead of centralized negotiations or laws passed by parliament.

Changes and Results

United Kingdom:
1999 Employment
Relations Act
working well with
only modest changes
needed

In 2002, the United Kingdom government announced a review of the operation of the 1999 Employment Relations Act, inviting comments from interested parties. It concluded that the act is, in general, working well, but that some changes were desirable. The centerpiece of the 1999 Act was the new procedure for the recognition of trade unions. The new Employment Relations Act 2004 was passed in September 2004. It clarifies some of the provisions and will marginally benefit trade unions. The bill also enables the government to issue regulations implementing the 2002 EU Information and Consultation Directive.

Furthermore, the procedures for enforcement of the national minimum wage will be strengthened. The law on strikes and strike ballots will be simplified, and strikers will receive some protection against dismissal. Trade unions will obtain powers to expel racist activists, and some individual employment rights will

be strengthened. A late amendment to the bill provides for a fund of €11 million to assist unions in modernizing their organizations. The act has become effective.

⇒ The changes are relatively modest. The Trades Union Congress called for substantial amendments to strengthen the 1999 act, but the employers lobbied strenuously against this. The outcome clearly favors the employers' view.

General Important Developments

Federal elections were held in Switzerland on 19 October 2003. As a result, the federal government has undergone a pronounced shift toward the political right, which is likely to have an impact on major policy fields.

The Dutch Ministry of Social Affairs and Employment hailed the year 2004 as a “turning point in the field of social security.” The basis of social policy in 2004 is the idea that everyone who can work should work.

Denmark has begun restructuring the nation’s county and municipality structures in order to maintain and further develop a decentralized public sector that remains focused on citizens’ needs. The Danish government has also established a commission to analyze future challenges to the Danish welfare system, and to make recommendations on possible reforms. The government seeks to understand how resources are currently used in the system, and how best to prepare for future challenges.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

Denmark:

Restructuring county and municipality framework

The Danish government has begun restructuring the nation’s county and municipality framework. Driving the reform are the substantial changes the public sector has undergone in the past decades, which necessitate adjustments to the distribution of responsibilities and tasks among the various jurisdictions. The reform is intended to contribute to maintaining and further developing a decentralized public sector that remains focused on citizens’ needs.

There are 14 counties and 275 municipalities in Denmark. The existing distribution of assignments between the central govern-

ment, counties, and municipalities is the result of a 1970 reform that reduced the number of counties and municipalities. Regarding responsibilities, the central government is in charge of the police, the armed forces, the judicial system, development aid, the foreign service, higher education, technical schools and research, unemployment insurance and workplace environment services, as well as some cultural organizations, economic support, and the processing of asylum seekers.

The counties are responsible for health services and insurance, higher secondary schools and youth education services, care for the mentally and physically handicapped, certain cultural activities, and regional public transport. The municipalities are in charge of primary schools, day care and care for the elderly, libraries, sports and cultural facilities, payment of cash benefits, early retirement pensions and other social benefits, and labor market programs for the noninsured unemployed.

The government appointed a commission in 2002 to evaluate the public-sector structure and develop a basis for future decisions. The commission concentrated on the following criteria: efficiency and sustainability, democratic control, citizen involvement and dialogue with government, service quality, citizen accessibility to services, citizens' legal rights and options, clarity in the distribution of responsibility, and the connection between qualifications and economic responsibility. In addition to these criteria, the commission also included simplicity and manageability as important evaluative factors. This commission finished its work and presented its findings and proposals in January 2004.

The commission identified a number of weaknesses with the present structure and distribution of responsibilities, and came to the conclusion that the public sector as it is currently organized is not able to cope with future challenges. The weaknesses are linked partly to the distribution of assignments between the central government, counties, and municipalities, and partly to the sizes of the counties and municipalities (exacerbated by growing mobility and increasing commuting distances).

The commission recommended increasing the minimum size of the different units at the local and regional levels, and rationally grouping and redistributing tasks among them. Citizen access to the public sector will be simplified as a result of formerly sepa-

rately handled tasks now being grouped together in municipalities and counties of a certain size. In order to accommodate future challenges, particularly in health and planning functions, it was recommended that Denmark be divided into at least three regions, with seven to eight regions the target.

On the municipality level, the commission found that a minimum size of 30,000 residents is required for carrying out tasks related to municipal social and psychiatric services, and as the basis for greater municipal responsibility for environmental and urban planning. This size of a municipality will presumably be economically sustainable and therefore able to establish a uniform employment system.

The commission lists six different structure models, each focusing on different demands on the number and sizes of municipality and county units. Concerning employment, the commission believes that the currently divided system should be integrated into a system at the municipal level to enable better and more uniform service provision. Greater efficiency would arise from centralizing tax administration at the central government level, which today is divided between the central government and the municipalities.

The commission published its report at the beginning of January 2004. Since then there has been a lively debate about the future structure of the public sector. A serious issue is the merger of different municipalities, and the advantages and disadvantages the changes would bring. Some wealthier municipalities are concerned about the possibility of being merged with poorer ones, and are therefore seeking to make arrangements with other wealthy areas.

In this context, there has also been a discussion about the possibility of allowing citizens to vote for the municipality they would like to see their municipality merge with. A majority of municipality mayors, however, is opposed to this way of deciding the form of restructuring. In the meantime, the debate in the media has highlighted the cases of small and well-run municipalities opposed to such mergers.

Despite arguments against the proposed changes, it is clear that the government will proceed with restructuring the nation's public sector. Using the commission's results, it presented its

views on structural reform in April 2004 in a manifesto called “The New Denmark” (“Det nye Danmark”). In June 2004, an agreement was struck between the government and the conservative Danish People’s Party, in which the main elements of the reform were laid out:

- The 14 Danish counties will be replaced by five regions.
- The regions will primarily be responsible for health care, general urban planning, collective transportation and a number of social-welfare institutions.
- In contrast to the counties, the regions will no longer have the right to impose taxes.
- Through mergers, the number of municipalities will be reduced from 275 to around 100.

Final discussions in parliament and a decision are expected in the first half of 2005. If everything proceeds as planned, the new structural reform will become effective by January 2007. Regardless of the final outcome of public-sector restructuring, it will greatly affect the way tasks and responsibilities are allocated in such diverse areas as health care and employment policy, and many others.

The Danish government has established a commission to analyze future challenges to the Danish welfare system and to make recommendations on possible reforms. The government seeks to understand how resources are currently used in the system, and how best to prepare for future challenges.

Denmark:

Welfare commission established

The Danish welfare system, like those in many other European countries, is under increasing pressure because of demographic changes. Calculations have shown that by 2025, the share of the nation’s population over 64 years of age will increase by more than 40 percent. During the same period, however, the share of economically active individuals will decrease by about 5 percent.

The welfare commission’s task is to analyze how resources are currently being used in the welfare system, the expected pressure on welfare benefits through 2020, and the possibilities of financing these expenditures without raising taxes. It will also investigate the social balance in welfare benefits and financing, and produce reform proposals aimed at securing a socially balanced

and goal-oriented policy toward groups in the greatest need of aid. The commission is also charged with outlining the strategies other European countries have initiated to deal with similar challenges.

The government has decided to fund the commission, consisting of a chairman and eight expert members, with roughly €13 million over a four-year period. An important objective of the research is to develop methods for identifying and measuring the effects of public initiatives in the welfare sector.

Besides the overall strategic goals, the research will focus on specific items currently on the political agenda. These include: (1) employment policy; (2) negative social-inheritance issues (e.g., at-risk children and young people, and remedial instruction); (3) a special initiative for the integration of ethnic minorities; (4) other at-risk groups; and (5) the organization, development, and implementation of the different measures.

In the employment area, the program gives priority to research on employment policy incentives. In connection with negative social inheritance, the research looks into ways of breaking the patterns of social deprivation. The third area involves research on the networks that immigrants and their descendants are part of, and specifically their influence on immigrants' employment and integration opportunities. The focus of the last research area is the organization of the welfare sector, specific control instruments, and how political decisions are being put into action.

A review of international tendencies and conditions is also to be included. The commission's final report is expected by the end of 2005.

Switzerland:

New composition of
federal government

Federal elections were held in Switzerland on October 19, 2003. As a result, the federal government has undergone a pronounced shift toward the political right which is likely to have an impact on major policy fields. Lower public expenditures, particularly for social security, can be expected. Furthermore, market-oriented reforms in the health system are more likely. Finally, accession of Switzerland to the European Union can now clearly be ruled out for the rest of the decade.

The outcome was a continuation of the marked trend toward polarization that has shaped Swiss politics throughout the last

decade. The winner of the election was the right-wing Swiss People's Party (SVP), which is now the strongest party in parliament. The left-wing Green Party and Social Democratic Party also gained greater representation. The clear losers were the centrist parties, i.e., the Free Democratic Party and the Christian People's Party (CVP). As a result of the federal elections, the SVP demanded and received a second seat in the governing federal council at the expense of the CVP.⁷

In a historic vote on 10 December 2003, the federal parliament replaced one of the federal councilors of the CVP by the de facto leader of the SVP, Christoph Blocher. For the consensus-oriented Swiss political system, this was a landmark decision, particularly since the CVP often served as a mediator between the left and right. For the first time since 1871, an incumbent federal councilor did not get re-elected, leading to the first rearrangement of the federal council's party composition in more than 40 years. In a related election of a vacant council seat of the Free Democratic Party, the federal parliament elected a right-winger.

In September 2003, the Dutch Ministry of Social Affairs and Employment announced 2004 as a "turning point in the field of social security." The new idea is that everyone who can work should work. A new plan for the Disability Benefits Act, a new act on social assistance and unemployment benefits as well as alterations in early retirement and prepension arrangements have been announced. The reason for these changes is the economic recession, with the Dutch secretary of social affairs arguing that labor costs must be brought down in order to stimulate the economy.

Netherlands:

"Taking responsibility for oneself"

7 In Switzerland the federal government consists of seven Federal Councilors with equal rights. Since 1959 the distribution among the different parties was made according to a so-called "miracle formula" which allocated two seats each for the Social Democratic Party, the Free Democratic Party, and the Christian People's Party. The Swiss People's Party had only one seat as it was the smallest of the four major parties in 1959. However, the Christian People's Party has continuously lost voter support throughout the 1990s and is now by far the smallest of the four parties in the Federal Parliament; the Swiss People's Party, on the other hand, has steadily attracted more voters over time.

In addition, there have been a number of measures to cut social expenditures, mostly by raising individual contributions. With regard to disability benefits, the ministry aims to bring down the number of people covered by the Disability Benefits Act by around a third. Benefits will be provided only to people who have no prospects at all of being re-employed. The new system of disability benefits is to be completely implemented by 1 January 2006. The extension of the employer-paid sick leave is part of the new system.

In the “autumn negotiations” of October 2003, between the country’s industry and labor social partners, a wage freeze was agreed upon for new collective agreements in 2004 and conditionally for those in 2005. Because this measure also entails a freezing of the minimum wage, benefits linked to the minimum wage have not risen in 2004.

The social partners agreed to this wage freeze on the condition that the government and social partners would reach an agreement on the phasing out of early retirement and prepension plans, as well as on a new disability benefit plan. After fierce debate and a breakdown of negotiations in May 2004, a compromise was reached in November 2004.

The unions agreed to the government’s proposal to end tax breaks for early-retirement plans beginning in 2006, in exchange for a softer governmental approach to the reform of disability benefits. The government also agreed to shelve its plans for reforming unemployment benefits. In turn, the unions agreed to adopt a more moderate position on wage negotiations in the private sector.

Reforms in Other Policy Fields

Two interesting reforms from other policy fields were reported by our network partners in Austria and the United Kingdom. The Austrian government implemented the first part of a two-stage tax reform, with net tax relief for the country's citizens of €3 billion. One part of this first stage is an increase in the standard tax credit, with the objective to reduce the relatively high tax burden in Austria for low-income individuals. The tax cut is mainly deficit-financed.

In the United Kingdom, the current student-loan system will be replaced with a new and flexible one. The aim of the reform is to rationalize and reform the current unsatisfactory system of loans that requires students to pay up-front fees of €1,700 a year and repay their loans within a relatively short period after graduation.

Details of the reforms are available at www.reformmonitor.org, the project Web site.

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In Austria, the tax to GDP ratio had been increasing because of the budget consolidation process, with a relatively high tax burden on labor. Since 2003, the standard annual tax credit is €887, with the credit decreasing gradually the greater the amount of taxable income. Those with annual earnings above €35,511 are not entitled to the credit.

Austria:

First stage of tax reform implemented

Innovation *

Impact ***

Interest ****

The objective of increasing the standard tax credit is to provide complete tax relief for persons with yearly gross incomes below €14,500. In comparison, the median income of the wage-earner in the second tenth amounts to about €14,100; the income of the first quartile (25 percent of wage-earners earning less than that amount) amounts to €15,750. It should be noted that after the reform, employees must still pay social security contributions.

➤ The labor unions complain that the total tax reform package favors large businesses (reflected in the reduction of the corporate tax rate from 34 percent to 25 percent), and that the net relief for employees is too small (e.g., relief for low and medium incomes of about €400 million out of a tax-reform total in 2005 of €1.4 billion). Furthermore, the unions and the governmental Public Employment Service argue that the lowest tenth in the income distribution will not benefit from the reform. This is because these employees do not pay income tax in the present plan anyway, but are subject to energy taxes, which have been increased. Experts stress that the tax reform reduces the overall tax burden in Austria. The total tax relief for employees with yearly gross incomes up to €14,500 will boost take-home pay, but workers still must pay social security contributions. A further reduction of indirect labor costs, targeted to low-wage employees, should be considered.

United Kingdom:

Higher Education Bill to introduce variable fees and new student loan system

Innovation ****
 Impact *****
 Interest ****

The Higher Education Act became law in July 2004. It replaces the former student loan system with a new and flexible one. It also eliminates the annual up-front flat-rate fee of €1,700, which will be replaced beginning in 2006 by variable top-up fees of up to €4,500 a year. To cushion the effects of this reform and address claims that it will channel poorer students to lower-fee institutions, various forms of grant and loan repayment support for lower-income students are being introduced.

The aim of the reform is to rationalize and reform the current unsatisfactory system of loans, which requires students to pay annual up-front fees and to repay their loans within a relatively short period after graduation.

The government has recognized that the nation's universities need more financial support, and that investment in higher education exerts a significant influence on economic growth. The

government, though, is under pressure to prioritize other needs for public spending (e.g., health care, social security, and crime fighting). It seeks to raise additional resources for universities through student fees, rather than through taxation.

Proponents of the reform argue that since university education primarily benefits the middle class, and graduates on average enjoy higher earnings than nongraduates, continued blanket subsidies would have regressive social effects; students, therefore, should finance their own education. One aim is to direct money into cash-strapped universities, and particularly to increase the flow to elite institutions so that they can maintain their standing within an increasingly competitive global marketplace.

Instead of the current flat-rate system, universities will be allowed to charge from nothing up to €4,500 a year, and can vary fees between courses within their institutions. The ability to pay fees will be means-tested as before, but in addition to being exempted from the first €1,820 of fees, poorer students will also receive a grant of up to €4,100 if their parents have annual earnings of less than €22,900. There will also be fee exemptions and grants for poorer part-time students. In line with the recommendations of the Dearing Report, a regulatory body will be set up to oversee greater access for poorer students to universities.

Beginning in 2006, universities charging annual fees higher than the current €1,700 will also have to provide grants of €450 a year for poorer students. Loans will cover both fees and living costs and will be repaid through a single graduate repayment plan linked to the ability to pay. Repayments will commence on a salary of €22,600 a year after graduation (above the current €15,200 threshold), and like National Insurance, the payments will be indexed to income. Those who do not work or who earn less than €22,600 a year will not be required to repay their loans, and after 25 years the debt will be forgiven.

Loan amounts will increase in line with rises in the cost of living, and the interest charged will be based solely on the rate of inflation. There will be an independent review of the system after three years in 2009, and any change to the €4,500 cap on fees will have to receive parliamentary approval. The reform only applies to undergraduate (first) degrees, as there is already effectively a free-market system in place for postgraduate studies.

▷ Critics argue that a two-tier system will emerge from the reform, with the gap widening between elite universities and the rest as a result of variable fees. An increase in class differentiation is expected, with many disadvantaged candidates deterred from more expensive, elite institutions (although for these groups fee exemptions are being introduced). Critics also argue that the reform will lead to a shift to courses of study that yield a higher “return on investment” (e.g., economics or business degrees as opposed to those in sociology or the arts).

It is also argued that the reform will discourage entry into degree programs with long training periods, such as medicine. An alliance of the parties from the left (Labour rebels and Liberal Democrats) and the right (the opposition Conservative Party), as well as student groups such as the National Union of Students, came out against the reform. It was also opposed by special interests, such as medical students and the British Medical Association, because of the length of training during which top-up fees would be paid.

Some observers have pointed out that the necessary financial aid to universities is insufficient to cover the growing shortfall in expenditures and will not arrive until some years hence (after 2006). Universities have already applied for €12 billion in addition to the top-up fees to meet financial shortfalls. Two main proposals are advocated: either funding from general taxation (combined with a new higher tax rate for those earning higher salaries), or a specific graduate tax in addition to the income tax. The former is favored by leftist critics, while the latter is more pragmatically based.

The left also opposes the notion of a shift to a free market in higher education, particularly in regard to variable fees. For this reason, a fallback oppositional principle has been that it is variable fees in particular that are the most objectionable feature of the reform. There is a political argument in that the 2002 Labour Manifesto promised that it would not introduce top-up fees.

The Conservative opposition is perhaps opportunistically calling for an abolition of fees, but is now also opposing the government’s target of 50 percent of young people entering higher education. The argument is that in the long run, the €4,500 ceiling will be removed, which in turn will unleash market forces in

higher education. Some experts, on the other hand, feel that what has emerged is a confused compromise measure.

While there is a decisive shift away from a “citizenship model” of access to higher education, the claims of students from poorer backgrounds have figured prominently in the discussions. What this means is that although the market-oriented New Labour has won the day, it has had to make concessions because of the deep ideological conflict within Labour ranks. Nevertheless, many experts note that a key threshold has been reached that takes higher-education policy onto a new pathway.

Changes and Results

Prime Minister Paul Martin has scrapped the First Nations Governance Act originally submitted to parliament by his predecessor, Jean Chretien, but which never passed (see issue 7, p. 75).

The prime minister argued that the proposed act has poisoned relations between the federal government and aboriginals. Opposition to the act has been loudly voiced by the Assembly of First Nations (AFN), which alleges that it ignores the suggestions made by First Nations citizens during the consultation process, according to which the act was supposedly designed. They complain that the act contravenes the right to self-governance of First Nations people and threatens the possibility of future treaty negotiations.

The prime minister has indicated that there are plans for alternative First Nations reforms, and has formed a new cabinet committee on aboriginal affairs and named a new aboriginal secretariat in the Privy Council Office. The speech from the throne, given by Governor General Adrienne Clarkson on February 2, 2004 to open the current session of parliament, made several statements regarding aboriginal issues. One of these concerned the retention of an aspect of the scrapped First Nations Governance Act, namely the establishment of an independent center for First Nations government.

In the speech, the view was expressed that First Nations governance should be transparent and accountable, values also retained from the act. The speech only said, though, that the government would work with First Nations people toward this goal. In

Canada:

First Nations
Governance Act
abandoned

contrast, the act set out specific government guidelines for achieving this objective.

⇒ Experts find that abandoning the First Nations Governance Act is unfortunate, but hope its objectives will be achieved through new legislation that finds greater approval from the AFN. They point out that the opposition to the act seems largely to be motivated by a fear of loss of power on the part of tribal chiefs. The governance guidelines of the act were to a certain degree designed to reduce the power of chiefs, something that many First Nations citizens said was desirable during the consultation process.

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