

International Reform Monitor

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Industrial Relations

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Project Information

The “International Reform Monitor” is a project of the Bertelsmann Foundation. It is published semi-annually in German and English. Compact and up-to-date, it provides information from an international perspective on current reforms in the fields of social policy, labour market policy and industrial relations. Because reforms are reported on at the legislative stage and local government level as well, the reader has the opportunity to learn about international reforms, which have perhaps not been publicised in the respective countries.

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

A detailed description of each reform as well as further information on countries and research results in the fields of social policy, labour market policy and industrial relations can be found on the Internet under www.reformmonitor.org. Both the detailed description and the brochure draw on the partner institutes’ reports and do not necessarily reflect the Bertelsmann Foundation’s point of view.

Editorial

Not Enough People for Jobs?

It is a well-known fact that demographic trends seriously affect national welfare systems. One aspect, however, has not received much public attention, mainly due to current high unemployment levels: the future lack of skilled labour. Some occupations, such as in the information and communications technology branches, are already having difficulties recruiting skilled workers. Other sectors are also viewing the future with growing concern.

It is therefore not surprising that many countries of the Reform Monitor network are reporting reforms with the intent of increasing the number of people in employment, or improving worker qualifications.

Some countries report pension reforms promoting an increase in the labour supply by allowing workers to postpone their retirement. Sweden, for example, is offering the option of voluntarily delaying retirement until the age of 67. Spain's pension reform contains a flexible retirement system with partial pension benefits after the age of 65 as an incentive to stay in the labour market. Switzerland is gradually increasing the retirement age for women from 62 to 65 years.

A second group of reforms intends to reshape labour market institutions in order to increase employment levels. Both Australia

and Germany aim to bring the unemployed back to work more quickly and efficiently. Measures include individual re-integration plans, wage subsidies, and working credits. Switzerland, on the other hand, wants to create greater incentives to remain employed by lengthening the period that an individual must contribute to the insurance system before being entitled to unemployment benefits, while shortening the coverage period. Spain is offering financial support for worker training in order to increase the qualifications of its labour force.

A third group of reforms aims to increase the labour force participation rate of future generations. Many countries, for example, are offering financial incentives to make child-rearing more attractive. Austria is introducing universal child-care benefits so that more families will receive higher payments for a longer period of time. Similar tendencies can be reported from Denmark and Japan with their parental leave reforms. The USA wants to combine child-care policies and work incentives. They are doing this by continuing the policy of tax credits instead of cash benefits, and by extending the Child Tax Credit.

To increase the timeliness of our reporting, we have added a fourth category of reforms called “General and Important Developments”. Under this heading we will present reforms and developments in other areas which will surely have implications for our main policy fields.

Eric Thode

Andreas Esche

Kai Gramke

1 Social Policy

Health Care

A number of quite different reforms can be reported in this section of the Reform Monitor. Austria introduced flat co-payments for outpatient treatment in hospitals in order to redirect a steadily increasing number of patients to general practitioners who can provide similar care less expensively. The government in the United Kingdom wants to prepare the public for further privatisation of public services, especially in health and education. For the first time, Labour openly declared privatisation as the favoured option, a move controversially discussed within the party.

Denmark reports positive results from its public health programme and a second sickness insurance inquiry in Sweden suggests interesting details regarding sick-pay and employers' obligations. Details of the reforms are available on the project website www.reformmonitor.org.

In April 2001 the Austrian government introduced a new co-payment schedule for outpatient treatment in hospitals with the intention of redirecting patients to physician practices.

Hospital outpatient departments provide an important interface within the Austrian health care system. There is no strict "gate-keeping" that would require patients to see a family practitioner

Austria—
Flat Co-Payment for
Outpatient Treatment
in Hospitals
Introduced

Innovation **
 Impact **
 Interest ****

before seeking help in hospital outpatient departments. Patients can utilise outpatient departments directly by showing a health insurance voucher issued by the insured person's employer. Some 1,500 outpatient departments are available for emergency and acute care as well as for post-treatment and preventive care. This area of outpatient care has grown in recent years: in 1998, outpatient departments of public hospitals saw about 5 million cases, an increase of more than 35 percent over 1990. Between 1997 and 1998, the caseload increased by 5.1 percent, more than double the growth of previous years. Growth in per-case expenditures matched caseload growth.

The reform intends to redirect patients from outpatient departments to self-employed general practitioners (GPs) and/or specialists, assuming that similar care can be provided there less expensively. To achieve this aim, a flat co-payment of € 18.17 per visit in an outpatient department is charged, with an upper limit of € 72.67 per person and year. The lower rate of € 10.90 applies if patients are referred by a self-employed GP or specialist. Exempted from co-payments are: children who are still covered by their parents' insurance; persons needing emergency services who subsequently receive inpatient treatment; patients who are granted exemption from co-payments for medication; pregnant women in the course of recommended prenatal care; and patients for dialysis, chemotherapy, and radiation therapy.

The administration of co-payments is to be carried out by social insurance institutions, and doubts have been raised whether receipts from co-payments will cover their administrative costs. This could further weaken the position of the social insurance institutions, an issue which is being heavily discussed by the new government coalition. If the objective of steering patients from hospitals to self-employed doctors is fulfilled by the reform, the social insurance institutions will face higher expenditures for physicians (who are paid more or less on a "fee-for-service" basis). They will not, however, be able to reduce payments to hospitals since the social insurance institutions' financial contribution to the hospital sector is independent of the outpatient caseload.

► The reform has been criticised for having been introduced too fast and without proper preparation. Opponents criticise that ill

people are being penalised for something that is beyond their control. Furthermore, they point out that administrative costs might consume all of the reform's financial gains without delivering patients to more efficient providers. Patients could be redirected to self-employed doctors by increasing the number of doctors under contract with the social health insurance programme, and by implementing more flexible doctor's office hours. Experts also doubt whether the size of the co-payment is high enough to redirect patients.

During the general election campaign of May-June 2001, Prime Minister Tony Blair announced that the "ideological barriers" against the private sector providing public services are to be removed. This is to open the way for the contracting out of public services, especially in health and education. The goal here is to raise the quality and volume of services without significantly raising taxes before the next general election. It is not as dramatic a shift from the status quo as it might initially seem, since "New Labour" has promoted public-private partnerships on pragmatic grounds since 1997. What is now striking is the openly declared zeal for privatisation as the favoured option. There are deliberately no details—it is a declaration of intent and an attempt to "test the water" for a policy where the main role of the government in the future would be not to provide public services, but rather only to fund and regulate them. However, the first step has now been taken with an announcement in late August 2001 that in the future the NHS will provide funds for patients to travel abroad for treatment.

Since 1997 the government has relied on some form of public-private partnership, including the contracting out of prison construction and the rebuilding of hospitals. These moves are all based on the Private Finance Initiative (PFI) established by the previous Conservative government in 1992. Furthermore, the current government signed a Concordat with the Private Sector in 2000 as part of the NHS Plan ending Labour's historic hostility towards the private health sector. This has opened up the possibility of extending public-private partnerships in the health care sector (cf. Issue 4, pp. 9–12). There are also growing concerns by the government that inefficient or sluggish public services and vested pro-

**United Kingdom—
Proposed Shift to
Privatisation of
Public Services**

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

professional/trade union interests will hinder significant improvements in the quality of care. In its view, the private sector is capable of greater dynamism, efficiency, and responsiveness to the needs and wishes of patients.

The proposals have already generated some controversy, especially within the Labour party and trade unions. For the first time, unions with significant numbers of public sector workers have raised the issue of whether continued affiliation with and funding of the Labour party is in the best interest of their members. For the policy to be successful, the government will have to go over the heads of the public sector unions and deliver their message directly to a sceptical public. It must convince citizens that it will deliver real improvements, and that they should therefore not be concerned about the issue of who delivers health care services to them. The public, though mindful of public bureaucracy and mismanagement, is only too aware of the failures associated with privatisation in the break-up of British Rail. Consequently, they remain unenthusiastic about current plans to partially privatise London's subway service and its air traffic control system.

► A central argument against the proposal is that privatisation could fragment the provision of services and compromise efficiency, quality, and even safety. Opponents point to the purported failures of Private Finance Initiative hospitals and privatised prisons. They claim that these have led to excessive profits and inflated costs, as well as lowered service standards in the case of hospitals. Experts state that the government's approach overestimates the ability of the private sector to improve conditions in the health care sector. They also believe the government is underestimating the extent to which the public has become more politically mature and willing to accept tax increases in exchange for much desired public service improvements. An indication of this is the rejection of the Conservative party in the 2001 general elections after it promised major tax reductions, greater privatisation, and cuts in public expenditures. Furthermore, the policy might destabilise the political alliance that has successfully held the unions and the Labour party together. If it leads to serious discord, or even break-away political movements, it could damage Labour's prospects in the next election.

Changes and Results

First results can be reported from the Public Health Programme initiated by the Danish government in 1999. The programme consists of 150 different initiatives by ten different government ministries and aims to increase average life expectancy and life quality, as well as reduce social inequality in health (cf. Issue 3, pp. 10–11). The Campaign for Public Health, for example, resulted in an increasing number of hospitals formulating policies targeting the prevention of unhealthy lifestyles. For example, nine out of ten hospitals claim to have a policy aimed at preventing smoking and alcohol-related illnesses. Life expectancy has risen by one year for women and by one and a half years for men, even though Denmark's average life expectancy is still below the European average. The anti-smoking campaign seems to be effective and the percentage of young smokers among their peers has fallen from 25 percent to 21 percent. As a result, the anti-smoking campaign will be extended and supported with € 3.3 million in funding.

● The healthy lifestyle campaigns tend to be very broad in their scope. So far it appears that those who already enjoy a healthy lifestyle are noticing the campaigns, while those who are not living healthily are not paying attention to them. The social division among those leading healthy and unhealthy lives will have to be taken more closely into account in order to more effectively target the campaigns.

Changes regarding the sickness insurance inquiry can be reported (cf. Issue 4, pp. 14–15). Whereas the earlier inquiry stated that smaller companies would have to pay an annual maximum sick-pay amount equal to the average amount of sick-pay paid by all employers, the new inquiry intends to lower the payments to 75 percent of the average. This change was motivated by the fact that small companies generally have fewer absences due to sickness than do large companies. Furthermore, the earlier limit on sickness benefits (paid by the local social insurance office after the employer's obligation stops) to 365 days, including the employer's period, has been mandated. According to the new inquiry, an insured person could try to extend the sickness benefit period by declaring

Denmark—
Public Health
Programme—
First Results

Sweden—
New Sickness
Insurance Inquiry
Suggests Changes

the illness to be over for a short time, and then beginning a new period of sick-leave. The inquiry suggests that the insured should be entitled to a new benefit period only if the prior sick-leave period has been followed by 30 days or more of work. Additionally, the inquiry emphasises that it is the cash-benefit period and not the sick-leave period that should be limited to 365 days. If the sick-leave period is not continuous, the sickness cash benefit should be paid for a maximum of 365 days during a 450-day period.

By collective agreement between employers and trade unions, a large group of employees is entitled to an additional sickness cash benefit of 10 percent paid by the AGS (Group Sickness Insurance System) from the fifteenth up to the ninetieth day of sick-leave. If the employer's period is extended from 14 to 60 days, as suggested in the earlier inquiry, the extra benefit will in large part be lost since it is not paid during this period. Therefore, the inquiry suggests that when extending the employer's period to 60 days, sick-pay should be 90 percent of the sickness benefit-entitling income beginning at the fifteenth day of sick-leave.

Generally, sick-pay (the employer's period) covers employees who have been employed for more than one month or have been working for one employer continuously for 14 days. Those who are not entitled to sick-pay are entitled to sickness benefits from the regional insurance office according to the general insurance law. The new inquiry suggests that when calculating the employer's contribution to the sickness insurance system, a higher amount should be applied for those not entitled to sick-pay (e.g., those temporarily employed). The reason for this is to cover the actual difference in expenses for the sickness insurance system. This higher charge might be an incentive for businesses to employ more workers permanently.

Pensions and Social Security

A wide range of pension reforms can be observed in this edition of the Monitor—a welcome change from the fourth issue where only one new reform was reported. Whereas Switzerland and Sweden concentrate on retirement age, other countries such as Spain, Japan, and Sweden focus on structural reforms.

Sweden has introduced the right, but not the obligation to work up to age 67, and Switzerland is currently debating an increase in the retirement age for women to age 65 to ensure future funding in the government pension system.

The Spanish Prime Minister and the country's business and labour groups have agreed on the next steps of pension system reform. Whereas the separation of the system's funding sources has been postponed, improvements regarding early retirement, widow/widower support and minimum pensions levels can be reported. Japan has started to phase out tax-qualified pensions. These high-risk pensions will be replaced by a safer system to ensure payout even in case of company bankruptcies. Sweden will separate early retirement benefits from the pension system and replace them with sickness benefits and activity benefits classified as part of the health insurance system.

Germany split its pension legislation into two separate laws in order to pass as much of the legislation as soon as possible through the upper house of parliament. Details of the reforms are available on the project website www.reformmonitor.org.

The Prime Minister, employer organisations, and trade unions (cf. Issue 1, pp. 22–23) signed a new agreement in April 2001 establishing the next steps towards pension reform. The completion of the process of separating the sources of pension system funding has been postponed for up to 12 years. Meanwhile, the government's financial contributions supplementing minimum benefits will be increased. The reserve fund will be provided with between € 4.8 billion and € 6 billion by 2004. Widow/widower benefits will be increased from 45 percent to 52 percent of the full amount of the original benefit, and to 70 percent when the recipients have dependants and the benefit is their only source of income. The agreement also contains a flexible retirement system with partial pension benefits after the age of 65. Early retirement at the age of 61 will be made possible for those who have contributed to the system for at least 30 years (with an 8 percent reduction in benefits for each year before age 65). Reductions and allowances in pension payments are intended for women returning to work after maternity leave, and for older workers. From 2002 to 2004, the National

Spain—

New Agreement
Towards Pension
Reform

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

Institute of Employment (*Instituto Nacional de Empleo*, INEM) will support the pension system with around € 600 million per year to cover employer social contributions for returning women in the first year after maternity. Until 2004, € 420 million will be assigned each year to pay employer social contributions for workers over 60 years of age. The subsidies will make up 50 percent of payments for workers aged 60, increasing gradually to 100 percent for those aged 65. A new Social Security Agency (*Agencia de la Seguridad Social*) will be set up to simplify and rationalise management of the system. Furthermore, the government has agreed not to increase the number of years of employment taken as the basis for calculating pension entitlement until 2003.

► Similar to the situation in 1996, the agreement has not been supported by all business and labour groups. However, this time instead of the employer organisations, it was one of the country's two main unions, the General Workers Confederation (UGT), which failed to sign on. This has led to differences between this and the other major trade union, the Trade Union Confederation of Workers Commissions (CC.OO). Whereas the UGT criticises the long twelve-year period for separating the sources of funding, the CC.OO highlights such facts as: easier access to early retirement; the extension of the reserve fund; the improvement in widow/widower pensions and the supplements to minimum pensions; and the continuing participation of the trade unions in the design and monitoring of the pension system. The major employer organisations state that employer contributions to the pension system are a great burden for companies. For this reason, the employer organisations did not sign the previous pension agreement in 1996. Now, however, they believe that substantial improvements have been introduced.

Sweden—
Right to Work Up
to Age 67

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

Starting in September 2001, employees in Sweden will have the right, but not the obligation, to postpone their retirement until the age of 67. The retirement age is currently not regulated by law. However, an enabling rule came into force in 1991 potentially raising the retirement age from 65 to 67. It was believed that raising the obligatory age of retirement should be preferably settled by the social partners in collective agreements, rather than by impera-

tive regulation. Only if no adjustments could be agreed upon by 2000 should imperative regulation on this issue be considered.

The retirement age is currently regulated by collective agreements for most employees in Sweden, with the retirement age generally set at 65. For some workers, such as fire-fighters, air traffic controllers, and military personnel, the retirement age is even lower. When turning 65 or reaching an agreed upon earlier retirement age, the employee is entitled to just one month's termination notice. Furthermore, these employees do not have priority in keeping their jobs if the employer needs to cut staff.

The underlying motives for the reform are mostly of a demographic nature related to the fact that life expectancies have been continuously increasing over the last several decades. Consequently, the number of pensioners has been increasing relative to the size of the labour force. On the one hand, this means that fewer working people must support a larger group of pensioners. On the other hand, this demographic shift will result in future labour shortages. Some occupations are already having difficulties recruiting people (e.g., teachers and skilled workers). Therefore, those who wish to and are able to continue working beyond the age of 65 will increase their personal pension benefits while mitigating the demographic impacts. They will also keep work experience and skills within the labour force.

Beginning in September 2001, all agreements which call for mandatory retirement before the age of 67 will be declared invalid, and future agreements, which include a call for retirement before the age of 67, will be deemed illegal. An exception will be made for those agreements that will expire by the end of 2002. Agreements granting employees the right to retire early, however, will continue to be allowed. Shorter termination notification periods will be prohibited, and employees over the age of 65 will have special rights in the event of lay-offs.

The age limit allowed for those providing medical treatment, physiotherapy, and dental care (e.g., physicians, physiotherapists, dentists, and dental hygienists) is being raised from 65 to 67.

◉ Some argue that strict regulation without exceptions may cause problems because retirement age stipulations in some occupations are based on health and safety concerns (e.g., for fire-fighters, air

traffic controllers, and military personnel). Also, if an employee wishes to remain employed and the employer has no need or alternative assignment to offer, the employer will generally find a reason to give notice other than age. It is also argued that this regulation may lead to an increase in labour disputes and court cases. Furthermore, giving employees between the ages of 65 and 67 priority over younger employees when staff is cut may not be reconcilable with the aims of job security legislation. This is because younger workers generally lack the same income security as older workers. Experts note that imperative regulation is not the norm in Sweden, but with this reform the government puts the interests of the individual employee above the traditional goal of achieving collective agreements between labour and business interests. A negative effect of the reform, especially during a recession, is the preferential treatment of older workers during lay-offs. This is particularly so for smaller companies with high labour costs.

Switzerland—

Revision of Pension
System Raises
Women's Retirement
Age and Introduces
More Flexibility

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

Switzerland is experiencing the same demographic shifts and longer life expectancies as other industrialised countries. These trends are behind Switzerland's currently debated¹ reform of its "first pillar" government pension scheme² (AHV). To ensure future funding of the government pension system, the retirement age for women will be increased to 65. It will thus match the retirement age for men. A more equitable retirement policy will also be introduced, not only with regard to gender, but also with regard to age and socio-economic circumstances.

1 In Switzerland, a revision of a federal law is first debated in the two chambers of the federal parliament. The new law adopted by parliament goes into effect unless a referendum is sought within 100 days. For this to be valid, the signatures of 50,000 voters must be obtained favouring a popular ballot. At the time of this writing, only one chamber (the *Nationalrat*) had debated the proposed revision. A discussion in the second chamber (*Ständerat*) is still pending.

2 The Swiss pension system is based on the "three pillar concept." The first pillar (AHV) is the government's mandatory pension scheme. This is a pay-as-you-go system and its aim is to assure a minimum of financial security at retirement. The AHV is financed partially through wage contributions and partially through tax revenues. The second pillar is the mandatory corporate pension scheme (BV). This is a funded system and its aim is to guarantee retirees an average standard of living. The BV is financed through wage contributions and through compulsory employer contributions. The third pillar is the voluntary pension and life insurance scheme. The aim of this pillar is to provide additional funds for retirement in order to guarantee the current (or an adequate) standard of living for the retiree.

Demographic changes are also having a negative effect on the financing of the AHV, which is a pay-as-you-go system. The increase in life expectancies, for example, has resulted in a substantial increase in the number of years that a pension must be paid out. Thus, in the year 2010, on average five more years will have to be paid out for men, and eight more years for women, compared to 1948 (the year when the AHV was first introduced). The changing structure of the population is resulting in an increase in the number of elderly people relative to the rest of the population, and relative to the active labour force. This has also had a negative effect on AHV's financing. For example, while there were on average 4.3 contributing individuals per pensioner in 1995, this ratio will decline to 2.6 by the year 2025. Although the AHV as a whole is in relatively sound shape compared to similar systems in other industrialised countries, these figures have prompted the Swiss government to propose a revision of federal AHV legislation in order to adequately assure the future funding of the system.

The retirement age for women will be increased from 62 today to 64 within the next few years, and then up to 65 by the year 2009. At this point women will have the same retirement age as men. Also, a certain amount of flexibility regarding individual retirement ages will be introduced. More specifically, individuals will be able to receive an accordingly adjusted pension between the ages of 62 and 65. Individuals with a low income (yet to be defined) who wish to retire early will not have their pensions reduced by as much as wealthier individuals. Retirees will also be eligible to receive part of their pension earlier, allowing some elderly workers to gradually reduce their working hours. These flexibility measures will cost approximately € 270 million per year. Since the above-mentioned increase in the women's retirement age will lead to savings of approximately € 270 million, these two measures more or less balance each other out. All widows and widowers currently receive a life-long pension from the AHV, whereas the revision of the AHV law foresees a payment only to widows and widowers who have (or had) children. This means that childless widows and widowers will receive no support from the AHV in the future, leading to annual savings of approximately € 80 million. AHV pension adjustments will take place every three years (currently

adjustments take place every two years), producing annual savings of approximately € 100 million. The additional funds gained by an initial 0.5 percent increase in VAT in the year 2003 will be used to finance the AHV. A further increase of approximately 1 percent will follow in the year 2007.

► Conservative parties are generally disappointed with the savings levels actually being achieved. They especially consider the € 270 million used for financing early retirement (most notably for low-income individuals) to be too expensive. Left-wing parties, on the other hand, argue that this amount is not enough for assuring an early retirement scheme that is fair in social terms. Their original proposal foresaw costs of approximately € 540 million, with certain left-wing politicians even demanding € 1 billion for these flexibility measures. Pensioner organisations argue that more money should be invested into AHV. According to them, the prolonged economic growth over the past few decades should also be shared with the elderly. The Swiss federal government originally proposed eliminating all payments to widows and widowers once their children reached the age of 18. Widows and widowers were then expected to return to paid employment. Such a measure would have led to savings of approximately € 517 million. Most members of parliament, however, considered such a measure too radical. Women's organisations have criticised the proposed equal treatment of men and women with regard to retirement age. They claim that women are still being discriminated against in the Swiss labour market, and therefore the unequal treatment of men and women is warranted. Experts point to the fact that the willingness to make use of early retirement schemes is increasing, and that the proposed flexibility measures are essential in any modern pension scheme. Furthermore, these flexibility measures should, together with the proposed increase in the women's retirement age, be cost neutral. They also point out that since women are becoming economically more active, traditional gender roles no longer fully apply. The current difference between men's and women's retirement ages is hence not justifiable. According to this revision of the AHV law, pensions will not be adjusted for inflation as often as before. Pensioners will thus be obliged to bear some of the inflation-induced costs. This is justifiable since, on average, future

generations of elderly people in Switzerland will make up a large share of the wealthy population.

Japan has started to phase out its system of tax-qualified pensions, one of the country's less regulated occupational pension schemes with corporate tax exemptions for employer contributions.

The Japanese pension system is multi-tiered, consisting of public and private pension schemes. The distinction between public and private pensions is based on whether or not the government is insuring them. The first tier is the Basic Pension (public), which provides the flat-rate basic pension for universal coverage. The second tier (public) covers most employees and provides an income-based payment. The premia are paid by both employers and employees. The third tier is an optional scheme for larger pensions. It is public or private, and is provided either by companies for their employees, or by collective national pension funds for the self-employed with the government as the insurer.

Some 90 percent of all Japanese firms offer retirement packages for their employees. A retirement package can be either a one-time lump-sum retirement allowance, or a life-long pension, or both. Most employees choose the lump-sum payment. Thus, a retiree's overall pension income could include payments from a public pension, a private pension, and lump-sum retirement allowances.

The second tier (Employee Pension Insurance) is managed by social security administration associations within a firm or a group of firms. For convenience, the first and second tiers for employees are jointly operated by these associations and are sometimes grouped together under the title "Employee Pension Insurance." There are three types of pension schemes in the second tier:

Employee Pension Funds: Companies with more than 500 employees are allowed to set up Employee Pension Funds. Currently, around one third of all employees participate in this scheme with contributions from both employers and employees. Employee Pension Insurance is closely related to Employee Pension Funds, and a portion of the insurance is managed by the Funds on its behalf. Thus, even though the Funds are part of a private pension scheme, they are regulated by the government and enjoy tax-favoured treatment.

**Japan—
New Regulation
for Occupational
Pension System**

Innovation **
Impact ****
Interest **

One-Time Lump-Sum Retirement Allowance: The lump-sum allowance is still the most preferred pension form. A good 42 percent of all employees have only this form of retirement benefit. The benefit level depends on individual factors, but is usually 40 to 46 months worth of monthly salary for employees who have worked 38 years and longer (38 years for college graduates, and 42 years for high school graduates).

Tax-Qualified Pension: Under this scheme, employer contributions are exempt from corporate taxation. Compared to the Employee Pension Fund system, this scheme is relatively free of government regulation, and it is the second most popular form of retirement plan (one third of all employees) after the lump-sum retirement allowance. Most of the pension benefits under this scheme are limited to ten years, whereas the other pension plans offer life-long benefits.

Unlike the Employee Pension Funds, tax-qualified pension plans are not legally required to accumulate the necessary funding for future payments. Thus, when a company with a tax-qualified pension plan goes bankrupt, its employees may lose some of their pension funds. Recently, due to the recession and the fact that most of companies with tax-qualified pensions are of small and medium size, an increasing number of these companies and their tax-qualified pensions have ceased to exist. Also, due to the currently low return on investment, both the Employee Pension Funds and the tax-qualified pensions (both defined-benefit systems) are putting severe financial pressure on companies. In response to this, a new defined-contribution corporate pension will be introduced in October 2001 (cf. Issue 3, pp. 22–23). Many companies are expected to replace their defined-benefit pensions with the new defined-contribution pension system.

Consequently, tax-qualified pensions will be phased out over a ten-year period to ensure a smooth transition to the new defined-contribution pensions. Meanwhile, stricter regulation will be introduced for the current scheme: it will be required to accumulate sufficient funds for future benefit payments; the benefits must be provided for at least five years; payment must start between the ages 60 and 65; and the scheme must be compatible with, and able to be rolled over into defined-contribution plans.

Changes and Results

The government, which does not have the majority in the upper house of parliament (representing the German federal states), split its pension legislation into two separate laws in order to pass as much of the legislation as soon as possible (cf. Issue 3, pp. 20–21). The Law on Old-Age Wealth (*Altersvermögensgesetz*, AvmG) deals mainly with the promotion of private and occupational old-age savings. It requires approval by the upper house because the provisions for tax deductions for old-age savings significantly affect the federal states' tax revenues. The second law, the Supplementary Law on Old-Age Wealth (*Altersvermögensergänzungsgesetz*, AvmEG), deals with changes to the public pension system.

The AvmEG was passed by the lower house as expected, and went into effect at the beginning of 2001. The AvmG was approved by the upper house in May 2001 and will go into effect at the beginning of 2002. The outcome of the upper house's vote on this law was uncertain right up to the last moment.

Compared to the original plan, the AvmEG modifies the pension formula so that the standard pension level (so far approximately 70 percent of net wages for people having average earnings for 45 years) will be reduced for all pensioners, not just those retiring after 2010. This will be achieved by slightly reducing the increase in pensions relative to wage increases. If the new pension formula reduces the standard pension level below 64 percent of net wages, parliament is then obliged to implement appropriate measures to prevent a further decrease. Net wages, though, will be calculated according to the new definition. This will lead to lower pension levels than under today's definition.

Contributions to accredited pension schemes will now be subsidised beginning in 2002, i.e., one year later than originally planned. According to the AvmG, contributions to these schemes will be tax deductible up to € 525 starting in 2002. Deductibility will increase step-wise to its full amount of € 2,100 in 2008. Low- and medium-income employees may instead opt for direct savings subsidies. These are split into basic subsidies and additional subsidies per child. The basic subsidies start out at € 38 in 2002 and will increase to € 154 by 2008. Families are additional-

Germany—
Pension Reform Split
into Two Laws

ly supported with € 46 per child in 2002, increasing to € 184 by 2008.

The conditions for pension schemes to be accredited have been laid down in yet another law, the Old-Age Savings Contract Licensing Law (*Altersvorsorgeverträge-Zertifizierungsgesetz*, AltZertG). Among them are the following regulations: (1) the liquidation of assets is not possible before the age of 60 unless the public insurance system begins pension payments; (2) the financial service provider must guarantee that the account value at the beginning of the withdrawal phase equals at least the nominal value of the sum of contributions; and (3) to ensure transparency, the financial service provider must issue an annual statement with information about: (a) the allocation of contributions made to date; (b) the assets accumulated to date; (c) the share of contributions used for administrative charges; (d) the return on investment; and (e) the consideration of social, ethical, and ecological aspects in investment decisions.

Sweden—
Early Retirement
Pension Now Part
of Health Insurance

As part of the on-going pension reform in Sweden, early retirement benefits will be separated from the pension system (cf. Issue 1, p. 20). Beginning in January 2001, early retirement benefits and limited-duration sickness insurance benefits will be replaced by sickness benefits and activity benefits, respectively, and classified as part of the health insurance system. This is done as part of the continuing harmonisation process between the pension system and other social insurance programmes which began in 1995 and is expected to last until 2003. This particular reform intends to adjust the balance between work incentives and adequate provision of security for the insured.

Payments to those suffering from illness or other reductions in their psychological or physiological ability to work, irrespective of duration, will be part of a financially unified insurance system. Insurance will be available to persons between 19 and 64, with the basic benefit level being independent from the marital status of the insured. Parents will receive a care allowance for a disabled child until he or she reaches the age of 19 (previously 16). For those between 19 and 29, activity benefits will be paid in order to stimulate activity for young disabled persons without compromis-

ing their economic security (it is argued that employment or other activities have a rehabilitating effect). Activity benefits are of limited duration, and can be set for a maximum of three years at any given time. The activity benefit is divided into a residence-based basic benefit and an income-based benefit. The residence-based basic benefit will be financed by tax revenues, while the income-based benefit will be financed through health insurance fees. Sickness benefits are available for those between 30 and 64, and are also divided into residence-based basic benefits and income-based benefits. For people with a prolonged but not permanent reduction in working capacity there will be limited-duration sickness benefits. The prolonged coverage period is extended from three months to one year. The time period that the income-based benefits is calculated upon is changed from today's two best income years out of the last four, to between five and eight years depending on the age of the insured (the younger one is, the more years used in the calculation). New income-based payments are independent of the insurance duration for the individual. The qualifying time for entitlement to the residence-based benefits is three years.

► Critics argue that the coverage period should be extended even more to enable people to pursue further education for more than a year without losing their insurance benefits. Residence-based basic benefits are problematic for immigrant Swedish residents whose work capacity had been reduced prior to becoming a Swedish resident. Experts state that this reform may increase the insurance system's efficiency, but only if social insurance offices are able to competently assess individual persons' abilities and efficiently process individual cases. It is an important statement by the government that it is introducing activity benefits to activate young disabled persons. If successful, some of them may improve their situation to such an extent that they may not need to claim sickness compensation when reaching the age of 30.

State Welfare

Only one reform can be reported in this policy field. In France, the social assistance benefit for less well-off dependent persons will be replaced by a universal dependency benefit. Details of the reform are available on the project website www.reformmonitor.org.

France— Universal Dependency Benefit

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

France is going to implement a universal dependency benefit in January 2002. The so-called Personal Autonomy Allowance (*Allocation Personnalisée d'Autonomie*, APA) will be available for every person living in France over the age of 60 who is dependent on care services in everyday life (around 500,000 persons).

Up to now, France had a social assistance benefit only for less well-off dependent persons. This Specific Dependency Benefit (*Prestation Spécifique Dépendance*, PSD) was introduced in 1996 and is very restrictive in its qualification requirements. Consequently, only 135,000 persons were receiving such a benefit in 2000. The PSD benefit is financed entirely by the local authorities (*départements*) and the rate differs depending on their resources and policy priorities.

The new APA replaces the PSD in January 2002 and creates a universal right to care services following the loss of personal autonomy. The amount of the allowance will depend both on the magnitude of the loss of autonomy and the level of personal resources, but even well-off persons will receive the benefit. The APA is neither a social insurance benefit (in that case the payment of contributions would be a prerequisite to qualify for the allowance) nor a social assistance benefit. Instead, it is a mixed benefit which is financed by public funds to which all legal residents in France are entitled.

The benefit rate will be the same in every district in France. A person who has completely lost his/her autonomy and whose income is not higher than € 915 per month will receive € 1,067 per month. A person with the same conditions but whose resources are higher than € 3,049 will receive only € 213 per month. Around 260,000 persons who have a medium rate of dependency and do not qualify for the current PSD will get the APA. These persons will receive monthly benefits from € 91 up to € 457, depending on their resources.

Each beneficiary will be allowed to choose the implementation details of the allowance according to their specific needs and the kind of assistance they may receive from their environment. For those who live at home, specific needs will be assessed by a team of specialists (including a medical doctor), which will design an individualised care plan.

The needs of those living in old-age homes will also be assessed and they will also receive the APA allowance. In addition, they will benefit from a cut in their accommodation fees. This will result from a parallel reform lowering housing and board prices by an average of 20 percent for long-term care centres.

The estimated cost of the reform for 2002 is € 1.5 billion—two thirds will be raised by local districts (the 100 *départements*) and one third will come from the government's budget. The government may face difficulties in funding the new benefit if economic growth slows down, although it will probably prove to be difficult to shrink the new benefits since the APA is welcomed by a majority of citizens. It is indeed one of the most popular reforms proposed by the current government.

► Opponents argue that the government has missed an opportunity to create a new full branch of the social insurance system to address what has been named the “fifth risk,” complementing measures dealing with sickness, old age, workplace accidents and illness, and family issues (together these are the traditional “four risks” covered by the French social security system). Experts state that the APA is a major reform on the way to modernising and improving the French social protection system. However, funding is not as secure as it would have been if a fully contribution-based social insurance benefit system had been implemented.

Family Issues

Family policy is still a very popular subject for reform. Sometimes this is motivated by election pressures, as can be seen in Denmark. Even without general elections around the corner, however reforms in this field are bound to receive much public attention. An extremely popular extension of parental leave is currently being de-

bated in Denmark in anticipation of the next election. Japan is also discussing a parental leave reform, even though public approval of parental leave is rather low in this country. Austria will introduce universal child-care benefits, so that more families will receive higher payments for a longer period of time. The USA are continuing their policy of tax credits instead of cash benefits and are extending the Child Tax Credit. Details of the reforms are available on the project website www.reformmonitor.org.

Austria—
Eligibility for
Child-Care Benefits
Extended

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

Beginning in January 2002, the universal child-care benefits reform goes into effect. Apart from an increase in benefit duration and amount, the new system will be available to more families.

Austria already has an extensive parental leave system allowing parents up to 24 months of leave if both parents use at least six months. However, the existing parental leave regulation does not offer strong incentives for fathers to stay at home. Less than 2 percent of the fathers made use of their right to parental leave. Problems in the existing regulation concern the lack of child-care facilities after the parental leave period, especially for children under the age of three, and problems for women returning to the labour market. Although there is protection against dismissal during the parental leave period up until four weeks after returning to the former job, many women still lose their jobs or have to find new employment because they want to reduce their working hours.

The new policy is being implemented as a “family benefit,” compared to the previous parental leave system which was implemented as an “insurance benefit” for employees. This change expands the eligibility from employed parents to the unemployed, students, and to parents who have decided to take care of their child full-time. With the introduction of the new child-care benefits, one parent will receive € 426 per month (previously € 410) until the child’s third birthday if the income of the parent is less than € 14,600 per year. The duration was increased from 24 to 36 months under the condition that each parent participates for at least six months; otherwise the maximum is 30 months. For pension insurance eligibility, 18 months of parental leave are counted. The fund for the compensation of family burdens (*Familienlasten-*

ausgleichsfonds), which is mainly supported by employer contributions, will be used to finance the reform.

► There are fears that the reform reinforces traditional gender roles. There are no additional incentives for men to take parental leave, and the previously available possibility to share care duties through part-time leave by both partners is no longer supported. In general, it is argued that the longer leave period will cause problems for those re-entering the labour market. The extension of the earning cap during parental leave will not affect many women, as indicated by the low rates of those taking part-time parental leave. Women with higher paid jobs often used it, but for this group the € 14,600 earning cap translates into less than 15 hours of working time per week. This actually worsens their situation. Whether less-qualified women can find jobs and are able to adapt their care duties is an open question. Furthermore, parents who choose to work part-time during parental leave will completely lose their protection against dismissal. There is also the fear that the child-care benefits will lead to lower subsidies for child-care facilities. Experts point out that the reform is not as important as the political parties make it out to be. The problems associated with the reconciliation of work and family will not disappear, especially for families with children older than three. The reform provides incentives for women to stay at home for a longer period of time or to work in low-paying jobs. This will reinforce the gender segregation on the labour market and the traditional division of paid and unpaid work between men and women.

As part of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Child Tax Credit (CTC) will be doubled over the next ten years from its current value of € 540 up to € 1,080 in 2010. Furthermore, the tax credit will be made partially refundable. This means that families with low-income tax liabilities will receive money in the form of a refund check. The objective is to provide additional benefits to working families whose income tax credit exceeds their tax liability.

The CTC is one result of major changes to U.S. welfare and tax policies. Rather than an entitlement based only on family income, welfare benefits now include temporary assistance (up to five

USA—

Expansion of the Child Tax Credit

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

years), and are governed by additional criteria set by the individual states. In most states, the receipt of welfare benefits requires some readiness to work. In addition, the state governments which administer this assistance have financial incentives to reduce their welfare rolls. This is accomplished by encouraging welfare recipients to enter or return to the workforce. Parallel to the introduction of new conditions regarding welfare benefits, tax policy in the United States has increasingly focused on the work incentives for low-income families. The most important example of this is the Earned Income Tax Credit (EITC), which is available to families and individuals with income below certain thresholds (cf. Issue 4, p. 25). The EITC is used to reduce the federal taxes paid by such families. Since the EITC is refundable, it is paid out directly to the family even if its tax credit exceeds its income tax liability. This programme not only increases the take-home pay of low-income working families, it also encourages them to work.

The CTC was first enacted under the 1997 tax reconciliation law. Individuals with modified adjusted gross incomes up to € 81,000 (and couples with incomes up to € 118,000) could claim a tax credit of € 540 for each child under the age of 17. The CTC was not indexed for inflation and was phased out for incomes above the income thresholds. In general, families with less than three children could only apply this credit to their tax liabilities—it was a “non-refundable” credit. The reform will increase the CTC over the next ten years to the following amounts: € 648 in 2001; € 756 in 2005; € 846 in 2009; and € 1,080 in 2010. The credit will be applied to the family’s federal income tax liability (before the EITC). Families earning more than € 10,800 whose CTC exceeds their tax liability will also qualify for a partial refund. The CTC refund will be initially capped at 10 percent of the family’s earnings in excess of € 10,800 (indexed for inflation after 2001). Starting in 2005, the maximum refund will increase to 15 percent. These caps do not depend on the number of children in a family, although there are special provisions for families with more than two children.

By making the CTC partially refundable, more than nine million working families are expected to receive an average benefit of € 583 per year over the next ten years. This assistance will be con-

centrated on families which earn between € 10,800 and € 37,800 a year. For the expansion of the CTC to be successful, a considerable outreach effort is needed to educate affected taxpayers about the changes in the CTC. In order to receive a CTC refund, a filer must fill out an additional tax form. While the provisions are similar to the EITC, the two programmes do not use a consistent definition of dependent child or taxable earnings. These discrepancies could add to difficulties in filing for CTC benefits.

► There are concerns whether low-income families will actually benefit from the new provisions in the CTC. Beyond the difficulties of filing, the expected benefits are fairly modest. After the increase in the CTC is complete in 2010, the credit amount will not be adjusted for inflation. However, the amount of earnings necessary to qualify for a refund will keep pace with inflation. While the CTC itself drew relatively little critique, there has been much debate over the tax legislation accompanying these changes. The Tax Relief Act of 2001 is projected to cost an estimated € 1.45 trillion over the next ten years. The CTC and expanded EITC refunds comprise only € 95 billion of that total cost. Most benefits from this legislation will accrue to high-income taxpayers. There is some concern that the cost of this legislation will limit the federal government's ability to fund other social programmes.

An extension of the maternity/paternity leave period from 32 weeks to 52 weeks is currently being discussed in Denmark. The reform is of course very popular among families with children. The Prime Minister must set a date for the next election prior to April 2002, but the political campaign has already begun with the political parties actively discussing their reform proposals.

There is some disagreement over the objectives of the reform. The Conservatives want to leave most choices up to the families, such as regarding which partner should take the maternity/paternity leave, the amount of time to be taken, and decisions regarding part-time work. The Social Democrats, on the other hand, want to commit the father to taking three months of paternity leave as a means of ensuring that women will not be marginalised in the labour market.

The reform will affect the policy of the overall labour market

**Denmark—
Maternity/Paternity
Leave Extension
Proposals**

Innovation **
Impact **
Interest ****

because the effect would be to reduce the country's labour force. The reform also has some impact on gender equality policy, so the political discussion will focus on this issue as well. An increase in maternity leave without corresponding changes in paternity leave could harm young women's possibilities in the labour market. On the other hand, mandatory paternity leave might cause a total reduction in the amount of paternity/maternity leave being taken. This would have a negative impact on children and families.

► Employers are opposed to the reform because it would lead to a reduction of the labour force. The government, however, wants to expand the labour force and this reform will make it more difficult to reach this goal. The Ministry of Finance, on the other hand, maintains that the reform does not necessarily mean a reduction in the labour force if part of the maternity/paternity leave is forced upon the fathers. It believes that this will in fact mean an increase in the labour force. Some claim that there is also a gender issue in relation to the reform because a one-year maternity leave will create a potential problem for women's employment and career prospects. They point out that all women (including those who do not intend to have children) can be viewed by an employer as potentially claiming one year of leave. It has therefore been proposed that half of the extension should be reserved for the fathers, or otherwise be forfeited. Experts point out that for many families, parental leave schemes are a financial consideration and a question of lost career opportunities. Since men in most cases are the prime breadwinners in Danish families, attractive leave plans for fathers must offer almost full compensation for lost wages. This is not the case in the proposed extension of the existing leave scheme.

Japan—
Parental Leave
Proposal

Innovation **
Impact ****
Interest *

A parental leave reform is currently being proposed in Japan. The reform is expected to strengthen the provisions of the Child-Care Family-Care Leave Law to reduce the pressure on working parents. The current law allows up to one year of leave with 40 percent of wages provided by employment insurance benefits. However, only 56.4 percent of women and 0.42 percent of men made use of parental leave in 1999. Major reasons for not taking parental leave are fear of financial hardship, and disapproval by colleagues and employers. The situation at work is particularly problematic for

men, but women also suffer from difficulties with colleagues. This is especially true for them after a second or third child. Even when employers are considerate, the workload is often too much for working mothers to handle.

The law currently prohibits employers from laying off employees who take or request parental leave. The reform intends to extend this to include prohibitions against all types of unfair treatment. Furthermore, it is proposed for parents with children below the age of six that overtime work be restricted to 24 hours per month (or 150 hours per year) unless the employee agrees to work longer hours. Also, flexible working time and part-time work are to be offered to parents with children up to the age of three (currently the age limit is up to age one).

► Experts point out that so far the major obstacle for working parents is not insufficient legislation, but sympathy and recognition on the parts of employers and fellow employees. Even though the current law has been in place for more than eight years, working conditions for parents have not significantly improved. People must thoroughly change their attitudes in order for the reform to make its full impact. However, such a reform proposal at least sends a strong signal to employers that they must begin to face the necessity of accommodating working parents.

2 Labour Market Policy

Naturally, labour market reforms cover a wide range of subjects. A popular topic covers options to bring the unemployed back to work such as in Australia and Germany. A government-appointed working group in Australia has presented options for welfare reform aimed at bringing the unemployed back to work, and in Germany the two ruling political parties have introduced a reform proposal on the same topic.

Canada has eliminated employment benefit penalties for repeat users, such as seasonal workers. Business and labour groups in Spain could not agree on the continuation of labour market reforms prompting the government to step in to decree further reforms. Switzerland is currently debating a reform of the federal unemployment insurance system to ensure that it is capable of withstanding a severe recession, and Italy seeks to regulate the working relationships within cooperatives in order to promote this employment format.

Changes and results can be reported from several reforms covered in earlier issues of the Reform Monitor. Australia reports on successful privatisation of the employment placement system; family policies of the United Kingdom were challenged at the European Court of Justice; and Spain's new immigration policy seems to be as unsuccessful as Germany's pilot projects for the low-skilled and

long-term unemployed. Details of the reforms are available on the project website www.reformmonitor.org.

**Australia—
Improving the
Transition to Work**

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

A government-appointed working group made up of leaders from the community, business, academia, and the government investigated the reform of the welfare system. It paid particular attention to issues related to returning to work, and presented its results in the McClure Report (named after the group's chairman). The Australians Working Together reform package contains the government's responses to the McClure Report's recommendations.

Australia has an unemployment rate of about 7 percent and reducing it is regarded by all as a high priority.³ For some unemployed, however, there are strong disincentives against returning to work. For example, the withdrawal of assistance as part-time work income rises often reduces the incentive to return to full-time work. The situation of the long-term unemployed requires particular attention because these individuals may suffer from low self-esteem and be quite disconnected from the workforce. There are particular problems for parents who may have been out of the workforce for many years while caring for children. When their children are no longer dependent, these persons may find it difficult to return to work. People with disabilities and indigenous Australians are other groups with particular problems in relation to returning to work. The programme of reforms consists of the following seven main elements ranked according to their cost to the government budget:

1. **Help to Participate:** The main element in this area is the Working Credit, a measure that encourages people of workforce age on income support to take up full-time, substantial part-time, or irregular casual work. It does this by allowing them to retain more of their income support payment while working. The Working Credit supplements the existing income test rules

³ In Australia unemployed persons receive a pension funded by the government that may continue so long as they are unable to find work, are able to satisfy an activity test, and are of working age. The activity test requires the unemployed to look for work, attend interviews, and be prepared to relocate to take a job. More recently, certain benefit recipients have been subjected to additional obligations to undertake training and perform unpaid work known as Work for the Dole (cf. Issue 2, p. 30).

which allow people to earn a certain amount of money before payments begin to decrease. To offset against income from paid work, people will be able to accumulate credits of up to € 25 every two weeks, up to a maximum of € 530.

2. **Helping People Find Jobs:** All job-seekers will be referred to job search training if they are still unemployed after three months and have not taken up another suitable activity. Training Credits are being introduced for job-seekers who meet minimum attendance and participation requirements in the highly successful Work for the Dole programme (cf. Issue 2, p. 30). The Training Credits will help people meet the costs of gaining recognised training.
3. **Getting People the Right Help:** The Personal Support Programme will help those people receiving benefits who have severe or multiple non-vocational obstacles to employment. These are people whose personal circumstances generally prevent them from benefiting from currently available employment assistance. The programme will help people with problems such as homelessness, drug and alcohol addiction, mental illness, and domestic violence.
4. **Helping Parents Return to Work:** Parents will be able to access a range of expanded training, employment, and support services, including improved child-care fee assistance and more extracurricular child-care facilities. People receiving these benefits whose youngest child has turned six will be required to attend annual interviews with personal advisers. Those benefit recipients whose youngest child is aged between 13 and 15 will be required to undertake an activity such as job search, education, vocational training, or community work for around six hours a week to help them prepare to return to work.
5. **A Fair Chance for Older Citizens:** Older citizens who are unemployed or facing being laid off will be given greater support for getting back to work. This will be done through assigning personal advisers, placement in a rehabilitation programme, and access to disability employment services, education, and training credits. They will also have access to financial information for obtaining available income support and counselling to assist in planning for retirement.

6. **A Better Deal for People with Disabilities:** People on disability pensions will have access to greater employment assistance, as well as placement in rehabilitation and training programmes. Better assessment and the focus on people's ability, not their disability, is intended to help keep more people active and involved.
7. **Promoting Self-Reliance for Indigenous Australians:** The government will provide additional assistance for indigenous communities to help people into work and to help them make a contribution to their communities. Access to Employment Centres will be improved, and placement in vocational education and training programmes will be increased.

The programme should reduce the disincentives to work facing many of the unemployed and persons who have not yet joined the workforce. A smoother transition to work can be expected, although the reforms are unlikely to make much impact on overall levels of unemployment. There should nonetheless be some improvement, with success depending on sufficient economic growth to maintain demand for labour.

► Most commentators have welcomed the proposed reforms. Experts state that the reforms go some way towards addressing the existing deficiencies in the Australian social security net, particularly in relation to the transition from welfare to work. The reforms are important because they focus on barriers to employment, but they are not particularly innovative. Nevertheless, in the context of Australia's relatively unique social safety net (with means-tested taxpayer-funded transfers of potentially unlimited duration), they may provide useful experiences for other countries to consider.

**Canada—
Penalties Removed
for Repeat Users
of Employment
Insurance**

The Canadian federal government eliminated the financial penalty (intensity rule) for repeat users of the Employment Insurance (EI) system⁴ retroactive to October 2000. The penalty, which mostly affected seasonal workers and industries, was introduced in 1996

4 The system's name was changed from "Unemployment Insurance" to "Employment Insurance" in 1996. Historically, the payment of insurance benefits has been justified as responding to unforeseen and undesirable events. Until 1971 workers in industries where unemployment was a normal occurrence were not covered. In 1971 the system was liberalised, and coverage was extended to almost all workers, including those in sectors where workers experience regular and foreseeable periods of unemployment.

to discourage repeated use of employment insurance benefits as a regular income supplement. It did this by reducing the benefit rate for frequent claimants. Regular benefits were reduced on average by € 7.8 per week per affected claimant.⁵

EI benefits are extremely important in the high unemployment areas of the four Atlantic provinces and eastern Québec. Many of the beneficiaries of the programme in eastern Canada are seasonal workers in industries such as fishing and forestry who use the programme to supplement their incomes each year in the off-season. Consequently, the introduction of the financial penalty was very unpopular in these provinces and contributed to the governing Liberal party's loss there of a large number of parliamentary seats in the 1997 federal election.

The government states that the intensity rule has been ineffective in discouraging the repeat use of EI benefits because the share of frequent claimants has remained stable at around 40 percent. In addition, the rule has had the unintended effect of being punitive. Over time the measure has been having an increasingly more significant impact on the benefits paid to these claimants. The government argues that the elimination of the intensity rule will help many workers, especially those relying on seasonal employment who have limited opportunities for additional work. All claimants, including repeat users, will now receive 55 percent of maximum insurable earnings. The government recognises, however, that providing passive income support through EI can be only one response to the issues faced by seasonal workers. There is also a need to build up local economies and stimulate their ability to provide alternatives to seasonal employment.

❶ Opponents of the reform argue that this measure dilutes the insurance principle component of the EI programme. It is argued that this change increases the cross-subsidisation inherent in the programme, with individuals who are repeat users, firms and sec-

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

⁵ Under the employment insurance scheme, the usual benefit rate is 55 percent of the insured earnings up to a maximum of € 283 a week. The intensity rule reduced the benefit rate of 55 percent by one percentage point for every 20 weeks of benefits collected in the past five years, to a maximum reduction of five percentage points. In 1999/2000, around 42 percent had their benefits reduced by one percentage point; 27 percent by two percentage points; 18 percent by three percentage points; 11 percent by four percentage points; and 3 percent experienced a five percentage point reduction.

tors which employ repeat users for part of the year, and regions which have a disproportionate share of repeat users, gaining at the expenses of other contributors to the Employment Insurance system.

Experts say that the high incidence of repeat use of the system reflects the high unemployment and limited employment opportunities in certain regions of the country, combined with the seasonal nature of much of the economic activity in these regions. If the unemployment rate were lower, repeat use of EI benefits, both in absolute terms and as a share of total Employment Insurance use, would decline. From this perspective, repeat users should not be penalised for a poor economic environment beyond their control. It is true that with penalties for repeat use, workers may move out of regions dominated by seasonal industries at a faster rate, and employers in these industries may have a smaller pool of labour from which to draw. From this perspective, the removal of the intensity rule may slow down these movements out of high-unemployment regions. There has always been tension in Canada between the concepts of “people prosperity” and “place prosperity.” In the former, people are expected to uproot themselves and move to locations where jobs are available. In the latter, people have a right to stay in their home regions and government has a responsibility through job creation policies and income support programmes to ensure that they can do so. The elimination of the intensity rule actually represents a slight shift towards “place prosperity.”

Spain—
Labour Market
Reforms Decreed
After Social Partners
Failed to Reach
Consensus

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

A series of four-year term intersectoral agreements on employment promotion signed by the Spanish social partners in April 1997 were due to expire in May 2001. These agreements had been the main Spanish labour market reform of the last 10 years. The social partners started negotiations over a new version of these agreements in the summer of 2000 but failed to reach a consensus. Consequently, the government stepped in and decreed a series of labour market reform measures in March 2001. This reform extends the prevailing programme of employment promotion, and it focuses on providing greater flexibility and a general reduction in labour costs through employer social security contributions in rela-

tion to several types of employment contracts. These measures have been strongly criticised by the trade unions.

Apart from the unemployment rate (13.4 percent in June 2001), Spain's most pressing labour market problems are the quality of employment and the high rate of temporary employment (almost 32 percent; EU average: 13 percent). This rate has fallen only slightly since the Labour Market Reform in 1997 (when it was 34 percent). The trade unions have proposed several measures for dealing with the situation, such as making temporary contracts less attractive for employers by increasing the social security contributions they must pay for employees with such contracts, and by decreasing them for those with unlimited contracts. Another proposal was to offer some compensation for dismissal to temporary workers, who did not receive anything even if they had been employed for several years. Finally, the unions wanted sub-contracting to be regulated. The employer organisations maintain that these problems should be solved by market forces. They argue that if dismissal were less expensive, more workers would be given indefinite contracts. They have also proposed greater flexibility for the new type of part-time contract agreed to by the government and trade unions in 1998, which has not proven popular among employers. The only point on which the social partners could agree concerns the introduction of a compensation package for dismissed temporary workers.

The most important aspect of the decree is that the prevailing programme of employment promotion is to be continued and extended. This programme provides for special indefinite employment contracts with reduced employer social security contributions. The programme covers unemployed women aged 16 to 45; unemployed women in sectors where they are under-represented; long-term unemployed (more than six months); unemployed people over the age of 45; unemployed mothers if they are hired within 24 months of giving birth; and people with disabilities. Furthermore, these contracts are available for special cases, such as people earning integration incomes. The reduction in employer contributions ranges from 20 percent to 100 percent (the highest rate being applied to women recruited after childbirth or maternity leave). The decree also introduces a limited compensation for dismissed

workers on temporary contracts, amounting to eight days pay per year worked. A temporary working contract is now limited to 12 months (previously 13.5 months), and the employer is required to notify the individual of any indefinite-duration job vacancies. The new indefinite-duration contract created in 1997, with a lower cost of dismissal (33 days salary for each year worked, up to a maximum 24 months in the case of unfair dismissal), has been extended. It now covers in fact the whole working population with new work contracts except people between 30 and 45 who have been unemployed for less than six months, who are not women in occupations with low female representation, and who have no disabilities.

Part-time work has been redefined as employment in which the number of hours is less than that of comparable full-time workers (i.e., in the same company or covered by the same collective agreement). This replaces the previous definition set at less than 77 percent of the normal working day. In cases of sub-contracting, the decree provides that the workers of the sub-contracting firm must be informed of the identity of their main employer. The main employer will be jointly responsible for the wage and social security obligations of the sub-contracting companies, and is obliged to check whether the sub-contractor has kept up with social security payments before initiating the relationship. The special on-the-job training contract has been extended to new groups of beneficiaries: immigrants during their first two years of residency in Spain; long-term unemployed (i.e., those without work for over three years); socially excluded people; and those participating in specific training and employment schemes.

► Some argue that the new decree clearly favours employers. Trade unions are opposed to the decree and complain about the lack of social dialogue. The decision has also been criticised by the political opposition and some of the regional parties which usually support the government. Experts do not expect this reform to be an effective solution to the temporary employment problem. If in previous years, with almost identical incentives, the number of permanent contracts concluded was never greater than 9 or 10 percent of the total, it seems unlikely that the situation will change greatly now. In other words, for many companies it is still profit-

able to use temporary workers. The market alone cannot solve this problem and so socio-political measures are necessary. The amount of compensation offered by the new reform at the end of temporary contracts—practically the only measure that has been introduced to assist employees—is very small. Considering that the average temporary contract lasts for less than six months, the compensation of four days pay would amount to between € 48 and € 60, which is far less than the company saves through social security contribution reductions. In the area of part-time employment, employers have achieved greater flexibility. Only sub-contracting is now subjected to a certain degree of regulation. The current cost of dismissal is only high for companies with large workforces with many years of service which wish to hire younger, better-trained workers at lower wages. For new indefinite-duration contracts, however, the amount of compensation is very low, particularly because it is now easier for companies to claim “objective reasons” for dismissal. The opposition of the trade unions to reducing the cost of dismissal is understandable if one considers the high unemployment rate, inadequate unemployment coverage, and the low unemployment benefits in Spain. Nevertheless, the reduction in the cost of dismissal could have been a lesser evil if serious steps had been taken to reduce temporary employment. Critics point out that the government has therefore missed an opportunity to introduce a more coherent reform, and that it has seriously damaged the social dialogue.

The two ruling parties have introduced a reform proposal in its first stage to more quickly and efficiently bring the unemployed back to work. They intend to do this by emphasising the rights and obligations of both parties involved, the unemployed and the placement offices. The reform seeks to improve the efficiency of placement services, raise the qualifications of the unemployed, and increase the possibilities for combining work and family. The “Job-Aktiv” programme (A=activate, Q=qualify, T=train, I=invest, V=mediate) is an attempt to confront the claim that previous legislation in this area focused too heavily on the cost aspects of labour market policies. Chancellor Schröder campaigned heavily on the issue of reducing unemployment. As the next election is

Germany—
“Job-Aktiv” —
New Attempt to
Quicken Job
Placement

Innovation ***

Impact ****

Interest ****

scheduled for 2002, his government has a strong incentive to improve the situation on the labour market.

Current employment policy mainly targets the unemployment situation itself. The reform proposal aims towards an employment policy which prevents unemployment from arising in the first place. The idea is to invest at the beginning of the process to bring people back to work, hence saving money in the long run. There are four main elements of the reform proposal: (1) increased efficiency in the process of placing people into positions (“profiling”); (2) a re-orientation with respect to vocational training and professional qualification policies; (3) a better combination of work and family; and (4) more emphasis on the rights as well as the obligations of the unemployed.

The reform proposal includes a variety of fairly concrete measures such as:

1. Placement improvements: Local employment offices will be committed to producing a profile of each registered unemployed person. The employment office and the unemployed person must agree on an “integration contract” which defines the obligations and rights of both sides.
2. Improvements in vocational training and professional qualification measures (e.g., job rotation models): Wage subsidies will be introduced for unemployed persons who temporarily replace employees involved in training and qualification measures. In addition, there will be higher wage subsidies for the qualification and training of certain low-skilled and unskilled workers.
3. Prevention of unemployment due to “transfer measures”: Measures which were designed exclusively for the unemployed will be extended to those at risk for unemployment. The qualifications for redundancy payments will be simplified and made more adaptable.
4. Extension of publicly-funded employment: The funding of projects which combine regional infrastructure improvements with employment measures will be simplified, extended, and made more flexible. So far projects undertaken by private companies which hired unemployed persons were not supported if any “crowding-out” effect of regular workers was to be expected. Such an effect is explicitly accepted with the new proposal. This

is aimed particularly at the situation in eastern Germany, where the infrastructure still lags behind that in the western part of the country.

5. Promotion of women's employment: Gender mainstreaming and other special measures are covered, including the proposal that child-rearing periods (up to a child's third birthday) should be considered as qualifying periods for future potential unemployment benefits. Apart from that, coverage of child-care costs during training and qualification periods is extended.
 6. Promotion of older worker employment: Subsidies will be provided for training and qualification measures for up to 100 older workers per company. The minimum age for subsidised integration measures for older workers will be lowered from 55 to 50.
 7. Promotion of volunteer work: Unemployed persons who want to do volunteer work will no longer face restrictions.
 8. Improvements in the control and evaluation of active labour market measures: The (federal) employment offices will be obligated to evaluate their measures (cost-benefit analysis, evaluation of the employment effects, etc.). Special emphasis will be placed on evaluation at the regional level.
 9. Labour market indicator: A special labour market indicator will be introduced to calculate the federal employment office's budget (which will cover the unemployment rate, rate of long-term unemployment, and number of job openings). The intention is to avoid a "stop-and-go" policy, and to increase the reliability of planning.
- ❶ The opposition parties criticise the reform as a hodgepodge collection of measures with no overall concept. The employer organisations argue that the different measures are contradictory. They are in favour of the "carrot and stick" principle, but they believe that the funding needed for reform will preclude necessary reductions in the cost of labour (particularly that part related to employer contributions to the unemployment insurance system). The unions are concerned that this reform will increase the pressure on the unemployed, but in general they consider it to be a good starting point for further discussions. Experts point out that the reform proposal represents a fundamental change in German

employment policy, calling the idea of focusing on the duties of the unemployed and the effectiveness of the process an important and promising approach. Focusing on obligations and duties of the unemployed also helps justify unemployment benefit spending and other welfare costs. However, it is questionable whether the promotion of state-funded employment is an adequate measure for lowering unemployment. Wage subsidies for the demand side of the labour market might be more effective instruments in lowering unemployment. Regarding the success of job rotation models, results of empirical studies suggest that they might not be as promising as expected.

Italy—
New Contract
Relationship
in Cooperatives

Innovation ****
Impact **
Interest **

Italy wants to increase the number of cooperatives by regulating the working relationships within them. Italy has a continuously increasing number of cooperatives where the well-being of the members, concern for the community, and environmental protection rank above other goals, such as shareholder value. The lack of regulation or legislative imprecision were previously seen as necessary to maintain the principles of the cooperatives, and excessive legislation was perceived as limiting their freedom. During the last few years, however, demand for more precise regulation has been increasing. Furthermore, the government sees the new regulation as an incentive to set up more cooperatives, especially in the services sector.

The law introduces the possibility of defining a job relationship by contract for every working member within a cooperative. Three different contract types (subordinate, autonomous, and independent), depending on the specific working relationship, will be allowed. Fiscal and social security matters are defined in standard labour legislation (the workers statute and in standard collective agreements). The new law is seen as a model for job flexibility in other fields as well.

◉ Opponents point out that there is inadequate job protection for others in cooperatives who do not have a subordinate working relationship. Experts state that after many years of political debate on the subject, the regulation makes the relationships between cooperatives and their working members more transparent.

Switzerland is currently debating a reform of the federal unemployment insurance system (AVIG) in order to ensure that it is capable of withstanding a severe recession. To achieve this goal, the period that an individual must contribute to the insurance system before being entitled to unemployment insurance benefits is to be lengthened, while the coverage period is to be shortened.

Due to the dramatic increase in unemployment in the 1990s, the unemployment insurance fund's debt amounted to € 5.9 billion in 1998. In the subsequent two years, though, the debt load has declined to € 3.8 billion. This financial burden is nevertheless unique in Switzerland's history, with the result that the long-term viability of the Swiss unemployment insurance scheme has been called into question. Recessions did not have such a dramatic effect on the number of unemployed individuals in the past for two main reasons. First, Switzerland had a large proportion of foreign workers who served as an unemployment buffer for Swiss workers. In the 1970s, 70 percent of these foreign workers only had a one-year residency permit or were classified as "seasonal labourers." In a recession, most unemployed foreign workers were simply not given permission to remain in Switzerland. Secondly, women have also served as such a buffer by not participating in the labour market during recessions. This buffer provided by both foreigners and women in controlling the flow of individuals into official unemployment rolls is effectively no longer available. This is because approximately 60 percent of all foreigners in Switzerland today have permanent residency status and are entitled to unemployment payments. In the meantime, the labour market participation rate of women has increased substantially over the past few decades, and unemployed women are now much more likely than before to register for benefits.

With this revision, a person may claim unemployment insurance benefits only after having paid into the insurance system for at least one year (currently six months). Benefit payments to unemployed individuals are currently made for a maximum of 520 days (two years), while the revision of the AVIG foresees a reduction to 400 days (18 months). An exception is made for individuals older than 55 who have been contributing to the insurance system for at least 18 months: they will continue to receive 520 days cov-

Switzerland— Revision of Federal Unemployment Insurance

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

erage. Unemployment insurance payments will be reduced from 3 percent to 2 percent of wages.⁶ Annual wages exceeding € 72,000 face a wage deduction of 2 percent on € 72,000, and an additional 1 percent (as opposed to currently 2 percent) on that part exceeding € 72,000 (but not exceeding € 180,000). The costs incurred by the first two measures are more or less offset by the gains made with the two latter measures.

► Employer organisations argue that a benefit payment period of 400 days is too long. They believe that benefit periods should be age-related: young unemployed workers should receive 260 days of benefits, while older unemployed persons should receive benefits for between 390 and 520 days. They point out that the probability of finding employment decreases with age. They also argue for an initial 18-month period for paying into the system (as opposed to the proposed 12-month period) before being entitled to benefits. Swiss labour unions oppose a reduction in the coverage period by six months, arguing that this has a negative effect on elderly workers who often have problems finding employment. They also criticise the fact that annual wages above € 72,000 are subject to a lower wage deduction than is income below this amount. The unions argue that low-income employees thus face higher wage deduction rates than do those earning higher incomes.

Experts point out that the general aim of the revision is to develop an effective unemployment insurance system which is also capable of withstanding a severe recession. As the last recession in Switzerland revealed, this implies that savings in boom phases must be accumulated. By reducing the duration of insurance coverage from 520 to 400 days, and by increasing the pay-in time before coverage begins, significant savings can be achieved. The reduction of the percentage of wages paid in, however, counters these savings effects. According to studies carried out by the federal government, the system should, however, be capable of financing 100,000 unemployed individuals on average. Since this is quite

⁶ Currently, 3 percent of employee wages are used to finance the unemployment insurance fund. The increase from 2 percent to 3 percent took place in 1995 to tackle the rising deficit in the insurance system. This increase is *de facto* only a temporary one because the additional funding gained by this 1 percent increase can only be used to pay back the debts which existed in 1995.

a prudent figure, one can assume that the general goal of the revision should be met.

Changes and Results

According to preliminary evidence gathered in a recent government evaluation, the Job Network programme appears to be having a positive impact on the post-assistance prospects of those individuals being supported by it (cf. Issue 1, p. 35). Since 1998, a network of around 300 private, community, and government organisations has replaced the previously centralised and government-controlled apparatus for managing labour market programmes, such as job placement, training and retraining, wage subsidies, and job creation schemes. The idea of setting up an employment placement market has been realised in such a way that potential providers (e.g., employment placement enterprises) compete for the provision of job placement services for the unemployed. Contracts are awarded by tender, with selection based on performance, quality, and price.

The Job Network has four aims: (1) deliver a better quality of assistance to unemployed people, leading to better and more sustainable outcomes; (2) target assistance based on need and capacity to benefit; (3) address the structural weaknesses and inefficiencies inherent in previous arrangements for labour market assistance, and put into effect the lessons learned from international and Australian experiences with labour market assistance; and (4) achieve better value for the money spent.

The government evaluation claims that (1) the competitive market for the provision of labour market services has expanded; (2) there have been significant client flows with participation rates of job-seekers close to expected levels; (3) post-assistance outcomes compare well with those of previous labour market programmes⁷;

**Australia—
Successful
Privatisation
of the Employment
Placement System**

⁷ Three main programmes are offered by providers within the Job Network: Job Matching, Job Search Training, and Intensive Assistance. After three months in the Job Matching placement, 70 percent had found work and 3 percent were in education and training. In the Job Search Training programme, 38 percent were employed and 9 percent in education and training. After Intensive Assistance, 35 percent were employed and 7 percent were in education and training.

(4) net impact levels⁸ are similar to those achieved by previous programmes; and (5) outcomes are being achieved at lower cost, implying efficiency gains.

► The government evaluation is positive and the general academic view remains supportive.

United Kingdom—
Family-Friendly
Policies Challenged
at the European Court
of Justice

The Family-Friendly Policies Package (cf. Issue 2, p. 24) was challenged by the Trades Union Congress (TUC) at the European Court of Justice (ECJ). The complaint was based on the restriction of the right to parental leave to parents of children born after the law took effect (15 December 1999). A similar restriction in Irish legislation was removed when the European Commission advised that this breached the terms of one of its directives. At the end of June 2001, one week before the scheduled ECJ hearing, the British government backed down and agreed with the TUC to remove the restriction and extend the period of access to leave to those previously excluded. New regulations are expected to come into force at the end of 2001.

The Labour government has been caught between a commitment to “family-friendly” employment policies strongly backed by important sections of its own party and shown by opinion polls to be popular among the electorate, and its concern to prove “business-friendly” in the face of employer organisation resistance to enhanced employee rights. Statutory support for parental leave in Britain is in many respects the weakest in the EU. Access to parental leave is constrained in practice by the absence of a statutory requirement for payment during leave, apart from 18 weeks of maternity pay. Survey evidence has indicated that only 1 percent of fathers entitled to parental leave have taken this option, mainly because leave would have been unpaid. In response to criticism, the government issued a consultative paper in December 2000 outlining options for reform. These included: extending the duration and amount of maternity pay; introducing two weeks paid

8 Net impact measures the effectiveness of the programme and compares the outcomes of those in the programme with the situations of otherwise similar people who are not in the programme. Preliminary estimates suggest that the Job Network makes a net impact of ten percentage points for Intensive Assistance, and three percentage points for Job Search Training.

paternity leave; and giving parents the right to choose to work reduced hours. Following the consultation period, the government announced in its March 2001 budget an increase in maternity pay and an extension from 18 to 26 weeks beginning in April 2003. A right to two weeks paid paternity leave would take effect at the same time. In its election manifesto the Labour party reaffirmed its support for more flexible arrangements to combine parenthood with work. In response to employer pressures, however, it held back from promising a statutory right for parents to work reduced hours. Following the election in June 2001, the government proposed that parents should acquire a right to “request” flexible hours, and that such requests should be “seriously considered” by the employer. To advise on detailed arrangements, it established a Work and Parents Taskforce, including employer and union representatives. The Taskforce is to submit its report in November 2001.

☛ The changes to parental leave regulations will bring the United Kingdom somewhat closer to the European mainstream, though the continued limits on the right to paid leave are likely to restrict the practical impact of the provisions. Enforcement may also be a problem: some commentators suggest that many new fathers may be inhibited from taking advantage of their rights because of fear of victimisation by their employers. The appointment of the Taskforce can be seen as an attempt to reconcile contradictory pressures. Simply enacting a right to “request” flexible working hours is hardly a serious demonstration of family-friendly policies, but any stronger legislation is vigorously resisted by employer groups. Since any future legal framework for flexible working hours remains obscure, it is unclear whether the new Taskforce can achieve any agreements.

Up to now, the two pilot projects which were initiated in the summer of 2000 to evaluate different labour market measures (cf. Issue 4, p. 38) cannot be considered successful. These measures were intended to encourage the employment of low-skilled workers, long-term unemployed, and those from low-income families. The *Mainzer Modell* (MZM) focuses mainly on the supply side by subsidising programme participants’ social security contributions, whereas

Germany—
Pilot Projects for
Low-Skilled and
Long-Term
Unemployed
Not Successful

the *Saargemeinschaftsinitiative* (SGI) approach targeted both sides of the labour market. First, the employer's share of social security contributions is subsidised; and secondly, further education and occupational training programmes are subsidised for the newly employed.

It was expected that several thousand new jobs would be created, but so far the results have not been very promising. In April 2001, 26 employees profited from the SGI model in one of the pilot regions (Saarland). In the other region (Saxony), not a single employee received work as a result of the project. The MZM programme was relatively more successful: 123 employees in Rhineland-Palatinate, and 61 employees in Brandenburg were able to profit from the programme.

One of the major reasons for the failure of the reform is that the pilot projects conflict or overlap to varying degrees with several other measures and programmes sponsored by the federal and local employment offices. In many cases, the latter programmes offer more advantages to employers than do the pilot projects, particularly in eastern Germany. Furthermore, it is criticised that the administrative costs, especially for the MZM programme, are too high. The employment offices, meanwhile, are not always informed about the consequences that MZM subsidies may have on the eligibility for other public benefits. In fact, specific pilot project benefits directly result in losses of certain welfare benefits. The SGI model is criticised because the wages set in some labour agreements are so high that potential wage subsidies end up as too small relative to the administrative costs.

Given these results, the Ministry of Labour and Social Affairs plans to extend the period during which an individual can profit from the programme from one to three years. Furthermore, one pilot region (Saarland) plans to expand the target groups. Apart from long-term unemployed and low-skilled workers, other groups should also be able to apply for the programme.

► The unions blame the failure of the pilot projects on employers who refuse to hire low-skilled workers. They believe that information about the pilot projects provided by the local employment offices is more than adequate, and they argue that there are enough employed and unemployed workers interested in the programmes.

Experts point out that the target groups are much too small, and that the pilot project time-frame is much too short. Given that other labour market programmes compete with these pilot projects, the small number of employed and unemployed workers who have applied for the programme is not surprising. The failure of the pilot projects so far also demonstrates the need for better information and co-operation between the local employment offices and the offices in charge of social welfare. The intention to extend the benefit period and expand the target group might be helpful on the one hand. On the other hand, the original idea was to evaluate the results of the pilot programmes in terms of how they were set up and to learn something from them. The bureaucratic burden for employers and employees is clearly too great, and the financial incentives of the subsidies are too small to achieve substantial increases in the number of applications.

First results can be reported from Spain's immigration law reform in February 2000 (cf. Issue 3, pp. 48–49) and the immediate reform in January 2001 after the conservative People's Party came to power (cf. Issue 4, p. 54).

Even though the first law was in effect for less than a year, 245,000 illegal immigrants applied for legal residency status. Almost 40 percent of these applications were refused, with great disparities evident among the country's provinces.

Between the end of 2000 and the beginning of 2001, when the new and more restrictive law had been approved and was about to come into force, hunger strikes by illegal immigrants in various cities and protests of some parts of the Spanish population put pressure on the government. It responded by reconsidering some 57,000 of the applications which had been denied, and reopening the legalisation process in June 2001. For this decision, the government relied on an article of the new law that allows temporary permits for humanitarian or settlement reasons. Furthermore, the government started to negotiate bilateral agreements with some countries in order to establish immigration levels and professional profiles of people who will be allowed to enter Spain under a quota system. Ecuador, Colombia, and Nigeria are among the countries affected.

Spain—
New Immigration
Law Ineffective

The new law has so far failed to reduce illegal entry into the country, despite being much more restrictive than the previous law. In fact, the number of illegal immigrants has risen by 10 percent. At the same time, the number of people waiting to be deported has also increased.

The prohibitions against illegal immigrants assembling, associating, joining trade unions, and going on strike re-introduced by the new law have been the basis for a great surge of protests from the public and some political leaders. The ombudsman for immigration issues received 769 requests from political parties, trade unions, NGOs, and immigrant organisations asking him to lodge an appeal to the Constitutional Court opposing the reform of the law. Although he refused to do so, the appeal was finally lodged by the Socialist party and by the regional governments of eight *Comunidades Autónomas*. The appeals have all recently been accepted by the Constitutional Court.

● So far, the reformed law appears to fail in fulfilling its main and explicit purpose, controlling illegal entry and residence in Spain. The arrival of illegal immigrants through the southern coast has not decreased, and a new regularisation process had to be opened to respond to the increasing number of illegal immigrants already in Spain. Their numbers are still increasing, requirements for legalisation are more restrictive than before, and procedures for effective expulsion are not improving. This situation is leading to the marginalisation and alienation of these people, which is hardly beneficial for Spanish civil society.

The contradictory government information regarding the new legalisation process, combined with the preferential treatment of some immigrant groups, has resulted in distrust among many immigrants towards the government. Despite all the problems, however, the new law is still a major advancement over the original law (prior to 2000) in that it aims to stabilise immigration and provide channels of regular entry, such as quotas and temporary work permits. Similarly, it maintains many of the specific issues introduced by the first reform of the original law, such as health rights and legal assistance rights (although under more restrictive conditions).

3 Industrial Relations

Only two new reforms can be reported for this policy field. The business and labour market groups and the Spanish government have signed the third agreement on continuing training and Germany reports that five unions have merged to create the largest service sector union in the world. Details of the reforms are available on the project website www.reformmonitor.org.

Employer organisations, trade unions, and the Ministry of Labour and Social Affairs signed the third National Agreement on Continuing Training (ANFC) which came into force in January 2001. For the first time the government will play a direct part in the administration and management of the continuing training system. It will do so in order to support and simplify the financial and administrative management of training initiatives.

In Spain there is a general consensus that the development of the continuing training agreements has provided a major stimulus for these programmes. The development of the previous agreements, from 1993 to 2000, has led to the extension and consolidation of continuing training in Spain, particularly in small and medium-sized companies. In 1999 more than 1.4 million workers received training (about 10 percent of the working population).

Spain—

Third National Agreement on Continuing Training

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

The employer organisations and trade unions initiated the Foundation for Continuing Training (FORCEM) to manage training initiatives and complementary activities.

Most problems with the previous agreement were related to the management of FORCEM and the need for better financial management and control over the funded activities. There is general agreement that quality criteria must be developed to validate the continuing training funded through the agreements. Furthermore, it has been difficult for unskilled workers to receive training funded through the national agreements because of structural problems in manufacturing and the general labour market. This is because most training opportunities are related to the introduction of new technologies and new forms of human resource management. The predominance of small companies with traditional management and mostly short-term business perspectives does not, however, offer enough of these types of training opportunities. Finally, the associated bureaucratic “red tape” has made it difficult for some companies to manage the plans.

The third agreement now integrates the government’s expertise into the social partners’ activities. A tripartite National Commission for Continuing Training will be set up to determine priorities between different training initiatives (the previously existing bipartite commission has since been eliminated). The bipartite Foundation for Continuing Training, FORCEM, has been replaced by a new tripartite Foundation for Training in Employment. The new agreement maintains the system of different levels of training initiatives: company plans for companies with over 99 employees; group plans, which are sectoral and do not depend on the number of workers in particular companies; multi-sector plans initiated by employer organisations or trade unions at the appropriate level; and individual training leave. However, employers are being encouraged to participate in group plans which can now be promoted by individual representative companies in one sector (e.g., an important automobile company can promote a plan for its network of authorised dealers). The agreement also provides for a new form of training initiatives for non-profit companies such as cooperatives. In general, the new agreement intends to focus on less-qualified workers and on small and medium-sized companies.

It is intended that training should be more oriented towards the needs of companies and workers.

► Some employer organisations have asked for direct forms of support to companies without involvement of the social partners, and various regional governments are demanding decentralisation and their direct involvement in the continuing training system. Experts point out that the agreement is a new step forward to improving the occupational skills of the employed population. The challenges over the next four years are to increase quality in training, and raise participation levels among small and medium-sized enterprises, and among less-qualified workers. The certification of continuing training and professional skills, and its connection with the recently created National Qualifications System, remains a pending matter of great importance in order to link the different Spanish sub-systems of professional training (vocational training, occupational training, and continuing training), and to promote life-long learning and qualification. The increased government involvement may facilitate the integration of the different systems. Strategic and qualitative elements of the system need to be prioritised above the criterion of maintaining strict bureaucratic control.

In March 2001, the unions for white-collar workers (DAG), the postal sector (DPG), the commercial, banking, and insurance sector (HBV), the media sector (IG Medien), and the union for the public services and transport sector (ÖTV) merged to form the Unified Service Union (*Vereinigte Dienstleistungsgewerkschaft, Ver.di*). Ver.di is now the world's largest trade union with approximately 3 million members.

All German trade unions have been suffering significant membership losses over the past few years, mostly due to the emergence of new professions in the services and information technology sectors. The existing sectoral unions with their outdated structures have not been able to respond adequately to this development, with the consequence that union representation in the information technology and service sectors has remained quite small. Furthermore, cumbersome structures and the loss of members have led to increased financial pressures on the unions. Ver.di intends to tighten and simplify its organisation, and pool resources and competen-

Germany—

Five Unions Merged
into World's Largest
Union

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

cies to provide better service and quality to attract new members. As a combined services union, it intends to exercise its increased bargaining power in negotiations with the government and employer organisations.

► Opponents state that the creation of a “super union” is a blatantly centralist approach and thus contradictory to the need to face new challenges with greater flexibility. Experts point to positive effects for employees if the new union succeeds in adapting its internal structures to modern conditions. It remains to be seen whether the mix of old and new sectors in this enlarged union is too diversified to allow for a common policy or to realise synergetic effects. They claim that simply being “big” is not enough.

4 General and Important Developments

In this new section we would like to present interesting reforms in other policy fields, as well as general and important developments which cannot be covered in the previous policy sections.

The United Kingdom reports the restructuring of ministerial responsibilities after Labour's re-election. In a similar situation, the Japanese Prime Minister has proposed bold reforms to restructure the economy. In a previously unthinkable move, he openly stated that temporary setback is inevitable if Japan is to take the restructuring of its economy seriously.

Following the re-election of the Labour government in the general election on 7 June 2001, the allocation of ministerial responsibilities for social, employment, and industrial relations policies was restructured. The new framework is no less complex than the old: in contrast to most other countries, responsibility for employment and industrial relations matters remains divided among a number of ministries.

A Ministry of Labour was established in the United Kingdom in 1917 (it had existed in embryonic form since 1893 as a department of the Board of Trade) and was renamed the Department of Employment and Productivity (later shortened to the Department of Employment) in 1968. In 1995 the Department was disbanded. Re-

**United Kingdom—
Restructuring
Government
Responsibilities**

sponsibility for training policy, employment offices, and equal job opportunities was transferred to the renamed Department for Education and Employment (DfEE); the Department of Trade and Industry (DTI) took over responsibility for employment tribunals, the conciliation service (ACAS), and general industrial relations policy; and health and safety policies were taken over by the Department of the Environment. The most plausible explanation for these changes was that the Conservative government viewed the very existence of a large integrated employment ministry as an obstacle to its deregulation goals. Giving the DTI control of industrial relations legislation in particular was done to guarantee a “business-friendly” approach, not least within the EU Social Affairs Council.

The Labour government elected in May 1997 appeared to accept this logic, resisting trade union calls to re-establish an employment ministry. The restructuring of June 2001 maintains the fragmentation of responsibilities for employment matters, but nevertheless has significant implications for future policy developments. First, the newly-named Department for Education and Skills (formerly the DfEE) lost most of its employment-related functions. Its new name may presage a more focused approach to training policy. A new Department for Work and Pensions has been created, which is responsible for employment offices and unemployment benefits. It takes over the previous activities of the Department of Social Security, as well as former DfEE responsibilities for age and disability discrimination issues. Finally, the industrial relations functions of the DTI have been enhanced. It has taken over from the DfEE the main responsibilities for equal opportunity issues, including policy relating to the “work and life balance.” This is a theme to which the government has assigned considerable importance. Alan Johnson, who is responsible for employment relations, has been promoted to the status of Minister of State. Ironically, the DTI structure now looks curiously similar to that of the old Board of Trade before 1917.

Japan—
New Prime
Minister Proposes
Bold Reforms

In June 2001, Junichiro Koizumi became Prime Minister and announced a variety of reform proposals. Japan has been experiencing a serious recession since the 1990s, yet the government and politicians have been unable to implement the necessary policies to

restructure the economy. This is due to vested interests and the fear of worsening the economy's condition. Mr. Koizumi is the first prime minister who has openly stated that a temporary setback of the economy is inevitable if Japan is to take restructuring its economy seriously. He has also said that long-term growth is not possible if Japan does not immediately take concrete steps. Since coming into office, Mr. Koizumi has proposed a number of daring reforms in many areas, including social security. One of them is to turn the basic pension programme into a tax-based, flat-rate pension system, while privatising the income-related portion of the public pension scheme. Even though such a plan is sure to meet many objections from all sides, it is indeed noteworthy that such policies are even being suggested. If his term as Prime Minister continues, Japan may yet witness some bold and far-reaching reforms.

Reform Tracker

Health Care

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 - Health Care for Rural Regions, Issue 3, p. 10
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Currency Conversion

All amounts expressed in national currencies have been converted into Euro to make comparisons easier. Some amounts are rounded to facilitate reading. Please refer to the project website www.reformmonitor.org for exact amounts in national currencies.

1 €	=	USD	0.9258	=	DEM	1.95583
	=	JPY	108.84	=	ESP	166.386
	=	DKK	7.4423	=	FRF	6.55957
	=	SEK	9.7215	=	ITL	1936.27
	=	GBP	0.63230	=	NLG	2.20371
	=	CHF	1.4835	=	ATS	13.7603
	=	CAD	1.4550	=	FIM	5.94573
	=	AUD	1.8837			

Source: European Central Bank, exchange rates as of Thursday, 19 September 2001

