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Responsible: Eric Thode

Copy editor: Michael Kühlen

Production editor: Christiane Raffel

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Project Information

The International Reform Monitor is a project of the Bertelsmann Stiftung. The following partners participate in the project:

Australia

Melbourne Institute of Applied Economic and Social Research,
University of Melbourne

David Johnson

www.ecom.unimelb.edu.au/iaesrwww/home.html

Austria

Institute for Advanced Studies, Vienna

Helmut Hofer

www.ihs.ac.at

Canada

Caledon Institute of Social Policy, Ottawa

Ken Battle

www.caledoninst.org

Centre for the Study of Living Standards (CSLS), Ottawa

Andrew Sharpe

www.csls.ca

Denmark

The Danish National Institute of Social Research (SFI),

Copenhagen

Nils Ploug

www.sfi.dk

Finland

The Research Institute of the Finnish Economy (ETLA), Helsinki
Kari Alho
www.etla.fi

France

Conseil de l'Emploi, des Revenus et de la Cohésion Sociale
(CERC), Paris
Olivier Bontort, François Hada
www.cerc.gouv.fr

Germany

Bertelsmann Stiftung, Gütersloh
Eric Thode
www.bertelsmann-stiftung.de
German Institute for Economic Research (DIW), Berlin
C. Katharina Spieß, Viktor Steiner
www.diw.de

Italy

Institute for Economic Studies and Analyses, Rome
Fiorella Kostoris
www.isae.it

Japan

National Institute of Population and Social Security, Tokyo
Aya Abe, Tetsuo Fukawa
www.ipss.go.jp/index-e.html

Spain

CIREM Foundation, Barcelona
Maria Caprile, Oriol Homs
www.cirem.es

Sweden

Institute for Futures Studies, Stockholm
Staffan Marklund, Erik Barnekow
www.framtidsstudier.se/eng/index.htm

Switzerland

Prognos AG, Basle

Kai Gramke

www.prognos.com

Research Institute for Labour Economics and Labour Law,
St. Gallen

Thomas Liebig, Alfonso Sousa-Poza

www.faa.unisg.ch

The Netherlands

Amsterdam Institute for Advanced Labour Studies (AIAS),
Amsterdam

Wiemer Salverda

www.uva.nl/aias

United Kingdom

Department of Sociology at the University of Warwick, Warwick

Mick Carpenter

www.warwick.ac.uk/fac/soc/sociology

Industrial Relations Department at London School of Economics
(LSE), London

Richard Hyman

www.lse.ac.uk

USA

The Brookings Institution, Washington

Gary Burtless

www.brookings.edu

Activation without perspective?

Not all labor market groups are equally affected by unemployment. In most countries, older and less qualified persons in particular suffer from low labor market participation and low employment. In order to achieve a better labor market integration of these groups, many countries have turned to so-called “activation strategies.”

Usually, their approach is twofold: On the one hand, they provide those seeking employment with enhanced profiling and training in order to facilitate matching them to available jobs. On the other hand, they require increased collaboration and active job search from benefit recipients. These requirements can assume various forms: increased mobility, a more rigorous interpretation of what constitutes an acceptable job or the willingness to participate in training measures that are not necessarily associated with previous work experience. Accompanying measures include the reduction of benefit levels and benefit duration but also the provision of wage subsidies and tax credits to reduce the marginal and/or average burden on earnings.

Reforms along those lines have been implemented in virtually every country covered by the International Reform Monitor. This edition includes yet another series of activation reforms:

Austria will gradually abolish its early retirement scheme for older workers. In the Netherlands, the new Law on Work and Social Security, enacted in January 2004, emphasizes financial incentives for taking up a job and escaping poverty. Municipalities have been accorded full financial responsibility over benefits and labor market reintegration measures.

In the United States, beneficiaries of subsidized housing are now required to provide eight hours of community service a

month to remain eligible for public housing. This mainly serves as a screening instrument to filter out those who are not really in need of public housing. Denmark is continuing the implementation of its “More People in Work” program. Besides other measures, an individual contact procedure between the unemployed and the placement office has been introduced. The tasks to be carried out by both parties differ with the individual skill deficits and requirements of those seeking a job.

Despite the success of such policies, their scope is limited. While the measures described above address labor supply and the matching process, labor demand by private companies remains largely unaffected. This is hardly a problem when, due to other structural reforms or a favorable economic climate, the labor market is vibrant and a large number of vacancies is available.

However, in the face of high unemployment, activation will largely be ineffective because of the lack of jobs the unemployed can be matched to. This seems to be the case in a number of continental European countries such as France and Germany. The poor results of activation programs such as the French “Prime pour l’emploi” or the German “Mainzer Modell” corroborates these findings. Reforms improving labor demand and boosting the general economic development should precede activation strategies.

Eric Thode

Kai Gramke

Social Policy

Health Care

Four reforms can be reported in this section of the Reform Monitor. Australia and the USA focus on regional issues, Switzerland and Germany report on fundamental health care reform proposals.

The Australian government intends to introduce a fairer Medicare program for patients in outer metropolitan and rural areas, and the state of Maine has set up a semi-public agency to provide high-quality and affordable health care to small employers and individuals on a voluntary basis.

Switzerland reports on the rejection of a referendum that would have fundamentally changed the country's health insurance system. The referendum called for the replacement of the current per capita premiums based on age and region by contributions based on personal income and wealth, as well as by earmarked increases in the VAT.

Germany reports on short-term policy changes aimed at cost reductions that have already been implemented. At the same time, long-term policy options have been proposed with the goal of achieving greater economic awareness for both the insured and insurers by introducing more competition and personal responsibility.

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

Australia:

A fairer
Medicare program

Innovation **
Impact *
Interest **

The Australian government intends to introduce a fairer Medicare program, which will correct imbalances in the availability and cost of medical services to patients in outer metropolitan and rural areas. Furthermore, the cost of providing medical services to poor patients will be subsidized by reducing the need for doctors to charge copayments. Patients will be allowed to insure against the cost of copayments for out-of-hospital medical services.

In Australia, hospital services are funded by the state governments, while out-of-hospital consultations with doctors, and pharmaceutical purchases are subsidized by the federal government through the Medicare and Pharmaceutical benefit schemes, respectively. Patients make copayments for out-of-hospital doctor consultations and are precluded from insuring against these under existing arrangements. The universal national insurer, Medicare, meets costs of out-of-hospital medical services according to a scheduled fee for each service.

A process of bulk-billing simplifies the administrative arrangements for both patients and doctors. Under bulk-billing, doctors would accept 85 percent of the scheduled fee in full payment of medical services in return for doctors billing Medicare directly, rather than requiring patients to pay the full fee and then reclaiming 85 percent of it from Medicare. In 2000, about 74 percent of all out-of-hospital consultations were bulk-billed. However, the cost of out-of-hospital medical services to patients has grown faster than health expenses in general, in part because doctors have reduced the practice of bulk-billing. The proportion of bulk-billed consultations has dropped to 68 percent in 2003.

Doctors claim that increases in the charges per consultation have not kept pace with the real or perceived costs doctors face. A strategy some doctors have adopted to maintain their revenue in the face of increased costs is to reduce the extent of bulk-billing and charge patients copayments (or out-of-pocket expenses). There are on-going problems attracting doctors to outer metropolitan and rural areas, and the problems are exacerbated by the low and falling incidence of bulk-billing in these areas.

To level the geographic distribution of general practitioners, the Australian government plans to offer special increased payments for consultations carried out in outer metropolitan and rural areas; increase the number of places at medical schools for

medical students, with the new slots offered on the condition that students will practice in these under-represented areas once they have graduated; and increase the number of full-time equivalent nurses employed in general practices in outer metropolitan and rural areas. To reduce the cost of out-of-hospital medical consultations for poor patients, the government plans to provide a subsidy to cover the copayment that otherwise would have been charged.

⇒ Opponents state that the proposed reforms are only superficial and do not address the fundamental challenges facing the country’s health sector. The Australian Medical Association claims that the reforms will not be effective. Many critics also see the reforms as threatening the status of Medicare as the universal public insurer. Although many experts believe the reforms will have little effect in broad terms, they do at least expect that there will be some coverage improvement in the under-represented outlying regions. Furthermore, the slide in bulk-billing is expected to be reduced.

Two long-term policy proposals for a sustainable statutory health insurance system have been proposed by the Commission on Achieving Financial Sustainability for the Social Security Systems. Both proposals aim at introducing more competition and personal responsibility to achieve greater economic awareness on part of both the insured and the insurers. The reform proposals also comprise short-term policy changes already adopted that aim at cost reductions. The Commission has also proposed long-term care and pension reforms (cf. this issue, p. 33 and 37).

In addition, several short-term changes that have not evolved out of the Commission’s proposals have been implemented by the government. These changes are related to the copayment system and pharmacists’ remuneration, as well as the introduction of an electronic chip card and the definition of the general practitioner as a “gatekeeper.”

Germany has a dual health care insurance system with around 90 percent of the population insured with public health insurance funds and the other 10 percent insured with private insurance companies. Employees earning below a social security contribution ceiling are obliged to participate in a public insurance plan, whereas employees earning above the ceiling (and the self-

Germany:

Proposals for sustainable statutory health insurance

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

employed) can choose between public and private insurance plans. Contributions to the public funds are a percentage of employees' gross earnings (up to the earnings ceiling) and are paid one half each by the employee and the employer.

The current debate about public health insurance focuses on the unstable financing of the system against the background of demographic and economic changes. Since 1970, the average contribution rate has increased from 8.2 percent of earnings to 14.3 percent in the first quarter of 2003. This is particularly controversial as the insured can expect contribution rates to further increase while benefits will decrease, e.g., through higher deterrent fees or cuts in the number of health risks covered.

Demographic changes will further increase contribution rates to the statutory health insurance system as the dependency rate will increase. Due to a lack of market structures in the German health system, spending is deemed inefficient.

The Commission's reform proposals cover a number of short- and long-term changes to be made. The short-term policy changes were proposed in April 2003 and have been adopted together with other short-term changes proposed by the government (see below) with minor amendments by Parliament. Statutory sick pay will be excluded from public health insurance as will be provisions that aim at serving wider social—not merely health-related—objectives and should thus be paid for through general taxation (e.g., maternity leave pay, contraception, abortions, etc.).

Whereas the short-term policy proposals aim at cost containment, the long-term policy proposals foresee a shift towards either a universal health insurance scheme or towards a system of flat-rate health premiums. Two reform proposals have been advanced, both of which aim at introducing more competition and personal responsibility into public health in order to achieve greater economic awareness among the insured and the insurers.

Proposal I is a "universal insurance scheme" to which all German citizens would contribute according to their means. Means would be tested on the basis of an assessment of all sources of income. Other aspects include the extension of public health insurance to all citizens (i.e., not only employees) and the consideration of other sources of income other than earnings from gainful employment in order to determine income-related contributions.

The income threshold for eligibility to opt out of the public health insurance scheme would be abolished, and the monthly income ceiling for contributions would be raised to € 5,100. In the long run, the public health insurance scheme would provide vital medical care while private health insurance providers would cover additional non-vital services.

Proposal II is a “system of flat-rate health solidarity premiums” which would completely detach health insurance contributions from labor costs. Employees would receive the amount employers are currently paying as social insurance contributions with their pay. However, this amount would be subject to income taxation. Insured individuals with low incomes would receive subsidies to their premiums financed out of general taxation rather than from the insurance fund.

The health risks covered would remain basically the same, but the insured would be allowed to switch among private insurance plans in order to induce greater competition among providers. A long-term objective is to have a uniform regulatory framework for public and private health insurance institutions.

Additional short-term changes that are not based on the Commission’s proposals have been implemented by the government in cooperation with the conservative parliamentary opposition.

The copayment system will undergo a major revision with the new reform. Copayments will be tied to a drug’s price rather than to package size. As a rule, copayments amount to 10 percent of the price, with a lower limit of € 5 and an upper limit of € 10. For consulting a general practitioner or a specialist without a referral, a fee of € 10 per quarter must be paid. Children are exempt from copayments. Applicable fees will generally not exceed 2 percent of gross income (1 percent for those chronically ill). Dental prostheses will be completely excluded from public insurance coverage and transferred to mandatory private insurance.

As of 2006, every insured person will obtain an electronic chip-card containing health insurance data and information needed for electronic drug prescriptions. Patients can request a receipt from the physician that lists all medical services and costs associated with medical treatments in order to provide increased transparency for the patient and to prevent fraud.

Public health insurers are obliged to set up a “gatekeeper” system. It is envisaged that the general practitioner assumes the role of the supervisor of an entire treatment and serves as the main contact person for the patient. Insurers will also be allowed to contract with individual physicians, while collective agreements with physician associations will still establish the basis for such contracts.

Furthermore, public health insurers will be able to offer differentiated tariffs with lower premiums for persons who regularly attend preventive medical check-ups, take part in a gatekeeper system or disease management programs or choose an HMO-style health care plan.

The passed reform also addresses the issue of pharmacists’ remuneration. So far, the compensation for selling medicine has been a fixed proportion of the drug’s price, thereby providing an incentive to sell more expensive medications.

With the new regulation, pharmacists can claim a fixed amount of € 8.10 and additionally receive a fee of 3 percent of the drug’s price. Furthermore, prices for non-prescription drugs will no longer be uniformly set and can thus vary from pharmacy to pharmacy. Also, mail order and Internet pharmacies will be allowed, albeit under tight regulation.

▷ Labor unions and others argue that the short-term policy changes proposed by the Commission are socially unbalanced. The bulk of health cost reductions will be paid by the insured and ill individuals without bringing about any positive changes in behavior. Another argument raised is that incomplete financing is involved. Exclusion of maternity leave pay and other provisions, which aim at greater social objectives, from public health insurance is fine in theory, in practice, however, the government will have to refinance these items through general taxation.

As for the long-term policy proposals, universal health insurance would not change the detrimental contributory structure of the German insurance system, but instead extend its problems (high marginal tax rates, high labor costs), to a greater number of people. Proposal I would further lead to private insurance companies becoming less significant, as they would only be able to insure against specific but not general risks.

Annual government subsidies to health premiums (Proposal II)

would amount to around € 28.4 (€ 22.6 billion for an alternative health plan with less benefits) and this would have to be re-financed. Whereas € 18.6 billion would become available through revenues from taxes levied on gross income (which would increase because employers' social insurance contributions would be paid to employees), the approximate remainder of € 10.2 billion (€ 4.1 billion for the alternative health plan) could be made available through increasing the solidarity tax from 5.5 percent to 10 percent. Although this represents a massive redistribution of income, it will make fewer people better off than if Proposal I were adopted.

There is widespread concern that the additional short-term changes implemented by the government with opposition support will only be a "quick fix" because the main cost drivers in the system remain largely unaffected. They are, for instance, expensive hospital care and unevenly distributed bargaining power between physicians associations, health insurance providers and the pharmaceutical industry.

Since neither of the Commission's long-term proposals (Proposal I and Proposal II) was seriously considered in the implementation of the short-term proposals, discussions now are focusing on the "the reform after the reform."

The "Health Must Be Affordable" referendum, which envisaged a fundamental change in Switzerland's unique health insurance financing, was roundly rejected by Swiss voters in May 2003. The initiative called for the replacement of the current system of regionally differentiated per capita premiums with one of contributions based on personal income and wealth, as well as by earmarked increases in the VAT.

Furthermore, the initiative envisaged more central planning in the health care infrastructure. A fundamental reform of the health system has been discussed in the Swiss Parliament for some time now, but no agreement has been reached yet. In 1994, Swiss voters had rejected a similar reform proposal calling for financing health insurance through contributions defined as a percentage of wages.

Switzerland's health expenditures amount to almost 11 percent of GDP, the second highest amount among OECD countries, and

Switzerland:

Referendum
 "Health Must
 Be Affordable"
 rejected

Innovation *

Impact *****

Interest *****

the problems of the health care system figure prominently among the biggest concerns of Swiss citizens. The per capita insurance premiums have been steadily rising in recent years. From 2001 to 2002, for example, the increase was almost 10 percent—whereas an increase of only 5 had been expected. The average per capita premium in 2001 was € 125.

Many Swiss perceive the current system of per capita premiums as unfair since it does not a priori distinguish between rich and poor contributors. Though the cantons have established support systems that compensate for (part of) the premiums for households at the bottom end of the wagescale, the administration of these schemes is often burdensome and is not uniform across Switzerland. Likewise, premiums differ substantially among cantons, which leads to a situation in which top income earners in rural Switzerland pay less than do poorer people in cantons like Geneva.

As children are also subject to per capita contributions, many families face problems with paying the premiums, despite the support schemes in place. At the same time, cost control is a major problem in the current system and there is little nation-wide coordination (as the hospitals and other parts of the health system are administered by the cantons). Costly double entries in record keeping are common.

The initiators of the reform proposed the abolition of the current per capita premiums, to be replaced by three financing sources:

- 4.3 percent of an individual's taxable income (applicable after a threshold of € 12,740)
- 0.3 percent of an individual's wealth (applicable after a threshold of € 637,000)
- a raise of the VAT by 1.5 percentage points

In addition to the new financing scheme, the initiative envisaged the following measures aimed at stabilizing the costs of the health care system: centralization of the most expensive medical care techniques (e.g., transplants) in high-tech medical centers; coordination of cantonal planning regarding health care infrastructure, with greater control over health care to be given to federal authorities to limit infrastructure oversupply; and setting

maximum prices for medication and basic medical treatment by the federal government.

Furthermore, the introduction of a new quality control system at the federal level was proposed. The initiators argued that almost 80 percent of the population would have benefited by lower net payments. They furthermore expected better control over costs through greater coordination and centralization at the federal level.

↳ The new system of financing the health care system via income-based contributions was deemed to be in effect a tax increase by critics, thereby posing an obstacle to the country's economic growth. Furthermore, opponents argued that neither the new financing system nor the envisaged centralization would have had the presumed effect of curbing the costs of the health care system.

On the contrary, they argued that the new means of tax financing would eliminate incentives for cost reduction inherent in the existing system. Under the current per capita premium system, people have the opportunity to save premiums if they are willing to carry a larger part of their health risk themselves. It would have been difficult to introduce such an incentive scheme under the proposed new financing system.

A thorough revision of the health insurance system is currently being debated in Parliament. The revision envisages various ways to achieve cost reductions and is therefore viewed as a better solution than the measures targeted in the initiative. Furthermore, opponents have doubted the validity of the financing calculations employed in support of the initiative, arguing in particular that a VAT increase of 1.5 percentage points would not suffice to finance the reform.

Experts point out that at first sight the overwhelming rejection of the reform is striking (only 27 percent of the voters supported the initiative). Though probably much less than the expected 80 percent of the population would have profited from the reform, a majority would nonetheless have benefited most likely.

Another goal of the initiative was to bring the Swiss system, unique within Europe, closer in line to other European health care systems. In effect, the initiative came close to some proposals for a "citizen insurance" system. Though not a perfect system

either, the current per capita premium scheme provides more incentives for limiting health care expenditures than the alternative model proposed. It is also not clear whether more central planning would effectively limit health care costs, or whether it would simply lead to more bureaucracy.

Critics point out that the initiative would not have solved the problems of the current system, but would have abolished the most pragmatic and innovative part of the current Swiss health care system instead. It also risked creating more inefficiency in the system, and the tax increase inherent in the initiative would have had adverse effects on an already struggling economy.

United States:

Voluntary
additional health
care program
for Maine

Innovation **
Impact **
Interest **

In the state of Maine, a semi-public agency is to provide high-quality and affordable health care to small employers and individuals on a voluntary basis starting in October 2004. Maine currently faces higher health insurance costs compared to neighboring states due to an aging population and the greater prevalence of small businesses there. This has resulted in 180,000 uninsured individuals not covered by MaineCare, the state's Medicaid system¹, and correspondingly steep medical expenses for their care incurred by hospitals and the state.

The so-called Dirigo Health Care plan, a semi-public entity through which the state contracts with private health insurance

1 Medicaid: A means-tested health care program financed by both the states and the federal government and which is generally limited to low-income citizens. The federal government matches between 50 percent and 83 percent of the cost of Medicaid in each state, depending on the state's per capita income. On average, the federal government pays for 57 percent of the cost of Medicaid in each state, with relatively poor states receiving a higher matching rate than relatively wealthier ones. Medicaid provides health insurance protection that covers 100 percent of the cost of hospitalization, physician visits and prescription drug costs for eligible individuals who have obtained coverage under the program.

The eligible population is limited to children and adults with low incomes and few assets. People who are members of families with average and above-average incomes are not eligible. Moreover, some people with below-average incomes may not apply for coverage because of the time and effort required to submit an application. As a result, many citizens and residents of Maine with low and moderate incomes are not covered by a health insurance plan.

providers, intends to gradually insure more individuals or provide subsidies to low-income individuals or families, starting with the self-employed and those employed by small businesses.

Initially, the individual to be covered must work for a business of two to 50 employees, be self-employed or unemployed. If an employee, the individual must work at least 20 hours a week to qualify. A business can participate if 75 percent of its employees who are eligible participate in the Dirigo plan. Premiums for insurance are expected to be under € 240 per month for the individual.

Subsidized premiums will be available for those who are under a certain income threshold with relation to the poverty level (initially 300 percent) and are ineligible for MaineCare. In the first year, the plan aims to have an additional 31,000 individuals insured, with the rest of the 180,000 uninsured covered by 2009. Maine expects to save € 65 million a year through the program.

⇒ Critics state that the new health insurance policy will be ineffective because they believe many small businesses will be unable or unwilling to pay the premiums. The result will be a low level of participation. Premiums will rise for those who already have insurance because insurance carriers will seek to pass on their annual fee to the insured, though this is prohibited by the legislation.

Experts believe the reform has modest significance overall. Maine is a small state, and it is doubtful whether participation in the new insurance program will be particularly high.

Starting this year, selected local hospitals will be able to apply for Foundation Trust status to enable them to become independent entities. They will then be able to borrow funds on their own, retain their profits, compete for NHS contracts and set their own wage and salary rates.

Previously the NHS had been primarily publicly financed, and it provided its services publicly. Its facility assets, such as health centers and hospitals, were publicly owned, and its staff were public employees under nationally standard pay and conditions. Even the shift to hospital trusts under the 1990 reforms did not fundamentally alter this system.

However, since the 1980's there have been incremental shifts

United Kingdom:

Selected hospitals can apply for Foundation Trust status

Innovation *****

Impact *****

Interest *****

towards a system which remains largely publicly financed through taxation, but in which there is increasingly a plurality of providers, including for-profit organizations competing for government contracts.

This trend started with the privatization of cleaning and ancillary services in the 1980's and the Private Finance Initiative introduced in 1992 to help build hospitals with private capital (which are then leased back to the NHS). Labour's 2002 election manifesto introduced the idea of specialist fast-track treatment centers to be set up to clear the waiting lists that have long been a feature of the British health care system. These are being introduced this year alongside the development of Foundation Hospitals.

Although Foundation Hospitals are a further development down the same road, there was no mention of them in the 2002 election manifesto. If the pace of change continues at this rate, it is likely that the provision if not the funding of health care will be substantially privatized in a few years.

The Health and Social Care (Community Health and Standards) Bill 2003 sets forth that Foundation Trust (FT) hospitals will differ from other NHS trust hospitals in three key respects:

- They will have increased financial freedom to borrow on capital markets, sell off assets and retain surplus "profits."
- They will see a relaxation of central control by the Department of Health (as signaled by the elimination of the Health Minister's powers of direction), allowing them greater freedom to set local pay and conditions. They will be governed by an independent regulator appointed by the Minister of Health.
- They will be required to establish a new Board of Governors to be elected in part by local communities.

The reform is being implemented in two stages. The first set of FT hospitals is to be selected from hospital trusts that achieved a "three star" rating in July 2003 (in advance of this there were often desperate and sometimes dubious means employed by some hospitals to ensure that they would attain this rating). "Shadow" FT hospitals will be set up in October 2003 and begin operating by April 2004.

In the second phase, all NHS hospital trusts will achieve FT

status within four to five years. There are, however, no current plans for mental health and other trusts, e.g., Primary Care Trusts (PCT's), to be established as FT's, though this might well be a logical "third stage."

At this point, there is no plan to shift to an insurance model of funding, although this could occur in the future. There are, however, strong indications that the Conservative opposition is thinking about its feasibility. These reforms apply only to England; in Scotland and Wales there is considerable resistance to the market-driven "New Labour" approach to NHS "modernization."

⇒ Some critics oppose the plan in principle, while others want more safeguards and regulation than are currently included. Others, e.g., the Kings Fund, argue that new layers of bureaucracy will be created and that management will simply exchange accountability to the Minister to the independent regulator and other agencies. They point to the huge rise in administrative and accounting costs that occurred after the 1990 reforms.

There are also fears that FT hospitals will concentrate on those patients with acute problems who can be dealt with in a relatively short period of time, rejecting those with longer-term or irresolvable problems. There will be an end to effective planning of the health care system, and there are fears that a system based on competition rather than collaboration will lead to fragmentation and distorted development.

It is also feared that a pronounced two-tiered system will develop in which the better hospitals will pull away from the rest. The longer-term plan for all hospitals to become Foundation Hospitals would hence be unsustainable.

Experts state that it is undoubtedly a highly significant reform both in itself and because of being a wider political symbol. The new system of PCT's needs time to stabilize and prove whether it can deliver improvements, and the move to FT hospitals cuts across the primary care-based system to put hospitals center-stage again. In order to deliver more care, the NHS basically needs to obtain more doctors and nurses—and this takes time to do.

Some commentators have noted that there seems to be an unwarranted faith that organizational change alone can deliver improvements. At the same time, many acknowledge that there is the need to shift incrementally away from the traditional central-

ized system and address the system's "democracy deficit." This, however, might be accomplished without partially privatizing the NHS in such a radical fashion.

Changes and Results

Austria:

Copayments
for outpatient
treatment
abolished

In exchange for new copayments likely to be introduced in 2005, the Austrian government abolished the controversial outpatient copayment user fee in April 2003 (cf. issue 5, p. 9; issue 8, p. 14). No details are currently available about what kind of user fees will be introduced in the future.

⇒ The abolition of copayments is not surprising as its administration turned out to be very complicated and, moreover, the revenue it generated began to decline substantially in 2002 (from € 30 million in 2001 to € 8 million in 2002). This was due to some extent to the introduction of new exemptions in November 2002.

Japan:

New diagnosis
system assigns
"set prices"
instead of
points

The major overhaul of the Japanese public health care system (cf. issue 8, p. 13) has introduced a new fee structure for medical personnel and facilities. As part of the reform, a Japanese version of "partial DRG's" (Diagnosis Related Groups), called Diagnosis Procedure Combination (DPC), was introduced. Currently 82 hospitals are scheduled to incorporate this system, with more facilities to follow.

DPC drastically changes the way payments for medical services are made within Japan's entire public health insurance system. DPC is a day-to-day all-inclusive fee system: instead of being based on "points" for each treatment or service provided, all types of hospital services, such as hospitalization, medication and shots, are "included" in the daily "set price" for each type of diagnosis (i.e., according to illness, classified into 2,552 groups).

Thus, medical facilities are paid the set price no matter how much treatment they provide. The set price is lowered in three steps according to the number of days hospitalized. This is expected to introduce greater cost and efficiency consciousness on the part of medical facilities. In addition, medical facilities are evaluated based on the number of days patients are hospitalized

so facilities will have an incentive to shorten hospitalization periods.

↳ Critics argue that medical facilities may have an incentive to under-treat patients because they are forced to provide services under the fixed fee. Furthermore, the introduction of the DCP system in private hospitals might be difficult to administer.

Within the framework of the public health policy aimed at rationalizing costs and territorial decentralization (cf. issue 1, p. 12; issue 3, p. 15; issue 4, p. 18), recent reforms have focused on the coordination of highly decentralized policies.

The Law on the Cohesion and Quality of the National Health System aims to establish the legal framework for the coordination of, and cooperation among, the country's various public health administrations in order to bring about greater fairness, a higher level of care quality standardization and more widespread participation in the health care system.

It is particularly a question of ensuring uniform basic conditions for providing primary and specialized care, social and health services, emergency assistance, pharmaceutical benefits, ortho-prosthetic treatment, dietetic products and medical transport. These basic conditions refer to the accessibility, mobility, time, information, safety and quality of health care.

The law also establishes criteria for workers' training, professional development and labor mobility in the health care arena. With health care systems decentralized among Spain's autonomous communities, the law is intended to promote coordination and basic service quality guarantees throughout all regions of the country.

The Framework Statute of Statutory Personnel related to health services intends to modernize and consolidate the nation's health care system. It defines the rights and working conditions of professionals in the National Health System, guaranteeing their nationwide freedom of movement, and establishing criteria for professional careers, incomes and working hours. It affects 600,000 health care professionals and is intended to update and streamline the management of human resources within the public health system, as developed by the Law on the Cohesion and Quality of the National Health System mentioned above.

Spain:

Focus on coordination of decentralized policies

This law introduces flexibility in labor relations and greater autonomy in personnel management within the health services and health centers. It also standardizes the different categories of personnel and includes a system of incentives, promotions and means of recognition for medical staff. A Human Resource Commission has been formed to ensure compliance with the established principles.

↳ The trade unions insist that it is necessary to include special cases such as private insurance, collaborating entities and private centers, which still receive transfers from the general government budget in order to ensure uniform services without undue regional imbalances. Experts point out that this reform is actually part of the ongoing development of the Spanish welfare state, already in great need of improvement, of which the policy of zero deficits prevents further expansion.

Sweden:

Measures
announced to
reduce sick leave

A detailed plan for cutting in half the number of people on sick leave by 2008 (cf. issue 8, p. 19) has been announced by the Swedish government. Within the framework of this plan, some steps have already been taken. The overall objective is to stimulate a higher degree of activity among individuals on sick leave and to strengthen the incentives for both employers and their employees to see people return to work. The ultimate goal is to replace full-time sick leave with at least part-time work.

Perhaps the most controversial change is the extended period of employer-financed sick pay, from 14 to 21 days. The sick pay does not cover the first day of an illness spell. It amounts to 80 percent of the actual salary. The aim of the extension is to increase the financial burden on employers due to sick leave, thus encouraging them to get their employees back to work. There are also hopes that this increased period of sick pay will compel employers to improve working conditions in order to prevent increased sickness-related costs.

To protect small businesses with few employees, a cost ceiling has been introduced. Companies exceeding the ceiling the costs are compensated for through the social security system. Several actions have been taken in order to improve the administrative process when handling sick leave cases, as well as to rectify shortcomings in the application of the rules and regulations. The

steps introduce active elements in the administrative process that stimulate the interaction between employees and employers.

For example, evaluation meetings attended by all parties involved (i.e., the sick-listed individual and the social insurance office, as well as the certifying physician, employer and the occupational health service) should become more frequent. An assessment of the individual's medical condition, ability to work and his or her need for rehabilitation will be made at those meetings. If the regional social insurance office deems this assessment insufficient, a supporting medical review may be called for in order to assess the degree of disability.

The rules regarding the employer's duty to conduct the rehabilitation examination and prescribe rehabilitation activities are made more stringent in the sense that the examination is now compulsory and must be started within four weeks from the first day of sick leave.

New regulations regarding compensation for individuals with permanent disabilities have been introduced. For individuals under the age of 30, the disability pension is replaced by activity compensation. The aim of this measure is to stimulate work and activity.

↳ Critics point out that these reforms are quite minor in relation to the severity of the problem and in view of the aim of reducing absences due to illness by half up until 2008. They regard them mainly as administrative changes, which are a first step in a longer-term process.

Pensions and Social Security

Pension reforms covered by this issue of the Reform Monitor are mostly aimed at alleviating financing problems due to demographic developments. Austria intends to curb expenditures by gradually abolishing her early retirement scheme, reducing the replacement rate and by extending the assessment period. France has increased the length of the contribution period necessary to obtain a full-rate pension in order to reduce the projected deficit in 2020 by 50 percent.

Germany's proposals aim at achieving a stabilization of

pensions through a variety of measures such as increases in the statutory retirement age, changes to the pension revaluation formula and incentives for private insurance plans.

On a different note, the government of Canada’s most populous province, Ontario, intends to ban mandatory retirement rules if it wins re-election.

Details are available at www.reformmonitor.org.

Austria:

Early retirement abolished to curb expenditure growth

Innovation **

Impact ****

Interest *****

To curb expenditures for Austria’s public “pay as you go” pension system, the early retirement scheme will be gradually abolished, the replacement rate will be reduced for new pensioners, and the assessment basis period will be extended from 15 to 40 years. The reform has been supplemented by a number of measures in order to avoid dramatic reductions in pension benefits. The cuts in pension benefits for individual pensioners are capped at 10 percent.

The coverage of the Austrian pension system is comprehensive. Benefits can be viewed as relatively generous in international comparison. In 2002, the Austrian government spent 11.1 percent of the country’s GDP on public pensions. With respect to expenditures as a percentage of GDP, Austria ranks second in the European Union.

Despite a number of peripheral reforms in recent years, the Austrian pension system is regarded as unsustainable in the medium to long term due to demographic trends. In this respect, the very low effective retirement age (59 years for men and 57 for women) is considered to be particularly problematic. In addition to that, the Austrian pension system suffers from the problem that contribution and benefit schemes differ for certain groups (e.g., blue-collar vs. white-collar workers, self-employed, farmers and civil servants). This implies that the system could hinder mobility between different occupations.

Starting in 2004, the current early retirement scheme which gave women the option of retiring at the age of 56.5 (men: 61.5) will be gradually abolished until 2017. Beginning in the second half of 2004, the early retirement age will be raised by one month every quarter. The deductions in the pensions awarded to early retirees (compared with the “normal” retirement pension) will rise from 3.75 percent to 4.2 percent per year of early retirement, and the replacement rate will be reduced gradually.

The “increment points” awarded for every year of pension insurance contributions will be gradually reduced until 2009, with the effect that 40 years of contributions will result in a pension of 71.2 percent of the assessment base instead of 80 percent as before. The assessment base will be gradually increased from the current best 15 years to 40 years up until 2028.

For blue-collar workers with 40/45 (women/men) years of contribution who were exposed to unfavorable working conditions, the possibility of early retirement at the age of 55/60 will remain available; other persons with 40/45 years of contribution will have the opportunity to retire at the age of 55/60 up until 2007, at which time the early retirement age for them will be raised to 56.5 and 61.5 for women and men, respectively.

The maximum number of months of child care (per child) that will be taken into account for the basis for entitlement to pension benefits will be increased from 18 to 24 months; the monthly calculation base for one month of child care will be raised from 100 percent to 150 percent of the minimum pension; and three years of child care (per child) will be exempt from the extension of the assessment base of the pension.

The existing “part-time work for older workers” program will continue, but over a period of 10 years, the earliest age to enter the program will be raised from 50/55 to 55/60 (women/men).

The current “early retirement due to unemployment” option will be replaced by “old-age unemployment benefits” (unemployment benefits plus a supplement of 25 percent), which will be in effect during the period 2004–2006. Supplementary payments will be introduced for persons receiving meager pension benefits. Women above the age of 56 and men older than 58 will be exempt from contributing to the unemployment insurance system (thereby retaining six percent of their wages and salaries).

⇒ Critics maintain that such dramatic and immediate welfare cuts, which are estimated to bring about significant reductions in pensions, can hardly be attributed solely to unfavorable demographic prospects, as most government representatives argue.

The critics believe the reform is also intended to finance a forthcoming large-scale tax reform that the Austrian government announced some time ago.

Others argue that such radical changes to the existing pensions

system may threaten Austria’s traditional “pay as you go” mechanism and could undermine the contribution-based principle of insurance, since the “terms of contract” will dramatically deteriorate. In particular, employees with interruptions in their working lives and/or longer periods of atypical part-time employment (mostly women with childcare obligations) may be negatively affected.

Other critics argue that the reform does not do enough to secure the long-term solvency of the system due to the 10-percent limit on pension reductions. Trade unions demand a harmonization of the various pension systems for different occupational groups (e.g., private sector employees, public servants, farmers and the self-employed).

Experts state that the Austrian pension system is not sustainable in the medium to long term, with the specific problem of the Austrian pension system being the very low effective age of retirement. Thus, the recent reform tackled the problem at its root. It therefore seems reasonable to assume that this reform will ease the financial situation of the Austrian pension system for the coming years. In the medium term, however, additional measures will be necessary (especially regarding the pension system of public servants).

Canada:

Banning of
mandatory
retirement rules in
Ontario promised

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

In a pre-campaign promise, the current Ontario Conservative government pledged to ban mandatory retirement rules if it wins re-election this year. Currently, there is no legislation in Ontario that requires workers to retire by a certain age. However, neither does it contravene any legislation calling for employers to develop and enforce their own retirement age rules, either through individual or collective agreements with employees, or unilaterally where no contract exists. This is due to the fact that Ontario’s Human Rights Code prohibits discrimination in employment based on age only for the under-65 age group.

To date, the Ontario Superior Court has upheld this provision of the Human Rights Code in cases involving claims of age discrimination in employer-mandated retirement rules and for differential workplace treatment for those 65 and over. Of Canada’s 10 provinces, five have already made the move to no mandatory retirement, and it has also been effectively banned in the United

States. In addition, employees of the federal government cannot be subject to mandatory retirement.

Ontario is Canada's most populous province, so if the Conservatives are re-elected and follow through on this promise, it is possible that this will give an incentive to other provinces to follow suit.

Mandatory retirement can be banned only by changing the Ontario Human Rights Code. However, it is important to stress that the status quo is not that everyone must retire at age 65. Presently employers have the option of including or not including mandatory retirement rules in employment contracts. Most workers retire before the age of 65, but in 2001 about seven percent of those 65 and older were part of the labor force. If the age bracket 65–69 is singled out, this figure rises to 13 percent.

Mandatory retirement ages first appeared in North America in the 1920's with the advent of public pensions. However, life expectancies have increased so much since then that there are few concerns about those aged 65 and over being in too poor a physical or mental condition to work. Indeed, in addition to those 65 and over being more capable of continuing to work, some commentators have also raised concerns that financial necessity is increasingly prompting people to continue working.

Recently a Statistics Canada study found that 18 percent of middle-aged workers in Canada expect to never retire, with typical reasons being a fear of an inadequate pension, no employer pension or insufficient private savings. At the same time, observers often refer to a trend among older citizens to work longer because they want to—and some even draw on some evidence that working past the usual retirement age of 65 has health benefits (presumably through encouraging a more active lifestyle).

⇒ The two main opposition parties in Ontario, the New Democratic Party and the Liberals, have not yet adopted clear policies on mandatory retirement. However, some critics have stated that a much more effective way of improving the financial situation of seniors would be through providing more generous pension plans and better services for seniors. Yet, the financial situation of seniors is not the focus of this reform. Rather, the key issue is allowing older workers to freely choose when to stop working.

Experts state that mandatory retirement is an outdated concept

and that no useful purpose is being served by Ontario's Human Rights Code allowing it to be retained in employment contracts. Even though banning mandatory retirement will likely have little effect on retirement behavior and other policy fields, many believe the proposal should be carried out to eliminate an unjust restriction. In this sense, the generosity of seniors' benefits is quite a separate matter.

France:

Contribution
period
increased to
reduce projected
deficit

Due to growing financing problems of the country's pension system, France has increased the length of time contributions must be made in order to obtain a full-rate pension. According to some evaluations, this would reduce the projected deficit by 50 percent in 2020.

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

To obtain a full-rate public pension, the contribution period will be increased from 150 quarters to 160 quarters (40 years) within the next four years. The contribution period of public pensions will equal those for private pensions by 2008. Contribution periods for both schemes will then be increased to 164 quarters in 2012 and to 167 quarters in 2020. This stabilizes the ratio of working time to retirement time at the 2003 level.

The premium system that increases pensions for people working more than the legal contribution period and decreasing pensions for those working less will be merged in both schemes. In the private scheme, the negative premium will be reduced progressively from 10 percent to five percent between 2004 and 2008 for each year below pension age; in the public scheme, it will increase progressively up to 2015 to reach five percent.

Beginning in 2004, a positive premium of 0.75 percent per quarter beyond the legal contribution period will be created in both public and private schemes (with a limit of five years). Pensioners who had worked their lifetimes at the minimum wage will have an 85 percent replacement rate instead of 75 percent as is now the case (beginning in 2008). In the general scheme, people who began working between the ages of 14 and 16 will have the opportunity to retire before age 60 under certain conditions (e.g., after at least 42 years of contribution).

Public pensions will be based on price levels instead of being based on the value of public servants' wages beginning in 2004, as is already the case in the private scheme. A complementary

scheme will be created in 2005 for public servants who receive income premiums up to a limit of 20 percent of wages.

⇒ Experts point out that the convergence of the main parameters of the public and private pension schemes is an important improvement from a social equity point of view, and will make future adjustments easier. However, this reform only covers 50 percent of the projected deficit. Further changes will have to be introduced, such as increases in general contributions or other decreases in the relative levels of pensions.

Furthermore, this reform supposes that the labor market will absorb older workers who will retire later in life. Even if early retirement cases will be reduced, however, no particular program has been decided upon yet regarding the employment of older workers.

Pension reform proposals have been made by the Commission on Achieving Financial Sustainability for the Social Security Systems. The proposals aim at achieving a stabilization of pensions through increases in the statutory retirement age and supplementation of the existing pension revaluation formula by a “sustainability factor.” This factor takes into account labor market and demographic changes so as not to increase contributions beyond 22 percent until (at least) 2030.

In addition, public pension entitlements are to fall slightly, and individuals are expected to provide for later life through private insurance plans.

The Commission was given the task to design social security (i.e., social insurance) to stabilize employees’ contributions at 22 percent by 2030 and also to limit government expenditures. The reform proposals for the German social security system aim at guaranteeing its financial sustainability by means that are compatible with the ideals of inter-generational fairness and gender equality.

The core of the reform proposals is that rising costs of social security in an aging society are to be spread more evenly across all generations so as not to hinder employment and economic growth through high labor costs. In addition to the pension reform, the Commission’s proposals cover health care and long-term care reforms (cf. this issue, p. 13 and p. 37).

Germany:

Pension reform proposal to limit contribution rates to 22 percent until 2030

Innovation ****

Impact ***

Interest *****

According to the Commission's proposals, the statutory retirement age is to be raised from its current level of 65 years to 67 years by means of small-scale increases of one month per year, starting in 2011. Within the same time-frame, the age threshold for early retirement pensions is to be raised from 62 to 64. Pensions for the severely disabled are to be integrated into the major pension insurance scheme over the long run.

The pension revaluation formula will be supplemented using the sustainability factor. Pensions are raised whenever employment levels rise and lowered whenever the number of benefit recipients grows faster than that of contributors. The current reserves of half the monthly expenditures for pensions are to be raised to approximately twice the monthly expenditures (without raising contributions).

Regarding private pension plans, the Commission proposes:

- Extension of eligibility for public pension bonuses to all taxpayers
- Dynamic increases of contribution thresholds up to which one is eligible for public bonuses to private pension schemes
- More transparency of private pension schemes
- Simplification of the bonus system
- Elimination of flat-rate taxation of certain private pensions schemes

▷ Labour unions argue that raising the statutory pension age for all insured does not correspond to reality. For those who start working life early, “early” retirement should be possible without pro rata reductions in their pension entitlement. Others argue that rather than tying pension rights to age, they should be linked to the number of years in employment.

Though commissioned to design a social insurance system incorporating the ideals of inter-generational fairness and gender equality, the reform proposals do not strengthen family-friendly instruments within the insurance system. For example, no realistic recognition of times during which women care for their children is part of the pension formula. In addition, through the sustainability factor, younger generations are given the illusion that childlessness will not entail any major drawbacks for the insurance scheme.

Changes and Results

In Denmark, 124,000 of the retirees worst off financially were to receive a one-time supplementary payment of up to € 673 in February 2003 (cf. issue 8, p. 17). However, only around 100,000 retirees have since received the payment. Many retirees who had expected a payment did not qualify because family assets (e.g., bank deposits, stocks and bonds) amounted to more than the cut-off threshold of € 7,147.

⇒ Critics argued that the payments were not directed at retirees in need, but instead were given to those with paid-off homes but no other assets. Experts point out that this result underlines the findings of many studies, namely that the poor can be found among the younger generation and not only within the older age groups.

The proposed reform of the occupational pension system in Switzerland (cf. issue 6, p. 27) has been debated twice in each chamber of parliament. The original reform proposal intended to ensure the system's long-term financial stability, raise the retirement age for women and ensure better coverage of part-time and temporary workers. After changing several elements of the reform, the two chambers of the Swiss parliament have now come close to a common solution.

Parliament agrees with the government that the retirement age for women should be increased from 62 to 65, thus equaling that of men. In order to ensure long-term financial consolidation, the so-called conversion rate (the percentage of an individual's occupational benefit plan account that is paid to that individual as an annual pension) will be reduced from 7.2 percent to 6.8 percent within ten years. This measure takes into account that life expectancy has increased since the occupational pension law was introduced in 1985.

The government, however, had asked for an even greater reduction of the conversion rate, from 7.2 percent to 6.65 percent. The minimum annual income after which an employee must be insured in an occupational benefit plan (the so-called coordination deduction) will be lowered from € 16,100 to € 12,100. Given this new threshold, some 100,000 employees who are currently

Denmark:

Many pensioners fail to meet conditions for one-time supplementary payment

Switzerland:

Occupational pension reform—Key elements debated in Parliament

not insured will enter into occupational benefit plans. Many of the beneficiaries of this measure are women working part-time.

The government had originally opted against a change of the present regulation, arguing that employees with low incomes were already sufficiently covered by the public old-age insurance system. This, the government pointed out, would make insurance provided by a company-run occupational benefit plan unnecessary. Moreover, it was criticized that the insurance of low-income individuals would cause disproportionately high administrative costs for the pension system.

The mandatory contribution rates to the occupational pension scheme, however, will remain unchanged. Originally, the government planned an increase in contribution rates to avoid a reduction of the pensions due to lower conversion rates. As the current proposal envisages a reduction of the coordination deduction, prospects for the funding of the occupational pension scheme will improve. Instead of higher contribution rates, employers and employees will have to pay contributions on an additional part of income which had not been the basis of contributions before.

⇒ The Swiss Parliament improved the government's proposal for an occupational pension reform in two ways. First, the reduction of the coordination deduction extends mandatory coverage by the occupational benefit scheme to another 100,000 employees. Considering the fact that Switzerland has a population of only around seven million, this means that a significant part of the population will benefit from improved old-age benefits. The new regulation will improve the situation of working women especially, 35 percent of whom currently earn less than the present coordination deduction.

Secondly, the increase of contributions through the lower coordination deduction has enabled the parliament to avoid an increase in contribution rates. This measure would have been especially objectionable to older employees (and their employers) as their contribution rates would have been raised the most. Hiring disincentives regarding older citizens could have arisen, an effect which will now be avoided.

Nursing and Elder Care

Two reforms can be reported in this category. Germany proposes greater contributions to its long-term care insurance system to insure its long-term financial viability, while maintaining risk coverage and care quality. Japan is following a different strategy by lowering fees for care services across the board to keep down the rise in contributions.

Details are available at www.reformmonitor.org.

According to proposals by the Commission on Achieving Financial Sustainability for the Social Security Systems, pensioners will have to make a greater contribution to long-term care insurance, while risk coverage and quality of care are to be maintained at the current high level. The Commission also proposed health insurance and pension reforms (cf. this issue, p. 13 and 33).

The introduction of “pay as you go” long-term care insurance was controversial as demographic changes and labor market developments were already causing financing problems in the other four tiers of Germany’s social insurance system. The number of those receiving nursing home care is likely to increase from its current level of 1.9 million to 3.1 million by 2030 and will not level off until 2050.

Long-term care insurance is a compulsory system to which employees contribute at a fixed rate of 1.7 percent of gross earnings. In case of an insurance claim, the insured must make substantial out-of-pocket payments, which are subsidized by social assistance in cases of lack of means.

Thus, against the background of increasing costs of care, dependency of elderly people on social assistance is likely to increase if contribution rates are not increased. This, however, conflicts with the political goal of lowering labor costs.

The Commission approves retaining the current insurance principles and advocates adequate insurance for all citizens at a level comparable to that of today. This involves an annual increase of long-term care benefits by approximately 2.25 percent to offset inflation and half of the expected wage increases.

As a modification to the existing system, a concept for inter-generational burden sharing (according to the principle of

Germany:

Commission
proposes
inter-generational
burden sharing for
long-term care
insurance

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

solidarity among the nation's different age groups) is proposed. It involves recipients of old-age pensions taking on a greater share of the financing of long-term care insurance. Starting in 2010, contributions levied on pensions will be increased to 2.6 percent. Minimum pensions will subsequently be increased accordingly. General contributions to long-term care insurance, in the meantime, will fall to 1.2 percent of gross earnings. For average pensioners, these changes represent an increase of contributions of approximately € 20 per month beginning in 2010.

Employers and employees will continue to make a contribution of 1.7 percent of gross earnings, of which the above-mentioned 1.2 percent will flow directly into the insurance fund and 0.5 percent of which will be saved in compulsory individual retirement accounts.

▷ Opponents of the reform proposals support a radical change in respect to the funding mechanism. They advocate the replacement of the pay-as-you-go system with a fully-funded system.

Japan:

Long-term

Care Insurance fee
reduced

Innovation ***

Impact ***

Interest ***

In order to keep the rise in the premium rate for the Long-Term Care Insurance system low and in line with the negative inflation rate, the fees for care services have been lowered across the board.

Since the introduction of the Long-Term Care Insurance system, many shortcomings of the initial fee structure (i.e., payment for services to care providers) for various types of care services have been pointed out. For example, many care managers were grossly underpaid, and most of the businesses that provide care services were not profitable. However, the wage and price index for Japan has been falling for some time, and it was necessary to reduce the fees for care services (most of which are composed of personnel costs).

The reform aims to encourage more at-home care services while discouraging institutional services (e.g., nursing homes). It places more emphasis on care management and supports care managers, many of whom are over-worked and inadequately compensated. On the whole, the fees for long-term care services have been lowered by 2.3 percent. The only significant increase relates to care management fees, which were raised by 17.1 percent.

↳ Some critics argue that since fees have been lowered across the board, the businesses providing care services will cut back on personnel costs and correspondingly compromise on care quality. It is feared that the care provider market, as it is, will consist mostly of low-wage part-time workers.

Experts point out that the first major overhaul of the Long-Term Care Insurance system is planned for 2005, with debate on the reform just beginning. These small reforms will be an important milestone before the major reform in 2005. Even though the Long-Term Care Insurance system is now in place, the care provider market is still not mature (especially regarding at-home services). The lowering of wages might be a fatal blow to many care service providers.

State Welfare and Social Assistance

Disability insurance and social assistance are the topics of two reforms reported by the Netherlands. To bring down the number of people receiving disability benefits, the annual number of new claimants will be made public for each large employer in the country. In the second Dutch reform, municipalities are accorded complete financial responsibility in granting social assistance payments, thus placing more emphasis on the duty of each individual to perform paid work. Local municipalities will only support those who have no other livelihood.

In the United States, non-senior and non-disabled unemployed residents who receive subsidized housing in public housing projects are now required to provide eight hours of community service a month to remain eligible for public housing support.

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

The Netherlands:

Number of
disability
insurance
claimants made
public

Innovation ***

Impact ***

Interest ****

Since April 2003, the annual number of new claimants under the Disability Insurance Act will be made public for each large employer (over 250 employees) in the country. This is the latest regulation in a series of measures aimed at bringing down the number of people receiving these disability benefits. The underlying idea is that these numbers vary considerably among individual sectors of the economy and that the new regulation will reveal these differences.

The aim of this legislation is to make employers aware of their role in disability insurance claims and then stimulate them to take measures to reduce the number of claimants by promoting their reintegration into the workforce.

In the early 1990's, people in the Netherlands became aware of the rapid growth of absenteeism and the high rate of people entering disability benefit rolls (WAO/AAW). It was thought that the WAO disability scheme was partly used as a channel to provide people with a benefit superior to unemployment benefits (i.e., longer duration, higher amounts) in cases of company restructuring. The rising costs were considered problematic and a number of reform measures were taken to reduce social security expenditures.

Over the last few years, the Dutch government has introduced a set of closely related directives aimed at preventing disability and at restricting the number of those applying for benefits under the Disability Insurance Act. Steps taken include imposing an obligation on employers to continue paying when employees are on sick leave, premium differentiation in cases of disability and shared responsibility of employers and employees for prompt reintegration in cases of illness (as through the Improvement Gatekeeper Act, cf. issue 7, p. 24).

The new law on making claimant numbers public was passed because these measures have been unable to alleviate the absenteeism problem.

The disclosure of the number of disability insurance claimants will induce employers as well as employees to prevent and reduce the number of those seeking benefits. Further advantages of making these figures public are that employers will gain insight into their performance in this area compared to other employers; that employees will also gain an insight into this process about their

employer vis-à-vis other employers; and that employers and employees can use these figures to promote activities aimed at reducing the number of people who end up receiving disability benefits.

The categories of employers from whom claimant figures will be made public and rules to govern the process will be set by ministerial agreement. One stipulation is that information on employers is to be grouped by sector.

➤ Critics argue that only numbers of those seeking benefits under the Disability Insurance Act are being reported, with no information being provided on the distance to the labor market individual employees face or on their “disability risk.” Experts point out that the effects could depend on the amount of publicity the figures will generate, which may only be of a temporary nature.

Starting in January 2004, municipalities are accorded complete financial responsibility in granting social assistance payments. This also means that they will no longer receive special government assistance. Special assistance for people entitled to benefits will be repealed, and more emphasis will be laid on the duty of each individual to perform paid work. The local municipality will only support those people who are unable to support themselves. In addition, the Work and Social Security Act places a large amount of responsibility with municipalities in terms of finance and supervision.

Social assistance was introduced as a right in the 1960’s. It provides the basis for all forms of social security, with the exception of pensions, giving support to people who do not qualify for any of the other types of benefits. Consequently, many different groups receive aid on the basis of this law (e.g., single mothers).

The implicit assumption so far has been that these groups would be unable to earn an income from labor market activity; the new assumption is that everyone has the obligation to work and that people should be treated individually.

The main objective of the Law on Work and Social Security is to help people find a job more rapidly. In order to deliver individually tailored job-seeking guidance to people living on benefits, municipalities are given a flexible and discretionary budget. In

The Netherlands:

Social assistance reform to increase labor market participation

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

addition, municipalities must now abide by fewer and simpler rules (e.g., less obligatory reporting to the government).

The new law stresses the importance of work before benefits in line with the following principles:

- Citizens must assume responsibility themselves, based on their rights and obligations.
- Municipalities must be well-equipped to guide citizens to work and income.
- The rules should be simplified in order for municipalities to have the largest possible degree of freedom and responsibility in their policies to realize the goals of the new law.

The Law on Work and Social Security is a framework act which puts responsibility for poverty alleviation in the hands of the municipalities, which are then free to interpret and implement the law through local decrees.

⇒ Critics argue that the new law has a different starting point than its precursor, the General Social Security Act of 1965. This act promoted a sense of responsibility, as the government announced that it would carry a certain amount of the risk and uncertainties associated with modern life. In this context, people who were unable to support themselves because of circumstances beyond their call were to be protected against poverty. Social security hence became a right instead of a privilege.

In the new act, the underlying principle is that people need financial incentives in order to escape from poverty; no attention is being given to the obstacles with which people are confronted. The assumption is that if people are unable to find work, they simply lack the will to do so (and are penalized accordingly).

Furthermore, because municipalities are given complete financial responsibility over benefits and labor market reintegration, the rights of those entitled to benefits cannot be regarded as guaranteed. Their obligations, on the other hand, are being increased and emphasized, and penalties for not fulfilling them have been introduced.

Experts point out that the change of perspective, although it had already been occurring gradually within the Dutch social security system in the recent past, is a radical one. It will be important to evaluate the effects on entitlements as such, their levels and mu-

municipal finances in general. Evaluation may turn out to be more difficult as rules can vary widely among municipalities.

Starting in October 2003, non-senior and non-disabled residents who receive subsidized housing in public housing projects and who are unemployed for whatever reason will now be required to provide eight hours of community service a month to remain eligible for public housing support, a federal program administered by local housing authorities to provide decent and safe rental housing for eligible low-income families, the elderly and people with disabilities.

Many able-bodied adult public housing residents do not work. Their subsidized rents are very low because the net subsidy to public housing residents is inversely proportional to their incomes, including net income from employment.

Over the past decade, several public assistance programs for the non-disabled and non-senior population have linked recipients' continued eligibility for benefits to some type of work. Public assistance recipients who do not work in private or community service jobs and who do not participate in job preparation programs can lose their eligibility for continued public assistance benefits, including public assistance under the Temporary Assistance to Needy Families (TANF) program. However, up to now, non-disabled adults who live in public housing projects have not faced similar work obligations in order to maintain their eligibility for public housing subsidies.

The new rules will require approximately 270,000 non-disabled, non-aged and unemployed adult residents to work eight hours a month in their community without pay in order to maintain their eligibility for public housing subsidies.

↳ Critics argue that the new rules will force poor people in public housing to work without compensation. Some affected residents object to the rules since they do pay rent for their publicly subsidized apartments (although these rents are ordinarily well below market rates for comparable unsubsidized apartments).

Experts state that if the new rules are rigorously enforced, some public housing residents will contribute modestly toward improving or maintaining the public housing facilities in which they live. This seems like a fair and reasonable contribution in ex-

USA:

Residents in public housing required to provide community service

Innovation ***
Impact **
Interest *

change for the generous public subsidy that is provided to public housing residents.

In most localities in the United States, the queue of eligible families waiting to obtain a publicly subsidized apartment is very long, indicating that there are many more people who wish to live in public housing than there are apartments covered by the subsidies. If some residents objected to the new rules and moved out of public housing, they would be quickly replaced in most cases by people on the waiting list who are willing to comply with the rules.

On average, a larger percentage of public housing residents will be working for pay or participating in a training program (and thus be exempt from the community service requirement) or will be contributing toward the improvement or maintenance of their public housing facility. This seems like a worthwhile change.

It is, however, questionable whether local public housing authorities will actually enforce the policy. These agencies have not been provided with any new federal funds to implement the rules, and if a resident is to be evicted for not complying, local housing authorities must ordinarily go through a lengthy and burdensome process to remove the resident from the public housing facility.

Changes and Results

Australia:

Reduction of penalties and new supplementary payments to improve success rate of unemployed job seekers

Changes to the Australians Working Together reform (cf. issue 4, p. 21) aim to improve the success rate of unemployed job seekers by encouraging those on income support to retain more of their benefits when they work (known as “Working Credit”). They intend to do this by reducing the penalties from not passing activity tests and by making new supplementary payments for those taking language, literacy and numeracy courses.

In Australia, unemployment benefits are paid indefinitely to job seekers provided they pass activity tests. The activity tests are the major “mutual obligation” the unemployed must abide by. The activity tests require unemployed beneficiaries to be actively looking for work, undertaking training or participating in some other form of recognized and accepted activities. The penalties for not fulfilling these mutual obligations can be severe, including

reductions in benefits, periods of denied benefits or—for repeat offenders—the complete termination of benefits.

The Working Credit will make the transition from unemployment to part-time employment smoother and more financially attractive for benefit recipients. The supplementary payments are aimed at helping recipients overcome barriers to employment.

⇒ Experts state that the proposed reforms are modest in nature and scope. The reduced penalties will improve the attitude of the unemployed towards government support, the supplementary payments should help some unemployed people increase their attractiveness to potential employers, and the Working Credit will help reduce the (sometimes very high) marginal tax rate for some unemployed. They expect the reforms to streamline the unemployment scheme and point out that ongoing scrutiny of the operation of social security schemes is both desirable and necessary.

However, they do not expect that the reforms will have an effect on the unemployment rate because the unemployment rate is more related to aggregate demand, changes in demand for different types of skills, rigidities in the labor market and to general economic conditions.

Changes can be reported in Denmark regarding the immigration reform (cf. issue 8, p. 52), which introduced a requirement calling for several years' residency before aliens are entitled to social assistance, as well as a new type of monthly social assistance called "Start Help."

"Start Help" was designed to motivate resident aliens to find employment by granting them lower monthly social assistance benefits (€ 709 for a single person above the age of 25) compared to normal unemployment benefits (€ 1,100 for a person meeting similar criteria). First results show that only around 20 percent of resident aliens eligible to receive "Start Help" have started a regular job, whereas the remaining 80 percent had to manage only with the lower "Start Help" benefit. This has led to intense media coverage focusing on struggling foreigners forced to live on benefits not sufficient to cover their basic needs.

⇒ The Danish government states that one year is not sufficient to evaluate the effect of the reform. It believes that the current per-

Denmark:

Immigration reform with minimal effect on employment

centage of resident aliens with regular jobs due to “Start Help” effects will increase. Local governments point out that many foreigners eligible for “Start Help” have not been able to start regular jobs due to illness and argue that sufficient medical treatment is a prerequisite for the success of “Start Help.” Experts maintain that the problems with “Start Help” raise the question not of whether the resident aliens are ready for the Danish labor market, but whether the Danish labor market is ready for its resident aliens.

Family Issues

As seen in previous Reform Monitor issues, “Family Issues” covers a wide range of topics.

Both Spain and France have implemented changes regarding child allowances. In an effort to prevent a further fall in its birth rate, Spain is offering € 100 a month per child either as an advance payment or as an income tax reduction. France combines separate child care allowances into a single one, and Sweden has strengthened the protection of children who are exposed to maltreatment and abuse.

A new proposal for a maternity insurance system has been introduced by a parliamentary initiative in Switzerland—so far, all specific plans for the introduction of a maternity insurance program had been rejected by voters in a series of public referendums.

The government of Canada intends to allow same-sex couples to marry. Sweden is extending the definition of cohabitants and establishing tighter regulations concerning joint property upon a cohabitant couple’s separation. The law applies to cohabitants of the same sex as well as to those of opposite sexes.

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

The government of Canada has filed draft legislation allowing same-sex couples to wed for review with the Supreme Court of Canada, and it will submit the legislation for a free vote in the lower house of Parliament if the Supreme Court rules that it does not violate Canada's constitution.

Jurisdiction concerning marriage is currently divided in Canada in that provinces issue marriage licenses, but federal legislation ultimately determines who is allowed to marry. The Canadian constitution states that marriage is the union between one man and one woman, to the exclusion of all others. Provinces, therefore, in accordance with the constitution, cannot issue marriage licenses to same-sex couples.

In June 2002, the Ontario Divisional Court, in the case of a same-sex couple challenging the province's refusal to grant it a marriage license, ruled that the constitution's definition of marriage (i.e., requiring a union of members of opposite sexes) violates equality rights set out in the Charter of Rights and Freedoms entrenched in the constitution. Furthermore, the court gave the federal Parliament two years to amend the definition of marriage to allow for same-sex unions, after which the definition of common-law relationships in Ontario will be changed to recognize same-sex marriages.

Acts to ban discrimination based on sexual orientation have been introduced in Canada's Parliament since the early 1980's, but none passed until 1996. Between 1999 and 2000, court cases found several laws to be in violation of the new anti-discrimination law based on the sexual orientation clause.

New legislation responding to these court decisions gave same-sex couples the right to adopt children and all the rights and obligations in terms of tax benefits and access to social programs available to heterosexual common-law couples—rights which had been denied to them up to that point. Therefore, since the mid-1990's, the legal treatment of same-sex relationships has changed radically. However, same-sex couples are not allowed to marry, while heterosexual couples have the choice of marrying or having a common-law relationship.

Broader opinion among Canadian citizens on whether same-sex marriages should be allowed is divided. A recent survey found that 46 percent are for and 46 percent are opposed to gay

Canada:

Legalization of same-sex marriage discussed

Innovation *****

Impact *****

Interest *****

marriage, with support among younger Canadians much higher than among older Canadians.

The behavior of the federal government thus far indicates that it wishes this issue to be decided as much as possible by the people of Canada (and it assumes that public opinion is shifting towards allowing same-sex marriages in line with recent court decisions). Appealing the court decisions would have been a unilateral move, but submitting the bill to a free vote in Parliament would have allowed members of Parliament to vote as they please instead of according to party lines.

By first submitting the bill for review by the Supreme Court of Canada, the government first makes future appeals much less likely to succeed, and secondly it ensures that there will be no further internal inconsistencies among provisions of the constitution in this area.

The Supreme Court is being asked three main questions:

- Does the Parliament have the exclusive authority to define “marriage”?
- Is the proposed bill in accordance with the Canadian Charter of Rights and Freedoms?
- Are religious leaders not wishing to wed same-sex couples based on religious doctrine still protected by the constitution?

The bill essentially seeks to recognize full equality between homosexual and heterosexual couples in terms of marriage, while maintaining the separation of church and state by leaving churches free of the legal obligation to wed couples they choose not to.

⇒ There are two major arguments made by opponents. The first is based on religious and traditional family values and states that same-sex unions should not be legally recognized in any way due to their inconsistency with traditional religious beliefs. Several lobby groups and religious leaders have weighed in with these arguments.

The second argument is more moderate in that it recognizes the equality of same-sex relationships but states that there are aspects of marriage that cannot be contemplated in a same-sex union, such as procreation and rearing children from birth who are directly related to both parents. This is a “separate but equal”

argument, and proponents typically argue for a “civil union,” which is somewhere in the middle between marriage and common-law relations in that every aspect of marriage would be granted to same-sex couples wishing to be married, except the title “married.”

Some see the gay marriage issue, specifically the way it has arisen in Canada, as highlighting the risk that the judiciary can be allowed to supplant the decision-making capacity of the legislature. Experts state that this bill is one further step in respect being gained for same-sex couples and point out that if two people wish to be called “married” they should be allowed this. Equality rights are already guaranteed in the Charter of Rights and Freedoms so that it is unfortunate that so much extra energy is being spent on enforcing them on this specific issue.

Starting in 2004, France will combine separate child care allowances into a single one and will extend eligibility requirements.

Whereas almost 100 percent of children aged three to six attend some type of school, supplying child care (collectively and individually) for children aged two and under is more problematic. In 1999, out of 2.15 million children up to age two, around 250,000 were in nursery schools, 200,000 in collective child care facilities (day-care centers, parent-run and other nurseries), and around 70,000 had places in day nurseries. In other words, around 25 percent of children aged below two years are provided for.

Several allowances are available, depending on the choice of child care. First, a general means-tested allowance (APJE) is provided to families having a child aged two and under. Individual child care allowances are available for home-based child care (AFEAMA or AGED) or parental child-rearing (APE).

Families can benefit from financial aid, including the certified child care allowance (AFEAMA, which consists of social security contribution exemptions) or the home-based child care allowance (AGED, which is a tax credit). The amount of financial aid is based on the incomes of the beneficiaries.

The parental child-rearing allowance (APE) is of a different nature in that it is paid when one of the parents interrupts his or

France:

Child care allowances merged

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

her job activity (or begins working part-time) after the birth of a second child. When it was established in 1985, it was only paid after the birth of the third child. It is now paid until the youngest child's third year.

All of these allowances will be merged into a single one (prestation d'accueil du jeune enfant, PAJE) starting on 1 January 2004. It will in turn be divided into a base allowance and complementary benefit payments. The base allowance will depend only on income conditions while the complementary payments will be based on both income conditions and the choice of child care—either a nurse at home or parental leave.

The reform extends access to the base allowance (previously APJE) to around 90 percent of households having children aged two and under (i.e., to an additional 200,000 households).

▷ The shortage of collective child care in France will not be solved by the reform. Until 2007, an additional 200,000 children are to benefit from individual child care, whereas only 20,000 additional spots in collective facilities are to be created. Furthermore, since collective child care is usually more affordable for low-income households, this will have adverse redistribution effects.

Moreover, access to parental leave (previously APE) is now available for the first child. Previous studies have shown that this type of measure reduces the labor market activity rate of women, particularly of those who are low skilled. It may consequently also have a negative effect on low-income households by reducing their employment rate.

Spain:

Tax relief
for working
mothers

In Spain, a new tax relief plan for working mothers has been introduced offering € 100 a month per child in an effort to prevent a further fall in the country's birth rate. The benefit can be taken as an "advance payment" of € 1,200 a year, or as a deduction from the beneficiary's annual income tax.

Innovation ***

Impact **

Interest ****

Spain has one of the lowest birth rates in the world, which can be partly attributed to the country's less-developed welfare structures (particularly in comparison to other European countries). Spanish women must rely on their families, for example, to provide the support services they need.

The reform focuses on women who are employed or self-em-

ployed and who have children under the age of three. The reform does not support women who are unemployed, as it is presumed that such women can devote their time to rearing their children. The tax reduction is included in the Personal Income Tax declaration (Spanish acronym: IRPF), which is the primary direct and progressive tax in Spain.

The reduction can be received in one of two ways: as a tax deduction of up to € 1,200 in the income tax declaration; or as payment of up to € 100 a month for each biological or adopted child under three years of age, if the mother meets one of the following requirements: She has a full-time job or is self-employed and registered with the social security system for at least 15 days a month; or she has a part-time job with a working day of at least 50 percent of the ordinary working day in the company she works for and is registered with the social security system for the entire month.

If she has a part-time job with a shorter working day, she will not be able to receive the € 100 a month but can apply for the corresponding proportional annual income tax reduction. In the absence of the mother, the father or a guardian can claim the benefit under the same conditions.

▷ Critics point out that the € 100 a month child benefit is fairly low compared to other European countries with similar policies. Spain is one of the countries that devotes the fewest resources to helping families within the European Union (two percent of GDP, as compared with 10 percent in France and 15 percent in the Nordic countries).

Critics of the reform argue that it is too restrictive regarding the number of beneficiaries. Furthermore, the allowance is neither assistential (i.e., supporting those with lower incomes) nor universal (like the right to citizenship). It is an allowance which only covers working women complying with basic requirements of social security registration, regardless of their income level.

Women who are unemployed or have a job that does not guarantee contributions (e.g., women working in the “shadow” economy or working part-time, whose contribution to the social security system is less than 50 percent of the ordinary daily contribution) are excluded. Housewives are not covered by it, meaning an exclusion of those who are involved only in domestic family work

either temporarily, during a certain phase in life or permanently. Experts state that the reform has been more important in terms of public relations than in its actual effectiveness. In fact, the relief has no impact on the decision of whether or not to have a child and will merely help those who happen to be applying for it at the time. It also excludes women who have lost their jobs or who have unstable employment situations, as well as those who are confined to the home for cultural reasons.

The reform is not accompanied by an increase in the provision of public goods and services (i.e., nurseries, residences, help for access to housing, etc.), which will limit its social effectiveness, nor does it contemplate the management and reduction of working hours. It is, however, one of the first measures to address the serious decline in the country's birth rate, which suggests at least a change of focus.

However, the limited scope of the reform and its non-comprehensive nature prevent it from being regarded as a major force for change.

Sweden:

More rights
for cohabiting
couples

A new law extends the definition of cohabitants and the regulations of joint property upon a cohabitant couple's separation. The law applies to cohabitants of the same sex as well as to those of opposite sexes.

Innovation ***

Impact **

Interest ***

The number of two-adult households in Sweden has been steady at around two million for many years now. However, it is becoming more common for couples to continue living together instead of entering into marriage or an officially registered partnership.

Today, about one-third of such couples are cohabitants. The increase in the number of cohabitant couples has made clarification and extension of the regulations necessary in order to increase the security of the weaker party in a cohabitant relationship. A law has been in effect since 1974 which regulates the division of the joint property upon the cohabitants' separation, and in 1987 this law became more encompassing.

In its full extent, the law applies to unmarried individuals of opposite sexes who live together in marriage-like relationships and to a somewhat lesser extent to homosexual couples living together.

The new law (effective July 2003) contains a more exact definition of what constitutes a cohabiting situation, as well of what defines the end of such a relationship. It introduces time limits and a duty to specify ownership of joint property. Furthermore, some legal forms of discrimination against homosexual cohabitants have been abolished.

⇒ Some political parties have been critical of the fact that the new law will be applied even to couples who do not regard themselves as cohabiting or are not even aware that they are legally regarded as cohabiting. Another argument is that the new law sets standards that are too similar to those of marriage and thus creates confusion about legal regulations.

Experts see the reform as a step towards a separation of the legal civil conditions and the traditional legal religious conditions in Swedish family law. This has implications for the legal regulation of property and inheritance rights, as well as for the regulation of parental rights.

Sweden has strengthened the protection of children who are exposed to maltreatment and abuse. The duty to report cases of suspected maltreatment now applies to a wider range of institutions, and these also have the duty to cooperate in order to uncover child abuse at an earlier stage.

The results of a government commission showed that only a small share of the cases of child abuse are reported and that the number of reported cases varies among occupational groups. There is therefore a need to establish a common definition of child abuse among institutions and to make reporting obligations more stringent.

Prior to the reform, the duty to report child abuse cases to the social welfare board applied only to employees of social services, health services and institutions with activities concerning children.

With the reform (effective July 2003), the duty to report has been extended and now also applies to authorities within the correctional treatment services and to forensic psychiatric divisions within the National Board of Forensic Medicine. The social services, the police, health services, schools and nursery schools now have the duty to cooperate with public institutions and or-

Sweden:

Reporting on child abuse extended

Innovation ***

Impact **

Interest *

ganizations when children are maltreated or at risk of being maltreated.

⇒ The legal reforms were almost unanimously accepted by all significant parts of Swedish society. Experts point out that while this is not a major reform, the extension of the reporting duty represents an important improvement of the protection system for children.

Switzerland:

Introduction of
maternity
insurance
discussed

Innovation **

Impact ***

Interest **

A new proposal for a maternity insurance system has been introduced by a parliamentary initiative. The Swiss Federation has been constitutionally obliged to introduce maternity insurance since 1945. However, all specific plans for the introduction of a maternity insurance program have been rejected by voters in a series of public referendums (the last of which took place in 1999).

In particular it has been employers' associations and conservative parties that have mobilized voters against maternity insurance based on the argument that it would create additional social insurance costs for businesses.

Despite the absence of a maternity insurance system, there is already some basic legal protection of mothers' interests. For example, Swiss labor law forbids the employment of women for the first eight weeks after giving birth. Furthermore, civil law stipulates that salaries be paid during at least three weeks of maternity absence. The medical costs of pregnancy are covered by the mandatory medical insurance scheme. Several employers have even established quite generous plans on a voluntary basis.

Nevertheless, the lack of mandatory maternity insurance for all employed women is perceived as an unusual deficiency in Switzerland's social security system. Indeed, Switzerland is far behind European standards in this regard. Having one of the highest employment rates of women in Europe, the need for a maternity insurance system in the country has become especially apparent.

Given the fact that several plans for a maternity insurance system have failed to pass in a popular referendum, the current proposal only meets minimum standards. The maternity insurance scheme will cover women who have been employed during at least the last five months before birth. These women will be

paid 80 percent of their earlier income during 14 weeks of maternity leave after giving birth.

The insurance payments will be funded through the income substitution plan to which both employers and employees pay equal contributions (0.15 percent of the employee's income). The annual cost will amount to about € 305 million. The income substitution plan has existed since 1953 and is the social insurance system that pays salaries to military conscripts. As opposed to most other social insurance programs in Switzerland, its capital account has a strong positive balance. Therefore, no increases in contribution rates are envisaged until 2009.

⇒ The conservative Swiss People's Party is fundamentally opposed to any extension of the social security system, arguing that it is already too generous and too expensive. The fact that maternity insurance will only cover employed women has also been criticized.

Curiously enough, however, opponents of the last plan for a maternity insurance system (which failed to pass in a public referendum in 1999) had criticized the fact that it did not restrict coverage to employed women.

Experts state that with the introduction of maternity insurance, the Swiss Federation can finally fulfill a constitutional obligation. This overdue extension of the social security system, they point out, will be an important improvement with regard to the situation of employed mothers in Switzerland.

However, the reform is far from being innovative, let alone far-reaching, in comparison to programs in other European countries. In fact, the European Union obliged its member countries to introduce paid maternity leave of at least 14 weeks as early as 1993.

Maternity benefits have traditionally been neglected in Switzerland's social protection system. Given the marginal scope of the reform, this is likely to remain the case in the future.

Changes and Results

Austria:

Child care
benefit with
mixed results

The goal of the child care benefit scheme (cf. issue 5, p. 28) was to offer parents greater freedom of choice in matters regarding child care and their participation in the labor market. First evaluations show mixed results. The reform has substantially extended the groups of persons eligible for financial benefits. Currently, 101,177 persons receive child care benefits, approximately one quarter of whom would not have been eligible under the old scheme.

The new scheme has contributed to a more secure situation for low-income families, and it has reduced poverty. For example, 11 percent of families with young children between the ages of 0 to 18 months and 21 percent of those with children aged 19 to 30 months have been lifted above the poverty line.

The results concerning the promotion of labor market participation of women with small children are more controversial. In contrast to the old scheme, beneficiaries now have the right to earn an additional income of € 14,600 per year. In April 2003, approximately 20,000 child care benefit recipients were fully employed (an additional 10,000 were marginally employed).

A study found, however, that the level of active employment has declined due to the introduction of child care benefits. The percentage of women returning to the labor market before their children reach the age of 27 months has dropped from 54 percent to 35 percent.

⇒ The introduction of the child care benefit scheme has improved the financial situation of families with small children. The scheme, however, provides two opposing incentives with respect to the promotion of women's labor market participation. The possibility to both work and receive the benefit increases labor market involvement; the extension of the benefit period, though, increases incentives for women to stay at home. This effect seems to be particularly important for women with low income potential.

Furthermore, the availability of day care for pre-school children, as well as general labor market conditions, are important factors. More detailed evaluations are hence necessary for assessing the impact of the new child care benefit.

Labor Market Policy

In Germany, Chancellor Gerhard Schröder outlined the “Agenda 2010,” a series of reforms intended to boost employment through a variety of measures. Denmark is already in its second phase of the labor market reform “More People in Work,” directing the country’s active labor market policy towards the areas and tools that were identified as most successful during the country’s major labor market policy experimentation during the 1990’s.

Italy has introduced a wider range of flexible labor contracts and now allows universities, schools and local administrations to act as employment service agencies. The Netherlands has extended the say of employees over their working hours in order to promote the combination of work with care-giving obligations and other social activities.

The UK intends to limit “rewards for failure” for top company executives by proposing a series of options for new regulations on executive compensation.

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

The second phase of the labor market reform “More People in Work” was implemented in July 2003 (cf. issue 8, p. 49). The goal is to have an increase of 87,000 persons employed by the year 2010. Of these, 20,000 should be due to decreased unemployment while the rest should result from an increase in labor market participation. The reform will direct the country’s active labor market policy towards the areas and tools that were identified as most successful during the country’s major labor market policy experimentation in the 1990’s.

Denmark:

Second phase of
“More People in
Work” launched

Innovation ***

Impact ***

Interest ****

A new law consolidates previous regulations regarding the responsibility for and the control over employment measures and efforts into one single law. This should lead to a clarification of regulations, especially concerning the responsibilities and goals of employment offices. The law also enables the Minister of Employment to implement experimental employment initiatives and measures.

A cap on cash benefits will be introduced for persons in certain situations. For example, students who fail to complete their education without acceptable reasons could see their unemployment benefits reduced. The law also improves employment opportunities for disabled persons by extending the duration of their wage subsidies to one year (limited to six to nine months previously).

Furthermore, an individual contact procedure between the unemployed and the unemployment office has been introduced. The employment offices will have three different options that can be combined to support the unemployed: guidance and skill development, company training and subsidized employment. Also, special support options for youth unemployment have been extended to age 30 (previously 25).

➤ Critics see a general lack of ambition in the reform. Experts state that it is important to direct active labor market programs to where research shows that the best results are attainable. The weakness of this new approach, however, is that it requires employers to be involved as active players. If that is not likely to happen then public active labor market policies might have been better than no active labor market policies at all.

Germany:

Agenda 2010 to
boost employment

Innovation **
Impact **
Interest ****

Chancellor Gerhard Schröder outlined the “Agenda 2010” in a parliamentary speech in March 2003. The Agenda 2010 is a package of reforms intended to increase employment through a wide range of measures.

In August 2003, Germany had the fourth-highest unemployment rate of all OECD countries at 9.4 percent, surpassed only by Poland, Slovakia and Spain. Various recent reforms aimed at reducing unemployment (e.g., Job Aqtiv law, cf. issue 6, p. 60; legislation following the results of the Hartz Commission, cf. issue 7, p. 45; subsidies for low-wage earners (Mainz Model), cf.

issue 8, p. 54). These measures have all pursued an activation strategy, i.e., they have attempted to increase employment and improve the nation's labor supply.

Structural reforms to boost labor demand, such as deregulation of employment protection legislation, increased product market competition and new forms of collective bargaining, have, however, been largely absent. The only notable exception to this was the corporate tax reform of 2000.

The Agenda 2010 includes a number of elements that directly address determinants of labor demand. In the course of political discussion, the Agenda 2010 has been increasingly used by the government as an all-embracing term for reforms of all aspects of the welfare state, including pension and health care reform, further labor market supply-side reforms, education, tax reform and municipality financing.

Currently, in order to establish a business in the craft trades, the founder is obliged to have a master's certificate ("Meisterbrief"). A new Craft Trades Law is planned that would exclude 53 of the 94 official craft trades from this requirement. The training leading up to this master's certificate is quite costly. It is increasingly regarded as a barrier to market entry for experienced craftsmen who only lack the master title. The principle that owners of a craft trade business must themselves have this title is to be dropped entirely.

The reform of unfair dismissal legislation aims at providing more transparency in the labor market by codifying rules for dismissal procedures. Today, employment protection in Germany is mainly shaped by labor courts that rule on individual unfair dismissal claims, thus providing no legal clarity for businesses.

The main issue is the so-called social selection in dismissals for reasons related to the business. It will be restricted to no more than three criteria: length of service with the company; age; and the statutory support obligations of the employee (e.g., for wife and children).

In addition, the employer will be allowed to exempt certain employees from social selection if their knowledge, skills or performance are essential for the functioning of the company. This also applies for maintaining a balanced structure of personnel. If the employer and the staff council agree upon a list of persons

who are to be dismissed, a court's examination will only be possible in order to check for gross fault, but not to ascertain rightfulness of an individual case.

Further changes relate to unfair dismissal claims. Until now, the only action an employee could take in case of dismissal for business-related reasons had been to file an unfair dismissal claim, whose main purpose in most cases has been to decide on the amount of severance pay. It is envisaged to introduce more security in this respect by providing the employee with the option of accepting a statutory severance pay of 50 percent of monthly earnings for every year of employment. Employers are obliged to notify the employee of this option at the time of dismissal if they want to use it, in this way avoiding lengthy labor court trials.

With the reform, the threshold for full employment protection will be raised to 10 employees. However, workers who were already employed in companies with six to 10 employees before the reform will retain full employment protection.

Entrepreneurs who start a business will face relaxed fixed-term employment legislation. Whereas in principle, the duration of fixed-term employment without specific reasons is limited to two years, for start-ups not older than four years the threshold will be raised to four years.

The unemployment benefit period is also under examination. Currently, the duration of unemployment benefits depends on the recipient's age and the length of former employment. The minimum of six months is granted after the employee has been employed and contributed to the public unemployment insurance fund for at least 12 months. The maximum duration of 32 months is achieved at age 57 with 64 months of previous employment.

After the reform, only two levels of benefit duration will remain. In general, benefits will be uniformly provided for 12 months, regardless of previous employment duration. Only for those aged 55 years or more will benefits be granted for 18 months. Especially for older workers, this represents a sharp reduction in benefit duration. The reform must be viewed in light of the widespread use of unemployment insurance as a form of early retirement, especially in conjunction with pension eligibility due to unemployment.

↳ The country's chambers of trade and commerce fear that the quality of services will deteriorate when the new craft trades legislation becomes effective. They also fear that businesses without a master will be more reluctant to offer apprenticeships, in turn leading to a subsequent shortage of skilled craftsmen. And of course there are fears that increased competition will shrink profits earned in this highly regulated sector.

Trade unions are softening employment protection. They are concerned that greater arbitrariness of dismissals will occur and that the position of employees vis-à-vis their employers will be weakened in general. The unions also strongly oppose the curtailment of unemployment benefit periods. They argue that an unemployed person will be, on average, forced to take up a job earlier than under the status quo, leading to a potential mismatch between the employee's skills and the job's requirements.

Experts see the three elements of the Agenda 2010 as steps in the right direction. With the craft trades reform and the relaxed unemployment protection legislation, reforms on the labor demand side are finally being tackled in order to boost employment. Some remain skeptical regarding employment protection as to whether the complicated means of increasing the number of employees will induce significant numbers of employers to make use of this new regulation. The other elements of this reform will, in any case, lead to more security for employers, thus facilitating their hiring of new personnel.

The reduction of unemployment benefits, especially for older workers, can be regarded as a first step towards the elimination of early retirement schemes. This is necessary to maintain the sustainability of social security in view of demographic changes, as long as additional financial burdens on either the active or the retired generation are regarded as undesirable.

However, this measure places the burden solely on the unemployed. It should be accompanied by improved and prolonged continuing training and by a less steep earnings profile over the individual's life-time in order to maintain the employability of older workers.

Italy:

New flexible labor contracts introduced

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

A new labor market reform came into force in September 2003, introducing a wider range of flexible labor contracts and allowing universities, schools, local administrations and other institutions to act as employment service agencies.

Italy has very restrictive and binding labor regulations regarding unjustified individual dismissals. Proposals aimed at weakening the rules on dismissals have encountered vigorous opposition among labor organizations and public opinion. Greater flexibility regarding acceptance of employment was introduced during the second half of the 1990's in order to counterbalance these strict dismissal rules.

This reform was intended as the final and most thorough step both on the labor market entry and exit sides. However, proposed changes regarding dismissals were subject to intense bargaining between labor and employers associations and eventually taken off the agenda.

Since September 2003, local administrations, schools, universities, employers associations and unions have been allowed to operate extensively in the employment services field. Also, a nationwide database attempts to match open jobs with job seekers.

Furthermore, new types and better-defined labor contracts were introduced for employment situations such as job-sharing, part-time work (involving greater working hour flexibility), apprenticeships, project work and repeated fixed-term contracts with the same employer. New labor contracts have been authorized for staff leasing, on-call jobs and occasional jobs through vouchers.

➤ Critics argue that this is a one-sided reform that does not take the benefit aspect into account. They further maintain that the rules for fixed-term contracts will move employees into black market conditions and that the reform only reduces income without increasing employment.

Experts state that this reform can be a step in the right direction if accompanied by other measures mentioned above. In any case, stabilizing the employment trend would already be a significantly positive result. During the political debate, too much emphasis has been placed on the key role of private participation in labor services and on flexibility of rules—two factors which might prove to be ineffective in terms of employment results if not accompanied by supporting measures.

The Law on Working Hours and the Civil Code have been reformed to extend the say of employees over their working hours. An adjustment of the law was desirable in order to promote the combination of work with obligations related to care-giving and other social activities.

The number of people working part-time in the Netherlands is high relative to other countries. As a result, a considerable percentage of the working population combines employment and care duties. The Law on Working Hours was passed in 1995 to promote the harmonization of work and non-work duties. Two EU directives concerning the organization of working time, dating from 1993 and 1994, were also incorporated into this law.

The new Law on Working Hours stipulates that employers should consider the personal situation of employees when setting work schedules. The adjustment of the law defines these personal circumstances as care-giving and social responsibilities.

In addition, workers are allowed to refuse to work on Sundays and must now first explicitly approve of working on Sundays when business conditions make this necessary. This provision does not apply to sectors where working on Sundays belongs to the nature of the work, such as in health care.

Rising costs associated with (elderly and child) care and problems in attracting people to work in this sector have been cited as reasons for the reform. An easier to achieve combination of paid labor and care-giving should alleviate some of the problems in the health care sector.

Furthermore, the protection of workers against the one-sided imposition of “flexibility” on employees by employers has been cited. In this context, “flexibility” is viewed as a means of applying pressure to the private lives of workers. By granting workers more say in their working hours, they are to have more options for combining work with social tasks and responsibilities.

⇒ The Dutch employers association VNO-NCW is particularly critical of the new law. The right to refuse working on Sunday on the basis of religious beliefs should be and is respected in the Civil Code. All remaining legislation concerning working hours and Sunday work is laid down in the Law on Working Hours. The current arrangement already incorporates an elaborate consultation procedure preceding the institution of Sunday working

The Netherlands:

Employees granted more say over working hours

Innovation *

Impact **

Interest *

hours, and employers often need the permission of the works council in this matter.

Under the new law, employees are granted permission to refuse Sunday work even when the works council has agreed that it is economically necessary for the company in question. The VNO-NCW feels that this seriously endangers companies and harms coworkers as they are burdened with extra work. The majority of the Dutch Social Economic Council has described the new law as “judicially below-standard, redundant and undesirable.” The Minister of Social Affairs and Employment expects numerous legal problems because new concepts have been introduced that have not been fully elaborated.

The VNO-NCW is not pleased with the prospect of a legal tug-of-war with its employees about working hours. The association feels that agreements on working hours should be made between employers and employees, something the current Law on Working Hours provides for.

Other critics believe that the new law will have a negative impact on employee relations within companies. Experts state that the new law provides more protection for employees in principle. How important the problem is in quantitative terms, however, remains unclear.

United Kingdom:

Regulations for the pay of executives introduced

Innovation ****

Impact ***

Interest *****

To limit “rewards for failure” for top company executives, the Department of Trade and Industry issued a consultative document in June 2003 that sets out a series of options for new regulations on executive compensation. These include restricting severance payments to one year, placing a ceiling on such payments and permitting the payments to be reduced on grounds of poor performance.

British corporate governance is based on a single-tiered board of directors, accountable only to the shareholders and comprising a mix of executive and non-executive directors. Traditionally, annual shareholder meetings have rarely been a forum for regulating the boards of directors since large institutional investors have almost invariably supported the office holders.

The Directors’ Remuneration Report Regulations of 2002, which took effect for the 2002/2003 financial year, have introduced new disclosure requirements for company remuneration

policies and require a shareholder vote (only in an advisory capacity) at the annual meeting on the remuneration report.

These new requirements have resulted in large-scale protest votes in a number of companies. In some 20 companies holding annual meetings under the new regime, for example, over 20 percent of shareholder votes were cast against the remuneration report. At GlaxoSmithKline, for example, 51 percent voted against the remuneration package for CEO Jean-Pierre Garnier, which could provide € 31 million in compensation if he were dismissed before the end of his two-year contract.

In the past decade, executive salaries in the United Kingdom have risen much faster than have incomes on average. Public debate over executive remuneration has been sparked by revelations concerning some directors' generous pension arrangements—at a time when ordinary occupational pensions are under severe pressure and many firms are abandoning their schemes—and by large severance payments to executives ousted because of poor company performance.

During a period of sharply falling share prices, shareholder groups and some institutional investors, notably the National Association of Pension Funds and the Association of British Insurers, have criticized what are described as “rewards for failure.” The issue has subsequently acquired a high profile in both the quality and the tabloid press.

The government has declared its preference for self-regulation rather than new legislation. It appointed a leading City executive, Derek Higgs, to draft a code of practice for corporate governance. Issued in January 2003, it formed the basis for provisions in a Combined Code on Corporate Governance presented by the Financial Reporting Council in July 2003.

The code prescribes formal and transparent procedures for setting executive remuneration which “should be sufficient to attract, retain and motivate” top managers, but “not more than is necessary” for achieving this. A significant proportion should be performance-related to avoid rewarding weak results.

The Department of Trade and Industry consultative document is entitled “Rewards for Failure: Directors' Remuneration—Contracts, Performance and Severance.” It sets out a series of options for new regulations, of which the most significant are:

restricting notice periods (and thus severance payments) to one year, placing a ceiling on such payments and permitting such payments to be reduced on grounds of poor performance.

The Treasury is also proposing to introduce a punitive tax rate for personal pension funds worth more than € 2 million.

➤ In general, the business community argues in favor of self-regulation and insists that high and rapidly rising executive remuneration is an inevitable outcome of market forces. The institutional investors who supported some of the “shareholder revolts” at annual meetings hope that this will prove sufficient to encourage voluntary reform.

Conversely, those who feel that more effective external regulation is required consider the government’s proposals half-hearted and ineffective.

Experts point out that the issue has arisen in the context of widening income gaps over the past two decades, exacerbated by reduced taxation on high incomes (the top rate is now 40 percent). As in some other European countries, U.S. executive remuneration increasingly provides a reference point for pay and benefit packages in the United Kingdom.

Many observers see little reason to expect a largely voluntary reform to reduce the upward pressure on executive pay. The question of introducing higher tax rates for top salaries has recently returned to the political agenda even though the government has declared its opposition to it. It is nonetheless possible that electoral considerations may lead to tougher proposals being advanced in the next few years.

Changes and Results

Australia:

Streamlining the Job Network

Changes to the Job Network system (cf. issue 5, p. 36) aim at increasing the success of unemployed job seekers in finding work and at improving the operation of the unemployment scheme in general and the job search network in particular. In spite of a strong economy and a revolutionary new “Job Network,” in which competing providers tender to the Australian government to provide job search activities for unemployed people, unemployment has fallen only slowly in recent years.

While the Australian unemployment rate of around six percent corresponds to the OECD average, it occurs at a time when economic growth has been strong and sustained. Part of the problem has been related to the confidence and motivation of those seeking jobs and to a lesser extent to the complexity of the Job Network.

Under the new rules, the unemployed are required to report to a single Job Network provider; matching services are improved through the implementation of the JobSearch Web site; the level of assistance provided to individual job seekers will be more related to specific needs; and a service guarantee will define the nature and frequency of services provided by members of the Job Network.

⇒ Opponents on the left are concerned that limiting job seekers to a single Job Network partner may reduce their chances of finding work, while those on the right claim the reforms do not go far enough in applying discipline to the recipients of unemployment benefits. Experts believe the proposed changes are useful developments that will streamline the operation of the Job Network.

Changes can be reported regarding the work-related tax allowance (Prime pour l'emploi, PPE) which was introduced in September 2001 (cf. issue 6, p. 51) as an income tax deduction to increase the net wage rate without increasing labor costs.

France:
Employment allowance for low-income households ineffective

The PPE allowance is paid to any working person with its value determined on the basis of income level and a set of eligibility criteria. At least one person in the household must be a wage-earner; and the annual income must be above 30 percent and below 140 percent of a full-time job equivalent (35 hours a week) paid at the minimum rate per hour (the 2002 gross minimum hourly wage in France was € 6.67).

Part-time jobs and cases where employment starts during the course of a year are taken into account, and the total taxable income of the household must not exceed a certain amount depending on its size. The employment allowance equals a 6.56 percent reduction in social insurance and tax contributions for incomes between 30 and 100 percent of the minimum wage.

First results show the decrease in income tax does not benefit low-income households due to the structure of income tax in

France (which is paid by around 50 percent of households), while an increase of the PPE does. Furthermore, the PPE is not particularly efficient in offsetting insufficient income due to a low number of hours worked over the year. Consequently, the calculation of the PPE for the fiscal year 2003 has been changed.

➤ Experts point out that this change will have two consequences: first, it will increase the premium paid to households with part-time employment or intermittent unemployment. This will make the tax credit more of a redistributive instrument. Secondly, it will make the monetary incentives for part-time jobs more important, particularly for the second person in a household, as the PPE is calculated per individual.

Italy:

Fixed-Term Contract
Law: No significant
results yet

There are no major changes with regard to Italy's Fixed-Term Contract Law (cf. issue 6, p. 52). It defines the conditions under which companies may employ workers on a fixed-term contract basis, specifies the employee's statutory rights and outlines the penalty system for non-compliance. In the first year of the reform (2001), the number of fixed-term contracts decreased slightly, presumably because of the incentives for permanent employment.

The incentives were disabled temporarily in mid-2002, and fixed-term contracts showed a slight recovery. The latest surveys, however, indicate a downward trend (fixed-term workers numbered 8.85 percent of all dependent workers in 2001; 2002: 8.96; 2003: estimated at 8.52).

➤ Experts point out that it is difficult to relate this trend to the fixed-term contract reform and that it is also not possible to say that this reform has produced any significant improvement of this specific type of labor contract.

Spain:

Royal decree
re-establishes
benefits for rural
agricultural workers

The reform of the unemployment system, approved by the Spanish government in May 2002, came into force immediately by a royal decree (cf. issue 7, p. 49; issue 8, p. 58). However, the reform was strongly opposed by the trade unions and left-wing parties and thus almost withdrawn during legislation. In this process, some of the most fiercely debated points of the decree were withdrawn (e.g., interim wages and rights to unemployment benefits for fixed-term contract workers), whereas others were

greatly modified (e.g., regarding incompatibility of compensation, written commitments and the definition of “suitable” jobs).

Even though the new December law included the abolition of the “Rural Employment Plan” (Plan de Empleo Rural, PER), some months later the Spanish government agreed to modify this point as well, bowing to trade union protests and the threat of a general strike in the agricultural sector. The new regulation was agreed to by most trade unions and came into force in April 2003.

The PER is a specific unemployment benefit for rural workers in Andalusia and Extremadura that was established in the mid-1980’s. The December law stated that the PER would be gradually abolished. Furthermore, in six years agricultural unemployment benefits would be fully uniform across all regions but subject to major cuts.

This would have meant a substantial reduction in the social protection of seasonal agricultural workers in Andalusia and Extremadura and was strongly criticized by the trade unions and the governments of the two regions (in both, left-wing parties hold the majority).

The revised 2003 regulation establishes a new type of provision for seasonal agricultural workers in Andalusia and Extremadura who were left without benefits after the reform. The reform prevented the access of new claimants to rural unemployment benefits by making it a condition that seasonal agricultural workers had to demonstrate that they had received benefits during the previous three years.

The new scheme eliminates this requirement and provides the same level of payments as the previous PER (i.e., 75 percent of the minimum wage for six months for workers who can prove that they have done 35 days of work per year in agriculture). The new benefit can be claimed for six months of each year, but only on six occasions. Like the PER, it is a means-tested benefit.

⇒ The new regulation re-establishes the basic contents of the PER, affecting around 600,000 agricultural workers in Andalusia and Extremadura. However, the PER only allows for a “last safety net” benefit. Since its implementation in the mid-1980’s, the PER has proven to be ineffective against poverty and dependence on landowners.

Spain:

Further changes in
immigration law

Current legislation on the rights and social integration of foreigners in Spain is to be reformed again (cf. issue 3, p. 48; issue 4, p. 54; issue 5, p. 53; issue 6, p. 59). In general terms, the government's policy has sought to regulate immigration in line with the requirements of the Spanish labor market. It has done this based on agreements with specific countries and through restrictions, where necessary, on the entry of immigrants from outside the EU for reasons of security (with some allowance made for the recognition and document standardization of groups without proper identity papers).

Registered seasonal permits increased from 35 in 1999 to 9,146 in 2002 (January through June). The number of foreigners with a residence permit in Spain increased from 539,000 in 1996 to over 1.4 million in 2002, a growth of 160 percent in six years without counting "unofficial" foreigners (which could add a further 300,000 according to various estimations). Foreigners now account for four percent of the Spanish population.

The policy of admitting labor contingents (i.e., groups must enter the country through a regulated process linked to a job in an economic sector in need) and the requirement of having a work permit in order to remain in the country have led to an employment-population ratio among immigrants (70 percent) that is much higher than among the native population (55 percent).

Working conditions for immigrants, however, are well below the national average. Immigrant workers are mainly employed in unqualified jobs in trade, hostelry, manufacturing, construction, agriculture and domestic and personal services. They have temporary contracts or simply work without a contract, all of which affects their working conditions, wages and consequently their accommodations—leading to ghettos of immigrants in larger cities and all the problems associated with them.

▷ Spain faces growing and seemingly unstoppable immigration focused on the larger cities and certain coastal areas and on some agricultural villages in the nation's center. The immigrants, many of whom are undocumented and exist under precarious employment and living conditions, reside in ghetto-like concentrations. In the meantime, there is no adequate policy of social integration to alleviate their situation.

Experts point out that the policy of channeling immigration may be having an effect on job markets, but the creation of tougher entry barriers may lead to immigrants depending more on legal, or illegal, intermediaries. At the same time, the presence of undocumented groups unable to exercise any rights is growing, and their living situations may lead to a variety of problems in the areas where they are concentrated.

Changes and results can be reported from the Ticket and Work Incentives Improvement Act 1999, which was implemented to improve the labor market participation of the disabled and to contain disability insurance costs (cf. issue 2, p. 34).

Starting in 2002, some Social Security and Supplementary Security Income (SSI) disability beneficiaries have been receiving a “ticket” that they can use to obtain vocational rehabilitation and other employment support services from an approved provider of their choice. The program is voluntary and is being phased in nationwide over a three-year period.

As of October 1, 2000, the law expanded Medicaid and Medicare coverage to more people with disabilities who work. It extends Medicare Part A premium-free coverage for 93 months after a “trial work period” for most disabled beneficiaries who work. The trial work period allows disabled people the opportunity to temporarily work for pay without losing eligibility for their cash disability payments.

Because there is a several-month waiting period before disabled workers become entitled to cash benefits when they first establish their eligibility for disability payments, the trial work period is helpful in encouraging disabled workers who are uncertain whether they will be able to continue working. In addition, states now have the option to expand Medicaid coverage to workers with disabilities using income and resource limits set by the states.

Effective January 1, 2001, if a person’s Social Security or SSI disability benefits have ended because of earnings from work, and he or she becomes unable to work again within 60 months because of his or her medical condition, he or she would be able to request reinstatement of benefits, including Medicare and Medicaid, without filing a new application.

USA:

“Ticket to Work”
program ineffective

Also effective January 1, 2001, an individual using a “ticket” does not need to undergo the regularly scheduled disability reviews. At the same time, those people who have been receiving Social Security disability benefits for at least 24 months will not be asked to go through a disability review because of the work they are doing. However, regularly scheduled medical reviews could still be performed and benefits could be terminated if earnings are above the limits.

Most states have expanded the eligibility income thresholds for Medicaid (publicly funded medical insurance for low-income Americans) to twice the federal poverty level for disabled individuals who are working. The average monthly premiums charged to eligible disabled workers ranged from € 21 to € 66. One state only charged premiums to 12 percent of participants, while many others charged all participants.

As of December 2002, the 12 states with active Medicaid buy-in programs had enrolled over 24,000 working individuals with disabilities for health insurance out of an estimated 6.7 million disabled working-age individuals.

The “Ticket to Work” program for disabled working-age Americans has issued 5.28 million “tickets” to eligible people. As of August 28, 2003, 2,734 individuals had been assigned to employment networks. Almost 90 percent of the “tickets” have been assigned to state vocational rehabilitation agencies.

The administrative evidence just cited suggests that the program has thus far had only a marginal impact on the employment rate of Americans with disabilities.

Industrial Relations

Two new reforms can be reported in the area of industrial relations. In Australia, the unions are mounting a test case to challenge current arrangements for workers in relation to work and family issues. In response, the main employers association is mounting its own test case challenging that of the unions in order at protecting the interests of its members.

In Italy, the major employers associations and labor unions have agreed on a “Pact for Competitiveness” in a response to Italy’s below-average GDP and above-average inflation rate compared to its EU partners, as well as to its continuing loss of international competitiveness.

Details are available at www.reformmonitor.org.

The ACTU, the umbrella body for Australian unions, is mounting a test case to challenge existing arrangements for workers in relation to work and family issues. At the same time, the ACCI, Australia’s main employers association, is mounting a reciprocal test case challenging that of the ACTU in order to protect the interests of its constituents.

In Australia, decisions about wages and work conditions were decided through a process of arbitration and conciliation for many decades. The Australian Industrial Relations Commission (AIRC) for Commonwealth awards (i.e., judgments) and similar bodies at the state level made awards following presentations by unions, the government and employer groups. Changes to existing award arrangements could be brought about by any of the parties mounting a test case.

Beginning in the mid-1990’s, the process of decision-making described above was largely supplanted by a system of collective

Australia:

Existing work and family arrangements challenged by unions

Innovation ********

Impact ******

Interest ********

bargaining where employer groups negotiated directly with unions, often facilitated by the government. The AIRC has nevertheless continued to make decisions for about 30 percent of the country's workforce, particularly for those in lower-skilled and non-skilled sectors.

Under existing arrangements for determining wages and conditions, parties may approach the AIRC to seek a variation in conditions. The ACTU is planning such a variation to ensure more family-friendly work practices. The process of seeking a variation is known as a test case, and while it may apply directly to a small number of workplaces covered by the relevant award, the changing of wages and conditions can have reverberations in many other workplaces in the country.

Increasing participation of women with children has led to tensions between work and family life. While existing awards and conditions preclude employers from discriminating against employees on the basis of pregnancy or family commitments, the proposed ACTU test case seeks to go further and markedly improve conditions for workers by:

- Seeking an extension of unpaid parental leave following the birth of a new child until the child is two years of age (subject to the operational requirements of the workplace);
- Requiring employers to consult with employees with regard to significant changes to their jobs during parental leave;
- Removing the employer veto on part-time return to work;
- Providing the right for employees to seek variations in working hours and conditions; and by
- Providing the right to unpaid emergency leave as is reasonably necessary.

In mounting its challenge case, the employers association (ACCI) aims at protecting its members from what it sees as the potential for unduly generous awards that would pose unreasonable financial burdens on its members.

⇒ Experts point out that it is likely that there are some worthwhile reforms which will be of benefit to both employees and employers, but that there is also the danger that some of them might impose serious burdens on businesses, reducing their flexibility and hence profitability. The other danger is that unless

the awards are carefully crafted, they may lead to positive discrimination in favor of workers with young families and against single workers.

The major employers associations and labor unions have agreed on a “Pact for Competitiveness.” The pact is a response to Italy’s below-average GDP and above-average inflation rate compared to its EU partners, as well as to its continuing loss of international competitiveness. Pact members intend to produce a list of priorities for the Italian government.

Since 1992, several pacts have been signed between labor unions, employers associations and the government: in 1992 to combat inflation; in 1993 to combat inflation and promote mutually beneficial industrial relations for labor contract renewals; in 1995 to target pension reform; in 1996, as the “Pact for Labor” to reform the labor market and promote worker education and training; in 1998, as the “Christmas Pact” to set up a new system of three-way industrial relations, including local authorities; and in 2002, as the “Pact for Italy” with the goal of reforming the nation’s labor market and employment benefits (not signed by the largest labor union, CGIL, and hence still to be implemented).

The latest pact will concentrate on the following general issues: the coordination between the country’s labor and industry social partners and institutions; establishing means for monitoring public policy effectiveness; and the simplification of laws and regulations to increase clarity and thereby avoid conflicts. Specific issues to be addressed are:

- Research and development: mid- and long-term funding enhancement, more active presence in international programs, integration between private and public research, support of high-tech sectors
- Education and human resources: incentives for life-long learning, more integration between education and industry, improvement of education in high-tech areas
- Infrastructure and local competitiveness: addressing the need to reduce the infrastructure gap between southern Italy and the rest of the country, support for energy and above-ground networks, more consistent financial support mainly through public credit availability, an active policy to attract foreign investors

Italy:
“Pact for
Competitiveness”

Innovation ***
Impact **
Interest **

⇒ Experts point out that although this pact cannot be considered a “reform,” it can nevertheless lead to change by increasing the influence of the country’s industry and labor social partners.

Important General Developments

In January 2003, elections were held for the second time within a year. The previous government (elected in May 2002) resigned after numerous problems within the new party LPF (Lijst Pim Fortuijn). The 2003 elections were a neck-to-neck race between the Christian Democrat centrist party CDA and the left-wing Labor Party PvdA, resulting in a very narrow victory for the CDA and substantial gains for the PvdA. After long negotiations, the two parties were unable to reach a coalition agreement and therefore decided not to govern together. The new government was to be formed by the CDA, the right-wing party VVD and the liberal democratic party D '66.

On May 16, 2003, the governing parties reached a coalition agreement that was entitled "Taking Part, More Work, Fewer Rules." The focus of this agreement is on the nation's worsening economic situation. It notes that unemployment will grow dramatically in the future and that social insurance costs will rise to untenable levels. The resulting policy objectives of the current Dutch government are to increase employment and achieve cuts in government expenditures.

These objectives are reflected in numerous policies. In April 2003, a commission was installed to promote activities and policies that contribute to reducing sickness-related absenteeism and to decreasing the numbers of new and current disability benefit claimants. Furthermore, the Council of Ministers agreed to an amendment that makes it possible to penalize (ex-)employees who do not cooperate sufficiently with their reintegration into the labor market.

Additionally, the government subsidizes the conversion of government-aided jobs (ID-baan) into regular employment. At the

The Netherlands:

New government focuses on employment and lower spending

same time, the labor market participation of elderly persons is to be stimulated through various measures, and a plan to tackle youth unemployment by offering tax breaks to employers who hire and train unemployed young people has been sent to the lower chamber of the Dutch Parliament.

Besides these policies to increase labor market participation, there are also those aimed at reducing expenditures. In August 2003, the Council of Ministers agreed to an amendment that disposes of the right to additional benefits after the expiration of unemployment benefits for workers who became unemployed after August 10, 2003. With this measure, the government seeks to promote the return to work by the unemployed and to rein in unemployment benefit expenditures.

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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 Web site, www.reformmonitor.org, for exact amounts in national currencies.

1 Euro =	USD	1.2106
	JPY	135.07
	DKK	7.4396
	SEK	9.1106
	GBP	0.6664
	CHF	1.5378
	CAD	1.6513
	AUD	1.7110

Source: European Central Bank, exchange rates as of May 27, 2004