

International Reform Monitor

Bertelsmann Foundation (ed.)

International Reform Monitor

Social Policy
Labour Market Policy
Industrial Relations

Issue 3
October 2000

Bertelsmann Foundation Publishers
Gütersloh 2000

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Cover design: werkzwei, Lutz Dudek, Bielefeld
Cover photo: Mauritius/Tony Stone/PhotoDisc®
Layout and typesetting: digitron GmbH, Bielefeld
Print: Hans Kock Buch- und Offsetdruck GmbH, Bielefeld
Title-No. 3-89204-545-3

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Project Information

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

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

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

Editorial

Putting reforms into perspective

Starting with this issue the partner institutions will assess the reported reforms according to three criteria: degree of *innovation* against the country's present background; *impact* on the status quo; and public *interest*. A maximum of five stars represents the significance of each criterion. As a second new feature, this issue contains a reform tracker listing more than 100 reforms that have so far been covered by the International Reform Monitor project.

Whereas the previous Reform Monitor focussed on family issues, this time many countries concentrated their activities on labour market policy. Naturally, the reforms in this area cover a wide range of aspects from equal opportunity issues to part-time work and vocational training. Most reforms, however, have one aspect in common – a trend towards greater reliance on incentives and more personal responsibility.

Italy's reform of its employment service statistics establishes a more focussed job placement system and includes the right to job proposals, as well as stronger penalties for job refusals. The "carrot and stick" approach is also applied in France where a reform proposal attempts to increase the support for those in search of

employment, while penalising those who refuse to accept job opportunities. Switzerland wants to improve its employment services by making direct bonus payments to successful placement officers possible for a limited period.

Demographic developments continue to bring about a large number of reforms. Spain's immigration law might set the stage for a wave of reforms in other "western" countries with its relaxation of its immigration rules (thus responding to potential future labour shortages). Another area of concern in many countries is the financial security of their pension systems. A special issue of the Reform Monitor "Advance Funding of Pensions" also published in October 2000 examines fundamental questions of pension financing.

Last but not least we would like to welcome the London School of Economics (LSE) and the German Institute for Economic Research (DIW) as partners to the Reform Monitor project. We are very pleased to have secured their support in keeping you up-to-date with current reform trends.

Johannes Leinert

Kai Gramke

Andreas Esche

1 Social Policy

Health Care

Two main areas of health care reforms can be identified in this issue of the Reform Monitor: Some countries are mainly concerned with quality improvements, whereas others focus on financial aspects of health care. This is clearly a continuation of the trend that has already been identified in the previous Reform Monitors: health care benefits are no longer distributed according to the “watering-can” principle. Instead, the focus is on certain specific aspects (e.g. quality) or specific target-groups. It is interesting to note that countries with a special focus on quality utilise a wide range of approaches. Where Denmark focuses most attention on information campaigns to improve general health, Australia attempts to improve health care in entire regions of the country. Italy concentrates on specific professional groups (e.g. hospital doctors) while Spain tries to improve the quality of the hospitals themselves. Only two countries cover financial aspects of health care. The USA wants to subsidise prescription drugs for retirees and Australia subsidises private health insurance.

Details of the reforms are available on the project website www.reformmonitor.org.

**Australia –
Health Care
Improvements in
Rural and Regional
Areas**

Innovation **
Impact **
Interest ****

Australia has a very urban-centred population, with over two-thirds of the country living in the largest cities. The perception has recently arisen that people living outside the large cities are disadvantaged in terms of jobs, public services, and health care. This perception has translated into volatility in voting patterns in these areas, with consideration for rural and regional Australia hence becoming a politically charged issue. The relative decline in the industrial base of many rural regions of the country has led to diminishing employment prospects and the population, and to the withdrawal of both public and private services. This is particularly true for health care, exacerbated by the great reluctance of doctors and other medical practitioners to locate in rural and regional areas. This has resulted in the number of doctors in rural Australia being significantly lower on a per capita basis than in the large cities.

As part of the rural and regional reform package, Australia's 2000–2001 federal budget allocates € 352 million to expand and improve health care services in rural regions. Measures include financial incentives, such as scholarships for medical practitioners to undertake vocational or post-graduate training in rural and regional areas. Similar measures are available for pharmacists. Rural hospitals and aged care facilities will also receive increased financial support.

☉ There have been no major objections to these reforms, but some commentators have expressed disappointment at the modesty of the package. They claim that much more needs to be done. Experts say that the package will provide much-needed additional services and opportunities to rural citizens in the short run, but that in the medium to long run, the package will not have a substantial effect. They favour market forces over large-scale assistance, but accept the need to show sensitivity to regional needs, such as deficiencies in health care services. The reform package appears to address these issues.

**Denmark –
Public Health
Programme**

The Danish government initiated a Public Health Programme in 1999. The programme is based on the finding that Danish life expectancy has further decreased from an already low level compared to other EU countries. Research also shows that health is unequally distributed among social groups, and that social inequal-

ity in health is increasing. The programme consists of 150 different initiatives by ten different government ministries aiming to increase average life expectancy and life quality. It also seeks to reduce social inequality in health through preventive efforts in schools, workplaces, local communities, and health services. The main tool consists of information campaigns used to direct people's attention to healthier life-styles, and to promote debate in schools and workplaces. With a focus on local prevention, the goal is to clearly distribute tasks and responsibilities for health care between state, counties, and communities. Although the programme aims to improve health in general, a special focus will be on groups, which due to their social position, might have a tendency towards a greater number of health problems.

The programme is still in its early stages, but one can already observe that it is starting to play a major role in many council health plans. Councils and communities are starting to agree on joint tasks and the financing of concrete projects.

► Improving health is generally seen as an important part of managing public health care. A more general argument against this sort of programme is the question whether personal health should be a responsibility of society in general, or only of the individual.

Two reforms can be reported on specific health issues not related to the Public Health Programme: A plan for the improvement of cancer treatment, and an agreement to improve the quality of psychiatric care.

The number of cancer-related deaths is significantly higher in Denmark than in comparable countries, such as Norway or Sweden. The plan aims to centralise the treatment (involving many different groups of personnel) and further educate medical staff. The plan also involves anti-smoking campaigns. The plan has financing until 2002, and preliminary statistics suggest that it is having a positive effect on cancer death rates. Centralisation is a new trend in Danish health care policy which heavily interferes with local council policy.

In an attempt to further improve the quality of psychiatric treatment, the national government in co-operation with local communities decided to build on an earlier agreement with a new plan that is budgeted until 2002. Presently, there is a general lack

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

Cancer and
Psychiatric Treatment

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

Innovation **
Impact **
Interest **

of personnel in the area of psychiatric treatment, and the conditions of psychiatric facilities need improvement.

The plan aims to modernise these facilities by establishing more single wards, diversifying the physical environment, and by offering more appropriate therapy and activities. Continuing education courses are planned for the specialists and the nurses. Quality indicators such as surveys and special projects will be implemented to assure better treatment and service.

☉ Cancer rates already show improvement, and the earlier agreement of 1997 to raise psychiatric treatment standards has resulted in a significant increase in single wards. The reforms are therefore regarded as effective (with consequently little criticism).

**USA –
Voluntary
Prescription
Drug Benefit**

Innovation *
Impact *
Interest *****

The U.S. House of Representatives is currently discussing a plan (Medicare Rx Act 2000) to subsidise health insurance companies in providing voluntary prescription drug coverage for the elderly and the disabled under the Medicare programme that would cost approximately € 45 billion over the next 5 years. Per capita expenditures on prescription drugs have risen sharply over the last few years, and the traditional Medicare insurance plan only partially covers these costs. This leaves approximately one third of Medicare beneficiaries without coverage for specific out-of-hospital costs. The proposed legislation would lead to the creation of Medicare Part C, building on Medicare Parts A and B. It would be the most significant expansion of the Medicare programme since its creation in 1965.¹ Under the proposed Part C of the Medicare programme, beneficiaries would have to pay monthly premiums between € 39 and € 45 to cover the costs of prescribed medicines consumed outside of hospitals. The legislation, if enacted, would take effect in 2003 by establishing a basic plan. Insurance companies will be able to set premiums, deductibles, and co-payments.

The success of the plan depends on the willingness of the private insurance companies to offer stand-alone prescription drug policies, as well as on the number of persons who decide to enrol.

¹ Medicare Part A covers care and drugs consumed in hospitals, as well as skilled nursing facilities, hospice stays, and some home health care. Part B covers doctors, outpatient hospital care, and some other medical services. To obtain Part B coverage, beneficiaries must pay a premium of € 51 a month.

Already, the Health Insurance Association has stated that its members are not interested in providing such coverage. For some health insurance providers, even providing the current Medicare coverage has not always proved profitable. The government does heavily subsidise the program, but the reimbursement rates are often contested by the health insurance companies, as being too low. The Democrats in the House of Representatives support a different plan which would cost € 89 billion over five years (almost twice as much as the Republican plan).

❶ Critics argue that the reform does not address the underlying issues of rising prescription drug costs. If this trend continues, it is unlikely that private insurance companies would co-operate. Furthermore, they argue that both current plans mostly concentrate on Medicare participants who have very modest annual drug expenses – a group which does not need improved insurance protection. As an alternative, they propose a plan that would pay a certain percentage of the costs of prescription medicines above some modest level (such as € 225 per person per year). The percentage would rise for larger annual prescription drug costs, and all costs above a fixed level would be completely reimbursed.

Changes in and results of previous reforms

Australia reports mixed results from its legislation to encourage private health insurance. The introduction of a 30 percent rebate for individuals taking out private health insurance (cf. Issue 1, p. 13)² and a life-time community rating (cf. Issue 2, p. 13), are aimed at relieving pressure on the public health insurance system. The 30 percent rebate encourages private health programmes by reducing coverage costs. The life-time community rating introduces penalties for those who do not maintain private coverage over their life-time, but then seek coverage late in life when they are likely to impose a net cost on insurance funds.

**Australia –
Private Health
Insurance –
Mixed Results**

2 References to past issues of the International Reform Monitor are indicated as follows: “Issue 1” refers to the International Reform Monitor I/1999 published in December 1999. “Issue 2” refers to the Reform Monitor I/2000 published in April 2000.

Whereas the earlier introduction (January 1999) of the 30 percent rebate had only a moderate effect on the number of people taking out private health insurance, the first half of this year has seen a dramatic surge in those seeking such coverage (presumably in anticipation of the introduction of the life-time rating set for July 2000).³

► Critics view the 30 percent rebate essentially as a large government subsidy for middle- and upper-income earners. The life-time coverage, on the other hand, is seen as a sensible step to increase private insurance participation. Nevertheless, more fundamental reforms are necessary to stabilise the system.

Denmark –
Hospital Waiting Lists
now on the Internet

Waiting lists for hospital operations are a serious problem for most countries with a national health programme. A promising strategy for improvement is to create a more transparent system. As part of the Danish National Strategy for Quality Improvement in the health sector (cf. Issue 1, p. 17), the Internet can now be used to check and compare the waiting periods for operations in different hospitals. In general, the newly-established indicators are regarded as a success and shall be extended.

Italy –
New Contracts for
Medical Professionals

As part of the implementation of the 1999 Health Care Reform (cf. Issue 1, p. 10), new regulations concerning the contractual relationship between medical professionals and the National Health System (NHS) have been introduced. Up to March, 2000, 90 percent of hospital physicians have decided in favour of an exclusive professional relationship with the NHS. Consequently, they will not be able to practice privately. However, under specific rules they will still be able to pursue semi-private activities in public hospitals involving higher fees and shorter waiting lists. The new exclusive professional relationship includes an average monthly wage increase of between € 188 and € 1377.⁴ Until public hospitals are adequately equipped, hospital physicians will carry out

3 Since life-time health coverage involves potential penalties for those not having private coverage as of 1 July, one would expect consumer response to occur before the legislation takes effect, i. e., in the first six months of 2000.

4 Hospital physicians' wages vary depending on status and seniority. On average, a hospital physician with an exclusive professional relationship earns € 69,205 a year.

their activities in their private consulting rooms under the modalities of exclusive agreements.

● The reform has been much criticised, but can improve the quality and efficiency of the Italian health care system. There are still significant shortcomings concerning the shortage of admission rooms, and inadequate medical technology and staff for semi-private activities. According to the Ministry of Health, these problems will be solved within three years.

The reform of the public health system suffered a setback when the government decided to postpone a reform of the medical insurance system for the elderly. For political reasons, the government decided to put off a change in the co-payment system until after the coming election in the summer of 2000. The change would have allowed for a switch from a system based on fixed prices to one based on a fixed percentage of costs.⁵

● By postponing this change, the government faces increasing medical costs for the elderly. These add to the considerable size of the country's budget deficit. The change to a system based on a fixed percentage of costs is needed, but the government is reluctant to introduce a change shortly before an election which might adversely affect the elderly.

As part of the Spanish attempt to consolidate and modernise its national health system, a Royal Decree was passed in January 2000 that allows for new forms of management regarding personnel and financial resources. It also allows for public-private co-operation in managing hospitals. New personnel can be hired under ordinary labour law stipulations, instead of civil servant regulations. Hospitals will be able to keep donations and extra funding from commercial sources. Previously, donations and extra funding had to be turned over to the National Institute of Health (INSALUD). The decree creates four possible legal entities: (a) a

**Japan –
Setback for Medical
Insurance Reform**

**Spain –
New Management
Forms for Hospitals**

⁵ The fixed price is € 5.5 per visit and € 12.5 per day for hospitalisation. The fixed percentage is set at 10 percent of the actual cost. In a fixed price system there is no motivation to cut medical costs, whereas the fixed percentage system requires the elderly to pay a share of the real cost.

foundation (for new hospitals centrally managed by INSALUD); (b) a public governmental agency (similar to a public company); (c) health care consortia (for hospitals created by municipalities or non-profit organisations); and (d) a public health foundation. The latter is the most controversial as it allows for the voluntary conversion of the existing 82 public hospitals currently operated by INSALUD. Conversion needs approval of a consultative committee, which includes employees. Current employees will continue under their civil servant employment regulations. The new regulation mainly affects the ten Spanish regions where the health care system is not yet decentralised. The other seven regions have already introduced new public-private forms of management.

It is too early to analyse the general impact of the reform in terms of financial and health aspects, but the situation in Catalonia – where the reform began earlier – indicates an improvement in health conditions but no cost savings. This creates problems because hospitals have to apply to the regional government for additional funding.

► Experts generally agree that these reforms are necessary in order to increase the efficiency of the public health system, but they also call for improved monitoring systems. Furthermore, pilot projects and evaluations must be conducted before implementing the changes nation-wide. Several political groups point out that the reform might lead to a privatisation process in the public health sector, creating social and regional inequality. It is argued that hospitals in more affluent areas will receive more private funding than those in other parts of the country.

Pensions and Social Security

As can be seen by the number of reforms in this area, pension reform is still on the agenda in most countries. Some countries use traditional methods such as raising the retirement age (Austria) or lowering benefits (Germany). Others like the Netherlands attempt to improve efficiency by reforming the social security administration. On the other hand, many countries believe that demographic changes associated with rising life expectancies and

decreasing birth rates requires more fundamental reforms. Capital-funded occupational pension schemes are seen as a promising option to ease the financial pressures on public pension systems. The current occupational pension reforms reflect the different reform stages these countries are in. Some countries have long had occupational pension schemes while others are just starting to implement them.

Japan intends to introduce defined-contribution occupational pension schemes to add to the already existing defined-benefit schemes. Defined-benefit schemes have existed for the last 30 years, but changes of the accounting standards and the current recession in Japan make this addition necessary. Canada and Switzerland both adjusted the investment policies of their occupational schemes. It is interesting to note that both countries introduced more flexible rules governing investment strategies. Ironically, Switzerland has done so because of low returns on investments whereas Canada's returns on investment have been extremely high in the first year of operation of the pension fund. Germany is one of the few countries without large second and third pillar schemes. Its planned reform, which is clearly the most significant of all reported reforms in this area, aims to promote occupational and private pension schemes, while simultaneously consolidating the public pension system. France on the other hand, has essentially postponed its pension reform at least until 2002.

Details of the reforms are available on the project website www.reformmonitor.org.

Beginning in July 2000, a new goods and services tax replaced Australia's existing wholesale tax, as well as a number of other indirect taxes. This was accompanied by income tax cuts and social security benefit increases. The latter is the most important aspect from a social security perspective. Australia has been one of the few countries in the world without a broad-based consumption tax. The new tax⁶ is levied on all market transactions at all stages of

Australia –
New Tax System
Affects Social
Security Payments

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

⁶ Education, health, charitable services, and basic food items are not taxed. Exports are not taxed, while financial services and residential rents are subject to VAT. All other goods and services are taxed.

production and sale, at the rate of 10 percent of value-added. The replacement of existing taxes is expected to raise consumer prices by about 2.5 percent. To compensate consumers with an immediate improvement in their standard of living, income taxes have been cut by between 3 percent and 8 percent, and social security benefit payments were increased by around 4 percent.

The reform aims to improve efficiencies in production and consumption, to provide the Australian states with a more secure funding base, to reduce tax evasion, and to restore integrity to the indirect taxation process. The changes are likely to increase inequality since more of the benefits fall on higher income groups, while the costs are spread more or less equally across all income levels.

► Opponents argue that the changes will not have significant macroeconomic effects, and that the overall package is unfair to lower-income citizens. They also maintain that Australian consumers and producers are required to manage a complex new system with accompanying increases in compliance costs, but little individual gain. Experts state that both the expected benefits and costs of the reform have been exaggerated. While compliance does impose significant compliance burdens, the improvement in transparency and integrity of the tax system is expected to make the changes worthwhile.

**Austria –
Early Retirement
Age Increase**

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

In an attempt to reduce the current revenue-expenditure gap in the Austrian pension system, a reform aimed at raising the actual retirement age will be introduced in October 2000.

Austria faces demographic and economic pressures on the pension system similar to those in other countries. One aspect that is quite particular to the Austrian system, however, is the high frequency of early retirement. In 1998 only 12.7 percent of new male pensioners retired at the statutory pension age of 65 – half of the 1970 rate – and only 27 percent of new female pensioners retired at their statutory age of 60. Today the average actual age of retirement is 58 for men and 57 for women, leading to a participation rate of older workers (aged 55–64) that is almost 8 percentage points below the average of the European Union. This tendency is promoted by a very generous pension system from which contribu-

tors can receive 80 percent of the average of their best 15 years of earnings.⁷

The reform attempts to narrow the gap between actual and statutory retirement ages, and to reduce the budgetary transfer from the federal government (currently 23 percent or € 4.2 billion) to secure the provision of benefits on a long-term basis. As of 1 October 2000, the age for early retirement eligibility (currently 60 for men and 55 for women) will be raised by two months at the beginning of each annual quarter – resulting in an increase over 18 months by 1 October 2002 of up to 61.5 years for men and 56.5 years for women. This measure applies to practically the entire workforce (born after September 1945), including self-employed persons and civil servants. The early retirement pension for persons suffering from reduced working ability will be abolished. Furthermore, stronger financial incentives will be introduced to raise the actual retirement age. If a person opts for early retirement, the deductions from the assessment basis will be increased from 2 to 3 percentage points for every year short of the statutory retirement age. Persons retiring after the statutory pension age will receive a bonus of 4 percentage points for each year.

The contribution rates for active civil servants will increase by 0.8 percentage points to 2.3 percent, while retired civil servants will contribute 2.1 percent (previously 1.3 percent). Farmers' contribution rates will increase from 14 percent to 14.5 percent, and self-employed persons will pay 14.6 percent (instead of 14.5 percent).

● The need for raising the actual retirement age is generally acknowledged. Labour unions have argued in favour of a transition period before the implementation of the reform. Critics view the reform as necessary to secure the long-run solvency of the Austrian pension system, but further steps regarding the assessment period, deductions, and employer-based pension schemes are required.

7 The Austrian pension system is a pay-as-you-go type covering practically the entire workforce. The basic formula for calculating an old-age pension is based on three parameters: actual retirement age; years of contribution; and level of income (average of best 15 years).

**Denmark –
Streamlining the
Disability Pension
System**

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

A reform of the disability pension system is currently being discussed in Denmark. Details of the planned reform have not been published, but there is general agreement that the current system is in need of replacement. The current benefit structure is very complicated, the system's administration needs improvement, and the actual number of beneficiaries is considered to be too high. Early ideas include the reduction of benefit levels depending on the individual's working ability, as well as better education and instruction of the administrative service in determining individual disability. So far, the political parties in Denmark's parliament have agreed only on the funding of this reform. This will come from a special fund created to pool rounding differences from cash benefit payouts.⁸

► After the labour market reform of 1994 and the social security reform of 1997, the issue of early retirement is the last major area in need of corrective action. Critics, as well as all major political parties, agree on this.

**Germany –
Pension Reform –
Towards More
Prefunding**

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

The German government introduced the "Pension Reform 2000" proposal. The proposed reform intends to both promote private and occupational pension schemes, and limit the contribution rates to the public pension scheme. All parties agree that a reform of the current pay-as-you-go system is required since contribution rates have increased from 14 percent in 1957 to 20.3 percent of gross earnings in 1998 and could only be slightly reduced since because of additional state subsidies resulting from the "eco-tax". They are predicted to continue rising up to 26 percent in 2030 for demographic reasons similar to those in other OECD countries. Including all state subsidies, the percentage of gross wages effectively needed to finance public pensions is estimated to be 37 percent by the year 2035.

The government plan comprises the following key elements. Starting in 2001, contributions to private pension schemes are to be subsidised. The subsidised amount is to start with 0.5 percent of

⁸ Cash benefits are paid only in full DKK. The leftovers in "Øres" are pooled in the so-called "Satspuljefinanciering" fund used for financing parliamentary approved social policy improvements. Each year the fund pools approximately € 134 million.

gross wages in 2001, and increase to 4 percent in 2008 – limited to 4 percent of the contribution ceiling to the public pension scheme. Employees will be able to deduct the contributions to private pension schemes from their taxable income. With current contribution ceilings, the maximum deductible amount would be around € 2,100 in 2008. Low-income earners may instead opt for saving subsidies of up to € 153 per year. Additionally, up to € 184 in Savings subsidies per child are to be granted.

The current pension level is set at approximately 70 of net wages for people having earned average income for 45 years. This percentage will be upheld for all employees retiring by 2010, as well as all existing pensioners. However, due to a new definition of net wages, the yearly increase in pensions will be lower than that applied today.⁹ The pensions for employees retiring after 2010 will include a “compensation factor” that reduces the “standard” pension by 0.3 percent each year until 2030, to 64 percent of net wages. The rationale behind this approach is that the further away the retirement age, the more time an employee has to contribute to supplementary pension schemes to compensate for the reduction.

► The implementation of the reform depends on its political acceptability. So far, major pension policy reforms have always been developed through cross-party consensus. A consensus today with the labour unions – who demand higher replacement rates – might, however, lead to a weakening of the reform. The current proposal already represents a less ambitious approach compared to the May 2000 proposal, which foresaw a lower replacement rate. Past elections have also shown that the electorate is highly critical regarding pension cuts. Employers organisations criticise the planned cuts in government pension levels as inadequate. Experts doubt whether people, especially low-income earners, can be persuaded to channel 4 percent of their income into private pension schemes. They therefore favour mandatory contributions to a government plan.

⁹ Possible – not actual – contributions to state-subsidised private pension schemes are deducted from calculated net wages – a 4 percent decrease by 2008. Furthermore, changes in income tax rates will not be considered in calculating net wages. As income tax rates have been lowered in the latest tax reform, the “net wages” used to calculate pension benefits will be lower than actual net wages.

**Japan –
Reform Proposal for
Occupational Pension
Schemes**

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

The Japanese government, supported by employers, submitted a proposal to include defined-contribution schemes in the currently exclusively defined-benefit occupational pension schemes. Employers – usually large corporations – had expanded their employee benefits to attract potential workers during the time of labour shortages in the 1970s and 1980s. Currently 90 percent of Japanese firms offer retirement packages to their employees (50 percent offer pension schemes and 90 percent offer lump-sum retirement allowances). The new proposal was triggered by recent changes in accounting regulations forcing companies to disclose future pension payments as liabilities, as well as by the current economic situation (interest rate of almost zero percent). Furthermore, employees have increasingly demanded transferable pensions in case of job changes.

A framework for two types of defined-contribution pensions is being proposed. The first one is offered by companies to its employees with premiums payable by the employer. The second type is directed at self-employed people and those employees whose companies do not offer defined-contribution pensions. These pensions will be offered by a third party (usually financial institutions) with premiums payable by the subscriber. In all cases, subscribers have individual accounts and a minimum of three investment opportunities among which to choose. A choice between a lump-sum payment and a pension is offered. Withdrawal as a lump-sum before the age of 60 is not allowed, and a minimum of 10 years participation is necessary to receive benefits. Pensions are transferable to another firm-based fund or to an individual account after at least three years of participation. Premiums can be deducted from taxable income, and benefits are tax-exempt up to a certain amount.

► The proposal is strongly opposed by the labour unions because the investment risk is transferred from employer to employee. Furthermore, some employees might face a potential reduction in benefits. It is also argued that companies might be reluctant to introduce defined-contribution schemes, fearing strong opposition from the labour unions. Experts believe that the proposal requires more discussion and a consensus among the parties involved – including the labour unions. They also argue that the Japanese public is not

familiar with stock market investments. To gain more acceptability, the proposal should incorporate a more flexible approach regarding the age restrictions in cases of lump-sum withdrawals.

The administration of social security benefits in the Netherlands will be completely restructured. Public authorities will for the first time in Dutch history become fully responsible for the administration of work-related social insurance benefits, such as unemployment insurance and disability insurance. These benefits are traditionally being paid for through contributions from employers and employees, and have been administered by their representatives (unions and employers organisations). The levels of benefits, entitlements, and duration, etc. have been legislated. The system was heavily criticised in the past and became the subject of a parliamentary commission. This was mainly due to the way the disability insurance (WAO) was being administered. The WAO was generally used as an escape route for restructuring industries and businesses, and as a safe method for putting people into early retirement. This often benefited both the individual employers and the employees, but the total cost became an enormous burden on the economy. In an early attempt in 1997 to fight this misuse, a change in the Social Security Administration Act introduced competition between several administrative organs to improve efficiency and lower the costs of social security. This led to very unclear structures and responsibilities within the administration.

Under the new system, the social partners will have only an advisory role in a yet to be established council for work and income. The ultimate responsibility will be with a public authority. The government believes that this approach is more effective, efficient, and client-oriented. Furthermore, the administration will be run with the goal of meeting the government's objectives – not those of employers and employees. To introduce competition into the social security administration, as well as to reduce costs and bureaucracy, it is now possible for private organisations to bid for contracts to provide services in the fields of rehabilitation and labour market re-integration.

In order to introduce the system, major legislative and organisational changes are required. Parliament has already approved the

**Netherlands –
Complete Overhaul
of the Social Security
Administration**

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

outline of the system, but implementation will not start until January 2002.

🕒 The debate about the new administrative structure directly affects the power of the unions and employers organisations. Furthermore, the new public authority will incorporate the existing administrative bodies, and in so doing will grow to become a gigantic organisation. While critics agree that a public authority should be responsible for the administration, they point to the fact that such a large authority has a tendency to turn into an inefficient bureaucratic system.

**Switzerland –
More Investment
Flexibility for Pension
Funds**

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

To increase the performance of pension funds, the Swiss government introduced more flexibility and independence regarding their investment policies. The previous regulations stipulated that capital funds in pension schemes must be invested in such a fashion so that an adequate return can be obtained, risks are well-diversified, and solvency is guaranteed. Investment returns of these pension funds over the last few years have been poor due to these relatively restrictive investment regulations and the risk-averse behaviour of pension fund investment managers. This unsatisfactory performance has prompted the current reform.

The most important aspect of this reform is the change in the definition of risk, enabling the pension funds to expand their investment possibilities. Under the new definition, a pension fund simply needs to be able to fulfil its future obligations. Under the previous definition, pension funds were restricted in their choice of assets, as well as in the amount they were allowed to invest into a specific asset category. The new reform adapts the “prudent investor rule” common in the Anglo-Saxon countries. Pension funds can now utilise those investment instruments which best serve their purpose, but must first clearly formulate their investment strategy. A report must confirm that the solvency of the fund is guaranteed.

🕒 There has been little opposition to these measures. It is generally agreed that due to demographic trends, high public debt, and increased demands on the pension fund system (e.g., reductions in retirement ages), the increased profitability of the pension funds is vital. A few opponents of the reform question the ability of the

fund managers to deal competently with their new investment instruments.

The “Senior Citizens’ Freedom to Work Act of 2000” aims to repeal the earnings test for beneficiaries past the normal retirement age. The earnings test for beneficiaries has been part of the Social Security programme since 1935 to encourage older workers to leave the labour force and open up positions for younger workers. With current tight labour market conditions and the continued ageing of the population, the test no longer makes sense.

Prior to the repeal of the earnings test, beneficiaries between the ages of 65 and 69 had their retirement benefits reduced by € 0.88 for every € 3,37 of post-retirement income above € 19,122. For persons collecting early retirement benefits (between the ages of 62 and 64), benefits were reduced by € 0.88 for every € 2.25 of earnings above € 11,338. The more stringent earnings test applied to early retirees is designed to discourage workers who can earn a comfortable level of earnings from claiming a pension. The earnings test does not apply to persons over the age of 70, or to investment earnings and private pensions.

The earnings test does not result in a reduction of life-time benefits for early retirees, but rather in a postponement. He/she will receive less at the age of 62–64 years, and more at the age of 65 and older. For workers above the normal retirement age (currently 65 years), the loss of benefits resulting from applying the retirement earnings test was not fairly compensated for by a subsequent increase in benefits. However, it was partially compensated for by the “delayed retirement credit”. On attaining age 70, people whose benefits were reduced received higher monthly benefit payments according to their delayed retirement credits. The credits, though, were not large enough to fairly compensate a worker for the loss caused by the retirement earnings test.

As a result of the “Senior Citizens’ Freedom to Work Act of 2000”, Social Security benefits of persons who have attained the normal retirement age (currently 65) will no longer be subject to an earnings test. An individual can still voluntarily delay retirement and accrue delayed retirement credits. These will increase the person’s benefits received after age 70. For beneficiaries between

USA –

Senior Citizens’ Earnings Test Repeal

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

the ages of 62 (early retirement age) and the normal retirement age, the early retirement earnings test still applies.

Repealing the test will cost an estimated € 25.5 billion over the next ten years, but will not affect long-term programme costs. The major fiscal effect is to shift the timing of the benefit payments. People who are older than 65 and who continue to work will receive higher Social Security benefits while they work. However, their monthly retirement checks after they stop working will be smaller than they would be under the old earnings test.

► The reform is extremely popular among senior citizens and is broadly approved of by the non-aged as well. The earnings test was disliked for reasons quite apart from its actual effect on the employment and earnings of Social Security beneficiaries. Most people did not understand the complex rules of the “delayed retirement credit” and misinterpreted the earnings test as a direct tax on post-retirement earnings. Experts approve of the reform as well because the “delayed retirement credit” increased Social Security’s future costs, and because the retirement earnings test did not result in significant savings. However, pressure might increase on Congress to eliminate the early retirement test for workers aged 62–64 as well.

Changes in and results of previous reforms

Canada – Pension Fund Investment Diversification

As a first result of the implementation of the Canadian Pension Plan reform (cf. Issue 1, p. 21), the Investment Board reported an extraordinary 40.1 percent return on its investments in its first full year of operation. It is unlikely that this performance can be repeated because growth of the Toronto Stock Exchange 300 composite index, on which the current investment policy is partially based, has exceeded 40 percent only three times in its history.

The Canada Pension Plan Investment Board plans to broaden its investment base to gain more stability in the portfolio – at the expense of repeating such high rates of return. The fund currently manages € 1.8 billion in assets (80 percent invested in a fund modelled on the above-mentioned Toronto Stock Exchange 300, and 20 percent in two foreign stock exchange funds – one in the

U.S. and one mainly in Europe and Asia). The Investment Board expects to manage € 75 billion by 2010.

► Experts agree that since the 1999 rate of return is clearly an anomaly, the planned strategy of greater investment diversification is necessary.

The 1999 reform aimed at reducing the number of people seeking early retirement (cf. Issue 2, p. 16) shows first results. The number of new persons seeking early retirement fell by 28.7 percent in 1999.

Denmark –
Retirement Age
Reform Successful

It is becoming clear that France will not pass any significant pension reform before the next general election in the spring of 2002. The government appointed a Strategic Pension Council (conseil d'orientation des retraites) to try to reach an agreement on the reforms necessary to ensure the long-term viability of the French pension system (cf. Issue 1, p. 22). The Council consists of members of Parliament, representatives of the social partners, and independent experts. First proposals are expected at the end of 2001.

France –
Strategic Pension
Council Appointed

► The main employers organisation (MEDEF) argues that appointment of the council will just delay necessary reforms, and hence has refused to participate.

State Welfare

No significant new reforms can be reported. Nevertheless, this can be described as a trend because the previous issue of the Reform Monitor like wise contained no any major reforms in this area. State welfare programmes do not seem to be on the agenda in most countries or welfare reforms are just marginal aspects of reforms reported in other policy fields.

Changes in and results of previous reforms

Denmark is reporting first results of its Active Social Policy Act (cf. Issue 1, p. 25). It emphasises the connection between rights and responsibilities, and seeks to raise welfare recipients' abilities

Denmark –
Work Activation
Policy Success

to establish or re-establish a connection to the labour market and society in general.

Initial indications are that more unemployed people are re-joining the work force, some even before the work activation offers are given. Job opportunities increase after a period of work activation. The size of the marginal group – consisting of people who have been out of work, in work activation programmes, or on leave-of-absence for educational purposes for more than 80 percent of the time during the last three years – has decreased by 50 percent since 1993.

► The results of Denmark's work activation policies in the 1990s have been better than expected.

Family Issues

This Reform Monitor can report a continuation of a trend that was already visible in previous Monitors: parental care is on the agenda in most countries. Seven reforms are reported in this issue, all focusing on either parental leave or other parental benefits. The reasons for this have stayed much the same: demographic changes associated with decreasing birth rates as well as low female labour market participation. One new aspect is an increasingly accepted greater role of the father in the upbringing of the child, which in turn increases the mother's opportunities on the labour market. Canada and Italy report longer leave periods: Canada needs to improve maternity leave after years of spending cuts in this area, and Italy wants to increase female labour market participation by specifically acknowledging the role of the father (and thus making a return to work for the mother easier). The other countries report benefit improvements for similar reasons. The UK wants to combat welfare dependency, and has changed the benefit system to include tax cuts – clearly supporting working families. Only Germany addresses both issues, leave and benefits, in its reform proposal. The USA reports on an interesting reform in Vermont, where homosexual partners are entitled to similar rights as married couples.

Details of the reforms are available on the project website www.reformmonitor.org.

The Canadian government is doubling the maximum length of paid maternity leave to eligible parents through the Employment Insurance programme, from six months to one year. This is intended to allow parents more time at home with new-born and newly-adopted children. After years of spending cuts due to anti-deficit campaigns, the federal government is under pressure to begin restoring social spending. There is also growing concern in Canada about work/family conflicts, lack of overall family policy, need for family-friendly workplace practices, and stronger state social programmes for families with children. The current system of maternity and parental leave under federal Employment Insurance is weak, both in terms of reach (it excludes many part-time and new workers, as well as self-employed persons), and in terms of generosity and duration of benefits.

The reform will double the maximum total length of paid maternity/parental leave from 25 weeks to 50 weeks. It does this by increasing the maximum duration of parental leave from 10 weeks to 35 weeks. The minimum work requirement for eligibility for benefits has been reduced from 700 to 600 hours. Recipients of parental benefits can now work part-time, and earn 25 percent of their weekly benefit or € 38, whichever is higher, without reduction of their benefits (similar to regular Employment Insurance beneficiaries). There has been no change in the benefit calculations (55 percent of average weekly earnings up to a maximum of € 311 a week, or up to 80 percent of average weekly earnings for low-income families). Recipients with an individual income over € 36,790 a year must repay a portion of their benefits. The federal government estimates that 150,000 families (with children born or adopted after 31 December 2000) will benefit from the reform. It forecasts additional costs of € 680 million per year over the current € 900 million expenditure on maternity and parental leave benefits.

◉ Social and labour groups point out several flaws: The change in 1996 from Unemployment Insurance to Employment Insurance introduced tougher work requirements which have greatly reduced coverage, affecting part-time and seasonal workers most. The growing group of self-employed persons is still excluded from Employment Insurance. There have been no changes in the benefit

Canada – Maternity Leave Extension

Innovation	**
Impact	***
Interest	***

calculations, still forcing many families – especially single parents – to work. Critics judge the reform as relatively modest and incremental, but one upon which future reforms can be built. They also view the reform as symbolically and politically important.

**Germany –
Extending Parental
Leave and Increasing
Benefits**

Innovation ***
Impact **
Interest **

Beginning in 2001, a new parental leave and benefit law will come into effect in Germany. Such a reform has been a promise during the election campaign and its necessity is backed up by two empirical trends: The share of families eligible for child-rearing benefits has decreased significantly down to 50 percent in 1999 (from 85 percent in 1987). Furthermore, it has been observed that more than 90 percent of all mothers eligible for parental leave actually went on leave, whereas only 1.5 percent of all eligible fathers used this option.

Under the reform, the upper income limit (annual net family income) for eligibility of child-rearing benefits will increase to € 16,470 (+ 9.5 percent) for a two-parent family, and to € 13,498 (+ 11.4 percent) for a single-parent family after the child's first six months.¹⁰ For each additional child there will be a supplementary payment of € 2,454 (+ 14 percent) that will gradually increase to € 3,139 in 2003. Furthermore, parents will have the option to receive € 450 until the child's first birthday, instead of receiving € 307 until the second birthday.

In the area of parental leave, the following changes will be implemented: Parents can now go on leave simultaneously. They will have the possibility of saving the third year (out of a total three-year parental leave period) until the child's eighth birthday to support the first year in school, for example. The employer must agree, and the parent must file the request eight weeks in advance. Under the new law, the number of hours a parent can work during parental leave will increase from 19 to 30 hours a week. In combination with simultaneous leave, parents can work up to 60 hours a week. Parents on leave will have the legal right to part-time work, which is defined as 15 to 30 hours a week. This will be applicable only in companies with 15 or more employees, and after

¹⁰ The upper income limit for benefits during the first six months is still € 52,130 for a two-parent family, and € 38,350 for a single-parent family.

a minimum of six months of uninterrupted employment with the company. Employers must approve the request unless there are “compelling business reasons” not to. Upon return, the parent has the right to his/her previous working time. These rules will cover only 13 percent of all companies, but 75 percent of the country’s entire workforce (excluding self-employed persons and civil servants).

Success strongly depends on the acceptance of part-time work by employers and employees. So far, the father who typically receives higher wages than the mother does not make use of parental leave in order to minimise the family’s income loss. The option of simultaneous leave and total working time of 60 hours per week should raise the percentage of fathers opting for parental leave, assuming that fathers really want to go on leave and work part-time. Furthermore, part-time work will be much more successful if there are available non-parental care alternatives, such as day care centres.

❶ Opponents of the reform can be found among employers organisations and the conservative political spectrum. In particular, they oppose the legal right to part-time work in the proposal, and call either for voluntary agreements between employers and employees or for a restriction of the applicability to companies with 50 or more employees. They also claim that the reform reduces job opportunities for women due to employer concerns about the risk that female hires will make use of their right to part-time work. Others, usually from the left, call for an increase in child-care benefits instead of a change in the income limit. They seek a right to part-time work where the parents have to share their parental leave or else forfeit their individual claims. Furthermore, they believe that the law should apply to all companies regardless of the number of employees. Experts approve of the general direction of the proposal, but they believe that the reform will not result in dramatic changes. Since income loss is the main reason for fathers not to go on parental leave, the new incentives might not go far enough. They also approve of the idea of increased incentives for shorter leave periods, but again believe that the amount is not high enough to have a significant impact.

**United Kingdom –
Escaping the Welfare
Trap: New Working
Families Tax Credit**

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

In October 1999, the British government replaced the “Family Credit” for low-income working families with a more generous “Working Families Tax Credit”. The reform replaces social security benefits with tax credits, and hence transfers the administrative responsibilities and funding from the Department of Social Security to the Treasury and the Inland Revenue Department.

With this reform, the government is attempting to combat welfare dependency by widening income differentials between those in paid work and those receiving welfare benefits. The previous Family Credit created “poverty trap” effects and “unemployment trap” effects. With rising income, people lost their cash benefits, as well as benefits in kind, leading to high marginal tax rates. The high marginal tax rates also allowed some people who receive benefits to end up better off than those working.

The “Working Families Tax Credit” is aimed at families (including single-parent families) with children under age 16 (or under 19 if in full-time educational programmes) where parents are working 16 and more hours a week (including self-employment). It consists of four main elements: (a) a basic tax credit of € 86 a week per family if the parent is working 16 hours a week or more; (b) an extra tax credit of € 18 where one earner works 30 hours or more; (c) an age-related tax credit for each child, from € 32.74 to € 42.80, increasing with age; and (d) a child-care tax credit as a contribution to child-care costs of a working parent, up to € 115 a week for 1 child, and € 173 a week for families with two or more children. The maximum entitlement is payable when total net income is below € 148 a week (net after taxes, national insurance, and occupational pension contribution). It is reduced by € 0.90 for each € 1.65 of income above this figure.

The reform is expected to lead to more breadwinners of two- and single-parent families seeking employment instead of remaining dependent on welfare benefits. This should result in significant savings in social security expenditures for such groups. An expansion of child-care services is expected. Integrating benefits with the tax system will also save on administrative costs because employers are now responsible for paying the assessed amount. The Inland Revenue Dept. will then reimburse them for it. There is also a political advantage from this since a tax credit does not appear as

a “cost” for public expenditures, whereas increasing social security benefits do.

🔹 Critics argue that there are still significant poverty trap effects, although less so than before (benefit reduction of € 0.90 for every € 1.65 of income above a certain level, instead of a loss of € 1.15 for every € 1.65). Others argue that the reform does not target the non-working poor who are raising children. This group remains economically disadvantaged. Experts believe that the “Working Families Tax Credit” is a significant reform representing a serious effort to deal with unemployment and poverty traps, although it still leaves many families with children in poverty. The reform can be seen as the beginning of a radical shift of income maintenance, from the social security system to the taxation system, as a means of promoting a return to paid work.

A reform of the Italian parental leave and benefits system in March 2000 introduced greater flexibility and longer leave periods. It is intended to increase female labour force participation, and raise the country’s birth rate. The law explicitly recognises the role of the father and his right to parental leave, and it introduces the principle of shared responsibilities after childbirth and during the child’s upbringing.

Under the new law, the parental leave option is extended to the child’s first 8 years (previously it covered only the first year). In addition to the mandatory three months leave after birth at 80 percent of earnings for the mother, both parents together can now take a total of ten months (11 months if the father uses more than two months in a row). Six months of the total can be taken up to the child’s third birthday at 30 percent of earnings, and the rest can be taken up to the child’s eighth birthday without payment (an exception is for low-income families who continue to receive 30 percent of their earnings).

Small firms (with fewer than 20 employees) which need to temporarily replace an employee on parental leave are entitled to a 50 percent reduction on their social security contributions for the newly hired worker. Firms can also apply for a grant to support the introduction of flexible working hours, telecommuting, and work at home for employees returning from their parental leave.

Italy –

Greater Parental Leave Flexibility

Innovation	****
Impact	**
Interest	**

► There is no serious opposition to the reform. Experts believe that further changes in child and family care policies (particularly to support working women) are needed to bring out its full potential.

**Japan –
Child Allowance
Extension**

Innovation ***
Impact *
Interest ***

In an attempt to increase the country's birth rate, the Japanese government introduced a reform of the child allowance system in June 2000. Under the previous system, only a relatively small number of families received a child allowance. It was limited to families with children under three years of age, and there was an upper income limit for eligibility.

The reform raises the child's upper age limit for a child allowance to six years, and the income threshold is raised from € 25,368 to € 69,974 (for a family with two children under 6). The number of children eligible for a child allowance is expected to increase from 2.6 million to 5.7 million. As a second measure, the Japanese government reduced the annual tax exempted income from € 5,013 to € 3,968 per child, thus marginally hurting higher-income families.

► The effect on the birth rate is expected to be minimal. Critics and experts alike believe that the effects of the increase in the eligibility age for the child allowance, and the tax increase caused by the reduction in tax exempted income, will cancel each other out.

**Spain –
Child Benefit
Increased**

Innovation *
Impact *
Interest **

Spain raised its means-tested child benefit allowances in January 2000, and introduced one-time benefits for large families and multiple births. These measures are intended to alleviate child rearing costs in low-income families and in multiple birth cases.

Traditionally, the Spanish child allowances are not automatically adjusted for inflation. Hence, their value in real terms has fallen by 30 percent since the last adjustment in 1991. Spain is also one of the few EU countries without a universal child benefit system, and one where large families have significantly lower average annual incomes compared to families without children. Consequently, the birth rate has decreased to 1.07 (EU average: 1.45).

The reform raised the means-tested child allowance by 35 percent to € 285 per year for children below the age of 18. This affects 764,000 households with an annual income below

€ 7,440.¹¹ For disabled children, the allowance increases to € 570 per month. This affects 71,000 households. The reform also introduced two new allowances: a one-time means-tested allowance of € 450 for new births in large families from the third child onwards; and a one-time multiple birth allowance. The multiple birth allowance is not means-tested and amounts to € 1,700 (4 times the monthly minimum wage) for twins, € 3,380 for triplets (8 times the monthly minimum wage), and € 5,098 for more than triplets (12 times the monthly minimum wage). On average, Spain has around 4,800 multiple births per year.

☉ Trade unions criticise the low impact and the timing of the reform shortly before an election (as a one-time payment, beneficiaries additionally received the difference between their 1999 allowance and the new 2000 allowance). Experts and critics alike believe that further family policy reforms and labour market policy reforms are needed, such as a universal child benefit programme. They point to the fact that dual-income families are presently excluded although they have extensive child-care costs to bear.

The legislature of the U.S. state of Vermont passed the “Vermont Civil Union Act” which went into effect on 1 July 2000. The Act extends the same legal rights and responsibilities of married couples to homosexual partners. It is based on a Vermont State Supreme Court ruling from December 1999 entitling gay couples to all the benefits, protection, and responsibilities given to heterosexual married couples by the state.

Instead of legalising gay marriages, the legislature created a parallel institution: the “civil union”. The members of a civil union will be legally considered “next of kin” and thus entitled to the inheritance rights, family leave benefits, hospital visitation, and other privileges of married spouses. The legislation, however, does not affect federal laws, including the definition of marriage partners under Social Security or the federal income tax code. Private

USA –

More Rights for Homosexual Couples

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

11 The maximum income threshold rises by 15 percent for each additional child. Additional income above the threshold reduces the benefits by the same amount.

businesses in Vermont, which extend health benefits and family leave to spouses, will be required to offer these same benefits for same-sex civil unions. This is highly relevant in the United States because many social protection schemes are largely provided on a voluntary basis by employers, not by government.

It is not certain whether any other state will legally recognise the civil unions as established in Vermont. The reform is an issue in the coming Vermont state elections, and legal challenges may follow.

● Proponents of traditional family values argue on moral and religious grounds against civil unions. Experts point to the fact that homosexuals constitute a very small percentage of adult Americans, and consequently the establishment and recognition of civil unions will probably affect the lives of only a small percentage of people. For those people, however, the consequences may be profound.

Changes in and results of previous reforms

Canada – Child Benefit Increase

The government has announced further increases to the Canada Child Tax Benefit (cf. Issue 1, p. 28). The additional federal expenditures will in turn enable provincial governments to reallocate more savings from reduced social assistance expenditures on children to various income programmes and services (health, social and employment) for low-income families with children. The maximum annual Canada Child Tax Benefit for the first child will rise from its current level of € 1,490 to € 1,811 per year by 2004. The maximum for the second and additional children will rise from € 1,340 to € 1,660 per year by 2004. The income level where the National Child Benefit supplement to low-income families ends will rise from its current level of € 19,562 in net family income to at least € 27,923 by 2004. The base benefit, which goes to 8 out of 10 families, will increase from the current maximum of € 770 to about € 883 by 2004. It will extend higher up the income range, thus increasing coverage to more than 90 percent of families. The rates and thresholds, previously only partially indexed, will be fully indexed to the cost of living effective in the year 2000.

By 2004 the federal government will spend € 6.8 billion on providing the Canada Child Tax Benefit – a 58 percent (inflation-adjusted) increase over 1998.

● Critics welcome the return to full indexation that will stabilise benefits and maintain the value of its increases. However, further investment to increase maximum benefits and improve benefits to non-poor families is required.

2 Labour Market Policy

New Reforms

Labour market reforms make up a large part of the reforms in this issue. Nine new reforms and four changes and results indicate that labour market inefficiencies and mismatches are still hotly discussed in most countries. It can be observed that European Union members are increasingly implementing EU labour market directives, thus showing the importance that is attached to this matter. Countries have a certain timeframe within which to implement the directive, and the activities in Italy and the UK to implement part-time employment legislation indicates that this directive's deadline is coming up. EU labour market policy is also behind Italy's attempt to modernise its job placement system.

Most reforms can be either classified as demand stimulation or as efficiency improvements. The above-mentioned part-time reforms clearly fall into the first category, as does Spain's immigration reform, the working time reduction in France, and the UK's minimum wage policy. The other reforms address specific areas of labour market policy to increase efficiency, i.e. through reforms of the placement system in Switzerland and Italy, rehabilitation and further education in Sweden and Denmark, and continued equal opportunity reforms in Austria and Japan.

Details of the reforms are available on the project website www.reformmonitor.org.

**Austria –
Gender
Mainstreaming**

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

The Austrian Public Employment Service has begun to internally integrate gender mainstreaming into its labour market policies. This is part of an attempt to promote a gender-oriented perspective in all political concepts, on all levels, and in all decision-making processes.

Although Austria has a tradition of equal opportunity policies in the labour market, neither unemployment rates for women nor wage discrepancies have decreased significantly. The gender mainstreaming policy builds on the equal opportunity policies started at the beginning of the 1990s, and consists of several concrete activities: there will be a focus on promoting female employees of the Austrian Public Employment Service; upgrading the tasks of female aides; setting up research groups on women's issues; offering seminars on gender mainstreaming; differentiating statistical data for men and women; and integrating gender mainstreaming into EU structural fund policies.

The implementation of gender mainstreaming should promote the discussion about equal opportunities, improve social awareness about gender issues, and hence promote greater gender equality.

Some fear that gender mainstreaming will just end up as a topic of theoretical interest without any real influence. Experts state that more knowledge about the causes of gender discrimination, and about gender-specific issues and impacts is needed in order to define a common concept. Gender mainstreaming should be understood as part of a long-term process.

**Denmark –
Improving Human
Resources: Adult and
Continuing Education**

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

The Danish government introduced a reform of the adult and continuing education system in January 2000. It did so because the previous measures did not have the desired effects, namely a general increase in educational and expertise levels.

The goal of the reform is to give all adults access to life-long learning opportunities. The government intends to focus its activities on adults with low educational and skill levels. The educational programmes should be related to the participants' daily jobs and should provide knowledge about machines, materials and

processes, as well as general qualifications such as communication, organisation and planning skill. They should also serve to improve personal qualifications such as responsibility, flexibility and even basic reading and writing skills. Firms will be given a larger financial responsibility for developing better-educated employees. As the educational programmes are being restructured, firms will be responsible for financing the continued education of their more-skilled workers (e.g., via company-related vocational training courses). A committee made up of relevant labour market groups (e.g., unions and employer associations) will work out the financing arrangements and decide on the courses being offered. The committee will receive € 383 million each year from the government.

❶ Critics argue that the conditions for joining state-financed education (i.e., basic job-related education) exclude many employees. Such employees work in areas where their basic education is not relevant to their current work and for that reason they do not meet the requirements for taking part in the programme. Experts state that the reform is needed to increase less-educated people's chances in the so-called "New Economy".

The Ministry of Labour started a two-year trial period to provide "work-service" jobs through which unemployed people over the age of 48 can be integrated back into the labour market. As part of the reform, communities, counties, and the national government can receive grants for employing older-aged unemployed persons receiving unemployment benefits. For each new work-service job, a grant of € 13,400 per year will be paid to the employer. Service jobs are created in areas, that do not necessarily require any special education, but where life experience and practical experience have greater importance. Candidates will only need to take part in one short course preparing them to work in social- and health care, child care, or in communal park- and road maintenance. The jobs are meant to be full-time positions with standard wage and employment conditions. The employer is not allowed to replace an ordinary employee with a work-service employee. Firms applying for grants need to notify the employment office, which will select a suitable candidate and arrange for an interview.

It was expected that between 6,500 and 10,000 persons would

Work-Service Jobs to
Re-Integrate Elderly
Unemployed

Innovation	*
Impact	**
Interest	***

be employed in these work-service jobs by the end of 2001. However, by March 2000 only 22 such positions had been filled.

☛ The conservative political spectrum criticises the reform for attempting to interfere with market forces. They maintain that providing special treatment to some people makes it more difficult for others to find a job.

**France –
Agreement to
Redesign Unemploy-
ment Insurance**

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

The employers organisation (MEDEF) and two of five labour unions (CFDT and CFTC) proposed an agreement in June 2000 to redesign the country's unemployment insurance system.¹² Beyond its traditional mission, the new system will be geared towards helping unemployed persons return to work.¹³

The French unemployment insurance system (UNEDIC) is managed by a partnership of employers organisations and labour unions, which together determine benefit levels, duration, and eligibility.¹⁴ In March 2000, 41% of all registered job-seekers received unemployment benefits (1.7 million persons). In addition, nearly 500,000 persons, who no longer qualified for unemployment benefits, received other forms of unemployment assistance from the government. Job-seekers are administered by a government agency, the Public Employment Service (ANPE). Penalties resulting from insufficient efforts to find employment (e.g., benefit reductions or forfeiture) are administered by the ANPE, and not by UNEDIC. In practice, however, only a very limited number of sanctions are enforced. Since 1993, individual unemployment benefits have been gradually lowered over the length of the unemployment period in order to create incentives for recipients to look for work. Experience shows that many unemployed persons have poor job prospects unless they receive personal support tailored to their particular situation. Such personal support is given by the ANPE to adults

12 The previous agreement ended in June 2000.

13 The reform is the first step of a so-called "social re-foundation" that the French employers organisation wishes to propose to the country's labour unions.

14 Employers organisations and labour unions have an equal number of seats on the boards of the 52 local unemployment insurance offices, which process contributions and allocate benefits to unemployed recipients. In 1967 membership was made compulsory for all workers in the private sector. Since its creation in 1957, the system has experienced deficits several times. This was due to rising unemployment levels, and ultimately required government subsidies to keep the system solvent.

unemployed for more than 12 months, and to young people unemployed for more than 6 months. The programme (“New Start”) is part of the employment policy guidelines designed within the EU employment strategy. Nearly 850,000 persons received this personal support in 1999.

The new unemployment insurance scheme will offer a “personal action project” (PAP) defining appropriate individual support for each job-seeker. All newcomers to the unemployment scheme will have to subscribe to a PARE (plan d’aide au retour à l’emploi = “back to work support plan”) to qualify for unemployment benefits. Those who are already unemployed have the option of joining the new plan. It will be easier for unemployed persons to qualify for benefits under this new plan, and the amount will remain constant. Required are four months of paid activity during the previous 14 months (previously this was four months out of the last eight months). During the first month following registration, each person will have to agree to a PAP. This will define the type of jobs that he/she will look for, and the accompanying support measures he/she will have access to (such as specific training courses). Refusal of a job proposal without legitimate reason will result in a warning (first refusal); a 20 percent cut in benefits (second refusal); temporary withdrawal of benefits (third refusal); followed by a permanent withdrawal of benefits after the fourth refusal. The amount of unemployment benefits will remain constant. If the first PAP is not successful (i.e., no new job is found), a second PAP can be arranged for another six months. If still unsuccessful, an “integration contract” will be offered that includes subsidised work. The integration contract will last between 18 months and five years. Part of the new agreement includes a reduction in workers’ contributions to the government unemployment insurance system. This has been made possible by the sharp drop in unemployment in recent years. The contribution rate will decrease gradually from its current level of 6.18 percent to 4.9 percent by July 2002.

The agreement will modernise the unemployment compensation system, and will lead to a larger role for the employers organisations and labour unions in the social and employment policy-making process. The responsibilities of the ANPE will have to be

widened to be successful since the ANPE currently processes only 38 percent of all job offers. The relationship between the new unemployment insurance scheme and the ANPE is still not established. The most probable scenario will be a contract between the two bodies defining the new tasks of the ANPE. This will represent a major change since up until now the ANPE had been tied by contract (defining objectives and means) to the Department of Employment and Solidarity, but not with the UNEDIC agency.

► According to French labour law, the government needs to approve the new unemployment insurance scheme. The Department of Labour is reluctant to do so, fearing that long-term unemployed with poor job prospects will continue to see no improvement in their situations. In addition, part of the new scheme (namely the creation of the “integration contract”) will change the country’s labour legislation. This requires approval by Parliament. The government urged the initiators to re-negotiate the text of the contract and obtain approval of the other labour unions. The initiators refuse to revise the text, and have called on the government to reconsider its position. The other unions (mainly the formerly pro-Communist CGT and CGT-FO) strongly oppose the reform. They argue that it will put excessive pressure on the unemployed by forcing them to accept poor jobs. They particularly oppose the elimination of the benefit recipient’s right to decline a job offer that does not suit his/her skills or expectations. Experts believe that the reform is important and very promising, but acknowledge that it requires further modifications in order to resolve the above-mentioned objections. Discussions were going on during summer 2000.

**United Kingdom –
Improving Conditions
for Part-Time Work**

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

New regulations for part-time workers were implemented in July 2000. The regulations use powers provided by the Employment Relations Act of 1999 to implement provisions of the EU Directive on part-time workers. The UK has one of the highest rates of part-time employment (25 percent of total employment, 45 percent of female employment). Traditionally, part-time workers have often received lower hourly pay rates than full-time workers doing similar work. They have also enjoyed less legal protection and inferior non-wage benefits.

The regulations provide a right for part-time workers (less than 30 hours a week) to receive the same normal hourly pay, overtime pay, sickness and maternity pay (pro-rated for the hours worked), contractual leave, and holiday entitlements as “comparable” full-time employees working for the same employer. Equal treatment is also to apply in cases of redundancies, training eligibility, and access to pension schemes. Exceptions are permitted in order to meet “legitimate objectives” of employers, such as overriding business needs. If a part-time employee formally objects to perceived unequal treatment, the employer must provide a written response within 21 days. If still dissatisfied, the employee can complain to an Employment Tribunal. It may then award compensation and/or issue an order to the employer if grounds for this exist.

► There has been little opposition to the principle of implementing the EU Directive (to which the UK is legally bound), but there has been much debate over the content of the regulations and the concept of “comparable full-time worker”. By the government’s own estimates, only about 1 million out of 6.6 million part-time employees fall into this category. Experts point to the fact that the government has used the same minimalist approach as with other EU directives (e.g., regarding working time, parental leave, etc.). Some observers believe that it has failed to fully meet the requirements of the Directive, and complaints to the European Court of Justice may follow.

In April 2000, Italy has begun to implement the European Union Directive on part-time work in order to increase the share of part-time work. Only 8 percent of employees are working on a part-time basis. The reform should extend the use of part-time work in the private and public sectors by introducing more flexibility and greater financial incentives. The government expects the creation of 100,000 new jobs by 2002.

Under previous regulations established in 1984, a first form of part-time employment was allowed but overtime was prohibited. Only the basic framework and a number of guiding principles were established by the regulations, with collective bargaining agreements governing the details. In order to increase its diffusion in 1997, a reduction of social contributions was mandated by the

Italy –

Greater Flexibility in Part-Time Work

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

so-called Treu Law, a reform package aimed at making labour market regulations more flexible.

The new regulations set up in April 2000 intend to simplify administrative and procedural mechanisms, and introduce more flexibility and greater financial incentives. They should also clarify some problems arising from judicial interpretations of the previous rules. The main guidelines of the EU Directive are being implemented regarding hourly pay, holidays, maternity leave, sick leave, and vocational training. Overtime is now authorised and collective bargaining will determine the amount allowable. A transitional overtime limit has been introduced (maximum of 10 percent of the monthly working time), and there is a 50 percent pay increase for overtime above this limit. The introduction of flexibility clauses makes work-shift changes possible without sanctions¹⁵. The reform is supported by financial incentives based on social contribution reductions.

☉ Employer associations have criticised rules on overtime, excessive regulation limiting the role of collective bargaining, and the design of the flexibility clauses. Experts agree with some of the criticism, especially regarding the role of legislation and the rules on flexibility clauses.

New Job Placement Guidelines for Risk Groups

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

The European Union employment guidelines are prompting Italy to redesign its job placement guidelines for its Public Employment Services (PES). The reform, which is to be implemented in the second half of 2000, focuses on so-called “risk groups”: young people, long-term unemployed, and women. The main aim is to increase the probability of entering employment and to reduce the waiting period. So far, Italy does not have an efficient information system for tracking the numbers and characteristics of unemployed persons, making it difficult to monitor and evaluate the results of labour market policies. The PES agency has a weak and inefficient administration, and its personnel lack the necessary qualifications.

The reform brings the definition of beneficiaries in line with EU

15 Flexible clauses allow the distribution of working time (with increases in pay) if employer and employee reach an agreement. The employer has a “change-of-mind” right to go back to the original working time distribution. The “change-of-mind” right is restricted to specific cases and may only be exercised after five months and requires a 30 days notification.

standards¹⁶: People officially receive the status as “unemployed” after submitting a form certifying their condition. The employment services will offer teenagers and young unemployed persons an interview within 6 months of registration; for women, they will provide a proposal for job re-entry or vocational training within 6 months; and for long-term unemployed persons, a proposal will come within 12 months. Refusal to accept a job offer will lead to the loss of registered unemployed status.

Success of the reform will depend on the efficiency and capabilities of the employment services. The administrative procedures necessary to implement the new rules will play an important role in achieving positive results. Re-training of personnel and the introduction of information technology will be essential.

► Experts believe that the reform could represent an important turn in Italian labour market policy. Positive results, however, will depend on success in restructuring the employment services.

Japan’s current economic situation has led to an increase in company reorganisations through mergers and divestitures. To specifically facilitate company divestitures, commercial legislation regarding the succession of rights and debts has been introduced. The government now intends to introduce detailed divestiture regulations concerning the succession of labour contracts and collective bargaining agreements, which will come into force on 1 October 2000.

The new regulations enable the succession of labour contracts and collective agreements without individual consent. The divesting companies must simply notify the employees and trade unions concerned in writing two weeks prior to the decisive shareholder meeting about the succession plans. The contracts and agreements will then apply to the newly divested company. The Ministry of Labour will issue additional administrative ordinances and guidelines to ensure that working conditions are not adversely affected by company divestitures.

Japan – Company Divestiture Regulations

Innovation	**
Impact	**
Interest	**

16 Teenagers: between ages 15 and 18; young people: between ages 18 and 25; long-term unemployed: those more than 12 months without employment; unoccupied: unemployed people seeking employment for longer than a year; women re-entering the workforce: women wishing to work after two years of inactivity

► Opposition parties and trade unions ask that the same system also be applied to mergers and business transfers. Experts point out that the additional administrative orders to be issued by the Ministry of Labour are vital for the success of the regulations. The regulations themselves provide only guidelines, and should be viewed as a first step towards further protection. In general, the regulations are considered an important element in the revitalisation of the Japanese economy.

Spain –
New Law Improving
Immigrants Rights

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

Spain introduced a less restrictive and more integrative immigration policy in February 2000 in replacement of its 1985 Alien Law. The number of immigrants in Spain is still relatively small, but foreigners entering the country today increasingly see Spain as their final destination rather than a stopover on the way to other European destinations. Furthermore, both the Spanish government and Spanish industry predict a rising demand for immigrant labour in the coming years. Furthermore, experts forecast a shortage of domestic labour supply caused by the low Spanish birth rate.

The reform deals with both legal and illegal immigrants. Legal immigrants now enjoy practically the same rights as Spanish citizens, the only exception being that their right to vote is restricted to municipal elections. The new law also establishes the right to unite families for humanitarian reasons, affecting spouses, underaged children, dependent parents, and other relatives. For illegal immigrants, the new law provides substantial improvement. Illegal residence in Spain is no longer immediate grounds for deportation. Immigrants may apply for a permit to legalise their residency if they can prove that they have been living in Spain for at least two years, and that they have adequate means of support. Illegal immigrants are also granted a wide range of political and social rights (e.g., right of assembly, right to demonstrate, right to join labour unions, and the rights to education, health care, public services, and basic social benefits). Centres for the internment of immigrants who entered the country illegally, or had no identification papers or means of support, will be closed. Illegal entry into Spain, however, is still grounds for deportation. The new law also establishes a legalisation process for all illegal immigrants who can

prove that they were in Spain before 1 June 1999, and have at some point applied for a work or residence permit. The period for requesting these permits was extended to 31 March 2000, allowing immigrants who had not applied for permits before the new law came into effect to do so.

First results show that more than 150,000 immigrants have applied for legal residency status up to June 2000.

► The new law is strongly opposed by the conservative People's Party (PP), which has had an absolute majority in parliament since the general elections in March 2000. The PP believes that the law is too permissive towards illegal immigrants, and that it will invite increased immigration into Spain in the coming years. The PP also questions the compatibility with basic EU immigration policy criteria. Parliamentary proceedings to reform the new law will begin later this year. Experts see the new law as an important shift in Spanish immigration policy because it recognises the existence of illegal immigration, and seeks to resolve the problems related to it. The forthcoming legislative reform should maintain these basic objectives, and attempt to ensure maximum political and social support. This does not seem to be an easy task due to extremely polarised positions. Such strong feelings are reflected in outbreaks of xenophobic violence in some areas of the country.

A government-appointed working group is currently preparing a final report about the work-related rehabilitation process. The report will be the basis of a reform proposal aimed at those with multiple-cause injuries, those in need of extensive rehabilitation measures and absences, those with difficulties returning to their workplace, and those who have not been able to enter the labour market because of an injury or illness. It should result in net gains for the public financing system, as well as in health improvements. Illness-related absences should decrease, the number of early retirees should be reduced, and injury-related exclusions from the labour market should be minimised.

Findings suggest that the previous reform dating from 1992 did not provide the expected results. During the last decade, the number of people absent from work due to prolonged illnesses has increased significantly, and those in need of rehabilitation have not

**Sweden –
Guidelines for a
Work-Related
Rehabilitation**

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

received proper treatment or have been forced to wait long periods. Consequently, sickness insurance expenditures and individual suffering have increased. Furthermore, the rehabilitation process has been badly co-ordinated because of the large number of public authorities involved, such as medical services, social services, employment agencies, and social insurance offices. Increasing numbers of self-employed and temporarily employed persons have added to the co-ordination problem. The supply of rehabilitation resources has been inadequate, and available resources have been unequally distributed, both socially and geographically. Demographic changes, resulting in a larger relative size of the elderly population in the labour force, will increase demand for rehabilitation services. The evolving structure of the country's population will also lead to a situation where a decreasing number of working people will have to support an increasing number of retired people. Early retirement will reinforce this trend.

The report will state that an extension of the rehabilitation process is necessary both in order to improve public finances, and from a human point of view. The inquiries of the working group show that expenditures for the public sector decrease by € 1.07 for every € 0.12 invested in rehabilitation. The working group also argues that the human value of having a job and being able to support oneself must be taken into consideration. The group has not decided on the most appropriate funding method yet. Several options, varying from general taxes to insurance systems, are currently under consideration.

The working group will propose the appointment of an insurance advisor who will be responsible for the individual in need of rehabilitation. This person will co-ordinate the rehabilitation process with the key actors, as well as the individual's re-integration into the job market. Ethical principles will be implemented to ensure equal treatment by the different officials involved. The individual's rights are to be extended and specified. This will include establishing the right to a rehabilitation inquiry after four weeks of absence from work, and the right to a case manager. In return, the individual must agree to undergo rehabilitation. The employer will also have access to a case manager, who will be able to supply information concerning preventive measures and reha-

bilitation opportunities. The employer will be responsible for the prevention of occupational injuries.

● The official report has not yet been officially presented, and the public debate is still to come. However, some arguments have been raised concerning the profit amount for public financing and the idea of compulsory rehabilitation. Experts believe a rehabilitation reform is urgently needed and they generally approve of the suggestions of the working group.

In an attempt to accelerate the placement of unemployed persons, the Swiss federal government and the individual cantons have started an active labour market policy targeted at the placement officers in the cantonal placement centres. To improve their performance, financial incentives can be paid directly to the placement officers under a temporary “performance arrangement” between 1 January 2000 and 31 December 2000.

The recession in the 1990s caused an increase in debt carried by the unemployment insurance system. In 1996 the federal parliament established regulations which place more importance on active labour market policies in order to assure speedier and permanent placement of unemployed persons. An evaluation of the efficiency and effectiveness of placements by the cantons was initiated, and a number of differences were found. The evaluation showed that unemployed persons in cantons with well-run placement offices found a job much faster than in other cantons. On average, these cantons paid out 90 days of unemployment insurance benefits less per person than the other cantons. Since the cantons have different economic and structural conditions, econometric techniques were used in order to compare their performance. This involved identifying the factors which influence the placement probability. According to the arrangement arrived at, those cantons with the best results in 2001 and 2002 will receive between 3 percent and 5 percent of federal unemployment measure funding as a bonus. Those cantons with the worst results will have to carry some of the costs themselves (3 percent in 2001, and 5 percent in 2002).¹⁷

**Switzerland –
Financial Incentives
for Job Placement
Officers**

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

17 Under a plan currently discussed, the federal government might refrain from demanding the payment if cantons commit to an efficiency increase.

Some cantons plan to award part of the bonus directly to the placement officers, whereas others plan to use the bonus fully for labour market policies. Placement officers with a poor placement record should receive a pay reduction. However, pay regulations are very inflexible, making such reductions in pay difficult to implement.

If the performance of all cantons sees an improvement, the unemployment insurance system could save several hundred million Euro per year. First results should be available at the end of 2000.

► Apart from opposition by some placement officers and their trade union to pay reductions for poor performance, there has been little criticism. Experts believe that the measure is well-suited to speeding up the effective long-term placement of unemployed persons. Its innovative character could set an example for other policy fields where incentive-based approaches could lead to better services at lower costs.

Changes and Results

Denmark – Reintegration Through Trainee Financing

Two developments relating to Danish labour market reform of 1999 (cf. Issue 2, p. 36) can be reported. First findings indicate that employers still hesitate to hire unemployed persons. To introduce more flexibility into the system, it has been possible since January 2000 to hire unemployed people as “trainees” for up to four weeks. The trainee is paid the normal unemployment benefit of up to 90 percent of the previous income (if full-time insured), but not more than € 76 per day or € 382 per week. Part-time insured trainees will receive 2/3 of the full-time benefit, but not more than € 51 per day or € 255 per week. This system allows employers time to better judge if the new hire fits the job and the company.

Initial results indicate that the reduction in the duration of unemployment benefits from five to four years has not increased the number of long-term unemployed persons lacking benefits. Many long-term unemployed persons seem to have successfully concluded their search for a job.

Positive employment effects can also be reported from France after the reduction of weekly working time from 39 to 35 hours (cf. Issue 1, pp. 32–33, and Issue 2, pp. 40–41). Around 200,000 jobs have been created since the first law was passed in June 1998, and by June 2000, 3.7 million employees were working for firms which signed an agreement on working time reduction.

First results show that 25 percent of all employees in the private sector have reduced their working time by between 5 percent and 10 percent. In almost all cases the monthly wages have been maintained. Firms that have committed themselves to creating new jobs (thus qualifying for financial support) have actually done so. Substitution and dead-weight effects have proven to be negligible. Productivity gains seem to have offset one third of the time-reduction costs. Combined with moderate wage demands and reductions in social security contributions, the reform does not seem to jeopardise the profitability and competitiveness of French firms.

● Experts believe that general economic growth (expected to be 3.5 percent in 2000) has helped firms adapt to the new regulations. In 2002 the last phase of the transition will be completed and the 35-hour work-week will be legally binding. If economic growth continues, shortages skill might appear. There may be some pressure on the government (both from workers and industry) to increase the maximum amount of overtime, currently 130 hours per year.

The second report of the government-appointed Low Pay Commission (LPC) was published in February 2000. It had been asked to review the initial impact of the National Minimum Wage introduced in May 1999 (cf. Issue 1, p. 43). Following the first report of the LPC in June 1998, the National Minimum Wage had been set at € 5.94 an hour for workers aged 22 and over, with a lower rate of € 4.95 for those aged 18–21.

The second report concludes that during the first five months of the new system, between 1.5 and 1.7 million workers received pay increases to comply with the National Minimum Wage; of these, two thirds were women (particularly in part-time positions). The fear that workers earning slightly above the threshold would press for pay increases to restore differentials does not appear to have

France –
Working Time
Reduction: Positive
Effects

United Kingdom –
National Minimum
Wage Successful

been realised. The overall impact on the national wage bill is estimated at about 0.5 percent. There is little evidence of negative employment effects. The LPC also reports that there has been a high level of compliance by employers. However, it is possible that evasion is more widespread in parts of the “informal economy”, particularly in the case of ethnic minority workers.

The Commission recommends that the adult rate should be payable at the age of 21, the adult rate should be raised to € 6.10, and the youth rate should be raised to € 5.28. The government has accepted the rate increases but it kept the age for the adult rate at 22 years.

► The report has shown that the National Minimum Wage has been successful in bringing benefits for the lowest paid members of the labour force without adverse macroeconomic consequences. However, there is evidence that many employers are trying to evade the law.

Japan –
Equal Employment
Opportunity Law is
Effective

Initial results can be reported from a Japanese reform, the Equal Employment Opportunity Law (cf. Issue 1, p. 39). It has led to a sharp increase¹⁸ in the number of sexual harassment inquiries eliciting active responses from employers and fellow employees. Many companies have set up internal committees to manage potential problems and provide necessary information.

18 9500 Cases were reported in the fiscal year of 1999 which ended in March 2000. During the 1998 fiscal year 7019 cases were reported and in 1997 only 2534 cases.

3 Industrial Relations

Industrial relations policy can be carried out on several institutionalised levels. The current reforms show that some countries use a centralised approach reflecting more government influence. This is true for Sweden’s new mediation authority, which is supposed to further economic growth through more efficient wage bargaining talks. It is partially true for the Italian public services strike regulation, in which the government has an obvious interest. A decentralised approach is used in the Netherlands where partial wage negotiations take place at company level.

Details of the reforms are available on the project website www.reformmonitor.org.

Italy is attempting to lower the number of labour disputes that affect its public services by introducing detailed strike regulations, as well as mechanisms encouraging responsible behaviour by workers and labour unions. In the 1990s the Italian economy suffered immensely because of continuous labour conflicts, mainly in public services. The strategic relevance of this particular sector, as well as rising public pressure, has led to current reform attempts.

The right to strike is defined as an inalienable right in the

Italy –
Regulation of Labour
Conflicts in Public
Services

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

Italian constitution, and attempts to regulate it have been met with great resistance. In 1990 a law established some strike regulations for public services. For example, it introduced a 10-day notification period by the labour unions prior to the strike indicating the foreseen length of the strike, and guaranteeing a minimum level of public services. Sanctions were introduced and a guarantee commission (Commissione di Garanzia) was set up to oversee compliance. In 1998 a pact was signed to limit labour disputes in the transport sector. It introduced, among other things, compulsory mediation, pauses between strikes in the same industry or geographical area, and company sanctions.

The last decade also saw a change in the nature of strikes. Strikes in Italy today are mainly small, fragmented, and sudden. One of the most frequent tools is the “announcement effect” – the habit of declaring a strike without actually carrying it out. The powers of the guarantee commission have proven to be limited in the areas of mediation and penalisation. Labour unions and workers proclaiming strikes without adhering to the basic rules have not faced effective sanctions.

The new regulations extend to self-employed persons, skilled labourers, and small companies. Labour unions must formally notify the firms and the guarantee commission of their intention to strike, including their motivation and demands. During a strike, essential services (50 percent of all services or 1/3 of the daily workforce) must still be provided. The guarantee commission monitors the essential services and is allowed to sanction the above mentioned announcement effect. Furthermore, transitional periods between strikes in the same service or region have been reaffirmed.

► Some criticise the inadequate mediation and arbitration powers of the guarantee commission, ineffective sanctions, and inadequate regulation of essential public services. Others consider the reform to be a strong limitation on the constitutional right to strike. Experts point to the lack of power by the guarantee commission and the ineffectiveness of essential services, because a small percentage of public service employees on strike can cause major disruptions.

Wage negotiation has been singled out as a key factor behind the slow-down in Sweden's economic growth. To facilitate efficient wage agreements and harmony among business and labour groups, Sweden created a more effective mediation authority in January 2000.

Traditionally, settlements regarding wages and other employment issues are arrived at through nation-wide collective bargaining agreements. The most important function of the collective bargaining contracts is to preserve labour market harmony. If wage negotiations reach an impasse, the government appoints a mediation commission. This is the rule rather than the exception. The system is open to criticism mainly from employers, who argue that there is not enough room for adapting general contracts to specific industries and companies. Furthermore, the system produces inflationary tendencies because pay recommendations are increasingly seen as a floor rather than a ceiling in negotiations. Since the 1970s it has been argued that salary increases in Sweden have been higher than in many comparable countries.

The new mediation authority will have stronger powers than the present National Conciliators Office. It will have the authority to call business and labour representatives to negotiations and hearings. It will co-ordinate timetables for negotiations and agreements, as well as review the contents of agreements. The notification period for strikes will be extended from 7 to 14 days, and the authority will be able to delay these announced strikes up to a maximum of 14 days. It will be able to request conflict settlement through arbitration, and a permanent arbitration board will be appointed. Definitive standard setting, including improved wage statistics and other necessary economic data for salary negotiations will support the work of the new authority. Furthermore, tighter rules on conflict will be introduced limiting the right to sympathy strikes, as well as a prohibition of strikes against small and family-owned businesses. As a side-effect, the authority should contribute to increased gender-equality by improving the basis of analysis of wage trends for men and women.

☉ Labour unions criticise the limitations regarding strikes, and the increased role of the government in the wage formation process. They also criticise the focus on keeping inflationary pressures low,

**Sweden –
New and More
Effective Mediation
Authority**

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

while disregarding the influences of productivity, economic growth, and education on the wage bargaining process. The employers confederation also criticises the increased role of the government, and fears that the mediation authority could be used as an instrument for promoting the government's own income policies. However, it agrees with the proposed strike notification extension to 14 days, and the authority's power to delay strikes by up to 14 days. Experts state that the new authority has the potential to create a new institutional framework for wage formation. They point out that the reform needs to be perceived as fair and legitimate by both business and labour in order to be successful. The objections against the current reform proposal indicate that this is not the case.

**Netherlands –
Philips Introduces
Performance-Based
Pay**

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

The Philips company recently introduced a performance-based compensation system for its blue-collar staff (two thirds of the company's entire work force). It stipulates that collective pay increases are no longer guaranteed for its employees, and that future pay raises are to be earned on an individual basis.

Philips, as a producer of technically sophisticated consumer goods, is very vulnerable to changes in demand for its products. New technology, consumer tastes, and general economic developments directly influence the company's performance. Especially assembly-line production suffers from cost competition from Eastern European countries. Consequently, life-time employment can no longer be guaranteed, and wage policy is seen as a central element in the discussion on "employability" (cf. Issue 1, p. 45).

Under the new system, pay increases will be determined individually depending on the achievement of concrete and measurable goals. In the first stage of the reform, all employees (including those with unsatisfactory performance) will receive at least 50 percent of the general collective wage increase. The new system will take full effect after a transition period of several years during which the new system of appraisal and reward will be tested. Employees will be evaluated annually, with criteria for pay increases being personal performance rated "excellent", "very good", "satisfactory", and "unsatisfactory". "Satisfactory" performance will only result in a wage increase if the employee's upper wage-limit

has not yet been reached. Employees whose performance is rated “unsatisfactory” will not receive a pay increase, and they will have to agree to a “personal improvement plan”. Collective targets are to be introduced for those employees working in teams. Management’s objective is to introduce incentives for employees to deliver excellent performance. This may be difficult to achieve since 50 percent of the current work force is already at the upper end of their wage-scale.

Success depends on the quality of the evaluation system. Philips has begun improving its so-called “performance management process”, and supervisors are to be trained in conducting assessments. Furthermore, an evaluation handbook will be developed, and a dispute committee where employees can file appeals is to be established.

Performance-based pay is not an entirely new concept, and labour unions have already officially agreed to it for higher-qualified personnel. However, Philips can be credited with applying the concept to less-qualified workers. Results are already visible in other collective bargaining agreements. Civil servants of the Dutch central government have agreed to performance-based pay, and agreements are currently being drawn up in other sectors as well.

❶ Opponents criticise the system for its lack of an objective evaluation process. They expect labour disputes because of the performance-based pay system, and believe only a small percentage of the work force will qualify for the pay increases. For their part, the labour unions essentially object to their reduced role in wage setting, and they fear a long-term loss of influence. Experts see the reform as a new development towards promoting greater individual achievement. The rationale presented by Philips management is sensible and could prevent large-scale job losses due to poor performance. Trust and co-operation between the unions and management need strengthening.

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Currency Conversion

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

1 €	=	USD	0.889	=	DEM	1.95583
	=	JPY	95.75	=	ESP	166.386
	=	DKK	7.4618	=	FRF	6.55957
	=	SEK	8.428	=	ITL	1936.27
	=	GBP	0.6063	=	NLG	2.20371
	=	CHF	1.5318	=	ATS	13.7603
	=	CAD	1.3251	=	FIM	5.94573
	=	AUD	1.595			

Source: European Central Bank, Exchange Rates as of Friday, 22 September 2000