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Responsible: Eric Thode

Copy editor: Michael Kühlen

Production editor: Christiane Raffel

Cover design: werkzwei, Lutz Dudek, Bielefeld

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Project Information

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

An integral part of the Reform Monitor is an international network of able and renowned research and policy advisory institutions from 15 countries. These partner institutions select reforms that can help to change the status quo in their own country and that could also be of interest to other countries. Their reports are based on semi-standardized surveys that are carried out every six months. Prognos AG, Basle and Berlin, is responsible for organizing and implementing the surveys. Prognos, in close cooperation with the Bertelsmann Foundation, also produces the summaries for the “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, labor market policy and industrial relations can be found on the Internet at www.reformmonitor.org. Both the detailed description online and this publication draw on the partner institutes’ reports and do not necessarily reflect the Bertelsmann Foundation’s point of view.

Introduction

As usual, the International Reform Monitor documents a wide range of reforms in the fields of social policy, labor market policy and industrial relations. In our opinion, however, one development stands out: new measures to help the less skilled escape poverty.

The problem is well known: Virtually every social safety system is plagued by the so-called poverty trap associated with basic provisions for income security. Small differences between the income generated by welfare benefits on the one hand and earnings in low-wage jobs on the other hand provide only small incentives to leave welfare. Additionally, substantial reductions in welfare benefits for low-wage workers who want to increase their work hours see more and more welfare recipients actually better off not working.

This seventh issue of the International Reform Monitor documents reforms that make use of earnings supplements as an instrument for the less skilled to escape the poverty trap. The rationale is simple: Instead of essentially punishing welfare recipients who would like to become gainfully employed, welfare recipients are encouraged to work by receiving social benefits in addition to their earnings, making work pay as opposed to staying on welfare.

In Canada, the earnings supplement experiment “Welfare to Work” set up ten years ago has been concluded in 2002. Low-wage workers with a working time of at least 30 hours per week were entitled to benefits which amount to half the difference between the recipient’s income and approximately two times the average wage of

a low-paid worker. Thus, supplemental income is largest at the very bottom of the earnings distribution and phased out slowly at a rate of 50 cents per dollar earned.

The evaluation of this experiment indicates significant improvements for former welfare recipients in terms of acceptance of the program, level of earnings and overall income, and job retention, while maintaining a favorable cost-benefit ratio.

Learning from the experience with earnings supplements, the United Kingdom has replaced all existing tax credits for working families and the disabled with only two large-scale programs (Integrated Child Credit and Employment Tax Credit) that cover a total of some five million people.

This step had become necessary in order to make the increasingly complex system more efficient while maintaining the work incentives of the present system and relieving poverty among children. The programs are targeted explicitly at the lowest paid and adhere closely to means-tested benefits. Tax credits now play a major role in the government's strategy for reforming the welfare state.

In the United States, where tax credits have been used to encourage low-wage employment for almost thirty years, the next step is being taken by extending tax credits to health insurance. Workers who lose their jobs under circumstances associated with increased import competition are eligible for a refundable tax credit of 65 per cent of the total expenses for qualified health insurance for the whole family.

In contrast, many continental European countries still lag behind in the creation of employment opportunities for those at the bottom of the income scale. The given examples could certainly serve as starting points for catching up in this labor market segment. However, adopting such concepts would require a fundamentally new look at how welfare systems are expected to work.

Eric Thode

Andreas Esche

Kai Gramke

1 Social Policy

Health Care

Most health care reforms in this edition of the Reform Monitor concentrate on redefining health care responsibilities of different governmental levels. Denmark has contributed three reforms as a result of the new government's policy to introduce more flexibility and citizen choice. In the area of social services and housing, for example, Denmark has introduced free choice of retirement homes across city limits. City councils have also been given a new health care role—an area previously reserved for county councils. Under the same heading, municipalities in Denmark are no longer obliged to employ personnel for home nursing care duties; instead, they can authorize and pay for private care providers to meet these obligations.

In Italy, differences in pharmaceutical expenditures among regions have led to new legislation regarding drug reimbursement and a revision of the list of reimbursable drugs. In Sweden, differences between municipalities and unequal treatment of individuals have led to new centralized rules, including a cost ceiling on care fees for the elderly and disabled. Elderly and disabled persons are guaranteed a minimum level of disposable income after their fees for care and accommodation have been deducted. Austria has introduced a working time reduction to allow employees to care for terminally ill relatives or severely ill children.

The USA has introduced an income tax credit to subsidize the purchase of health insurance for workers who lose their jobs because of import-related competition. This is an important reform because the federal government has never before provided direct subsidies for insurance to persons who are not elderly, disabled, or poor.

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

Denmark:

Free Choice of Retirement
Homes Across City Limits

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

Free choice of retirement homes has been available since July 2002. Previously the municipal boards or city councils had the right to place older or disabled persons who were entitled to general housing (almene ældreboliger) into any available housing facility within their jurisdictions. The new law is part of the government program of “growth, welfare, and change” directed at ensuring that its citizens’ needs and wishes determine how the systems function, and not vice versa.

Previously, only certain groups of people had the right to free choice. These included those with family ties in another city council area and those who wanted to move for religious reasons. Now this right to free choice in care and senior housing across city council limits includes everyone entitled to a place in care or retirement housing. The right to free choice of residence applies no matter where the home or facility is, but the person seeking to move must meet the conditions for being offered a place to live both in the municipality of residence and in the target municipality. So that couples can continue to live together, the law also stipulates that free choice of housing applies to the spouse or partner and that the new housing must be suitable for two persons. If the person who has been offered a place to live dies, the bereaved has the right to remain in the residence.

► Experts state that the reform is an important element in the new government’s policy to introduce more flexibility and free choice into the area of social services and housing.

Denmark:

City Councils with New
Health Care Role

A health care reform to reduce hospital waiting lists (cf. Issue 6, p. 13; this issue, p. 17) has given Danish city councils a new role in health care. Like Denmark’s counties, the country’s city councils

have been given the option of paying for the treatment of their citizens in a private hospital or clinic in Denmark or abroad if waiting lists for treatment in public hospitals are too long.

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

The municipal authorities in Denmark consist of 14 county councils and 275 city councils. These two levels of municipal administration have different areas of responsibility. Generally, the county councils are in charge of hospitals, general practitioners, and high schools, while the city councils oversee childcare, care for senior citizens, primary education, and social assistance. Therefore, giving the city council the option of paying for its citizens' medical treatment encroaches on the county councils' "monopoly" for administering the hospital system. The law is also interesting in light of current debate in Denmark about the role of county councils in general. Recently, several politicians have even suggested eliminating the nation's county councils.

The municipalities in Denmark are no longer obliged to employ personnel for home nursing care duties. As of May 2002, the municipalities can authorize and pay for private care providers to meet these obligations. The reform aims to introduce more flexibility into Denmark's rigid home nursing system.

Denmark:
 Private Home Nursing
 Introduced

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

Municipalities in Denmark are generally the most important administrative level for social services. Home nursing is usually organized together with elder care (in individual homes and in residential facilities), and municipalities are responsible for providing free home care after referral by a doctor. Previously, this responsibility included arranging for home nursing care as well as paying for it. Citizens with complaints about the services turned to the municipal board.

The goal of the reform is to give the municipalities more flexibility by allowing them to use private suppliers of nursing care. The municipal board determines how the municipality manages its home nursing budget and can decide whether it wants to use privately employed personnel. A municipal board that chooses to use a private provider is still responsible for the service package and for compliance with relevant standards. Consequently, citizen complaints about the services still go to the municipal board.

🔍 Opponents from the left argue that privatization will not solve existing problems concerning recruiting and retaining qualified personnel in home nursing. Furthermore, they believe that privatization in this area will lead to lower service quality because the previous arrangement offered personnel more opportunities to cooperate and share knowledge and experience. The Danish Council of Nurses opposes the idea of private companies offering welfare services, arguing that home care and elder care are very complex areas not suitable for privatization and questioning the expertise of private home nursing providers. Experts see the reform as an important element of the new government's policy to make the provision of social services more flexible through privatization.

Italy:

Reduction and Control of
Pharmaceutical
Expenditures

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

In an effort to cut spending and reduce costs in the pharmaceutical sector, Italy introduced new policies regarding drug reimbursement and initiated a revision of the list of reimbursable drugs. Savings are expected to amount to € 2 billion in two years.

Pharmaceutical expenditures and efforts to control them differ greatly among the regions in Italy. Most regional cost-cutting measures either target co-payments or involve the transfer of drugs classified as “free of charge” to payable classes. These measures have not sufficed to reduce a huge National Health System (NHS) deficit and are the subject of intense and difficult negotiations between the central government in Rome and the regions. The new provisions call for revising the prices of refundable drugs as well reclassifying them according to cost-effectiveness standards. The result will be that the NHS will reimburse for less expensive (generic) drugs with active ingredients equivalent to those of the more costly name-brand products. Furthermore, to avoid waste, the packaging of drugs will be adapted to the relevant standard dosage cycles.

🔍 Drug manufacturers point out that refunds according to cost-effectiveness criteria could have a negative impact on research and development of innovative drugs. Experts, on the other hand, believe these measures could lead to a significant reduction in drug costs. In any case, consequences for service quality are subordinated to the achievement of two concurrent aims: to control costs and to provide effective health care service.

Sweden has implemented a cost ceiling on care fees for the elderly and disabled. Also, as of July 2002 those persons receiving such care and accommodations are guaranteed a minimum level of disposable income after their fees have been deducted.

Each local authority is responsible for the care of elderly and disabled persons in its jurisdiction. The local authority charges individuals for the costs of necessary care and services. The fees, scaled to income and the service provided, do not cover the actual costs the local authority incurs. The levels and structures of individual fees vary widely among local authorities, as do the formulas used for relating fees to income. The municipalities are compensated for costs mainly through government subsidies, as well as through a tax equalization system.¹

Over the years, differences arose in how various municipalities determined the fees for care and accommodations. Even though municipalities generally offered the same degree and quality of care and service, the fees they charged varied widely. In the late 1990s, the media reported some striking examples of such inequalities, highlighting elderly persons whose fees exceeded their incomes. These differences among municipalities, and consequently unequal treatment of individuals depending on where they lived, led to calls for centralized rules that specify maximum fees and a minimum level of disposable income for the elderly and disabled.

With the reform, individuals are guaranteed a minimum annual disposable income of € 440 after deduction of care fees. Furthermore, the rules introduce a cost ceiling of € 163 for care and € 170 for special accommodations. In addition, they establish standards and specify formulas for how fees are calculated. Because in most cases the cost ceiling is low relative to actual costs, the reform has implications for municipality budgets. The negative financial impact is greater for municipalities with many elderly and disabled receiving

Sweden:

Cap on Care Fees

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

1 The size of the government subsidy is based on the number of inhabitants in each local authority area, not on the area's age structure. Some municipalities, therefore, will be overcompensated while others will be undercompensated. The tax equalization system corrects for this by transferring funds from local authorities with more individuals in higher income brackets to those with a lower tax base. Relatively large sums are contributed by the central government as well.

care than for those with few residents in care facilities. These differences will be leveled out to some extent through the above-mentioned government subsidies and the tax equalization system.

► Most parties and organizations agree that the described differences and imbalances among municipalities and individuals should be centrally regulated. The Association for Local Authorities criticizes ambiguities in the rules and standards for calculating fees. It also criticizes the reduced involvement of municipalities in setting standards and calculating fees. Fears have also been expressed regarding the distribution of costs among the municipalities, because some of them face potentially serious financial consequences. Some support the idea of a tax reform with lower income taxes for the elderly; others favor transfer payments to the elderly in the form of a voucher that guarantees care in any institution, public or private.

Experts point out that the reform constitutes a major change for the social care system in which municipalities still have responsibilities but no means to control costs. Furthermore, the gap between the maximum fee and actual costs is relatively wide. This will affect the distribution of income among different groups of senior citizens and the disabled and could potentially decrease the equalization effect of the progressive fees system. The system also does not take into account that future generations of retired people may have a greater capacity and willingness to pay for care and services.

Austria:

Work Leave to Care for
Terminally Ill Relatives

Innovation ***
Impact ***
Interest **

Since July 2002, all employees and the unemployed are legally entitled to shift or reduce their work hours (down to zero) in order to care for terminally ill relatives or severely ill children. A considerable number of terminally ill Austrians prefer to die at home (around 75 percent), but only few are given the opportunity to do so (around 25 percent). One reason has been that their relatives lacked a legal entitlement to take leave from work to assist and care for them. Options were limited to making an individual agreement with the employer for unpaid holidays or fewer working hours, or giving up the job.

Close relatives² are now entitled to up to three months of leave

2 These include spouses, children, aunts and uncles, parents, grandparents, great-grand-parents, foster children, life partners, brothers and sisters, parents-in-law, and children-in-law.

with an extension of another three months if necessary. During this time, health and pension insurance is paid by the unemployment insurance system. The employee must give written informal notice to the employer five days before using the measure and ten days before an extension is sought. An employer who does not agree can turn to the labor court (Arbeits- und Sozialgericht), the tribunal that settles civil law disputes between employers and employees. The end of the care situation must be reported immediately to the employer. The employee can then call for a return to his/her former working schedule within two weeks. From the time of reporting until four weeks after ending the care period, the employee enjoys greater protection against dismissal. It is expected that 10,000 to 15,000 people per year will make use of this entitlement. Although the leave is unpaid, families are entitled to the standard long-term care allowance (up to € 620.30 per month) if other paid nursing or care services are not required.

► Critics and opponents point out that the definitions of “terminally ill” relatives and “severely ill” children are unclear. Also, actual usage will depend on the financial situation of the employee, because the leave is unpaid and there is no income subsidy. Critics also believe there should be a wider range of entitled persons, such as non-relatives including homosexual partners, in-laws, and close friends. Experts see the reform as an overdue reaction to the existing problem of inadequate elder care. The shortage of high-quality affordable paid care, the incompatibility of paid work and family care responsibilities, and exploding hospital costs for the elderly make reform necessary. Experts agree with the critics that the definitions are unclear and that the financial situation acts as an important selection criterion. In general, the reform can be seen as a shift from public care responsibilities back to family-based care.

In the USA, a health care credit reform for displaced workers now provides an income tax credit to subsidize the purchase of health insurance for workers who lose their jobs because of import-related competition. This is an important innovation in federal health insurance policy; until now, the federal government has directly subsidized health insurance only for those who are elderly, disabled or poor.

USA:
Health Care Credit for
Workers Affected by
Import-Related
Competition

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

Before the new law was passed, a provision in federal employment law (COBRA)³ already required employers with 20 or more employees to offer continued group plan health insurance coverage to employees and their families who face loss of their insurance coverage due to certain events (such as layoffs). In addition, for workers who lose their jobs because of import-related competition, Trade Adjustment Assistance⁴ (TAA) provides up to 52 weeks of income support (beyond the standard 26 weeks of unemployment insurance payments), training, and job search and relocation assistance. The average weekly TAA payment in 2000 was € 217.

The new law provides eligible TAA beneficiaries with a refundable tax credit of 65 percent of the expenses for qualified health insurance. This can be applied to the recipients' coverage for themselves, their spouses, and dependents. TAA recipients who are eligible for the health care credit must be receiving TAA on any given day in the month for which the credit would be granted, be covered by a qualified health insurance plan, not have other coverage, and not be imprisoned. The credit for health care can be applied to COBRA continuation, state-funded coverage (if the state elects for its coverage to count as qualified health insurance), a group health plan through a spouse (if taxes are filed jointly), or an individual health insurance plan if the eligible individual was covered during the entire 30-day period prior to day of termination. The health care credit applies to taxable years beginning after December 31, 2001, and is expected to end in September 2007.

- 3 COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) coverage usually lasts up to 18 months, and the employer is not required to pay for it. Instead, the beneficiary must pay the premium, with the premium amount ordinarily lower than that available outside of a group insurance plan. Health insurance purchased outside of group health plans is generally very costly. Even a worker who can purchase continued health insurance coverage under the former employer's group health plan faces high costs.
- 4 Workers become eligible for TAA under the following conditions: (1) a significant number of workers in the worker's firm have been completely or partially laid off; the sales or production of the firm have decreased; imports are directly competitive with the firm's products; and the increase in imports contributed to the layoff; or (2) there has been a shift in production by the worker's firm to a foreign country that manufactures goods competitive with the original firm's products; and the country to which production has shifted is party to a free trade agreement with the United States.

🔍 Opponents argue that requiring these firms to maintain health coverage entails high administrative costs to some firms, even if they do not have to subsidize the insurance itself. Others say that the cost of subsidizing health insurance for the unemployed is an excessive burden on the federal government. It is also argued that the health insurance subsidy for unemployed workers could increase unemployment by reducing incentives for laid-off workers to find jobs. Experts would like to see health insurance subsidies extended to cover all displaced workers, not just those who lost their jobs as a result of competition from international trade. However, the new law represents a significant first step in providing this important social protection to jobless workers.

Changes and Results

More details are available on the Danish health care reform intended to reduce hospital waiting times (cf. Issue 6, p. 13). It sought to do this by entitling patients to seek medical care abroad or in private hospitals if the public health service cannot provide treatment within two months.

A patient can choose to be treated in a private hospital or clinic in Denmark or abroad if the Association of County Councils in Denmark has an agreement with these institutions and if the county of residence has not offered treatment in one of its own hospitals within two months after the general practitioner referred the patient to hospital treatment. If the waiting time for treatment exceeds the two-month limit, the hospital to which the patient has been referred must inform the patient as soon as possible about the right to choose another hospital. If necessary, relevant information from the patient's medical records must be translated into English, French, or German. Patients must arrange and pay for transportation; reimbursements are available only if the county of residence would have paid for these expenses for transport to public hospitals. The free choice of treatment has been extended to other illnesses not previously covered but does not apply to the transplantation of organs, voluntary sterilization, fertility treatment, hearing aid support, cosmetic

Denmark:

Additional Funds
to Reduce Hospital
Waiting Periods

operations, and other treatments as defined by the Ministry of Health and Internal Affairs.

Japan:

Co-Payments Increased

The health care reform proposal (cf. Issue 6, p. 18) that aims to increase co-payments and cut medical fees for doctors was passed by the Japanese Diet and will take effect in April 2003. The main change from the current system is the co-payment rate, which was raised from 20 percent to 30 percent for those under age 70. However, a special provision for children under age 3 reduces the current rate of 30 percent to 20 percent for outpatient care. For those 70 and older whose income is above a certain threshold, the co-payment is raised to 20 percent (from 10 percent).

► The increases have met with fierce criticism from opposition parties, the media, and the general public. Experts point out that the so-called “special provision to relieve pressure on families with children” is not really effective, because many municipalities already provide free medical care for infants and toddlers. However, it is noteworthy that the elderly are now asked to contribute more to the health insurance system, because it is their health care costs that are actually driving the rapid growth in health care expenditures.

Pensions and Social Security

This issue’s pension reforms concentrate on taxation issues—a change from the typical topics such as retirement age, system flexibility and long-term stability. The German Federal Constitutional Court declared the different tax treatments of public pensions and civil servant pensions unconstitutional. This is widely expected to lead to a reform that will fully tax-exempt contributions to the public pension system and fully tax pensions. Denmark has eliminated the redistributive effect of its Special Pension Savings system because it was perceived to be more of a tax than a pension. The United Kingdom continues its policy of replacing benefits with tax credits and has simplified the system by replacing all existing tax credits for working families and the disabled with an integrated child tax credit and an employment tax credit.

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

In March 2002, the German Federal Constitutional Court declared the different tax treatments of public pensions for workers and employees and civil servant pensions unconstitutional and demanded that new regulations be in place by 2005. Several reform alternatives are currently being discussed, but it is widely expected that after a transition period, contributions into the public pension system will be fully tax-exempt and pensions fully taxed. This scenario would reduce the marginal tax burden on labor income for most employees; on the other hand, it would reduce expected net income in old age by gradually increasing the taxable part of public pensions.

The regulations concerning contributions into the statutory public pension scheme, as well as pension benefits from this system under the German income tax law, have been debated for several decades. Political parties as well as academics have made reform proposals. However, nothing changed until the German Federal Constitutional Court decided in March 2002 that the differences between the tax regulations for pensions from the statutory pension scheme, which covers the bulk of the employees in Germany, and those for pensions of civil servants do not conform to the constitution.

The Court declared that the legislature has the responsibility to decide in favor of one of several widely discussed reform alternatives. The main alternatives differ in the timing of taxation over the life cycle (i.e., as contributions are being made or as pensions are being paid out). According to one alternative, contributions are fully taxed and pensions fully tax-exempt. The opposite alternative is to fully exempt contributions and fully tax pensions. A third alternative would be to exempt some part of the contributions from taxes while fully taxing the corresponding part of pensions. All these alternatives are regarded as sufficient to guarantee equivalent treatment of public pensions and pensions of civil servants. Whichever alternative the legislature chooses, according to the finding of the Court it must guarantee that the tax treatment of contributions and of pensions is coordinated; employment income that is contributed to the pension system and received back in old age must not be taxed twice.

Germany:

Federal Court

Declares

Pension System

Unconstitutional

Innovation **★★★★**

Impact **★★★**

Interest **★★★★**

The Court stated that the legislature might take the estimations of economic experts into consideration, mentioning as an example the German Council of Economic Advisors.⁵ The Council favors fully exempting contributions into the system and fully taxing pensions. This is because contributions are compulsory and thus lower an individual's resources for paying taxes. Moreover, such a scheme is simpler to manage than a mixed alternative, and it lowers the marginal tax burden during a phase when that is usually quite high.

The Council regards as acceptable an immediate increase of the taxable fraction of pensions to 65 percent and thereafter an increase up to 100 percent over a period of 35 years. The long transition period for the taxation of pensions can be justified by the fact that part of the contributions was not tax-exempt in the past. Combining these regulations with an immediate exemption of contributions would lead to an expected annual loss of tax revenue of about € 7.5 billion initially.

► Some opponents argue that the current tax treatment is justified because pensions of civil servants are higher than most public pensions, even after taxation. Experts point out that full tax-exemption of contributions and full taxation of pensions is the logical conclusion if one accepts the ability-to-pay principle for income taxation and regards compulsory contributions to the public pension scheme as non-disposable income. Nonetheless, it should be noted that during the transition phase some groups would suffer income losses. Furthermore, one can expect that the full tax-exemption of contributions would considerably reduce the high marginal tax burden on labor income in Germany and thus increase the incentive to work longer. A full inclusion of pensions into the income tax base would

5 The German Council of Economic Advisors is an academic body that advises the German government and parliament on economic policy issues. It was set up by law in 1963 with a mandate to periodically assess overall economic developments in Germany and to help economic policy-makers at all levels, as well as the general public, to arrive at informed judgments on economic matters. It enjoys complete independence in respect to its advisory activities. The Council compiles and publishes an Annual Report as well as ad hoc Special Reports in order to address particular problems or in response to a request from the government. The German Council of Economic Advisors consists of five members who are nominated by the German government and appointed by the German President for a term of five years.

raise the marginal tax rate on other forms of old-age income, especially on investment income; this might reduce incentives to save.

Denmark has eliminated the redistributive effect of its Special Pension Savings system because it was perceived to be more of a tax than a pension. Nevertheless, the original aim of the system, guaranteeing a basic standard of living in retirement, will be maintained.

A temporary pension savings arrangement (Den Midlertidige Pensionsopsparring), introduced in 1998, called for wage-earners and the self-employed to contribute 1 percent of their income. The payments were collected individually by the Labor Market Supplementary Pension System (ATP), with benefits (plus interest) to be paid back to the individual beginning at the age of 65. This was changed in 1999 when the Special Pension Savings system was introduced. This system was partly a continuation of the Temporary Pensions Savings arrangement, but it also had an important redistributive function. The Temporary Pension Savings system was tied to the individual savings account (with the ATP), and benefits were calculated based on the length of time contributions were made into the ATP. According to the Danish Minister of Employment, the Special Pension Savings system served more as a tax on employment than as a pension system, because under the system's redistributive effect, some employees lost part of the money they had saved. This effect has therefore been removed beginning in July 2002.

🔍 The reform naturally raised much discussion in parliament, as the earlier arrangement had been launched by the previous government. It was argued that terminating the Special Pension Savings system's redistributive effect would worsen conditions for those with the lowest wages—especially women, who generally participate in the labor market for a shorter period of time than men because they pause to have and raise children. Experts believe that the reform is important for the future pension system structure in Denmark, because income redistribution now takes place only within the public old-age pension system (folkepensionen).

When supplementary labor market pensions were introduced in Denmark for the private sector some 10 years ago, the question of redistribution of wealth in the pension system was raised. The redis-

Denmark:

Redistributive Effect
Removed from Special
Pension Savings System

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

tribution introduced in the Special Pension Savings system in 1999 was seen as a major answer to the concern about inequality among future pensioners. The reform abolishes this important redistributive element of the Danish pension system.

United Kingdom:

Income-Related Support
for Families and
Low-Income Households
Replaced by Integrated
Tax Credits

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

The United Kingdom has replaced all existing tax credits for working families and the disabled with an Integrated Child Credit (ICC) and an Employment Tax Credit (ETC). This brings existing benefits together into a single system covering more than 5 million people. The aim is to rationalize an increasingly complex system, retain the work incentives of the present system, and better help children living in poverty. The reform continues the process of “conditional citizenship” aimed at activating the poor at the lower ends of the labor market. It seeks to do this by widening the gap between benefits and wages, with allowances for children. It also reinforces the role of means-tested benefits targeted at the lowest-paid rather than higher-paid earners.

The Integrated Child Credit (ICC) replaces all existing income-related support for families with children, the elements of income support (social assistance) targeted on children, the means-tested Jobseeker’s Allowance, as well as the Working Families and Disabled Person’s Tax Credits. It will be paid in addition to the universal child benefit, which is retained. The ICC will consist of a family element from which higher-rate taxpayers will cease to benefit, an element for each child replacing child-related payments in existing benefits, and an extra element for children under one year of age and those who are severely disabled.

The ICC will be paid to families whether in or out of work, whereas previous supplements were paid only to those in employment. Thus, there will be no need for families to shift from one system to another when they move between work and unemployment. The ICC will be paid to the main caregiver, usually the mother, rather than (as at present) to the main earner through the paycheck. It will be awarded for 12 months at a time and will be paid along with the child benefit. All low-income earners will have to fill out a tax return each year—a new experience for many, especially those receiving benefits. The Employment Tax Credit (ETC) replaces the adult ele-

ments of the Working Families and Disabled Person's Tax Credit, and the New Deal 50+ Employment Credit. The ETC will now be extended to cover non-disabled and childless people, but only when they reach age 25 (compared to age 16 for others).

► Most groups have broadly supported the reform and the shift to tax credits. Trade unions have focused on details, such as the fact that non-formal childcare (i.e., individuals, not day care centers) is not supported through the scheme. Others point out that if the aim is to deal with child poverty, it will not offer much help to those whose parents rely on benefits. Some groups have argued that the new credits will be very costly.

The Conservative opposition argues that these tax credits are a disguised way of increasing welfare benefits via the tax system. Another factor is that the ambitious spending plans are based on a growth rate estimate of 2 percent a year, and if this does not materialize the reforms may not be viable without substantial tax increases. Firms, especially small businesses, have complained that the mushrooming tax credits and the frequent changes place considerable burdens on them. They argue that they are being asked to administer what is effectively becoming part of the welfare benefits system. Experts state that this reform undoubtedly consolidates and extends the system of tax credits as a major element of the welfare system.

Although there is concern about cost savings and cost control, there appears to be a genuine attempt to tackle poverty among children in low-income families. The system does appear to be more flexible regarding their needs in that assessments are made only once a year, and it does get around the problem that spending on social security is considered less politically acceptable than spending through tax allowances. Furthermore, shifting payments to the mother is expected to ensure that children benefit most.

On the other hand, the system substantially extends means-testing to cover virtually all families in the United Kingdom. Some critics are concerned that it does little to help children whose parents are not employed and that it does not give priority to developing a fully comprehensive national childcare strategy.

On the whole, alongside the increases in education and health spending, the reform shows that the second term of New Labor represents

a substantial shift in terms of increased commitment to public spending. For good or ill, the tax credits represent a major tool of the government as it seeks to reform and modernize the welfare state.

Changes and Results

Canada:

Pension Plan Investments
Earn 7.1 Percent Annually

More developments can be reported from the reform of the Canada Pension Plan (CPP), which is moving from pay-as-you-go to partial funding (cf. Issue 1, p. 21; Issue 3, p. 26). The accumulating fund is being invested by the CPP Investment Board, an independent investment corporation charged with investing the excess contributions and the proceeds from maturing bonds held by the CPP. CPP contributions are expected to exceed benefit payments until 2021, so the plan will not require cash from the fund for another 20 years.

Since the first investments in March 1999, the assets managed by the CPP Investment Board have earned an annualized rate of return of 7.1 percent. However, rates of return have fluctuated considerably from year to year. The Board expects such short-term volatility of equity markets to continue but assures Canadians that equities “should produce positive returns over the long term to more than compensate for this volatility.” Assets have grown to € 11 billion to date.

Netherlands:

Restricting Access to
Disability Benefits

Changes to the Social Security Administration reform in the Netherlands can be reported (cf. Issue 3, p. 23). An Improvement Gatekeeper Act has been introduced to restrict access to disability benefits, with the intention of reducing social security costs on one hand and promoting labor market participation on the other.

Since 1993, debate on reforming the Dutch social security system has focused on its administrative structure. A number of consecutive changes made during the last decade have drastically reduced the influence of labor and industry. Among other things, the strong position of these social partners in administering social security—especially the disability scheme (WAO)—was considered an important factor contributing to the intensive use of certain social security arrangements, and consequently dismantled. It was thought that the dis-

ability scheme was partly used as a channel for providing people with benefits superior to unemployment benefits (longer duration, higher levels) in case of company reorganizations. Consequently, a number of reform measures were taken to reduce the costs of social security.

The Improvement Gatekeeper Act is meant to expand the rights and duties of employees and employers during the first year that an employee is unable to work. Employers who do not cooperate sufficiently to help people stay in work will risk paying the employee's salary for an additional year. On the other hand, employees who do not actively pursue their reintegration into the workforce will risk dismissal or a reduction of their salary.

In the earlier reform, the system for monitoring absence from work due to disability was not defined in sufficient detail. Now, this absence must be reported by the employer to a labor service and administering organization after just six weeks, instead of the present 13 weeks. Furthermore, the employer must inform the labor service about the risk of prolonged absence and keep a logbook (called a "reintegration report") for every disabled employee.

The log should support reintegration of the employee back into the workforce, though not necessarily with the present employer. It should also contain medical and employment information that can provide the basis for a disability benefit application. Employers who do not take the necessary steps towards reintegrating disabled employees run the risk of paying their salaries for an additional year.

Employees are obliged to pursue reasonable reintegration options and are also asked to present such options themselves. They should also maintain a reintegration report and present it when applying for disability benefits. Unwilling employees run the risk of losing their salary. In the earlier reform, employees were automatically examined for disability benefit entitlement after 52 weeks of absence from the workplace. According to the new law, this examination can be postponed for another year if the measures have not yet led to reintegration and if employee and employer agree.

Furthermore, the administrative bodies will be combined into a single organization, the Executive Institute for Employees' Insurance (UWV). The UWV therefore would then serve as a "gatekeeper" during the reintegration process.

🔍 The Improvement Gatekeeper Act is another step towards further disability benefit restrictions, cost reductions, and increased labor market participation. Nevertheless, increased paperwork, especially for small retail companies, may pose a serious problem. One must therefore wait for first evaluations before declaring the reform a success.

State Welfare and Social Assistance

Only two reforms can be reported under the heading of state welfare and social assistance. The central government in Japan has for the first time acknowledged its homelessness problem and has introduced a general law to address it. This is considered a significant step but one that requires further legislation.

Canada is about to successfully conclude a controlled experiment in which single-parent families who left welfare to return to work were provided with substantial earnings supplements to ensure that employment paid significantly more than welfare. First results show marked improvements in many aspects including income, job retention, and school performance of affected children.

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

Japan:

First Official Support for the Homeless

Innovation **
Impact **
Interest *

Starting in April 2003 the central government in Japan is—for the first time—supporting the homeless with the “Law to Promote the Independence of Homeless People.” Although the law is flawed in many respects and contains no concrete measures, it is seen as a first step towards greater consideration of the plight of the nation’s homeless.

The number of homeless people in Japan has risen dramatically in the past few years. According to government estimates, the number of homeless persons (i. e., those sleeping outside, not counting those sleeping in shelters) is about 24,000. Advocates for the rights of homeless people, however, claim this figure is much too low. Up to now homelessness has been left to local and municipal governments to address, but they have not responded due to budgetary and other reasons. The Public Assistance Law (Seikatsu-Hogo Ho), which pro-

vides cash benefits to the poor regardless of their age, sex, or household type, does not exclude homeless people. Many local and municipal governments, however, have excluded them by using a rather strict interpretation of the law's "every means available" clause. Some municipalities with especially high numbers of homeless people provide their own services, such as free meals and shelter. Because these provisions were based on municipal and local government initiatives, there has been no financial support from the central government. Apart from resident protests about homeless people living on the streets and in parks, posing security threats, and impeding "proper" use of public spaces, the financial situation is the most urgent problem for the local and municipal governments.

The law itself is written in very general terms and merely requires the government to "address" the problem and ensure financial support for future measures. Actual measures and policies will be implemented at a later stage. The law gives joint responsibility for the development of such policies to the Minister of Health, Labor and Welfare and the Minister of Land, Infrastructure and Transport. Local and municipal governments must draw up implementation plans, after which the central government is to appropriate funds for them and private organizations for implementation.

► Some opponents argue that there is already a law in place to provide assistance to the homeless (i.e., the Public Assistance Law). Instead of creating a new law specifically for the homeless that separates them from other needy people, the Public Assistance Law should be more strictly applied to the homeless population. Furthermore, the law does not tackle the underlying causes of homelessness. It also opens the way for local and municipal governments to forcibly evict the homeless from public spaces without providing alternative facilities. Experts see the reform as a significant first step by the central government towards finally taking responsibility for its homeless citizens. However, the law is very vague and open to a variety of interpretations.

Canada is about to conclude a controlled experiment in which more than 9,000 single-parent families who left welfare to return to work were provided with substantial earnings supplements to ensure that

Canada:

Welfare to Work

Experiment Successful

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

employment paid significantly more than welfare. The experiment, which started in November 1992 with a total funding of € 42 million, was set to run for over 10 years. It should provide the government with evidence-based advice and experience on whether earnings supplementation could help reduce poverty, encourage steady employment, and reduce welfare dependency. First results show significant improvements in terms of acceptance, earnings, income and job retention, school performance of affected children, and positive cost/benefit results.

Canada's welfare system suffers from what has been dubbed the "welfare wall," the Canadian term for chronic welfare dependency. Although welfare rates are low (and have been cut both overtly in a few provinces and covertly through non-indexation of rates in all jurisdictions), families and individuals can end up worse off financially if they leave welfare for low-wage jobs. They can then face significant obstacles to entering and remaining in the workforce.

Low-paid work may pay less than welfare, especially because welfare makes payments on behalf of spouses and children and often provides in-kind benefits. At the same time, people who move from welfare to work see their (typically low) pay reduced by income and payroll taxes and employment-related expenses. Many low-income Canadians move from work to Employment Insurance to welfare to work in a continuous and counterproductive cycle.

Originally intended as a last-resort program for an unfortunate few who do not qualify for mainstream social programs, welfare in Canada has become a front-line social instrument used by more than a tenth of Canadians. Welfare recipients who manage to find part-time work see their assistance reduced substantially above a small amount of exempt earnings; the government has imposed such rules to reduce costs. Hence, welfare has not served as a de facto supplement to low pay.

The experiment required participants to work at least 30 hours per week after having gone off welfare. They were offered a substantial financial incentive: an earnings supplement set at half the difference between participant's earnings and an earnings benchmark equivalent to about double the wages of many low-paid workers (between € 19,000 and € 23,800, depending on the model region).

A subgroup also received help finding jobs. Participants could apply for the wage supplement if they found full-time work within one year after random assignment to the experiment. The supplement was paid for three full calendar years, provided that the participant continued to work full-time and did not receive income assistance. Participation was voluntary, and participants could decide to leave the experiment and return to welfare at any time. Half the participants were chosen randomly to be eligible for the supplement; the other half were randomly assigned to a control group not eligible for the supplement.

First results show that more than one-third of the long-term welfare recipients who were offered the earnings supplement found full-time work and took the supplement. On average, these single parents received the supplement for 22 months over their three years of eligibility and received more than € 11,600 in supplement payments over that period. By the end of the first year after random assignment, program group members were twice as likely as control group members to be working full-time, and the effect of the earnings supplement on employment continued to be strong through most of the follow-up period. The experiment reduced welfare payments by about € 2,255 per family in the program group, and it increased income on average by € 4,060 combined from earnings, welfare, and earnings supplements. Three years after people had entered the study, the experiment had reduced the proportion of those with income below the poverty line by nearly 10 percentage points.

The program's effects were strong throughout the period when parents were eligible for the supplement. In the middle of the fifth year after random assignment, after all supplement recipients were no longer eligible to receive the earnings supplement, the program and control groups were equally likely to work.

However, program group members gained considerable work experience because of the earnings supplement, and their families benefited from the increased income while the supplement was being paid. Results of vocabulary and arithmetic tests confirmed that elementary school-aged children in the program group were performing better than their control group counterparts. The program achieved some of these positive effects after parents had stopped receiving the

earnings supplement (and after the program had stopped having effects on family income), suggesting that a temporary income gain may have long-term effects on children.

The experiment cost nearly € 2,060 more per program group member in transfer payments (primarily what was spent on supplement payments compared with what would have been spent on welfare), but the government received about € 1,350 more in increased taxes and as a result of reduced tax credit payments. In addition, the cost of administering the experiment was about € 960 per program group member (over and above what would have been spent administering the welfare program for each recipient). However, the value of the benefits derived by program group members was double the cost incurred by the government. Moreover, results suggest that when the earnings supplement is offered to somewhat more job-ready workers who have spent less time on welfare, the experiment actually saves money for the government.

► Some critics from the left argue that wage supplementation, if instituted as a full-blown social program, and especially if provided on an ongoing basis, could in effect subsidize low-wage employers and further entrench the “low-end jobs” sector of the labor market. They prefer other policies, such as higher (and indexed) minimum wages, child benefits, and employment supports. Others argue that experiments are one thing, but translating their findings into concrete and effective social programs and policies is another thing altogether. Also, despite positive evidence about cost/benefit ratios, governments will still be leery about the up-front and visible (gross) cost of earnings supplementation.

Experts point out that the program is very important in terms of its successful use of rigorous social experimentation methodology, its positive impacts on participants, and its demonstrable positive cost/benefit balance. It could be used as part of a comprehensive government reform of income support, employment policy, and life-long learning—though that reform is a daunting challenge and would take many years to implement. However, some provinces and territories might decide to implement earnings supplementation experiments or programs on their own as part of their welfare-to-work initiatives.

Family Issues

Three reforms can be reported in the family policy area. Spain introduced the framework for the first national family policy since the democratic transition in 1977. It is designed as a three-year program to co-ordinate family policy measures from different government ministries and regional administrations and to enhance their coherence.

Reforms from Denmark and Japan focus on specific childcare issues: Parents in Denmark are now entitled to financial subsidies from their municipalities if they choose to care for their children at home instead of using a public day care institution. In an attempt to increase the birth rate in Japan, the government plans to subsidize companies that actively promote maternity leave and to extend public childcare services.

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

The Spanish government introduced the framework for a national family policy, the first explicitly family-oriented program since the democratic transition in 1977. It is designed as a three-year plan to co-ordinate family policy measures from different government ministries and regional administrations and to enhance their coherence. Fields of activity include tax and housing policies, family law, social and cultural participation, as well as policies to achieve a better work and life balance.

Spain currently exhibits the lowest birth rate in the EU (1.2 in 1998), which can be partly attributed to the lack of a coherent national family policy. Spain also has the lowest level of social protection benefits. The employment rate for Spanish women is increasing very rapidly among younger age groups (60 percent for women between 25 and 29 years of age, compared to the average female employment rate of 32 percent in 2000). Surveys indicate that 47 percent of adult Spanish citizens would like to have more children, but economic factors (83 percent) and the difficulty in balancing work and care tasks (22 percent), especially due to the general lack of care services, are mentioned as major obstacles.

Spain:	
National Family Policy Introduced	
Innovation	*****
Impact	***
Interest	***

The plan includes preferential tax treatment for dual-income couples with care responsibilities, who currently face three disadvantages: higher income tax rates, exclusion from child benefits linked to family income ceilings, and higher childcare costs in general. Here the reform of the personal income tax now being prepared by the government includes more favorable treatment of dual-income couples with dependent members (children, disabled, and dependent elderly), with a special focus on benefits for children under the age of three, and tax-deductible childcare services. Child benefit payments will be increased as well. Income ceilings will be raised and the benefit amounts will be increased to levels not yet determined.

Furthermore, businesses will be able to obtain a 100 percent exemption from social security contributions for mothers employed in the first year after childbirth (for previously employed women), or two years (for previously unemployed women). Unspecified exemptions are planned for companies that employ single mothers. The plan also includes a commitment to increase the availability of public and affordable care services (e.g., childcare, elder care, home care, and phone assistance) in cooperation with regional governments and municipalities. A new childcare regulation has been announced, including a reform of the occupational profiles for authorized care work. Currently, home-based childcare services are not regulated, and many private childcare services operate outside of official childcare regulations. Finally, a new housing policy plan for 2002–2005 will include measures leading to better treatment for families. However, the measures do not specify quantitative objectives.

Each year a follow-up report will be produced, including an economic balance of the resources devoted to implement the various measures and an estimation (to the extent possible) of the number of beneficiaries. At the end of the three-year plan a final evaluation will take place.

► Critics from the left complain about the lack of specific public funding commitments. They believe this will have a negative effect on the plan's credibility and results, especially in the context of ongoing government budget cuts in the area of welfare and social policy. Experts also criticize the lack of financial and quantitative com-

mitments but point out that the plan must be regarded as only a first step. They also make the point that this reform strengthens the existing trend towards making use of tax benefits as opposed to cash payments. However, comparative social policy research has shown that this will have a lower redistributive effect, as families with higher incomes tend to benefit relatively more from tax benefits than do those who are less well off. Also, tax benefits will make family policy expenditures and their impact less apparent. Generally, the measures have received a great deal of publicity. This has led to increasing political interest and greater citizen awareness of these measures. Family organizations have generally welcomed most elements of the new policy.

Parents in Denmark are now entitled to financial subsidies from their municipalities if they choose to care for their children at home instead of using a public day care institution. It is not common for parents to stay at home to care for their children; this is typically seen as the government’s responsibility while both parents work. However, although there are guarantees for places in childcare facilities, waiting lists are still long for day nurseries and kindergartens. Since July 2002, parents can receive subsidies for up to one year per child, up to a maximum of three years, for children from 24 weeks up to kindergarten age. The city council sets the total amount, not to exceed 85 percent of the costs for the least expensive day care institution in the municipality for the same age group.

► Opponents maintain that the reform will have a negative influence on women’s participation in the workforce, a factor that is especially problematic due to expected future labor shortages. Others express concerns that the law will be the beginning of declining quality in public day care institutions. Another objection is that the law directs a significant amount of money to “normal” families instead of to more needy families and children. This is especially critical in times when municipalities, under pressure to cut costs, do so at the expense of care for families or groups with social problems. Experts believe that the reform is an important step in the new government’s policy of introducing greater freedom of choice for its citizens.

Denmark:

Subsidies for Home
Childcare

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

Japan:

Extension of Childcare Services

Innovation *
Impact *
Interest ***

In an attempt to increase the birth rate in Japan, the government has implemented additional measures to support childcare costs. Whether policies of this sort really affect the birth rate is highly questionable, but they are expected to help working parents. The birth rate in Japan has declined to 1.33 and shows no sign of improving despite various measures to “help raise children.” The Child Allowance was increased two times in the past few years, yet its level is not nearly as high as that in many European countries. Childcare is provided through a mixture of public and private services, with public childcare centers highly subsidized by the government. Their cost to parents is fairly low, but they are in seriously short supply in metropolitan areas. The labor participation rate of women with children is very low compared with other countries. The new law intends to subsidize companies that actively promote maternity (and paternity) leave. Public childcare services will be extended to include mothers who work only part-time, and a “Child Raising Assistance Coordinator” will be established in each municipality. Finally, the Silver Employment Service, an organization that provides short-term temporary work for senior citizens who want to work, will provide childcare.

► The eligibility of part-time working mothers for public childcare services is new, yet its target is questionable. Many women employed part-time are working within the no-income-tax threshold and thus do not contribute financially through taxation. Also, it is not clear that the option to work part-time will have any positive consequences for the birth rate. At the same time, many full-time working mothers are forced to use expensive private childcare services because the public services do not provide extended daily opening hours.

Changes and Results

Canada:

First Reform Analysis of the National Child Benefit

The third annual Progress Report for the National Child Benefit (cf. Issue 1, p. 28; Issue 3, p. 36; Issue 4, p. 33) provides the first quantitative analyses of the impact of the ongoing government reform of child benefits. It also updates related investments by the provinces

and territories in family-related programs. The reform aimed to prevent and alleviate child poverty, to promote efforts to remain part of the active labor force by ensuring that families will always be better off as a result of employment, and to reduce duplication and overlap in federal and provincial/territorial programs by harmonizing objectives and benefits as well as simplifying administration. This update focuses on the reform's impact on child poverty. The ongoing evaluation of the reform will report next year not only on poverty impacts, but also on labor market effects and provincial and territorial investments in various programs and services.

Even though the data apply only to 1999, in this early stage of the reform (the federal Canada Child Tax Benefit is being substantially increased year by year), the evidence shows modest but positive impacts. Between July 1999 and June 2000 an estimated 1.2 million families with 2.1 million children saw an increase in their income as a result of the National Child Benefit (NCB) reform. In 1999, the National Child Benefit reduced the number of low-income families by an estimated 16,500 (2.5 percent) and the number of low-income children by 33,800. The NCB also lowered the total low-income gap (i.e., the amount needed to lift all low-income families to the poverty line) among families with children by an estimated € 257 million (6.5 percent). At the same time, it increased the average annual income of low-income families by an estimated € 500.

Impacts are confidently expected to be larger in the future, because the Canada Child Tax Benefit is being substantially increased. Maximum benefits went from € 1,050 for one child and € 920 for a second child in 1998 to € 1,560 and € 1,430, respectively, in 2002. They are now projected to reach at least € 1,625 and € 1,490, respectively, in 2004. In 1999 the government increased child benefits by € 610 million; by 2001 that amount had doubled. In addition, in 2000 the federal government fully indexed the Canada Child Tax Benefit to inflation. Experts estimate that by 2004 the NCB will reduce the incidence of poverty among families with children by 1.1 percentage points and will cut the poverty gap (based on pre-tax poverty lines) by € 425 million (10.7 percent).

► The Progress Report's findings about the positive impact on poverty and income are to be expected, given the design and gradual

phasing in of the reform. Such effects will continue to grow as the federal and provincial governments contribute more funding into the reform. These positive results make the case for future enhancements to the Canada Child Tax Benefit, over and above the federal government's current commitments.

Denmark:

Maternity Leave Extended

The maternity leave reform (cf. Issue 5, p. 31) has been passed by the Danish parliament and took effect in January 2002. Consequently, maternity leave has been extended from 32 to 52 weeks. Four weeks must be taken before the child's birth, the father may take two weeks during the childbirth period, and the first 14 weeks after birth are available to the mother. The remaining 32 weeks can be shared freely between the mother and father. Furthermore, parents can claim 32 weeks of parental leave after the maternity leave period ends. Between 8 and 13 weeks of maternity leave can be used, up to the child's ninth birthday.

► The reform extends maternity leave but cuts parental leave (originally up to one year). It is therefore questionable whether the reform can significantly improve the situation for Danish families with small children.

Sweden:

Parental Insurance
Extended

The provisions of the parental insurance reform (cf. Issue 4, p. 34) have been extended in order to further improve the possibilities for parents to combine family and work. First, the period for parental leave has been extended from 450 to 480 days. Second, the period that is exclusively reserved for either the father or the mother has been prolonged from 30 to 60 days. This aims at increasing the number of days fathers take parental leave. At present, the average share of total days of parental leave that is used by the father amounts to only 14.5 per cent. Third, the basic compensation for parental leave has been doubled from € 6.64 to € 13.28 per day.

► This reform may increase the total number of days that parents stay home after childbirth. This effect will be particularly strong for fathers, because the number of days reserved for the parent who takes fewer days off work has doubled.

2 Labor Market Policy

Labor market reforms again cover a wide range of subjects. The increased role of immigration as a labor market policy tool is worth mentioning. After fierce debate, Germany is on the verge of abandoning its 30-year policy of zero immigration, introducing a new immigration law intended to alleviate shortages of skilled labor and relieve demographic pressures. Canada, a country more experienced in immigration matters, has released details of a plan to use immigration as a regional development tool. The idea is to grant citizenship only to those workers who agree to live in certain underdeveloped regions for a given number of years. Switzerland reports that the treaty on the freedom of movement between Switzerland and the European Union has come into force, establishing unrestricted access of EU citizens to the Swiss labor market and vice versa. The treaty is seen as a major step towards integrating Switzerland into the EU labor market.

A commission set up by the German government has developed mechanisms and recommendations for a sustainable reduction of unemployment, as well as the restructuring of the Federal Employment Agency into a modern service provider. Spain has followed other countries by making the active search for work a requirement for the collection of unemployment benefits.

France and the USA introduced laws to help integrate “high-risk groups” into the labor market: France has reduced social security payments for firms employing young and unskilled workers on a long-term basis, and the USA intends to implement wage insurance for older workers with nontransferable skills when they lose their jobs as a result of competition from international trade.

The Danish government has introduced a new law that potential-

ly overrides collective agreements regarding part-time work. It does this by entitling wage-earners to make an agreement with their employers for part-time work regardless of any collective bargaining agreements in effect.

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

Germany:

New Immigration Law

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

With its new immigration law, Germany is about to abandon its 30-year policy of zero immigration. To alleviate shortages of skilled labor and relieve demographic pressures caused by a declining birth rate, the country intends to open the door to immigration based on labor market conditions. A law with that end in mind was to become effective on January 1, 2003. Shortly before that, the Supreme Court declared it unconstitutional due to procedural irregularities during the vote in the upper house of parliament. It is expected, however, that a slightly modified bill will become law when a new vote is taken. The German “Green Card,” introduced in August 2000, has already paved the way for the new immigration law, allowing information technology (IT) specialists from non-EU countries to work in the German IT sector for a maximum of five years.

Since the halt to the recruitment of foreign workers⁶ in 1973,

6 Inflows of immigrants of non-German ancestry began in a serious way in the second half of the 1950s. In response to a labor shortage prompted by economic recovery, West Germany signed a series of bilateral recruitment agreements with Italy (1955), Spain (1960), Greece (1960), Turkey (1961), Portugal (1964), and Yugoslavia (1968). The core of these agreements included the recruitment of “guest workers” (Gastarbeiter), almost exclusively in the industrial sector, for jobs that required few qualifications. Under the so-called rotation principle, mostly male workers entered W. Germany for a period of one to two years, after which they were required to return home to make room for other guest workers. This policy had a double rationale: preventing permanent settlement while exposing the largest possible number of workers from the source countries to industrial work. In 1960, the number of foreigners stood at 686,000, or 1.2 percent of the total West German population. After the construction of the Berlin Wall in 1961 and the consequent reduction of the number of German migrants from the GDR, West Germany intensified its recruitment of guest workers. By 1973 the number of foreigners amounted to 4 million and their share of the population reached 6.7 percent of W. Germany’s total population. The demand for foreign workers fell off in 1973 when W. Germany entered a period of economic recession fueled in part by that year’s “oil shock.” The government at that time declared a halt to the recruitment of foreign workers.

there has been no legal way for non-EU nationals to immigrate to Germany except as refugees, to seek asylum, or for family reunification. However, Germany now faces the same long-term demographic challenges as most other industrialized countries: a shrinking and aging population and labor force, with severe repercussions for the long-term financial viability of the nation's pay-as-you-go system of old-age pensions. At the same time, serious labor and skills shortages are likely to arise in the future.

Officially, the new law's main goal is to "control and limit" the inflow of foreigners into Germany. Beyond this wording, the reform's short-term goal is to alleviate urgent labor shortages in certain trades, regions, and sectors. In the longer term, the objective is to compensate for the country's shrinking and aging population and labor pool. Workforce-oriented immigration will be possible in four different ways.

1. General immigration. Foreigners can temporarily stay and work in Germany if a position cannot be filled by a German, an EU citizen, or another privileged foreigner. This is to be verified in each case by the public employment service. To facilitate immigration, the public employment service can identify specific industries or occupations in certain regions where a general shortage of qualified workers exists. For those cases, individual verification will not be required. The maximum duration for temporary residency is three years but it can be renewed in most cases.
2. Selection system. Foreigners can receive a permit for permanent residency if they pass a "point test" designed to select qualified workers who can easily integrate into German society and who can contribute to the country's economic development. Although a final version of the point test does not yet exist, the main selection criteria will include the immigrant's age, education, vocational qualifications, work experience, family status, German language skills, relations to Germany, and country of origin.
3. Immigration of highly skilled workers. These are defined to be either scientists or academics with distinctive skills or knowledge, or specialists or managers with considerable work experience who earn at least two times the earnings ceiling set by the public health insurance system. The income threshold currently amounts to

€ 81,000 per year. Highly skilled workers are immediately eligible to receive a residency permit of unlimited duration.

4. Immigration of the self-employed. The new law generally allows the immigration of self-employed persons if they are prepared to invest at least € 1 million in Germany and create at least ten new jobs. Self-employed persons who do not meet these requirements may still be allowed to immigrate temporarily, but their businesses must be successful within three years to make them eligible for a longer-term residency permit.

Although many details of the reform are quite similar to immigration laws of other countries, such as Australia, Canada, and the USA, special German circumstances are taken into account. A considerable proportion of the German public and (mostly conservative) political leaders still refuse to regard Germany as an immigration country. Hence, the success of the law depends on how it will be put into practice. The law contains enough leeway to be interpreted rather rigidly, which would result in more limited immigration than envisaged. Furthermore, first results from the introduction of the German “Green Card” show that many of the so-called “high potentials” are reluctant to work in Germany, preferring instead to immigrate to countries like Canada, the United Kingdom, or the United States. This is partly due to the language barrier, but also to high levels of taxation and social security contributions in Germany compared with other countries.

► Opponents of the reform are to be found in the trade unions. They fear that immigrants could displace domestic workers, leading to higher unemployment among their members. Thus, they demand initiatives to foster continuous training of native German workers so that they, rather than immigrants, can fill vacancies. Many conservatives in Germany are still reluctant to view Germany as an immigration country. They argue that instead of opening the borders for workforce-oriented immigration, the government should first seek better integration of its native-born unemployed.

Economists, meanwhile, argue that the law remains too restrictive. Experts see the new immigration act as a major step towards a policy of immigration oriented around the country’s labor supply. This law

initiates a paradigm shift away from the zero-immigration policy of the past 30 years to active immigration policies similar to those in countries like Canada. By taking other countries' experiences into account, the new law contains many promising ingredients for achieving this goal, both from a temporary and a permanent immigration perspective. However, the law also contains a number of restrictive clauses that provide for a great deal of discretion in its application. Thus, the success of the law greatly depends on its actual implementation by politicians and the bureaucracy. The country's high number of native jobless, numbering around 4 million, makes it difficult to promote the new immigration law to the public. This could result in only a half-hearted implementation of the law, at least over the next few years.

The Canadian government has released details of a plan to use immigration as a regional development tool. In a "social contract," skilled workers will agree to live in certain underdeveloped regions for a given number of years, after which they will be granted citizenship. The idea is to place incoming skilled workers where they are most needed. Some observers expect that by 2011, Canada will have a shortage of 1 million skilled workers, and growth of the labor force in general will depend on immigration. Canada's Atlantic provinces in particular face an exodus of skilled young workers. At the same time, however, most immigrants to Canada choose to settle in one of the three largest cities, namely Toronto (over 50 percent of immigrants), Vancouver (15 percent), or Montreal (11 percent), where skills shortages are not as acute.

The plan aims to implement a social contract with incoming skilled workers who agree to live in an underdeveloped region of Canada, specifically in the Prairie or Atlantic provinces, for three to five years, after which they will be granted citizenship. The hope is that the regions will benefit from an influx of skilled labor, but also that the immigrants and their families will establish roots and remain beyond the time specified in the social contract, continuing to contribute to the community and its workforce.

Before the plan can be put into practice, it must first be determined that such a social contract does not violate Canada's Charter

Canada:
Immigration
as a Regional
Development Tool

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

of Rights and Freedoms. Some have already stated that the social contract is not likely to be found to violate Canada's statutes. Because this implies that the contract is voluntary on the part of the immigrants, a major condition for success is to provide powerful incentives to take part, such as guarantees of a certain wage rate or housing facilities. Such strong incentives would be needed to offset the attraction of Toronto and other big cities. Also, about 40 percent of Canada's immigrants are approved based on relatives already in Canada and hence are most likely bound for Toronto; therefore, this plan alone probably will not achieve regional development goals.

A similar program, begun in 1896, helped to develop Canada's West and boost Canada's population from 5.3 million in 1901 to 8.8 million in 1920. After World War II a similar policy was implemented, but on a small scale. Since then the location of immigrants has been unregulated; no incentives have been offered to offset the obvious attraction of the economic performance and diverse populations of Canada's biggest cities. Regional development has typically been attempted through "equalization" payments, whereby "have" provinces transfer money through the federal government to "have not" provinces, as well as through other transfer payments. Thus, the plan represents a challenge to the status quo.

► Some have likened the plan to the policies of Communist China, expressing special concern that immigrants typically seek residence in countries like Canada to avoid such policies in their home countries. Other observers have questioned the feasibility of monitoring the plan, as well as questions concerning issues such as the travel rights, visiting rights, and land ownership rights of immigrants who have signed a social contract. Others have suggested that implementing tax reforms and other reforms in Atlantic Canada and the Prairies is a better way to promote regional development and would in turn lead immigrants to choose these areas on their own. Experts doubt that the proposal will be adopted, as it interferes with the right of residents to choose where they live.

Switzerland:
Treaty with EU on
Freedom of Movement

The Treaty on the Freedom of Movement between Switzerland and the European Union within the framework of bilateral agreements came into force in June 2002. In stages, the treaty establishes unre-

stricted access of EU citizens to the Swiss labor market and vice versa, comparable to the freedom of movement within the European Economic Area (EEA)⁷. To ensure Swiss public approval for the freedom of movement and, therefore, the entire package of seven bilateral agreements, several supporting measures to prevent “wage dumping” from EU workers and firms were introduced.

Switzerland’s 1992 refusal to join the European Economic Area made bilateral negotiations between Switzerland and the EU and its member states necessary to ensure Switzerland’s access to the common market in Europe. The EU insisted on a “single package” approach, in which several separate subjects were legally linked (cf. this issue, p. 78). The nullification of one individual treaty would automatically nullify the entire package. One of the negotiation points demanded by the EU was the freedom of movement for persons. Although Switzerland would have preferred to exclude this area from the negotiations, it had to reach an agreement or forego other parts of the bilateral agreements in which it had considerable interest.

Indeed, the freedom of movement of persons was the most controversial issue in the bilateral agreements. Fears of a massive influx of foreign labor from EU member states, though most likely unwarranted, and concerns that this would put downward pressure on wages have led to the introduction of several safeguard clauses, a gradual liberalization process, and so-called “supporting measures.”

With the new treaty, Switzerland has increased its entry quotas

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

7 The European Economic Area was negotiated to enable Iceland, Liechtenstein, and Norway to participate in the Single Market, while not assuming the full responsibilities of membership of the EU (Switzerland decided after a referendum not to participate; three other countries have in the meantime joined the Union). The EEA Agreement gives these countries the right to be consulted by the EU Commission during the formulation of Community legislation, but no voice in decision-making (which is reserved exclusively for member states). All new Community legislation in areas covered by the EEA is integrated into the Agreement through a Joint Committee Decision and subsequently made part of the national legislation of the EEA States. The Agreement is concerned principally with the “four freedoms—freedom of movement of: goods (some exceptions being made for agricultural and fishery products); persons; services; and capital.” Horizontal provisions relevant to these four freedoms in the areas of social policy, consumer protection, the environment, corporate law, and statistics complete the extended Internal Market framework. It is in these areas that the EEA and EFTA States adopt the Union’s rules.

for EU nationals and the EU will grant Swiss citizens free access to its labor market within the next two years. At the same time, Switzerland will abolish its discriminatory control of wages and working conditions for EU nationals, granting them the same treatment as Swiss nationals. The EU quotas will be abolished in 2007 on a provisional basis, and full freedom of movement will be established by 2014. Even after that date, in the case of severe social and economic problems either party may cancel the treaty.

The freedom of movement also necessitates coordination in the area of social security, particularly to ensure that temporary employment of Swiss citizens in an EU country does not lead to a lower degree of protection in Switzerland and vice versa. This will lead to substantial additional social costs in Switzerland (about € 285 million), but Swiss citizens in the EU will also benefit from this. Furthermore, the treaty requires a comprehensive overhaul of the entire immigration policy towards non-EU nationals. This project is currently under way. In general, higher hurdles for third-country nationals are envisaged as a counterpart to liberalization vis-à-vis EU citizens.

To ensure public acceptance and to appease fears of wage dumping, three supporting measures will become effective in 2004:

- General agreements between the industry and labor social partners can now be declared legally binding if just 30 percent of the respective social partners have signed on to them. Prior to the change, the quota needed for such a measure was 50 percent. However, this occurs only if a newly established “tripartite commission”—including representatives of the employer associations, the labor unions, and public services—demands it.
- If wage dumping occurs repeatedly, minimum wages can be introduced. However, this provision can be established only in branches where no general agreements between industry and labor exist, or in which these agreements cannot be declared legally binding (e.g., if they do not meet the quota requirement). Furthermore, only the tripartite commission mentioned above may demand such a measure.
- A new law on the posting of workers declares the “minimum wage and working conditions within Switzerland” binding for foreign workers in Switzerland. Similar laws already exist in many EU

countries. In general, the norms for foreign workers correspond to those within the EU. The law on the posting of workers also complements the minimum wage conditions by imposing them on posted workers as well.

◉ In general, there is consensus on the importance of the bilateral agreements. As an integral part of the entire package, the free movement of persons was not as ardently opposed as it would have been were it the subject of a separate and independent treaty. The same applies for the supporting measures, which were seen as necessary to appease the labor unions (and the Swiss Social Democratic party). The right wing has feared that freedom of movement would lead to swamping by EU workers and wage dumping. Wage dumping was also a major concern for the labor unions. Industry has criticized the supporting measures as strengthening the role of the labor unions, who also consider the possible introduction of a minimum wage to be a “disproportionate” measure. In their opinion, this could lead to fixing the entire wage structure of an industry by law.

Despite criticism of the supporting measures, experts welcome the agreement; they believe it will foster the integration of Switzerland into the EU labor market. Of particular importance may prove to be the liberalization in segments of the labor market that up to now have been sheltered from foreign competition. For the services sectors concerned, prices may fall substantially in the medium term, with subsequent structural adjustments. Although the supporting measures were key to ensuring public approval, they tend to undermine the substantial flexibility of the Swiss labor market, which has derived in part from the limited importance of general agreements and the absence of minimum wages. However, the importance of the new provisions should not be exaggerated, as they are mainly *ex post* (i.e., they become effective only after an abuse has occurred) and only partly compensate for the loss of *ex ante* control as far as policy towards foreign nationals is concerned.

The German government set up a commission (the Hartz Commission, named after its chairman, the head of Volkswagen’s personnel executive committee) to develop mechanisms and recommendations

Germany:
Labor Market Services
Reform Proposal

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

for a sustainable reduction of unemployment and for restructuring the Federal Employment Agency into a modern service provider. It is hoped that the reform proposals will reduce unemployment by 50 percent (to 2 million) within the next few years while being largely self-financing.

Germany faces persistently high structural unemployment in both the East and the West. Wage policy is dominated by collective bargaining agreements between unions and employer organizations, and the high level of unemployment has had only limited impact on wage setting. The wage structure shows little downward flexibility, especially among the unskilled. The government in part supports the high level of wages in some industries by declaring collective bargaining agreements generally binding. Unemployed workers entitled to generous and open-ended unemployment compensation and social assistance have only weak incentives to take up low-wage jobs.

Long-term unemployment is especially high among older workers, and active labor market programs, which have been implemented on a large scale (especially in eastern Germany), have proven ineffective. The public employment services are widely considered to offer inadequate job counseling and job matching, especially after a scandal (early in 2002) concerning manipulated statistics on the number of people who had been reintegrated into the workforce. The ruling government coalition, which in the previous election campaign had promised to reduce the ranks of the unemployed from more than 4 million to below 3.5 million people, failed to do so. It used the employment services scandal to set up a reform commission to show some “new activity” in the area of labor market policy in time for the September 2002 elections.

The multi-dimensional reform proposal consists of 13 components that range from a thorough reform of the public employment services to an unclearly defined system of participation by the nation’s elite in a general plan to support implementation of the reform. The core component is the transformation of the traditional public employment service agencies. To this end, the local employment offices, renamed “Job Centers,” will be given a stronger focus on job matching and counseling activities. Because it is believed that reemployment efforts must address other social problems generally

associated with unemployment, these Job Centers will also be in charge of activities formerly undertaken by social welfare offices, youth counseling offices, and so on.

The Job Centers will also set up so-called Personal Service Agencies (PSA's), which will place unemployed persons in private firms to perform temporary work, initially at subsidized fees equal to the previous unemployment compensation benefits. Those who do not find a regular job during the probation period are offered a PSA job until they have found employment elsewhere. This job is covered by the social security system and pays a contract wage to be determined by the collective bargaining parties in the public sector. Although the details have yet to be determined, it is to be expected that there will be some special clauses allowing lower entry-level wages for certain groups, particularly the long-term unemployed.

If a job offered by a PSA is not accepted, the unemployment compensation or social welfare payment can be reduced. Employees who have been informed of a future termination by their employer are asked to contact the labor office immediately; otherwise, the payment of unemployment compensation can be delayed. The unemployed, especially younger people and those without family responsibilities, can be requested to seek employment outside their commuting area as defined by current regulations.

Older workers who become unemployed and then take a lower-paying job will be entitled to "earnings insurance," which covers half of the difference between the pay on the old and the new job. For those older unemployed seeking further employment, the contribution rate to the unemployment compensation system and restrictions on temporary employment will be reduced.

The administration of unemployment assistance (currently paid out by the labor office) and social assistance (currently administered by the communities) is to be integrated into a single system. Although the various payments under current regulations (unemployment assistance and social assistance) will be slightly renamed, it is yet unclear whether any changes of substance to the existing system are planned.

In another change, unemployed individuals who become self-employed are eligible for earnings supplements for three years if their

annual income is below € 25,000. The supplement is € 600 per month in the first year of self-employment, € 360 in the second and € 240 in the third year. For small jobs, the social security threshold will rise from its current level of € 325 to € 400 per month, with a combined social security contribution and tax rate of 25 percent. The conditions for household services are even more attractive, both for employers and employees. Furthermore, progressive social security contributions are introduced for earnings in the range between € 400 and € 800, starting at a rate of 4 percent and increasing to almost 21 percent.

Small and medium-sized companies who hire the unemployed will have access to financial aid, namely a one-time wage subsidy in the form of credits and grants. The total cost of this program is expected to be about € 5 billion per year (about € 100,000 per newly-hired person per year, times 50,000 expected new subsidized jobs). It is not clear how this amount will be raised, but it seems likely that state-owned banks will bear the financial risk.

Some planned organizational changes, such as reducing the number of head labor offices at the regional level and introducing state-of-the-art information technology in the labor offices, are expected to increase the efficiency of the public employment services and allow for cost savings. Finally, all “responsible” members of society are called upon to help implement the reform.

► Critics argue that the PSA system competes with private manpower agencies on the basis of subsidized wages, thus interfering with a more-or-less functioning private market for temporary workers. They assert that it will not be possible to limit the financial incentives (e.g., € 400 for social security exempt jobs, preferential treatment for self-employed, and the “Job Floater” program) to those who are currently unemployed; if this is attempted, people will become unemployed in order to benefit from these measures. On the other hand, if the incentives are extended to all employees and/or firms, they will become impossible to finance.

In any case, there is very little room for additional expenditures on labor market programs. The assumption that the reform is self-financing is simply illusory. The net employment effect will be rather limited, if at all positive. Finally, the generous unemployment

compensation and social welfare system has still not been reformed. Hence, there will be little additional incentive to take up low-paying jobs in the private sector.

Experts point out that the reform of the public employment service is long overdue, so steps in this direction are welcome. If more efficient job counseling and matching can reduce the average duration of unemployment by a number of weeks, substantial fiscal savings could result. However, these savings must be offset by the additional (short-run) costs that a more efficient employment service entails. Depending on the specific regulations, the proposed PSA system could be a useful instrument for assisting the job matching process and, at the same time, screening the willingness of the unemployed to take up low-wage jobs.

However, this instrument will work only if it also provides incentives to move from a PSA job to regular private-sector employment. Given the favorable terms of PSA employment as agreed with the unions, there is little such incentive. Thus, there is danger of an expanding public employment sector with weaknesses similar to those of the public work programs run on a larger scale in eastern Germany in the past. The other elements of the reform proposal hardly seem to be financially feasible, not substantially different from existing regulations (e.g., changing the name but not the contents of unemployment compensation and social assistance payments), or too vague to be evaluated.

With its reform of the unemployment protection system, Spain intends to emphasize the rights and obligations of persons seeking employment. The reform links the collection of unemployment benefits to the active search for work; it also implements other measures to limit disincentives for seeking employment that arise from the current unemployment protection system.

Spain's current unemployment rate of 11.5 percent is higher than that in any other country in the EU. The long-term unemployment rate has fallen in recent years (from 57 percent in 1995 to 10.5 percent in 2001) but is still comparatively high. Since the early 1990s, different reforms of the unemployment benefit system have sought to scale down the nation's benefit payments (excessively generous from the

Spain:
 Unemployment Protection
 Reform Emphasizes
 Rights and Obligations

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

government's point of view). For example, the 1992 and 1993 reforms restricted access to benefits by transferring a large number of recipients of contributory allowances to the system of assistance allowances.⁸ At the same time, benefit levels in both systems were reduced.

These steps yielded substantial savings for the unemployment benefit system, with the rate of coverage (for beneficiaries of the contributory allowance and the assistance subsidy for those registered as unemployed) decreasing from 63.2 percent in 1992 to 56.6 percent in 2001. Both the purpose of these reforms and their results have brought severe criticism, especially from labor unions. Despite these reforms, however, the current government believes that the design of the unemployment protection system still provides disincentives for the unemployed to pursue an active job search.

Under the new reform, unemployment benefits will be paid only to those who make a written commitment to accept all proposals that would help them find work and who then accept the first offer of a "suitable job." A suitable job is defined as being of the same quality as one previously held by the applicant for a period of 6 to 12 months at any time in his or her working life. After 12 months of an unsuccessful job search, applicants must accept any job after attending a special training course. Social security contributions will be reduced for unemployed people who accept a job requiring lower qualification levels and/or paying lower wages.

The reform also requires more mobility from applicants: They must accept a position within 30 kilometers of their home, or one that requires a travel time of less than two hours, provided that the journey does not cost more than 20 percent of their wages.⁹ Penal-

8 Contributory allowances are unemployment benefits for people who have contributed to the system for a certain period of time. The amount as well as the duration of the program depend on the level of previous earnings and the period of contributing. Those not (or no longer) entitled to contributory allowances receive assistance allowances. The amount is tied to the national minimum wage, and its duration depends on the period of contributing (shorter than that for contributory benefits), age and family responsibilities.

9 The duration and working time contained in the contract offered are not taken into account. This was perhaps one of the most debated points in the bargaining process. The government's initial draft laid down a distance of 50 kilometers and a travel time of three hours. These figures were later lowered in order to achieve a compromise between the political parties.

ties for refusing job offers range from the loss of one month's benefits to the total withdrawal of benefits.

Furthermore, the introduction of means-tested unemployment benefits now defines unemployment benefits as "incompatible" with other income. An unemployed individual who receives income from assets and investments is not eligible to receive unemployment benefits. However, people over age 52 may receive unemployment benefits and work at the same time. They will receive 50 percent of normal benefits, and their employers will supplement their wages. Also, employers who employ women returning after childbirth will be eligible for a one-year 100 percent reduction in social security contributions.

Workers who are laid off may receive their entire unemployment benefit entitlement in a lump sum if they join a cooperative or other worker-owned company or become self-employed. They must use the lump sum for their business or receive it as a quarterly subsidy to their social security contributions. Dismissed workers are now considered unemployed from the first day onwards. Companies will no longer have to pay their wages and take the case to court for justification. Instead, the National Institute of Employment will have responsibility for unemployment benefit payments. In the event of reinstatement following a finding of unfair or unjustified dismissal, the worker will be entitled to receive the unpaid wages.

The reform also ends the monopoly of the public employment services on labor market mediation. It transfers responsibilities for active labor market policies and mediation to the regional governments, supported by European Union employment policies and funds. It seeks to modernize the competencies of the national and regional public employment services and to better define unemployment benefits and active procedures.

► The reform has been completely rejected by the labor unions, who called a general strike against the measures on June 20, 2002. Their criticisms are shared by the majority of political parties in the opposition and among broad segments of the population. For example, unions claim that it is unlawful to link benefits to signing a commitment, because unemployment benefits are paid out of worker contributions and are thus an entitlement to which all workers have a clear

right. Furthermore, the concept of a “suitable job” is left to the discretion of the public employment service and may give rise to disputes. The mobility rules are seen as arbitrary, especially if the same conditions are applied among all regions with varying infrastructures and availability of public services. The unions are therefore calling for other solutions in this area, such as more personalized attention by the employment service and enhanced integration measures.

One of the employment service’s main problems is its poor ability to match labor supply with demand. Companies tend to recruit their employees through contact networks, private agencies, and advertisements in the press. Experts state that the reform reduces the level of social protection and could lead to greater numbers of “working poor.” So far, the public employment service has played a very minimal role in reintegrating non-mainstream and “hard to place” individuals. With the new reform, the public services will have more discretion and greater sanctioning leverage, but it is doubtful that a positive change in their mediating role will result. The risk is that the reform might simply be used to reduce the number of unemployment benefit recipients by offering them jobs with low qualification requirements, little stability, and low salaries.

France:

Reduced Social Security
Payments for Firms
Employing Young and
Unskilled Workers

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

Since July 2002, firms are eligible for a three-year reduction in social security payments if they employ young and unskilled workers on a long-term basis. The reform focuses on young people (age 16 to 23) employed in the private sector with an education level below that of the baccalauréat. Employers can benefit from this reduction if the person is employed under a so-called Long-Term Employment Contract (CDI), which puts constraints on dismissal conditions and procedures. Companies benefit from reductions amounting to € 225 per month (equal to 19.5 percent of gross minimum wages) for an employee receiving the minimum wage. The amount will remain constant as a percentage of gross wages up to 1.3 times the minimum wage (currently € 6.41) and then will diminish progressively (not to exceed € 292.50). The reduction is limited to three years (the first two years at 100 percent and the third at 50 percent).

Because firms can add the reduction to other subsidies available

for creating similar jobs, total reductions could exceed total social security payments; the difference will be borne by the French taxpayer. The reform will replace the *emploi-jeune* contracts that were aimed at more-qualified young people in the public sector. Around 250,000 contracts are expected over the next three years.

► It has been argued that initial positive effects on employment levels will drop off after the three-year period. However, the three-year period can be regarded as essential for helping these unskilled young people acquire the necessary qualifications to eventually succeed in the labor market and earn full unsubsidized wages.

The USA intends to implement wage insurance for older workers with nontransferable skills who lose their jobs as a result of competition from international trade. This is similar to the health care credit reform (cf. this issue, p. 15). This wage insurance provides recently unemployed workers with stronger financial incentives to seek and accept new employment, even when the new job pays substantially less than the lost job. The new wage insurance plan will replace 50 percent of the loss in monthly wages suffered by a worker who must accept a lower-paying job as a result of a trade-induced layoff.

Many workers employed in industries adversely affected by global trade are older; often they have worked at the same job for most of their working lives. At the same time, many of their skills utilized in these industries are no longer in high demand in the job market. Consequently, older displaced workers frequently must accept significant pay cuts to become reemployed. Currently, Trade Adjustment Assistance (TAA) provides trade-displaced workers with additional weeks of unemployment insurance protection beyond the six months of unemployment insurance provided to other eligible unemployed individuals. The TAA income support payments are available only to trade-displaced workers who are participating in a qualifying job training or preparation program.

The reform is targeted at workers over age 50 at eligible firms who earn less than € 50,000 a year, are employed full-time (over 30 hours a week), and do not return to the employment from which they were laid off due to competition from international trade. An eligible firm is determined according to whether a significant number

USA:
Wage Insurance for Older
Workers Affected by
Import-Related
Competition

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

of its workers are over age 50, whether the workers at the firm possess skills that cannot be easily transferred, and the competitive conditions in the respective industry. The new wage insurance plan will replace 50 percent of the loss in monthly wages. For example, if the worker's old job paid € 1,500 per month and the new job pays € 1,000 per month, the wage insurance payment will replace € 250 per month for a fixed period of time. Workers are eligible to receive wage insurance payments for two years from the time they are re-employed, provided that reemployment is within 26 weeks of being laid off. Total wage insurance payments are capped at € 10,000 over a two-year period (i.e., € 5,000 per year).

► Critics and opponents claim that the new income support benefit is unlikely to reduce worker and trade union opposition to liberal trade agreements that often result in trade-induced layoffs. They point out that the new income support benefit will be costly to the federal government and that it will be hard to justify providing wage insurance benefits to workers displaced as a result of international trade while withholding such benefits from workers displaced as a result of technological change, weather-related disasters, or shifts in consumer demand. Experts, on the other hand, support and have long advocated wage insurance as a method of compensating trade-displaced workers for part of the earnings loss they suffer as a result of international trade competition.

Denmark:

Part-Time Work
Permissible Despite
Collective Agreement
Stipulations

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

The Danish government has introduced a new law that potentially overrides collective agreements regarding part-time work. This is considered a major change to the Danish labor market model; traditionally, labor market policy has been left to employer organizations and trade unions, while the government has involved itself as little as possible.

The law is part of the government's announced efforts to improve conditions for families with children. The governing Liberal Party argues that the trade union campaign for better wages and working conditions has lost its focus in some respects. Considerable trade union efforts have been directed at standardizing working time to protect employees from unreasonably long working hours, and some collective agreements stipulate that only full-time work is permissible.

According to the government, this is inconvenient for families with young children, those with care responsibilities for older people, or employees who want to gradually retire from the labor market.

The new law entitles wage-earners to make an agreement with their employers for part-time work regardless of any direct or indirect limits on this option in collective bargaining agreements. Previously, part-time arrangements between employer and employee could be made only on conditions set by collective bargaining agreements (in sectors where such agreements existed). However, explicit definitions of part-time work in collective bargaining agreements remain valid. For example, it is not allowable for the employer and employee to agree that the employee may work 20 hours per week if the collective agreement defines part-time work as 15 hours per week.

► In the Danish labor market model, government intervention is limited to disputes between business and labor that they cannot settle on their own. Therefore, this reform is of fundamental importance for the whole labor market system, and it has faced a great deal of criticism. The law is a prime example of the consequences of the change in government in Denmark. The previous government was led by the Social Democratic Party, which traditionally and historically has played a crucial role in forming the Danish labor market model based on social dialogue. This past government naturally opposed the new law, arguing that the balance between business and trade unions is crucial for the stability of the country's labor market. Experts point out that the reform contains a potential break with the highly regulated Danish labor market of the past. In principle, this could lead to breaks in other areas that could change the fundamental structure of labor market relations in Denmark.

Changes and Results

The ACTU (the umbrella group representing Australian labor unions) had proposed changes in the regulations concerning reasonable working hours to the Australian Industrial Relations Commission (AIRC). In particular, the ACTU sought a judgment that an employ-

Australia:
New Definition of
"Unreasonable"
Working Hours

er must not require an employee to work unreasonable hours (cf. Issue 6, pp. 44–45). One major area of disagreement between the unions and business organizations arises from the imprecision of the term “unreasonable.”

The AIRC recently qualified the conditions under which employees may refuse to work unreasonable hours. In particular, these factors are considered: any risk to employee health and safety; the employee’s personal circumstances, including any family responsibilities; the needs of the workplace or enterprise (e.g., if the viability of the enterprise is threatened unless the worker works overtime, the worker must do so); the notice given by the employer of the overtime and by the employee of the intention to refuse it (e.g., if the employee was given very short notice); and any other matter (a catchall phrase covering a number of contingencies).

► The AIRC’s decision seems to be a fair compromise. It allows employees to refuse to work overtime where there are sound reasons not to, yet it permits willing employees to work overtime. The grounds listed above are more precise than the test of “unreasonableness” that the ACTU had sought and that employer groups had much criticized for its vagueness. Clearly there is scope for interpreting each of the above factors, and sometimes a number of them will apply and conflict with each other. As a first resort, it would be up to the parties to resolve their differences. If these efforts fail, the case would be referred to the AIRC.

Canada:
Immigration and
Refugees Protection Act

A revised bill of the new Immigration and Refugees Protection Act (cf. Issue 6, p. 49) came into effect on June 28, 2002, based on suggestions received from various interest groups and individuals. The “pass mark” based on the point system for approving immigration applications has been lowered from 80/100 to 75/100. More points are now earned for language proficiency, fewer points are available for work experience, and those with only one to two years of work experience are awarded more points than previously proposed. More points are awarded to applicants with a trade certificate or secondary degree, and the age factor has been scaled upwards so that the 21–49 age group receives the full 10 points available.

These changes are intended to address concerns that some skilled

workers would not qualify based on the originally proposed selection grid. Some slight changes have been made to further ease family reunification. In particular, a class has been added to recognize common law partnerships, the required length of sponsorship of children has been reduced, and simple adoptions (in which the legal link with the biological parents is not completely severed) will be treated as adoptions to be finalized in Canada. Changes to the definition of “business immigrant” are expected to reduce the number of fraudulent claims. For example, an applicant’s net worth must be legally obtained, and immigration officials will have the right to investigate an applicant’s wealth. Also, an experience requirement has been added to the self-employed category.

The introduction of the Refugee Appeal Division has been delayed, new regulations have been adopted to allow alternative documents as proof of identity for potential refugees, and there is no longer a provision to allow a three-year delay in landing for those not able to obtain official documentation from some countries. Finally, a permanent resident card will be introduced. After December 31, 2003, all permanent residents will need to present this card to be allowed reentry into Canada after traveling abroad.

Results can be reported from the Flexibility and Security Legislation, referred to as “Flexicurity” (cf. Issue 1, p. 37). This was introduced to offer employers more flexibility in their workforce on the one hand, while giving flexible workers more job security and income on the other.

A government-mandated evaluation of the reform noted a shift from “on-call contracts” to “temporary contracts.” Furthermore, the vague and unclear types of flexible labor contracts have almost vanished. However, the improved contracts have not led to an increased number of regular contracts. Employers making use of the new Flexibility and Security reform have focused primarily on concluding a series of successive temporary contracts. Most employers prefer overtime work and working hour changes for regular employees to a truly flexible workforce.

Although the legal status of the contracts was clarified, only 25 percent of flexible workers believe that their legal status has conse-

Netherlands:

Evaluation of
“Flexicurity” Legislation

quently improved. The evaluation further states that the rights and obligations introduced by the reform are reasonably well known to employers. Employees, on the other hand, are generally not familiar with the stipulations and entitlements of the new law. Even though most employers are familiar with the new reform, one-third of on-call workers stated that they were not paid in accordance with the legislation.

A further finding is that some 54 percent of employers have experienced an increased administrative burden because of the changes in the work process and related regulations under the Flexibility and Security legislation. Apparently, the reason is that employers avoid regular contracts by taking full advantage of the three years allowed for temporary contracts with an individual employee.

The labor and employer social partners can make use of collective agreements to adapt the Flexibility and Security legislation. About 50 percent of such agreements included arrangements to make the legislation more appropriate to specific sectors.

► The intent of the “Flexicurity” legislation was to increase labor market transparency. It is surprising to note that flexible workers are not very familiar with the legislation and that only 25 percent think it has improved their legal status. Furthermore, it appears that the reform has benefited employers more than employees. Employers have only rarely used their increased options to consider employees for regular contracts. Employers prefer temporary contracts because they facilitate dismissals in economic downturns.

France:
Maintaining Salaries with
Reduced Working Hours

More changes can be reported from France after the reduction of the workweek from 39 to 35 hours (cf. Issue 1, p. 32; Issue 2, p. 40; Issue 3, p. 53; Issue 4, p. 53; Issue 6, p. 60). The newly elected government upholds the new legal workweek but rounds out its application through three main channels.

First, the provisions for the 35-hour workweek included a wage guarantee mechanism for people paid the minimum hourly wage, whose monthly salaries otherwise would have dropped by 10 percent because they worked fewer hours. People who worked for minimum wage before the workweek reduction receive a monthly income guarantee (Garantie mensuelle de revenu, or GMR) that maintains

the level of their initial monthly wages. Since the hourly minimum wage and GMR are indexed in different ways, there are now five different levels of GMR (ranging from € 1,100 to € 1,154 per month) depending on the minimum wage prevailing on the date the company signed the workweek reduction agreement. The original law required the government to equalize these different GMR levels before July 2005. Consequently, the current government has implemented the following mechanism: The highest GMR will be indexed to price-level increases by 1 July 2005. During these three years, the other GMRs will converge on this value; the lowest monthly guaranteed income will increase in line with the price index, enhanced with discretionary increases (“coups de pouce”) every year. In the same period, the hourly minimum wage will be increased to harmonize its monthly level for a 35-hour workweek with the GMR. In total, this represents an 11.4 percent increase in the legal hourly minimum wage between 2002 and July 2005.

Second, the government has changed the overtime regime. The previous regulations limited overtime to 130 hours per year; this has been raised to 180 hours per year. Additional overtime hours require special authorization. When the threshold was 130 hours, employees who worked additional overtime were entitled to compensation with vacation time at a rate of 100 percent if the firm had more than 10 employees and 50 percent if it did not. Below the 130-hour threshold, employees received vacation time as compensation for the first four overtime hours per week and financial compensation for any additional hours.

Under the new regulations, employees will earn financial compensation for any additional hours, although compensation in the form of vacation time is an option when industry agreements are negotiated. Industry agreements can also establish compensation rates, but these must be at least 110 percent of the hourly wage. In the absence of such an agreement, set rates will apply: 125 percent of the hourly wage for the first eight hours and 150 percent for subsequent hours. For companies with fewer than 20 employees, the legal rate until December 2005 will be 110 percent for the first four hours.

Third, all programs of social contributions exemption will be merged to a universal regulation by July 2005. The social contribu-

tions reduction for firms that have not signed a working time reduction agreement will progressively converge towards that of firms that have done so. This will eliminate differences between firms in regard to the social contributions exemption depending on the number of hours worked.

Denmark:

Work-Service Jobs
Abolished

“Work-service” jobs, introduced to reintegrate unemployed people over the age of 48 into the labor market, were abolished in April 2002 (cf. Issue 3, p. 41). The Work-Service reform entitled communities, counties, and the national government to receive grants for employing older persons who were receiving unemployment benefits.

The work-service job option saw only limited use. Initially, the expectation was that about 10,000 work-service jobs would be established in the public sector. However, by the end of 2001 only 3,528 work-service jobs had been established; of these, only 2,778 were filled.

► Some critics have noted that because the work-service job arrangement required no financial support, it should have been continued for the sake of the few people who have benefited. Experts place the decision in line with traditional conservative policies based on the conviction that a free labor market is better than one that uses subsidized labor.

3 Industrial Relations

A number of quite different reforms can be reported in this section of the reform monitor. The Canadian province British Columbia intends to shift responsibility for maintaining employee rights to employees themselves and to reduce overtime pay requirements and compensation benefits in order to bring its labor regulations in line with those of other provinces. Australia intends to exempt all employers with fewer than 20 employees from unfair-dismissal legislation.

In Austria, the first collective agreement for temporary agency workers specifies a minimum wage that applies even if the worker is not actually hired out. Denmark introduced a reform proposal that would represent a fundamental break with the current system of tying industry-specific unemployment funds to a particular trade union. Sweden has changed the definition of occupational injuries. As a result, applications for recognition of occupational injuries will focus less on specific scientific evidence and more on common opinions among experts, making it easier to classify an injury as an occupational injury. In the Netherlands, the salaries of the nation's top managers and corporate board members will have to be published in the respective firms' annual reports. The intent here is to moderate the enormous pay increases of recent years.

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

Canada:

British Columbia Shifts
Responsibility for
Maintaining Employee
Rights to Employees
Themselves

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

The province of British Columbia aims to bring its labor regulations broadly in line with those of Ontario and Alberta by reducing overtime pay requirements, cutting compensation benefits, and otherwise encouraging flexible workplace agreements. Overall, the proposed regulations are meant to improve efficiency by making labor laws less binding on employers and by shifting the responsibility of maintaining employee rights to the employees themselves.

Canada's labor and industrial relations policies are under provincial jurisdiction, except for certain industries regulated by the federal government (representing about 10 percent of the Canadian workforce). Standards and policies range widely across provinces, with Alberta (fourth most populous) and Ontario (most populous) undertaking reforms aimed at labor market flexibility in the 1990s alongside general fiscal retrenchment. The second and third most populous provinces, Quebec and British Columbia respectively, have not followed suit. Their economies have also not performed as favorably in the 1990s. This package of amendments marks an attempt by British Columbia to catch up with Ontario and Alberta in terms of labor legislation and is part of an overall policy of cost-cutting, privatization, and tax cuts undertaken by the province's government.

One of the problems the provincial government intends to correct with the amendments concerns more flexibility to work irregular hours beyond 8 in one day and 40 in one week. Previously each instance had to be approved by the government. With the reform, the 40-hour workweek will be retained, but the new regulations will allow this to be averaged over two, three, or four weeks. In another area, a program will be launched to educate employees as to their rights and employers as to their responsibilities regarding working hours, dismissal, and other issues.

Under the new regulations, financial penalties will increase dramatically for employers who violate regulations, and their names will be published. Monitoring will be heightened and education programs made more widely available in sectors where complaints from employees have been greatest in the past. Also, to ease administrative burdens, employers will be required to keep detailed employment records for only two years rather than five as in the past. A number of new regulations aim to reduce time spent on approval processes.

To simplify payrolls, the new regulations restrict statutory holiday pay to those working at least 15 of the 30 days immediately preceding a given statutory holiday. The Labor Relations Board is instructed “to apply a business viability lens” in interpreting the Labor Relations Code, which includes fostering employment in economically viable industries. The amendments are meant to make clear the rights and obligations of employees, employers, and unions and to ensure that all parties have a right to be heard. The measures streamline the administration of the Labor Relations Board and authorize the Board to levy fees to ensure that its services are not used inappropriately.

As the current worker compensation system is financially unsustainable, workers’ compensation benefits are being changed from 75 percent of gross average earnings to 90 percent of net average earnings. Inflation indexing will be set at the inflation rate minus one percentage point, capped at 4 percent annually. The regulations are intended to restructure costs to employers related to workers compensation, bringing them into line with those of the other western Canadian provinces. The regulations are also meant to refocus the Workers Compensation Board, shifting from advocacy for particular interest groups to acting in the best interests of the system as a whole. They will establish a board of directors where, among others, workers and employers will be represented to allow for balanced and well-informed decision-making.

❶ Labor unions are unhappy with the proposed regulations, interpreting them as vehicles to grant power to employers and assign employees the role of “victims.” Experts point out that the labor unions typically focus narrowly on employee rights without considering the overall positive economic possibilities raised by the legislation, but they also have concerns about some aspects of the regulations. For example, the new regulations remove any restrictions against hiring children of 12 to 14 years of age.

While the general goal of the regulations is to foster a more favorable business environment, they do not appear to unduly burden employees in general. Perhaps less appealing than the regulations themselves is the “authoritarian” manner in which they were presented: They were introduced to the legislature just 17 days before being

pushed through with limited discussion for the sake of extended summer holidays. The changes to the Labor Relations Board and Workers Compensation Board may also be seen in a similar light, and perhaps skewed so as to give employees and unions less opportunity to voice concerns. Also, the provincial government seems to take it for granted that reforms undertaken by Alberta and Ontario would be beneficial for British Columbia.

Australia:

Exemption of Small
Businesses from Unfair
Dismissal Legislation
Discussed

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

A government amendment aims to exempt all employers with fewer than 20 employees from the provisions of the Workplace Relations Act in relation to unfair dismissal. The current government has made a number of attempts to amend the legislation to exempt small businesses, but the opposition parties and unions raised strong objections. The Australian Senate has now twice rejected the Workplace Relations Amendment (concerning “fair dismissal”), providing grounds for the government to call for a new general election.¹⁰

In 1993 a previous government introduced legislation that aimed to protect workers against unfair dismissal. Unfair dismissal was defined as “harsh, unjust or unreasonable” dismissal. In 1996, the current government introduced amendments that required the Australian Industrial Relations Commission (AIRC) to attempt to settle unfair-dismissal claims by arbitration. During arbitration proceedings the AIRC may find dismissal unfair if there was no valid reason for the dismissal (i.e., no clear incompetence or misconduct on the employee’s part); the employee was not notified of any such reason; the employee was given no opportunity to respond to the employer’s concern; and/or the employee who was terminated due to unsatisfactory performance had been given no warnings about it.

In 2001, further amendments introduced a three-month qualifying period before new employees can lodge claims, removed demotion as grounds for claims unless it involves a significant reduction in remuneration or duties, required the AIRC to take account of the

10 In Australia legislation must be passed in both federal houses of parliament to become law. The current government has a majority in the lower house (the House of Representatives) but not in the upper house (the Senate). While legislation is initiated in the lower house, it may be blocked in the upper house. If the same legislation is blocked twice, the government may call for a new election.

business's size, allowed the AIRC to dismiss applications that had no reasonable prospect of success, and required applications to be lodged within 21 days of dismissal. In relation to costs, the AIRC was given more freedom to act against those who behave unreasonably in pursuing, managing, or defending against an unfair-dismissal claim.

Employers (particularly small businesses) argued strongly against the initial legislation, and since then small-business representatives have lobbied government for amendments to weaken the legislation. To date, about one-third of all claims were made against small business employers, although small businesses employ about half of all employees. The legislation and its amendments impose costs on employers whether unfair-dismissal claims are valid or not. Furthermore, sanctions against employees who file spurious claims are limited. It is asserted that small businesses are more vulnerable to ungrounded claims and that dismissing unwanted employees is (or is perceived to be) difficult enough, deterring them from hiring additional staff.

If passed, the legislation will remove an impediment to job growth among small businesses. Even though the magnitude of the outcome in relation to employment is unknown, it appears likely that the amendment will have a positive effect on aggregate employment growth. On the other hand, the amendment is also likely to lead to some amount of unfair dismissal by small businesses. The introduction of different rules and regulations for employers depending on their size is also likely to create problems of definition and may reduce incentives to hire more staff among companies with workforces near the 20-person threshold.

► Unions and the parliamentary opposition argue that workers have a fundamental right to legislated protection against unfair dismissal. They also dispute claims that the unfair-dismissal clause seriously erodes the flexibility of the market. Experts state that unfair-dismissal legislation is not an effective way to protect jobs or safeguard working conditions. If employers or employees are dissatisfied with their job conditions but cannot obtain a remedy by negotiation or arbitration, legislation is not likely to achieve it either. If either party violates a contract, there always remains a common-law remedy.

Austria:

First Collective
Agreement for Temporary
Agency Workers

Innovation ****
Impact **
Interest **

Since March 2002, the first collective agreement for blue-collar temporary agency workers specifies a minimum wage that applies even if the worker is not actually hired out. The agreement became an important demand of the Austrian Trade Union Federation during the 1990s. In 1997, the Metals, Mining and Energy Trade Union started to negotiate this with the General Crafts and Trades Association. In 2001, some 33,156 agency workers were hired out. While the number is still small, it had risen from only 8,000 in 1989. The largest share of the agency workers is employed in the metalworking sector. Only white-collar workers (18 percent of the total) were already covered by a collective agreement.

The new collective agreement specifies a minimum wage that applies even if the worker is not actually hired out. The level of pay must be based on the collectively agreed pay for comparable employees doing comparable work in client companies. In any case, the pay must not be lower than the collectively agreed minimum wages for agency workers. The minimum hourly wage for temporary workers amounts to € 11.92 (technicians), € 9.96 (qualified skilled workers), € 8.45 (skilled workers), € 7.52 (qualified workers), € 6.70 (semi-skilled workers), and € 6.25 (unskilled workers). The collective agreement also provides for protection against dismissal within five days after employment by the client company and assures continued payment in the case of illness, the birth of a child, and other eventualities.

► Experts welcome the reform as it extends the coverage of collective agreements to temporary agency workers, a small but growing part of the labor force. It could lead to a better working climate in temporary agency firms with improved protection for their employees.

Denmark:

Cross-Vocational
Unemployment Funds to
Be Introduced

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

As a fundamental break with the current system, in which industry-specific unemployment funds are tied to a particular trade union, Denmark intends to introduce cross-vocational unemployment funds so that employees can insure themselves regardless of their educational or vocational backgrounds.

Unemployment insurance is based on a voluntary and subsidized model and is administered by unemployment funds. The unemployment funds are subsidized by the government and are usually linked

to specific labor unions. Membership contributions are low and are financed through a fund (Dagpengefonden) that draws money from wage-earners, the self-employed, membership dues, employer contributions, and the central government. Unemployment insurance funds are independent private associations, but national law lays down their rules of administration. Today, individuals can join an unemployment fund without being a member of the specific union administering it. However, unemployment funds serve as a solid basis for recruitment to the unions. Union membership in Denmark (as in Sweden, which has a similar system) is close to 90 percent, whereas in Norway, with a government-run unemployment insurance system, it amounts to only 60 percent of the workforce.

The new law is based on the view that the Danish labor market has been changing significantly over the past number of years. Distinctions between disciplines are becoming blurred, people are regularly switching their areas of work, and work functions are increasingly based on individual skills rather than on formal professional qualifications. According to the initiators of the reform, this development gives rise to the need for cross-disciplinary unemployment funds. They argue that if a profession-based unemployment fund focuses on membership numbers, an unemployed member of the fund who seeks employment in another profession might meet with resistance. This risk will be eliminated if cross-vocational unemployment funds are introduced.

🔍 Experts state that the reform proposal is a major break with the traditional Danish labor market structure in which strong unions play a major role in the unemployment benefit system. In the long run, therefore, this reform could lead to fundamental changes in the Danish labor market.

Sweden has changed the definition of “occupational injuries.” New applications for occupational injuries will focus less on specific scientific evidence and more on common opinions among experts. The main objective is to make it easier to classify an injury as an occupational injury, particularly in cases related to repetitive strain. It is hoped that the differences in the number of approved occupational injuries between occupational groups and genders will be leveled out.

Sweden:

Occupational Injuries
Applications Facilitated

Innovation	★
Impact	★★★
Interest	★★★★

The application procedure has been changed several times. Before 1993, the procedure occurred in two steps: First, the degree of damage was established; second, the degree to which the damage was caused by work environment factors was decided. The evidence in the second step was to be based on scientific knowledge and a high probability of the causal relationship. Since 1993 a considerably more stringent definition of occupational injury has been applied; the burden of proof lies in principle with the employee, who must demonstrate the link between the injury and work. This has made it particularly difficult for repetitive strain impairments, which afflict a disproportionate number of women, to be classified as occupational injuries. After this stringent definition was applied, the number of tested and approved occupational injuries fell by about 90 percent.

Statistics also showed regional differences, differences between occupational groups, and differences between men and women in terms of the share of approved applications. This development has raised the demand for more generous rules that make it easier to confirm an employee's injury as an occupational injury. Trade unions in particular have raised this question, pointing out the inequities between occupational groups and genders with the current system.

The major change in the 2002 amendment concerns the process of demonstrating the link between injury and work. Previously, the law required a "high probability" that the injury was caused by working conditions. The law now requires "predominant reasons" to believe that the injury has arisen due to working conditions. In practice, this makes it easier for the employee to demonstrate the causal link between working conditions and injury. The approval is based on a general opinion among experts about what constitutes an occupational injury, rather than specific scientific findings presented in the individual case.

This will raise the number of approvals, particularly for repetitive strain injuries where it is difficult to scientifically demonstrate the link between the ailment and work. The two-step hearing is to be replaced by a single general judgment of damage and causes. To reduce local variations and to improve quality in the administration of the system, the number of offices involved in occupational injuries and diseases will be reduced to just a few. Each such administrative body

is to be complemented by a group of experts in the field of occupational medicine.

🔍 The reform is opposed by employers who believe that the new legislation is ambiguous and will lead to a dramatic increase in the number of confirmed occupational injury cases. The Federation of Social Insurance Offices criticizes the concentration and reduction in the number of offices involved with occupational injury and diseases from 200 to only a few, pointing out that this will reduce opportunities for personal meetings with the parties involved. Experts doubt that the reform will satisfy trade union demands, and fear that the change in the hearings procedures might have little effect. If scientific evidence is to be of less importance, the judgment must be based on something else. The question is then what that will be. Those passing judgment in the hearings are still experts in law and occupational medicine, and so it is reasonable to assume that they will be reluctant to base their judgments on other than scientific grounds. Furthermore, psychiatric and psychosomatic diseases and conditions are still treated differently (e.g., more restrictively) than occupational injuries.

As of September 2002, the salaries and other income of the nation's top managers and corporate board members must be published in the respective firms' annual reports.

Compensation for a small group of top executives and board members in industry and trade, particularly within very large corporations, has risen enormously in recent years. Pay increases for managers of medium-sized companies, on the other hand, have been more in line with general increases. This rapid rise in income of those at the top is thought to endanger the whole model of wage moderation traditionally practiced in the Netherlands. In 1999, employer representatives and unions agreed that the incomes of top managers and board members would not increase in a way that could not be accounted for. However, two years later this "Agreement of Garderen" appears to be breaking down. Unions have since tried to justify high pay demands by pointing to the exorbitant compensation packages of some top executives and board members.

As of September 2002, top executive compensation must be re-

Netherlands:

Top Manager
Compensation to Be
Publicized

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

ported in company annual reports. The reports must also list performance-based bonuses, bonuses paid out over time, severance pay, and profit-sharing packages for all top managers and board members. Companies must publish the amount of stock these executives and board members have accrued. Furthermore, companies must disclose the amounts of loans, advances, and stock options received by every top manager and board member. Finally, they must publish the performance criteria used for awarding stock options and bonuses.

► The main trade union confederation FNV criticizes the new reform and asks for more rules for restricting top manager pay raises. For example, instead of publishing performance criteria, it proposes involvement of the companies' work councils or specific taxation. Experts point out that this reform will make the capital market more transparent. It is unclear, however, whether the new reform will curb enormous executive pay hikes as long as there is competition to attract top management talent. Careful monitoring will be needed in order to prevent further rampant growth in executive compensation.

Changes and Results

Switzerland:

Working Time Reduction
Rejected

In March 2002 the Swiss electorate was asked to vote on the annual working time reduction initiative launched by the Swiss Federation of Trade Unions (cf. Issue 4, p. 49). Among other things, this referendum proposed the reduction of working time to an average of 36 hours per week (the average workweek is currently approximately 42 hours). The proposal was roundly rejected, with 75 percent of all voters opposing the proposed working hour reduction. With a very high voter turnout of nearly 60 percent, this result clearly reflects the preference of the Swiss population.

► A number of factors spoke against the proposals in this referendum. Unemployment has reached a very low level in recent years. Combating unemployment by reducing working time has therefore ceased to be a topic of importance in public debate. Furthermore, survey results reveal that the overwhelming majority (approximately 70 percent) of Swiss employees are satisfied with their current

work/pay combination. One could therefore at least question the optimality of the collective working time reduction proposed by the trade union. The strongest argument against the referendum is that the trade union proposed a corresponding reduction in earnings only for workers who earn more than 1.5 times the average, i. e., only for a minority of workers. Working time reductions without a reduction in earnings would in effect increase the hourly wage. At least in the short run this would have led to higher labor costs, which might have negatively affected employment levels. Finally, as the federal government correctly argued, it is inappropriate to regulate working time restrictions in the nation's constitution, because this would make any future changes difficult; it takes at least three years to amend the Swiss Constitution.

4 General Important Developments

We have started this fourth category of reforms with the fifth edition of the reform monitor to present reforms and developments in other areas that will surely have implications for our main policy fields. A report from the Netherlands describes the new coalition government that resigned after only a couple of months in office. From the United Kingdom comes a report on the deterioration of relations between the Blair government and the trade unions. France anticipates a 30 percent reduction in the income tax due for the coming five years.

Canada attempts to remove governance restrictions imposed in 1876 on its aboriginal population and create a framework in which First Nations people can play an active role in designing and choosing policies to ensure greater self-reliance, quality of life, and economic development. Australia has introduced new legislation aimed at reducing the incentive for unlawful entry into the country. Switzerland reports on the so-called “bilateral agreements” with the European Union. The comprehensive package of seven treaties aims to facilitate Switzerland’s access to the market of the European Union and vice versa.

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

Netherlands:
New Coalition
Government

In May 2002 the Dutch voted overwhelmingly for center-right parties in the general elections. After nearly eight years, the socialist-liberal “Purple” coalition of Prime Minister Wim Kok resigned in the

aftermath of the Srebrenica Report of the Netherlands Institute for War Documentation (NIOD). An extremely unusual election campaign followed, with the new political right-wing party Lijst Pim Fortuyn (LPF) gaining notoriety. It ultimately reached its low point with the murder of the leading political figure of the LPF, Pim Fortuyn.

The result was a center-right coalition cabinet led by prime minister Jan Peter Balkenende, who adopted a program of budget and wage restraint. Balkenende and his cabinet resigned on October 18 after just 87 days in office due to the rapid disintegration of the LPF. In the new elections three months later, Balkenende's Christian Democrats were able to increase their lead while the two coalition partners suffered heavy losses. The composition of the next government is still unclear.

The "honeymoon" between the Blair government elected in 1997 and the nation's trade unions lasted much longer than many observers expected. However, recent signs suggest that it is coming to an end. Main indicators of a much tenser relationship are a shift to the left in union leadership elections, more conflictual industrial relations in the public sector, and the expression of much sharper policy differences by the Trades Union Congress (TUC).

In a variety of unions, new left-wing leaders have been elected on programs often critical of their predecessors' close relationship with the Labor government. This has resulted in more militant policies in the unions of railway workers and firefighters, for example. In the main civil service union, the PCS, the incumbent general secretary lost to a virtually unknown rank-and-file challenger. This was followed in July 2002 by the defeat of Sir Ken Jackson, one of Blair's most loyal supporters in the trade union movement, by a little-known local official to head the new Amicus union. In the Transport and General Workers Union, once Britain's largest, an opponent of the leadership's relatively low-key support for the government won the second-ranking position; this individual is likely to be elected to the top position when the current general secretary retires. Thus, in the near future it is likely that all main British unions will have a new generation of more radical leaders than in the past.

United Kingdom:

Relations Between Blair
Government and Trade
Unions Deteriorate

One of the surprises of the last five years has been the lack of conflict in the public sector, even though the Blair government maintained many of the restrictive pay policies of its predecessors. This has now changed. In July there was a national strike of local government workers, which according to opinion polls attracted substantial popular support. This strike forced the employers to make substantial improvements in their pay offer. In the fire service, a special conference of the union in September agreed unanimously to hold a ballot on strike action, sharply criticizing alleged government interference in their pay negotiations. Attempts to resolve the issue broke down when the government insisted that any above-average pay increase must be self-financing through changed working arrangements. Subsequently, the first of a series of strikes began in November. Industrial relations in much of the remainder of public services are tense.

Relations between the TUC and the government have become much more abrasive. The TUC, which had previously been muted in its criticism of the relatively modest improvement in worker and union rights contained in the 1999 Employment Relations Act, has now called for stronger union recognition legislation, strengthened employment protection for individual workers, a substantial increase in the minimum wage, and removal of restrictions on the right to strike. The TUC also made clear its strenuous opposition to the government's "private finance initiative" in the public sector, and has threatened a campaign of strikes against firms that attempt to eliminate their final salary pension schemes.

The new assertive mood of the TUC is set to continue: The current general secretary, John Monks, who has been an effective bridge between government and unions, is due to move to the European Trade Union Confederation (ETUC) in 2003, and his successor will have difficulty restraining union-government conflicts. One key issue is whether the current strains will lead to significant reductions in union financial support for the Labor Party, which currently faces financial difficulties.

France:
Income Tax Reduction

President Chirac's agenda during the presidential campaign included a 30 percent reduction in the income tax due for the coming five

years. After the election the new government decided as a first step to lower the total amount of per capita income tax by 5 percent. The government plans to lower next year's income tax by an additional 1 percent. The decision has been criticized for its negative distributive effect. Others have pointed out that this measure makes the French taxation system slightly more competitive, especially for those with higher incomes.

Proposed legislation attempts to remove the governance restrictions imposed by the Indian Act of 1876 and create a framework in which First Nations people can play an active role in designing and choosing policies to ensure greater self-reliance, economic development, and quality of life for the 1.4 million aboriginal people in Canada. Native people have a well-below-average standard of living compared with other Canadians, and the Indian Act propagates a cradle-to-grave dependency on the federal government. Opportunities for education, career advancement, and other personal development are generally regarded as sparse, and access to health care and housing is inadequate.

Many observers note the drastic erosion in native languages and culture and the broken relationship between aboriginal Canadians and their land. This situation, which some blame on the restrictive nature of the Indian Act, in turn creates dependence on the social welfare system. Historically, in accordance with the Indian Act, the Minister of Indian Affairs has played a large role in the governance of First Nations people, with power to approve or disallow local by-laws and hear election appeals. This has meant that legislation, and indirectly living conditions on Indian reserves, has ultimately been influenced more by the federal government than by local tribes (in Canada known as "bands") and their leaders.

The new legislation increases the transparency in the election of tribal leaders and codifies rules regarding the selection of leaders, size and composition of councils, time in office, and appeal mechanisms. It also introduces conflict-of-interest rules regarding the relationships between administrations and councils and between council members and tribal employees. Transparency rules will also apply to financial relationships between the tribes and their members. The

Canada:

Improvements for
Aboriginal Peoples
Proposed

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

Canadian Human Rights Code will apply to native tribes, who are exempt under the current Indian Act. Tribes will also get increased power to make local laws and clearer legal capacity regarding land ownership, banking relationships, and the conduction of lawsuits. The proposed legislation hence shifts the accountability of tribal leaders from the Minister of Indian Affairs to tribe members themselves, while at the same time giving tribal leaders more leverage in addressing the concerns of their members.

► The main opponents are found in the Assembly of First Nations (AFN), a lobby group representing chiefs of the First Nations. The AFN refused to take part in the consultation during the development of the proposed legislation. These lobbyists argue that the legislation, far from attempting to improve the lives of Canadian Indians, actually seeks to impose a system of governance on First Nations people rather than allowing them to govern themselves in the way they see fit (as guaranteed by the Canadian Constitution of 1982). They are concerned that the legislation will threaten treaty rights attained earlier, as well as block the possibility of future treaty negotiations.

The overall concern is that the tribes will still be subjugated to the Canadian government and that the legislation will take away more freedoms than it grants (e.g., the freedom to choose a system of governance will be disallowed). Experts believe that the legislation represents a positive development that will bring more democracy to Indian tribes and foster greater responsibility for their future on the part of First Nations people.

Australia:

New Legislation to Stop
Illegal Immigration

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

The Australian government has introduced new legislation aimed at reducing the incentive for unlawful entry into the country and curbing the associated people-smuggling activity. The legislation reforms the process by which the status of illegal immigrants is determined and introduces reintegration assistance payments to asylum seekers who wish to return home. Furthermore, funding is introduced to assist authorities and international organizations in transit countries to detect and intercept illegal movements of people.

Australia has a well-developed and longstanding program encouraging immigration in three broad categories: skilled immigration,

family reunification, and refugees. In addition to formal immigration, Australia has in the past been prepared to accept illegal refugees. Australia, a signatory of the United Nations Convention and Protocols relating to refugees, is committed to protecting refugees and complying with its obligations, which arise regardless of whether the applicant entered Australia lawfully or not. Under the Migration Act, all non-Australians who have entered Australia illegally must be detained.

Over the last 50 years succeeding waves of refugees have included displaced persons from Europe following World War II, “boat people” from Southeast Asia (primarily Cambodia and Vietnam) during the 1970s and 1980s, people from China on student visas following the Tian’anmin Square massacre, and refugees from Bosnia, Kosovo, and Somalia. In the last five years there have been increasing unlawful arrivals of people on ships, primarily from Indonesia, carrying mostly Islamic refugees from Afghanistan, Iraq, and Pakistan.

The government was concerned that illegal refugees were bypassing the well-developed system of vetting applied by Australian officials to legal applications for refugee status. It was also concerned that the trade in illegal refugees was fostering and supporting criminal elements and that it ran counter to Australia’s principles of fairness and justice. There were also concerns that the trade represented a form of moral blackmail.

The reform focuses on the nature of the process for determining the status of illegal entrants. This process includes the availability of documentation, the level of character and security checks, the location of claimants during detention, and the time taken to process claims; other reforms are targeted at reducing people-smuggling. The new laws mean that unfavorable inferences in relation to claims may be drawn if claimants refuse to provide documents to prove their nationality or lack a reasonable explanation for the absence of such documents. The same applies if they refuse to provide information under an appropriate oath or affirmation. Those seeking asylum are also to be subjected to strict character and security checks. The legislation includes powers to move an offshore entry person to a declared third country while any claims for protection can be consider-

ed. Significant measures have been introduced to improve the speed and effectiveness of the decision-making process regarding claims.

► Opponents are concerned that the insensitive treatment of refugees will tarnish Australia's reputation. Experts point out that there is an issue of fairness in regard to illegal entrants, and they maintain that the rights of illegal entrants must be balanced against those of others who may also be refugees but who do not enter illegally. In general, there is agreement that illegal entry ought to be deterred. However, it is also acknowledged that many illegal entrants may not have had other opportunities to seek refugee status. It is also useful to recall that much of Australia's history has involved the immigration of people unwanted in their country of origin. Many of the displaced persons fleeing Europe following World War II went on to become exemplary Australians. The same is true of refugees from Southeast Asia 20–30 years ago.

Switzerland:
Bilateral Agreements
in Effect

On June 1, 2002, the so-called “bilateral agreements” between Switzerland and the EU and its member states became effective. The comprehensive package of seven sectoral treaties intends to facilitate Switzerland's access to the market of the European Union and vice versa. It represents the most important contractual agreement between the European Union and Switzerland since the Free Trade Agreement of 1972. A result of Switzerland's 1992 decision not to join the European Economic Area (EEA), it aims at integrating Switzerland into the common market in areas where this is deemed mutually beneficial. As a rather static package of agreements, its reach is somewhat less than full membership of the EEA would have entailed. Nevertheless, the overall impact will be substantial as Switzerland is heavily dependent upon the EU, particularly as far as its foreign trade is concerned (nearly 60 percent of its exports go to the EU, which in turn accounts for almost 80 percent of Switzerland's imports).

The following seven areas are treated: freedom of movement of persons, land transport, air transport, agriculture, public procurement contracts, and technical barriers to trade and to research. Negotiations on a “second round” of bilateral agreements, covering prevention of fraud, processed agricultural products, the environ-

ment, and statistics, began in 2001. Further negotiations for cooperation in the areas of justice, police, asylum and migration (following up on the Schengen/Dublin¹¹ agreements), education, professional training and youth, media, services, pensions, and taxation of interest income have recently begun or are envisaged for the near future. Several “supporting measures” have been introduced along with the package to assure public approval in the two areas that were most controversial: the treaty on the free movement of persons and the treaty on land transport. Labor market and social policy will be substantially affected by the treaty on the freedom of movement in particular (cf. this issue, p. 42).

11 By the Agreement signed in Schengen in 1985, Belgium, France, Germany, Luxembourg, and the Netherlands agreed that they would gradually remove their common frontier controls and introduce freedom of movement for all individuals who were nationals of the signatory Member States, other EU Member States, or permissible third countries. The Schengen Convention was signed by the same five countries in 1990. Italy (1990), Spain and Portugal (1991), Greece (1992), Austria (1995), Sweden, Finland and Denmark (1996) have since joined the list of signatories. The Agreement and the Convention, together with the declarations and decisions adopted by the Schengen Executive Committee, make up what is known as the Schengen *acquis*. When the Treaty of Amsterdam was being drafted it was decided to incorporate this *acquis* into the European Union from May 1, 1999, onwards since it relates to one of the main objectives of the Single Market, i.e., the free movement of persons. An agreement was signed in 1999 between the European Union and Iceland and Norway, countries outside the Community that are party to the Schengen Convention. It associates them with the implementation and development of the Schengen *acquis* and sets out how they are to participate in the free movement area in the European Union. The Dublin Convention replaced the Schengen provisions on asylum in 1997. The aim was to establish the principle that one Member State only is responsible for handling an asylum claim made by an individual. By introducing this definite responsibility of a particular Member State, it avoids the situation of multiple applications for asylum, something that would otherwise have been facilitated by the creation of the internal market.

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Currency Conversion

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

1 €	=	USD	1.0731
	=	JPY	129.96
	=	DKK	7.4335
	=	SEK	9.1338
	=	GBP	0.66380
	=	CHF	1.4674
	=	CAD	1.6403
	=	AUD	1.8130

Source: European Central Bank, foreign exchange reference rates as of February 12, 2003.

