

International Reform Monitor

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Labour Market Policy
Industrial Relations

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Project Information

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

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

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

Editorial

Combining Work and Family Life

The first International Reform Monitor reported that most countries were reforming their health care and pension systems, and that other reforms concentrated on labour market issues. This second monitoring reveals a different picture: the creation of a more family-friendly environment is *the* top reform focus presented by our partner institutions in 15 countries! Family-related changes, previously a somewhat neglected issue, have become prominent – not only in the field of pure family issues, but also in the interconnected labour market.

Family policies aim to improve the compatibility of work and family life. They make it easier for the working population to exercise their parental role or responsibility as a caregiver for the elderly. The range of possible concrete measures already implemented is broad: transfers and regulations concerning care arrangements for children, older family members or other dependent relatives offer room for improvement. Spain, the UK, and the USA have modified their family leave legislation. Either the leave period has been lengthened, eligibility for such leave has been extended, or the leave benefit has been increased. Japan and Sweden focus on centre care. Mainly by means of measures such as subsidies and maximum fees,

they aim to improve parents' choice between care responsibilities and employment. Australia has changed its entire system of family benefits. Finally, the Netherlands is about to implement a legal right to working part-time.

Policy makers seem to have realised that the attitudes of their voters towards market and non-market work have changed and are changing further. However, although our reform examples do reflect the need for individual flexibility in neo-industrial societies, they may also subdue problematic demographic trends. In the short term, improved possibilities to combine work and family life can be used as a way to cope with the increasing demand for caring for the elderly in the home. In the long run, a family-friendly policy can be one way of combating the pension crisis: more-family-friendly policies do have a positive effect on fertility, which in turn relieves the public pension schemes. One thing, however, is certain: for most of the countries covered by the International Reform Monitor, the current changes are just the beginning – there will be many more to come.

Andreas Esche

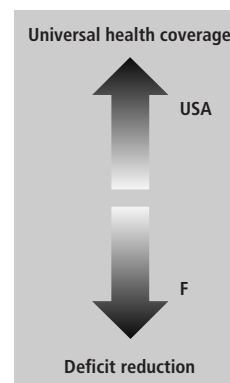
Katharina Spieß

1 Social Policy

Health Care and Long-Term Care

Health Care

After significant movement in the field of health care policies in the first half of 1999 or earlier, the last six months have been relatively quiet in this area, only two new reforms being reported. It is interesting to note that both these reforms have almost the same goals as those reported in the first edition of the International Reform Monitor. On the one hand, the French reform aims to *improve the efficiency of the health care system*, with the final goal of *reducing the existing deficit in this field*. On the other hand, the main focus of a US reform is on equity issues, such as the *introduction of universal health coverage* for all groups in society. Apart from these two new reforms, other countries report significant changes in their previously-reported health care reforms. Most of these modifications are the result of further amendments, which can be considered as *additional measures in the spirit of the original reform objectives*. An exception is the German case, where most of the original reform elements will no longer be part of the final reform.



France –
New tools to control
public health
expenditure

As the first step in a comprehensive restructuring of the its health care system, the French government has reformed the General Health Insurance Scheme (CNAM). The main objective of this reform is to *substantially reduce the deficit* of the CNAM. Although the deficit has fallen since 1995, this improvement may be jeopardized by universal health coverage and the reform reducing working time, both of which will lead to an increase in the cost of social security¹ and, therefore, most probably also to a renewed expansion of the CNAM deficit. In addition, the reform aims to frame new regulations to *solve conflicts in the relations between the government and the social partners*, the two organizations involved in the administration of the CNAM.²

The concrete changes introduced by the current reform will mainly affect *ambulatory care*. From the beginning of 2000, the social partners alone – in principle in *and* in reality – are entrusted with the management of ambulatory care expenditures. The pricing negotiations of fee-for-service lists for general practitioners, specialist doctors, dentists, and other health service providers, will no longer be the responsibility of the Ministry for Health. To meet cost-containment objectives, the social partners – as administrators of the CNAM – are entitled to lower the price of health care services.

Another new measure to control health expenditure, especially on medical goods, allows *health insurance medical staff* to contact patients whose *drug consumption is particularly high*, and suggest a more suitable health care plan to the patients and their practitioner. Further, as well as less significant regulations for the *pricing of private hospitals, expenses arising from cash benefits for sickness* are supposed to be reduced by requiring doctors to provide health insurance medical staff with the reasons for each sickness leave that they authorize.

1 Both these reforms have been described in the International Reform Monitor 1/1999 (pp. 15 and 32–33).

2 Strictly speaking, the French CNAM is administered by the social partners only. They are in charge of the financial and organizational administration of the social security system. However, before the health care reform, the parliament decided on contribution rates and the budgetary distribution between the different types of expenditure (hospital, ambulatory care, pharmaceuticals, and so on).

❶ *Opponents of the reform doubt whether these new measures will be sufficient to reduce the likely increase in the health expenditure deficit arising from universal health coverage. The government considers the reform as a first step in the right direction, and intends to propose a bill concerning a comprehensive modernization of the French health care system in the current year.*

In late 1999, the Senate of New York State in the United States passed the *Health Care Reform Act 2000*. The major objective of this reform is to *expand health insurance coverage to previously uninsured individuals*. In addition, the reform aims to *discourage the use of tobacco products*, in particular among adolescents.

USA –
"Health Care
Reform 2000"
in New York State

The provision of affordable health care to one million uninsured New York State residents will be achieved through a *series of measures*. One group of programmes *subsidises insurance premiums* for streamlined, employer-sponsored benefit packages with Health Maintenance Organisations (HMOs). Under the new arrangement, the State will reimburse HMOs on individual claims between € 30,550 and € 101,833, while the HMO is responsible for claims above or below these amounts. This will allow HMOs to lower their premiums. The subsidies for employee-sponsored health insurance will be directed at businesses with 50 or fewer employees, as the current cost of offering health coverage is often prohibitively high for small business owners.³ Similarly, subsidies will be used to stabilise the insurance premiums that must be paid by individuals in the direct pay market.

A second set of measures expands New York State's Child Health Plus (CHP) initiative.⁴ Medicaid health insurance is now available to children in families with an income below 150 per cent of the federal poverty line (i.e., € 25,458 for a family of four in 1998),

3 The importance of this measure is underscored by the fact that employer-sponsored health insurance is the most prevalent form of health coverage in the United States, with almost 60 per cent of the US population covered by such plans.

4 New York State enacted the Child Health Plus initiative in 1998 to provide health coverage to uninsured children. This programme is a modified version of the national Children's Health Insurance Program (CHIP). Under CHIP, states can expand Medicaid health insurance to low-income children.

or individuals at the poverty line (i.e., € 8,452). In addition, the parents of children already covered under CHP are now eligible for the same health benefits as their children. The state has significantly increased funding for CHP, so that more eligible children and families receive health insurance.

Improvement in the quality and cost efficiency of hospital care is also a focus of the reform. New York State has allocated funds to defray the cost of treating indigent patients, implement rural health care networks, and improve the State's mental health system. Moreover, the reform builds on the success of similar legislation passed in 1996, which abandoned the system of regulated-rate payments to hospitals and improved hospital management by increasing competition among health providers.

To help fund its reform, New York State will levy an additional 55 cent cigarette tax to \$ 1.11 per pack, an increase of almost 100 per cent on the existing tax. State officials believe that the increased cost of cigarettes could be a real deterrent for adolescent smokers. Furthermore, the state will increase Medicaid coverage to include smoking cessation products.

► The main opposition to the reform stems from its funding structure. The reform package is estimated to require € 637 million over a period of three and a half years. Although cost-containment measures were included in the legislation, it is not clear whether the additional costs can be offset without additional taxation. The popularity of this measure could be greatly reduced if it leads to tax increases in the counties of New York State.

USA –
"Ticket to work"

At the national level, legislation has been enacted in the United States to guarantee continued health coverage to disabled persons who re-enter the work force. As this reform would improve work incentives for the disabled, it is described in the "Labour Market Reforms" section.

Changes in and Results of Previous Reforms

An amendment to the Australian *Health Care Reform Act*, which was intended to *reverse the trend of falling incidence of private health insurance* (see International Reform Monitor 1/1999, p. 16), was introduced in the second half of 1999.

To explain the rationale behind these measures, two elements of the existing system are of particular interest: Firstly, under the existing legislation, private health insurance may only be offered to individuals or families on the basis of “community rating,” whereby the premium for an individual is based on the risk for the community to which the individual belongs.⁵ Secondly, there is a reinsurance scheme for private health insurers. This requires all insurers to pay into a common pool, and then pays out to those insurers with a more risky client profile. These existing arrangements, combined with the universal availability of a basic level of public insurance cover, lead to the problem of adverse selection. Adverse selection occurs when younger and healthier people opt out of private insurance (or fail to take it up), leaving an increasingly older and less healthy population covered by private health insurance. This causes premiums to rise, so more younger and healthier people leave, and the vicious cycle continues.

Therefore, a new measure to counter adverse selection is the introduction of *lifetime health coverage*. The new scheme aims to encourage members to join for a long period of time by reducing fees for members who join early in their lifetime, and imposes increased fees on those who join late in their lifetime.

Nevertheless, experts still argue that fundamental reforms to health service arrangements are required.

In Germany, as a result of the loss of the government’s majority in the upper house (Bundesrat), the health care reform (see International Reform Monitor 1/1999, p. 10) was modified to such an extent that its character was almost entirely changed.

The revised health care reform, which came into effect at the

Australia –

New measures to discourage adverse selection in private health care insurance

Germany –

Major changes in health care reform

⁵ Groups are very broad (e.g. all single people) and in particular, may not be based on age.

beginning of 2000, now covers the following elements: strengthening of the general practitioner's role, introduction of a restrictive list of funded drugs, and stronger interrelation of inpatient and outpatient care. Additionally, the system of remuneration for inpatient care will be changed: at present, a flat-rate fee per case (Fallpauschale) only applies for a part of the services. The bulk of the services are charged on a daily rate, encouraging a high average length of stay. From the beginning of 2003, the remuneration scheme is to be based on flat rates per case. Diagnosis-related groups will be introduced to specify these rates.

In contrast to the original reform plans, the German health system will continue working with sectoral budgets (instead of introducing a global budget), and will maintain the dual financing of hospitals, and the number of suppliers in the health sector will not be reduced as planned.

Italy –
New laws following
the Health Care
Reform Act

In the second half of 1999, the Italian *Health Care Reform* (see International Reform Monitor 1/1999, pp. 10–11) was supplemented by *two new laws*. These new rules, which are considered a positive step, incorporate the following measures:

(1) Partly through savings in inpatient expenditure, *additional funds* will be allocated to all National Health Service (NHS) physicians who operate within the public sector. (2) The *incentives* for patients to use private professional services in hospitals were *reduced*, while those for the physicians to offer such services were *increased*. This resulted in patients' co-payments for these services increasing from less than 10 per cent to 30–50 per cent of tariffs; and 90 per cent (rather than 100 per cent) of the earnings of physicians offering such services are now subject to taxation. (3) The “NHS integrative funds,” which were introduced with the Health Care Reform,⁶ will enjoy *more favourable fiscal treatment* than private funds.

⁶ The “NHS integrative funds” refund the health care costs not covered by the essential and uniform assistance levels.

Long-Term Care

In the area of long-term care, there were no new reforms reported by the partner institutions. However, reported changes in previous reforms reveal that global reforms in particular, such as the introduction of Long-Term Care Insurance in Japan, are usually subject to additional changes. This is especially true for reforms that have been heavily discussed between the different interest groups in the preliminary stages of the reform process – these are subject to further modification before they reach a state where they are acceptable to all parties.

No new reforms reported – but changes in previous reforms

Changes in and Results of Previous Reforms

Because of political conflict between the Japanese coalition government and opposition parties and the approaching general elections, the *implementation* of the *national Long-Term Care Insurance* (see International Reform Monitor 1/1999, p. 18) alleviated the previously expected financial burden to the Japanese. Important changes were the *temporary reduction of insurance premiums* for those 65 years of age and over and, to a lesser degree, for those between 40 and 64 years of age, plus the *reduction of co-payments* for low income households.

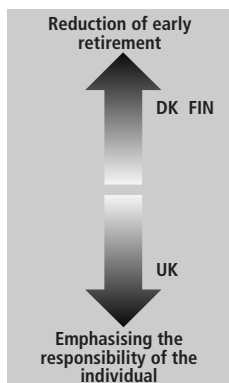
Japan –
Smooth introduction of Long-Term Care Insurance

Additionally, a new measure of *in-cash assistance for those caring for elderly people at home* was introduced. This in-cash assistance, however, can be seen as a fixed-amount grant to families rather than a payment for the actual care that family members provide to their elderly relatives at home. The money does not come from Long-Term Care Insurance, but from general revenue. In contrast to institutional care settings financed by Long-Term Care Insurance, there is no quality control for the newly-subsidised in-home care settings – although some municipalities may provide training courses for caring for the elderly at home.

Experts argue that instituting changes just six months before the introduction of the scheme is confusing the implementing bodies (i.e., municipalities), which are busy preparing for the in-

roduction of Long-Term Care Insurance and explaining it to residents.

Pensions Provision



In discussions on the future of various country-specific pension schemes consideration of early retirement schemes has played a significant role. In most countries, these schemes – originally designed to increase the incentives for elderly workers to leave the labour market early – have become too costly. Modification of these schemes is increasingly considered as one *possible way to lower the financial pension burden*. Therefore, some countries began modifying their early retirement schemes some years ago, while others, for example Denmark and Finland, continue with reforms to *prolong employees' working years*, thus reducing the possibility for early retirement. In addition to this group of reforms that focus on a reduction in early retirement, there is another major pension reform reported by the UK. This reform focuses on the overall aim of *emphasising the responsibility of the individual* in respect to old age income. With a further change in its previously-reported private pension reform, Italy is following a similar direction, improving the incentives to invest in the third tier of income for old age. In contrast, other changes in previously-reported reforms, such as those in Japan and Spain, take different paths, such as an increase in the minimum pension and new regulations for people receiving both a retirement pension and an income from working in the labour market.

Denmark – Reduction of pensionable age

As part of a major reform to reduce early retirement from the labour market in Denmark, the *pensionable age* in the Danish State Pension System *was reduced by two years*, from 67 to 65 years of age. The rationale behind this change, which will affect all Danish employees who have not turned 60 on July 1999, is *the softening of the effects of earlier changes*.

These earlier modifications, in 1999, were considered necessary because of the existence of a generous special early retirement system (“*efterlønsordningen*”) for members of an unemployment

fund.⁷ This earlier reform made *early retirement more difficult* and introduced a number of *economic incentives to stay in the labour market* after the age of 60.

The current reform additionally increases the incentives for older employees to stay in the labour market: at the age of 60 they now “only” must work five more years rather than seven before they are eligible for a “full” pension.

☉ Labour unions opposed the whole reform package, considering the previous system as a social right for persons who lacked the ability to continue in the labour market. The general public considers the reform package to be a “breach of trust” by the government, which promised in its election campaign not to change the very favourable early retirement system.

Similar to the Danish final reform goal, the Finnish Pension Reform aims to *reduce early retirement* and to *prolong employees’ working years*. In the Finnish case, the basic approach is to make it more costly for both employees and employers to use the different early retirement pension schemes.

The Finnish Pension Reform, which came into force at the beginning of this year, consists of *different measures* affecting almost all early retirement schemes. Concerning the “*unemployment pension system*,” a specific early retirement element of the Finnish pension system, the reform will maintain 55 years as the age an unemployed person will be eligible, but will abolish the right to the post-contingency period.⁸ At most, this will cut the “unemployment pension,” paid between the age of 60 and the statutory retirement age of 65, by four percentage points in relation to the wage rate. Changes in the “*individual early retirement pension scheme*,” to which employees 58 years of age or over whose capacity to work has deteriorated permanently have been entitled, con-

Finland –
Various changes in the unemployment pension and early retirement pension

7 Before this earlier reform in 1999, unemployed people could retire at the age of 60 and collect a pension equal to the unemployment benefit. Thus, the average retirement age in Denmark at that time has been calculated at around 60–61 years, even though the retirement age in the State Pension System was 67 years.

8 The right to the post-contingency period in the Finnish “unemployment pension system” means that the “unemployment pension” also consisted of that sum of a pension which would have accumulated to the employee if, instead of being unemployed from the age of 55 years or over, the employee had worked up to the age of 65 years.

sist of an increase in the eligibility age limit to 60 years. The *funding* of particular pension systems was also changed, so that the employer's responsibility to fund the "unemployment pension" was raised from 50 per cent at most to 80 per cent. This means that the burden on firms – in particular on large firms⁹ – in financing this pension scheme is increasing, while that on the pension system is decreasing. In another change, the costs of "unemployment or disability pension schemes" for employees recruited at the age of 50 or over will be – within the first three years of any new employment – *shared between all the employers* in the earnings-related pension scheme who have been insured with the same insurance company. A further part of the reform package is that the *services to promote the employment of elderly workers* will be markedly increased. The terms of the *part-time pension scheme*, for which an employee is currently eligible at the age of 56, are being maintained as they are now up to the end of 2002.

► Although there has been little opposition to the rationale behind the reform, employee organisations have shown some concern at the increased efforts by employment authorities to direct more resources to seeking jobs for elderly workers. They argue that these efforts should be directed to those younger long-term unemployed, who are not eligible for earnings-related unemployment benefits any more.

United Kingdom –
Shift in the
responsibility for
old-age income
onto the individual

The reported British Pension reform, which will be implemented in stages over the coming years, is *part of a larger package* of the *Welfare Reform and Pension Act of 1999* (for other parts of this reform package, see the section on "Labour Market Policy"). The changes to pensions are the central plank of the reform with the *highly ambitious aims*, namely through a "public-private" partnership, to reduce the percentage spent by the Exchequer on pensions while ensuring that poverty in old age is tackled, and encouraging

⁹ In Finland, the levy on an employer to finance the unemployment pension scheme is arranged in such a way that the larger the firm, the greater the responsibility to finance the unemployment pensions of its retrenched employees. In this respect, the new system will be tighter than the old one for firms with 525 employees or more, and less onerous for smaller firms. Small firms, with 50 employees or less, do not have to pay any levy in this system. Firms with 800 or more employees will now pay the maximum share of 80 per cent.

people to make their own provision in the marketplace while restoring public confidence in the discredited British occupational pensions industry. Although a basic state pension will be retained in principle,¹⁰ the reform further *alters* the state's role *from a provider to a facilitator and regulator of private pensions*.

The four objectives of the reform are to be accomplished through various programmes. Since 1999, the state has guaranteed a means-tested basic state pension – a “*Guaranteed Minimum Income (GMI)*” – in retirement for everyone, mainly to tackle poverty. From 2002 the “*State Earnings Related Supplement*” will start to be replaced by a “*State Second Pension*,” (the implementation details of which will be the subject of further legislation in the next parliamentary session). In this current year, the “*State Earnings Related Supplement*” will be replaced by a “*State Second Pension*,” which is supposed to be a retirement income source for low and middle income earners, intermittent earners, carers, and disabled people for whom funded pensions are not appropriate. The *State Second Pension* will differ from the current “*State Earnings-Related Supplement*,” in a number of respects. By providing insurance “credits” for carers, disabled and long-term unemployed, it will ensure everyone will have access to a second pension. However, it will be flat rate, set at a level to bring the retirement income of low earners above the GMI, and to encourage those at higher levels to opt out. Thus those earning up to € 15,475 (gross) a year are expected to stay in this scheme. “Moderate” earners of € 15,475–32,579 (gross) a year may opt for the second pension but may elect instead (the government hopes) for a privately funded “*Stakeholder pension*.” This latter pension scheme will work within a framework of specified minimum standards and approved governance for those not currently in “private” occupational schemes. Transfer to this scheme will be encouraged by national insurance rebates. Moreover, tax concessions are being reformed with a single system for stakeholder, occupational and personal pension schemes. However, these changes are not part of the *Welfare Re-*

10 Before the reform, the public pension scheme in the UK included a basic state pension (flat rate pension) and a “*State Earnings-Related Supplement*” (earnings-related pension).

form and Pensions Act, but are being dealt with under the government's finance bills.

► “Old Labour” critics would like to have seen immediate improvements for those on basic state pensions and the retention of the “State Earnings-Related Supplement.” They wish to retain the pay-as-you-go system, whereas the government is seeking to move to a system in which pensions are essentially returns on investment. Other experts also claim that the measures do not deal effectively with the fact that poverty in old age is often the result of a lifetime of gender and ethnic disadvantage. Even those in favour of “Stakeholder pensions” have suggested that further efforts are necessary to increase their attractiveness as long-term investment. Another factor is that capital market performance is crucial to the success of this form of pension, which cannot be guaranteed.

Changes in and Results of Previous Reforms

Italy –
More and better tax
incentives

Italy reported further amendments on the *reform to develop a private system of pension funds* (see International Reform Monitor 1/1999, p. 23). At the end of 1999, the government approved a legislative decree that stipulates that *employees may benefit* from a maximum tax deduction on their contributions, making this form of pension system even more attractive. The tax deduction can be claimed even if employers do not pay any contributions, which previously had been a condition for a tax deduction. Moreover, the tax rates for the *taxation of pension funds and the returns on “severance pay”*¹¹ will be reduced from the beginning of 2001.

Japan –
Changes concerning
the group of elderly,
who are still working

Japan reported two modifications of its *Public Pension Reform of 1999* (see International Reform Monitor 1/1999, p. 21). Firstly, from 2002, those *aged between 65 and 69 and still working will be required to pay premiums* for a public pension. Given particular circumstances, they must also face a reduction of their income-re-

11 “Severance pay” is a peculiar Italian institution. It can be considered as a deferred salary and a form of forced saving with the purpose of creating a stock of wealth at retirement.

lated portion of the pension. Secondly, *enterprises will be allowed to submit stocks* (shares) in their possession as the contribution to Employees' Pension Funds.

Nevertheless, experts argue that fundamental problems relating to the financial crisis of the Basic Pension, which covers the entire population, have still not been adequately addressed.

In Spain, the reform on the *Consolidation and Rationalisation of the Social Security System* (see International Reform Monitor 1/1999, pp. 22–23) progresses after heated debates between the political parties. At the end of 1999, the government and trade unions reached an agreement on *increasing the minimum pensions* for pensioners who have incomes below the minimum wage. In addition, € 0.36 billion has been allocated to a *reserve fund that will guarantee future pensions*.

With the approval of a further decree at the end of 1999, the regulation of complementary pension funds in the employment system has been completed. This second decree governs the procedure that companies must follow to externalise their commitments to their employees on private supplements to pensions. The main purpose of this externalisation is to protect employees from situations where companies may become insolvent. With the implementation of this regulation, the insured employees will have more control on the management of these funds, especially when the externalisation of the engagements of companies as regards complementary pensions is instrumented through pension plans. Because companies can choose between different methods of outsourcing their responsibilities on complementary pension funds, collective bargaining agreements will be decisive to complete this process.

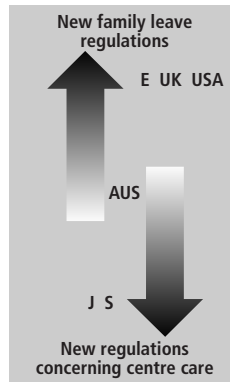
Spain –
Modifications in respect to state pensions and private supplements to pensions

State Welfare

In the last six months, there were no significant reforms in the area of state welfare; no new reforms were described by the partner institutions.

No new reforms reported

Family Issues



In the field of family issues, the six months since the last survey have shown significant movement: six major reforms have been implemented in this policy field. One group of reforms focuses particularly on *parental care*. The United States, the United Kingdom, and Spain have modified their *family leave regulations*. Japan and Sweden report reforms focused on *non-parental child care arrangements*, meaning centre care in particular. The Australian reform, however, focuses on more general *financial support of families* – the difference between family care and centre care is of no significance in this reform context. Common to all these reforms is the aim of *improving the reconciliation of work and family life* and of increasing the *incentives for parents*, particularly mothers, *to work*. However, *motivation* for achieving these goals *differs significantly* between the countries. In some countries, reforms are a necessary implementation of EU directives; in some, they are a means of increasing fertility; and in others, they are an explicit response to changing life patterns of women, who increasingly want to combine work and family life.

Australia – Family benefits increased and simplified

As part of a more general tax reform, Australia is restructuring its family payment system. The major goals of the reform are to *simplify the system of payments*, to *increase the family benefits*, and to *reduce disincentives to work*. Until now, Australia has operated seven different schemes to provide benefits to parents, based on the number of dependent children.¹² All current allowances are means tested and have sudden death income tests, so that there is a 100 per cent withdrawal of benefits as earned income increases beyond a threshold.

From July 2000, the number of types of payment for families will be reduced from *seven to two*: a *Family Tax Benefit* (including extra help for single-income families) and a *Child Care Benefit*. Payments will be made through a new single and specialised *Fami-*

12 Currently there are four family benefit schemes operating through the social security system: family allowance, parenting allowance, family tax payment, and guardian allowance. In addition, there are three schemes operating through the tax system: rebates for sole parents, rebates for dependant spouses, and family tax assistance.

ly *Assistance Office*, rather than being split between the two departments responsible for social security payments and taxation. The 100 per cent withdrawal rate for beneficiaries earning income above the threshold will be replaced with a *30 per cent taper rate*, thus increasing the incentives for low to middle income families to escape poverty by earning additional income. The *yearly benefit per child*, in particular for single-income families, and the *maximum assistance for childcare* for lower-income families, will be *increased*.

❶ There have been very few critics of the proposed simplification of the payment system. However, some commentators have noted that, while the reductions in the taper rates will reduce effective marginal tax rates, other disincentives to enter the labour force and to earn extra income remain (such as the lack of affordable child care, etc.).

At the end of last year, a new law came into force in Spain. It reforms the *whole set of rules on family-related leave and mother protection arrangements at work*. The major objective of the law, which is to improve the reconciliation of work and family life, is to be reached through a set of different provisions.

(1) Legal job guarantees for users of family leave arrangements as well as for expectant and new mothers have been improved: *dismissals related to such reasons will now be declared null and void*. Moreover, the health and safety protection of expectant and breast-feeding mothers at work has been improved, with a new paid leave arrangement for specific cases where health risk cannot be resolved. (2) The mother has the right to *transfer to the father* up to ten – rather than four – of her 16 paid weeks of maternity leave. The father can use these weeks concurrently with the mother. (3) New adoptive and foster parents of children under six years old, or older children with special difficulties, gain the *same leave entitlements* as new biological parents. (4) Existing unpaid parental leave and working time reduction entitlements (by a third or up to a half of the previous working time) are *extended to take care of a relative* in need of care due to severe illness, accident or old age. This family leave scheme is restricted to a maximum of one year, instead of the three years maximum in the case of parental leave.

Spain –

Act to promote reconciliation of work and family life

In general, employees are entitled to decide, within their usual working time schedule, the time and period of their working time reduction due to family care obligations.

► Although trade unions concede that the new act brings some improvements, some of their significant proposals have not been accepted. These include an extension of the paid leave schemes, more public resources devoted to childcare services and care services for older people, and a reduction of employment insecurity, which seriously limits the use of family-related leave entitlements. The employers' organisation stated that these measures, while favouring the combination of family life and employment, risk infringing the employers' prerogatives, and may lead to companies opting to employ fewer women, the opposite effect to that intended.

United Kingdom –
Family-friendly
policies as part
of the Employment
Relations Act

One major part of the British *Employment Relations Act*, implementation of which began in October 1999, is a reform package to encourage *family-friendly employment policies* (for the other reform packages of this Act, see the section on “Labour Market Policy”).

The family-friendly policies package covers a *number of provisions*: On the one hand, there is the planned implementation of regulations and codes of practices, which aims to *eliminate discrimination against part-time employees*, and, more generally, to *encourage flexible working-time arrangements*. However, it is still up to the government to issue specific proposals, especially for these first provisions. On the other hand, the package includes *regulations on maternity and parental leave*, which are much more specific: the basic maternity leave (which is paid) will increase from 14 to 18 weeks, and a parent will be entitled to additional leave after one year's service (rather than two years' service as at present). This additional leave is unpaid and limited to up to three months. It can be used for children younger than five years and born after the Act came into effect. Additionally, there is a right to “*reasonable*” *time off*¹³ to deal with family emergencies.

13 There are no further specifications in the law on how to interpret the term “reasonable” time off. In the end, it will be up to the British courts and tribunals to provide this interpretation.

☛ The umbrella organisation of the British trade unions has criticised the reform. It is disappointed that there is no requirement for *paid parental* leave in any circumstances. Another important criticism is that restricting parental leave to children born after the Act took effect does not comply with the EU directive. Other British experts also doubt whether the “family-friendly” initiatives will have a major effect, principally because the additional leave will be unpaid.

As a third country improving its family-leave regulations, the United States the Clinton administration announced a new executive rule concerning Family Leave¹⁴ which took effect early this year. This reform addresses the problem of many eligible workers being unable to take family leave because of lost income. In addition, as more American families are headed by working parents, the importance of family leave has increased.

To address these issues, the Birth and Adoption Unemployment Compensation (BAA-UC) allows states to devise pilot programmes in which their Unemployment Compensation system provides partially-paid parental leave.¹⁵ The parental leave benefits will be funded from surpluses in the states’ Unemployment Compensation (UC) funds, although states may designate funding from other sources. The specific implementation of this rule will be left to the discretion of state authorities. The Department of Labor will monitor the BAA-UC programmes in participating states to determine if paid leave increases the probability that a parent will return to work following the parental leave. A comprehensive evaluation will be performed when at least four states have implemented legislation and operated such programmes for a minimum of three years. The impact of these pilot projects will inform a decision on

USA –
“Birth Unemployment
Compensation
Experiment”

14 According to the US *Family and Medical Leave Act* of 1993, workers can take up to 12 weeks of unpaid leave to attend to their own serious health conditions, the illness of a family member, or the birth or adoption of a child. The Act provides job protection and the continuation of health insurance for workers during their leave.

15 The US unemployment insurance system is a joint Federal-State programme allowing states to collect state Unemployment Compensation (UC) taxes, which are then used to pay benefit claims. The UC taxes collected by the Federal government provide state grants. The US Department of Labor has the authority to interpret the Federal UC statutes.

whether to expand on this interpretation of the UC system or to create a permanent programme for paid family leave.

► Opponents of the reform argue that the funding structure may place undue financial strain on the UC system, especially if the US economy were to enter a recession and unemployment claims increased. Although states would have an option of borrowing to shore-up their unemployment insurance system, the current financial standing of a state's UC system is likely to determine which states participate.

Japan –
Special grant to
improve child
day-care

Japan is one of the countries that aim to create a more friendly environment for child rearing through *higher subsidies* for measures focusing on *non-parental care* in particular. Since the middle of 1999, the Japanese national government has reserved a supplemental budget, which is *granted to municipalities* to implement measures for the common objective of creating a society that facilitates the rearing of children, and stemming the decline in birth rates.

Each municipality is to come up with *innovative and productive approaches* suited to its own situation in fields such as: (1) the public funding of child day-care and pre-school centres; (2) the provision of day-care centres and pre-school centres within or near stations (as public transport is of special interest in metropolitan areas, this applies particularly to municipalities in such areas); (3) the provision of playground facilities and other equipment for within-work-place day-care and pre-school centres; (4) training of teachers and carers of day-care services; and (5) public awareness campaigns. Special emphasis is placed on *reducing the waiting lists of children* for day-care centres in metropolitan areas. The Ministry of Health and Welfare will allocate grants to municipalities with the *best* innovative and productive *approaches*.

► Although there is no particular opposition to this reform, it is not clear whether the special grants will have the desired significant impact on fertility. Additionally, Japanese experts argue that the grant is not sufficient to provide the number of municipality-based day-care services to meet the *increasing demand*, nor can the private day-care business, which is reasonably new and still developing in Japan.

The main target group of a Swedish reform, which will be implemented next year, is *families with a need for non-parental childcare*, particularly parents working part-time or who are unemployed. The first goal of the reform is to lower the marginal effects for these parents when childcare fees increase with increased income. A second goal is to guarantee childcare to unemployed parents to help them in looking for a new job, and a third goal is to erase the current local differences in day-care fees among municipalities.¹⁶

Given these goals, the fully-implemented reform will entail *uniform national maximum day-care fees*. The fees will be related to the number of children in the family using centre care, with the result that fees for an average two-child family in an average municipality will be more than halved compared with the current situation. Furthermore, with the implementation of the reform, *unemployed parents will be guaranteed three hours of childcare per day*. In general, municipalities are free to decide whether or not to implement the reform. They can lower the rates below the maximum rates, or increase the guaranteed hours of childcare for children of the unemployed. As a *stepwise implementation* is planned, the government-appointed working group has proposed three alternatives for the implementation of the reform, focusing on different implementation sequences of single reform measures. The political decision on which alternative will be the appropriate one will probably be made this during the first six months of this year.

● The non-compulsory design of the maximum fee reform makes it uncertain if the municipalities will implement it. If many municipalities do not implement the reform, it will certainly lead to an increase in differences in day-care fees in different municipalities. However, it will probably be hard for local politicians to deny voting parents such a major increase in income. Apart from this, it is not clear to what extent parents will actually increase their labour market participation after the changes.

Sweden –
Maximum limit
for user fees in
municipal childcare

16 In Sweden, day-care is mainly financed through general municipal income tax revenue. Municipal subsidies are directed to public and private producers of this service. The users pay a fee, which generally varies between 10 and 30 per cent of the production costs for these services.

Netherlands –
Legal right to
working part-time

The Dutch government is aiming to improve the reconciliation of work and family life through a *reform focusing on part-time jobs*. With a proposal of a *legal right to working part-time*, which has just been accepted by the Dutch Senate, mothers and fathers should have more and better possibilities to combine work and family life. However, as this right is not solely limited to parents, it is a labour market reform focusing on a much broader group of employees. For a more detailed description of this reform, see the section on “Labour Market Policy.”

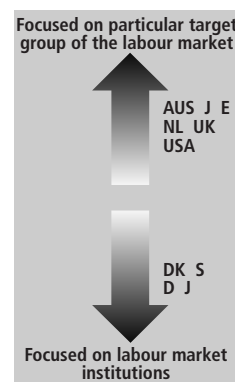
Changes in and Results of Previous Reforms

Spain –
Incentives for
replacement
contracts extended

Besides the new reform to promote the reconciliation of work and family life, Spain is improving its *regulations on replacement contracts* for maternity leave takers (see International Reform Monitor, 1/1999, p. 28). Since November 1999, the reductions in the employer’s social security contributions paid for substitutes of employees on maternity leave were *extended to substitutes for self-employed or working co-operative partners*, and to the *new – above reported – leave scheme* in the event of health risk for expectant or breast-feeding mothers.

2 Labour Market Policy

It is well-known that the problems behind the ineffectiveness of labour markets are broad and of very different origins. This heterogeneity in the problems, particularly the reasons behind mismatch phenomena in many labour markets, is reflected in the measures that the different countries have implemented or will implement to increase their labour market performance. Although the labour market measures reported for this second International Reform Monitor reflect the wide variety of labour market measures, they indicate two different starting points for substantial changes of the status quo. One group of countries is focusing its reforms *on particular groups in the labour market*: the UK and the USA are trying to reintegrate disabled people whose medical condition allows them to work; Japan is focusing its reform on worker dispatching, whilst Spain is concentrating on workers in temporary work agencies; and Australia is directing its labour market reform to the younger unemployed people. The Netherlands gives another example of a reform that is focused on one particular group in the labour market – those who want to work part-time. In a second group of countries, the reforms are seen as ways to handle mainly unemployment-related problems via a *change in or of particular labour market institutions*. In various ways, Denmark and Sweden have modified their unemployment insurance schemes, Japan is



strengthening its private employment service sector, and Germany is reorganising its public employment service.

Australia –
“Work for the Dole”:
target group
expanded

A recent reform in the Australian labour market is the expansion of the target group of the “*Work for the Dole*” programme. Until now, this programme has *required* people aged 18–24 who have been registered as unemployed for six months to work in *community projects* for between 24 and 30 hours a fortnight, for a six-month period. The projects are run by community and local government organisations, and include different activities, such as bush regeneration and assisting in childcare centres. Participants of such programmes receive *some extra benefit* on top of their unemployment payment, and some training. “Work for the Dole” is based on a philosophy of mutual obligation and aims to encourage the development of a positive work culture among the unemployed. The perception is that young people who are unemployed for long periods of time become disconnected from the work environment and lose confidence in their own abilities.

As the programme is considered fairly successful for the original target group, from the beginning of July 1999, *older unemployed people*, those aged 25–34 who have been unemployed for 12 months, are referred to “Work for the Dole” projects if they cannot meet their “mutual obligation” requirements in any other way.

🔹 Opponents of the “Work for the Dole” programme argue that the programme is limited in its aims and does not tackle the central issue of unemployment, and that training and skills provided are not formalised and, therefore, cannot be used in non-community work. A major criticism is that the work is of short-term duration, and does not lead to ongoing work. Given these arguments, opponents believe that an extension of the target group will have limited benefit.

Japan –
Revision of the
Worker Dispatching
Law

As one of its first reported labour market reforms, Japan is focusing on *worker dispatching* in particular.¹⁷ This reform is part of the Japanese government’s overall deregulation policy, which aims

17 “Worker dispatching” in Japan means that person A can employ person B to be engaged in work for a third person C under the direction of person C, while maintaining their employment relationship with person A.

to activate the external labour market. Therefore, a revision of the law regulating worker dispatching businesses, which came into effect at the end of 1999, has drastically *relaxed regulations* of such businesses.

In particular, this revision resulted in *a variety of new or modified measures*: a current “positive list system” enumerating allowable types of work was replaced by a “*negative list system*,” identifying prohibited types of work for worker dispatching (i.e., transport, guard services). Apart from these types of work, the market for dispatching agencies has generally been liberalised. The *procedure for obtaining a permit* for a worker dispatching agency from the Labour Minister has been simplified. Further, the new law prohibits a client company from receiving a dispatched worker in the same position in the workplace for more than one year; this also applies to the dispatching agencies. *Dispute resolution procedures* have been improved in favour of the dispatched worker. Since the reform, dispatched workers can claim a violation of the appropriate law and its administrative orders.

◉ To avoid unstable employment and the replacement of regular workers by dispatched workers, trade unions and opposition parties proposed the general prohibition of worker dispatching.

After two years of negotiations between the Spanish government, the employers and the trade unions, in July 1999 the parties involved finally reached an agreement to reform the law regulating *temporary employment agencies* in Spain.¹⁸ In contrast to the Japanese reform in the broader field of “worker dispatching,” the Spanish reform did not aim to strengthen the dispatched worker business sector; rather it was intended to *bring an end to the abusive use of temporary work agencies* to reduce labour costs, and to improve the working conditions of temporary agency workers.

The most outstanding aspect of the reform is that during the period in which the temporary agency provides service to a com-

Spain –
Equal pay for
temporary agency
workers

18 In July 1999, temporary employment agencies represented 18 per cent of temporary employment in Spain. The workers contracted by temporary employment agencies tend to be unskilled workers and young workers on very short contracts, particularly in industry.

pany, the temporary agency workers will receive the *wages of the collective agreement applicable to the user company* for the position that they occupy. Other changes introduced *limit the continuous use* of temporary agency workers and increase their *job security*. Moreover, more information on workers recruited through temporary employment agencies must be given to the workers' representatives.

► The main criticisms of this reform come from the owners of temporary employment agencies. They think that the reform limits the autonomy of the social partners, because the national agreement of temporary employment agencies states that the wages of temporary agency workers must accord with those laid down in the agreement of the *sector* to which the user company belongs (rather than the user company's agreement, which might set higher wages). The trade unions approve of the reform, but consider that it is insufficient. In their opinion, temporary agency workers do not receive the full wages of the user companies as, for example, bonuses and other ancillary benefits are laid down in *company agreements*.

Netherlands –
Legal right to
working part-time

The background of a Dutch reform proposal, which has been amended by the Lower House (Tweede Kamer) and has just been accepted by the Dutch Senate, is a *long-standing discussion on part-time work*:¹⁹ Should employers always allow employees to reduce their contractual hours when these employees wish to devote (more) time to *caring responsibilities*? Discussions among different groups of society finally ended in a proposal that aimed to stimulate part-time work in those sectors and job levels where part-time work is not yet considered acceptable. This is to permit women (who wish to work part-time) to also make a career in those sectors and job levels where part-time work is not yet accepted, and to encourage men to work part-time and thereby allow them to take on more of the caring work.

¹⁹ The Netherlands is known for a high level of part-time work. Of the active workforce (age 15–64), in 1998, 30 per cent worked less than 35 hours per week. Women, in particular, work part-time: 60 per cent of the active female workforce worked less than 35 hours per week in 1998.

The new proposal states that employees have the *legal right* to ask their employers to adjust the number of their contractual working hours. However, this is only possible if employees have been working for the employer for at least one year. The employees must file their request at least four months before the desired date of change and must state their exact wishes. Employers must discuss this request with their employees, and they must grant the wishes of the employees as regards the distribution of the hours over the week, unless they have compelling business reasons to object to the proposed hours. If the employers have not acknowledged the request by a month before the desired date of change, the request is legally considered accepted. *Social partners* cannot divert from these rules in collective agreements, where it concerns the reduction of working hours. These rules are not applicable to *companies with fewer than ten employees*. However, these companies must have a policy (internal rules) with regard to the right to adjust contractual working hours.

☉ A major aspect of this new proposal is that the legal position of the employee is very strong. This is a breach with the tradition in labour law, which is used to balancing interests. Thus, it is not surprising that the major opposition to the reform proposal has come from the employers' organisations. They state that this Act will compromise good relations between management and their employees.

As a part of the *British Welfare Reform and Pension Act 1999* (major parts of the reform focus on the British Pension Scheme, see the section on "Pension reforms"), the *reform of disability payments* aims to increase labour market participation of disabled people, and cut the costs of disability benefits.²⁰

The main focus of this reform package is the modification of the *Incapacity Benefit*. This is a flat-rate benefit previously paid without means testing and accessed through the National Insur-

United Kingdom –
Reform of disability
payments

20 In the 1980s the numbers of those maintained on the British disability payments increased substantially, with the connivance of governments seeking to keep unemployment figures down (from which disabled people were excluded). In 1998–99, the expenditure on disability benefits represented about 2.75 per cent of the British GDP.

ance system, which aims to cover day-to-day living expenses for people who lose their ability to work because of disability or illness. However, it has increasingly been paid to the unemployed, and the number claiming the benefit rose by 300 per cent to 1.6 million between 1980 and 1998. Under the new Act, the *Incapacity Benefit* becomes means tested for new claimants against any personal pensions, and the entitlement is restricted to those who had paid national insurance over the previous two years (before the Act, claimants were generally eligible provided they had paid some insurance contributions during their lifetime).²¹ The *Severe Disablement Allowance*, which before the reform had been paid only to those who had been disabled since childhood, and had therefore never paid national insurance, is abolished for those over 20 years of age. They will now continue to receive Income Support (Social Assistance) plus the lower value “Disability Living Allowance.” In addition, the “All Work Test” used in the past to test eligibility for benefits, has become the “*Personal Capability Assessment*.” This will be used to assess ability to undertake a variety of forms of work, as the government believes that the previous test discouraged participation in paid work by focusing on a person’s incapacity. It will become a central feature of the government’s “welfare to work” programme for disabled people.

► Some claim that the Act treats disabled people in a harsh and discriminatory way, critics arguing that the chief aim is to save money (€ 1.8 billion) rather than achieve “modernisation” of the benefit system.

USA –
“Ticket to Work”

Similar to the British reform-package, the US *Ticket and Work Incentives Improvement Act 1999* focuses on disabled workers whose medical condition would allow them to work. Although the goals of the US reform – improved labour market participation of the disabled and containment of disability insurance costs – mirror those of the British reform, the specific measures and their implementation differ. The US initiative strives to eliminate the need to choose between employment and health care, a painful choice fac-

21 This brings it in line with eligibility rules for “Job Seekers Allowance” (Unemployment Benefit before 1996).

ing many workers who are disabled or who suffer from degenerative diseases.²²

To better prepare the disabled for re-entry to the workforce, the Social Security Administration under the “Ticket to Work and Self-Sufficiency Program” will provide Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) to disability beneficiaries²³ with a ticket for vocational rehabilitation services, employment services, and other support services from an employment network of their choice. This will give disabled persons more control over their job training. Furthermore, the Social Security Administration will reward with disability insurance savings those service providers who successfully prepare disabled persons for paid employment.

To maintain health coverage for disabled persons who have returned to work, this legislation expands the ability of states to offer Medicaid “buy-ins” for workers with disabilities.²⁴ Thus, at state discretion, persons who leave the SSI disability programme and return to work can purchase a Medicaid insurance policy, even though their earnings would disqualify them for SSI (and Medicaid) benefits under the old law. Additionally, individuals who are no longer considered disabled because of an improvement in their medical conditions can now buy into Medicaid, so long as they still have a *severe medically-determinable impairment*. Furthermore, the reform enables states to provide Medicaid to individuals who are not disabled, but have mental and/or physical

22 Before the reform, disabled people who entered the labour force usually lost their entitlement to Medicaid or Medicare health insurance programmes and Federal-State health care programmes. In general, Medicaid is a means-tested insurance programme, whereas Medicare is available to persons over 65 or disabled recipients of Social Security Disability Insurance.

23 In the United States, SSDI is *social insurance* and is available to eligible disabled workers without a means test; SSI is a *public assistance* program and is only available to low-income, disabled persons who meet a means test. The number of individuals collecting SSDI and SSI disability benefits has risen substantially in the last decade. Currently eight million disabled persons of working age receive more than \$50 billion annually in cash benefits (or approximately 0.5 per cent of GDP in 1999) from the SSDI and the SSI program. Fewer than one percent of these disabled adults returns to work.

24 Since 1997, states could offer Medicaid buy-ins to disabled workers, whose income does not exceed 250 percent of the federal poverty level and meet the definition of disabled under the SSI program.

impairments that are “reasonably expected” to become *severe disabilities in the absence of treatment*. Previously, workers with degenerative diseases had to leave work even if their medical conditions did not require them to do so, in order to meet the means test of Medicaid health insurance. To implement these various Medicaid buy-ins, the Federal government will provide additional funding to the states over a five-year period. Finally, SSDI beneficiaries who re-enter the work force are eligible for their premium-free Medicare for 8½ years, which is a 5½-year extension from the previous law.

► Opponents of the reform are concerned by the financial cost and administrative burden of this initiative. The programme has an estimated cost of € 815 million over five years. In addition, the expanded medical coverage could encourage misuse of the government-provided health insurance system. Accordingly, critics have argued for income caps to ensure that upper-income persons do not receive excessive benefits.

Denmark –
Changes in the
benefit duration for
the unemployed

With new labour market reform, implemented during 1999, the Danish government seeks to move unemployed persons *into the active labour market policy system* faster. This reform bolsters recent Danish action on active labour market policy.

The reform covers three major modifications: firstly, the *obligation to take part* in active labour market measures was extended to people unemployed for one year rather than two years; secondly, the *duration of being entitled* to an unemployment benefit from the voluntary unemployment insurance²⁵ was reduced from five to four years; thirdly, the age group eligible to collect unemployment benefits for a longer period than others was “reduced” to cover persons between 55 and 59 years of age rather than persons aged 50–59.

► Although it is too early to say anything about the effects of the reform, Danish experts expect that the attitudes about unemployment will change. Increasingly, it will be considered more benefi-

25 In Denmark, the risk of unemployment is covered by a voluntary unemployment insurance scheme, which is subject to state regulations.

cial for less productive workers to be able to stay in a labour market that has a low productivity level, rather than to be totally out of the labour market on unemployment benefits. Thus, this reform is not so much about reducing unemployment as about securing the Danish labour market for the future decline in the workforce due to demographic changes.

Similar to major parts of the Danish labour market reform, the Swedish reform in this area deals with the unemployment insurance system. Sweden, however, is specifically focusing its reform on the *long-term unemployed*, because the existing Swedish legislation does not make sufficiently clear, for instance, that the (long-term) unemployed should actively seek work. Given a background circumscribed by such issues, the Swedish government has decided to begin the implementation of a set of labour market measures from the beginning of this year. Basically, this set of measures consists of two groups: one smaller group that is more restrictive than the former measures, and a larger group that has eased the stringency of the former measures.

Changes in the first group include regulations demanding that the unemployed person *increases the geographic radius and range of occupations* within which work is sought. Moreover, more transparent regulations on how *offers of work placement* are to be made to the unemployed by the employment exchange agencies have been implemented. So-called “transitional labour market pools,” to which clients should be referred for measures such as trainee work or education, have been created. Clearly belonging to the second group of measures is the abolition of the participation in active labour market programmes as a *requalifying condition* for unemployment benefits. Furthermore, the *sanctions upon refusal* of a job offer have been reduced to encourage their more frequent use by the employment exchange workers. Additionally, the *maximum allowable daily compensation* for an initial unemployment period has been *increased*. Finally, the unemployed person is now offered the right, together with employment exchange workers, to formulate a work-search contract, which clearly specifies the job-seeker’s rights and responsibilities. As an *organisational change*, from the beginning of this year, the cash benefits and the compensation for

Sweden –
Proposals for
reforming the
unemployment
insurance

participation have both been channelled through the voluntary funds.²⁶

► Experts argue that the likely benefits of the reform might be overestimated, as the links found between strictness in qualifying conditions for unemployment insurance, work search intensity, and unemployment duration are generally in the predicted direction, but smaller in size than expected. Others argue that the reform results in an increase in the number of those disqualified from benefits but experiencing economic hardship.

Germany –
“Employment Office
2000”

Germany reports a reform that is seen as a contribution to tackling its labour market problems through organisational changes in the *Public Employment Service*.²⁷ The concept is to transform the structure of the Public Employment Service from a rather bureaucratic structure, based on lines of business, to an integrated, customer-oriented team structure. At the end of the restructuring period, which is planned to be finished within the next three years, the Public Employment Service should have become a *decentralised, service-oriented organisation*. In a trial period in 1999, the different starting points of the re-structuring process were tested in 23 local employment offices.

What will the new “employment office 2000” look like? *Customer-oriented teams* will be set up, providing all central services to customers in an integrated way. Tailored to the different needs of customers, different types of teams will be set up. The number of people and *organisational units* involved in each task will be *reduced*. Each task will be handled by *one* team in the future. Tasks are to be processed and decided on at the “lowest” possible level. It is planned to render the central services to customers in *immediate spatial proximity*. Moreover, self-help facilities and on-line information services will be improved. Finally, benchmarking

26 In Sweden, the unemployment insurance system consists of a voluntary unemployment insurance system, with union-linked and administered insurance funds, and a complementary basic insurance system that provides minimum daily cash benefits to those without fund membership.

27 The German Public Employment Service is organised in three levels: one head office that issues basic instructions, and 10 Regional Employment Offices, which are responsible for the third level, consisting of 181 Local Employment Offices responsible for dealing directly with the unemployed people or the general public.

and efficiency comparisons between local employment offices are planned.

● Although it is remarkable that the impetus for change came from the Public Employment Service itself, the success of this reform will depend significantly on the willingness of those involved to support the new structure, and the implementation of proper training programmes for employees occupied by the Public Employment Service.

With a second labour market reform, Japan aims to encourage the *use of private fee-charging placement services*. With a revision of the *Employment Security Law*, which came into effect at the end of 1999, the Japanese government has introduced the concept that private employment services can coexist with the public placement service for the proper and swift adjustment of supply and demand in the labour market.

Therefore, the general *prohibitions on fee-charging private placement services* were abolished, although such services are still required to obtain a permit. The *requirements for obtaining a permit* were clarified and administrative discretion in the permission process was excluded. The latter was achieved by inserting a provision stipulating that a permit has to be given when the submitted application meets the requirements. In addition, the *valid period of a permit* was extended to three years for the first permit and five years for a renewal (rather than for one year). Moreover, there is no longer an *occupational restriction* for replacement services, except for port transport, construction and other designated occupations.

● Opponents of the reform argue that occupations dealing with private placement services should be carefully examined. They opposed the abolition of a general prohibition of private placement services.

Japan –
New rules for private
employment services

Changes in and Results of Previous Reforms

France –
Implementation of
the second law on
reduced working
time

In France, the *second law on reduced working time* was passed by parliament at the end of 1999. Major topics, which were fixed in the first half of last year (see International Reform Monitor 1/1999, pp. 32–33), have now been *specified* and *regulations have been established*. They cover the following issues:

From January 2000, the government is granting permanent aid on a yearly basis, providing the firm has concluded an agreement reducing working time to an average of 35 hours per week. The subsidy takes the form of a social security contributions relief, and the amount is based on both a flat-rate allowance of € 610 and an amount decreasing as the wage level increases (up to a level of 1.8 Minimum Wage). In 2002, when the legal working time will be 35 hours per week, the number of extra hours will not be allowed to exceed 130 per year without authorisation by the Department of Employment.

To ease the transition from 39 to 35 working hours per week, the law simplifies the *modalities of working time* flexibility. For instance, a modulation of the working time schedule is possible, within a certain limit, corresponding to a weekly average of 35 hours with a maximum of 10 hours per day, 48 hours per week and 44 hours per week on average within a period of 12 weeks. Concerning *part-time work*, the law abolishes previous incentives to encourage part-time contracts. Furthermore, the monthly compensation for full-time employees at the level of the *minimum wage* will not be reduced when the actual working hours are reduced to 35 hours a week or less. *Time devoted to training* geared towards employees' adaptation to the development of their jobs will continue to be considered to be part of the actual working time, although it can be part of collective agreements that training geared towards the improvement of competencies can be taken partly out of working hours. In addition, the law introduces a distinction between *three types of executives*, to whom different working time regulations apply. Managers, for example, who have the power to take decisions largely independently and who receive the highest level of salary on the pay scales operated by the company are exempt from the working-time regulations.

Managers who are part of a team, workshop, or department, and whose working time can be predetermined, are subject to the same rules as all employees. For the third type of executives, if no collective agreement has been signed, individual fixed-hours contracts, calculated on a weekly or monthly base, should be concluded.

So far, 21 per cent of medium and large companies (over 200 employees) have implemented an agreement on working-time reduction, and 58 per cent have signed or are in the process of negotiating such an agreement. The more specific regulations of the second law, however, will be part of agreements made in this current year.

In Spain, the recently implemented regulations for *better protection of part-time jobs* and new fiscal incentives for these jobs (see International Reform Monitor 1/1999, pp. 38–39) were completed by a regulation for permanent part-time contracts known as “*fixed-discontinuous*” contracts²⁸ – contracts for which the recently-reported part-time reform did not apply.

Since the beginning of this year, sectoral collective agreements can establish a *higher limit of working time* for this kind of part-time contract (the previous reform specified that the part-time working day could not exceed 77 per cent of the full-time working day). Moreover, for these particular part-time contracts, it is not necessary to establish the number of hours contracted and their monthly, weekly and daily distribution, including the days on which the worker is called for work. However, such contracts must specify the criteria concerning the order and way in which the worker will be called for work, according to the provisions of the corresponding collective agreement.

As these types of contracts have not been covered by the first law, the new regulations are progressive in the sense that they will provide legal security for these contracts as well.

Spain –
Regulation of
“fixed-discontinuous”
contracts

28 In Spain, a “fixed-discontinuous” contract is a type of contract that is used for jobs that have an uncertain duration and date with the normal volume of activity of a company. They are used in highly seasonal sectors such as catering and agriculture.

Spain –
Changes in the
promotion of
indefinite contracts

A further Spanish labour market reform, which was reported in the International Reform Monitor 1/1999 (see p. 38) and which was changed at the end of last year, is the *reform concerning the promotion of indefinite contracts*. As temporary contracting is still a deeply rooted practice in Spanish companies, and as temporary employment has fallen by only 0.28 percentage points since 1997, the overall effects of the promotion of indefinite contracts are considered to be too small to continue with the widespread promotion of these contracts in the old way.

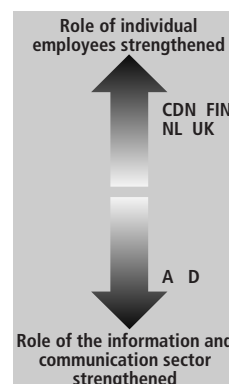
Thus, the new *Employment Promotion Programme* for 2000 eliminates the existing incentives to *convert temporary contracts into permanent* ones, except for temporary training contracts. The incentives for *initial permanent contracts* were kept, but the subsidised groups were changed, adding unemployed agricultural workers to the privileged group. Additionally, the level of incentives was changed for these groups: those for new permanent contracts with workers over 45 years of age and the long-term unemployed were increased, and those for the under-30s were decreased. In all these cases, the incentives are even higher if the employee, who is newly hired, is the first worker hired by a self-employed person.

Although experts argue that the wisdom of eliminating the promotion of changing temporary contracts into permanent contracts for a broad group of workers is debatable at this time, future results will demonstrate whether it is more efficient to focus incentives on special groups of workers, such as those newly hired.

3 Industrial Relations

A similar heterogeneity in the reform contents as in the policy field of labour market reforms can be observed among the reported reforms in the field of industrial relations. With very different measures and in different sub-fields, the government, the social partners, and single companies try to tackle peculiar problems in their countries. Overall we can distinguish between two different reform groups: Finland, the Netherlands and the UK, and in a way also the Canadian reform, aim to *strengthen the role of individual employees*, although they do this in very different areas, such as profit sharing, pay settlement, and the framework for collective agreements. A second group of countries, that is Austria and Germany, *concentrate on the information and communication sector*. Although their reforms differ in their goal and content, they have one thing in common: they take into account that the importance of this services-related sector has been and still is increasing substantially.

Canada reports on a settlement between its federal government and the Public Service Alliance of Canada (PSAC), the major union representing federal government employees. This settlement is the *result of a 16-year pay equity dispute* between these parties. This dispute centred on the fact that, in the past, government wage levels were largely set by market forces and not by job criteria such



Canada –
Pay equity settlement
in the public sector

as job responsibilities, or other conditions, resulting in significant differences between male and female wages. This remained the case, even though the government itself passed pay equity legislation in the first half of the 1980s.

Finally, in October 1999, based on this initial pay equity legislation and a decision by the Federal Court, the federal government agreed to pay € 2.2 billion – as a lump sum compensation – to 230,000 (mainly female) public servants (women constituted the lion's share of the group of underpaid government employees). Although this payment was largely a unique retrospective payment, there was a small prospective component to the settlement: some wage scales were adjusted upward because of the settlement.

► The significance of the pay equity settlement, as evaluated by experts, is that it may set a precedent in other sectors: the unions will turn to this decision to guide their efforts to have pay equity respected and implemented. The federal government, however, argued that relative pay structures should be set in the context of market conditions, and not developed by attempting to estimate the comparable value of jobs. They argue that any such attempt is arbitrary in nature.

Finland –
Attractiveness of
personnel fund
system increased

The social partners in Finland and the Ministry of Labour agreed on a new law to reform the Finnish *Personnel Fund System*²⁹ from the beginning of this year. The concept behind this reform is to increase the use of personnel funds by abolishing current handicaps to this form of profit-sharing, managed partly by employees, in comparison to those run by employers.

As a first major change, members of a personnel fund are entitled to a *cash withdrawal* of their bonus share in the fund if they inform the employer before the start of the accounting period within which the profit-related fee is determined. In this case, however, no tax concessions are extended to the employee.³⁰ Before this

29 Personnel funds are one form of the Finnish profit-sharing system. Before the reform, the popularity of personnel funds was not very great, especially in contrast to other forms of profit-sharing.

30 Since 1996, non-cash withdrawals of benefits from personnel funds have been subject to lower income taxation than other forms of profit sharing, so that only 80 per cent of the benefit from a personnel fund is taxed.

modification, instantaneous cash withdrawals from the personnel fund were not possible. As a second major change, *withdrawals from personnel funds can be deferred* under the following condition: within a five-year period, a maximum of 15 per cent on average per year of the amount that could be withdrawn from the fund can be deferred to be withdrawn at a later stage. This modification increases the flexibility of such funds in their role as a counter-cyclical tool in wage formation.

► Although Finnish experts view the reform as positive, as it increases the incentives to join personnel funds, they doubt whether the current reform is enough to increase the popularity of the personnel funds, especially in contrast to other forms of profit-sharing.

In the middle of 1999, the Dutch federations of trade unions and employers' organisations, united in the Dutch Labour Foundation (Stichting van de Arbeid), agreed on a *framework for individualising terms of employment*. The reason for this was the desire to be able to react to changing circumstances in the organisations on the one hand and to the wishes of individual employees on the other.

Under the Dutch Labour Foundation's recommended scheme, collective agreements will set out a *standard package of conditions of employment*. Certain components of this package may be marked in advance for interchange, with employees having the option of *swapping one condition of employment for another*. Essentially, time can be exchanged for money, and vice versa. Other examples of benefits that can be exchanged include the participation in savings schemes and premium payments to flexible pension plans, extra days off, end-of-year bonuses, and study leave. Before the new agreement, several companies had already built up experience with individualisation of terms of employment. With the recommendations of the Dutch Labour Foundation, the central organisations of the unions and employers publicly endorsed these experiments.

► One argument against the new agreement raised by employers and others is that, given the individualisation of terms of employment, too many employees will make short-sighted choices and neglect longer-term concerns, such as pensions. Some union spokes-

Netherlands –
Individualising terms
of employment

persons fear that individualisation can only be reached at the cost of solidarity of employees.

**United Kingdom –
“Employment
Relations Act”**

Two of the British Labour government’s major manifesto commitments in the field of industrial relations were, firstly, to introduce legislation concerning the recognition of trade unions by employers; and secondly, to strengthen the legitimate interests of employees. Given the background of these two major aims, the British government decided on the *Employment Relations Act*, implementation of which began in October 1999 (for a third main objective of this Act, see the section on reforms concerning “Family issues”). Although the Act consists of enabling legislation to be implemented in detail by ministerial orders and regulations, the changes in terms of individual rights are for the most part relatively detailed and specific.

Such modifications include the *outlawing of “waiver clauses”* in fixed-term contracts, whereby individuals can be pressured to forgo rights to protection against unfair dismissal and other normal employment rights. They include a substantial increase in the maximum *compensation for unfair dismissal*. To provide for the *rights of union representatives*, the new law aims to prevent discrimination by employers against trade union members or activists. It also outlaws the use of “blacklists” that can be used to avoid employing union members or activists. Moreover, employees involved in “serious” disciplinary or grievance cases will have the right to be accompanied by a trade union representative. The new law enables a union to apply to the *Central Arbitration Committee* (CAC) for compulsory recognition by employers with more than 20 employees.³¹ Furthermore, the rules governing *strike ballots* will be simplified, and for the first time, workers participating in a lawful strike will be protected against unfair dismissal.

31 The CAC can specify a bargaining unit and arrange a ballot; if a majority of those voting and 40 per cent of all employees in the bargaining unit of a company are in favour, the CAC will award recognition. It can do so automatically, without a ballot, if persuaded that a majority of the employees in a company are already union members. If no agreement is then reached on a procedure for collective bargaining, the CAC can impose one. There will also be a procedure for derecognition.

☉ Many employers have opposed the whole concept of compulsory recognition of a union, even though the UK is one of very few countries with neither such a law nor works councils or similar machinery of interest representation. Apart from this, there has been criticism that some of the provisions will create difficulties for smaller companies, and that the form of the legislation is excessively complex. On the latter point, there is some agreement on the trade union side, which considers the recognition provisions to be unduly restrictive.

Given the fact that the Austrian labour market – as with most other labour markets – can be characterised by an *oversupply* on the one hand and by 15,000 unfilled *vacancies in the telecommunication sector* on the other, the Austrian Public Employment Service (Arbeitsmarktservice) has started an initiative, in cooperation with larger companies in the information and communication sector, to *provide the unemployed with the specific skills* needed in the telecommunication sector. The objective of the programme, called “*Tele.soft – jobfit for the future*,” is to use public funds to train the unemployed for a specific group of enterprises, to satisfy their specific skill demand rather than providing general skills. A survey of 50 companies in the information and communication sector revealed the required specific skills. The final aim is to train 3,600 unemployed persons.

☉ Although there is no major opposition to this reform, experts argue that its success is heavily dependent on three major issues: (1) the speedy development of a curricula for a range of occupations and a constantly changing industry; (2) success in finding qualified trainers in an industry already stretched for human resources; and (3) the selection of unemployed people who are ready to become skilled or re-skilled while ensuring that their existing skills will not be missed by other segments of the labour market.

Germany reports a reform in the industry-related services sector. Last year, the Debis AG – the services company of Daimler-Benz – became the first major company in the information and communication sector to have its own *services-specific collective agreement*. Before this agreement, companies in this economic sector had ei-

Austria –
“Tele.soft – jobfit for
the future”

Germany –
Services Collective
Agreement

ther been covered by the collective agreements of the industry to which they are related (i.e., in the case of the Debis AG, the metal industry), or frequently not covered by any agreement at all. The aim of the services collective agreement was both to increase the flexibility in working time and pay regulations, and to broaden the collective agreement coverage. These aims are to be reached by three major groups of agreements.

(1) *Flexitime arrangements*: for specific jobs and projects, working hours can be agreed on that differ from the working hours fixed in the collective agreement. If they exceed the collectively fixed working hours (40 hours per week), they usually go into a working-time account as credits and must be used up within five years. These time credits may be taken as a block of time off, used for reducing working time, used for training, or placed into a long-term account with a view to taking early retirement. Alternatively, the monetary value of the “time account” can be paid into a pension account. (2) *Performance-Related Pay Agreements*: the services collective agreement establishes nine salary bands, with an annual target salary established for each. These wages are made up to a major degree of a fixed part (85–90 per cent), and to a smaller degree by a variable part (10–15 per cent), which is determined by the company’s results and the employee’s performance. (3) *Training Agreements*: apart from essential training, which is provided by the company, all employees have an individual right to further training. The company bears the financial cost, and the employee “pays” for 50 per cent of this additional training time with his/her time credits.

► Some critics claim that this service collective agreement means a victory of the Anglo-American model over the more socially-adjusted “Rhineland capitalism.” Others argue that the share of the salary based on individual performance (5–7,5 per cent of the average salary) is too small to set significant incentives.